

## State Scholarship and Loan Commission—Continued

commission at this stage is unclear. Broad discretion is granted to the commission to define a disadvantaged student as well as to develop selection procedures.

The budget of \$1 million provides for award funds of \$915,000 and eight new positions for administration.

## BOARD OF CONTROL

## Item 124 from the General Fund

Requested 1969-70	\$121,636
Estimated 1968-69	106,637
Actual 1967-68	106,318
Requested increase \$14,999 (14.0 percent)	
Increase to improve level of service \$10,000	
Total recommended reduction	\$11,296

## SUMMARY OF RECOMMENDED REDUCTIONS

	Amount	Analysis page
Delete proposed administrative assistant from the Board of Control element	\$9,396	495
Delete one-half man-year from the Merit Award Board element	\$2,900	495
Augment printing by	\$+1,000	495

## ANALYSIS AND RECOMMENDATIONS

*We recommend the elimination of one-half man-year (\$2,900) now assigned to the Merit Award Program. We recommend an augmentation of \$1,000 in the expense schedule to be used for publicizing the employee suggestion program. We recommend denial of a new administrative assistant position (\$9,396) for the Board of Control.*

This budget request funds the staff positions for both the three-member Board of Control and the seven-member Merit Award Board. Even though 3.4 man-years of staff time is devoted exclusively to Merit Award Board duties, all 10 persons on the staff are under the day-to-day supervision of the Secretary to the Board of Control.

## The Merit Award Board

The Merit Award Board staff processes employee suggestions from their receipt through investigation and recommendation to the board. Table 1 shows the volume of suggestions offered by state employees over the past four years and as projected for the budget year. It is evident that the number is declining rapidly.

Table 1  
Annual Total of Employee Suggestions

	1964-65	1965-66	1966-67	1967-68	1968-69
Suggestions offered	2,609	3,001	3,513	3,394	2,592 <sup>1</sup>
Change from prior year		+15%	+17%	-3.4%	-23.6%

<sup>1</sup> Prorated for fiscal year based on experience through January 31, 1969.

**Board of Control—Continued**

This staff represents a \$44,952 cost to the General Fund and in view of the continuing decline in the number of suggestions, we recommend the elimination of one-half man-year now assigned to this program. The secretary reports that the budget for printing posters to advertise the suggestion program and for circulating notices of approved suggestions has been reduced to the point where employees are not conscious of the program and department heads are not aware of recently adopted suggestions. We recommend an augmentation of \$1,000 in the expense schedule to be used for publicizing the employee suggestion program. All state employees should be conscious of this program and its advantages, both for themselves and for the state. All departments and agencies should be aware of suggestions that have been adopted so that they will be used as widely as possible in the state system.

**The Board of Control**

The Board of Control has four areas of responsibility: claims, awards, rule-making, and miscellaneous fiscal settlements. Claims against the state for tort liability, aid to victims of crimes of violence, and other actions must be approved by the board before payment. Indemnification for tort liability and aid to victims of crimes of violence are paid from funds appropriated specifically for these purposes, while claims arising from other actions are included in a special claims bill submitted each year to the Legislature. Tort liability claims must be filed with and denied by the board as a prior condition to bringing suit against the state.

Although the board appoints the members of the Merit Award Board and shares a joint staff, it must also improve any awards this group recommends. All awards of more than \$150 also require legislative approval. The board adopts all rules and regulations governing travel and meal allowances for state employees, use of state automobiles, and relocation allowances.

Based on the information shown in Table 2, we recommend denial of a new administrative assistant position for the board. If the workload for 1969-70 follows the trend of the two prior years, it will be approximately 90 percent of the estimate, or only 70 cases above the current year level. All the investigatory work is handled by the Attorney General and is included in the Department of Justice budget item, leaving only a clerical function for the board staff. With an increase of only one-and-one-half cases per week, there seems little justification for a new administrative assistant position.

**Table 2****Number of Claims Filed with Board of Control**

	1966-67	1967-68	1968-69	1969-70
Original estimate -----	1,600	2,300	2,608	2,759
Actual -----	2,000	2,086	2,412 <sup>1</sup>	--
Staff man-years -----	4.9	6.0	6.3	7.0

<sup>1</sup> Prorated for fiscal year based on experience through January 31, 1969.

STATE CONTROLLER

Item 125 from the General Fund

Requested 1969-70	\$5,724,086
Estimated 1968-69	5,717,896
Actual 1967-68	4,978,054
Requested increase \$6,190 (0.1 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Inheritance Tax Appraiser System

Once again, we recommend that the existing inheritance tax appraiser system be abolished and, as a substitute, that legislation be enacted to provide that inheritance taxes be administered on a self-assessment basis. (Analysis page 499).

GENERAL PROGRAM STATEMENT

The State Controller is an elected state fiscal officer who heads a 588-man agency, composed of seven divisions, with the following miscellaneous program responsibilities:

I. Fiscal Control, which includes acting as the state's chief accounting officer, making apportionments and auditing subventions to local governments, compiling state financial reports, administering the Uniform State Payroll System, and the unclaimed property laws. Approximately 55 percent of the agency's staff is allocated to this program.

II. Tax Administration, which includes the enforcement of the inheritance and gift taxes, the refund of gasoline taxes to nonhighway users, and the collection of miscellaneous taxes. Approximately 35 percent of the agency's staff is allocated to tax administration.

III. Local Government Fiscal Affairs, which includes the administration of uniform local accounting procedures, the review and reporting of state gas funds apportioned under the Collier-Burns Act, and the administration of laws relating to tax-deeded property. Approximately nine percent of the agency's staff is allocated to this program, and the remaining one percent is assigned to agency administration.

Table 1 shows the distribution of the agency's staff and costs, by program, for the budget year.

Table 1  
Distribution of Controller's Staff  
and Costs, By Programs, 1969-70

<i>Programs</i>	<i>Man-years</i>	<i>All funds program cost</i>
1. Fiscal Control	322.6	\$3,684,209
2. Tax Administration	202.5	2,535,807
3. Local Government Fiscal Affairs	55.5	798,357
4. Administration (26 of the administration's personnel are charged to other programs)	8.0	164,322
Reimbursements		-142,156
Total	588.6	\$7,040,539

## State Controller—Continued

During the budget year the agency proposes to abolish 10 positions; three in gasoline and truck tax administration, and seven relating to the special personnel and financial information system study that will terminate by June 30, 1969. The agency also is requesting three new positions in inheritance and gift tax administration, and a reduction in salary savings which will allow the use of 7.2 additional man-years. Therefore, the net change in the agency's staff will be an increase of 0.2 man-years.

## Governor's Tax Reform Commission

During the current year, \$50,000 was allocated from the Emergency Fund to finance the Governor's Commission on Tax Reform, which the State Controller heads. This commission is in the process of preparing its report which will be submitted to the Governor during February, 1969. Most of these Emergency Funds were used to hire outside consultants and to pay the administrative expenses of the commission.

## Homeowners' Property Tax Rebates

Proposition 1a, on the November, 1968 ballot, provided that the Controller shall issue \$70 rebates to approximately 2.6 million homeowners during the current fiscal year. The enabling legislation appropriated \$250,000 to the Controller to cover administrative expenses. Starting in 1969-70 and thereafter, the Controller will make homeowner property tax relief payments to the 58 county auditors, and therefore, the administrative expenses will be less in the budget year when compared to the current year.

## ANALYSIS AND RECOMMENDATIONS

## I. Fiscal Control

Table 2 shows the distribution of the Controller's staff among the 9 elements of this program. This information shows that the staffing for these elements is very stable. The minor changes which are proposed include a three man-year workload increase for payroll, and a seven man-year decrease for data processing services. This last change is attributable to the completion of the first phase of the special study on the statewide personnel and financial information system.

Table 2  
Staff of the Fiscal Control Program

	<i>Man-years</i>		
	<i>Actual 1967-68</i>	<i>Estimated 1968-69</i>	<i>Proposed 1969-70</i>
Program elements:			
1. Control accounting -----	47.8	47.6	47.5
2. Fiscal audit -----	3.9	5.9	5.9
3. Financial analysis -----	11.5	11.6	11.6
4. Unclaimed property -----	9	11.2	11.7
5. Claims audits -----	40.7	41.2	41.4
6. Field audits -----	38.7	36.9	37
7. General disbursements -----	33.8	34.1	34.6
8. Pay roll -----	122.8	129.8	132.8
9. Data processing services -----	0.1	7.6	0.1
Total -----	308.3	325.9	322.6

## State Controller—Continued

## 1. Control Accounting

The Controller maintains control accounts on all funds in the State Treasury, which total approximately 160. Approximately 178,000 deposits are processed annually covering moneys collected by the state agencies and deposited with the State Treasurer.

## 2. Fiscal Audit

Chapter 963, Statutes of 1967, requires the Controller to "audit all the 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. In February, 1969, this unit released its second annual report and most of the critical comments related to expenditure items. For his next report, the Controller intends to hire an outside consultant to review the Department of Finance's revenue estimating techniques.

During the first half of the current fiscal year, one of the positions in this unit was assigned full-time as a staff assistant to the Governor's Tax Reform Commission.

## 3. Financial Analysis

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

## 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. Table 3 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 3.

## Net Receipts and Costs of Controller's Unclaimed Property Program

	<i>Actual</i> 1967-68	<i>Estimated</i> 1968-69	<i>Estimated</i> 1969-70
Receipts:			
Estates of deceased persons -----	\$592,440	\$634,000	\$641,000
Abandoned property -----	3,206,991 <sup>1</sup>	1,100,000	1,210,000
Total Net Receipts -----	\$3,799,431	\$1,734,000	\$1,851,000
Expenditures -----	\$111,175	\$146,786	\$154,044
Personnel man-years -----	9	11.2	11.7

<sup>1</sup> Includes a one time receipt of assets which had accumulated pending the completion of litigation.

## 5. Claim Audits

This element 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. This activity involves auditing 185,000 claim schedules covering 3 million invoices and 56,000 contracts or contract changes. There is a minor increase in workload estimated for the budget year, which the agency will absorb with existing staff.

## State Controller—Continued

## 6. Field Audits

Funds distributed by the State Controller to local agencies under subvention programs are post audited for proper accounting and disbursement by local officials. Approximately 1,040 audits will be made during the current year.

## 7. General Disbursements

This program element maintains master controls on all state disbursements and it issues approximately 2.5 million nonpayroll warrants each year. The issuance of warrants is performed by computer operation in Sacramento. The workload in the current year will be doubled as a result of the one-time issuance of 2.6 million homeowner property tax rebates (Proposition 1a).

## 8. Payroll

The State Controller will issue salary and wage payments totaling over \$1 billion in 1969-70 to 143,000 state employees. This section maintains state employee rosters for payroll preparations and maintains 32,000 U.S. Savings Bond accounts.

## 9. Data Processing Service

The EDP element services the general disbursement and payroll elements as well as other elements within the Controller's Office and other state agencies. Starting with 1967-68, the costs and manpower associated with the services provided to other units in the Controller's Office were allocated to the benefiting unit.

Seven positions are to be abolished in this program element due to the termination of an EDP study during the current year.

## II. Tax Administration

Table 4 shows the distribution of the Controller's staff among the four elements in this program. The staffing of this program also is stable. The only personnel increase in the budget year is three man-years for the inheritance tax element.

Table 4  
Staff of the Tax Administration Program

Program elements:	Man-years		
	Actual 1967-68	Estimated 1968-69	Proposed 1969-70
1. Inheritance tax -----	114.9	113.6	116.6
2. Gift tax -----	17.2	18.3	18.3
3. Tax collection -----	13.5	12.5	12.5
4. Gas tax refund -----	55.1	56.0	55.1
Total -----	200.7	200.4	202.5

## Inheritance Tax Appraiser System Should be Abolished

*Once again, we recommend that the existing inheritance tax appraiser system be abolished and, as a substitute, legislation be enacted to provide that inheritance taxes be administered on a self-assessment basis. In another part of this analysis (Item 130), we have recom-*

## State Controller—Continued

mended the creation of a Department of Revenue, with a director appointed by the Governor. If such a department were created, it would not be conducive to good tax administration for the new department director to retain authority to appoint approximately 160 private appraisers who would be compensated on the outmoded fee basis. It would also be illogical to let the State Controller retain this appointment authority after the Inheritance and Gift Tax Division is transferred to the Department of Revenue.

## 1. Inheritance Tax

*We recommend approval, on a workload basis, of two proposed clerical positions and one man-year of additional temporary help.*

This element has requested two senior clerk-typist positions in the budget year to service inheritance tax information counters and perform other clerical duties. These new clerks will relieve examiners and attorneys from answering many of the nontechnical questions by the public. One man-year of temporary help is requested to provide clerical assistance during peak workload periods.

## 2. Gift Tax

The Controller's Office administers the gift tax which is imposed on transfers made by gift during the lifetime of the donor and supplements the inheritance tax. The tax is determined by the Controller after audit and legal rulings by supporting staff.

## 3. Tax Collection

The Controller's Office maintains accounts and collects delinquencies on taxes assessed by other agencies. Included in this category are the motor vehicle fuel tax, motor vehicle transportation (truck) tax, the insurance premium tax, petroleum, gas and subsidence abatement charges. Of this group, the "truck tax" is the most expensive to administer. The Controller estimates that it will cost about \$144,000, or 90 percent of the total cost of this element, to collect truck tax delinquencies during the budget year. Table 5 shows the revenues and cost of the tax collection program.

**Table 5**  
Comparison of Delinquent Tax Revenues  
and Administrative Costs

	<i>Actual</i>	<i>Estimated</i>	<i>Estimated</i>
Delinquent Taxes Collected:	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>
Transportation tax .....	\$293,498	\$309,000	\$326,000
Motor vehicle fuel license tax....	4,165	4,400	4,600
Motor vehicle fuel storage tax....	93	--	--
Insurance tax .....	111,801	121,000	130,700
<b>Total .....</b>	<b>\$409,557</b>	<b>\$434,400</b>	<b>\$461,300</b>
Total administrative expenses.....	\$153,865	\$166,190	\$159,906
Personnel man-years .....	13.5	12.5	12.5

Due to improved procedures one clerk-typist position was abolished in 1968-69 and one senior tax representative position will be abolished in 1969-70.

## State Controller—Continued

## 4. Gas Tax Refund

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

Approximately 50,000 gasoline tax refund claims will be filed in the budget year, of which 80 percent will be paid from the Motor Vehicle Fuel Fund while the remaining 20 percent will be paid from the Aeronautics Fund.

A decline in workload has caused the abolishment of one stenographer and three clerical positions in the current year, and two clerical positions in the budget year.

## III. Local Government Fiscal Affairs

Table 6 shows the man-years allocated to this program. A small increase in personnel is proposed to maintain bond reports required by recent legislation.

Table 6

## Staff of the Local Government Fiscal Affairs Program

	Man-years		
	Actual 1967-68	Estimated 1968-69	Proposed 1969-70
Program elements:			
1. Financial reports	12.4	12.8	14.4
2. Streets and roads	25.8	27.2	27.1
3. Uniform accounting and budgeting	4.6	5.2	5.2
4. Tax-deeded lands	9.1	8.9	8.8
Total	51.9	54.1	55.5

## 1. Financial Reports

*We recommend approval of two new auditor positions.*

The Controller collects, compiles, publishes and distributes without charge annual reports of the financial transactions concerning cities, counties, school districts, water operations, special districts, assessed valuations and tax rates of cities and counties. The Advisory Committee to the State Controller on Financial Reports, whose members serve without pay, assist the Controller's Office in matters concerning local government and financial reporting procedures.

Chapter 1138, Statutes of 1967, requires local agencies to report information pertaining to their bonded indebtedness. As a result of this new workload the Controller's Office administratively established two auditor positions in 1968-69 which are proposed for continuance in the budget year. We recommend approval of these positions.

## 2. Streets and Roads

Approximately 50 percent of the personnel man-years in the Local Government Fiscal Affairs Program in this element.

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.



**State Controller—Continued**

The provisions of Chapter 1060, Statutes of 1968, pertaining to local agency expenditure on streets and roads requires the engineering assistance of the Division of Highways. The proposed budget does not reflect the cost for reimbursing the Division of Highways as the new workload has not been determined.

**3. Uniform Accounting and Budgeting**

The Controller is required to establish a uniform accounting procedure for all counties. The Controller receives assistance from a 10-man "Controller's Committee on County Accounting Procedures," whose members are representatives of local government and serve without pay.

**4. Tax-Deeded Lands**

This program element was formerly one of eight divisions within the Controller's Office. However, since the personnel requirements were reduced to 9.1 man-years, this element has been transferred to the Local Government Fiscal Affairs Program with its existing personnel.

The unit's duties involve:

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

(2) Receiving and maintaining abstracts of deeds upon property delinquent for at least five years and deeded to the state.

(3) Advising county tax officials regarding procedures and the law pertaining to tax-delinquent and deeded property.

(4) Authorizing the counties to hold public sale on tax-deeded properties.

The state fee for these services was \$1.50 on each parcel sold or redeemed. Chapter 974, Statutes of 1968, raised the fee to \$2 which was then divided evenly between the state and county. In 1967-68 the excess of fees over state costs amounted to \$182,060, whereas under the new fee schedule the estimated surplus for the General Fund will be \$135,-150 in 1968-69 and \$157,680 in 1969-70.

**IV. Administration**

The Controller, with the assistance of his executive staff, establishes policy and provides general supervision and direction over the operating divisions and participates in the establishment of statewide fiscal programs and policies.

The State Controller serves on the State Board of Equalization, State Board of Control, Franchise Tax Board, Pooled Money Investment Board, State Teachers' Retirement Board, various bond and finance committees, California Exposition and Fair Executive Committee, State Lands Commission, Reapportionment Commission, Reciprocity Commission, Interagency Council for Ocean Resources, California Commission on Interstate Cooperation, and the Intergovernmental Council on Urban Growth.

Table 7 illustrates the apportionment of administrative man-years and expenditures to each program element.

## State Controller—Continued

**Table 7**  
**Distribution of the Administration Staff**  
**and Costs to Other Agency Programs**

Personnel and Expenditures Charged to Other Programs:	Man-years			Expenditures (all funds)		
	Actual 1967-68	Estimated 1968-69	Proposed 1969-70	Actual 1967-68	Estimated 1968-69	Proposed 1969-70
I. Fiscal Control .....	13.3	13.8	13.8	\$158,509	\$172,824	\$173,728
II. Tax Administration .....	9.2	9.6	9.7	110,658	117,805	121,543
III. Local Government .....	2.5	2.6	2.5	29,907	33,012	35,010
Administration (General Fund)	7	8	8	149,080	216,315	164,322
Totals .....	32	34	34	\$448,154	\$539,956	\$494,608

**STATE CONTROLLER****Item 126 from the Motor Vehicle Transportation Tax Fund**

Requested 1969-70 .....	\$146,560
Estimated 1968-69 .....	153,015
Actual 1967-68 .....	140,641
Decrease \$6,455 (4.2 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This appropriation is for the cost of collecting the motor vehicle transportation (truck) tax, the details of which are included under Item 125.

**STATE CONTROLLER****Item 127 from the Motor Vehicle Fuel Fund**

Requested 1969-70 .....	\$944,541
Estimated 1968-69 .....	933,700
Actual 1967-68 .....	885,633
Requested increase \$10,841 (1.2 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This appropriation is for administering the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 125.

**STATE CONTROLLER****Item 128 from the School Building Aid Fund**

Requested 1969-70	\$160,074
Estimated 1968-69	166,514
Actual 1967-68	189,186
Decrease \$6,440 (3.9 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

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 125.

**STATE CONTROLLER****Item 129 from the Aeronautics Fund**

Requested 1969-70	\$65,278
Estimated 1968-69	65,219
Actual 1967-68	56,884
Requested increase \$59	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This appropriation covers the auditing and accounting activities for the airport assistance program, which are included under Item 125.

**STATE BOARD OF EQUALIZATION****Item 130 from the General Fund**

Requested 1969-70	\$23,631,577
Estimated 1968-69	22,985,562
Actual 1967-68	19,134,787
Requested increase \$646,015 (2.8 percent)	
Increase to improve level of service \$55,192	
Total recommended reduction	\$30,081

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Senior Citizens' Property Tax Assistance Program:		
Reduce support	\$11,709	510
Assessment of Public Utilities Program:		
Delete one new appraiser position	9,852	511
Sales and Use Tax Program:		
Delete one new tax representative	8,520	514

## State Board of Equalization—Continued

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

## 1. Creation of a Department of Revenue

We recommend that legislation be enacted to create a single Department of Revenue with a director appointed by the Governor. A consolidated revenue agency would result in better tax administration, and would be more economical. (Analysis page 507.)

## 2. Redistribution of Utility Values

We recommend that legislation be enacted to allow allocation of public utility values among the taxing agencies within a county in the same proportion that each agency's local assessed value bears to the total of all agencies in the county. This new method of allocating state assessments would improve the distribution of property tax wealth and result in over \$400,000 annually in administrative savings. (Analysis page 512.)

## 3. Department of Motor Vehicles Charges

We recommend that the Audits Division of the Department of Finance review the standards on which the Department of Motor Vehicles bases its charge to the State Board of Equalization for collecting the use tax on motor vehicles. For several years there has been a controversy between those two state agencies over the method of computing these charges. A review by a third party—the Audits Division—should resolve this controversy. (Analysis page 514.)

## 4. Sharing the Cost of Cigarette Tax Collections

We recommend that legislation be enacted which will require cities and counties to share 30 percent of the cost of collecting cigarette taxes. Local governments receive 30 percent of the revenue from this tax, but the General Fund bears the full cost of collecting the tax. (Analysis page 515.)

## GENERAL PROGRAM STATEMENT

The Board of Equalization is a five-member policy body chosen by the people. Although the Controller, an ex officio member, is elected statewide, each of the other members is selected 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 2,350 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 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.

State Board of Equalization—Continued

Table 1

Board of Equalization Budgets—A Three-Year  
Comparison of Staff and Expenditures

Program	Man-years			New positions requested for 1969-70	Analyst's recommendation for 1969-70
	1967-68	1968-69	1969-70		
Insurance tax	0.7	0.7	0.7	0	—
Franchise and income tax appeals ----	6.1	6.0	6.0	0	—
Office of Appraisal Appeals ----	8.1	11.4	12.4	2.5	2.5
Senior citizens' property tax assistance appeals ----	—	0.5	0.5	0	-0.5
Supervision of local assessment ad- ministration	53.9	61.0	61.7	6.0	6.0
Intercounty equalization	72.2	70.7	71.4	1.0	1.0
Assessment of public utilities ----	63.2	62.2	64.4	3.0	2.0
Private car tax ----	7.2	7.1	7.1	0	—
Sales and use tax ----	1,700.3	1,720.5	1,702.7	3	2
Alcoholic bev- erage tax ---	32.5	31.3	31.3	0	—
Cigarette tax--	37.8	30.8	30.6	0	—
Motor vehicle fuel tax ----	14.8	14.8	14.8	0	—
Use fuel tax --	86.8	86.6	86.7	0	—
Motor vehicle transportation	95.7	95.6	85.6	-10.5	-10.5
Administration and support	143.4	155.8	153.7	0	—
Total -----	2,322.8	2,355.0	2,329.6	5.0	2.5
<i>Fund</i>					
<i>Expenditures (millions)</i>					
General -----	\$19.1	\$23.0	\$23.6		
Motor vehicle transportation	1.1	1.1	1.1		
Motor vehicle fuel -----	1.2	1.2	1.0		
Cigarette tax--	1.6				
Total -----	\$23.0	\$25.4	\$25.9		

The expenditures during the 1967-68 fiscal year from the Cigarette Tax Fund were to support increased staffing made necessary by the tax legislation which was enacted after the budget was adopted.

## State Board of Equalization—Continued

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, as well as three motor vehicle levies.

5. To make decisions on income, franchise tax, and senior citizens' property tax assistance appeals from the Franchise Tax Board.

Table 1, which shows a three-year comparison of the board's staff and expenditures, indicates that the staffing level for the budget year will be almost identical to that of 1967-68.

## General Review of 1969-70 Budget Increase (\$511,015)

The board seeks a 2 percent increase in its budget (all funds) over the total for the current year. This increase is composed of items shown in Table 2, where merit salary increase and new positions account for 78 percent of the total.

The major operating expense item is rent charged by the Department of General Services. Travel in state and out of state, the second largest operating expense item, is increased to reflect the new auditor positions, but much of this increase will be funded through contract with the counties who use their services.

Table 2  
Schedule of 1969-70 Budget Increase, All Funds

Merit salary increase.....	\$261,825
Workload adjustment .....	—116,454
Proposed new positions .....	139,518
Salary savings increase .....	—82,818
Operating expenses and equipment:	
Printing .....	36,024
Travel .....	70,749
Rent .....	104,599
EDP .....	50,493
Cigarette tax stamps .....	58,233
DMV charges .....	32,362
Maps and map service .....	15,900
Other .....	56,149
Subtotal .....	\$626,580
Increased reimbursements .....	115,565
Net Increase in Budget .....	\$511,015

## Creation of a Department of Revenue

*We recommend that legislation be enacted to create a single Department of Revenue with a director appointed by the Governor.*

The new department should absorb the various business taxes currently administered by the Board of Equalization (sales, cigarette, and motor vehicle taxes), the personal income and corporate franchise taxes administered by the Franchise Tax Board, and the inheritance, gift and other taxes administered by the State Controller.

State Board of Equalization—Continued

During 1964 legislative hearings, the State Controller, the Chairman of the Board of Equalization, the Director of Finance, and the Executive Officer of the Franchise Tax Board all agreed that a consolidated Department of Revenue was desirable, would result in better tax administration and would be more economical.

Agency Head

The only major area of disagreement is whether the department should be headed by a single director or a plural body consisting primarily of elected officials. We favor the first alternative because:

(1) Plural bodies are not the best instruments for administrative or executive responsibility. They tend to move slowly, and when there is a need for immediate action, all too often they are unable to respond. Also the conflicting positions of individual members can neutralize the effectiveness of the body. However, their greatest weakness is that individual members can evade responsibility by blaming other members for the body's apparent shortcomings or failure to act. By this technique, every member absolves himself to the frustration of any public effort to place responsibility.

(2) The Executive Officer of the Franchise Tax Board has stated, "It is a political reality that the people of the state hold the Governor and no one else *responsible* for proper tax administration whether he actually has *authority* over tax administration or not." This point is strong justification for having a director appointed by the Governor.

(3) The Board of Equalization has certain organizational characteristics which make it undesirable as a centralized Department of Revenue. For example, the artificial equalization district lines divide economic areas, make for needless duplication of facilities and personnel, and impose rigidities which impede shifts in manpower to meet changes in workload and population. The board does not have uniformity in administration because each member influences the standards within his district. The key civil service staff of this agency have a confused chain of command because they must satisfy the four board members, the four deputies, the State Controller and their regular civil service supervisor. Rarely are all of these persons moving in the same direction at the same time.

(4) The contention has been made that only elected officials should head a tax agency. We do not agree with this position. The responsibility of a tax agency consists solely of administering laws enacted by the Legislature. It is not a policy-making group. The work is mainly technical in nature, and requires a competent staff of trained personnel. There is no more justification for having tax officials elected than there is for electing the Director of Mental Hygiene or the Director of Agriculture.

Employment Policy

We believe that the employees of the department should be under the authority of the director, subject to uniform rules and receiving equally

**State Board of Equalization—Continued**

the benefits of state service. It would be very detrimental to the efficiency of the new agency and the morale of its employees if similar jobs were subject to different standards of security, selection, appointment and compensation. For these and other reasons, we strongly oppose the continuation of the existing inheritance tax appraiser system. An appraiser for property tax purposes who is paid on a monthly scale under the terms of civil service should not have to serve with counterparts in inheritance tax administration who are part-time appointees, serving at the pleasure of the appointing officer, nominally responsible to two supervisors, and liberally compensated by the outmoded fee system.

**Taxpayer Appeals**

Some system of appealing the administrative decisions of the director must be included in any new department structure. The Board of Equalization has responsibilities in the insurance tax, property tax, and alcoholic beverage tax which would require a constitutional amendment to change. Those who advocate immediate reorganization of the revenue collection units would have the board retain these functions and assume the appeal duties for the other taxes.

**ANALYSIS AND RECOMMENDATIONS****I. Insurance Tax**

The Board of Equalization administers the gross premiums tax on insurance companies in conjunction with the State Controller and the Insurance Commissioner. Using statements submitted to the board by the companies, an assessment is prepared against their gross premiums from California business. A retaliatory tax is assessed on companies whose home state imposes a rate higher than California.

**II. Franchise and Income Tax Appeals**

Taxpayers who are not satisfied by rulings of the Franchise Tax Board may seek redress in one of two manners. They may pay the tax and then seek a remedy in the courts or they may appeal to the Board of Equalization, a less costly and faster means to an answer. In the budget year the board expects to handle 230 appeals.

**III. Office of Appraisal Appeals**

*We recommend approval of two new workload positions.* Table 3 indicates that two new positions are requested in the budget year to handle added duties assigned by legislation (Chapter 1012) enacted during the 1968 session. These positions have been assigned to the Division of Intercounty Equalization (1.0 appraiser and 0.5 clerk) and the Office of Appraisal Appeals (0.5 appraiser). New workload resulted from Chapter 1012 which called upon the board to mail notices of appraisal data to owners

**Table 3**  
**New Positions Attributable**  
**to Tax Legislation**  
**Chapter 1012 (1968 Session)**

	<i>Positions</i>	<i>Cost</i>
Appraiser (OAA) -----	0.5	\$7,278
Clerk (DIE) -----	0.5	2,736
Appraiser (DIE) -----	1.0	11,967
Totals -----	2.0	\$21,981



**State Board of Equalization—Continued**

whose property is included in one of the triennial surveys conducted in each county. The sample appraisals are the basis from which the county's official assessment ratio is established and on which school equalization funds are distributed to local districts. The board contends that the new clerical duties require additional manpower and that the new procedure which gives the owner an opportunity to discuss the valuation will require additional appraiser staff.

The Office of Appraisal Appeals is still a relatively new unit within the board. Just as property owners often disagree with the assessor over values, so do assessors often disagree with the appraisers sent out by the Division of Intercounty Equalization. The Office of Appraisal Appeals mediates these disputes by sending out its own staff of appraisers to review the work of the division and of the assessor, usually to the satisfaction of both sides. If either party is unhappy with the value determined by the OAA, he may carry the question to the Board of Equalization for settlement. Where normal operations may be cycled in one year, or several times in one year, the Office of Appraisal Appeals' services are available to each county only one time in three years. We cannot predict a balanced workload at this time because this office has been operating only one year and a full three-year cycle must be completed before the office finishes its work with the 58 counties.

**IV. Senior Citizens' Property Tax Assistance Appeals**

*We recommend that the one-half man-year (\$11,709) assigned to the Senior Citizens' Property Tax Assistance program be eliminated.* This is a new program within the board to handle appeals from rulings of the Franchise Tax Board and in its first year of operation fewer appeals were received than had been anticipated. Although 127 appeals were handled by the Franchise Tax Board, only 25 of these have required action by the Board of Equalization staff. We believe that the workload can be absorbed by the franchise and income tax appeals program for the budget year.

**V. Supervision of Local Assessment Administration**

*We recommend approval of six new reimbursable positions.*

The board requests six new positions for auditing the records of business firms having personal property of more than \$50,000 in full cash value. These audits are required by Chapter 147, Statutes of 1966, which also requires the board to make its business tax auditors available to the county assessors, on a reimbursable basis, for audits of firms based outside California. Most of these contract audits are made in conjunction with a Board of Equalization audit for sales tax purposes. Counties benefit by saving the cost of transportation and the firms are spared multiple audits from a single state.

Chapter 147 requires the assessor to audit the records of any firm with \$50,000 of personal property at least once every three years. In 1967-68 the board furnished slightly less than 4,000 hours of auditor time to the counties on a reimbursable basis. During the current year this service is expected to approximate 8,000 hours, with participation

**State Board of Equalization—Continued**

by 34 counties. For the budget year the board anticipates a further increase because the assessors now recognize the advantage of the contract audit service.

Of these six positions recommended for approval one is a clerk in the board's headquarters office and the other five are field auditors who will be based in our Chicago or New York offices. They add no cost in the budget.

The Assessment Standards Division conducts administrative audits of all county assessors' operations to determine the training level of the assessor's staff, his office's physical accommodations, use of employees, and the results of his countywide appraisals as compared to a standard established by the board. The division designs all the forms used in property assessment and makes technicians available to assessors when they are needed. These technicians may be experts in particular fields of appraising, for example, timber, water rights, mineral, or agricultural land values. The division offers training programs, certifies appraisers, and rules on all claims for property tax exemptions. This group also is responsible for out-of-state audits and continually updates the Assessor's Handbook, a 2,100 page document filled with instructions for assessors.

**VI. Intercounty Equalization**

*We recommend approval of one new appraiser position.*

Since 1966, when the Legislature created the Office of Appraisal Appeals, it has been necessary for representatives of the Intercounty Equalization Division to meet more often with county assessors to justify the appraisals which they make in their triennial surveys of assessments throughout the state. The added duties of these conferences and the greater weight now placed on the survey results mean that board appraisers are unable to spend as many hours in the field as is necessary to obtain the accuracy desired in their work. Because the new procedure for reviewing an appraiser's values has been readily accepted by the county assessors, the Division of Intercounty Equalization must appear to defend its values. And no one can explain the method or defend the figures better than the appraiser who did the job. In order that the work be completed on time, it will be necessary to add one new position to the division.

The Intercounty Equalization program has the responsibility of determining the official assessment ratio used by each of the county assessors. The division makes sample assessments in one-third of the counties each year and from these samples determines an average ratio used to apportion state school support aid for each county. In the years between physical appraisals the ratios are trended to reflect changing property values. The three factors in the trending formula are retail sales, school attendance, and wages in employment covered by unemployment insurance.

**VII. Assessment of Public Utilities**

*We recommend approval of two new tax area delineators and disapproval of a new property appraiser (\$9,852).*

## State Board of Equalization—Continued

The Valuation Division, which assesses public utility property, has requested one new assistant real property appraiser and two tax area delineators in the budget year. The appraiser position has been requested on a workload basis. Based on an average of 465 appraisals per man-year, and the growing number of utility-owned parcels, simple arithmetic might appear to justify the position. In practice, however, a great many of the appraisals are made from information supplied by the utility companies on their annual property statement. Appraisal of many specialized properties does not require annual field audits. They can be completed at a desk in the headquarters office. Although the companies do acquire new parcels of land each year, the lion's share of the increase comes from splits in existing property, because as land is subdivided for commercial development, parcels are broken into smaller units. Even if these new parcels require a field appraisal, the valuation process is usually not complicated. One large parcel divided into two or three smaller units is seldom a major assessment problem. We recognize the growing number of utility-owned parcels and the average number which one man can appraise in a year, but we believe that the valuation division has not substantiated a need for more appraisers based on workload.

Under existing methods of allocating utility properties, the two new delineators are justified on a workload basis. However, we disapprove of the methods and are recommending that legislation be adopted which would allocate these property values by a new formula. If such legislation were adopted, then the two new delineators would not be needed.

## Redistribution of Utility Values

*We recommend that legislation be enacted to allow allocation of public utility values among the taxing agencies within a county in the same proportion that each agency's local assessed value bears to the total for all agencies in the county.*

The board's staff assesses utility properties and allocates the values to each of the more than 20,000 tax code areas in the state. Some of these tax code areas contain only a few hundred square feet, while one is a full county. Miles of railroad track, and electric power distribution cable, and telephone lines pass through dozens of these code areas as they crisscross cities and rural areas. The board's mapping section assigns 19.6 man-years to making maps which pinpoint the exact location of all wires, cables, and pipes belonging to the utilities. Each of these 20,000 areas has a different property tax rate and the value of the transmission line in each area must be determined so that the proper decimal of tax may be applied to the value. The job of preparing these maps, keeping them current through the thousands of changes in boundaries every year, and replacing worn copies takes 19.6 man-years, while the allocation of the values to each district requires 22.3 additional man-years.

To replace this cumbersome allocation process, we recommend that legislation be enacted which will allow the assessed value of utility property to be apportioned to each taxing agency in every county in the

**State Board of Equalization—Continued**

same proportion that each agency's locally-assessed value bears to the total of all agencies in the county. For example, if one city contains 25 percent of the assessed value within a county, then it would receive 25 percent of the assessed value of utility property in the county. This proposal may reduce the amount of tax collected in a few communities in the county which, in turn, will mean added revenue for the rest of the communities in the county. No assessed value will be transferred from one county to another, no county will lose assessed value and the growth rate of utility value in each county will not be affected. Under the present system each area receives the assessed value of the cables which pass through it and serve it, but another community in the same county will have the assessed value of the generating substation. The cables, pipes and poles are of little value in themselves—in fact they are not assessed individually but rather as a unit. Utility property is assessed on a unitary basis, by taking all the property of the operating company, deriving one total value and apportioning assessed valuation to the individual parts. Since we assess utility holdings as a unit, there is little need to assign specific, but arbitrary, values to each of the 20,000 tax code areas. Every time a street is widened in a metropolitan community new code areas are created and the state must prepare more maps. If this recommendation is adopted, administrative effort to divide utility values among the many tax code areas in this function can be eliminated for an annual state savings of over \$400,000 in salaries alone.

**Utility Ratios Made Public**

The board announced this year that utility property used for utility purposes—the so-called unitary property—is now being assessed at 35 percent of full cash value. In making this known the board admitted that until recently the ratio has been 50 percent while property valued by county assessors was assessed at a 20 to 25 percent ratio. With the passage of Chapter 147, Statutes of 1966, the county assessors were directed to achieve a uniform 25 percent ratio by the 1971-72 fiscal year and the board, although not affected by this legislation, has gradually lowered its ratio toward the 25 percent figure. The ratio will continue to drop until state assessed and locally assessed property are both valued at 25 percent. The board made clear that nonunitary holdings of utility companies are presently being assessed at the 25 percent figure.

**VIII. Private Car Tax**

Rolling stock not owned by a railroad company is assessed by the valuation division for property tax purposes and the number of railroad cars it assesses increases each year as more special purpose equipment is introduced. There are some 113 nonrailway companies whose rolling stock moves on the railway lines in this state. The vast majority are tank cars for oil, chemicals, and wine, but many are special purpose cars for transporting glass, automobiles, fruit, and other bulk cargo. During 1969-70 the board estimates that 15,700 private cars will make 620,000 movements into or out of the state. The time each car spends in

State Board of Equalization—Continued

California is apportioned against its value and the result becomes the basis for the tax. This levy is the only revenue the state derives from the property tax.

IX. Sales and Use Tax

*We recommend approval of two new clerical positions and disapproval of one new tax representative (\$8,500) in the sales and use tax program.* We approve of the requests for 1½ years of keypunch operator time and one-half year of clerk staffing on a workload basis. The added position of tax representatives is requested for the sales and use tax return review unit which handles applications for extensions of the time to file and pay tax returns. Since 1965-66 there has been an increase of 39 percent in the number of requests for extensions in filing time (from 10,404 to 14,479). This increase can be traced to the board's generosity in approving requests for extension. There is evidence of an increasing awareness of the extension privilege among taxpayers and accountants. If the board were less generous in approving these requests, the additional staff would not be needed.

Returns from Sales Tax Field Audits

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 4. 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 4

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

District	1965-66	1966-67	1967-68
Los Angeles	\$1.56	\$1.71	\$1.75
San Bernardino	2.06	1.80	2.32
Marysville	1.90	1.56	1.47
San Francisco	1.33	1.20	.91
San Jose	1.31	1.31	1.56
Oakland	1.35	1.36	1.12
Santa Rosa	1.41	1.22	0.82
Sacramento	1.07	1.13	1.15
San Diego	1.06	1.32	1.68
Fresno	1.23	.99	1.18
Average In-state	\$1.47	\$1.49	\$1.55
Average Out-of-state	3.19	4.33	4.12
Average Total	\$1.67	\$1.78	\$1.85

Increase in Charge by the Department of Motor Vehicles

*We recommend that the Audits Division of the Department of Finance review the standards on which the Department of Motor Vehicles bases its charges for collecting the use tax on motor vehicles.*

**State Board of Equalization—Continued**

The Department of Motor Vehicles collects a use tax (in lieu of sales tax) on nondealer sales of motor vehicles. This tax is collected by DMV at the time the vehicle is reregistered, and the board reimburses DMV for its service. For several years there has been a controversy between the board and the department over the standards on which the charge is based. In the budget year DMV estimates that it will spend 125.2 man-years collecting this tax at a cost of \$936,452 or 69 cents per transaction. A review by a third agent—the Audits Division—should resolve this problem and establish guidelines on which the charge would be based.

**X. Alcoholic Beverage Tax**

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). No change in staffing is planned for this program.

**XI. Cigarette Tax****Expensive Shift to Stamps**

There is a continuing shift from meter impressions to stamps as a way of indicating that tax has been paid on each package of cigarettes. This trend is expected to continue into the budget year when the board anticipates that 91 percent of our cigarette tax revenue will come from distributors using stamps. During the current year the figure is 84 percent and only four years ago it was as low as 66 percent. Distributors find it easier to control their inventory of stamps than their inventory of meter impressions and because of the higher tax rate the board's inspectors have placed more emphasis on clean, legible meter imprints. The distributors find it cheaper and safer to shift to stamps and the state must furnish them at an increasing cost. When a distributor uses meter impressions there is no cost to the board. Since the board purchases the tax stamps from a private firm its costs will increase as more distributors use stamps, even though the total cigarette tax revenue will not change. The Department of Finance estimates that cigarette tax revenues in the budget year will be the same as those in the current year, but because of the greater use of stamps the board's costs will increase by 11.5 percent, to \$563,745.

**Sharing the Cost of Cigarette Tax Collections**

*We recommend that legislation be enacted which will require cities and counties to share 30 percent of the cost of collecting cigarette taxes.*

Although the cities and counties share in the receipts from the cigarette tax they are not required to share in the cost of collection or administration of the tax. Local government receives 30 percent of the revenue from this tax, but the state General Fund bears the full cost of the program. In last year's Analysis, we pointed out that the board's budget was predicated on the enactment of legislation which

State Board of Equalization—Continued

would provide a reimbursement of \$200,000 from local governments. The legislation was not adopted and therefore it was necessary to augment the board's budget with an appropriation from the Emergency Fund. The local share of the cost has increased to \$295,000 and is budgeted as a state expense for the 1969-70 fiscal year. Although local governments receive \$72 million from this tax source, they bear none of the administrative cost.

XII. Motor Vehicle Fuel License (gasoline) Tax

The gasoline tax is imposed upon the manufacturer or importer of gasoline at a seven-cent-per-gallon rate. Although there are 1,500 of these manufacturers and importers registered and paying 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 "non-highway" purposes such as farm equipment, 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.

XIII. Motor Vehicle Use Fuel (diesel) Tax

This fuel levy on diesel and liquified petroleum gas corresponds to a similar tax on gasoline for use in motor vehicles. The rate is seven cents per gallon for diesel and six cents for LPG and the costs of collection are borne by the Motor Vehicle Use Fuel Fund into which the receipts are deposited.

XIV. 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 by the board with the State Controller who collects delinquent accounts. The costs of collection are reimbursed to the board from the Motor Vehicle Transportation Tax Fund.

For several years we have joined the board's staff in pointing out that the Motor Vehicle Transportation Tax was one of the most expensive taxes to administer. The board has recommended that 10 of the 95.6 positions currently assigned to this tax be eliminated in the budget year. The budget year figure will be 85.6 and 6.5 of these are assigned to board administration, and therefore are not involved in the daily tax activity. From work measurement programs and management analysis of efficient use of the manpower available, the board staff believes that these man-years can be taken from the Motor Vehicle Transportation Tax program without detriment to the continued collection of the tax. The amount of tax now being realized from audits and deficiencies does not justify the

Table 5  
Motor Vehicle Transportation  
Tax Reductions in Staff  
1969-70

	Positions	Savings
Tax representatives	5.0	\$46,980
Auditor II	1.0	11,400
Clerk II	4.0	20,880
Totals	10.0	\$79,260

## State Board of Equalization—Continued

high expense of collection and we are satisfied that taxpayer compliance will continue at its present level even with fewer audits and field checks of those subject to the tax. The remaining staff should be concentrated on the marginal accounts where return per dollar of expenditure will be highest and where experience has shown the greatest need for prompt action by the state to collect the taxes due. The larger share of the man-year savings will come from the registration of taxpayer function so that only four man-years of collecting and auditing time will be eliminated.

## STATE BOARD OF EQUALIZATION

## Item 131 from the Motor Vehicle Transportation Tax Fund

---

Requested 1969-70 .....	\$1,043,384
Estimated 1968-69 .....	1,178,384
Actual 1967-68 .....	1,142,516
Decrease \$135,000 (11.5 percent)	
Total recommended reduction .....	None

---

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval as budgeted.*

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 operations. This appropriation is to cover the board's cost of administering the tax, the details of which are included under Item 130.

## STATE BOARD OF EQUALIZATION

## Item 132 from the Motor Vehicle Fuel Fund

---

Requested 1969-70 .....	\$1,249,666
Estimated 1968-69 .....	1,249,666
Actual 1967-68 .....	1,212,338
Requested increase—None.	
Total recommended reduction .....	None

---

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval as budgeted.*

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 130.



**DEPARTMENT OF FINANCE****Items 133 and 134 from the General Fund**

Requested 1969-70	\$4,284,223
Estimated 1968-69	3,869,163
Actual 1967-68	3,559,165
Requested increase \$415,060 (4.2 percent)	
Increase to improve level of service \$263,000	
Total recommended reduction	\$164,352

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Budget data system (Item 133)	\$11,400	520
Audits division (Item 134)	70,752	522
Budget division (Item 134)	21,856	524
Office of Planning (Item 134)	60,344	529

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS****1. New Budget Data Information System**

The department has requested an augmentation of \$100,000 to develop and implement an automated budget data system. We have recommended conditional approval of this system at a reduced support level. (Analysis page 520.)

**2. Delegation of Control Procedures**

The department has submitted a report to the Legislature identifying administrative activities no longer requiring budget division review. (Analysis page 525.)

**3. New Budget Cycle for 1970-71**

The department has accelerated agency budget hearings and related schedules in order to provide a more thorough review of next year's budget. (Analysis page 526.)

**4. State Development Plan Finally Published**

State Development Plan was finally published in September 1968. The results are disappointing considering it cost about \$4 million over a six-year preparation period. (Analysis page 529.)

**GENERAL PROGRAM STATEMENT****Traditional Budget**

The Department of Finance is responsible for the development and administration of the state's fiscal program.

The department's programs focus on four major activities:

1. State budget preparation, administration and control.
2. Population and financial research.
3. Advisory services to the Governor for program and policy.
4. Coordination and preparation of the State Development Plan program.

The budget indicates an increase in expenditures of 10.7 percent from the previous year. This amount understates the actual increase, because the Economic Development Agency (5.8 positions) and the

## Department of Finance—Continued

Local Planning unit (seven positions) were transferred to other agencies during 1968.

Table 1 shows the organizational structure and staffing pattern of the department for a three-year period.

Table 1  
Department of Finance Staffing Pattern  
(Man-years)

<i>Division</i>	<i>Actual 1967-68</i>	<i>Authorized 1968-69</i>	<i>Proposed 1969-70</i>
Executive .....	14.6	15.0	15.8
Audits Division .....	109.9	110.3	118.5
Budget Division .....	109.6	119.3	124.3
Program and Policy .....	8.9	9.0	10.3
Office of Planning .....	20.0	13.5	11.5
Economic Development .....	5.8	—	—
Budget Data System augmentation .....	—	—	5.0
Total .....	268.8	267.1	285.4

## Program Budget

The department's program budget is divided into two broad categories: (I) Programming and Budgeting Systems, and (II) Fiscal and Program Compliance. Table 2 shows the crossover data that were used to determine the allocation of costs to program and, for our purposes, it assists in relating the program budget to the traditional line item budget. This table details man-year expenditures on the various programs within a given organizational unit, thus a theoretical tie between programs and organization units can be achieved.

Table 2  
Department of Finance Crossover Data 1969-70 Budget  
(In man-years)

Program Budget	Organizational Unit					
	Budget Division					Total by division
	Audits division	Budget operations	Financial and population research	Office of Planning	Program and Policy Office	
I. Programming & Budgeting:						
Overall state planning coordination -----	--	--	5.7	7.8	--	13.5
Program evaluation -----	2.4	29.1	5.3	2.5	8.0	47.3
Development and enact- ment of Governor's financial and legis- lative plan -----	4.7	42.8	12.4	0.8	1.0	61.7
Analysis and enact- ment of legislation--	--	8.7	2.8	0.4	1.3	13.2
Subtotal -----	7.1	80.6	26.2	11.5	10.3	135.7
II. Fiscal and Program Compliance -----	111.4	17.5	--	--	--	128.9
Total by Unit -----	118.5	98.1	26.2	11.5	10.3	264.6
Administration -----	--	--	--	--	--	15.8
Grand Total -----	118.5	98.1	26.2	11.5	10.3	280.4

<sup>1</sup> The table does not include the five personnel requested in the augmentation for the budget data system.

## Department of Finance—Continued

As Table 2 clearly indicates, the program categories cut across all organizational units within the department. This allocation of manpower would be meaningful if the subprograms were clearly distinguishable. "Program evaluation," for example, consists of 47.3 man-years of which 2.4 come from the Audits Division, 29.1 from the operations unit of the Budget Division, 5.3 from the financial and population unit, 2.5 from the Office of Planning, and eight from the Program and Policy office. However, we have been unable to ascertain where "program evaluation" terminates and the "development of the Governor's financial and legislative plan" because we have not been given a definitive description of the program units. Due to the lack of a clear delineation of programs and program processes and the general absence of any meaningful output data, we are forced to use the traditional line item budget for our analysis of this agency.

## ANALYSIS AND RECOMMENDATIONS

## Augmentation—Budget Data System

We recommend:

1. *Approval of the budget data system augmentation in the reduced amount of \$88,600. The associate data processing systems analyst currently assigned to the budget division should be used on this project, thereby eliminating the need for one of the four new systems analysts in the augmentation request.*

2. *That the special assistant, systems and ADP, coordinate and be directly responsible for the implementation of this system.*

3. *That the system be designed to complement the proposed Personnel and Management Information System now under study by the Statewide Systems Task Force.*

4. *That the system be designed to provide independent access to information by the Legislature with respect to the Governor's Budget and the financial condition of the state.*

5. *That legislative approval be contingent upon: (a) receipt and approval of a detailed cost estimate for total implementation of the system and (b) the guarantee that the Legislature have independent access to information through keyboard terminals.*

The Department of Finance has requested an augmentation of \$100,000 to develop and implement an automated budget data system. It is pointed out in the program narrative and in additional supporting material that the present manual methods for preparing the budget are slow, tedious and primarily a hand-posting operation.

Additional requirements that are difficult to meet under the manual system include preparation of the budgetary change book, the five year forecasts, and the reporting of actual and estimated accounts payable and cash flow statements in the Governor's Budget.

The proposed data system would utilize a large-scale random-access computer, and access to the system would be through keyboard terminals located in the Budget Division. All entry and reporting of data would be by means of these terminals. Budget data will be stored by

**Department of Finance—Continued**

object of expenditure (line item) within organization without totals. Totals would be accumulated by the computer in the various categories of expenditure at any level of organization or for any program (elements, components, tasks).

This basic budget data system could serve as a foundation for further improvements relative to revenue projections, cash positions and cash flow management. These improvements would be the initial phases of a management information system pertaining to fiscal control.

The system would eventually be able to accept input data in machine-readable form from automated departmental budget operations, from departmental accounting systems and from revenue collecting agencies. In this regard it is essential that the Department of Finance fully participate in the current work of the cooperative Systems Task Force studying the feasibility of installing a comprehensive fiscal and personnel management system. The data carried in such a system should be responsive to the needs of the budget data system and the concepts of program budgeting. In many instances such data can serve as the initial input to the budget data system. It is also expected that the system would eventually include program information and would provide the ability to project the probable fiscal impact of alternative policy decisions over an extended period of time.

**Implementation of the Budget Data System**

During 1969-70, positions or contract services will be obtained by the Budget Division and will include approximately \$50,000 for systems analysts, programmers, terminal and data entry operators and clerical personnel. The remaining \$50,000 will be used to rent EDP equipment time and input terminals. Current plans call for the new system to be ready for a complete parallel operation during the preparation of the 1970-71 Governor's Budget with a cut-over to the basic automated system for the 1971-72 Budget.

The budget narrative estimates that ongoing annual cost for the basic system would be \$50,000 during 1970-71. Alterations and improvements to permit more sophisticated procedures are likely and in fact have been briefly outlined by the Department of Finance. The estimated cost of maintaining the system past the first year appears very conservative, and does not include an estimate for personnel services support for a more advanced system. The department should outline to the Legislature a detailed plan for implementation of all phases of the system and a complete cost analysis for systems development and for maintaining the system once development work is complete.

**Possible Impact of the Budget Data System on the Legislature**

It is evident from this description that the proposed budget data system could have important ramifications for the Legislature. The first task outlined by the Department of Finance as necessary to implement this project is "to define information requirements of the executive

## Department of Finance—Continued

and legislative branches.” Therefore, the Legislature will need to clearly define its information needs including the kinds of information required, the level of detail, and the times of the year such information should be available. Improved access to budgetary information including an independent and free flow of information to the Legislature through possession of a terminal during the budget cycle will improve the ability of the Legislature to make sound fiscal and program decisions.

## Executive

The executive office, consisting of 15.8 authorized positions, provides the direction and coordination of all programs administered by the department. In addition to the director, there are three deputy directors, three professional and nine clerical positions in this office.

Two of the three deputy director positions are located in Sacramento to coordinate policy and supervise the activities of the department. The third deputy is in Washington, D.C., serving as advocate for California’s interests in matters pending before Congress and as liaison between the Governor and members of the California delegation in Congress.

## Audits Division

*We recommend approval of two new supervising financial examiner II positions, one to serve as an electronic data processing audit specialist and the other to serve as an audit report editor. We recommend disapproval of the third supervising examiner II position (\$13,860) who would be hired as an audit technique specialist. We also recommend disapproval of six new positions (\$56,892) requested on a workload basis.*

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

There has been in recent years a shift in emphasis within the division to assume, in addition to regular financial auditing activities, an expanding role in the management performance auditing function. Management performance auditing activities stress organizational controls and include an analysis and review of each agency’s structural organization, internal control procedures, 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 and are referred to as “interim reports.” In contrast to the brief formal report issued upon completion of the audit, the interim reports generally contain critical review of the agency’s operation and recommend adjustments where needed. The interim report has become an important management tool for the agency. Compliance with audit recommendations

## Department of Finance—Continued

is not mandatory, however. Consequently, implementation will often depend upon the affected agency's desire to cooperate.

As a control device, the analytical resources and recommendations of the audits division should play a greater role in the overall budgetary process. The audit function of the Department of Finance becomes a more important element of budgetary control, in light of the recent decision by the budget division to delegate to the agencies many of its compliance responsibilities. The development of a more effective means of communication between the audits division and the budget division would contribute toward maximum utilization of audit recommendations and greater assurance of agency adoption of accepted standards and procedures.

## Excessive Auditor Turnover Rate

The Audits Division has experienced an attrition rate of approximately 20 percent per year. The auditors who left typically had about 4.5 years of experience in the division. The proposed budget reclassifies 8 examiner II positions to the examiner III level. This staffing adjustment is in conformity with State Personnel Board standards and should contribute to stabilizing staff turnover. Table 3 shows the existing and proposed staffing pattern of this division.

Table 3  
Staff of the Audits Division

	Positions	
	1968-69	1969-70
Division chief -----	1	1
Assistant division chief -----	1	1
Supervising examiner II -----	10	13
Supervising examiner I -----	3	3
Examiner III -----	30	40
Examiner II -----	42	37
Auditor I -----	18	18
Clerical -----	6	7
Overtime -----	0.3	0.5
Total positions -----	111.3	120.5
Salary savings -----	-1.0	-2.0
Total man-years -----	110.3	118.5

## New Audit Specialist Positions

The division is requesting three new specialist positions for the budget year. The first one, an EDP auditing specialist, would advise the staff on the use of EDP equipment and proper output requirements necessary to obtain audit information. The specialist would also work with the agencies to insure that EDP programs are designed to provide usable audit information. We recommend approval of this position.

The second specialist requested is an audit report editor. The division issues more than 900 interim and final audit reports annually. The ultimate value of the audit division's effort rests largely on the quality and especially the persuasiveness of these reports. We recommend approval of this position.

## Department of Finance—Continued

The third new position would be an auditing techniques specialist. This position would be responsible for the evaluation and review of accounting procedures as they relate to the program and budgeting system and the application of statistical sampling procedures to auditing. We cannot support this request. The implementation of program and budgeting systems accounting procedures should be an integral part of the statewide ADP system and should therefore be the responsibility of Management Services, not the Audits Division. In addition, the Audits Division has already developed the internal capacity for the training and application of statistical sampling. The utilization of the statistical sample as a means to assure the accuracy of an auditing sample has become a commonly established procedure.

## New Workload Positions

Six additional personnel are requested to service the increasing workload attributed to the growth in existing programs and the initiation of new programs. Each agency is audited approximately every 2.3 years. Audit hours budgeted per agency currently range from a high of 40,000 man-hours for the Department of Water Resources to a low of less than 40 hours allocated to the smaller boards and commissions.

Although programs are growing and new programs have been added since the last workload adjustment, two factors indicate that the Audits Division will be able to service these additional programs with existing staff.

1. Many of the large agencies which have stable programs are allocated large amounts of audit staff time by this division. For example, 6,200 man-hours were expended on the last audit of the State Controller, and 9,400 hours are being assigned to the current audit of the State Board of Equalization. We question the necessity of assigning this magnitude of staff time when the programs of the agencies are basically static. It should be possible to reduce audit time on this type of agency and redirect and emphasize audit review in those areas where new programs are initiated and existing programs are changing rapidly.

2. The reclassification of eight auditor positions proposed in the 1969-70 Budget is expected to reduce turnover, and should contribute to the development of a more experienced and efficient staff.

We recommend disapproval of the six new workload positions.

## Budget Division

The Budget Division is responsible for the review, preparation and administration of the executive budget. The division is composed of a budget operations section with 92 employees and a financial and population research section with 32.3 employees.

*audit  
division*

The budget operations section receives the budget requests of the state agencies, board 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 for presentation to the Legislature. The staff attends and testifies at legislative hearings on the budget and analyzes all bills with fiscal im-

## Department of Finance—Continued

paet 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 supervision and control, the staff is divided into six units: (1) fiscal control, (2) health and welfare, (3) corrections and human resources development, (4) revenue and management, (5) resources and transportation, and (6) education. A seventh unit is responsible for assisting the agency analysts in developing the program and budgeting system.

*Agst Control  
units*

## Delegation of Control Procedures

We reported last year that a great quantity of paper, much of which is unnecessary for control purposes, flows through the division and that too much of the analyst's attention was occupied reviewing administrative details which were more properly the concern of the operating agencies and other control agencies such as the Personnel Board and the Department of General Services. We recommend that the central budget agency should concern itself more with program planning and performance analysis and that 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 agencies' daily activities. The 1968 conference committee on the budget recommended that the Department of Finance review its budgetary control procedures to determine the possibility of further delegation of control to state agencies and report progress to the 1969 Legislature.

We received a progress report from the department in January, 1969, which reviews the history of budgetary controls and discusses the steps taken "to exempt from review those classes of transactions least likely to vary from approved legislative programs. By excluding the clearly routine from review, the intent was to receive variations and to manage by exception." The Department of Finance emphasized that it would be the responsibility of the affected agencies to insure that each transaction exempt from Finance review is consistent with approved program, with legislative intent, and with the administration's policy.

Transactions exempted from final review in 1968 by the Department of Finance include:

1. All contracts with certain specified exceptions.
2. The establishment, amendment or abolishment of authorized positions.
3. The certification of availability of funds for establishment of new positions, and for hiring above minimum by special classification.
4. The transfer of funds between budget allotments within budget categories when consistent with approved program.

## Program and Budgeting System

Both the administrative and legislative branches of state government have become interested in applying the tools of modern analysis to support the governmental decision making process. Historically, the admin-



## Department of Finance—Continued

*Officially  
in Legislature  
program - approved  
by Govt. Council  
then info*

istration and the Legislature have based budgetary decisions upon input information with limited regard for program or output analysis. The traditional line item approach to budgeting identifies the number of positions and operating expenses necessary to service a unit of state government. Consequently, it has been difficult to measure total program size, the extent of duplication of activities, and the degree to which program responsibilities of one unit of state government conflict with those of another. *note*

As a first step to introduce program analysis to budgeting, the Budget Division coordinated and supervised the preparation of a program budget for each department of state government. There are three major elements in each program.

1. The identification of the program common to all units within an operating department.

2. The reporting of input requirements on a program basis and an attempt to define, and, when possible, to quantify program output or level of service.

3. The formulation of a multiyear plan.

The resulting program budgets presented to the Legislature have three major shortcomings:

1. They are strictly departmental program statements and are therefore incomplete. Effective program analysis requires management to identify all inputs regardless of organizational structure which are common to a given program. It is a rare instance when program responsibilities are unique to a single department. The Department of Finance should move to an "interdepartmental" program budget if the benefits of program analysis are to be realized.

2. The presentations are too general in many instances and fail to relate program requirements with division personnel staffing reported in line item budgets.

3. Details on meaningful workload or output data, in many cases are lacking.

## New Budget Cycle for 1970-71

The Department of Finance has accelerated budget hearings and budget preparation deadlines in order to provide more orderly preparation of the annual budget. Commencing March 1, 1969, each agency will submit its multiyear program and program memorandum to the Department of Finance. Beginning April 1, 1969 policy and program hearings will be held. The department has indicated that the purpose of these hearings is to select long-range goals, establish broad objectives, strategies, and resource requirements. In addition, the schedule for submission of the Salaries and Wages Supplement has been moved up from September 1, to August 20, 1969.

The deadline for submission of all Program Budgets, updated multi-year programs, and organizational expenditure detail plans will be September 1, 1969. These documents were due in former years on September 15 for smaller agencies and October 1 for larger agencies.

## Department of Finance—Continued

## Workload Adjustments—Correspondence

*We recommend approval of the senior budget analyst (\$14,556) requested to service the division's correspondence workload. We recommend disapproval of an associate budget analyst (\$11,400).*

The Budget Division requests a senior budget analyst and an associate budget analyst, primarily to service the growing workload involved in answering correspondence received by the Governor and the Director of Finance. Normally, correspondence is assigned to the analyst whose program is related to the subject of the letter. The department found that normal budget responsibilities delayed the expedition of these requests and therefore the position of senior budget analyst was administratively established in October, 1968, to centralize all correspondence activities of the department. A new associate budget analyst is requested in the budget year to assist on this assignment.

Most of this correspondence originates from private citizens and is related to controversial subjects such as education, welfare and taxes. Individual letters of reply prepared by the division since October 15, 1968, are as follows:

	<i>Letters Prepared</i>
October 15—October 31 -----	76
November 1—November 30 -----	46
December 1—December 31 -----	181
January 1—January 20 -----	28
Total replies -----	331
Backlog -----	350
Grand Total Received -----	681

The backlog reported above should normally occur only during December and early January when the senior budget analyst assigned to manage this correspondence is engaged in activities related to preparation of the Governor's Budget. The division has employed the services of a magnetic tape typewriter to develop replies and also to incorporate paragraphs applicable from previous letters. Properly administered, this centralized correspondence function can be administered by the proposed senior budget analyst.

## Workload Adjustments—Clerical

*We recommend approval of the two senior clerk-typists (\$12,408) proposed in the budget year.*

One senior clerk-typist has been requested to serve as group clerk to the new budget unit organized as a result of program adjustments under the Governor's Reorganization Plan No. 1 of 1968. The other senior clerk-typist is requested for the development of basic information for the population program on parochial and private school enrollments.

*We recommend disapproval of a clerk-typist II and a supervising clerk II (\$13,956). However, we recommend approval of an increase for temporary help (\$3,500) to reduce overtime during peak workload periods, for a net General Fund savings of \$10,456.*

**Department of Finance—Continued**

The clerk-typist II position and the supervising clerk II position have been requested to reduce overtime related to bill analysis and to increase efficiency by consolidating clerical staff in the budget operations section under one supervisor. In both cases workload increase is the main justification for these additional positions. Four factors indicate savings which should obviate the need for these permanent clerical positions in 1969-70.

1. The division proposes to centralize the coordination of clerical work under one supervisor.

2. The division has installed a magnetic tape typewriter and plans to add another which should produce time savings in the production of finish copy.

3. Many routine control transactions have been exempted from final review in 1968. These and other transactions determined to be exempt in the future should materially reduce the paper flow within the division.

4. The division will relocate in new quarters in 1969 and should consolidate some activities with other units of the Department of Finance. The resulting acceleration in flow of information would result in additional savings.

**Program and Policy Office**

*We recommend approval of the new consultant position (\$13,860) and an increase of 0.3 man-years of temporary help (\$1,476).*

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 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 in the development and implementation of the Governor's legislative program, the development of new programs and in the evaluation of existing programs. Policy areas in which the office directed its attention in 1968 include tax reform, the state reorganization plan, educational finance, the development of a Human Resources Department, and the preparation of a statewide structure for the program and budgeting system. The office emphasizes employment of career specialists who are knowledgeable of state operations in order to successfully integrate executive policy with operations. Seven civil service consultants and two clerks are budgeted for this office. The office is requesting an additional

**Department of Finance—Continued**

consultant position and 0.3 temporary help for the budget year 1969-70.

Our recommended approval of additional staff is contingent upon reductions in the State Office of Planning program discussed below, which are more properly the responsibility of the Program and Policy Office.

**Office of Planning**

*We recommend the elimination of three presently vacant senior planner positions (\$46,452) and two clerical positions (\$13,892) for a General Fund saving of \$60,344.*

*We recommend the establishment of a joint legislative interim committee for the purpose of providing a forum for an evaluation of the 1959 planning law, the identification and review of major social and physical planning problems, and the establishment of major planning goals for the state.*

The State Office of Planning was, until the current year, responsible for two programs: (1) Local Planning Assistance and (2) The State Development Plan Program.

**Local Planning**

By direction of the Governor's Reorganization Plan No. 1 of 1968 the activities and staff assigned to local planning assistance, primarily the administration of the federal 701 Program, were transferred to the Council on Intergovernmental Relations effective September 13, 1968. Seven positions, five professional and two clerical were involved in the transfer.

**State Development Plan**

After six years of preparation and an outlay of about \$4 million the report on the State Development Plan was finally published in September 1968. This 363 page report was divided into six chapters covering three major subject areas:

1. Social resources, including growth characteristics of population and employment.
2. Physical resources, their utilization and management.
3. Urban growth, emphasizing intergovernmental planning.

About one-half of the development costs of the report consisted of hiring outside consultants to prepare studies covering such diverse areas as population and economic forecasting, land use, transportation problems, resource management, and welfare and employment programs. In total, there were approximately 60 studies assigned to outside consultants. It is our understanding that these studies made only a marginal contribution to the final product.

A review of the document reveals the following shortcomings:

1. There are more than 100 recommendations in the study, but about 60 percent urge additional planning research and about 20 percent encourage greater cooperation between competing interest groups.

## Department of Finance—Continued

- NOTE X
2. When specific recommendations are given, in most cases there is insufficient analytical material for the reader, to evaluate the magnitude of the problem independently.
  3. Except in areas of unemployment and urban growth where direct state agency involvement is minor, minimal attention is given to the existing government organizational structures which could impede planning efforts or implementation in the future.
  4. The main weakness of the plan is that it fails to delineate specific major goals which the Legislature could translate into effective legislation.

Since the plan was published, the Office of Planning has revised its workload assignments and in the budget year intends to allocate the staff between two main activities: (1) Coordination of planning activities among all state agencies, and (2) engage in some form of program evaluation. This latter activity duplicates the functions of the Program and Policy Office.

The continued absence of an established priority program is reflected in the office's annual report to the Legislature for 1969. It states in part, "that a comprehensive development plan program at the state level (concentrates) upon furnishing the executive and legislative decision makers... with a reliable, consistent and comprehensive body of information about state and regional development trends, issues and potentials.... The functions of the State Office of Planning under the program are therefore of an advisory, coordinating, catalytic and monitoring nature. Basic functional and program planning remains the responsibility of the various state agencies..."

The annual report lists 1968-69 planning studies for which federal grants have been approved or approval is pending. These include:

1. A master plan for aviation.
2. A comprehensive ocean area plan.
3. A study of land use alternatives.
4. Impact studies in the westside of the San Joaquin Valley.
5. An inventory analysis and projection of governmental manpower needs.

These studies, though perhaps necessary and desirable, should be critically examined in relation to other more pressing planning questions now facing the state. This report to the Legislature, we believe, reflects a continued lack of direction and an overall absence of a coordinated state planning program.

The Office of Planning is authorized 14 positions during the current year. Two positions were administratively abolished and five positions were reclassified leaving eight professional and four clerical positions. Table 4 shows the staffing of the office in both the current and budget years.

## Department of Finance—Continued

**Table 4**  
**Staff of the Office of Planning**

	1968-69	1969-70
Planning officer -----	1	1
Assistant chief -----	1	1
Senior planner -----	2	6
Associate planner -----	3	--
Associate economist -----	1	--
Assistant planner -----	1	--
Assistant economic analyst -----	1	--
Economic analyst trainee -----	1	--
Senior stenographer -----	1	1
Senior clerk-typist -----	1	1
Stenographer II -----	1	1
Clerk-typist II -----	--	1
	<u>14</u>	<u>12</u>

Presently five of the eight professional positions are filled, one of which is held by an exempt senior planner located in the Governor's Office. We have recommended the elimination of three presently vacant senior planner positions and two clerical positions because the office has not provided information which would justify continued support at the level requested. The Governor's Survey on Efficiency and Cost Control came to this same conclusion when it observed that the office would require only limited manpower once the State Development Plan was published.

The State Development Plan has been published but the purpose it will serve is unclear. Major planning goals are missing and the state planning problem is further compounded by the total absence of a priority system for planning.

We have recommended that a joint legislative interim committee be established to review and evaluate the State Development Plan and the 1959 planning law with particular reference to the impact of its planning materials and concepts on current government programs and the examination and determination of the administrations' future role in and approach to state planning.

### DEPARTMENT OF FINANCE

#### Item 135 from the Fair and Exposition Fund

---

Requested 1969-70 -----	\$111,095
Estimated 1968-69 -----	111,095
Actual 1967-68 -----	100,714
Total recommended reduction—None.	

---

#### ANALYSIS AND RECOMMENDATIONS

This item is for the cost of auditing district and county fairs. It is discussed under Item 134.

## FRANCHISE TAX BOARD

## Items 136 and 137 from the General Fund

Requested 1969-70	\$17,480,561
Estimated 1968-69	16,497,440
Actual 1967-68	14,857,199
Requested increase \$983,121 (6.0 percent)	
Increase to improve level of service \$90,747	
Total recommended reduction	\$28,032

## SUMMARY OF RECOMMENDED REDUCTIONS

	Amount	Analysis page
Work Standards		
Eliminate 4 junior staff analysts	\$28,032	542

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

## 1. Senior Citizens' Property Tax Assistance

California's senior citizens, for unknown reasons, have not taken full advantage of senior citizen property tax reimbursements. Last year the Governor's Budget appropriated \$22 million for these payments and 150,000 valid claims were expected. However, only 57,000 valid claims were actually received and the total cost amounted to only \$7.7 million. (Analysis page 539.)

## 2. Administrative Savings From Proposition 1a

As a result of the passage of Proposition 1a, the Franchise Tax Board Board estimates that it will save about \$133,000 in administrative costs during 1969-70. This reduction is attributable to the doubling of the personal income tax standard deduction which (1) reduced growth in the number of taxable returns and (2) caused more taxpayers to use the standard rather than itemized deduction. A return with a standard deduction is cheaper for the board to process. (Analysis page 533.)

## GENERAL PROGRAM STATEMENT

The Franchise Tax Board is a policymaking body composed of the State Controller, the Director of Finance and the Chairman of the State Board of Equalization. The board delegates administrative responsibilities to an executive officer whom it appoints, while retaining the policy functions of setting the tax rate on banks and financial corporations and the adoption of rules and regulations.

As an agency, the Franchise Tax Board administers the state personal income and bank and corporation franchise taxes and the senior citizens' property tax assistance program. During the current fiscal year, the personal income tax will produce about \$1,075 million, while the corporation franchise tax will produce about \$594 million.

Reimbursements under the senior citizens' property tax assistance program were made for the first time during 1968-69, and 57,000 claimants received a total of \$7.7 million, or an average of \$135 per claim.

Table 1 shows that about 5,955,000 personal tax returns, both taxable and nontaxable, will be received during the budget year. This repre-

## Franchise Tax Board—Continued

sents an increase of 270,000 or 4.7 percent over the current year. The senior citizens' claims shown for 1967-68 represent only part of the first filing which began in May 1968, and extended into 1968-69.

Table 1  
Indices of Workload Growth in the Franchise Tax Board  
(Rounded to nearest thousand)

	Returns filed Personal income tax	Bank and corporation tax	Senior citizens' property tax assistance claims	Franchise Tax Board budget
1967-68-----	5,629,000	136,000	35,000	\$14,857,000
1968-69 (est.)-----	5,685,000	141,000	81,000	16,497,000
1969-70 (est.)-----	5,953,000	146,000	85,000	17,481,000
Average annual percent growth-----	4.7 <sup>a</sup> %	3.3%	4.9%	11.4%

<sup>a</sup> Compares only current and budget years, both of which are affected by Proposition 1a. Earlier data not comparable.

## Personal Income Tax Program Accounts for 73 Percent of the Board's Staff

Table 2 shows the distribution of the board's manpower and expenditures by program. About 73 percent of the board's staff is devoted to administration of the personal income tax. This portion of the staff will increase by 76.2 man-years, or 7.2 percent between the actual (1967-68) and budget years. The bank and corporation tax staff will increase by 10.8 percent and the senior citizens' program, which is a new activity that began in 1967-68, will have its staff doubled by the budget year.

Table 2  
Distribution of Manpower and Expenditures by Programs  
in the Franchise Tax Board

Program	1967-68		1968-69		1969-70	
	Man- years	Expendi- tures	Man- years	Expendi- tures	Man- years	Expendi- tures
1. Personal income tax	1,053.1	\$10,557,000	1,111.7	\$11,662,000	1,129.3	\$12,327,000
2. Bank and corporation tax	332.2	3,983,000	346.1	4,345,000	368.0	4,643,000
3. Property tax assistance to senior citizens ---	23.8	317,000	46.5	490,000	47.1	511,000
4. Departmental admin- istration <sup>1</sup> -	(299.4)	(3,607,000)	(324.4)	(3,944,000)	(340.5)	(4,259,000)
Other support <sup>1</sup> -	(161.3)	(1,597,000)	(173.6)	(1,782,000)	(178.0)	(1,875,000)
Totals --	1,409.1	\$14,857,000	1,504.3	\$16,497,000	1,544.0	\$17,481,000

<sup>1</sup> These man-years and expenditures are allocated to other programs according to direct cost.

## Administrative Savings From Proposition 1a

The Franchise Tax Board estimates that it will save about \$133,000 in administrative cost during the budget year as a result of the adoption of Proposition 1a in the November 1968 election.

These savings will be primarily attributable to the increased usage of the standard rather than itemized personal income tax deductions.



## Franchise Tax Board—Continued

Proposition 1a had the effect of doubling the value of the standard deduction. In the past only 35 percent of taxable personal income tax returns used the standard deduction. The board now estimates that 60 percent of the taxable returns will use the increased standard deduction, and this type of return is easier and cheaper for the board to process.

## Ninety-three Positions Eliminated by Work Measurement

In 1966-67 the board embarked upon a work measurement and controls program which was designed to establish staffing standards and increase employee productivity. Since the adoption of this program, the board has eliminated 93 positions through attrition, which has resulted in \$597,000 of savings during the current fiscal year. As of January 1969, only about 690 of the 1,200 permanent positions in the board are being covered by work measurement. The board is requesting new analyst positions in the budget year to extend the work measurement coverage to other employees.

## Board Requests 45.1 New Positions in Budget Year

Table 3 shows the 45.1 new positions requested by the board in the budget year. The new positions for the personal income and bank and corporation tax programs are requested on a workload basis. Three of the nine positions for the senior citizens' program are requested in order to perform a pilot audit review of this new program. The other six positions are for increased workload in the board's branch offices. The new positions for administration are due to a combination of workload and increased level of service to expand the work measurement program. The support activity positions are requested on a workload basis.

Table 3  
New Positions Requested by Franchise Tax Board for 1969-70

<i>Program</i>	<i>Number</i>	<i>Salary</i>
I Personal income tax -----	13.8	\$59,380
II Bank and corporation tax -----	2.0	8,616
III Senior citizens -----	9.0	49,032
IV Administration -----	14.0	96,132
Other support activities -----	6.3	30,332
Total -----	45.1	\$243,492

## ANALYSIS AND RECOMMENDATIONS

## Personal Income Tax Program

The personal income tax program is composed of three basic activities: (1) taxpayer self-assessment, (2) compliance (or enforcement), and (3) audit. Table 4 summarizes the distribution of manpower among these activities. The bottom portion of this table shows the magnitude of the administrative and other supporting staff which is allocated to the personal income tax program.

## Franchise Tax Board—Continued

Table 4

## Personal Income Tax Program—Personnel Man-Years

Program elements	1967-68	1968-69	1969-70
1. Taxpayer self-assessment activities -----	618	637.1	631.5
2. Compliance activities			
Filing enforcement -----	176.5	189.5	194.1
Residency determination -----	4.5	4.6	4.7
Investigations -----	8.1	8.8	9.1
3. Audit activities			
Mathematical verification -----	33.1	32.6	34.2
Smaller return audits -----	28.6	50.5	51.6
Larger return audits -----	147.0	151.5	165.1
Other audits -----	37.3	37.1	39.0
Totals -----	1,053.1	1,111.7	1,129.3
Administration and support activities allocated to PIT			
Administration -----	(244.8)	(266.7)	(278.2)
Support			
Collection of delinquent accounts -----	(123.6)	(134.4)	(137.3)
Protests and appeals -----	(8.6)	(9.3)	(9.7)
Total allocated -----	(377.0)	(410.4)	(425.2)

## 1. Self-Assessment Activities

*We recommend that 6.4 man-years of temporary help which are related to three self-assessment units be approved on a workload basis.*

Unit	Man-years of temporary help	Salary
Alphabetical files -----	2.6	\$11,131
Stenographer services -----	1.4	6,031
Cashiering -----	2.4	10,339
	6.4	\$27,501

Self-assessment activities include providing publicity and information services to taxpayers, design and distribution of tax forms, processing of returns and tax payments, maintenance of tax return files, and processing of claims for refunds or credits.

Staffing in certain self-assessment units, namely in alphabetical files, stenographer services, and cashiering, is inadequate to deal with workload growth in 1969-70. Alphabetical files has experienced workload increases as a result of 1967 tax legislation and the accompanying growth in tax returns and miscellaneous duties. Stenographer services has experienced additional workload as a direct result of the mathematical verification of all personal income tax returns. In the cashiering unit 2.4 man-years of temporary help are requested in order to accelerate the depositing of the receipts during the filing period.

Table 5 shows the composition of personal income tax returns, by type, for the budget year. This data indicates that there will be 3.5 million fully paid self-assessed returns. However, the board also estimates it will receive 385,000 returns with either partial or no tax remittance. These returns become a collection problem. The 180,000 delinquent returns are primarily the result of the board's past enforcement activities.

## Franchise Tax Board—Continued

Table 5

## Estimated Distribution of Personal Income Tax Returns During 1969-70

Type	Number	Percent
Fully paid -----	3,510,000	58.9%
Part and no pay -----	385,000	6.5
Delinquent and nonresident -----	180,000	3.0
Refunds -----	55,000	0.9
Total taxable -----	4,130,000	69.3
Nontaxable returns -----	1,825,000	30.7
Total returns filed -----	5,955,000	100.0%

## 2. Compliance Activities

*We recommend approval of 7.4 man-years of temporary help, on a workload basis, for personal income tax filing enforcement activities at a cost of \$31,880.*

The major objective of the compliance program is the preservation of the state's personal income tax base by insuring through various compliance programs that taxpayers file returns and pay their tax liabilities.

**A. Filing Enforcement.** The filing enforcement unit obtains delinquent returns from taxpayers chiefly by means of the 599-FCP program described below. The workload projections in this unit are based on the normal (about 5 percent) increase in the number of returns, which necessitates an increase of temporary help in this activity during 1969-70.

The 599-FCP program involves comparing the list of taxpayer returns filed in California with the federally supplied computer tape lists of persons filing federal income tax returns in California (Federal Comparison Project) and with information returns filed by California employers (i.e., the 599 form, is similar to the federal W-2 form). Taxpayers who file federal returns or who have employer information returns on record are matched against those who have filed state tax returns, enabling the agency to develop a list of possible nonfilers. The notification of nonfilers and the initiation of assessments against those who fail to comply in filing or in payment are also filing enforcement activities. The agency used 176.5 man-years in order to assess approximately \$9,250,000 in 1967-68, for a net assessment per dollar cost of \$5.43.

**B. Delinquent Accounts.** During 1967-68 there were 273,000 delinquent personal income taxpayers. The board, through its collection activities, bills these taxpayers and, if they fail to respond, the case is sent to the field for appropriate collection efforts. The cost of this activity is part of the general support indicated in Table 4 which is allocated to the personal income tax program.

During the budget year, the board estimates there will be 315,000 delinquent accounts and it is requesting 4.3 man-years of temporary help to handle this increased workload. These positions are recommended for approval in the administrative section of this analysis.

## Franchise Tax Board—Continued

C. *Residency Determination and Investigations.* Residency determination and investigations are the two remaining units in the personal income tax compliance program. The major task of this unit is the determination of which nonresident wage-earners are subject to income tax withholding and which are subject to the filing requirement. The investigations unit prepares cases for prosecution which involve aggravated abuses of nonfiling or fraudulent returns. In 1967-68 the residency determination activity resulted in net assessments of \$256,-406, or \$4.64 in net assessments per dollar of cost. The investigations unit formally investigated or prosecuted 88 cases during 1967-68.

## 3. Audit Activities

The audit program is designed to insure the mathematical and legal accuracy of tax returns. It includes both desk and field audits, and results in additional tax assessments and in refunds or credits.

All tax returns, both large and small, receive a mathematical verification check before being distributed to other units for subsequent processing. For internal control purposes, the board classifies about 90 percent of the returns as "small." About 15 percent of the small returns, or 690,000, will receive a desk audit during the budget year. The board estimates that these desk audits will produce \$3,450,000 in net assessments, or a ratio of \$7.85 in net assessments per dollar of cost.

The remaining 10 percent of the personal income tax returns are classified as "large," and 400,000 of these returns will receive a desk audit, while an additional 20,000 will be sent to the field for audit. These desk audits, in the budget year, will produce an estimated \$4.61 in net assessments per dollar of cost, while the ratio for field audits is \$5.15.

## Bank and Corporation Tax Program

This program is composed of three major subprograms as shown in Table 6.

Table 6

Bank and Corporation Tax Program—Personnel Man-Years			
Program elements	1967-68	1968-69	1969-70
1. Taxpayer self-assessment activities -----	131.7	133.4	137.6
2. Compliance activities			
Filing enforcement -----	1.3	1.4	1.5
Exempt corporations -----	2	2	2
3. Audit Activities			
Mathematical verification -----	13.3	13.1	13.7
Federal audit reports -----	14.9	15	16.3
Nonallocating corporation audits -----	69.2	72.7	80.5
Allocating corporation audits -----	99.8	108.5	116.4
Totals -----	332.2	346.1	368
Administration and support activities allocated to B & CT			
Administration -----	(52.2)	(55.2)	(59.6)
Support			
Collection of delinquent accounts -----	(19.8)	(19.9)	(20.6)
Protests and appeals -----	(9.3)	(10)	(10.4)
Total allocated -----	(81.3)	(85.1)	(90.6)

## Franchise Tax Board—Continued

## 1. Self-Assessment Activities

*We recommend approval on a workload basis of two additional temporary help positions for bank and corporation general files at a cost of \$8,616.*

The objective of self-assessment activities is to gain maximum voluntary compliance. This goal is largely achieved through informing the public of their obligation under the law and through providing assistance to the taxpayer when necessary. In addition, returns are classified and filed for reference and additional tax checking, as well as for collection and audit activities. Voluntary assessments by approximately 140,000 bank and corporation taxpayers amounted to \$512 million during 1967-68.

The board estimates a 4 percent increase in the number of bank and corporation tax returns during 1969-70. This increase creates additional workload for the general files unit which initiates and accomplishes search on all correspondence and delinquent returns.

A. Bank and Corporation Accounts Receivable. The bank and corporation tax accounting system was to have been converted to an electronic data processing system by March 1968. Bancomod, as this conversion is termed, has been delayed by numerous problems, the most significant being in the area of computer programming. The Bancomod system began operating in June 1968, but delays caused by programming difficulties have led to backlogs in various areas such as, collections, claims, and corporation suspension activities. Most recently the computer's inability to compute interest properly on corporate returns has caused delay in the billing cycle. After all the programming difficulties are overcome, this system will eliminate most manual assessing of tax, penalties, and interest on bank and corporation tax returns. It will also accelerate the flow of returns through the cycle and will provide the capability of generating special tax-related data in whatever form is desired.

## 2. Compliance Activities

These activities are designed to maintain the state's bank and corporation tax base by insuring that subject banks and corporations file returns, estimate prepayments, and pay their respective tax liabilities. Compliance activities under the bank and corporation tax program resulted in net assessments of \$219,960 in 1967-68, or \$6.26 per dollar of cost.

The agency accomplishes its compliance objectives by means of the following: (1) obtaining tax returns from all entities subject to filing by comparing returns filed with the record of active corporations, (2) notifying and explaining requirements to those nonfilers with a filing requirement, and (3) by initiating assessments against those who fail to comply. Selected exempt corporations are also checked to determine whether they are operating in accordance with exemption provisions. Exempt status information is exchanged with the Internal Revenue Service and other agencies.

## Franchise Tax Board—Continued

## 3. Audit Activities

This subprogram has the objective of insuring the mathematical and legal accuracy of bank and corporation tax returns. In 1967-68 audit activities were responsible for an additional \$31,530,578 in net assessments. These assessments were issued at a cost of approximately \$2,570,000 or a ratio of \$12.27 in net assessments per dollar of cost.

All taxable returns received under the bank and corporation tax program are mathematically verified. Approximately 85 percent of this operation is now automated, with lists of returns containing mathematical errors being produced for the agency units concerned. For audit purposes corporations fall into two categories: (1) those operating only within California, which are called nonallocating, and (2) those which operate both within and outside of California and are required to report both total income and income allocable to California operations. This last group are called allocating corporations. Nonallocating corporation audits, headquarters and field, resulted in \$4,726,479 in net assessments, for a ratio of \$5.41 in net assessments per dollar of cost in 1967-68. Allocating corporation audits resulted in \$19,880,604 in net assessments in 1967-68 for a net assessment of \$14.45 per dollar cost.

## Senior Citizens' Property Tax Assistance Program

*We recommend approval of six man-years of temporary help to provide assistance to applicants who apply for property tax assistance. We also recommend approval of three auditor I positions in the senior citizens' program in order to conduct an exploratory program to determine the extent of fraudulent filings and the feasibility of this audit enforcement approach. The total cost of these additional positions is \$49,032.*

The first cycle of senior citizens' property tax reimbursements started during 1968-69. Last year the Governor's Budget appropriated \$22 million for these payments and 150,000 valid claims were expected. The actual experience was far below budget estimates. Only 57,000 claims were paid at a total cost of \$7.7 million rather than the \$22 million that was budgeted. However, the processing of these claims was more complex and time-consuming than originally estimated. Claimants consumed many man-years at the branch offices of the board requesting personal assistance in filling out their claims. For these reasons the board is requesting six additional man-years of temporary help to handle the counter (branch office) workload in the budget year. The board also is requesting three new auditor positions to conduct a pilot audit program on these claims. *We recommend approval of these new positions.*

The original senior citizens' estimates were derived by using Wisconsin's experience with a similar law. However, there are differences between these two laws, for example:

1. The Wisconsin claims do not require proof of age, or proof that property taxes have been paid. In California, the largest single element of Franchise Tax Board correspondence to administer this law was requesting proof of age. The second largest correspondence element was requiring proof of property tax payments. The board's correspond-

## Franchise Tax Board—Continued

ence workload amounted to an average of 1.5 letters per claim filed, which was five times the ratio of letters required to administer the Wisconsin law.

2. The Wisconsin law has a narrower definition of household income. Only the income of the claimant and the spouse need be reported. California law requires reporting on all income within the household.

Table 7 shows that California has almost four times as many senior citizens as Wisconsin, but only a slightly higher number of senior citizens' property tax assistance claims. This material indicates that California senior citizens, for unknown reasons, have not taken full advantage of this new law. If the number of claimants does not increase significantly during the next payment cycle (1969-70), then the Legislature should examine this program to ascertain if the program is meeting its original objectives.

**Table 7**  
Comparison of the Number of Senior Citizens and the Number of  
Property Tax Claims in California and Wisconsin

State	Population 65 and over	Number of senior citizens property tax claims	Claims as percent of population
California -----	1,643,000	57,000 <sup>a</sup>	3.5%
Wisconsin -----	449,000	52,500 <sup>b</sup>	11.7

<sup>a</sup> 1968-69 data relating to first payment cycle.

<sup>b</sup> 1967 data relating to third payment cycle.

## Administration and Other Support Activities

*We recommend approval of the following 16.3 positions on a workload basis.*

Position	Unit	Salary
0.5 Temporary help -----	Executive steno -----	\$2,922
1 Keypunch operator -----	Data processing -----	5,100
0.5 Temporary help -----	Data processing -----	2,550
1 Junior counsel -----	Legal -----	9,396
2 Stenographers II -----	Legal -----	10,704
1 Assistant management analyst -----	Programs -----	9,396
4 Junior staff analysts -----	Work measurement -----	28,032
2 Senior clerks -----	Delinquency collection -----	11,808
4.3 Temporary help -----	Delinquency collection -----	18,524
16.3 Total -----		\$98,432

The administrative program consists of management and staff services providing overall planning and administrative support to the personal income and bank and corporation tax programs, and to the senior citizens' property tax assistance program. Included under administration in this analysis are delinquency collection, and protests and appeals activities which are discussed under the individual programs in the budget.

The executive steno unit consists of three stenographers providing clerical services to the program staff personnel in lieu of individually assigned secretaries. One-half man-year of temporary help is required to augment staff during periods of unusually heavy workload. In the data processing keypunch operation, the anticipated growth in key-

## Franchise Tax Board—Continued

punch strokes is sufficient to justify 1.5 man-years of additional help.

The appeals staff in the legal section of the Franchise Tax Board consists of seven attorneys including a supervisor. The workload in this unit is made up of taxpayer appeals (70 percent) and opinions, rulings, and interpretations (30 percent). The growth in workload for 1969-70 over the current year is estimated at approximately 15 percent. This workload increase is attributable to: (1) 1967 tax changes (Chapter 963, Statutes of 1967) which require interpretation, (2) the State Supreme Court's ruling in the McDonald-Douglas case, which reversed the board's practice of excluding owned or leased property from the corporation tax allocation formula, and (3) the Uniform Division of Income for Tax Purposes Act (Chapter 2, Statutes of 1966), which became operative during 1967 and is the most significant change in the Bank and Corporation Tax Law since its enactment.

The general functions of the program division's methods and organization unit involve (1) assistance to management in the determination and definition of management problems and (2) the implementation of related studies to alleviate these problems. In addition, this unit has the responsibility for performing technical analysis involving methods and procedures for the operating units. The additional workload generated by recent tax legislation and new systems conversion and related projects has provided workload in excess of this unit's capability. At the present time there is an inventory of approximately two man-years of methods and organization assignments. This backlog will be reduced by adding one new assistant management analyst.

In the delinquency collections support activity, there will be an estimated 29 percent increase in the number of accounts receivable from persons and firms outside the State of California during the current fiscal year. Two senior clerks are requested to handle this workload under the bank and corporation program. In the personal income tax activity, 4.3 man-years of temporary help are required due to increased workload in billing activities. The cost of these two senior clerks and 4.3 man-years of temporary help is allocated, respectively, to the bank and corporation and personal income tax programs.

The administrative and support staff of the Franchise Tax Board are shown in Table 8. These positions are allocated to other programs such as personal income tax in relation to the direct administrative and support costs of the other programs.

Table 8  
Departmental Administration and Support Staff—Man-Years

Activity	1967-68	1968-69	1969-70
Executive .....	7.4	8.1	8.4
Legal services .....	20.0	22.4	23.2
Data processing .....	206.6	225.5	230.6
Program .....	65.4	68.4	78.3
Subtotal .....	299.4	324.4	340.5
Collection of delinquencies .....	143.4	154.3	157.9
Protests and appeals .....	17.9	19.3	20.1
Subtotal .....	161.3	173.6	178.0
Grand total .....	460.7	498.0	518.5



**Franchise Tax Board—Continued**  
**Work Measurement Program**

*We recommend disapproval of 4 junior staff analysts for work measurement at a savings of \$28,032.*

The work measurement program, which began in November 1966, was designed to establish staffing standards, especially in highly repetitive clerical operations, and to provide management with information that would improve the efficiency of operations within the board.

The original goal of this program was to establish standards for 1,100 positions, to reduce the board's budget by \$403,015 during 1967-68, and to produce new savings of \$173,348 during the current fiscal year. The 1967-68 savings were achieved. However, only \$17,714 of the current year new savings had been achieved by January 27, 1969. To date, this program has measured only about 800 positions rather than the 1,100 which was the original goal. The Personal Income Tax Law changes contained in Chapter 963, Statutes of 1967 made many of the earlier standards obsolete and have resulted in substantial processing variations within the board. Currently some 690 of the original 800 positions are covered under these partially obsolete standards. As a result it is necessary for the board to restudy many of the existing standards and to set standards for some of the remaining uncovered positions.

Table 9 shows that the work measurement staff consisted of a private consultant, a supervisor and nine analysts (plus clerical support) during 1967-68. According to the original plan, the consultant and three analyst positions were terminated on June 30, 1968, and the remaining staff consisting of seven analyst positions was to be used primarily for maintaining the system during the current fiscal year.

**Table 9**  
**Work Measurement Staff in the Franchise Tax Board**

	1967-68	1968-69	1969-70	Proposed increase
Consultant .....	1	-	-	-
Supervisor .....	1	1	1	-
Methods improvement analyst.....	-	-	1	1
Lead analyst .....	1	1	2	1
Measurement analysts .....	8	5	10	5
Special projects analyst.....	-	-	1	1
Clerical .....	3	3	3	-
Total.....	14	10	18	8

The board is requesting eight new analyst positions for the budget year. The first priority of these new positions would be to restudy the existing standards covering 690 positions. The second priority would be to extend the program to high-priority uncovered groups.

*We recommend approval of four of these new analyst positions, and disapproval of the other four for a saving of \$28,032.*

The board has not been able to provide specific workload information which would justify the more than doubling of their technical staff. We

## Franchise Tax Board—Continued

agree that the board needs to restudy the positions currently covered. However, this task should not require eight additional positions to update what was originally measured by 11 positions over a year-and-a-half period. With four new positions, the board should be able to accomplish the updating and extend measurement to uncovered units.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT****Item 138 from the General Fund**


---

Requested 1969-70	\$2,046,761
Estimated 1968-69	1,894,555
Actual 1967-68	1,758,796
Requested increase \$152,206 (8 percent)	
Increase to improve level of service \$73,291	
Total recommended reduction	\$265,283

---

**SUMMARY OF RECOMMENDED REDUCTIONS**

## Building and Housing Standards—Inspection Program

1. Delete General Fund support for inspection programs where the department can adjust the fee schedules \$265,283

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

## 1. Housing and Mobilehome Inspection Programs

We are recommending that all the direct costs for the state housing, earthquake protection, employee housing and various mobilehome inspection programs be entirely fee supported. Five of these inspection programs currently operate at a deficit. In three of them, the department has the authority to increase inspection fees. Therefore we are recommending that the General Fund support for this agency be reduced by \$265,283 and that the budget reduction be recouped by an increase in these fees. We also are recommending a \$300,353 increase in statutory fees for some of the other inspection programs. Finally, we are recommending that the department review its staffing needs for the mobilehome manufacturer inspection program, which operates at a surplus, and if the fees continue to exceed the costs, we suggest that they be reduced. (Analysis page 544.)

**GENERAL PROGRAM STATEMENT**

The Department of Housing and Community Development was established by Chapter 1222, Statutes of 1965. The department is headed by a director appointed by the Governor at a salary of \$22,575 per year. The department has 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 division is headed by a chief appointed by the Governor on recommendation of the director. The 1965 provisions creating the Department of Housing and Community Development were to be operative until 1969 unless extended by the

## Department of Housing and Community Development—Continued

Legislature. In 1968, the Legislature extended the life of the department until 1972.

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 and mobilehome standards. Members are appointed by the Governor for four-year staggered terms and the chairman is designated by the Governor and serves at his pleasure.

The department has broadly defined responsibilities to: (1) promote and maintain adequate housing for all Californians, (2) enforce and promulgate health and safety standards for dwelling units, and (3) assist government entities, private or nonprofit organizations or citizens in the field of housing and community development.

Table 1 shows that the Division of Building and Housing Standards contains 116 positions or 83 percent of the department's staff.

Table 1  
Staff of the Department of Housing  
and Community Development

	Positions		
	Actual 1967-68	Authorized 1968-69	Proposed 1969-70
Division of Administration:			
Director -----	1.0	1.0	1.0
Technical and supervisory -----	3.0	3.0	3.0
Clerical -----	7.0	7.0	7.0
Total -----	11.0	11.0	11.0
Division of Building and Housing Standards:			
Chief -----	1.0	1.0	1.0
Technical and supervisory -----	11.9	12.0	13.0
District representatives -----	61.6	63.0	71.0
Clerical -----	28.7	30.5	31.5
Total -----	103.2	106.5	116.5
Division of Housing and Community Development:			
Chief -----	1.0	1.0	1.0
Coordinator -----	3.0	3.0	3.0
Area representatives and technical -----	5.6	4.0	4.0
Clerical -----	5.0	5.0	5.0
Total -----	14.6	13.0	13.0
Grand total -----	128.8	130.5	140.5

## ANALYSIS AND RECOMMENDATIONS

## Building and Housing Standards Program

*We recommend a \$265,283 reduction in the General Fund support for this program, to be replaced through increased inspection fees for the state housing, mobilehome park and mobilehome accessory functions. The intent of our recommendation is to make these inspection activities self-supporting.*

*We also recommend that appropriate legislation be enacted which would increase the statutory fees to make the remaining inspection programs self-supporting. This would increase fee revenues by an additional \$300,353 during the budget year.*

## Department of Housing and Community Development—Continued

*We recommend approval, on a workload basis, of 10 new positions (\$98,598) for the mobilehome manufacturer and seller inspections.*

This program consists of seven separate activities which are designed to enforce building and housing standards. Six of the activities are inspection programs and they are identified in Table 2.

In our 1968-69 Analysis, we recommended the fee schedule for the inspection of mobilehome accessories be increased to make this inspection activity self-supporting. We also presented a policy option as to whether the inspection of mobilehome parks should be self-supporting. As a result of these issues, Senate Resolution No. 309 of the 1968 Session directed the Department of Housing and Community Development to prepare a fee schedule which would eliminate the deficits in these mobilehome programs. The department submitted a preliminary report to the Legislature in November, 1968. The department also held public hearings in January, 1969, concerning various inspection fees and at these hearings it proposed increases in the administrative fee schedules for two programs: (1) mobilehome accessory structures and (2) mobilehome parks.

In our current analysis, we are recommending that all *direct* inspection costs be entirely supported by fee revenues. The non-inspection costs of the program, which we term "general assistance," would continue to receive General Fund support. The general assistance category includes such activities as: (1) preparation and dissemination of housing information to local officials, (2) direct assistance to local governments on the interpretation of housing standards, and (3) special projects in the housing area which have a statewide implication.

Table 2 shows that the direct inspection costs are estimated at \$1,503,767 in the budget year while general assistance is estimated at \$310,180. This table also shows that five of the inspection programs will operate at a deficit, and only the mobilehome manufacturers' inspection activity will have a surplus.

Table 2  
Staff, Revenues and Costs of the Seven Building  
and Housing Standards Programs  
1969-70

			Costs			Surplus or deficit in inspection program
			Man-Inspection years revenues	General assistance	Direct inspection	Total
1. State Housing Law	14.6	\$75,000	\$76,474	\$174,401	\$250,875	-\$99,401
2. Earthquake protection law	2.1	4,000	10,083	26,024	36,107	-22,024
3. Employee housing and labor camps	14.6	-	49,953	187,026	236,979	-187,026
Mobilehome programs:						
4. Parks	28.2	195,000	82,020	377,607	459,627	-182,607
5. Accessory structures	13.5	108,000	36,596	182,578	219,174	-74,578
6. Manufacturers	33.4	922,500	-	556,131	556,131	+366,369
7. Special projects	3.1	0	55,054	-	55,054	-
Totals	109.5	\$1,304,500	\$310,180	\$1,503,767	\$1,813,947	-\$199,267

## Department of Housing and Community Development—Continued

## 1. State Housing Law

*We recommend a \$99,401 reduction in the General Fund support for this inspection program, and that the department recover this budget reduction by increasing its inspection fees. The inspection program deficit is incurred in five counties where the department is the sole enforcement agency.*

This state program consists of two activities: (1) the establishment of statewide minimum housing standards for houses, apartments, motels and hotels, and (2) acting as primary enforcement agency (i.e., local building inspectors) in the five counties that do not have local enforcement departments.

Under the 1961 State Housing Law the primary enforcement agencies are city and county building departments, or city and county health or fire departments where there is no building department. In 53 counties, local agencies have assumed the enforcement of this law and these local agencies issue the building permits and collect the inspection fees. In these 53 counties the state renders general assistance by interpreting and advising these local agencies on the State Housing Law.

In the five remaining counties: Trinity, Mariposa, Alpine, Sierra and Tuolumne, the state has primary enforcement activity. The state collects the inspection fees in these counties, but as shown in Table 2 the cost will exceed the revenue by \$99,401 in the budget year. The department has the legal authority to increase these fees to make this activity self-supporting, and we recommend that this be done so that the General Fund does not have to subsidize the inspection activity in these five counties.

## 2. Earthquake Protection Law

*We recommend that legislation be enacted to increase statutory fees by \$22,024 to eliminate the deficit in this inspection program.*

Existing law establishes standards for the design and construction of buildings for earthquake protection. This law (Health and Safety Code, Section 19100 through 19170), generally is enforced by local governments but the state is enforcing the provisions in six counties: Trinity, Mariposa, Alpine, Sierra, Tuolumne and Mono. As shown in Table 2 the cost of these inspections in the six counties will exceed the inspection revenues by \$22,024 in the budget year. We recommend legislation be enacted which will increase these fees to make this program self-supporting.

## 3. Employee Housing Act

*We recommend that legislation be enacted to establish an operating permit in order to eliminate the \$187,026 deficit in this inspection program.*

Under the provisions of the Employee Housing Act the department has rule-writing and housing standards enforcement responsibilities for all employer-provided housing where there are five or more employees. Generally, these are labor camps for migrant farm workers. There are

## Department of Housing and Community Development—Continued

approximately 4,700 registered labor camps throughout the state. The direct inspection costs will be an estimated \$187,026 in the budget year. Starting January 1, a one-time registration fee of \$10 will be imposed on each new facility which was not previously registered. The department estimates that this new fee will only produce a nominal amount of revenue. We recommend legislation be adopted to impose an annual inspection fee on all these facilities sufficient to cover costs.

## 4. Mobilehome Parks

*We recommend a \$91,304 reduction in the General Fund support for this inspection program and that the department recover this budget reduction by administratively increasing its fees. We also recommend legislation be enacted to increase statutory fees by \$91,303 to eliminate half of the \$182,607 deficit in this inspection program.*

Under the Mobilehome and Mobilehome Parks Act (Health and Safety Code, Sections 18000–18700) the department shares enforcement responsibilities with local jurisdictions (i.e., city and county building, health or fire departments). The enforcement program consists of the issuance of annual operating permits and inspections of mobilehome parks, travel trailer parks, and recreational parks for compliance with the department's rules and regulations. The department is designated by law as the primary enforcement agency, but the law authorizes enforcement by cities and counties if they adopt a specific ordinance assuming this responsibility. Local enforcement has assumed a large portion of this workload. Currently out of a total of 4,383 parks with 202,535 spaces (lots), local enforcement has responsibility for 57 percent of the parks and approximately 66 percent of the spaces.

As shown in Table 2 the state will collect \$195,000 in construction and operating permit fees from the parks it inspects. However, these fees will leave a \$182,607 deficit in the cost of this program. Therefore, we recommend that half of this deficit be eliminated by the department increasing its construction permit fees, and the other half be covered by increasing the statutory fees for annual operating permits.

## 5. Mobilehome Accessory Structures

*We recommend a \$74,578 reduction in General Fund support for this inspection program and that the department recover this budget reduction by administratively increasing its inspection fees.*

The division regulates and interprets the standards for mobilehome accessory structures and mobilehome parks structures. Most of this workload involves safety provisions for the installment of mobilehome awnings. The enforcement agency, which is either the state or local government, collects fees and issues permits for the erection of these external structures. The division issues standard plan approvals and collects the fees for the plan check and approval. Section 18060 of the Health and Safety Code provides that the department may establish a schedule of fees to pay the cost for the accessory inspections. As shown in Table 2 this program has operated at a deficit supported by the General Fund.

## Department of Housing and Community Development—Continued

## 6. Mobilehome Manufacturers

*We recommend that the department review its staffing needs for this program and if fees still exceed costs after any adjustment in staffing needs, the fee schedules should be reduced.*

The department has sole jurisdiction for inspecting mobilehomes, travel trailers, trailer coaches and camp cars. All such units offered for sale in California must be approved by the division as to the safety of plumbing and heat-producing or electrical equipment. Department approval is represented by insignia affixed to all such vehicles manufactured in California since 1958 when the law went into effect.

Inspections are made in manufacturing plants, dealer lots and for private individuals upon request. This inspection program is entirely self-supporting through fees collected, and in fact, as shown in Table 2, it will operate at a surplus even with the addition of 10 new positions in the budget year.

## 7. Special Projects

The department provides technical aid to local communities, industry and state agencies in the development of housing-oriented programs. These duties coincide with the general assistance provided by other programs and therefore are a logical charge on the General Fund.

## Technical Assistance Program

## Division of Housing and Community Development

This division is staffed with eight professional and five clerical positions in both the current and budget years.

The staff (a division chief, three coordinators who specialize in community development, housing development, and housing and community development technology, and four area representatives who have backgrounds of a more generalized nature) serves as a coordinating agency for federal housing programs which require state involvement. The staff also conducts workshops and conferences as well as publishes material to inform local governments and private businesses on housing and community development problems.

A review of the division's priorities indicates it desires:

1. To assist in solving problems of urban core areas where major social disorders have occurred or are apt to occur.
2. To increase the supply of housing for low and moderate income families.
3. To improve the organization and capacity for solutions with respect to housing and community development problems within low-income neighborhoods.

To carry out these program responsibilities, the three coordinators are assigned the following workload areas. One community development coordinator is responsible for:

1. Analyzing federal programs in terms of their relevance to California's problems.
2. Assisting local communities in complying with state law which requires a housing element to be included in its general plans.

**Item 139****Housing and Community Development****Department of Housing and Community Development—Continued**

3. Coordinating the involvement of state government in the Model Cities Program.

4. Assisting jurisdictions interested in planning and implementing redevelopment programs.

A second coordinator assists local units of government, private industry and quasi-public agencies in applying for federal assistance to provide housing for low and moderate income families, particularly those requiring special attention such as the elderly, agricultural farm-workers, etc. He also performs surveys of local housing markets and advises local communities of alternatives which may be employed in solving their housing problems.

The third coordinator is responsible for assisting the federal home leasing program, which provides low-income housing, performs studies of new techniques and concepts which might be helpful in reducing the cost of housing, and assists in training local officials relative to building rehabilitation and building inspection practices and techniques.

The four areas representatives assist the coordinators in all areas except the Model Cities Program.

**Administration Program**

The administrative personnel consists of the director, assistant director, administrative assistant and the accounting officer. The director implements the policies established by the commission and directs the affairs of the department.

**STATE TREASURER****Item 139 from the General Fund**

Requested 1969-70	-----	\$689,408
Estimated 1968-69	-----	611,684
Actual 1967-68	-----	525,041
Requested increase \$77,724 (12.7 percent)		
Increase to improve level of service \$40,500		
Total recommended reduction	-----	\$47,831

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>	<i>Analysis page</i>
Data Processing System		
Delete 9.8 positions	\$61,982	557
Delete EDP services and rent contract with Department of General Services	47,508	557
Delete EDP programming services with Department of General Services	16,000	557
Add EDP reimbursements for State Controller	+77,659	557

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS****1. Data Processing System**

We recommend that the Treasurer's Office contract with the Controller's Office rather than the Department of General Services for its



**State Treasurer—Continued**

EDP services. Such a contract will save about \$58,000 a year in recurring costs. (Analysis page 556.)

**2. Investment Services**

We recommend that the Systems Analysis Office of the Department of General Services make a survey of all special funds with short-term investment programs to determine the feasibility of utilizing the Pooled Money Investment Program for their investment requirements. If all these funds were to be invested by the State Treasurer, the state could realize an estimated \$700,000 a year in additional interest earnings. (Analysis page 552.)

**3. Emergency Fund Request for 1968-69**

We do not concur with the Treasurer's request for \$25,679 in Emergency Funds. The Treasurer contends that these funds are needed to process the homeowners' property tax rebates. We believe \$8,600 will be sufficient to process these rebates and that the excess Emergency Funds will be used by the Treasurer, in violation of last year's legislative mandate, to convert regular workload to EDP. (Analysis page 554.)

**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.

Table 1 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**

<i>Fiscal year</i>	<i>Man-Years</i>	<i>General Fund Support</i>
1965-66	52.0	\$447,849
1966-67	51.4	448,810
1967-68	53.8	525,041
1968-69 (est.)	56.1	611,684
1969-70 (proposed)	58.6	689,408

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

**Table 2**  
**Distribution of the Treasurer's Staff by Programs, 1969-70**

<i>Program</i>	<i>Man-Years</i>
Bond sales and service	10.2
Investment services	5.2
Trust services	15.0
Paying and receiving	18.5
General administration	9.7
<b>Total</b>	<b>58.6</b>

## State Treasurer—Continued

## ANALYSIS AND RECOMMENDATIONS

## Bond Sales and Service

## Treasurer Anticipates Selling \$595 Million in State Bonds Next Year

This program includes the selling, issuing, servicing and redeeming of state bonds. The cost of servicing and collecting nongeneral obligation state bonds and coupons is reimbursed. The amount is estimated at \$69,966 in the budget year. Table 3 shows the actual and estimated workload of this activity which has been kept fairly constant by converting from coupon bonds to registered bonds and by issuing bonds in larger denominations.

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

	<i>Veterans, harbor, water and recreation</i>	<i>All other</i>	<i>Total</i>
1967-68 -----	2,805	2,793	5,598
1968-69 (est.) -----	2,789	2,776	5,565
1969-70 (est.) -----	2,810	2,690	5,500

This program also involves the preparation and advertising of bonds for sale. The cost of this activity, estimated at \$137,000 in the budget year, is financed from bond proceeds and these costs are not included in budgetary totals.

## Investment Services

## State Investments Increased by \$59.9 Million in 1967-68

The Treasurer, under the direction of the Pooled Money Investment Board which consists of the Treasurer, State Controller, and Director of Finance, is responsible for the investment of idle state moneys. There are two investment programs: the Pooled Money Investment Account (which includes unused balances from the General Fund and most special funds) and the Condemnation Deposit Fund. Table 4 shows that the average daily investments in these two programs totaled over \$1.1 billion in 1967-68. This was an increase of \$59.9 million over the previous year.

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

	1966-67			1967-68		
<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 -----	\$1,012.8	\$50.3	4.97%	\$1,073.1	\$54.2	5.05%
Condemnation -----	45.0	2.3	5.08	44.6	2.3	5.27
Total -----	\$1,057.8	\$52.6		\$1,117.7	\$56.5	

Table 5 contains a breakdown of the funds in the Pooled Money Investment Account during 1967-68. This information indicates that

## State Treasurer—Continued

not all of the funds were invested. Some \$42.6 million was left in non-interest-bearing bank accounts to compensate 10 banks on a formula basis for the services they perform for the state, such as the payment of state warrants and the handling of coin and currency deposits. These amounts are called "compensating balances."

Effective October 1, 1968 the formula for computing the compensating balances was changed to reduce the time allowed for float (i.e., difference between when a bank credits the state for a deposit and the amount is deducted from payer's account) from 14 days to 1 day. This change will allow the state to increase its investments by about \$5 million a year, which in turn will increase interest earnings by about \$250,000 a year. Another \$200,000 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  
Distributions of the Average Daily Amount of Temporary  
Idle Funds in the Pooled Money Investment  
Account During 1967-68 (Millions)

<i>Distribution</i>	<i>Average daily balances</i>	<i>Interest earnings</i>	<i>Percentage yield</i>
Investment in securities -----	\$634.1	\$32.5	5.12%
Investment in time (savings) deposits -----	201.2	10.4	5.17
Loans to General Fund -----	237.8	11.3	4.75
Total Investments -----	\$1,073.1	\$54.2	5.05%
Compensating balances -----	\$42.6	None	
Bond and coupon collection service -----	.2	None	
Total -----	\$1,115.9	\$54.2	

## Legislative Analyst Recommendation on State Investments

Our office proposes that the Systems Analysis Office of the Department of General Services make a survey of all special funds having short term investment programs to determine the feasibility of utilizing the Pooled Money Investment Program for their investment requirements. Approximately 20 state funds have separate short term investment programs. The largest of these programs are in the Unemployment Compensation Disability Fund, State Highway Fund and State College Dormitory Construction Fund.

Since 1945 when the Surplus Money Investment Fund was established there has been a constant trend toward greater pooling of the state's investment resources. This pooling concept has been time-tested and provides the following benefits to the contributing funds: (1) greater return on investment dollars; (2) maximum investment of available dollars, and (3) greater liquidity.

The Treasurer's Office estimates that the state could realize approximately \$700,000 per year in additional earnings if all short term investment resources were invested through the Pooled Money Investment Program.

## State Treasurer—Continued

## Trust Services

This activity is 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. This collateral must have a value of at least 10 percent in excess of the amount the state deposits with a 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's Office will receive an estimated \$65,000 in reimbursements in the current year and \$66,000 during the budget year for collection expenses.

## Paying and Receiving

This section is responsible for the redemption of warrants issued by the State Controller and other agencies 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 Table 6.

Table 6.  
Workload of the Treasurer's Pay and Receiving Program  
(Amounts in Thousands)

<i>Fiscal Year</i>	<i>Warrants Paid</i>	<i>Deposit and Deposit Reports</i>	<i>Total Items</i>
1966-67 -----	5,799	333	6,132
1967-68 -----	5,741	349	6,090
1968-69 (est.) -----	8,528 <sup>1</sup>	358	8,886
1969-70 (est.) -----	6,329	360	6,689

<sup>1</sup> The current year estimate for warrants is distorted because it includes 2.6 million homeowners' property tax rebates which is a one-time activity.

## Data Processing System

During the fall of 1967 the Department of General Services made a special study of the Treasurer's EDP needs. The Governor's 1968-69 Budget proposed that the Treasurer install its own EDP system at a cost of \$61,104. In our 1968 analysis we opposed that installation because it would have been more economical for the Treasurer to contract with the Controller's Office for its EDP services.

During the legislative consideration of the 1968-69 budget proposal, the Treasurer's Office abandoned its original concept of its own EDP system and, as an alternative, suggested that it lease EDP services from

## State Treasurer—Continued

the proposed Department of General Services' computer center. We opposed this amended recommendation because (1) the Department of General Services' center was not a reality and (2) operational details of the Treasurer's plan had not been developed. The conference committee on the budget bill deleted all of the new EDP money from the Treasurer's budget and left the office \$11,480 to continue with its present machine accounting system.

1. *Legislative Mandate Ignored*

*We disapprove of the Treasurer's Emergency Fund request for \$25,679 during the current fiscal year. An Emergency Fund allocation of \$8,600 should be sufficient to handle the one-time workload associated with processing 2.6 million homeowners property tax warrants.*

Despite the legislative mandate on the 1968-69 Budget, the Treasurer now proposes to use Emergency Funds to activate a contract with the Department of General Services to provide EDP services during the current fiscal year. The Treasurer justifies this request on the basis that all of these Emergency Funds will be needed to handle the homeowners' property tax rebates. We disagree. The major portion of these funds, \$17,079 by our estimate, will be used to convert existing workload to EDP processing, an action which last year's Legislature specifically denied.

2. *Processing the Property Tax Relief Warrants*

Proposition 1a adopted by the electorate in November, 1968 results in 2.6 million property tax relief warrants of \$70 each by June 15, 1969. This is a one-time payment that will not be repeated in subsequent years. The State Treasurer will receive these warrants from the banks during the last two weeks of June. The Treasurer's workload on these warrants consists of the relatively simple tasks of: (1) endorsing and counting the warrants, and (2) reconciling each batch with the bank deposit slip. To handle the workload, the Treasurer requests the following amounts in Emergency Funds during the current fiscal year.

\$2,610	To rent five endorsing and counting machines
10,302	To contract with the Department of General Services to provide EDP services starting March 1, 1969
1,225	To move into and rent space at the Department of General Services computer facility
9,342	For temporary help or contract services
2,200	For miscellaneous expenses

---

\$25,679      Total

*We recommend approval of the rental of the endorsing and counting machines (\$2,610), the addition of \$4,490 in temporary help, and \$1,500 for the use of computing equipment to sort the warrants for a total of \$8,600.*

We do not believe it is necessary for the Treasurer to contract the entire EDP workload with the Department of General Services, for a

## State Treasurer—Continued

three-month period, in order to handle a one-time workload that will occur during the last two weeks of June.

3. *EDP Request for Budget Year*

*We recommend disapproval of the Treasurer's request to lease EDP services from the Department of General Services, and, as a substitute, we suggest that the Treasurer contract with the State Controller's Office to provide the necessary EDP services at a General Fund savings of \$50,831 during 1969-70.*

The Treasurer is requesting \$165,190 (\$3,000 of this will be in a special augmentation) to convert existing warrant and bond processing workload to EDP. The Treasurer, once again, proposes to contract with the Department of General Services for machine and programming services. Our office supports the principle of centralized usage of state EDP equipment provided it is accomplished in the most economical manner.

The data in Table 7 shows that the Treasurer could save \$50,831 during the budget year if this office contracted with the State Controller rather than with the Department of General Services. The main savings would be in machine costs (computer operation), keypunch and verification, and the lack of need to create a new data processing manager and a liaison position. There also would be a small savings in rental costs because under our recommendation the Treasurer would assign less personnel at the Controller's EDP facility.

There is ample time available on the Controller's EDP system to handle the additional workload from the Treasurer's Office. There also is an interdependence between these two agencies because the great majority of warrants are issued by the State Controller, and an accurate historical record of all warrants by number, date of issue, amount and fund already exists on magnetic tape within the Controller's system. If the Treasurer's personnel involved in the reconciliation of these warrants were to perform their duties on the Controller's premises (including delivery of the warrants to the EDP center, manual editing, and the examination of all reports prepared by the computer), the entire operation could be performed in an efficient and economical manner.

The current separation of these two systems results in the Controller's Office expending 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 \$50,837 in savings for the Treasurer's Office shown in Table 7.

## State Treasurer—Continued

Table 7  
Comparison of EDP Costs Between the Treasurer's Office  
Using Department of General Services' Equipment  
Versus Contracting with the Controller's Office  
1969-70 Fiscal Year

	<i>Treasurer's Office estimate</i>	<i>Controller's office estimate Based on state-owned equipment</i>	<i>Based on 10-year amortization of equipment</i>
<b>Recurring annual costs:</b>			
1. Computer operation -----	\$41,208	\$11,281	\$36,138
2. Key punch and verification -----	43,346	35,935	35,935
3. Data processing manager and EDP liaison position -----	18,636	—	—
4. Card preparation unit -----	36,700 *	36,700 *	36,700 *
5. Bond servicing automation (6 months) -----	3,500	3,500	3,500
6. Space rental -----	2,800	792	792
<b>Total recurring costs -----</b>	<b>\$146,190</b>	<b>\$88,208</b>	<b>\$113,065</b>
Savings by contracting with Controller	—	\$57,982	\$33,125
<b>Nonrecurring costs:</b>			
7. Programming of bonds and coupons	\$14,000	\$14,000	\$14,000
8. Programming for warrants -----	3,000 **	7,327	7,327
9. Programming for deposits -----	***	2,824	2,824
10. Systems analysis for bonds and coupons -----	2,000	2,000	2,000
<b>Total nonrecurring costs -----</b>	<b>\$19,000</b>	<b>\$26,151</b>	<b>\$26,151</b>
<b>Total costs -----</b>	<b>\$165,190</b>	<b>\$114,359</b>	<b>\$139,216</b>
Savings by contracting with State Controller -----	—	\$50,831	\$25,974

\* Legislative Analyst estimate which covers existing positions in Treasurer's Office.

\*\* This item was left out of the Governor's Budget and the Treasurer will seek an augmentation.

\*\*\* The Treasurer incurred this cost during 1967-68 for third generation EDP equipment. The Controller would have to spend \$2,824 to reprogram this function on second generation equipment.

There are two methods of computing the Controller's machine cost estimates in Table 7. The middle column recognizes the fact that the Controller's equipment is state owned and therefore no longer requires principal and interest payments. The right-hand column is a new estimate based upon a Department of Finance memo of April 1968, which requires the Controller to compute charges on the assumption the equipment is not state owned. These extra charges would in theory be an amortization reserve designed to recoup part of the cost of this equipment over its useful life. However, this reserve charge will only be applied to EDP customers outside the Controller's disbursement division. As a result, these customers will pay higher costs, and because there is no mechanism in state budgeting procedure for an amortization fund, these higher costs will be used to offset part of the costs of the existing workload of the disbursement division. This accounting change is incompatible with existing budgeting procedures, and therefore we have computed the savings by using the middle column in Table 7.

To implement our budget recommendation, the following changes should be made in the Treasurer's budget. These specific changes are merely an amplification of the data in Table 7. Our recommendation

## State Treasurer—Continued

includes the deletion of existing EDP personnel in the Treasurer's Office, and the transfer of this function along with state-owned machines to the Controller's Office. The Treasurer's Office will retain its supervisory personnel for this workload, plus a card preparation unit (item 4 in Table 7) which will be located at the Controller's EDP facility. The one-time programming costs indicated in Table 7 will be required regardless of which office receives the leasing contract. The net reduction in the Treasurer's budget in the following summary differs from the data in Table 6 because the latter includes a \$3,000 proposed augmentation which has not been officially added to the budget figures.

## Reductions in Treasurer's 1969-70 Budget

1. Data processing operation-----	\$41,208
2. Keypunch and verification-----	
2 keypunch operators-----	\$12,408
2 proposed man-years of temporary help-----	9,000
1 Treasury guard clerk-----	6,516
2.8 existing temporary help-----	15,422
	<hr/>
	\$43,346
3. Data processing manager and liaison position-----	
1 data processing manager including reclassification-----	\$11,964
1 tab operator (liaison position)-----	6,672
	<hr/>
	\$18,636
4. Bond servicing automation-----	3,500
5. Space rental-----	2,800
6. EDP programming services with Department of General Services-----	16,000
	<hr/>
Total reduction-----	\$125,490

## Additions to the Treasurer's 1969-70 Budget

1. Reimbursements for State Controller-----	
(a) computer operation-----	\$11,281
(b) keypunch and verification-----	35,935
(c) bond servicing automation-----	3,500
(d) rent-----	792
(e) EDP programming services-----	26,151
	<hr/>
	+\$77,659
Net reduction in Treasurer's budget-----	<hr/>
	-\$47,831

In addition to the advantages of a General Fund savings and more efficient operation, this proposed EDP consolidation would also establish a least-cost precedent that should be followed by other state agencies. In the past, the tendency has been for each agency to seek its own EDP system, and as a result there has been a proliferation of these systems throughout state government without sufficient consideration being placed on EDP centralization or least-cost analyses.

## Administration

The budget includes a new stenographer II position for the assistant treasurer and this position also will handle part of the Treasurer's clerical workload. *We recommend approval of this new position on a workload basis.*



**HEALTH AND WELFARE SUMMARY**

The 1969-70 budget proposes total expenditures of \$3,953,300,000 in state, federal, county, and special funds to support various health and welfare programs. These expenditures are summarized in Table I. Individual summaries of program expenditures are included in the analysis of each major department or program.

**Table I**  
**Proposed 1969-70 Expenditures for Health and Welfare**  
(in millions)

<i>Program or department</i>	<i>General Fund</i>	<i>Federal funds</i>	<i>County funds</i>
Medical fee and related services cost increases	\$10.0	\$8.4	--
Department of Health Care Services (Medical Assistance program)	386.8	453.9	\$218.8
Department of Human Resources Development	295.3	552.1	--
Department of Mental Hygiene	264.9	5.5	12.8
Department of Public Health	41.2	47.5	1.0
Department of Rehabilitation	5.6	42.3	--
Department of Social Welfare	578.8	731.6	277.8
Totals	\$1,583.6	\$1,841.3	\$510.4
Grand Total all funds	\$3,953.3		

The ever-increasing role of the federal government in the health and welfare area should be noted, for as federal programs and federal funds are increased, state and local expenditures must necessarily rise to meet federal requirements.

**DEPARTMENT OF HEALTH CARE SERVICES****Items 140 and 141 from the Health Care Deposit Fund**

Requested 1969-70	\$10,441,666
Estimated 1968-69	7,964,215
Actual 1967-68	4,020,971
Requested increase \$2,477,451 (31.1 percent)	
Total recommended reduction	\$2,992,773

**SUMMARY OF RECOMMENDED REDUCTIONS**

	<i>Amount</i>
1. We recommend deletion of 303 positions for the Field Offices Bureau.	\$2,923,000
2. We recommend deletion of 6 positions proposed for the Data Processing Bureau.	\$58,730
3. We recommend deletion of 2 proposed positions for the Personnel Bureau.	\$11,000

The analysis of these items is found in our discussion of Items 337 and 338, the California Medical Assistance Program (Medi-Cal).