Higher Educational Opportunity Programs—Continued

grants are renewable so this limitation does not apply to those community college participants who transfer to four-year institutions.

In 1969, 1,000 grants were awarded to students in the first year of operation of this program. In 1970–71 it is expected that 875 of these will be renewed and 1,000 new awards will be granted for a total of 1,875. The average grant for new awards is estimated at $800 and for renewals at $1,000. The higher rate for renewal candidates results from the assumption that 328 of the renewal students will be transferring to four-year institutions with higher fee requirements.

The total amount budgeted for awards in 1970–71 is $1,675,000. Administrative costs are $124,781 or 7.4 percent of the grant costs. The budget added one clerical position plus temporary help for increased workload.

Because this program has been in existence for only one year, there is not sufficient historical data available to evaluate performance.

STATE CONTROLLER

Item 100 from the General Fund **Budget page 437**

Requested 1970–71	$5,684,419
Estimated 1969–70	6,019,168
Actual 1968–69	5,514,660
Requested decrease $334,749 (5.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

We recommend:

1. The existing inheritance tax appraiser system be abolished and, as a substitute, legislation be enacted to administer inheritance taxes on a self-assessment basis. 533
2. The Controller's Office make a test study of optical scanning equipment to ascertain the possible benefits and savings in its data processing operations. 533
3. Exploration of the merits of transferring social welfare audits to the Controller's Office. 531

GENERAL PROGRAM STATEMENT

The State Controller is an elected state fiscal officer who heads a 585-man agency, composed of seven divisions, with the following 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 56 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 33 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, 1970–71

Programs	*Man-years*	*Program costs—all funds*
1. Fiscal Control	328.4	$3,967,767
2. Tax Administration	195.4	2,585,678
3. Local Government Fiscal Affairs	53.5	811,222
4. Administration (24 of the Administration's personnel are charged to other programs)	8	180,937
Reimbursements	--	—628,054
Total	585.3	$6,917,550

Table 2 shows that the Controller proposed to add and eliminate 14 positions in the budget year. The biggest staff changes will occur in field audits, where six positions will be added to audit the Federal Disaster (flood damage) Assistance Program, and three more will be added to conduct an audit of the homeowners' property tax exemption and rebates. The largest reduction will occur in the gas tax refund program as the result of improved procedures and lower workload.

Table 2

Proposed Changes in the Controller's Staff During 1970–71

Program and elements:	*Positions Added*	*Positions Deleted*
1. *Fiscal Control*		
Control Accounting	+2	--
Field Audits	+9	—2
Payroll	--	—3
2. *Tax Administration*		
Inheritance Tax	+2	—1
Gift Tax	+1	--
Tax Collection	--	—1
Gas Tax Refund	--	—4
3. Local Government Fiscal Affairs		
Streets and Roads	--	—2
4. Administration	--	—1
Totals	+14	—14

The policy decision of the Department of Finance to place interagency activities on a fully reimbursable basis will increase the Controller's reimbursements by $422,291 in the budget year. These reimbursements cover auditing, data processing services, tax collection activities and the tax-deeded land management activities by the Controller's Office. The increased reimbursements consist of $68,153 from

State Controller—Continued

the Department of Mental Hygiene, $88,458 from the California Disaster Office, and numerous smaller amounts from other state agencies.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

I. Fiscal Control

Table 3 shows the distribution of the Controller's staff in the nine elements of this program. The primary personnel shifts will occur in control accounting, field audits and payroll elements. The control accounting and field audit increases are attributable to workload. The 7.4 man-years decrease in the payroll element is due to new filing procedures which resulted in the abolishment of three positions and an increase of 4.4 man-years in salary savings.

Table 3
Staff of the Fiscal Control Program

	Man-years		
Program elements:	*Actual 1968–69*	*Estimated 1969–70*	*Proposed 1970–71*
1. Control Accounting	46.1	47.4	49.3
2. Fiscal Audit	5.8	5.8	5.8
3. Financial Analysis	11.8	12.6	12.5
4. Unclaimed Property	10.9	11.1	11.5
5. Claims Audits	41.2	41.8	41.6
6. Field Audits	36.1	40.8	44.0
7. General Disbursements	41.2	34.5	34.4
8. Payroll	121.8	136.7	129.3
9. Data Processing Services	16.8	16.8	16.8
Total	314.9	330.7	328.4

1. Control Accounting

We recommend approval of two new positions on a workload basis.

The Controller maintains control accounts for all funds in the State Treasury of which there are approximately 150. About 177,000 bank deposits are processed annually covering moneys collected by the state agencies which are deposited with the Treasurer's Office.

Regular increases in workload will require this element to augment its personnel by 1.9 man-years in the budget year.

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.

The 1970–71 expenditures in this element will decrease by approximately $48,000 from the current year level as the result of the completion of a study by an outside consultant on the Board of Equalization's sales tax procedures relating to grocery stores. Chapter 1532, Statutes of 1969, requested such a study.

3. Financial Analysis

This unit prepares annual, semiannual, quarterly, and monthly reports on the state's financial affairs. Data is compiled to make appor-

State Controller—Continued

tionments of both state and federal funds to local agencies. The Pooled Money Investment Board is provided with estimates of future cash receipts and expenditures.

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 4 gives the net receipts and costs (including divisional and agency overhead). All receipts are transferred to the General Fund.

Table 4

Net Receipts and Costs of Controller's Unclaimed Property Program

Receipts	*Actual 1968–69*	*Estimated 1969–70*	*Proposed 1970–71*
Estates of deceased persons	$840,699	$641,000	$650,000
Abandoned property	1,306,597	1,210,000	1,300,000
Total net receipts	$2,147,296	$1,851,000	$1,950,000
Expenditures	$154,536	$162,038	$167,221
Personnel man-years	10.9	11.1	11.5

5. Claim Audits

This audit element insures through preaudits that state expenditure transactions are expended as authorized in their appropriations. Claim schedules are also audited for their validity. This activity will involve auditing 195,525 claim schedules during the budget year.

6. Field Audits

This element examines local agency records to verify the local accounting and disbursement procedures relative to state and federal funds granted for local assistance purposes. An estimated 1,094 audits will be made in the current year.

Four audit positions were administratively established during the current year, and two more will be added in the budget year to audit the federal assistance granted to local governments as a result of the December 1968 and January 1969 storm damage. These positions will be phased out over a three-year period.

Three additional auditors will be added in the budget year to conduct a compliance program on the homeowners' property tax rebates and exemptions. This exempiton will cost over $200 million in the budget year.

Since 1959, the Controller has devoted two man-years annually in making joint audits with the Department of Social Welfare on categorical aid payments. In the budget year, the department will have the sole responsibility for making these fiscal audits of county welfare expenditures, and as a result the Controller's staff will be reduced by two positions.

Policy Option

At the present time the Department of Social Welfare devotes about 23 man-years to auditing county welfare expenditures. A recent study by the Department of Finance indicates that these audits are released

State Controller—Continued

on an average of 20 months after the completion of the audits. The same study also shows that about 42 percent of the audit time is spent in supervision and general administration, and only 58 percent is actually devoted to field auditing.

On two occasions in the past, during 1949 and 1950, and between 1952 and 1959, the Controller's Office conducted these social welfare audits. The function was transferred to the Department of Social Welfare in 1959, because the federal government would bear part of the audit cost.

The Controller believes that his office could perform these audits more efficiently by:

1. Drastically reducing the time lag between the completion of the audit and its publication, and
2. Increasing the percentage of direct field audit hours at the expense of overhead.

We propose to explore the merits of transferring this audit function to the Controller's Office and report to the Legislature.

7. General Disbursements

The Controller's Office, through this element, will issue more than 2.5 million warrants annually. The recording and control of all disbursements are maintained through electronic data processes.

The only new workload item in the budget year is due to the Manpower Development and Training Act for the Department of Human Resources Development. This new workload will require 360,000 warrants to be processed annually.

8. Payroll

The State Controller will issue salary and wage payments totaling over $1 billion in 1970–71 to 145,000 state employees for a workload of 2 million warrants annually. In addition, the payroll element maintains 32,000 U.S. savings bond accounts which require the issuance of 20,000 bonds on a monthly basis.

The adoption of new filing procedures will result in the abolishment of three clerical positions during the budget year. The balance of the reduced personnel (4.4) in this element results from increased salary savings.

9. Data Processing Service

The EDP element services the general disbursement and payroll elements as well as other elements within the Controller's Office. Fiscal information is provided to state agencies through this element.

In the 1969–70 and 1970–71 fiscal years the agency trust accounting transactions workload increased appreciably due to the transfer of disability insurance payments from private banks to the Centralized State Treasury System. It is estimated that the Treasurer's Office will receive $90,000 annually due to interest earnings as a result of this transfer. The primary reasons for the transfer was to obtain this interest amount and to provide better fiscal control.

State Controller—Continued

The Controller's Office will run an EDP test program at the optical scanning test facility to be installed by May 1970 in the Department of General Services. The test would determine the savings potential to the Controller's data-processing program.

A feasibility study of EDP workload indicates the Controller's Office would incur a $28,600 annual cost if this office were to be the sole leasing agent of the optical scanning system. However, if the Controller's Office were to lease such optical scanning equipment jointly with the Treasurer's Office, then there would be an annual saving of $83,700 in the Controller's budget in addition to the savings in the Treasurer's budget.

We recommend that the Department of Finance and our office review the Controller's EDP budgetary requirements for 1970–71 if the test of the optical scanning equipment should prove successful.

II. Tax Administration

Table 5 shows the distribution of the Controller's staff among the four elements in this program. The staffing of this program is very stable. The only personnel increase in the budget year will be one new position in both the inheritance and gift tax elements with corresponding reductions in the tax collection and gas tax refund.

Table 5
Staff of the Tax Administration Program

	Man-years		
Program elements	*Actual 1968–69*	*estimated 1969–70*	*Proposed 1970–71*
1. Inheritance tax	115.5	116.7	117.3
2. Gift tax	18.1	18.2	19.3
3. Tax collection	11.7	9	8
4. Gas tax refund	51.5	51.9	50.8
Total	196.8	195.8	195.4

Inheritance Tax to Be Placed on Self-Assessment Basis

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.

Two significant fiscal reasons are: (1) a change in present probate appraisal fees of approximately $5.8 million a year would save heirs and taxpayers $3.6 million annually, and (2) the state will eventually gain $3.5 million annually through (a) the elimination of commissions paid county treasurers and appraisers, (b) earlier banking of tax receipts, and (c) collection of its own substantially lower appraisal fees.

1. Inheritance Tax

We recommend approval, on a workload basis, of two proposed positions, an auditor II and a clerk I.

These new positions have been requested in order to reduce the backlog of unaudited cases and to establish an appraiser's training program. One existing temporary help position will be abolished in the budget year.

State Controller—Continued

This element administers the state inheritance tax laws. The workload of taxable reports and certificates will continue its upward trend in the budget year.

2. Gift Tax

We recommend approval, on a workload basis, of a new auditor I position.

This position has been requested in order to reduce the backlog of unaudited returns.

The Controller's Office administers the gift tax which is imposed on transfers made by gifts during the lifetime of the donor and this tax supplements the inheritance tax. The gift 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 $134,140, or 90 percent of the total cost of this element, to collect truck tax delinquencies during the budget year. Table 6 shows the revenues and cost of the tax collection program.

Table 6
Comparison of Delinquent Tax Revenues and Administrative Costs

Delinquent taxes collected	*Actual 1968–69*	*Estimated 1969–70*	*Proposed 1970–71*
Transportation tax	$348,680	$366,114	$380,759
Motor vehicle fuel license tax	5,639	5,639	5,639
Petroleum and gas tax	159,500	159,500	159,500
Subsidence abatement	9,338	9,338	9,338
Insurance tax	213,217	232,602	248,885
Total	$736,374	$773,193	$804,121
Total administrative expenses	$159,437	$142,555	$149,045
Personnel man-years	11.7	9	8

Due to improved procedures, one bookkeeping machine operator I position will be abolished in the 1970–71 fiscal year.

4. Gas Tax Refund

The Controller refunds a portion of gasoline taxes paid by nonhighway users after first deducting state and local sales taxes. Office and field audits are included in this element's workload.

Approximately 48,000 gasoline tax refund claims will be filed in the budget year, of which 79 percent will be paid from the Motor Vehicle Fuel Fund, while 17 percent will be paid from the Aeronautics Fund. The balance of the claims (2,000) will be returned to the claimants as unpayable.

State Controller—Continued

In the budget year, gasoline tax refunds show a decrease of approximately $2,190,000 from the current year due to the one-time, 1-cent tax applied in the summer of 1969 for flood damage funding.

A decline in workload and improved procedures has caused the abolishment of three positions in the current fiscal year and one more position in the budget year.

III. Local Government Fiscal Affairs

Table 7 shows the man-years allocated to this program. A small decrease in personnel has resulted from minor reductions within the elements.

Table 7
Staff of the Local Government Fiscal Affairs Program

	Man-years		
Program elements	*Actual 1968–69*	*Estimated 1969–70*	*Proposed 1970–71*
1. Financial Reporting and Budgeting	13.6	15.7	14.7
2. Streets and Roads	25.5	26.4	25.5
3. Uniform Accounting and Budgeting	3.1	3.7	3.7
4. Tax-Deeded Lands	8.6	9.6	9.6
Total	50.8	55.4	53.5

1. Financial Reporting and Budgeting

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.

A separate report on water operations is planned for the current and budget years. This report will allow for a more comprehensive treatment on water operations. Water Fund transactions, formerly reported in other sections, will now be consolidated.

Due to a salary savings increase this element has been reduced by one man-year during 1970–71.

2. Streets and Roads

This element contains approximately 50 percent of the personnel man-years in the Local Government Fiscal Affairs Program.

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, as amended in 1967 and 1968. This element also compiles and publishes a consolidated report on city and county financial transactions relating to streets and roads.

Workload adjustments have resulted in the reduction of two positions in this element.

3. Uniform Accounting

The Controller is required to establish a uniform accounting procedure for all counties. The 10-man Controller's Committee on County

Accounting Procedures, whose members are representatives of local government and serve without pay, assists the Controller to accomplish this element's objective.

4. Tax-Deeded Lands

This element provides delinquent property tax assistance to the counties by means of:

(1) Receiving and maintaining county tax collector lists of tax-delinquent properties prior to deeding,

(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 tax-deeded property, and

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

Formerly, the state received a service fee of $1.50 on each parcel sold or redeemed, Chapter 974, Statutes of 1968, raised the fee to $2 which was then divided equally between the state and county. In 1970–71, the General Fund portion of these fees have been estimated at $160,000.

IV. Administration

The Controller, with the assistance of his executive staff (a total of eight positions), 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 County for Ocean Resources, California Commission on Interstate Cooperation, and the Intergovernmental Council on Urban Growth.

Table 8 illustrates the apportionment of the administrative staff to each program element. As mentioned in Table 1, 24 of these positions are allocated to other programs, and the remaining eight, constituting the Controller and his executive staff, are not allocated.

Table 8

Distribution of the Administration Staff to Other Agency Programs

	Man-years		
Programs	*Actual 1968–69*	*Estimated 1969–70*	*Proposed 1970–71*
1. Fiscal Control	13.6	13.6	12.9
2. Tax Administration	9.5	9	8.6
3. Local Government	2.6	2.4	2.5
4. Administration	7.6	8	8
Totals	33.3	33	32

One accounting technician position will be abolished in the budget year as the result of improved EDP processes.

STATE CONTROLLER

Item 101 from the Motor Vehicle Transportation Tax Fund **Budget page 437**

Requested 1970–71	$134,977
Estimated 1969–70	130,964
Actual 1968–69	145,621
Requested decrease $4,013 (3.1 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 100.

STATE CONTROLLER

Item 102 from the Motor Vehicle Fuel Fund **Budget page 437**

Requested 1970–71	$900,552
Estimated 1969–70	953,091
Actual 1968–69	845,919
Requested decrease $52,539 (5.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted.

This appropriation is for administering the gasoline tax audits and gasoline refund functions, the details of which are included under Item 100.

STATE CONTROLLER

Item 103 from the School Building Aid Fund **Budget page 437**

Requested 1970–71	$129,166
Estimated 1969–70	140,968
Actual 1968–69	157,798
Requested decrease $11,802 (8.4 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

State Controller—Continued

the State School Building Aid Program. These activities are included under Item 100.

STATE CONTROLLER

Item 104 from the Aeronautics Fund **Budget page 437**

Requested 1970–71	$68,436
Estimated 1969–70	72,729
Actual 1968–69	75,473
Requested decrease $4,293 (5.9 percent)	
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 100.

BOARD OF EQUALIZATION

Item 105 from the General Fund **Budget page 451**

Requested 1970–71	$23,776,000
Estimated 1969–70	24,369,527
Actual 1968–69	22,214,066
Requested decrease $593,527 (2.4 percent)	
Total recommended reduction	$29,367

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Redistribution of Utility Values 542
   We recommend that legislation be enacted to provide for the allocation of utility values among the taxing agencies of a county in the same proportion that each agency's locally assessed value bears to the total of locally assessed value in the county which should save over $400,000 annually in salaries alone.
2. Fees for Map Service 544
   We recommend that the board increase its charges for maps by $43,000 so that these fees continue to support half of the total cost of their production. This change will increase General Fund revenue.
3. Out-of-State Travel 545
   We believe the amount budgeted for out-of-state travel is not sufficient for the needs of the Sales and Use Tax program.

Board of Equalization—Continued

	Analysis page
4. DMV Charges	546
We recommend that the Audits Division of the Department of Finance review the basis on which the DMV fee is determined for the collection of Transit District use tax.	
5. Cigarette Tax Stamp	547
We recommend that the appropriation for purchase of cigarette tax stamps be reduced by $29,637.	

GENERAL PROGRAM STATEMENT

Since its creation in 1870 the State Board of Equalization has had a major role in advising local assessors and devising uniform standards for the assessment of property in California. At first this was its only purpose but as new sources of revenue became available for the support of government they became the administrative responsibility of the board and its dominant role gradually shifted toward tax collection. Today we find only 10 percent of the authorized staff devoted to property tax matters but this small staff remains the central agent for standards, procedures, and rules which govern the work of all assessors in the state.

The board itself is a five-member policy body elected by the people from four geographic areas known as equalization districts. The fifth member, the State Controller, is chosen statewide and serves ex officio. For day-to-day operations the staff of 2,385 is responsible to the board's executive secretary who implements policy decisions which come from the board's monthly meetings. Five areas of responsibility have been assigned to this tax administering agency and can be expressed as follows:

To equalize the assessment of property among the 58 counties.

To assess public utility and railroad property and to apportion this value to the counties for local tax purposes.

To aid and train the county assessors and assessing staff and to report on the administration of the property tax by the assessors.

To administer wholly or partially the retail sales, cigarette, alcoholic beverage, insurance, and private car taxes, as well as three motor vehicle levies.

To make final decisions on appeals from the rulings of the Franchise Tax Board in income, franchise tax, and Senior Citizens' property tax assistance disputes or in appeals from its own property tax division or county assessors through the Office of Appraisal Appeals.

Board of Equalization—Continued

General Review of the 1970–71 Budget Increase

The board derives its 1970–71 budget funds from four sources: the General Fund, the Motor Vehicle Fuel Fund, the Motor Vehicle Transportation Tax Fund, and through reimbursements from other agencies, both state and local. As shown in Table 1, General Fund support is reduced $593,527 in the budget year while net income from reimbursements will increase $786,578. A special ½-percent sales and use tax rate was authorized for the Bay Area Rapid Transit District and the Southern California Transit District by action of the Legislature in 1969 (Chapters 24 and 1567). The cost of collection is fully reimbursable from the transit districts and will increase from $337,000 in the current year to $1.2 million in the budget year. The difference between the General Fund reduction and the higher reimbursements is $193,051, the full increase in budget support for the board.

Table 1

A Comparison of Authorized Staff and Budget Source
Board of Equalization

Program	*Man-years* 1969–70	1970–71	*Change*
1. Local Property Tax Equalization	149.5	148.5	—1.0
2. State-Assessed Property Tax	77.6	77.0	—.6
3. County Appeals of Intercounty Equalization	9.5	9.0	—.5
4. Sales and Use Tax	1,853.9	1,824.5	—29.4
5. Alcoholic Beverage Tax	32.2	28.9	—3.3
6. Cigarette Tax	28.0	25.8	—2.2
7. Motor Vehicle Fuel License Tax	15.3	15.3	--
8. Use Fuel Tax	89.6	89.5	—.1
9. Motor Vehicle Transportation License Tax	88.6	88.6	--
10. Insurance	1.1	1.0	—.1
11. Appeals from Other Government Programs	6.7	6.5	—.2
12. Administration and Support	(143.3)	(142.1)	(—1.2)
Data Processing Contracts with other Public Agencies	33.4	26.4	—7.0
Total	2,385.5	2,341.0	—45.6
Expenditures	*1969–70*	*1970–71*	*Change*
General Fund	$24,369,527	$23,776,000	$—593,527
M.V. Transportation Tax Fund	1,077,379	1,077,379	--
M.V. Fuel Tax Fund	1,289,620	1,289,620	--
Reimbursements from cities & counties	4,835,503	4,764,601	—70,902
Reimbursements from Transit Districts	337,000	1,219,040	+882,040
Reimbursements from other sources	575,132	550,572	—24,560
Total, all programs, all sources	$32,484,161	$32,677,212	$+193,051

Direct state support has declined almost $600,000, and to meet this budgetary restriction the board will cut its staff by 45.6 positions as shown in Table 1. Although this budget is largely an extension of the current total into another year, we recommend certain reductions and augmentations which will improve administration and can be accomplished within the requested budget total.

Board of Equalization—Continued

Table 2 indicates where the major changes will occur in this budget and, as can be seen in the table, merit salary adjustments constitute the largest increase. The new workload created by the rapid transit district tax will cause another major increase, but both of these will be offset by the higher level of salary savings and the budgetary reductions.

Table 2

Schedule of 1970–71 Budget Changes, All Funds

Merit salary increase	$349,729
Salary savings increase	—96,316
Transit district workload	253,713
Budgetary reductions	—368,818
Position from P. & V. Standards	—58,352
Operating expenses and equipment:	
General expense	28,561
Printing	—38,927
Travel out-of-state	—15,097
Alterations and moving	—19,700
Rent	25,721
EDP	50,221
Equipment	—16,516
DMV charges	44,441
Other	54,391
Subtotal	$193,051
Increased reimbursements	—786,578
Direct support	—$593,527

Other changes, especially out-of-state travel and DMV charges will be discussed in the program reviews which follow.

During the current year 61.5 positions were added in the board because of increased reimbursable-contract workload and new legislation. Chapter 24, Statutes of 1969 (SB 2), which increased the sales and use tax rate ½ percent in the San Francisco Bay Area Rapid Transit District, and Chapter 1567, which did the same for the Southern California Transit District, created increased auditing, collecting, enforcement, and apportionment problems for the board. The workload mandated by these bills required 31.5 new positions. Contracts for EDP work with other state agencies added 31.0 positions for which

Table 3

Summary of Position Changes, Board of Equalization

	1969–70	*1970–71*	*Change*
EDP contracts	31.0	24.0	—7.0
Transit legislation	31.5	48.0	16.5
Budget reduction	--	—46.5	—46.5
Other	—1.0	—1.0	--
Total	61.5	24.5	—37.0

the board is compensated by the contracting agency. One other position was not filled after the incumbent retired. During 1970–71 the contracts will require only 24.0 positions while the transit tax collection will be fully implemented and will require an additional 16.5 positions over the current number. Budgetary restrictions will force a reduction of 46.5 positions. Other minor reductions are discussed in the programs where the change is made.

Board of Equalization—Continued

ANALYSIS AND RECOMMENDATIONS

1. Local Property Tax Equalization

A. Supervision of Local Assessment Administration

The Assessment Standards Division prepares and offers the training and review service which the state is required to make available for county assessors and their staff. Assessors are now required to use board produced or board approved forms for all official filings to insure uniform questions which will develop sufficient information on which to base an accurate assessment. These forms must be assembled by the division in a manner which makes them adaptable to the variety of business machines in use by the counties. Assessment standards also prepares the *Assessor's Handbook,* a 2,000-page guide for all assessments, which is constantly being reviewed and updated. It explains in detail for assessors and taxpayers the rules and regulations which are adopted or amended at every meeting of the board. The division is in the third year of a six-year program to review all 58 assessors' offices under terms of state law. These reports—each of 200 to 300 typed pages—comment on every aspect of the assessor's operation. They examine hiring, training, assignment, equipment, and physical arrangements in the office, personnel policy, and most important of all, they compare his program with a standard which is approved and obtainable and which must be reached if the quality of assessments is to be acceptable. The assessor is directed to answer the reports within one year of their publication. This budget proposes a reduction of 0.9 man-year assigned to the supervision of local assessment.

B. Intercounty Equalization

The Intercounty Equalization Program is responsible for determining the average assessment ratio for each county. Over $750 million in annual State School Fund apportionments are adjusted by these state-determined ratios, and property owners use them in assessment appeals as a standard on which automatic relief may be granted. Every third year a physical appraisal is made in each county to determine the average ratio and in the intervening years this finding is adjusted to reflect changes in property values. To maintain confidence in the results of these assessments the board attempts to value between 5,000 and 6,000 properties each year. During the budget year the board expects to sample 5,400 properties, although the number dropped to 5,100 in the current year.

2. State-Assessed Property Tax

A. Assessment of Public Utilities

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 locally assessed value bears to the total of locally assessed value in the county.

The Valuation Division assesses all utility company property in the state. The values derived by the board are then apportioned to the county rolls where they are subject to local property tax rates. Asses-

Board of Equalization—Continued

sors in the counties and cities do not assess any utility holdings regardless of whether the property is used for utility purposes, is leased for commercial use, or is vacant.

The board allocates utility values to each of the more than 20,000 tax code areas in the state and while some of these code areas contain only a few square feet, one is a full county. Miles of railroad track, electric power distribution cable, and telephone lines pass through dozens of these code areas as they crisscross cities and rural areas. The board assigns 18.6 man-years to making maps which pinpoint the exact location of all wires, cables, and pipes belonging to the utilities. Since each of these 20,000 areas has a different property tax rate 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 the maps, keeping them current through the thousands of changes in boundaries every year, and replacing worn copies takes 18.6 man-years, while the allocation of the values to each district requires 27.5 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 same proportion that each agency's locally assessed value bears to the total of locally assessed property in the county. For example, if one city contains 10 percent of the locally assessed value within a county it would receive 10 percent of the assessed value of utility property 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 assessed as a unit rather than individually. 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 our recommendation is adopted, administrative effort to divide utility values among the many tax code areas can be eliminated for an annual state savings of over $400,000 in salaries alone.

While this suggestion will shift some utility assessed value into metropolitan areas where average tax rates are slightly higher than they are in rural areas of the same county there will be no loss in revenue to any county and only a small shift among cities and districts.

If our suggestion to redistribute the values is adopted, the board should consider a more rapid reduction in the assessment ratio to assure that there be no unusual increase in the total tax paid by the utility companies.

Board of Equalization—Continued

Utility Ratios Made Public

The board announced during 1969 that utility property used for utility purposes—the so-called unitary property—is now being assessed at 33 percent of full cash value. In making this known, the board admitted that it no longer assessed at a 50-percent ratio 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 subject to this legislation, has gradually lowered its ratio toward that figure. This ratio can be expected to drop at about two percentage points per year 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. This budget reduces the man-year assignment to this function by 0.6 position.

Fees for Map Service

We recommend that the board increase its charges for maps by $43,000 so that these fees continue to support half of the total cost of their production.

In our 1968–69 *Analysis* we suggested that a fee be set on the sale of tax code area maps which would produce one-half the operating expenses of the mapping section, or $80,000, in the 1968–69 fiscal year. The board's staff developed a schedule of charges to do this but because of increased staffing, higher salaries, and more costly contracts for base maps the budget for this function has risen to $250,000 in the coming year. We believe it is time to revise the fee schedule so that it will not be as outmoded as the schedule which was replaced in 1968.

B. Private Car Tax

Special-purpose railroad cars are assessed by the valuation division for property tax purposes. In the budget year the board anticipates that 115 nonrailroad companies will have rolling stock in California. The majority are tank cars for oil, chemicals, fuel, or wine but many are special purpose units for glass, automobiles, refrigerated fruit or other bulk cargo. These 15,700 cars will make 650,000 movements into or out of the state and the time each car remains in the state is apportioned against its value to determine the property tax owed. This is the only state revenue from the property tax. No reduction in staffing is contemplated for this program.

3. County Appeals of Intercounty Equalization Appraisals

An Office of Appraisal Appeals was created in the board during 1967 to investigate and resolve differences of opinion between assessors and the board's appraisers during the cycle of intercounty equalization appraisals discussed above. The appraiser's opinion is sometimes challenged by the county assessor and where an agreeable solution cannot be found either party may request the Office of Appraisal Appeals to make an independent review of the property. In half the cases presented to OAA last year the independent appraisal was the solution. If either party remains dissatisfied an appeal may be made to the board

Board of Equalization—Continued

itself. During the first two years of its operation the office has received 885 requests for assessment review and has settled 768 without an appearance before the board. Three years of operation will complete a cycle of the intercounty equalization program at which time we will be able to judge the effectiveness of this office. This budget includes a reduction of one-half man-year assigned to OAA. That position was added in the current budget because of legislation in the 1968 session (Chapter 1012) but workload has not increased as rapidly as expected and therefore the position is not needed.

4. Sales and Use Tax

Budget Restrictions

Budgetary cuts will force the board to eliminate 29.4 positions presently authorized for the sales and use tax program. This figure is a combination of 16.5 new positions for the added workload presented by the transit district tax and a decrease of 45.9 positions as a budget reduction. The transit district positions were authorized in the current year as a result of legislation (Chapter 24, Statutes of 1969) which increased the sales and use tax ½ percent in the Bay Area Rapid Transit District and further legislation (Chapter 1567) which did the same in the Southern California Rapid Transit District. Up to one-third of the total transit district positions may phase out during the budget year when the southern California special tax rate terminates.

Out-of-State Travel

We believe the amount budgeted for out-of-state travel is not sufficient for the needs of this program.

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

Table 4

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

District	*1966–67*	*1967–68*	*1968–69*
Los Angeles	$1.71	$1.75	$2.45
San Bernardino	1.80	2.32	1.51
Marysville	1.56	1.47	2.90
San Francisco	1.20	.91	1.61
San Jose	1.31	1.56	1.48
Oakland	1.36	1.12	1.47
Santa Rosa	1.22	.82	1.43
Sacramento	1.13	1.15	1.62
San Diego	1.32	1.68	1.59
Fresno	.99	1.18	.95
Average in-state	$1.49	$1.55	$1.96
Average out-of-state	4.33	4.12	3.63
Average total	$1.78	$1.85	$2.14

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.

Board of Equalization—Continued

The budget provides $203,705 for out-of-state travel by the New York and Chicago auditors. Over the past five years the board has had great difficulty in recruiting auditors for its two eastern offices because competitive positions offered higher salary and more attractive fringe benefits than California. For these reasons there have been positions open at all times in our out-of-state offices. The value of audit return from the eastern accounts is apparent from Table 4 and it is to our advantage to keep these positions filled. Effective January 1, 1970, a new classification of out-of-state auditor was approved by the State Personnel Board at a salary range one step above that which formerly applied.

The amount budgeted for out-of-state travel is based upon the vacancy rate which we experienced prior to the salary change, but with the increase the positions should be filled and additional travel funds will be required. If for some reason we continue to be unable to recruit, we recommend that the board send in-state auditors on temporary assignment to the East Coast offices. This practice was begun during 1969–70 but only after great difficulty in obtaining permission for out-of-state travel. There are 30 positions in the Chicago office and 45 in New York and 15 were vacant at the beginning of January. Thirteen of the 15 were auditors. These are high-revenue-producing positions, and the full complement of staff should be available for the work.

In-State Positions Dropped

The sales and use tax program will lose 10 tax auditors, 21 clerks, and 12 tax representatives under the proposed budget. Since the Los Angeles district offices now have this number of vacancies, it is there that the cuts will initially be made. Each district in the state will ultimately share in the position reduction because as vacancies develop in other offices throughout the state the positions will be transferred to Los Angeles and filled. For many years we have urged the board to develop a staffing standard for tax representatives. It reports that a standard has now been set which permits them to release these positions.

As in the cigarette tax program and the alcoholic beverage tax program the reduction in auditor positions means there will be fewer sales tax accounts audited. Although the 10-man-year reduction in sales tax audit staff represents 1.6 percent of the total field audit staff, the reduction will be selective and will occur among those accounts least likely to contain errors.

The reduction in clerks may have an effect on nonvoluntary tax receipts. These clerks process no-pay or partial payment returns, keep abreast of business closings or failures, trace bad checks and in other ways assist tax compliance workers in the selection and followup of delinquent accounts. These are administrative assignments not mandated by law, but certainly practical necessities.

DMV Charges Increase Again

We recommend that the Audits Division of the Department of Finance review the basis on which the fee is determined for the collection of transit district use tax.

Board of Equalization—Continued

The Department of Motor Vehicles collects a use tax on private party automobile sales at the time of reregistration. For this service DMV has billed the board at an ever increasing rate per transaction. Last year in the *Analysis* we suggested that Audits Division of the Department of Finance should review the billings to see if there were overcharges and this year, for the first time, the DMV reimbursement does not increase. On the other hand, DMV is requesting $52,840 for collecting the special ½-percent sales and use tax in the transit districts. This portion of the DMV charges may be excessive, and we recommend that it be reviewed by the Audits Division.

5. Alcoholic Beverage Tax

There will be a 10-percent reduction in the man-years assigned to this program during the budget year, and 25 percent fewer audits will be completed because of the reduced manpower. This change should not seriously affect revenue collected from alcoholic beverage taxes because during the most recent years audit costs have been greater than the revenue they produce. With a reduction of manpower and decline in the number of audits from 80 to 60, the return per dollar of cost should increase. These audits will be concentrated among the accounts where experience and office review suggest the greatest possible return. Delinquencies have continued at slightly more than one-half of 1 percent of the returns, but receipts per dollar of expenditure from accounts receivable have declined 37 percent although they remain at a very impressive 11-to-1 ratio.

6. Cigarette Tax

We recommend a reduction of $29,637 in the appropriation for cigarette tax stamps.

Based upon the Department of Finance estimate of cigarette tax revenue for the budget year we believe the amount requested for tax stamps too high. In view of the expected decline in cigarette sales during the budget year we recommend that stamp purchases decline equally. The board purchases the tax stamps which it in turn sells to distributors who place them on the bottom of each package of cigarettes to indicate that tax has been paid. While these stamps cost only 24.51 cents per thousand they are used on 85 percent of the packages sold in California (the other 15 percent are marked by meter impressions) and we must purchase almost two billion of them in the budget year. We estimate the cost for stamps will be $500,000 in the budget year, or $29,637 less than requested. The lower amount results from fewer packages being sold. The board proposes a reduction of 2.2 man-years assigned to the cigarette tax program and we concur with that decision. The board does not plan to reduce its assignment to collecting accounts receivable where the return is 38 times cost. Enforcement activity was emphasized in the 1968–69 fiscal year when 11 man-years were added to the function but the change was not as beneficial as had been expected and the positions are now being transferred to more profitable assignments. Fewer than eight man-years will be engaged in enforcement activity in the budget year. With the sharp increase of tax rate

Board of Equalization—Continued

in 1967 it was necessary to augment this function to ensure compliance with the law and to protect a vital revenue source. Eastern states have suffered from the private importation of cigarettes to avoid the tax but California has not experienced this trouble. Enforcement can be reduced accordingly.

7. Motor Vehicle Fuel License (Gasoline) Tax

The gasoline tax is imposed upon the manufacturer or importer of gasoline at a 7-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 "nonhighway" purposes such as farm equipment, certain aircraft, and contractors' machinery. If a gasoline tax refund is made, the fuel becomes subject to the sales tax which the Controller deducts from the reimbursement. Receipts from the fuel tax are deposited in the Motor Vehicle Fuel Fund, which reimburses the board for its cost of collection. During the 1969 session private aircraft jet fuel became subject to this tax levy. The board will administer this collection process too.

8. Motor Vehicle Use Fuel (Diesel) Tax

This fuel levy corresponds to a similar tax on gasoline for use in motor vehicles. The rate is 7 cents per gallon for diesel and 6 cents for liquid petroleum gas and compressed natural gas. The costs of collection are borne by the Motor Vehicle Use Fuel Fund into which the receipts are deposited.

9. 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 cost of collection is reimbursed to the board from the Motor Vehicle Transportation Tax Fund.

10. 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 tax rate higher than California.

11. Appeals from Other Governmental Programs

Taxpayers who disagree with the amount of tax liability assessed against them may pay the amount in question and seek redress in the courts, or, prior to payment they may file an appeal with the Board of Equalization. This procedure is allowed under the Bank and Corporation Franchise Tax and the Personal Income Tax Laws. Senior citizens who apply for special property tax relief may appeal a denial or partial allowance to the board. Intracounty Equalization appeals arise from

Board of Equalization—Continued

disputes between a county assessing property and a public agency which owns the property in question. When property owned by a government agency is located outside its own jurisdiction (and normally outside its county of service area) the board acts as arbiter in valuation disputes.

BOARD OF EQUALIZATION

Item 106 from the Motor Vehicle Transportation Tax Fund **Budget page 451**

Requested 1970–71	$1,077,379
Estimated 1969–70	1,077,379
Actual 1968–69	1,163,386
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Board of Equalization assesses and the State Controller collects the 1.5-percent gross receipts motor vehicle transportation license tax on for-hire operations. This appropriation is to cover the board's cost of administering the tax, the details of which are included under Item 105.

BOARD OF EQUALIZATION

Item 107 from the Motor Vehicle Fuel Fund **Budget page 451**

Requested 1970–71	$1,289,620
Estimated 1969–70	1,289,620
Actual 1968–69	1,234,658
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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 105.

DEPARTMENT OF FINANCE

Item 108 from the General Fund **Budget page 482**

Requested 1970–71	$3,927,235
Estimated 1969–70	4,236,917
Actual 1968–69	3,620,949
Requested decrease $309,682 (14.6 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend delaying the approval of $175,000 to implement the Budget Data System until after the report outlining the proposed scope and costs is submitted to the Legislature on May 1, 1970.

GENERAL PROGRAM STATEMENT

The Department of Finance as a result of actions taken within the last year has released a substantial amount of its central control responsibility for budgetary review and administration. A number of factors have been responsible for a significant redirection of programs within the department.

1. *A large portion of central budgetary evaluation and review authority has been removed from the Director of Finance and transferred to the agency secretaries and the cabinet.*

2. *The management-by-exception policy transferred administrative control of the budget to the individual departments.*

3. *The Budget Division was reorganized to perform an evaluation and review service.*

New Budget Preparation Procedure for 1970–71

Traditionally, the Department of Finance budget division staff has received the budget requests of the state agencies, boards and commissions, evaluated these requests, conducted hearings with the various units and then based upon policies approved by the Governor, determined a justifiable level of support for each program and compiled the individual requests into a single budget for presentation to the Legislature. A central, high-level point of review was considered to be desirable in order to insure objectivity, to establish priorities, and to prepare a well-balanced budget.

The Governor's 1970–71 Budget was prepared largely by the agency secretaries with budget division personnel made available to the agencies as a staff resource. A new procedure for program evaluation and determination of levels of support for each department was also adopted. For each department, the cabinet determined a basic level of support which was generally less than the amount received for the current year. Each agency secretary was then responsible for establishing program priorities and a level of support for each program element within each department's basic allocation. The evaluation of the composition of the departmental program within the basic allocation became the exclusive jurisdiction of the agency secretary. Subsequent to the formulation of programs within the basic allocation, each department was authorized to submit, for cabinet level review, requests for supplementary allocations for programs of lower priority.

After all program decisions were made, the budget division then compiled the various departmental budgets into a single document for presentation to the legislature.

Management by Exception Delegates Pre-Audit Control to Agencies

We indicated last year that it was desirable to reduce paper flow, much of which was unnecessary for control purposes, within the budget division. We indicated that too much of the budget analyst's attention was occupied reviewing administrative details which were more properly the concern of the operating agencies. We recommended that the central budget agency should concern itself more with program planning and performance analysis.

The Department of Finance submitted a progress report in 1969 which reviewed the history of budgetary controls and discussed the steps taken "to exempt from review those classes of transactions least likely to vary from approved legislative program." 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 was consistent with approved programs. We have since found that this policy has not been as effective as originally intended. The "management by exception" philosophy of reviewing only those transactions which deviate from "approved program" would be considered a valid management procedure when programs are well defined and deviations easily identified. This is not true under the present program and budgeting system where program narrative, which represents "approved program," may be purposely expressed in several terms to facilitate maximum flexibility in program management by departmental administrators. Consequently, each department administrator has a large degree of discretion in deciding which trasactions are or are not within "approved program."

The weakness of the management by exception approach to budgetary control represents a significant loss of central control, because it removes from the budget division specific authority and responsibility to review the day-to-day program activities of the various departments. The loss of that authority in conjunction with the transfer of responsibility for budget preparation to the agency secretaries has resulted in a general decentralization of the budgeting process for the State of California. While this has greatly improved the process for developing alternative approaches to program missions, it has weakened detailed cost analyses and performance budget review.

Department of Finance—Continued

ANALYSIS AND RECOMMENDATIONS

BUDGET DIVISION

1969 Reorganization

The budget division reorganization, which took place in 1969, was thought to more accurately reflect its new role in budgeting and budget administration. A partial illustration of the new structure, compared with the former line of control, is shown in Charts 1 and 2. The new system, in contrast to the former, will allow greater flexibility in personnel assignments. By pooling a majority of the personnel, program specialization by the journeyman analysts is downgraded in favor of making staff resources available to assist program managers in special studies and in developing policy alternatives for cabinet consideration.

A new classification, that of Program Budget Manager, C.E.A., (Career Executive Appointment) was established with a monthly salary range of $1,626–$1,976. There are four program managers, with each responsible for one of the program areas illustrated in Chart 2. Each program manager has one senior-level analyst assigned to each major operating department within his program. All other analysts have been released from their agency assignments and have been reassigned to a staff resource pool.

The Department of Finance intends to eliminate 14.8 positions from the budget division in 1970–71, bringing the total staff compliment down from 132.3 positions authorized for the current year to 117.5 positions in the budget year. Eight of the eliminated positions will come from budget operations and 6.8 positions will be deleted from the financial and population research unit. The department justifies this decrease on the following bases.

1. "The development of improved materials and procedures allowing the operating departments to prepare the Governor's Budget in a form for final printing."
2. "Further savings . . . will result from the elimination of traditional departmental budget hearings for departments under agency secretaries."
3. "Additional staff time will be saved by eliminating the printing of the traditional detail budget."
4. "It is anticipated that the department will reduce the amount of time devoted to bill analysis in areas for which agency secretaries carry responsibility."

Budget Data System

We recommend delaying the approval of $175,000 to implement this system until after the report outlining the proposed scope and costs is submitted to the Legislature. This report is due May 1, 1970.

The 1969 Legislature authorized the Department of Finance to begin planning for an automated budget data system and appropriated the sum of $88,600. The major goals of Phase I of this system include:

1. The establishment of a data base which will improve the availability of reliable information for decision-making for both the administration and the Legislature.

Chart 1

FORMER ORGANIZATIONAL STRUCTURE OF THE BUDGET DIVISION

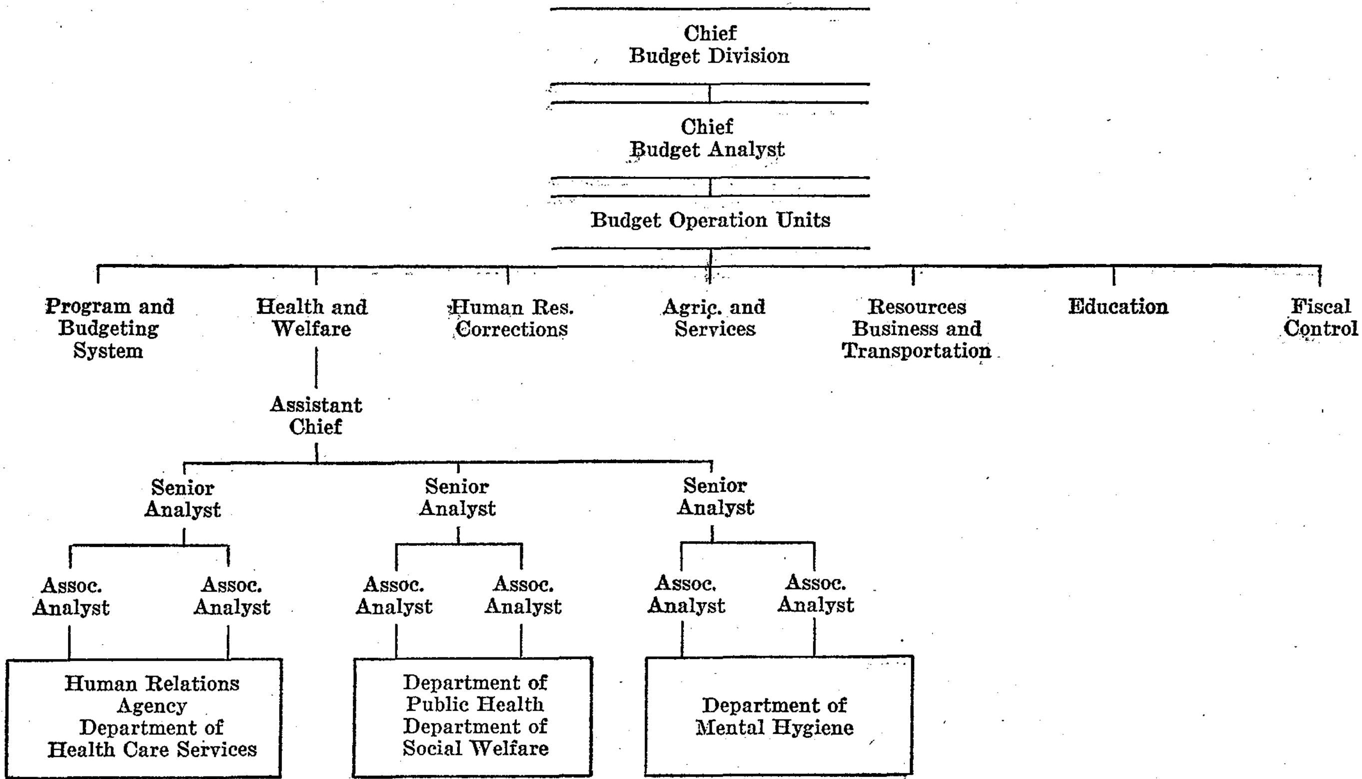
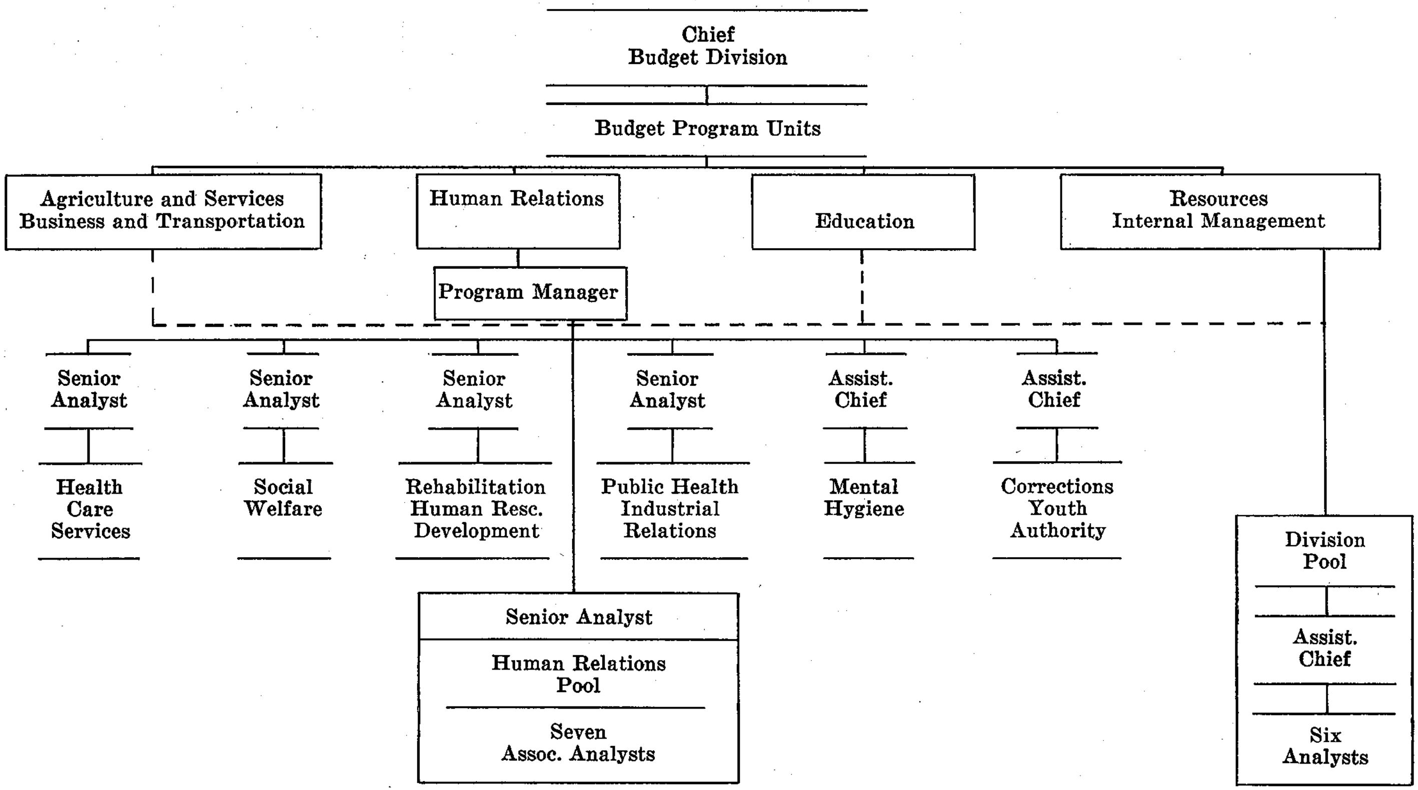


Chart 2

NEW ORGANIZATIONAL STRUCTURE OF THE BUDGET DIVISION



Department of Finance—Continued

2. The reduction of time-consuming manual efforts currently required to prepare the budget, the ability to accumulate, reconcile and display budget summary data automatically, and
3. The mechanism to monitor automatically the changes to the budget throughout the process of legislative hearings.

Legislative Access to Budget Information

The 1969–70 Supplementary Report of the Committee on Conference provided that before any funds were expended for the budget data system, a report was to be prepared by the Department of Finance which included a complete description of the system and demonstrated that the system was designed to provide independent access to information by the Legislature with respect to budget information required by Sections 6800–6830.2 of the State Administrative Manual as amended January 1969.

The first report was submitted to the Joint Legislative Budget Committee on September 25, 1969. This report defined the system in considerable detail and clearly outlined the tasks to be accomplished, the scope of the total budget data system and the more limited objectives of Phase I of the system. The report assures that legislative access to information would be an integral part of the system design and approval was therefore granted by the Joint Legislative Budget Committee to proceed. A contractor has been retained to work with Department of Finance personnel and it is anticipated that the detailed system design for Phase I will be completed by May 1, 1970.

The Committee on Conference also required a second report from the Department of Finance (due on May 1, 1970), which is to estimate the total cost of implementation and operation of the budget data system. This report is also to include a complete description of any planned increase in scope of the system in the future along with the additional costs.

The department has estimated that a total of $175,000 will be required in 1970–71 for the budget data system. Of this amount, $138,000 has been budgeted to cover the implementation of Phase I, and the cost of running the system during the first year of operation. The remaining $37,000 has been included for consulting services for the development of detailed systems specifications for Phase II of the system, which would include:

1. Complete automation of salaries and wages supplement.
2. Initiation of a system to mechanize the Budget Bill and appropriation procedures.
3. Initiation of a cash flow management and reporting system.
4. Financial and manpower status reports.
5. A mechanism for the accumulation and reporting of program outputs and their comparison and use in budget formulation.

The receipt of the May 1, 1969, report will be necessary in order to determine the exact nature of the system's design detail for Phase I and the detailed cost implications for the implementation and operation of the budget data system. Therefore, we are withholding our recommendation for implementing this system until the receipt of the required report. Upon receipt of the report, we will prepare a special analysis and recommendation for submission to fiscal committees.

AUDITS DIVISION

Workload Reduced 25 Percent

The Audits Division provides the executive branch of state government with a continuing audit of all agencies in accordance with the requirements of Government Code Section 13294 which state: "The Department of Finance shall examine the books of the several state agencies as often as the director deems necessary, taking into consideration the work done by other auditors, including the internal auditors of the various state agencies, so that duplication of auditing effort may be minimized." Other activities of the division have included auditing of district and county fairs, State Treasury cash and security counts, 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.

The division proposes to reduce its workload by 25 percent in 1970–71, reducing its staff from 113.5 positions authorized for 1969–70, to 89.5 positions in the budget year. In order to accomplish this reduction in manpower the division proposes to eliminate entirely the semi-annual audit of 15 state agencies and to make a substantial reduction in the number of hours devoted to auditing 15 other state agencies. Table 1 presents a detailed outline of the proposed reductions.

The Department of Finance will discontinue the regular auditing of the Department of Public Works because this agency has a permanent staff of 27 professional internal auditors who report directly to the agency administrator. The audits division does plan, however, to budget 1,000 hours to continue surveillance of the work of the Department of Public Works' internal audit section.

The 95 percent reduction in the Compensation Insurance Fund audit is a reflection of the transfer of this audit responsibility to the Office of the Auditor General.

The Department of Finance indicates in the program budget that "improvement of internal control, further development of audit techniques and continuing evaluation of the cost/benefit aspects of various audits make these modifications possible." The division plans to increase the annual hours devoted to auditing the University of California from the current 450 hours budgeted for 1969–70 to an annual average of four man-years as proposed for 1970–71.

Department of Finance—Continued

Table 1

Proposed Reduction in Department of Finance Agency Audits

A. *Audits Eliminated*	*Budgeted man-hours 1969–70*	*Proposed man-hours 1970–71*	*Adjustment in man-hours*	*Man-year equivalents*
District Courts of Appeal	208	0	—208	—.11
Judicial Council	52	0	—52	—.03
Law Revision Commission	24	0	—24	—.01
Commission on Judicial Qualifications	32	0	—32	—.02
State Hospital Canteens	1,660	0	1,660	—.92
Department of Public Works	12,000	1,000	—11,000	—6.10
Office of the Governor	100	0	—100	—.06
Office of the Lt. Governor	60	0	—60	—.03
Department of Finance	200	0	—200	—.11
Supreme Court	52	0	—52	—.03
District and County Fairs	13,080	0	—13,080	—7.30
College Auxiliaries	1,000	0	—1,000	—.60
Bay Toll Crossings	1,120	0	—1,120	—.62
Bay Area Transportation Study Commission	640	0	—640	—.35
Office of Management Services	20	0	—20	—.01
Subtotal	30,248	1,000	—29,248	—16.30
B. *Audit Staffing Reduced*				
Compensation Insurance Fund	1,000	50	—950	—.52
Board of Equalization	4,740	3,080	—1,660	—.92
Department of Motor Vehicles	3,200	2,500	—700	—.40
Department of Corrections	14,380	11,530	—2,850	—1.58
Department of Conservation, Parks and Recreation, Fish and Game	7,320	5,700	—1,620	—.90
Department of Employment	4,400	3,600	—800	—.45
State Controller	3,140	2,700	—440	—.24
Mental Institutions	9,350	8,400	—950	—.52
Department of Water Resources	20,000	16,000	—4,000	—2.20
Department of Industrial Relations	2,000	1,400	—600	—.35
Reclamation Board	480	50	—430	—.24
Department of P. & V. Standards	2,820	2,000	—820	—.45
Department of Agriculture	1,960	1,500	—400	—.23
All Others	--	--	--	—.70
Total Reductions	196,000	147,000	—48,000	—26.00
C. *Audit Staffing Increased*				
University of California	450	8,000	+7,550	+4.00
Net Total Reduction	196,450	155,000	—40,450	—22.00
			Clerical Support	—2.00
			Total Reduction	—24.00

Department of Finance—Continued

Last year we criticized the audit division's practice of allocating a large amount of staff time to agencies with stable programs. We recommended that the division reduce its audit time on this type of agency and redirect its audit review to those areas where new programs were initiated, or existing programs were rapidly changing. The proposed budget incorporates our recommendation. *However, we have reservations about completely eliminating the auditing of such agencies as the Governor and Lt. Governor, and the various courts listed in Part A of Table 1 unless it is clear that the audit shall be done regularly by the Auditor General as an independent audit.*

The Program and Policy Office

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.

The office presently has a staff of eight consultants and 2.3 clerical positions. For the 1970–71 budget year the office proposes to eliminate one of the consultant positions which was authorized for the first time during the current fiscal year.

State Office of Planning

During the current year, the State Office of Planning with 8.5 man-years is shown as part of this budget. In 1970–71, this office is part of the Lt. Governor's budget.

FRANCHISE TAX BOARD

Item 109 from the General Fund **Budget page 491**

Requested 1970–71	$19,719,000
Estimated 1969–70	18,443,938
Actual 1968–69	16,665,148
Requested increase $1,275,062 (6.9 percent)	
Increase to improve level of service—None	
Total recommended reduction	None

Franchise Tax Board—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Data Processing Division

The Franchise Tax Board is one of the major citizen-contact agencies in the state government. It receives and sends out literally millions of pieces of mail each year, and this is an increasing workload for which the board requires additional manpower each year. At present, a large portion of this workload is handled by keypunch operators who use mechanical means to feed data into the board's EDP system. We believe some of this workload could be converted to electronic rather than mechanical input methods. 567

Administrative Costs of Chapter 1464, Statutes of 1969 (SB 825)

This statute granted a one-time 10 percent income tax credit on 1969 returns which are due on or before April 15, 1970. The board estimates that it will cost $645,000 to administer this credit, and about 25 percent of this cost, $160,000, is attributable to the provision which excluded capital gains from the credit. Most of this administrative cost will be incurred in the budget year. but some will be carried over into subsequent years. 563

Administration Costs of Senior Citizens Property Tax Assistance Program

In the budget year, this program will cost $606,000 in administrative expense to provide $10 million in property tax assistance payments to 71,000 senior citizens. These senior citizens also are entitled to receive the homeowners' exemption. If the 1970 Legislature increases the homeowners' exemption, the administrative cost of the senior citizens' program will continue to grow even though the magnitude of the senior citizen grants decline because a larger share of the property taxes will be financed by the homeowners' exemption. 568

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is composed of the State Controller, the Director of Finance and the Chairman of the State Board of Equalization. The board delegates administrative responsibilities to its appointed executive officer, while retaining the policy functions of setting the tax rate on banks and financial corporations, and adopting rules and regulations.

The Franchise Tax Board administers three programs: the state personal income tax, the bank and corporation franchise taxes, and the senior citizens' property tax assistance program. During the current year, the personal income tax program is estimated to yield $1.2 billion, the bank and corporation program $607 million, and the senior citizens' program will disburse $8.2 million to 66,000 claimants.

Table 1 gives the distribution of the board's manpower and expenditures by program. The personal income tax program accounts for 72 percent of the board's staff. It also will experience the largest increase

Franchise Tax Board—Continued

in manpower needs during the budget year, largely as a result of Chapter 1464, Statutes of 1969 (SB 825), the one-time income tax credit.

Table 1
Distribution of Manpower and Expenditures by Programs in the Franchise Tax Board

	1968–69		1969–70		1970–71	
	Man-years	*Expenditures*	*Man-years*	*Expenditures*	*Man-years*	*Expenditures*
1. Personal income tax	1,073.5	$11,368,000	1,113.2	$12,675,000	1,191.8	$13,626,000
2. Bank and corporation tax	377.1	4,749,000	394	5,182,000	408	5,487,000
3. Property tax assistance to senior citizens	53.1	547,000	54	587,000	54	606,000
4. Departmental administration	(485.9)	5,785,000	(498)	6,335,000	(547)	6,924,000
Totals	1,503.7	$16,665,000	1,561.2	$18,445,000	1,653.8	$19,719,000

Board Requests 99.4 New Positions in Budget Year

After the 1969–70 budget was adopted, it was necessary to add 20.8 man-years administratively as workload adjustments, because of newly enacted legislation. Fifteen of these man-years were for Chapter 1464 (tax credit), and 5.8 were for Chapter 1320 (exempt corporations). These workload adjustments will be continued in the budget year, and are part of the total increase of 99.4 positions. The budget also proposes a 14 man-year reduction in salary savings, which increases the available manpower within the board.

Table 2 lists the new positions and those proposed for continuation requested by the Franchise Tax Board for 1970–71.

Table 2
New and Continued Positions Requested by Franchise Tax Board 1970–71

	Number	*Salary*
Chapter 1320, Statutes of 1969	13.3	$110,563
Chapter 1464, Statutes of 1969	59.6	379,616
Other workload (Keypunch Operators)	26.5	141,399
Total	99.4	$631,578

ANALYSIS AND RECOMMENDATIONS

PERSONAL INCOME TAX PROGRAM

The personal income tax program is composed of three elements: (1) taxpayer self-assessment, (2) filing enforcement and (3) audit activities. Table 3 shows the allocation of man-years to each program element. The administrative and support activities are prorated among the program elements.

Franchise Tax Board—Continued

Table 3
Personal Income Tax Program

	Man-years		
	1968–69	*1969–70*	*1970–71*
Personal Income Tax Program	1,073.5	1,113.2	1,191.8
Program Elements:			
1. Taxpayer self-assessment activities	546.4	574.2	644.8
2. Audit Activities:			
Mathematical verification	81.8	83	83
Smaller return audits	38.7	40	40
Larger return audits—headquarters	45.9	48	48
Larger return audits—field	73	76	76
Federal audit reports	33.5	34	34
Fiduciary return audits	9.8	10	10
Other states tax credits	4.8	5	5
3. Filing Enforcement:			
Filing enforcement	228.6	232	240
Residency determination	3.5	4	4
Investigations	7.5	7	7
Administration and Support:			
Administration	(48.2)	(52.5)	(52.5)
Collection of delinquent accounts	(137.4)	(140)	(147)
Protests and appeals	(10.3)	(10.5)	(10.5)
Data processing	(189.8)	(190)	(227)

1. Self-Assessment Activities

We recommend that 26.5 keypunch operators be approved on a workload basis. We further recommend that 59.6 positions requested for Chapter 1464 be approved for one year only.

Table 4
New Data Entry Personnel—1970–71

Data processing	*Man-years*	*Salary*
Permanent Positions		
Key punch operator	22.0	$119,064
Temporary Positions		
Key data supervisor I	1.0	6,264
Key punch operator	3.5	16,071
	26.5	$141,399

Self-assessment activities include providing information to the public, designing and distributing tax forms, processing returns and payments from taxpayers, and processing claims for refund.

The addition of 26.5 man-years is based on an estimate of increased keypunch strokes to handle the data entry workload. The aggregate estimated increase in keypunch strokes for 1970–71 is 11.1 percent. The largest increases are due to personal income tax accounts receivable, and personal income tax estimate billings.

The personal income tax accounts receivable have been increasing for several reasons. Most prominent has been the increase in part-pay/no-pay returns. Each time a return is filed without payment or with only partial payment, an account receivable is established for that taxpayer. Table 5 illustrates the growth in accounts receivable from no-pays and part-pays. The "T" series accounts are the large taxpayers subject to semi-annual prepayment. The 540A are the small returns.

Franchise Tax Board—Continued

This table indicates that there was a significant increase in no-pays on 1968 income.

Table 5

Accounts Receivable on No-Pay and Part-Pay Returns

	1967 income	*1968 income*	*Percent change*
No-Pays			
Regular	$29,878,000	$35,603,000	+19.2%
"T" Series	11,949,000	16,696,000	+39.7%
540A	1,164,000	586,839	—49.5%
Subtotal	$42,992,000	$52,886,000	23.0%
Part-Pays			
Regular	$2,980,000	$2,931,000	—1.6%
"T" Series	3,089,000	2,849,000	—7.8%
540A	129,000	30,000	—76.7%
Subtotal	$6,198,000	$5,811,000	—6.24%
Grand Total	$49,190,000	$58,697,000	+18.3%

Table 6 shows the number of part-pay and no-pay returns over a three-year period. The board anticipates a 15-percent reduction in these returns during the current fiscal year because Chapter 1464 provided that the 10-percent income tax credit would only be given the fully paid returns.

Table 6

Workload Increase in the Number of Part-Pay/No-Pay Returns

	1968–69	*1969–70*	*1970–71*
Part-pay	52,263	43,000	50,000
No-pay	353,931	350,000	445,000
Total Returns	406,194	393,000	495,000

The second major force generating workload is the personal income tax estimate billings. Billings are sent only to taxpayers who paid $400 or more on the prior year's income. Inflation and growth in the state's economy shifts large numbers of taxpayers into this level of tax liability.

Table 7 points out that payments and billings are not the same. In the current fiscal year, $329 million was billed for the October 1969 prepayment, but only $273 million was collected by the end of November. This is a normal ratio, i.e., about 83 percent of the amount billed is actually collected. Some of this difference can be explained by the fact that billings are based on the prior year's income and these amounts are not necessarily accurate for the current year. In fact, about 5 percent of the taxpayers who make prepayments subsequently file a claim for refund because their prepayments exceed their total liability for the year.

Workload increases for the board have averaged roughly 5 percent yearly. However, some programs such as part-pay and no-pay returns, semiannual prepayments and other accounts receivable, have exceeded that growth rate. For example, prepayments are growing 20 percent a year. These usual workload increases in certain program areas are the justification for the increase of 26.5 man-years of keypunch help.

Franchise Tax Board—Continued

Table 7

Personal Income Tax Semi-Annual Prepayments

	Actual 1968–69	*Actual 1969–70*	*Projected 1970–71*
Number of billings	403,000	471,000	570,000
Amount billed (millions)	$283	$329	$385
Amount collected (millions)	$239	$273	$320

Administrative Costs of Chapter 1464

We recommend that the 59.6 new positions be approved for one year only.

The Franchise Tax Board estimates that the administrative cost of the one-time tax credit will be $645,000. Approximately $160,000 or 25 percent will result from the provision in the law that capital gains be excluded before computation of the 10 percent credit. It is estimated that 131,250 notices of error will have to be sent to taxpayers because of the capital gains provisions. Another 272,000 notices of error will be sent to taxpayers who claim the credit but do not file a fully paid return before April 15, 1970. Finally 108,000 notices will be sent to taxpayers who made other types of errors. This total of 512,000 notices will generate much of the workload attributable to this statute.

Most of the workload associated with this one-time credit will occur during the budget year. As a result, we have recommended that the new staffing be approved for one year only. In the subsequent budget, the board can request the necessary collection positions anticipated for the 1971–72 fiscal year.

2. Audit Activities

The audit program's objective is to insure the mathematical and legal accuracy of tax returns. To accomplish this, returns receive a mathematical verification check before sorting for subsequent processing. Once the returns are segregated, then part of them are subject to audit. Table 8 shows individual data on each element's contribution to total audit effort.

Table 8

Personal Income Tax Audit Revenue per Dollar of Cost

Audit program	*Actual 1967–68*	*Actual 1968–69*	*Estimated 1969–70*	*Estimated 1970–71*
Mathematical verification	$6.28	$4.70	$4.54	$4.67
Smaller return audits	4.16	1.62	6.70	7.14
Larger return audits	4.40	2.95	5.01	5.69
Federal audit reports	17.40	14.22	18.83	19.65
Fiduciary audits	5.78	--	6.45	7.87
Field audits	3.55	1.37	3.66	4.44
Other audits	2.99	1.41	5.55	6.15
Total net assessments (in millions)	$14.7	$12.9	$23.2	$25.9

The table clearly illustrates the loss in audit assessments during 1968–69. The program elements where the largest reductions occurred were the smaller return audit, and larger return field audit sections. Based on preliminary assessment for the first half of 1969–70, it appears

Franchise Tax Board—Continued

that the audit program has recovered from the previous year's decline. For the first half of 1968–69, net assessments were $6.5 million. For the comparable period in 1969–70, the net assessments are $11.4 millon.

3. Compliance

The compliance program is directed toward preserving the personal income tax base. The program's objective is carried out primarily by the 599-FCP Program which is simply a comparison of those persons who filed a federal return with those who filed a state return. The federal information is supplied by the Internal Revenue Service and reaches the Franchise Tax Board in November of the year of filing, approximately seven months after the April 15th filing deadline. Comparisons are by social security number, and the lists of those who did not file California returns are then checked for possible tax liability.

A further check is made against information returns filed by California employers (the 599 form is similar to W-2 form). During 1968–69, this program cost $2.4 million and produced $12.5 million in additional assessments from 100,000 taxpayers. Table 9 shows this comparison.

Table 9

Filing Enforcement Activity

	Actual	*Estimated*	
	1968–86	*1969–70*	*1970–71*
Net assessments (millions)	$12.5	$20.0	$22.0
Administrative cost (millions)	2.4	2.7	2.8
Net assessments per dollar of cost	5.49	7.95	8.37
Number of assessments (thousands)	100	110	120

BANK AND CORPORATION TAX PROGRAM

We recommend approval of 13.3 man-years to augment the staff of the exempt corporation program which was enlarged by Chapter 1320 of the 1969 session (AB 2267).

The bank and corporation tax program has three essential elements: self-assessment, audit, and filing enforcement activities. Table 10 shows the man-years distribution of these elements.

Table 10

Bank and Corporation Tax Program

	Man-years		
Program element	*1968–69*	*1969–70*	*1970–71*
1. Taxpayer self-assessment activities	152.1	159	168
2. Audit activities			
Mathematical verification	32.1	33	33
Field audit reports	13.6	14	14
Nonallocating corporation audits	70.6	68	68
Allocating corporation audits	105.5	110	110
3. Filing enforcement activities			
Delinquency control	1.2	7	8
Exempt corporation	1.9	3	7
Totals	377.1	394	408

Franchise Tax Board—Continued

Administration and Support Activities Allocated to Bank and Corporation Tax

Administration	(23.2)	(25.5)	(25.5)
Support:			
Collection of delinquent accounts	(13.5)	(15)	(15)
Protests and appeals	(9)	(9.5)	(9.5)
Data processing	(46)	(47)	(52)
Total allocated	(91.7)	(97)	(102)

The 13.3 additional man-years requested by the board are directly attributable to Chapter 1320. This law requires a corporation that applies for exempt status to file:

1. A detailed report on its finances if the gross receipts or assets are over $10,000,
2. A short report (one page) on its finances if the gross receipts or assets are under $10,000, or
3. A simplified statement on its sources of income if it is a church, school, or other type of charitable organization.

This information will greatly increase the state's knowledge of these exempt corporations. Table 11 gives a breakdown on the 13.3 positions.

Table 11

Personnel Requirements to Implement AB 2267 During 1970–71

	Man-years	*Salary*
Junior counsel	1.0	$12,576
Auditor III	2.0	23,952
Auditor I	2.0	16,224
Clerk-typist	1.0	4,740
Clerk I-II	1.0	4,740
Temporary help	6.3	47,721
Total	13.3	$109,953

1. Self-Assessment Activities

The principal objective of this program is to ensure maximum voluntary compliance. The program includes public dissemination of information needed to comply with the statutes. Voluntary assessments by 160,000 bank and corporation taxpayers yielded $535 million during 1969–70. Workload increases during the budget year will be absorbed by existing staff.

Most of the 160,000 corporate taxpayers are also required to make estimated tax payments. When a payment is not accompanied by a full remittance, an accounts receivable is established. Billings are then sent to the taxpayers.

2. Audit Program

This program element consists of verifying each return for mathematical and legal accuracy. As each return is received it is mathematically checked and then sorted into one of two categories: (1) those operating only within California which are called nonallocation corporations, 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. The efforts of the audit program have resulted in substantial net assessments, about $35 million during 1968–

Franchise Tax Board—Continued

69. Table 12 summarizes recent data on the audit program's accomplishments.

Table 12

Net Assessments from the Bank and Corporation Audit Program (in thousands)

	Actual		Estimated	
Audit activities	*1967–68*	*1968–69*	*1969–70*	*1970–71*
Mathematical verification	$685	$1,522	$1,800	$2,000
Federal audit reports	6,238	6,031	8,000	9,000
Nonallocating—headquarters	1,475	3,534	1,400	1,500
Nonallocating—field	3,252	3,882	4,500	5,000
Allocating—headquarters	2,708	2,638	3,000	3,500
Allocating—field				
In-state	3,965	6,003	6,000	6,000
Out-of-state	13,207	11,822	13,000	15,000
Total Audit Revenue	$31,500	$35,400	$37,700	$42,000

Preliminary information on net assessments for 1969–1970 indicate that the audits program will accomplish the estimate of $37.7 million. $18.3 million has been assessed during the first half of 1969–70 compared to $14.4 million for the comparable period in 1968–69.

3. Compliance

This program element will increase its activity in the exempt corporation area with the addition of the new staff positions.

The agency accomplishes its compliance activities by means of the following: (1) obtaining tax returns from all entities subject to filing by comparing returns filed against the record of active corporations, (2) notifying and explaining requirements to nonfilers with a filing requirement, (3) initiating assessments against those who fail to comply.

During the current year, seven man-years will be devoted to the control of delinquency accounts at a cost of $81,000, and the board expects to net $120,000 in assessments.

ADMINISTRATION AND SUPPORT ACTIVITIES

The administrative program provides management and staff services to the personal income tax, bank and corporation and the senior citizens' property tax assistance programs. This program consists of administration per se, data processing, protests and appeals, and collection of delinquent accounts. Table 13 shows the man-years of each unit and how the man-years are allocated to the three programs of the board.

Table 13

Personnel Man-Years in Administration

Administration and support	*1968–69*	*1969–70*	*1970–71*
Administration	75.3	81	81
Data Processing	240.4	242	284
Protests and Appeals	19.3	20	20
Collection of Delinquent Accounts	150.9	155	162
Total	485.9	498	547

Franchise Tax Board—Continued

Table 13—Continued
Personnel Man-Years in Administration

Administration and support	*1968–69*	*1969–70*	*1970–71*
Charged to:			
Personal Income Tax Law	(385.7)	(393)	(437)
Bank and Corporation Tax Law	(91.7)	(97)	(102)
Senior Citizens' Property Tax Assistance Law	(8.5)	(8)	(8)
	(485.9)	(498)	(547)

Data Processing Division

Electronic data processing has become an important part of the Franchise Tax Board's revenue collection program. It supports the board's programs for the distribution of blank tax returns and instruction booklets; distributes the estimated tax notices; processes taxpayer records; and maintains the accounts receivable records for accounting and compliance purposes, for the recording of payments and the reconciliation of payments with returns.

The Franchise Tax Board is faced with an ever-increasing burden of converting typewritten and handwritten multiple-page documents to a machine-readable form, primarily accomplished by keypunching. During the budget year, an increase of 22 permanent positions will be required to handle increased workload. Reductions in personnel required for keypunching are not likely to occur in subsequent years. Indeed, if alternative means of data conversion or direct input to a computer are not found, we can expect a continuing upward trend in personnel costs.

The problem of converting data to EDP uses is compounded by the (1) shortage of qualified personnel, (2) requirements of training new or temporary help, (3) difficulties of retraining qualified personnel, and (4) necessity of layoffs or reassignment of personnel during nonpeak workload periods.

The Franchise Tax Board is currently engaged in a new approach to the hiring and training of permanent keypunch operators. This entails using keypunch operators during peak workload periods, and as the workload decreases, reassigning them to other units in the department until needed during another peak workload period. It is anticipated that this program will eliminate high turnover and minimize recruitment and training efforts.

Alternatives to the current methods of data conversion are being explored by the management of a number of state departments. The Office of Management Services is acting as a central planning and coordination group in seeking alternatives to the growing data conversion problems of the state.

One of the significant alternatives to keypunching is optical character recognition equipment. The nature of this process and a description of two test centers currently being planned for the state are discussed under our analysis of the Office of Management Services, Item 36. However, optical character recognition technology has not developed to the degree that the machines will read handwriting, multiple-page documents, or all typewriter fonts. For these operational

Franchise Tax Board—Continued

reasons, the Franchise Tax Board has not been able to make significant progress toward using OCR to solve its handling of tax returns and other documents.

However, it is recognized that changing technology may soon provide alternate solutions to the state's source data automation needs and we therefore recommend that the Franchise Tax Board: (1) carefully examine the capabilities of the test OCR equipment being installed at the Department of General Services and the Department of Justice, (2) define the board's input requirements, (3) explore alternatives for meeting these requirements with other source data automation devices such as large-scale multipurpose OCR machines now available, key-tape devices or the new key-disc techniques recently introduced, (4) perform a thorough analysis, including a cost-benefit analysis of all reasonable alternatives and (5) submit to the Joint Legislative Budget Committee by December 1, 1970, a report of the analysis findings and recommendations.

It is intended that the board's approach to this analysis be fundamental in scope, beginning with a reexamination of the preprocessing needs, formats, and forms designs necessary for the fulfillment of the basic departmental objectives, and including thorough analysis of automated processing alternatives.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Originally it was estimated that the senior citizens' property tax assistance program would provide $22 million in assistance grants during 1968–69. However, the actual grants amounted to only $7.8 million. To qualify for assistance the claimant must be a homeowner and 65 years or older; and the assistance varies inversely with income. Claimants with incomes of $1,000 or less receive 95 percent assistance while those with incomes between $3,325 and $3,350 receive only one percent. Table 14 shows the number of valid claims as well as selected data on the administrative cost of the program.

Table 14

Number of Claims and Costs of Administering Senior Citizens' Property Tax Assistance Program

	Actual 1968–69	*Estimated 1969–70*	*Projected 1970–71*
Number of claims	57,400	66,000	71,000
Administrative cost	$547,000	$587,000	$606,000
Assistance grants	$7,817,700	$8,200,000	$10,000,000
Ratio of administrative costs to grants	7.0%	7.2%	6.1%

The cost of this program may be prohibitively expensive in relation to benefits received if there is any *major* revision in the homeowners' property tax exemption. If, for example, the homeowners' exemption were doubled to $1,500, several thousand senior citizens would not need assistance from this program because their entire tax bill would be eliminated by the $1,500 exemption. Therefore this program might conceivably be servicing fewer citizens.

Franchise Tax Board—Continued

Secondly, with an increase in the exemption the average assistance would be lower. This results simply from computing the assistance from a smaller net tax bill. To illustrate this, Table 15 shows the amount of assistance granted to the "average" senior citizen at different homeowner exemption levels.

Table 15

Illustration of the Possible Decline in Senior Citizen Grants if the Homeowners' Exemption is Increased Based on 1967–68 Data

Average Household Income	*Average property tax (Net)*	*Senior citizen grant*
A. No Homeowners' Exemption		
$2,047	$270	$136
B. $750 Exemption		
$2,047	$201	$101
C. $1,500 Exemption		
$2,047	$131	$66

This shows that the amount of assistance would decline, even if the number of grants remained constant. However, 1967–68 data showed that 17 percent of the grants were made to senior citizens with homes assessed at less than $1,500.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 110 from the General Fund **Budget page 502**

Requested 1970–71	$1,985,469
Estimated 1969–70	2,101,424
Actual 1968–69	1,830,681
Requested decrease $115,955 (5.5 percent)	
Total recommended reduction	$99,478

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

We recommend:

1. A $44,144 reduction in the General Fund support for this program, to be replaced through increased inspection fees for the state housing law ($38,958), and the earthquake protection law ($5,186). We believe these inspection activities should be self-supporting. (Analysis page 572, 575.)

2. That appropriate legislation be enacted to allow the department to recover its direct inspection costs in the employee housing and labor camps program element. This would increase revenues from fees by an additional $85,296 during the budget year. (Analysis page 573.)

3. A $55,334 reduction in the new factory-built housing program. This reduction would be accomplished by phasing-in the proposed staffing as the workload develops. (Analysis page 575.)

4. Mobilehome manufacturing inspection fees be reduced. There is a $262,000 surplus in these fees during 1970–71. (Analysis page 574.)

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development was established by Chapter 1222, Statutes of 1965. It is headed by a director

Department of Housing and Community Development—Continued

appointed by the Governor at a salary of $25,000 per year. The department has two divisions: the Division of Building and Housing Standards 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 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 104 positions or 78.6 percent of the department's total staff.

Table 1
Staff of the Department of Housing and Community Development

	Positions		
	Actual 1968–69	*Authorized 1969–70*	*Proposed 1970–71*
Division of Administration:			
Director	1	1	1
Technical and supervisory	2.8	3	3
Clerical	6.7	7	7
Temporary help	0.5	0.5	0.5
Total	11	11.5	11.5
Division of Building and Housing Standards:			
Chief	1	1	1
Technical and supervisory	11.3	14	18
District representatives	59.2	70	58
Clerical	27	31	27
Total	98.5	116	104
Division of Housing and Community Development:			
Chief	1	1	1
Coordinator	3	3	3
Area representatives and technical	3.6	4	4
Clerical	4.8	5	5
Temporary help	--	--	3.8
Total	12.4	13	16.8
Grand Total	121.9	140.5	132.3

ANALYSIS AND RECOMMENDATIONS

Building and Housing Standards Program

This program consists of seven separate inspection activities which are designed to enforce building and housing standards.

Department of Housing and Community Development—Continued

In past years, we have recommended that all the *direct costs* for the state housing, earthquake protection, employee housing and the three mobilehome inspection program elements be entirely fee supported. The General Fund, in effect, supports these program elements in the several counties in which the state assumes direct inspection responsibilities. As a result of our 1969–70 recommendations, the 1969 Legislature enacted Chapter 1553 (AB 1546) on mobilehome park fees, Chapter 1394 (AB 1547) on earthquake protection fees, and proposed SB 1033 on employee housing and labor camps. The enactment of the two bills will increase General Fund revenues over the two-year period, 1969–70 and 1970–71, by about $140,000.

The Conference Committee on the 1969–70 Budget adopted language which stated that the department should administratively increase its direct inspection fees to make these programs as nearly self-supporting as possible. The department has only partially complied with this directive. Table 2 shows the inspection programs where the department has administrative authority to increase fees. This information demonstrates that: (1) the deficit in the state housing program actually increased during 1969–70, and this program will still have a deficit in the budget year, (2) very little change was made in the earthquake protection deficit in spite of the enactment of Chapter 1394, (3) progress was made in the mobilehome park and accessory structure programs. These elements will be basically self-supporting during the budget year if the department's revenue estimates are accurate.

Table 2
Surplus or Deficit in Inspection Programs
Where Department Has Authority to Increase Fees

Program	*1969–70* *Original estimate*	*1969–70* *New estimate*	*1970–71 Proposed*
State Housing Law	$—99,401	$—125,000	$—38,958
Earthquake Protection Law	—22,024	—20,000	—5,186
Mobilehome			
Parks	—182,607	—140,000	+1,112
Accessory structures	—74,578	—55,000	—982
Manufacturers	+366,369	+380,000	+262,212
Factory-built housing	New program		0
Deficit Total Only	$—378,610	$—340,000	$—45,126

The department does not have administrative authority to levy inspection fees in the employee housing and labor camp inspection program. This element has a deficit of about $189,000 during the current year, and the deficit is expected to be $85,296 in the budget year. This reduction will occur, not because fees will be increased, but because the department proposes a reduction of approximately 50 percent in the staff for this program.

We are repeating our recommendation that all direct inspection costs be entirely supported by fees. The noninspection costs of the program, which we term "general assistance" would continue to receive General Fund support. The general assistance category includes such activi-

Department of Housing and Community Development—Continued

ties 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 3 shows that the direct inspection costs for the seven program elements of the Division of Building and Housing Standards are estimated at $1,406,700 in the budget year while general assistance is estimated at $332,000. This table also shows that four of the inspection programs will operate at a deficit, and only the mobilehome manufacturers and mobilehome park elements will have a surplus.

Table 3
Staff, Revenues and Costs of the Building and Housing Standards Program Elements—1970–71

	Man-years	*Inspection revenues*	*Cost* *General assistance*	*Cost* *Direct inspection*	*Cost* *Total*	*Surplus or deficit in inspection program*
1. State Housing Law	7.8	$20,000	$90,000	$58,958	$148,958	$—38,958
2. Employee housing and labor camps	7.5	2,000	50,000	87,296	137,296	—85,296
3. Mobilehome parks	25.2	330,000	92,000	328,888	420,888	+1,112
4. Mobilehome accessory structures	10	140,000	50,000	140,982	190,982	—982
5. Mobilehome manufacturers	30.5	800,000	----	537,688	537,688	+262,312
6. Special projects (includes Earthquake Protection Law)	3	2,000	50,000	7,186	57,186	—5,186
7. Factory-Built Housing Law	13	245,702	----	245,702	245,702	0
Totals	97	$1,539,702	$332,000	$1,406,700	$1,738,700	$+133,002

1. State Housing Law

We recommend a $38,958 reduction in the General Fund support for this inspection element and that the department recover this reduction by increasing its inspection fees. The inspection element deficit is incurred in four counties where the department is the sole enforcement agency.

This state program element consists of two activities: (1) the establishment of statewide minimum housing standards for houses, apartments, motels and hotels, and (2) acting as a primary enforcement agency (i.e., local building inspector) in the four 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 are no building departments. In 54 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 54 counties the state renders general assistance by interpreting and advising local agencies on the State Housing Law.

In the four remaining counties: Trinity, Mariposa, Alpine and Sierra, 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 $38,958 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 fully accomplished so that the General Fund does not have to subsidize the inspection activity in these four counties.

2. Employee Housing and Labor Camps

We recommend that legislation be enacted to establish an operating permit in order to eliminate the $85,296 deficit in this inspection element.

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 approximately 4,700 registered labor camps throughout the state. The direct inspection costs will be an estimated $87,296 in the budget year with revenues of over $2,000. We recommend legislation be adopted to impose an annual inspection fee on all these facilities sufficient to cover costs.

In the budget year, the department proposes to reduce its personnel by seven man-years or about 50 percent of its 1969–70 level in this program element. Unless legislation is passed permitting local government to enforce housing regulations, this staff reduction will eliminate a large portion of the regular inspections of farm employee housing during 1970–71. The program element would be continued with its reduced personnel as a spot check, complaint and request enforcement activity. This reduction is quite substantial in an area which requires regularly scheduled inspection control. We understand that the department intends to sponsor legislation to have the counties assume this function. However, the budget reduction is not contingent upon the passage of this legislation.

3. Mobilehome Parks

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

Department of Housing and Community Development—Continued

4,823 parks with 224,660 spaces (lots), local enforcement has responsibility for 66 percent of the parks and approximately 70 percent of the spaces.

As shown in Table 3 the state will collect $330,000 in construction and operating permit fees from the parks it inspects.

In our last analysis we recommended legislation to eliminate the recurring deficit in this program element. Chapter 1553 was enacted in the 1969 Session which recovered half of the previous $182,607 deficit. The remaining half of the deficit will be eliminated administratively through construction permit fees.

This budget year will see a slight estimated surplus in this element as opposed to last year's $182,607 deficit.

4. Mobilehome Accessory Buildings or Structures

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.

In last year's budget this program element operated with a $74,578 deficit. We recommended an increase in administrative fees to offset the deficit. As shown in Table 3 the deficit in this element for this budget year has been almost entirely eliminated.

5. Mobilehome Manufacturers

We recommend that the fee schedules for this program 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, on 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.

In our last analysis we recommended approval, on a workload basis, of 10 new positions ($98,598) for the mobilehome manufacturer and seller inspections during 1969–70. This recommendation was based on workload requirements and the operational surplus in this element. The department did not fill these newly authorized positions. In the budget year, the department proposes to reduce the manpower in this program by 2.9 man-years below the current year level (which excludes last year's augmentation). However, the department has not proposed any reduction in fees despite the large surplus and the reduction in staff.

Department of Housing and Community Development—Continued

6. Special Projects

We recommend a $5,186 reduction in the General Fund support for the earthquake protection law element and that the department recover this budget reduction by administratively increasing its fees.

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

The Earthquake Protection Law has now been included in this program element. In our last analysis, we had recommended that legislation be passed to increase statutory fees to eliminate the deficit in this element. Such legislation, Chapter 1394, Statutes of 1969, has been enacted. The department however will still maintain an estimated $5,186 deficit in this program element in the budget year.

7. Factory-Built Housing Law

We recommend a $55,334 reduction in the General Fund support for this new activity.

This is a new program element established by Chapter 1422, 1969 session (AB 1971). The bill enacts into Part 6 of the Health and Safety Code the ''California Factory-Built Housing Law'' which sets forth definitions of factory-built housing, the use of such housing, installation, manufacture and its inspection and approval. Section 19982 of the bill states ''The commission by rule and regulation shall establish a schedule of fees to pay the costs incurred by the department for the work related to administration and enforcement of this part.''

The bill also provides for the state preemption of the inspection and regulation of this activity.

The department has requested $245,702 to support 13 new positions for this activity in the budget year. These new positions would consist of eight district representatives, two technical, and three clerical positions. Since there is a great uncertainty on the possible workload for this new program, *we recommend that:*

1. *Only six of these positions be permanently established on July 1, 1970.*

2. *The other seven positions be programmed to start January 1, 1971, if the workload materializes, the agency to obtain the approval of the Department of Finance before any of these positions are filled.*

This phasing-in of the proposed staff would save a minimum of $55,334 in the budget year because seven of the positions would only be effective for six months.

The department's proposed staffing is based on the assumption that 40 housing factories could be operating during the budget year. This assumption appears overly optimistic. At the present time, we do not have an accurate estimate on the number or production of such factories in California. Until such information is available, the buildup in this new staff, we believe, should occur at a moderate pace.

Department of Housing and Community Development—Continued

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 general backgrounds) 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.

Table 4 shows the nine program elements and their staffing for this division in 1970–71.

Table 4

Staff, and Costs of the Technical Assistance Program Elements in the Division of Housing and Community Development

Program elements	Positions (includes clerical) Estimated 1969–70	Positions (includes clerical) Proposed 1970–71	Costs Proposed 1970–71
1. Housing element	2.6	2.5	$47,100
2. General assistance	2.6	2.5	47,100
3. Rural housing	1.5	1.5	29,100
4. Community and neighborhood development	1.1	1.2	22,400
5. Low- and moderate-income housing	2.0	1.9	38,100
6. Rehabilitation and code enforcement	1.2	1.1	17,900
7. Research and statistics	1.2	1.1	17,900
8. Housing for elderly people	0.3	0.2	4,500
9. Housing inventory and market aggregation	--	3.8	67,587
Totals	12.5	15.8	$291,687

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

1. Assist in solving problems of urban core areas where major social disorders have occurred or are apt to occur.

2. Increase the supply of housing for low- and moderate-income families.

3. 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.

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

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

Department of Housing and Community Development—Continued

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 farmworkers, etc. He also performs surveys of local housing markets and advises local communities on 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 area representatives assist the coordinators in all areas except the Model Cities Program.

A two-thirds federally subsidized element (Housing Inventory and Market Aggregation) has been included in the technical assistance program for the first time. This element to be federally contracted on an annual basis is connected with the federal program Operation Breakthrough whose aims are to:

1. Reduce the real cost of housing.
2. Produce quality homes in volume for persons of all incomes.
3. Reduce the cost of subsidizing low- and moderate-income family housing.
4. Create a housing industry with year-round employment.
5. Increase the job opportunities for minority groups.
6. Encourage continuing innovation in housing.
7. Help to reduce one cause of urban tension—inadequate housing.
8. Help to combat inflation in the housing market.

Sacramento and Seattle have been selected as the two Operation Breakthrough sites for the West Coast. In the Sacramento site at the old fairgrounds, 250–300 living units of factory-built housing (both single-dwelling units and multiple units) are scheduled to be completed about October 1970. Chapter 1422 pertaining to factory-built housing construction and installation regulations passed in the 1969 Session has assisted the state's role in this federal program. The state's expense in the first year of the program will be $67,587 of which $44,918 will be federally reimbursable.

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.

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STATE TREASURER

Item 111 from the General Fund **Budget page 512**

Requested 1970–71	$922,772
Estimated 1969–70	942,533
Actual 1968–69	567,239
Requested decrease $19,761 (2.1 percent)	
Total recommended reduction	$67,394

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. We recommend that the newly reorganized District Securities Commission be funded entirely from reimbursements, for a General Fund savings of $67,394, and

2. We recommend that legislation be enacted to transfer this commission to the Public Utilities Commission. (Analysis page 581.)

3. The Treasurer will be making a test study of optical scanning equipment to determine if this equipment is more efficient than key punching as a means of entering data into computers. The results of the test could have a significant impact on all state agencies which have a large staff of key punch employees. (Analysis page 584.)

GENERAL PROGRAM STATEMENT

The State Treasurer is a constitutional officer with 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, (4) to prepare, sell, and redeem the general obligation bonds of the state, and (5) to prevent the issuance of unsound securities by districts and other local agencies.

Table 1 shows the growth of the Treasurer's Office over a five-year period. The sharp increase in the Treasurer's staff and General Fund support during the current year is attributable to: (1) the transfer of the District Securities Commission's staff to this office, and (2) the additional manpower assigned to EDP.

Table 1

A Five-Year Comparison of Staff and Expenditures In the State Treasurer's Office

Fiscal year	*Man-years*	*General Fund support*
1965–66	52.0	$447,849
1966–67	51.4	448,810
1967–68	53.8	525,041
1968–69	56.7	567,239
1969–70 (estimate)	75.8	942,533
1970–71 (proposed)	78.8	922,772

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

State Treasurer—Continued

Table 2

Distribution of the Treasurer's Staff by Program, 1970–71

Program	*Man-years*
Bond sales and service	9.4
Investment services	3.1
Trust services	15.0
District securities	9.1
Paying and receiving	25.2
General administration	17.0
Total	78.8

ANALYSIS AND RECOMMENDATIONS

BOND SALES AND SERVICE

Treasurer Hopes to Sell $500 Million in State Bonds Next Year

This program includes the selling, issuing, and servicing of state bonds. The cost of selling and servicing nongeneral obligation bonds for water projects, and veterans farm and home loans and other bonds is fully reimbursed. The amount is estimated at $70,000 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.

During the current fiscal year the Treasurer expects to sell only $50 million in bonds. This depressed sales rate is attributable to the 5 percent interest ceiling which is below the market rate for these bonds. The Treasurer's expectation of selling $500 million in bonds during the budget year is contingent upon: (1) the passage of Proposition 7 on the June 1970 ballot which would authorize an increase in the bond interest rate ceilings, and (2) a more favorable bond market. Even if the interest rates are increased, this is no guarantee that California could market $500 million in bonds during the budget year.

Table 3

Number of Bonds and Coupons Redeemed (In Thousands)

	Veterans, harbor, water and recreation	*All other*	*Total*
1968–69	2,826	2,756	5,582
1969–70	2,737	2,647	5,384
1970–71 (estimate)	2,637	2,536	5,174

This program also involves the preparation and advertising of bonds for sale. The cost of this activity, estimated at $146,500 in the budget year, will be financed from bond proceeds and these costs are not included in the budgetary totals.

INVESTMENT SERVICES

State Investments Increased by $183.6 Million in 1968–69

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 spe-

State Treasurer—Continued

cial funds) and the Condemnation Deposit Fund. Table 4 shows that the average daily investments in these two programs totaled over $1.3 billion in 1968–69. This was an increase of $183.6 million over the previous year. The state had additional funds to invest during 1968–69 because tax revenues were higher than anticipated. This increase was partly attributable to the 1967 tax program, but also resulted from a strong increase in economic activity including inflation. While the amount invested during 1968–69 increased by 16 percent, interest earnings jumped by 38 percent because rates were substantially higher.

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

	1967–68			*1968–69*		
Investment program	*Average daily amount invested*	*Earnings*	*Percent yield*	*Average daily amount Invested*	*Earnings*	*Percent yield*
Pooled Money	$1,073.1	$54.2	5.05%	$1,256.6	$75.7	6.02%
Condemnation	44.6	2.3	5.27	44.7	2.5	5.59
Total	$1,117.7	$56.5		$1,301.3	$78.2	

Table 5 contains a breakdown of the funds in the Pooled Money Investment Account during 1968–69. This information indicates that not all of the funds were invested. Some $38.4 million was left in noninterest-bearing bank accounts to compensate nine banks on a formula basis for the services they perform for the state, such as the payment of state warrants and the handling of deposits. These amounts are called "compensating balances." The higher level of interest rates allowed the state to reduce its compensating balances by 10 percent during 1968–69, because a lower volume of funds at higher interest rates would still produce the same amount of revenue to the banks. General Fund loans during 1968–69 were only 10 percent of their previous year's volume.

Table 5
Distributions of the Average Daily Amount of Temporary Idle Funds in the Pooled Money Investment Account During 1968–69 (Millions)

Distribution	*Average daily balances*	*Interest earnings*	*Percentage yield*
Investment in securities	$1,019.4	$62.0	6.08%
Investment in time (savings) deposits	213.9	12.4	5.78
Loans to General Fund	23.3	1.3	5.74
Total Investments	$1,253.7	$75.7	6.02%
Compensating balances	38.2	None	
Bond and coupon collection service	.2	None	
Total	$1,292.1	$75.7	

In our last analysis we proposed that 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. At

State Treasurer—Continued

that time approximately 20 state funds had separate short term investment programs.

The Department of General Services is currently making this study. Since our last analysis, six of the smaller state funds have entered the Pooled Money Investment Program. Of the remaining 14 state funds, the largest are the Unemployment Compensation Disability Fund, the State Highway Fund and the 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 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.

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 market 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 securities.

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 clipping of coupons on bonds held as pledges are a part of this program.

The Treasurer's Office will receive an estimated $66,000 in reimbursements in the current year and $75,000 during the budget year for collection expenses.

DISTRICT SECURITIES COMMISSION

We recommend that: (1) the newly reorganized District Securities Commission be funded entirely from reimbursements for a General Fund savings of $67,394, and (2) legislation be adopted to transfer this function to the Public Utilities Commission.

In 1969, the Legislature abolished the District Securities Commission as a separate entity and transferred its staff and functions to the Treasurer's Office. The present authorized staff of 9.1 positions is located in San Francisco.

As part of this legislation, the State Treasurer will create a new five-man advisory commission composed of the commission's previous

State Treasurer—Continued

member, the Director of Water Resources, and four other members to serve at her pleasure.

The three main program responsibilities of the commission are:

1. Examination and report on the feasibility of proposals of irrigation districts, California water districts, and county water districts.
2. Examination and approval of the feasibility of financing programs of water storage districts.
3. Examination and approval of the feasibility of bonds of miscellaneous districts pursuant to District Securities Investigation Law of 1965.

In the past, the commission was supported entirely from the General Fund, and the service fees which it charged to local districts were treated as revenues. As the result of a policy decision by the Department of Finance, the proposed budget would substantially change this method of funding. In 1970–71, the district fees will be treated as reimbursements and the General Fund will contribute only about a third of the commission's total expenditures. Table 6 shows that over the last five years the commission has consistently over-estimated its revenues from district fees. This over-estimation caused no budgetary problem for the commission so long as these fees went into the General Fund as revenues. However, there could be a serious budgetary problem for the commission during 1970–71 if the estimated reimbursements do not materialize because the commission would then be faced with three possible alternatives:

1. Reduce its expenditures below the budgeted amount in order to stay within actual reimbursement proceeds,
2. Request a shift of budgeted funds from another part of the Treasurer's Office, or
3. Request an Emergency Fund allocation.

If the first alternative were exercised, the commission would have to lay off part of its small staff because fixed expenditures such as rent would continue regardless of the level of reimbursements.

Table 6

Comparison of Estimated and Actual District Security Commission Revenues

	Original budget estimate	*Actual*	*Actual as percent of estimate*
1970–71	$137,000	N/A	–
1969–70	219,939	$137,000 (Est.)	62.3%
1968–69	225,842	123,372	54.6
1967–68	193,072	93,130	48.2
1966–67	254,458	150,592 [a]	59.2
1965–66	133,491	32,278	24.2
5-Year Average	--	--	52.2%

[a] Includes a $41,095 adjustment for accrued revenues.

Table 7 shows the General Fund will finance $67,394, or 33 percent of the commission's expenditures during the budget year. The ration-

State Treasurer—Continued

ale for determining the General Fund portion is not specified in the budget, but it was obviously computed by subtracting the estimated reimbursements from the total level of expenditures.

Since the commission's benefits are primarily bestowed on the local districts issuing bonds, *we recommend that the procedure initiated in the budget be carried to its logical conclusion, and that all of the costs of this program be funded from district reimbursements.*

We further recommend that legislation be enacted to transfer the District Securities Commission from the Treasurer's Office to the Public Utilities Commission. The prime function of the commission is to conduct overall feasibility studies of local bond proposals and to supervise their construction. This function requires the expertise of civil and hydraulic engineers, and auditors. The Public Utilities Commission has a large staff of engineers and auditors who are capable of performing such feasibility studies. The State Treasurer's Office does not have any backup positions with this expertise. The Public Utilities Commission could perform the technical assignments of the securities commission, on a reimbursable basis, and it also has the flexibility to handle variations in workload. If the District Securities Commission does not become part of a larger agency with technical staff to absorb variations in workload it could encounter budgetary problems whenever reimbursements fall short of the budget estimates.

Table 7

Budgetary Support for the District Securities Commission

	1969–70	*1970–71*
General Fund	$191,173	$67,394
District Reimbursements	--	137,000
District Revenues	(137,000)	--
Total Budget	$191,173	$204,394

Paying and Receiving

We recommend approval, on a workload basis, of two new clerical positions ($9,751).

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 8.

Table 8

Workload of the Treasurer's Paying and Receiving Program (Thousands)

Fiscal year	*Number of warrants paid*	*Number of deposits and deposit reports*	*Total number of items*
1967–68	5,741	349	6,090
1968–69	8,150	361	8,511
1969–70 (estimate)	8,500	378	8,878
1970–71 (estimate)	10,350	385	10,735

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Data Processing System

In the current year, the Treasurer's Office contracted with the Department of General Services for EDP services. Previously the Treasurer's Office maintained its own data processing operation involving first generation (electrical accounting machines) equipment. The contract with the Department of General Services involved the utilization of third generation EDP (computer) equipment. It was expected that the greater processing rate and sophistication of the computer would markedly accelerate the handling of the Treasurer's workload.

Unfortunately, the new arrangement has not been entirely satisfactory. The reasons for this lie in the nature of the Treasurer's workload which requires numerous time consuming data entries and manual procedures. This workload is not fully compatible with high-speed computers which are geared for a fast, constant input of card stock in prime condition (i.e., uncirculated to the public).

As a consequence of (1) the extensive and staggered workload of the data entry process and, (2) the relatively high percentage of rejects due to multilated cards, there are long periods of idleness or delay. These processing difficulties will be increased when the Treasurer starts processing disability insurance (January 1970) and Medi-Cal (December 1970) warrants. Table 8 shows that these new functions will substantially increase the Treasurer's workload.

The Treasurer's workload requires an automated system which can facilitate its *data entry* and manual handling procedures. The bottleneck in its workload under the present system is primarily in this area.

Our office has analyzed the EDP requirements of the Treasurer in an attempt to find a system more suitable to its particular data entry problems. In the course of this study, optical character recognition equipment was closely examined for its applicability. This equipment optically reads typewritten material which is then transmitted to the computer without going through the keypunching step. The companies manufacturing and leasing such equipment were consulted. One company in particular, Recognition Equipment Incorporated, assisted in this study by making an exhaustive examination of the EDP requirements to the Treasurer's Office.

The results were presented to the staff of the Treasurer's Office, the Department of General Services, the Office of Management Services and the Department of Finance. These state agencies concurred that an installation of optical scanning equipment might be an economically and technically feasible solution to the Treasurer's data entry problems. To determine the capability of such a relatively new technique, an experimental test center for the equipment has been arranged by the Department of General Services with no contractual obligation to the state. Furthermore, Recognition Equipment Incorporated has agreed to provide equipment on a rent-free basis for a six-month test period. In addition, Recognition Equipment Incorporated would design the processing system for the State Treasurer. The General Fund would finance the freight, maintenance and personnel costs of this

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equipment, which amounts to $84.000 in the six-month period. The equipment delivery date is slated for May 1970. The Treasurer's Office will run a parallel or dual system in May to test the new equipment. By June or July sufficient data will be gathered to determine the feasibility of an optical scanning system. If such an installation is found to be satisfactory, the Treasurer will lease the equipment from the Department of General Services. Neither the current budget, nor the 1970–71 budget reflects optical scanning leasing costs as this program is regarded as experimental. As a result. the budget of the Treasurer's Office shows the cost of continuing the current process.

It is estimated that if the optical scanning system proves feasible, the Treasurer's Office would realize a revenue gain and budgetary savings of $182,768 a year as follows:

Amounts	*Reason for Revenue Gain or Budgetary Savings*
$32,768	Personnel and equipment costs eliminated and change-over from card stock to flimsey stock.
$150,000	General Fund revenue gain resulting from prompt investment information reports.

This $32.768 budgetary savings is a minimum figure, based upon the assumption that the Treasurer's Office will bear the total rental cost of this equipment. However, the Treasurer will only use this equipment for an average of five hours per day, and if the remaining time (11 hours per day) were used by other agencies such as the State Controller, Franchise Tax Board, or Board of Equalization, then the rental costs would be shared and the additional budgetary savings would be about $94.000 a year, for a total of about $127.000.

We will prepare a supplemental report on the test of this equipment before the Legislature takes final action on this budget.

An estimated $19 million is spent annually by the General Fund on data entry requirements of all EDP systems in the state. If successful, this new equipment could result in substantial budgetary savings throughout the state.

Administration

We recommend approval, on a workload basis, of a new Assistant Treasury Officer III position ($10,860).

This position will provide technical assistance for bond sales, investment and EDP services.

HUMAN RELATIONS AGENCY

The administration of the Human Relations Agency consists of the office of the Secretary for Human Relations and his staff, which is budgeted as a single item (Item 25) and which receives appropriate legislative review and approval.

In addition to the office of agency secretary, agency administrative support also includes special services which consist of staff positions assigned to the office of the secretary but which are funded through contractual arrangements with various departments within the agency.