

## Advisory Commission on Marine and Coastal Resources—Continued

Although there is no statutory deadline for completion of the COAP, the announced goal of a completed plan by the spring of 1972 appears to be optimistic and unobtainable if a high quality document is to be prepared. The budget year would be critical for the commission if that body were actually going to review and make recommendations on the plan as the completion date nears. Although the commission membership has been formed into seven working groups to do this by reviewing problem areas as the plan is developed, the commission's budget is inadequate to finance the necessary meetings of both the working groups and the commission to review the COAP. We do not believe the present status of development indicates that a high quality COAP will be ready for review next year. In addition, we are recommending in Item 199 that the Legislature limit the work of the Department of Navigation and Ocean Development on COAP to data gathering and analysis until the Legislature specifies the planning approval mechanisms for COAP and provides some means of administering it. Therefore the reduced expenditure level of \$49,000 should be adequate for the limited work of the commission next year.

## DEPARTMENT OF JUSTICE

Items 39 and 40 from the General Fund  
and the Motor Vehicle Fund

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Requested 1971-72	\$25,441,263
Estimated 1970-71	24,757,794
Actual 1969-70	20,321,262
Requested increase \$683,469 (2.8 percent)	
Total recommended reduction	None

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
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1. We recommend that the Division of Law Enforcement be reorganized to produce a cohesive operating unit in accordance with the plan proposed by the Governor's 1967 Task Force. 79
2. We recommend (a) that whenever the department runs a fingerprint check of a job applicant who is found to have no criminal history, the fingerprint card be stamped "No criminal record" and returned to the submitting agency, and (b) that the department charge a fee equal to the cost of processing each set of applicant fingerprints which it receives for checking. 80
3. We recommend legislation requiring that the State of Nevada be charged for the job applicant fingerprints which it routinely submits to California for processing free of charge. 82
4. We recommend that the department initiate a grant proposal for \$600,000 from the federal Law Enforcement Assistance Administration or the California Council on Criminal Justice to assist in the further implementation of the Criminal Justice In- 83

formation System (CJIS). The department should attempt to obtain needed additional state funds for CJIS implementation by charging fees for all applicant fingerprinting and by shifting priorities or eliminating low priority programs within the Division of Law Enforcement.

5. We recommend that the Central Registry Unit be consolidated under the Special Services Section of the Bureau of Criminal Identification and Investigation and that all positions assigned to this function be physically located in the CII facility at 33rd and C Streets, and that the department avoid keeping duplicate files on parents wanted for nonsupport of minor children. 87

6. We recommend that the Bureau of Criminal Statistics increase its efforts to utilize the crime data which it collects to interpret and predict trends and causes of criminal behavior and that it delineate in greater detail the personal and social characteristics of persons convicted of crimes. 89

7. We recommend that the Bureau of Criminal Statistics complete its annual report on crime and delinquency in California by May 15 of each subsequent year. 89

8. We recommend that the Organized Crime Unit report to the Legislature by July 1, 1971, on the specific types of organized crime which it seeks to suppress, its accomplishments as of that date, and the way in which its organizational structure and staff utilization relate to combating organized crime. 90

#### GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General, provides legal and law enforcement services to state and local agencies. As the chief law officer of the state, the Attorney General interprets laws and renders opinions; represents the state in criminal and civil proceedings before the California and federal appellate courts; and provides legal advice and assistance to the various state departments, boards and commissions.

The department also assists local agencies in the investigation and prosecution of investment and consumer frauds and other business crimes, registers and reviews charitable trusts and health plan organizations, enforces state antitrust laws, administers the state tort liability program and a program of aid to victims of violent crimes, and investigates complaints of discrimination to ensure the constitutional rights of individuals.

To assist local agencies in law enforcement, the department maintains fingerprint and criminal record files for identification purposes, compiles criminal statistics, conducts investigations, and maintains laboratory and photographic services. It also enforces the state narcotics laws and administers the California Law Enforcement Telecommunication System (CLETS). As identified in Table 1, the department's three major programs are legal services, law enforcement, and administration, each of which is discussed in sequence in this analysis.

Table 1  
Department of Justice  
Summary of Expenditures by Unit

Unit	Actual 1969-70	Estimated 1970-71	Proposed 1971-72	Increase over current year	
				Amount	Percent
General Administration -----	\$641,769	\$742,002	\$800,550	\$58,548	7.9
Legal Services -----	10,297,757	11,205,092	11,786,608	581,516	5.2 <sup>1</sup> (1.9) <sup>1</sup>
Civil Law -----	5,009,611	5,509,165	5,936,805	427,640	7.8 <sup>1</sup> (1.0) <sup>1</sup>
Criminal Law -----	2,690,721	2,966,805	3,080,672	113,867	3.8
Compliance Element -----	1,644,650	1,761,347	1,786,246	24,899	1.4
Office Management and Services -----	952,775	967,775	982,885	15,110	1.6
Law Enforcement -----	12,543,474	16,435,646	16,334,057	-101,589	-0.6
Identification processes -----	2,916,512	2,876,372	3,016,682	140,310	4.9
Investigation -----	1,054,328	1,048,477	1,093,589	45,112	4.3
Information development -----	2,290,765	2,285,720	2,384,056	98,336	4.3
Narcotic enforcement -----	2,668,589	3,417,383	3,442,838	25,455	0.7
Criminal statistics -----	857,974	1,100,910	927,223	-173,687	-15.8
Telecommunications -----	1,744,952	2,884,301	3,034,492	150,191	5.2
Criminal justice information system -----	658,340	1,863,087	1,934,970	71,883	3.9
Organized crime -----	352,014	959,396	500,207 <sup>2</sup>	-459,149 <sup>2</sup>	-47.9 <sup>2</sup>
Total -----	\$23,483,000	\$28,382,740	\$28,921,215	\$538,475	1.9 <sup>1</sup> (0.6) <sup>1</sup>

<sup>1</sup> When the \$374,000 sum budgeted for payment of tort liability claims is separated from these items, the percentage increase over comparable current-year expenditures is the second figure (in parentheses). See analysis, page 77.

<sup>2</sup> These figures do not reflect a federal grant of \$612,000 authorized for the budget year which will increase proposed budget-year expenditures for the organized crime unit to \$1,112,811, an increase of \$153,415 or 16 percent over estimated current-year expenditures. See analysis, page 91.

## ANALYSIS AND RECOMMENDATIONS

The requested appropriations are set forth in the budget bill in the following items:

Item 39.	Support of Department of Justice-----	\$23,392,000
Item 40.	Augmentation transferred to Item 39 from the Motor Vehicle Fund-----	2,049,263
Total -----		\$25,441,263

The \$25,441,263 requested for the budget year is \$683,469 or 2.8 percent above estimated expenditures (excluding federal grants) in the current year. The excluded amount of federal funds is estimated at \$501,000 in the current year and a somewhat greater amount in the budget year. In addition to the proposed appropriation, the department anticipates reimbursements totaling \$2,479,952 for services to other state and public agencies. Thus, the total proposed departmental expenditure program (including \$1,000,000 in Item 45 for tort liability claims) amounts to \$28,921,215.

## LEGAL SERVICES PROGRAM

The legal services program, which consists of civil law, criminal law, compliance and office management elements, provides virtually every type of legal service practiced in the state. The \$11,786,608 proposed for this program in the budget year represents an increase of \$581,516 or 5.2 percent over estimated expenditures for the current year. However, when \$374,000 in estimated payments for tort liability claims is subtracted from the proposed budget-year program, the increase over existing legal service programs is \$207,516 or 1.9 percent.

## Civil Law Program Element

A budget-year expenditure of \$5,936,805 is proposed for the three components of this element as outlined below.

<i>Counsel for state agencies</i> -----	\$4,633,893
<i>Tort liability</i> -----	1,000,000
<i>Subsequent Injuries Fund</i> -----	302,912
Total -----	\$5,936,805

This element, which is administered by the Division of Civil Law, represents most state agencies, boards and commissions as general counsel in the civil law field. It conducts litigation in behalf of the state in all state and federal courts, including the United States Supreme Court, and renders legal opinions to state agencies, officers, legislators, district attorneys and county counsels. It also advises the Governor on the constitutionality of laws passed by the Legislature. Reimbursements are received for legal services provided to state agencies which are supported by special funds.

The element also represents the state and its employees in the field of tort liability, and provides the Board of Control with information which assists in the disposition of claims by victims of crimes of violence and "good samaritans" who act to prevent the commission of crimes. It also provides legal and investigative services necessary for processing claims against the Subsequent Injury Fund. This fund,

**Department of Justice—Continued**

which is a General Fund cost, pays awards authorized by the Industrial Accident Commission pursuant to Sections 4750-4755 of the Labor Code.

The program budget document shows a decrease of 4.7 personnel man-years between the current and budget years in the civil law program elements. This decrease reflects an increase in salary savings. Three attorneys and two clerical positions have been shifted administratively during the current year from the Condemnation Law Section to the Tort Liability Section to adjust for changing workload requirements in those two sections.

**Inclusion of Sum for Payment of Tort Liability Claims**

The budget document indicates proposed expenditures for the counsel for state agencies and subsequent injuries fund components at current-year levels. The amount budgeted for tort liability claims, however, shows an increase from \$575,293 to \$1,000,000. This increase reflects inclusion in the department's budget for the first time of \$374,000 for payment of tort liability claims, as well as increased administrative costs for this component.

**Criminal Law Program Element**

The activities of this element are administered by the Division of Criminal Law. The Attorney General, through this division, represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts. The division assists the Governor's office in extradition matters, provides advice to district attorneys in criminal law cases, and may serve as prosecutor in criminal trials if a district attorney is disqualified or otherwise unable to handle the proceedings.

Proposed budget-year expenditures for this program element total \$3,080,672, which is an increase of \$113,867 or 3.8 percent over estimated expenditures for the current year.

**Compliance Program Element**

The compliance program element, which consists of five components, proposes budget-year expenditures of \$1,786,246 as follows:

<i>Antitrust</i> .....	\$577,718
<i>Investment frauds</i> .....	359,072
<i>Consumer frauds</i> .....	200,734
<i>Health plan registrations</i> .....	115,226
<i>Charitable trusts</i> .....	533,496

This element, which is administered by the Division of Criminal Law, provides legal and investigative services to secure compliance with state laws concerning restraint of trade or antitrust matters, investment and consumer fraud, the administration of charitable trusts and health plan registrations. The proposed expenditure for this element is \$24,899 or 1.4 percent above estimated current-year expenditures.

**Office Management Program Element**

The office management element provides the general supervision and supportive services needed by the legal services program. The assistant attorneys general who are directly in charge of the daily operations of the department's three offices (Sacramento, San Francisco and Los Angeles) provide overall supervision for the legal, stenographic, clerical and library services. Proposed expenditures for this element total \$982,885, which is an increase of \$15,110 or 1.6 percent over the current year.

**LAW ENFORCEMENT PROGRAM****(Division of Law Enforcement)**

This program—the department's largest and most complex—provides identification, analytical, investigative, laboratory, statistical, communication, and criminal-record-keeping services to local, state, and national criminal justice agencies. The department proposes budget-year expenditures of \$16,334,057 for this program, a decrease of \$101,589 or 0.6 percent from estimated current-year expenditures. Proposed expenditures for the eight elements of this program are as follows:

<i>Program Element</i>	<i>Proposed Expenditures</i>
Identification processes -----	\$3,016,682
Criminal justice information system -----	1,934,970
Criminal statistics -----	927,223
Information development -----	2,384,056
Investigation -----	1,093,589
Telecommunications -----	3,034,492
Narcotic enforcement -----	3,442,838
Organized crime -----	500,207

**Reorganization Needed**

The Division of Law Enforcement provides the foregoing services to law enforcement agencies under an organizational structure consisting of highly autonomous bureaus. This has sometimes resulted in a lack of cooperation and coordination among the program elements supervised by the several bureaus.

We believe the Division of Law Enforcement should be reorganized to produce a cohesive operating unit and suggest the proposal of the Governor's 1967 Task Force as an effective way to proceed.

This reorganization proposal would group together all functions which are concerned primarily with records which identify individual criminal histories and all functions relating to field investigations of criminal activities and enforcement of laws. It would place each of these primary programs, identification and investigation, under the administration of an assistant director who would report directly to a deputy director who would also serve as director of the division. A change in the division's name from Division of Law Enforcement to Division of Criminal Identification and Investigation would serve to reflect more precisely the functions which are performed.

Following is an analysis of the eight program elements which comprise the division's current organization.

Department of Justice—Continued  
Identification Processes Program Element

The identification processes element, which is administered by the Bureau of Criminal Identification and Investigation (CII), maintains a central record system by which law enforcement and other governmental agencies may verify the identity of individuals and whether they have criminal records. The system consists of a file of 4.2 million individual record folders, a fingerprint file containing 8 million fingerprint cards, and a soundex card file containing 12 million name cards. Departmental files on stolen guns and property, modus operandi, triplicate narcotic prescriptions, criminal statistics, and wanted persons have been computerized.

Approximately 86 percent of the folders, 71 percent of the soundex cards, and 62 percent of the fingerprint cards relate to persons with criminal histories, and the remainder to persons who have been fingerprinted at the time of applying for various types of employment. Furthermore, 45 percent of the new record folders created and 66 percent of all fingerprints added to the fingerprint file in the past six years are those of noncriminal job applicants.

The record folder and fingerprint files have been expanding at a rate which has almost filled all of the available space in the present facility. In 1954, there were fewer than 900,000 record folders occupying 1500 square feet of floorspace. By 1964 the number had tripled to 2,700,000 folders and the floorspace had quadrupled. Presently there are 4,200,000 record folders occupying a major portion of the former Aerojet factory in northeast Sacramento, and 1,200 new folders are being added each day. Table 3 shows the growth in record folders since 1954.

Table 2  
Individual Record Folders  
(Criminals and Job Applicants Combined)

Year	Number
1954 -----	900,000
1964 -----	2,700,000
1968 -----	3,720,000
1970 -----	4,200,000

A 1968 departmental study indicates that 45 percent of all new CII folders are created to store job applicant fingerprint cards. *We recommend that whenever the department runs a fingerprint check of a person who has no criminal history, the fingerprint card be stamped "No criminal record" and returned to the submitting agency. We further recommend that the department charge a fee equal to the cost of processing each set of applicant fingerprints which is checks.*

Implementation of this recommendation would reduce the growth of the record and fingerprint files substantially and greatly simplify the the processing of applicant fingerprints, which comprise almost two-fifths of all fingerprints submitted to CII for processing. It also would result in more effective use of personnel and permit faster, more efficient service to law enforcement agencies submitting criminal record requests.

The Department of Justice will receive an estimated 1,400,000 fingerprint cards for processing during the current year. Nearly two-fifths of these cards, or 550,000, relate to job applicants rather than criminals. If a fee of at least \$3 (which approximates cost) is charged for each set of applicant cards processed, and all 550,000 applicant cards are processed, annual revenue to the General Fund would be \$1,650,000 in the current year rather than the \$330,000 anticipated under the current practice which is to levy a fee on some agencies but not on others.

A comprehensive study of the fingerprint and soundex (name) files conducted by the department in 1968 concluded that:

"without a mandate from the Legislature to establish a system of universal fingerprinting, the Bureau of CII should cease maintaining records on noncriminals, at least in active, regularly searched files. . . . In view of the limited funds available to the bureau, it is our conclusion that CII's legislatively established objectives can better be met by upgrading the quality of information maintained on individuals who have threatened society by committing criminal acts, rather than by spreading efforts out thinly on the permanent maintenance of all records received, as is now the case."

The study cited the fact that "the applicant records in the files are growing out of proportion to the criminal records; and, if such growth is not checked, we can expect to have an incomplete, unwieldy system, primarily consisting of records on noncriminals, with only a minor percentage of records on criminals."

The department's conclusions were based on a review of the comparative growth of criminal and noncriminal fingerprint cards and soundex (name) cards, which is summarized in Table 3.

Table 3  
Comparative Growth of Criminal and Noncriminal (Applicant)  
Fingerprint and Soundex Files

Year	Actual number of fingerprints added to fingerprint file		Estimated number of soundex cards added to soundex file	
	Criminal	Job applicant (noncriminal)	Criminal	Job applicant (noncriminal)
1960-61	101,795	164,248	169,662	176,616
1961-62	102,294	173,025	170,493	186,054
1962-63	110,888	177,161	184,817	190,501
1963-64	112,163	225,339	186,942	242,307
1964-65	99,360	239,220	165,603	257,233
1965-66	111,008	229,119	185,017	246,372
1966-67	131,594	237,934	219,328	255,850
1967-68	148,590	243,021	247,655	261,320
Totals	917,692	1,689,067	1,529,517	1,816,253
	35%	65%	46%	54%

The identification processes unit should serve primarily to identify and keep records pertaining to individuals with criminal histories and should not be required to keep records of citizens having no history of criminal activity. Focus of its attention solely on criminally related



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records will result in faster, more economical service to law enforcement agencies. Furthermore, if the number of job applicant fingerprint cards in CII's files continues to increase, the agency will soon be forced to move to a larger facility.

**Charge Nevada for Fingerprinting Services**

*We recommend legislation requiring the department to charge the State of Nevada and other states for all job applicant fingerprints which are submitted to California for processing pursuant to Section 11105 of the Penal Code.*

The department not only should charge a reasonable fee for processing California job applicant fingerprints, but also should charge a fee equal to the cost of processing job applicant fingerprints for the State of Nevada and other states requesting such information. These services, which are required by Penal Code Section 11105, are provided free of charge. They represent a service to the State of Nevada, which does not keep fingerprint records at the state level, paid for by the taxpayers of California. In fact, since most of the Nevada job applicant fingerprints are those of the employees of large casinos and hotels, CII's fingerprint check represents a free service to those establishments who desire fingerprint checks of their employees.

Out-of-state fingerprints, which come primarily from Nevada, comprise a significant portion of all applicant fingerprints received by CII. In fiscal year 1969-70, 35,412 criminal and 36,682 noncriminal out-of-state fingerprints were received and approximately the same number in 1969-70. Due to present budgetary limitations, however, these prints receive a low priority and are not being processed at the present time. Assuming that 70,000 such prints are received and processed annually, the state would receive \$210,000 per year if provision is made to process them at a rate of \$3 per card (which approximates current costs).

**Automation in the Department of Justice**

Because the information in the department's files is made available to approximately 450 separate law enforcement agencies in California, it is imperative that the department utilize modern electronic data-processing (EDP) methods to provide immediate response to inquiries of an urgent nature. It is also essential that EDP equipment be utilized for storing and maintaining the almost unmanageable volume of data presently contained in the manual files if the department is to continue to function as effectively as the central repository for statewide law enforcement records.

To assist in these tasks, the department is operating the California Law Enforcement Telecommunications System (CLETS) and is in the process of implementing the Criminal Justice Information System (CJIS).

**California Law Enforcement Telecommunications System**

The California Law Enforcement Telecommunications System (CLETS) was established pursuant to Chapter 2.5, Sections 15150-15165 of the Government Code, to provide law enforcement agencies

with an efficient and effective statewide telecommunication service. The state's portion of CLETS consists of two switching centers, located in Los Angeles and Sacramento, and sufficient circuitry to one location in each county to handle the message traffic load to and from each county. The message switching is accomplished by duplex computers located in each switching center.

CLETS became operational on April 1, 1970, and now provides service through a point-to-point network and a bulletin network. There are over 1,000 terminals connected to city, county, state and federal law enforcement agencies. In addition, CLETS provides all agencies on the system with direct access to computerized information files such as the wanted persons, firearms and property files of the Department of Justice, the Department of Motor Vehicle's driver and vehicle registration files, the California Highway Patrol's stolen vehicle files, and the Federal Bureau of Investigation's National Crime Information Center (NCIC) in Washington, D.C.

Original estimates anticipated that CLETS would handle 4,500,000 messages in the 1970-71 fiscal year. Current projections, based on seven months of operational experience, indicate that 10,500,000 messages will be handled in this period. The increase results from the department's wanted persons' file becoming operational and increased traffic into the Department of Motor Vehicles' driver and vehicle registration files. The traffic for 1971-72 fiscal year may increase to 15 million messages, but it is not anticipated that this volume will create any problem for the basic system.

We have monitored the development of CLETS and recommended continued support in fiscal year 1971-72 in the budgeted amount of \$3,034,492. We originally recommended that due to the pattern of utilization, 60 percent of CLETS funding should come from the Motor Vehicle Fund and 40 percent from the General Fund. Actual system usage experience continues to validate this recommendation.

#### **The Criminal Justice Information System (CJIS)**

*We recommend that (1) the department initiate a grant request for \$600,000 from the Federal Law Enforcement Assistance Administration to assist in the further implementation of CJIS; (2) the department seek further funds for CJIS by implementing our recommendation pertaining to fingerprints and by shifting priorities or eliminating programs within the Division of Law Enforcement; and (3) the fiscal committees and the Governor's office give highest priority to granting at least \$800,000 in additional state funds for CJIS for the budget year.*

The 1966 Legislature authorized a state criminal justice information system study to be funded jointly by the state and federal government under the Law Enforcement Assistance Act. This study was conducted by a private consultant in conjunction with departmental personnel, and the final report was submitted on January 6, 1969.

The study pointed out the necessity of installing an integrated information system that would serve all criminal justice agencies in the

**Department of Justice—Continued**

state and provided a design concept centered around the establishment of a comprehensive "criminal history record."

The Governor's Budget for 1969-70 requested \$1,546,308 to implement the recommendations of the CJIS study. In our 1969-70 analysis, we reviewed the study effort and the extent to which the department's requirements were considered, and concluded that the department was not ready at that time to embark on a full-scale implementation of the original CJIS design, which included a proposal to begin immediate conversion of the information contained in 2.9 million individual criminal history file folders. We therefore recommended the following: (1) a more limited approach to the conversion of records, beginning with the 700,000 individuals considered to be the highly active criminal group, (2) a delay in the creation of personal data records pending a thorough study of file activity and the establishment of purging criteria, (3) the immediate conversion of the manual file of wanted persons to an automated file, (4) immediate steps to upgrade the existing Department of Justice computer capability, and (5) a reduction of \$700,000 in the Governor's Budget to reflect a more realistic approach towards project implementation.

The Department of Justice concurred in our recommendations and the Legislature deleted \$700,000 from its 1969-70 budget. The supplemental Report of the Conference Committee on the 1969 Budget Bill recommended that the remaining \$846,308 be used to convert existing manual records on a more limited basis beginning with the immediate conversion of the criminal history of the 700,000 individuals identified by the Bureau of Criminal Statistics as the highly active criminal group. Further, the 1969 conference committee directed the department to prepare an implementation plan including a cost-benefit analysis of the program projected over the next five years.

**Progress During Fiscal Year 1970-71**

The 1970 Budget Act appropriated \$1,863,087 to continue implementation of the CJIS program. Eighty-nine new positions were approved at a cost of \$636,264. These positions consisted primarily of criminal records analysts and key entry operators whose primary function was to begin the massive file conversion of criminal history records. The first 10,000 records were converted under a federally funded program entitled "Project SEARCH." This project has as its principal goal the development of standard data elements and codes to produce a standard criminal history record ("rap sheet") for possible nationwide use.

Other accomplishments during the current fiscal year include the installation of a wanted persons file on the CLETS backup computers in Sacramento and Los Angeles. When this file became operational in December 1970, all law enforcement agencies on the CLETS network gained immediate access to the records of 45,000 wanted criminals. The Department of Justice continues to operate an outmoded second-generation computer which processes information contained in the firearms file, stolen property file and drug control file.

**CJIS Plans for Fiscal Year 1971-72**

The Department of Justice Supplementary Planning and Budgeting Information document for EDP provides a comprehensive picture of CJIS for the budget year and the succeeding four years. Program statements and plans for the following elements are presented: wanted persons, criminal records, firearms, miscellaneous property, statistical reports, modus operandi, narcotic prescriptions, administration and charitable trusts.

A realistic and economical plan was worked out in cooperation with the Office of Management Services to acquire an urgently needed computer resource for CJIS. This plan would require the upgrading of the backup CLETS computer in Sacramento and the installation of one new third-generation computer to replace the two existing second-generation machines. This last machine would actually have served as the CJIS processor.

This particular approach was responsive to our recommendations which were adopted by the Legislature in the Supplemental Report of the Committee on Conference (Budget Act of 1970—Item 138). The conference committee recommended that the Department of Justice continue its efforts to achieve maximum utilization of the CLETS backup computers for internal records processing requirements and for the implementation of the criminal justice information system.

**No Funds Budgeted for CJIS Implementation**

There are no funds in the Governor's Budget to support the installation of CJIS in fiscal year 1971-72. Therefore, it will be impossible to install the necessary electronic computers or accelerate the conversion of criminal history records which are required to create the statewide criminal history data file.

As indicated in the preceding section, we have reviewed the plans of the Department of Justice for the budget year and find them comprehensive, realistic and in harmony with legislative intent. The Office of Management Services has assisted the Department of Justice in reducing the funding requirements for CJIS to a figure which is almost \$2 million less than originally proposed.

In our judgment, a minimum amount of \$1,400,000 would be required for CJIS implementation in the budget year. The funding level would permit installation of the required electronic computers but would slow the conversion of the criminal history records.

We strongly support the CJIS program and believe that every alternative should be explored to acquire the \$1,400,000 needed additional funding. Failure to move forward with the program at this time will seriously impair the excellent progress made to date and reduce a service greatly needed by local law enforcement agencies. Finally, failure to proceed would encourage county, city, and regional law enforcement systems to establish duplicate files of wanted persons, criminal histories, and other records which should be maintained centrally. This result would be far less effective and considerably more expensive to local governments and the state.

## Department of Justice—Continued

Given the above, we recommend the following plan which could result in a successful resolution of the acute funding problem:

1. The Department of Justice should initiate immediately a proposal to the federal government through the California Council on Criminal Justice to secure federal funds in the amount of \$600,000 for implementation of CJIS under the Law Enforcement Assistance Act. In our judgment, the innovativeness of the program and the urgency of the need should qualify the department for federal funding at this level.

2. Funding of \$800,000 should be allocated as the state's share of a joint federal-state project to implement CJIS.

3. The Attorney General should institute an immediate review of the Division of Law Enforcement to ascertain the costs and benefits of the various programs and/or units as they relate to service provided to law enforcement. As a result of this review, and an assessment of priorities, presently available state funds may be obtained for the CJIS program by shifting priorities or eliminating low-priority programs. As indicated previously, the applicant fingerprint actively, as well as the mug photo system, drunk arrest records, modus operandi analysis functions, and Bureau of Criminal Statistics programs should be analyzed in terms of their productive results. Priorities for these programs should be realigned to reflect the potential value of CJIS with a view toward a reallocation of resources to assist in meeting the \$800,000 state commitment. A report of this review should be submitted to the chairmen of the fiscal committees by May 15, 1971.

## Information Development Program Element

This element, a major unit of the Bureau of Criminal Identification and Investigation, analyzes incoming and stored information on criminal activities and provides information to assist law enforcement agencies in identifying and apprehending criminals. It analyzes individual reports of such crimes as forgery, fraud, theft, burglary, robbery, homicide, sex offenses, arson, and failure to provide for minor children in an effort to ascertain common patterns of operation as a means of assisting local agencies in apprehending or identifying individual perpetrators. This element also maintains and analyzes records on registered firearms, stolen and pawned property, and nonrehabilitated criminals including drug and sex offenders.

Table 4 gives an indication of workload measures for this element.

Table 4  
Information Development Element Workload Measures

	<i>Actual</i> 1969-70	<i>Estimated</i> 1970-71	<i>Estimated</i> 1971-72	<i>Percent increase</i> <i>over</i> <i>current year</i>
Criminals registered .....	18,000	18,950	19,900	5.0%
Concealed firearms purchased...	179,976	214,000	257,000	20.1
Crime reports .....	1,702,110	1,957,426	2,250,000	14.9
Stolen/pawned property reports...	1,301,473	1,431,000	1,579,000	10.3
Requests for information.....	478,515	526,400	579,000	10.0

Proposed expenditures for this element in the budget year are \$2,384,056, an increase of \$98,336 or 4.3 percent over the current-year figure.

**Coordinator of the Central Registry**

*We recommend that all positions assigned to the Central Registry/Failure to Provide (Aid to Needy Children Unit) be located within the Special Services Section of CII, and that the department avoid keeping duplicate files on parents wanted for nonsupport of minor children.*

The Central Registry/Failure to Provide (CR/FTP) or Aid to Needy Children (ANC) Unit was established in 1954 by the Attorney General. The 1967 Legislature authorized the creation of a central registry of parents who have abandoned or deserted their children, and placed this registry within the Department of Justice (Welfare and Institutions Code, Section 11478.5). The central registry functions as the clearinghouse for information requests from district attorneys and welfare agencies. At the present time, its services are used by all California counties and by comparable agencies in other states.

Ten employees staff this unit, consisting of one intermediate modus operandi analyst who has been designated coordinator of the central registry, another Intermediate MO analyst, and eight clerical assistants. Until recently, all of these positions were located within the Special Services Section of the Bureau of Criminal Identification and Investigation (CII), although the coordinator maintained an office within the Division of Criminal Law. On October 1, 1970, for reasons unknown to us, the coordinator and three staff members were removed from CII and reassigned to the Attorney General's Office, Division of Criminal Law.

In effect, the unit has been split into two parts. One intermediate modus operandi analyst and five clerical positions utilize the records and fingerprint files of the Bureau of Criminal Identification and Investigation in an effort to locate persons wanted for failure to provide for their children, while the coordinator and three clerks are in the process of setting up duplicate files within the Attorney General's Office (Division of Criminal Law).

A departmental management report dated May, 1970, states:

"There is still no justification . . . for separating the central registry function from the locator service provided by CII. Such separation would result in a significantly more expensive total operation, cumbersome and inefficient working procedures, and, ultimately, delayed and degraded service to the users of the registry. We recommend against such separation."

All positions assigned to this function should be located within the Special Services Section of CII, where they will be adjacent to the department's voluminous fingerprint and record files, and the department should avoid the establishment of duplicate files on parents wanted for nonsupport.

**Department of Justice—Continued**  
**Investigation Program Element**

This element, which is also administered by the Bureau of Criminal Identification, aids in the solution of major crimes and prosecution of offenders by furnishing investigative assistance, including laboratory and photographic services, to local law enforcement agencies. It conducts laboratory examinations of bloodstains, firearms, handwriting, inks, papers and latent fingerprints as well as microanalysis of materials such as paint, hair, fibers, glass and soil.

Investigations, including intelligence activities relating to dissident and militant groups, are also undertaken as directed by the Attorney General or when requested by the Governor, Legislature, or other state agencies. Investigators assigned to the Organized Crime Unit currently work in conjunction with this element under CII direction. An expenditure of \$1,093,589 is proposed for this element in the budget year, which is an increase of \$45,112 or 4.3 percent over the current-year level.

**Narcotic Enforcement Program Element**

This element, which is administered by the Bureau of Narcotic Enforcement, is responsible for the enforcement of Divisions 10 and 10.5 of the Health and Safety Code relating to the use or abuse of narcotics and dangerous drugs. The bureau is the only enforcement agency in the state having direct responsibility by law for the control of drug violations among physicians, dentists, chiropractists, veterinarians, nurses, hospitals, and pharmacists who are licensed to possess, prescribe, dispense and administer narcotics. The bureau also conducts an enforcement program to combat the illegal trafficking, sale and use of narcotics and dangerous drugs, and it cooperates with federal, local and foreign agencies which have responsibilities in this area of law enforcement. Major emphasis at the state level is placed on ascertaining sources and arresting suppliers of illicit narcotics and dangerous drugs, rather than on apprehending and arresting users. In addition to its Sacramento headquarters, the bureau maintains field offices in San Francisco, Los Angeles, Fresno, San Diego and Santa Ana.

**Table 5**  
**Statewide Arrest Statistics, Bureau of Narcotic Enforcement**  
**and Local Agencies**

Detail	Actual		Estimated		
	1968	1969	1970	1971	1972
Marijuana arrests					
Adult .....	33,573	38,170	54,100	69,000	88,400
Juvenile .....	16,754	17,006	22,800	27,500	32,200
Opiates					
Adults .....	10,411	11,164	14,400	16,500	20,400
Juvenile .....	838	943	900	1,000	1,100
Dangerous drugs					
Adults .....	13,459	27,777	30,900	37,300	42,500
Juvenile .....	8,240	13,503	13,300	15,000	16,700
All other drug violations					
Adults .....	7,196	9,018	11,100	15,200	18,700
Juvenile .....	4,115	5,302	6,000	6,500	7,500

Projections by the Bureau of Criminal Statistics indicate that narcotic arrests in the calendar years 1971 and 1972 will continue to increase in all categories. Table 5 shows the actual and estimated number of arrests by calendar year. The level of arrests is influenced by the enforcement policies of local governments and the number of personnel assigned to this work at both the state and local levels.

For the budget year, the bureau requests a support appropriation of \$3,442,838, which is an increase of \$25,455 or 0.7 percent over estimated expenditures in the current year.

#### **Criminal Statistics Program Element**

*We recommend that the Bureau of Criminal Statistics (1) utilize crime data which it collects to interpret and predict trends and causes of criminal behavior, (2) that it provide more comprehensive statistical information on the personal and social characteristics of criminals and delinquents, and (3) that it complete its annual reports no later than May 15 of each subsequent year.*

The objective of this element, which is administered by the Bureau of Criminal Statistics, is to describe the changing aspects of crime and delinquency in California and the effectiveness of law enforcement, judicial, and correctional institutions in dealing with criminals and delinquents. It collects basic data from the city, county, and state agencies having jurisdiction over the areas where crimes occur and submits annual reports to the Governor, the Legislature, justice agency administrators, the judiciary and other agencies concerned with crime and delinquency.

Proposed expenditures for this element amount to \$927,223, a decrease of \$173,687 or 15.8 percent from the current year. The budget document indicates that the number of authorized positions will be reduced from 103.4 to 81.9 man-years, a decrease of 21.4 man-years. This decrease reflects the completion of a federal grant, Project SEARCH, which utilized nine man-years of bureau support, and the termination of reimbursed contract services with the Assembly Office of Research, the Council of Criminal Justice, and the Department of Youth Authority, which utilized a total of 12 man-years of bureau support in the current year.

We believe that the bureau can best assist in improving the effectiveness of criminal justice in California by increasing its effort to provide interpretive and predictive analysis of criminal data, as compared to mere compilation of statistics. Close association on a daily basis with criminal data submitted by all law enforcement agencies in the state places BCS in a position to gain insights not available to other agencies.

The bureau should give greater emphasis in its reports to the personal and social characteristics of criminals and delinquents. Since BCS gains most of its data from other agencies of government, primarily local police and sheriffs' departments, most of the information it receives pertains to the number and types of offenses known to such agencies and their actions in dealing with criminals and delinquents, rather than to the personal characteristics of delinquents. Local agency crime re-



**Department of Justice—Continued**

ports, which are made on forms provided by the bureau, include virtually no information on the personal or social characteristics of offenders, such as age, education, employment or race. Greater attention should be given to such characteristics because it would appear to be more important to understand the nature of the criminal and the factors that motivate his behavior than simply to describe the types of crimes committed.

The bureau should complete its annual report on crime and delinquency in California, as well as other annual reports, no later than May 15 of each subsequent year. The current law requires the bureau to submit to the Governor annually by July 1 a printed report containing criminal statistics for the preceding calendar year. In recent years, however, public release of the bureau's major report has come as late as December. These reports contain considerable information on, and analysis of, the California crime scene, but their value can be enhanced by greater timeliness.

**Organized Crime Element**

*We recommend that the Organized Crime Unit report to the Legislature no later than July 1, 1971, on the specific types of organized crime which it seeks to suppress, the way in which its organization and positions relate to suppressing those types of organized crime, and its accomplishments as of that date.*

This element seeks to suppress organized crime in California by (1) gathering, analyzing and storing intelligence pertaining to organized crime; (2) providing this intelligence to local, state, and federal enforcement agencies; (3) providing training and instruction to assist local and state law enforcement personnel in recognizing and combating organized crime; (4) providing a research pool of specialized equipment and personnel to help local and state agencies combat organized crime; (5) conducting continuing analysis and research of organized crime activities in legitimate as well as illegitimate businesses in order to predict probable future activities; and (6) investigating selected organized crime activities and individuals and participating as required in prosecution of the individuals involved.

This program element is administered by the Organized Crime Unit, which consists of 32 positions and is funded in substantial part by federal grants. The current-year budget of \$959,396 consists of a General Fund appropriation of \$500,536, a federal grant of \$208,860 from the California Council on Criminal Justice, and a second federal grant of \$250,000 made directly by the Federal Law Enforcement Assistance Agency. This second grant is being used to establish a research pool of specialized equipment and personnel. The unit's 30 positions, in addition to the director and his secretary, are divided among four programs: operations and training (5 positions); intelligence (9 positions); long-range intelligence research (1 position); and investigation (15 positions). The 15 positions assigned to the investigation program are special agents who work under the direction of CII supervising agents in the following cities: San Francisco (6 organized

crime agents), Los Angeles (5 agents), San Diego (3 agents), and Sacramento (1 agent).

The unit has been awarded a federal grant award of \$612,604 for the budget year and is requesting an additional \$500,207 in General Fund money for a total proposed budget of \$1,112,811, which is \$153,415 or 16 percent higher than estimated current-year expenditures.

We note, however, that a majority of the 32 positions assigned to the Organized Crime Unit under its current organization are concerned only partially or incidentally with detecting and suppressing organized crime activities. The 15 special agents in the investigation component function largely as general crime investigators under CII direction, while most of the nine agent positions in the intelligence component tend to focus their attention on such law enforcement concerns as dissident and militant groups, motorcycle gangs, bombings of public buildings, and instigation of campus uprisings. While problem areas such as these need to be monitored, they do not constitute "organized crime" in the usual sense of that term, and they thus do not represent the kind of criminal activity which the Organized Crime Unit was established to combat and upon which its justification as a separate entity has been based. Therefore, we recommend that the Organized Crime Unit report to the Legislature by July 1, 1971, on the specific types of organized crime which it seeks to suppress and its accomplishments in doing so as of that date.

## COMMISSION ON PEACE OFFICERS STANDARDS AND TRAINING

### Item 41 from the Peace Officers'

#### Training Fund

Vol. I p. 90 Budget p. 30

Requested 1971-72	\$547,437
Estimated 1970-71	476,963
Actual 1969-70	455,659
Requested increase \$70,474 (14.8 percent)	
Total recommended augmentation	\$124,993

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. We recommend legislation to provide that any balance in the Peace Officers' Training Fund exceeding \$1 million as of June 30 of each fiscal year be transferred to the General Fund, thus providing additional General Fund revenue of approximately \$9,645,000 in the budget year and approximately \$1.5 million to \$1.8 million in succeeding fiscal years at present levels of expenditure from the Peace Officers' Training Fund. 92

2. We recommend the addition of seven consultants and three clerical positions to the commission's staff. 93

**Commission on Peace Officers Standards and Training—Continued**  
**GENERAL PROGRAM STATEMENT**

The Commission on Peace Officers' Standards and Training, a nine-member body appointed by the Governor, is responsible for establishing minimum standards of physical, mental and moral fitness for the recruitment and training of city and county peace officers. These standards apply to those jurisdictions that receive state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Jurisdictions participating in this program are reimbursed by the commission from the Peace Officers' Training Fund for the costs of the training. Such reimbursements, consisting of 50 percent of salary plus living costs, may be made for not more than 400 hours of training for the basic course, 100 hours for supervisory courses, and 120 hours for middle management and executive development courses. Additional courses, including a 40-hour advanced officer course and an 8-hour course in the handling of tear gas, are also reimbursed.

**ANALYSIS AND RECOMMENDATIONS**

The \$547,437 requested for commission operations in the budget year is \$70,474 or 14.8 percent above estimated state expenditures in the current fiscal year. The increase reflects the addition of three consultants and one clerical position which were established administratively in the current year to handle added workload. However, federal funds totaling \$173,369 in the current year for a Traffic Program Management Institute and a Community Relations Training Program may not be forthcoming in the budget year, reducing total commission expenditures proportionately.

**Transfer Excess Revenue to General Fund**

Revenues accruing to the Peace Officers' Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and \$1 of every \$20 of traffic fines collected by local governments. As of July 1, 1970, the fund had an accumulated surplus of \$7,222,000. The fund's income from penalties on fines during the current year is estimated at \$7,380,000, while reimbursements to local agencies and commission operating expenses are estimated at \$5,168,770 and \$476,963, respectively, resulting in a total projected surplus of \$8,957,000 by June 30, 1971. By the end of the budget year (June 30, 1972), the fund will have an estimated surplus of \$10,770,000, based on proposed disbursements of \$5,200,000 to cities and counties and \$547,437 in administrative costs.

*We recommend legislation to provide that any balance in the fund exceeding \$1 million as of June 30 of each fiscal year be transferred to the General Fund.* This will provide additional General Fund revenue of approximately \$9,645,000 in the budget year and approximately \$1.5 million to \$1.8 million annually in succeeding years, depending on the amount of income from fines, and commission reimbursements to local agencies for POST training.

This added General Fund revenue would partially offset substantial state subventions to local governments for justice, law enforcement,

and correctional activities. General Fund expenditures for such activities in the current year exceed \$30,000,000, including \$9,534,000 for payment of the salaries of superior court judges; a \$2,100,000 contribution to the Judges' Retirement Fund (in addition to revenue derived from a filing fee in civil court actions); \$775,000 in assistance to county public defenders' offices; \$127,000 for county delinquency prevention commissions; \$3,316,000 in reimbursements to counties for maintenance of juvenile homes and camps; and \$14,750,000 in assistance to counties for probation supervision programs. Surplus revenues in the Peace Officers' Training Fund in excess of amounts needed for foreseeable needs may logically be used to offset some General Fund expenditures in these criminal justice areas.

#### Program Requirements Justify New Positions

*We recommend that seven consultant and three clerical positions be added as follows to the commission's staff to augment three existing programs: (1) administrative counseling services to local agencies requesting such assistance (4 consultants and 2 clerical); (2) continuing review of police science courses at local colleges and police academies for which POST reimbursement is made (2 consultants and 1 clerical); and (3) continuing inspection of local law enforcement agencies to insure that the minimum selection standards established by the commission are being met (1 consultant). The cost of these positions is as follows:*

7 consultants @ \$13,536 .....	\$94,752
3 clerk-typists II @ \$5,484 .....	16,452
Staff benefits @ 12.4 percent .....	13,789
	<u>\$124,993</u>

Additional consultants are needed to improve the effectiveness of the above-mentioned programs. The commission's administrative counseling service makes administrative organization studies of local agencies to secure more effective utilization of police personnel. Examples of organizational and management problems which are studied include allocation of personnel to various assignments and shifts; utilization of office space and departmental equipment; establishment of manuals of rules and regulations; organization of records and filing systems; prison booking procedures; and preparation of crime reports, arrest reports, traffic accident reports, and other types of records.

Currently, the commission has a backlog of 38 requests by local agencies to identify and review administrative problems and make recommendations for their solution. The commission estimates that 175 agencies will request surveys within the next five years if adequate staffing is available. At the staffing level proposed for the budget year, approximately only 21 of these surveys can be made, using a ratio of three surveys per consultant per year.

The four consultants which we recommend for this program will permit 12 additional surveys to be completed annually.

Adequate review of police education and training courses at the 150 educational institutions conducting such courses requires that two additional consultants be added to assist the three currently engaged in

**Commission on Peace Officers Standards and Training—Continued**

this program. These consultants monitor the quality of course teaching and content; suggest and help implement improved instructional techniques (for example, video-tape playbacks of classroom confrontation scenes, so that officers may watch themselves reacting to varied situations); and upgrade the level of teaching by observing experimental techniques and methods which, if successful, can be tried elsewhere (for example, programmed instruction in criminal law). Additional duties include the development of new courses, particularly in advanced and specialized fields, so that the amount of training available to law enforcement personnel in the state continues to increase.

Inspections to insure that local agencies which receive POST reimbursement for training expenses continue to meet minimum selection and personnel standards must be made among the 400 local jurisdictions receiving funds. Currently, only one consultant is assigned for these investigations. At the rate of 10 investigations per month, he is able to cover approximately 120 jurisdictions per year. We recommend that an additional consultant be added to this program. While conducting investigations, the consultants also inform local departments of new training programs and new ideas in recruitment and retention techniques, etc., and gain firsthand information on local law enforcement problems which may benefit other commission programs.

### **ASSISTANCE TO CITIES AND COUNTIES FOR PEACE OFFICERS STANDARDS AND TRAINING**

**Item 42 from the Peace Officers****Training Fund****Vol. I p. 90    Budget p. 30**

Requested 1971-72	\$5,200,000
Estimated 1970-71	5,168,770
Actual 1969-70	4,155,659
Requested increase \$31,230 (0.6 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

This item provides assistance to cities and counties that qualify for state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reimbursed from the Peace Officers Training Fund for up to 50 percent of the salaries and expenses of officers who are selected to participate in training programs. The Commission on Peace Officers Standards and Training approves the training programs and administers the reimbursements. Pursuant to Chapter 1640, Statutes of 1967, the commission also has responsibility for providing counseling services to local police agencies for the purpose of improving their administrative and operating procedures. The commission is supported by a separate appropriation from this fund (Budget Item 41).

Revenues accruing to the Peace Officers Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and \$1 for every \$20 of traffic fines. Revenues for the current year are estimated at \$7,380,000.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The sum of \$5,200,000 is requested for the budget year from the Peace Officers Training Fund for allocation to local government. This is an increase of \$31,230 or 0.6 percent above estimated local assistance expenditures of \$5,168,770 for the current year. For fiscal year 1971-72, estimated revenues of \$7,560,000 will exceed estimated expenditures by \$1,812,563, producing a total projected surplus in the fund of \$10,769,483 on June 30, 1972.

### CALIFORNIA COUNCIL ON CRIMINAL JUSTICE

Item 43 from the General Fund

Vol. I p. 98 Budget p. 31

Requested 1971-72	\$138,286
Estimated 1970-71	77,986
Actual 1969-70	75,002
Requested increase \$60,300 (77.3 percent)	
Total recommended reduction	None

#### GENERAL PROGRAM STATEMENT

The 29-member California Council on Criminal Justice was created by Chapter 1661, Statutes of 1967. Its objectives are (1) to develop plans for the prevention, detection, and control of crime; (2) to encourage coordination, planning, and research by law enforcement and criminal justice agencies throughout the state; (3) to disseminate information on proposed, existing and completed projects in the criminal justice field; (4) to advise the Governor, Legislature, and state law enforcement agencies on criminal justice matters; and (5) to implement federal anticrime programs, specifically, the Omnibus Crime Control and Safe Streets Act of 1968 and the Juvenile Delinquency Prevention and Control Act of 1968. Council membership consists of the Attorney General, 16 members appointed by the Governor, and 12 persons appointed by the Legislature.

In early 1969, the Governor designated the council as the state planning and coordinating agency responsible for implementing the federal Omnibus Crime Control and Safe Streets Act of 1968 and the Juvenile Delinquency Prevention and Control Act of 1968. The role of the council, as the state's planning agency, is to develop and implement a state-wide comprehensive plan to improve existing law enforcement and crime control programs. To promote this objective, the council awards federal "action grant" money to state and local agencies which submit acceptable proposals for projects intended to improve various aspects of the criminal justice system. Approximately \$2.3 million in federal

**California Council on Criminal Justice—Continued**

funds was awarded for action grant projects in fiscal year 1968-69, the first year of the grant program; in 1969-70, \$17 million in federal funds was made available, of which \$6.5 million has been allocated to date; \$33 million in additional funds has been received for the current year, and \$66 million in federal funds is anticipated for the budget year. Federal grant awards have a three-year life, so that funds which are not spent in the fiscal year for which they are made may be spent during either of the two succeeding fiscal years.

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The requested General Fund appropriation of \$138,286 represents an increase of \$60,300 or 77.3 percent over estimated General Fund expenditures in the current year. This sum will be used to match federal funds totaling \$1,842,949, thus giving the council a total support budget of \$1,981,235 for the following three programs: (1) Criminal Justice Comprehensive Planning, which is largely concerned with developing and revising a comprehensive state plan to reduce crime by improving the performance of the criminal justice system; (2) Criminal Justice Program Implementation, which implements and administers the federal action grant award program; and (3) Support Services and Administration, which reviews grant proposals, provides fiscal and accounting services, and conducts field audits of projects.

**New Positions**

As shown in Table 1 by program area, the council is requesting new positions totaling 44.5 man-years. Most of these positions are being established administratively in the current year to handle increasing workload, and their costs will be paid primarily by federal funds. The staffing figures used in Table 1 and elsewhere in this analysis differ in some respects from those contained in the budget document, but we are advised by both the council and the Department of Finance that they represent corrections of manpower allocations as stated in the budget.

**Criminal Justice Comprehensive Planning Program**

The 12.1 positions proposed for this function, together with the 5.9 positions presently authorized, will be assigned as follows:

Preparation, development and revision of a state comprehensive plan	10.0
Long-range planning and strategy development	2.0
Juvenile delinquency prevention and control planning	1.3
Planning related to other federal programs	0.5
Development, assistance, and review of local and regional planning competence	4.2
	<hr/> 18.0

**Table 1**  
**Proposed Additional Staff Man-Years**  
**Council on Criminal Justice**

Position	Program area			Salary cost
	Criminal justice planning	C. J. program implementation	Administration and support services	
Deputy director -----	0.4	0.4	0.2	\$19,044
Asst. exec. officer (3) -----	1	1	1	51,630
Crim. justice specialist III (2) -----	1	1	--	30,936
C. J. specialist II (11) -----	6	5	--	132,830
C. J. specialist I (4) -----	--	4	--	44,640
Supvng state financial exam I -----	--	--	1	13,818
State financial exam. III -----	--	--	1	15,276
State financial exam. II (2) --	--	--	2	19,658
Training officer -----	--	1	--	12,836
Administrative trainee -----	--	1	--	8,418
Senior steno (4) -----	1.2	1.4	1.4	27,408
Steno II (6) -----	2	2	2	33,197
Sr. clerk -----	--	--	1	6,604
Stock clerk -----	--	--	1	7,728
Clerk II -----	--	--	1	5,553
Accounting technician -----	--	--	1	6,576
Account clerk II -----	--	--	1	5,760
Clerical trainee -----	--	--	1	4,524
Temporary help (1.2) -----	0.4	0.4	0.4	12,000
Overtime (0.3) -----	0.1	0.1	0.1	3,000
Total proposed positions -----	12.1	17.3	15.1	(44.5)
Existing positions -----	5.9	19.7	8.9	(34.5)
Total -----	18.0	37.0	24.0	(79.0)

A comprehensive state plan for the improvement of the criminal justice system in California must be submitted to, and approved by, the federal Law Enforcement Assistance Administration each year in order for the council to receive federal action grant money for allocation to local and state projects. This plan, after defining "needs, problems and priorities" and "existing law enforcement systems and available resources," outlines a detailed "multi-year plan" and an "annual action program" in each of the nine task force areas into which the council is organized.

The long-range planning element within this program seeks to identify root causes of delinquent behavior and determine which criminal justice programs will be most effective in averting future trends in criminality. The juvenile delinquency prevention and control element submits an annual plan to the Youth Development and Delinquency Prevention Administration (YDDPA) within the U.S. Department of Health, Education, and Welfare which permits the state to qualify for block grants under that program.

The last program element—development, assistance and review of regional and local planning competence—assists 16 state regional planning agencies in developing acceptable regional programs for identifying and resolving problems in the implementation of criminal justice, giving particular attention to unique local problems and characteristics.



**California Council on Criminal Justice—Continued**  
**Criminal Justice Program Implementation**

The 17.3 positions proposed for the criminal justice program implementation will be used primarily to improve staff support for the following nine task forces into which the council members are organized: police services, judicial process, corrections, juvenile delinquency, organized crime, riots and disorders, education and training, science and technology, and narcotics, drug and alcohol abuse. Staff responsibilities consist of reviewing project proposals submitted by state and local agencies, developing recommendations to the council for funding, and monitoring the progress of projects which have been funded to ascertain compliance with the terms and objectives of the grant proposal. Table 2 shows the major workload elements of this program.

**Table 2**  
**Selected Workload Data, Criminal Justice Program Implementation**

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Proposals reviewed -----	224	300	400
Funded projects monitored -----	55	179	253
Discretionary grants reviewed -----	72	86	102
Letters of intent reviewed -----	311	400	500
Man-years -----	19.7	25.3	37

**Support Services and Administration Program**

This program consists of the council's executive and central business services staff plus the following functional elements: fiscal and accounting, proposal review and audit, and contract services. The fiscal and accounting element maintains financial records on the council's overall operations, examines the propriety of invoices and requests for advance payments of grant funds, and prepares required financial reports for the state and federal governments. The proposal review and audit element is responsible for assisting grant applicants in formulating the fiscal aspects of their proposals, examining incoming grant proposals for fiscal accuracy, and conducting field audits of active grants.

The 24 positions proposed for this program (15.1 proposed and 8.9 existing) will consist of four positions for executive functions, 11 positions in fiscal and accounting services, four positions for reviewing, monitoring and auditing, and five positions for clerical and personnel functions.

Table 3 shows selected workload and cost data for this program.

**Table 3**  
**Selected Workload and Cost Data**  
**Support Services and Administration Program**

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Invoices processed -----	2,200	5,680	7,120
Proposals reviewed -----	224	300	400
Proposals funded -----	55	280	350
Field audits -----	--	155	320
Federal action funds available (millions)	\$17.3	\$33-43	\$66
Grants awarded (millions) -----	\$4.45	\$15.15	\$33
Program cost -----	-- <sup>1</sup>	\$825,358	\$556,339
Man-years -----	-- <sup>1</sup>	16.3	24

<sup>1</sup> Costs for 1969-70 were not distributed on a program basis.

Federal funds available for council allocation have increased from \$2.3 million in 1968-69 to a budget-year level estimated at \$66 million. An additional \$100 million in federal funds for action grant projects is anticipated for fiscal year 1972-73. Because the funds appropriated by the federal government for allocation by the council are available for three years and not all funds are allocated in the year in which they are received, total funds available for allocation each year are increasing faster than actual allocations. Table 4 shows federal funds available for council allocation, and actual and projected allocations.

**Table 4**  
**CCCJ Allocation of Federal Funds Available for**  
**Action Grant Projects**

	<i>Total federal funds appropriated for council allocation</i>		<i>Total council allocations</i>	
	<i>Yearly</i>	<i>Cumulative</i>	<i>Yearly</i>	<i>Cumulative</i>
1968-69 (actual) -----	\$2,300,000	\$2,300,000	\$415,000	\$415,000
1969-70 (actual) -----	17,800,000	19,600,000	4,039,000	4,454,000
1970-71 (est.) -----	33,000,000	52,600,000	15,146,000	19,600,000
	to	to		
	43,000,000	62,600,000		
1971-72 (est.) -----	66,000,000	118,600,000	33,000,000	52,600,000
		to		
		128,000,000		
1972-73 (est.) -----	100,000,000	218,600,000	?	?
		to		
		228,600,000		

**Functions of the California Crime Technological Research Foundation (CCTRF) Transferred to the Council on Criminal Justice (CCCJ)**

The California Crime Technological Research Foundation (CCTRF) was established by Chapter 1661, Statutes of 1967, simultaneously with the creation of the Council on Criminal Justice. Where the council was given broad powers to develop plans for the prevention, detection, and control of crime and the implementation of federal anticrime programs, the foundation received the more limited function of fostering and encouraging scientific and technological research on crime in California.

**Assistance to Counties for Public Defenders—Continued**

In practice, however, the foundation functions as a scientific advisory arm to the Council on Criminal Justice. It reviews all grant proposals submitted to the council which involve significant applications of science or technology. The foundation is composed of 15 members with a staff of four positions and is supported by a General Fund appropriation of \$75,000 for the current year.

Under existing law, the foundation will terminate its activities as an independent agency on the 61st day after adjournment of the 1971 Regular Session of the Legislature. Its staff of four positions could be transferred to the council as part of its proposed staff of 79 positions. Since the functions of the foundation and the council are closely related, we believe that such a merger would result in a more unified, effective approach to criminal justice problems.

**ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS****Item 44 from the General Fund****Vol. I p. 113 Budget p. 333**


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Requested 1971-72 .....	\$775,000
Estimated 1970-71 .....	775,000
Actual 1969-70 .....	775,000
Requested increase—None	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

This item reimburses counties for a portion of their expenditures in providing legal assistance to indigents who are charged with violations of state criminal law in superior, municipal or justice courts or involuntarily detained under the Lanterman-Petris-Short Act. The reimbursement, authorized by Section 987.6 of the Penal Code, may not exceed 10 percent of the counties' expenditures for such purposes. The program was established in 1965.

**ANALYSIS AND RECOMMENDATION**

*We recommend approval.*

The \$775,000 requested for 1971-72 is identical to the amounts authorized for the past three fiscal years. For the current year, the appropriation represents only 3.2 percent of the amount budgeted by the counties for this purpose. Assuming that county expenditures in this category will continue to increase, the amount requested for 1971-72 will represent less than 3 percent of county expenditures for that period. As reflected in Table 1, the state has never contributed the 10 percent maximum permitted.

**Table 1**  
**State Assistance to Counties for Public Defenders**

<i>Fiscal year</i>	<i>County expenditures</i>	<i>State contribution</i>	<i>Percent of county expenditure</i>
1965-66 -----	\$6,677,114	\$500,000	7.5
1966-67 -----	8,250,915	600,000	7.3
1967-68 -----	10,042,638	600,000	6.0
1968-69 -----	14,422,835	775,000	5.4
1969-70 <sup>1</sup> -----	19,733,000	775,000	3.9
1970-71 <sup>1</sup> -----	23,978,000	775,000	3.2

<sup>1</sup> Amounts budgeted.

Payments to the counties are made quarterly, in arrears, on the basis of 10 percent of actual expenditures. If there is insufficient money to pay the full 10 percent for a particular quarter, the remaining funds are prorated among all claims filed for that quarter.

Claims filed for the first quarter of 1970-71 represent county expenditures of \$5,303,482 and a state reimbursement of \$530,348. Thus, with less than \$245,000 of the current-year appropriation remaining, funds for this program undoubtedly will be exhausted in the second quarter.

The courts have ruled that legal counsel must be provided for indigents in criminal cases. The financial burden of providing such assistance rests on the governmental body which supports the particular court. At the appellate and Supreme Court levels, this is a state responsibility and, as indicated in our analysis of Item --, the sum of \$532,529 is proposed for this purpose in the budget year.

### TORT LIABILITY CLAIMS

Item 45 from the General Fund

Vol. I p. 114 Budget p. 33

Requested 1971-72 -----	\$1,000,000
Estimated 1970-71 -----	1,799,199
Actual 1969-70 -----	837,244
Requested decrease \$799,199 (44.4 percent)	
Total recommended reduction -----	None

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis*  
*Page*

1. On the basis of the budget-year estimate of state costs of settling lawsuits and judgments, the amount budgeted for this item, after deduction of administrative costs and insurance premiums, appears insufficient to cover tort liability claims against the state. Similarly, on the basis of recent claims experience and projections developed by the Attorney General's office, the estimate of expenditures in the current year appears to be overstated.

## Tort Liability Claims—Continued

## GENERAL PROGRAM STATEMENT

Chapter 1681, Statutes of 1963, defined the liability of public entities and public employees for tortious acts. For the first year after this act, the state protected itself by purchasing total risk insurance from a carrier for a premium of approximately \$1 million. As the result of a study, the state, between 1964 and 1969, assumed liability for individual claims under \$1 million and purchased risk insurance at an average cost of approximately \$150,000 annually for the payment of individual claims ranging between \$1 million and \$50 million. In 1970, the state negotiated a three-year insurance policy which covers all claims between \$2 million and \$50 million at a cost of \$198,000 annually.

This item provides for the administration of the tort liability program and for the payment of claims against all General Fund agencies except the University of California and a small number of agencies with unique liability problems which are covered by insurance. The Department of Public Works investigates and litigates its own claims. This program applies to all other types of claims, except automobile and aircraft (which are covered by other insurance), and inverse condemnation.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

Under a procedure prescribed by Section 945 of the Government Code, all tort claims are filed with the Board of Control. The board's staff forwards the claims to the Attorney General's office (or, in the case of public works claims, to the Department of Public Works) for investigation. Claims may be settled by the board on the recommendation of the Attorney General or Public Works Board, but if the Board of Control denies the claim the plaintiff may then file suit. This appropriation item is concerned only with claims handled by the Attorney General.

With the approval of the Board of Control, the Attorney General may settle administratively claims not exceeding \$4,000 for General Fund agencies or \$1,000 for special fund agencies. After litigation has begun, but before a judgment is rendered, the Attorney General may also settle claims above these limits with the concurrence of the Department of Finance and the agency involved. Special Fund agencies reimburse the General Fund for payments made on their behalf.

## Staffing and Workload

The Department of Justice has assigned to this function a staff of 25, consisting of 8 attorneys, 7 investigators, 1 claims supervisor and 9 clerical positions. This is an increase of three attorneys and two clerical positions from the authorized current-year level, and reflects an administrative shift of personnel from the condemnation law section made during the last year to handle tort claims against the state involving substantial sums of money. The workload is reflected in Table 1.

**Table 1**  
**Department of Justice Tort Section Workload<sup>1</sup>**

	1965-66	1966-67	1967-68	1968-69	1969-70	<i>Estimated</i> 1970-71
Number of tort incidents reports -----	2,426	2,578	2,523	2,376	2,672	3,500
Number of claims received by Board of Control -----	994	453	387	906	472	550
Number of claims paid by Board of Control -----	44	41	45	71	70	125
Total amount paid by Board of Control -----	\$47,376	\$35,246	\$34,245	\$45,467	\$15,722	\$10,000
Lawsuits filed -----	40	173	166	172	150	150
Amount paid on lawsuits, settlements and judgments -----				\$1,024,000	\$509,276	\$500,000

<sup>1</sup> Excludes inverse condemnation proceedings and administrative and insurance premium costs.

The \$1,000,000 appropriation request covers not only an amount for payment of claims, but also includes the administrative costs of the Department of Justice (\$415,500), the Board of Control (\$12,500), and the cost of the insurance premium (\$198,000) for the budget year. These administrative and insurance premium costs total \$626,000, leaving \$374,000 of the appropriation request for payment of claims. The Attorney General's office estimates that claim payments will total \$750,000 in the budget year, including one settlement which may represent a substantial portion of that amount. On the basis of these estimated claim costs, the amount budgeted appears inadequate by approximately \$376,000 to cover all settlements.

We also note that the \$1,799,199 estimate of expenditures in the current year appears to be overstated by approximately \$759,000 based on projected settlements and judgments totaling \$509,000 as shown in Table 1 plus current-year administrative and insurance premium costs which are now estimated at \$531,496 rather than the \$575,293 shown in the budget document.

The \$626,000 figure for administrative and premium costs differs from the amount of \$650,000 listed in the Governor's Budget, but this difference is not consequential to the operation of the program because the amount of appropriation in excess of that required for administrative expense and premium costs is available for the payment of claims. Regardless of the amount budgeted for this item, the state is obligated to pay whatever claims may result from court decisions and negotiated settlements.

**AID TO VICTIMS OF CRIMES OF VIOLENCE**

Item 46 from the General Fund

Vol. I p. 116 Budget p. 34

Requested 1971-72 .....	\$225,000
Estimated 1970-71 .....	225,000
Actual 1969-70 .....	191,565
Requested increase—None	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Based on past year's experience and the current-year level of awards, the amount proposed in this item may be inadequate to cover all grants of aid during the budget year. 105

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

These funds provide compensation to needy residents of California who are victims of crimes of violence. Total recovery which may be claimed by the person physically injured or by a third party who is financially dependent upon the victim is limited to \$5,000. From 1965 to 1967, this program was administered by the Department of Social Welfare, but since 1967 it has been the responsibility of the Board of Control. Claims filed with the board within one year of the injury or loss are investigated by the Attorney General and, upon completion of the investigation, a hearing is conducted before the board. If the claim is approved, an award not exceeding the cost of the treatment, loss of wages or support, or other directly related expenses, will be paid, along with attorney fees which may be up to 10 percent of the award. Of this budget request, \$25,000 is for support of the Attorney General's investigation.

Although the General Fund is responsible for the support of this program, the annual appropriation is partially offset by fines which are levied on the perpetrators of the crimes. Receipts from these fines are deposited in the Indemnity Fund. Table 1, summarizing the recent history of program expenditures, show that Emergency Fund allocations were required in fiscal years 1968-69 and 1969-70, and reflects an estimated Emergency Fund allocation of \$100,000 in the current year.

**Table 1**  
**Expenditures for Aid to Victims of Crimes of Violence**

	1967-68	1968-69	1969-70	Estimated 1970-71	Proposed 1971-72
General Fund .....	\$15,414	25,000	125,000	125,000	225,000
Indemnity Fund .....	6,997	5,728	5,080	2,878	2,000
Emergency Fund .....	—	49,055	66,565	100,000	—
Total Expenditures .....	\$22,411	79,783	196,645	227,878	227,000

In the current year, 66 claims totaling \$171,344 were approved between July and December 1970. Comparable figures for July to December 1969 were 56 claims totaling \$65,323. Twelve of the current-year

claims were for the maximum \$5,000 amount, compared with three such claims during the same period in 1969. If grant payments continue at the present level, program requirements in the current year will total approximately \$365,000 (including the \$25,000 investigative expense of the Attorney General) rather than the \$227,878 shown in Table 1. Thus, based on past years' experience and the level of awards made in the first six months of the current year, the amount proposed for fiscal year 1971-72 may be inadequate to cover all grants made by the Board of Control.

### STATE CONTROLLER

Item 47 from the General Fund

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Requested 1971-72 -----	\$5,829,862
Estimated 1970-71 -----	5,874,862
Actual 1969-70 -----	5,838,878
Requested decrease \$45,000 (0.8 percent)	
Total recommended reduction -----	\$15,276

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Budget year increases are limited to special fund program. 106  
General Fund support for agency's on-going programs has been held constant by changing allocation formulas and reducing existing activities.

2. The Controller's office showed little enthusiasm for the 107  
optical character recognition equipment test. We recommend that the Controller thoroughly explore the possible applications of this equipment in his office, and report the results to the 1972 Legislature.

3. Administration division reorganization involves transfer of 111  
the internal audit program to the executive office. We recommend approval of a supervising auditor (\$16,680) budgeted to head this unit.

4. We recommend disapproval of a new associate management 111  
analyst position (\$15,276—General Fund) because plans to implement consolidation of EDP services are premature.

### GENERAL PROGRAM STATEMENT

The Controller is an elected constitutional official who is the accounting and disbursing officer of the state. The Controller serves on a number of boards and commissions including the State Board of Equalization, the Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, Board of Control, and the various bond finance committees.

The office is organized into seven divisions, which are responsible for administering the three major programs identified in Table 1. It draws support from five funds and in addition is reimbursed for serv-



## State Controller—Continued

ices provided to other agencies. The distribution of funds among the three programs and the change in funding proposed for the budget year are also shown in Table 1.

Table 1  
Controller's Program Budget—By Fund  
(in thousands)

Program	1970-71	1971-72	Change
1. Fiscal Control			
General Fund -----	\$3,374.9	\$3,365.9	\$-9.0
State School Building Aid -----	136.0	141.6	0.8
Aeronautics Fund -----	35.0	35.8	0.8
Reimbursements -----	518.9	548.8	29.9
Subtotal -----	\$4,064.8	\$4,092.1	\$27.3
2. Tax Administration			
General Fund -----	\$1,988.9	\$2,024.4	\$35.5
M.V. Transportation Fund -----	140.4	103.4	-37.0
M.V. Fuel Fund -----	548.7	643.8	95.1
Aeronautics Fund -----	36.8	38.9	2.1
Reimbursements -----	7.0	5.0	-2.0
Subtotal -----	\$2,721.8	\$2,815.5	\$93.7
3. Local Government Fiscal Affairs			
General Fund -----	\$321.4	\$242.6	\$-78.8
M.V. Fuel Fund -----	388.8	464.7	75.9
Reimbursements -----	129.0	131.7	2.7
Subtotal -----	\$839.2	\$839.0	\$-0.2
Undistributed Administrative Costs			
General Fund -----	\$189.7	\$197.0	\$7.3
Total—All Funds			
General Fund -----	\$5,874.9	\$5,829.9	\$-45.0
M.V. Transportation Fund -----	140.4	103.4	-37.0
M.V. Fuel Fund -----	937.5	1,108.5	171.0
State School Building Aid -----	136.0	141.6	5.6
Aeronautics Fund -----	71.8	74.7	2.9
Reimbursements -----	654.9	685.5	30.6
Grand total -----	\$7,815.5	\$7,943.6	\$128.1

## ANALYSIS AND RECOMMENDATIONS

The agency proposes to stabilize its General Fund costs in 1971-72 and to increase the workload in special fund areas, primarily in the Motor Vehicle Fuel Fund element. The General Fund budget reduction reflects the one-time expenditure of \$45,000 in the current year for a contract study commissioned by the Legislature which does not relate to the agency's normal workload.

The Controller's budget proposes to increase the charges against the Motor Vehicle Fuel Fund by \$171,000 in the budget year. The tax administration program will receive \$95,100 of this increase and the remainder, \$75,900, will be allocated to the local government fiscal affairs program. Savings realized in the transportation tax enforcement program will enable the Controller to reduce \$37,000 in charges against the Transportation Tax Fund. Reimbursements are expected to increase as the agency shifts two auditors from General Fund programs to a federal Council on Criminal Justice contract.

**Controller Shows Little Enthusiasm For OCR Test**

Last year we recommended that the Controller participate in a test of optical character recognition equipment (OCR) to determine the feasibility of machine reading documents directly into the computer. The tests were to be conducted for a period of six months commencing in June 1970, and all interested agencies were invited to participate. The tests were recommended because it was believed that the successful application of optical scanning equipment would reduce costs by eliminating the expensive keypunch procedure presently utilized for recording data.

However, the Controller's office, with its many potential OCR applications, limited its participation in these tests to only *one* hour of machine time during the entire test period. The disbursements claims schedule, which represents a minor part of the Controller's keypunch workload, was the only application tested. Other documents which require substantial keypunch processing, such as the personnel appointments document (Form 604), were not tested.

It is anticipated that the OCR installation will be retained in the Department of General Services for at least the remainder of the current year and probably through fiscal 1971-72. A rental agreement based on actual utilization has been tentatively reached which provides all agencies an inexpensive opportunity to test this system. *We recommend that the Controller's office take this opportunity to evaluate thoroughly the potential savings in paper handling and the data input associated with the application of OCR, and report the results to the 1972 Legislature.*

**FISCAL CONTROL**

The fiscal control program relates directly to the Controller's responsibilities as chief accounting officer for the state. The program is administered by the divisions of accounting, audits, and disbursements. Fund support for this program is summarized in Table 1. The allocation of personnel to the seven elements of this program is summarized in Table 2.

**Table 2**  
**Staff of the Fiscal Control Program**

	<i>Man-years</i>		
	<i>Actual</i> 1969-70	<i>Estimated</i> 1970-71	<i>Proposed</i> 1971-72
Program elements			
Control Accounting -----	44.2	48.0	46.9
Fiscal Audit -----	5.0	--	--
Financial Analysis -----	11.0	10.0	11.1
Unclaimed Property -----	11.2	10.7	12.0
Claim Audits -----	40.2	39.8	39.8
Field Audits -----	37.7	38.5	38.5
General Disbursements -----	43.9	34.7	34.7
Payroll -----	115.2	123.4	122.9
Data Processing Services -----	(15.1)	(15.4)	(14.9)
Total -----	308.4	305.1	305.9

Most of these program elements are very stable, therefore our comments will be limited to those having either a change in staff or a change in funding.

## State Controller—Continued

## Fiscal Audit of the Department of Finance Eliminated

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 Controller proposed a budget of \$104,000 to continue this program in 1970-71, but the Conference Committee on the Budget reduced this amount to \$5,000. No funds for this element have been requested for the 1971-72 fiscal year.

## Unclaimed Property

*We recommend approval of a General Auditor II (\$10,356) to assist in the field audit of the Unclaimed Property Act compliance program.* The escheat of property to the state is administered under two statutory provisions: (1) unclaimed estates of deceased persons and (2) abandoned property. The compliance program was initiated in the 1968-69 fiscal year with one clerk and one field audit position. Due to limitations in staff the agency has conducted its enforcement program only in the northern half of the state. The proposed audit position would cover the southern part of the state. Program results support expansion of this program. During 1968-69, the year the compliance program was initiated, \$124,000 in unreported assets were recovered. Recoveries amounted to \$342,000 in 1969-70.

## Field Audits General Fund Program Reduced

The field audits element examines local agency records to verify the local accounting and disbursement procedures relative to state and federal funds. In 1971-72 the Controller proposes to shift two man-years of audit time from General Fund subvention programs (such as public health, municipal and justice courts, etc.) to a \$30,000 federally reimbursed audit program under the jurisdiction of the California Council on Criminal Justice. This one-year contract consists of auditing approximately 35 grants to local agencies provided by Title I of the Omnibus Crime Control and Safe Streets Act of 1968.

## TAX ADMINISTRATION

This program is composed of four elements which are shown with staff support in Table 3:

Table 3  
Staff of the Tax Administration Program

Program elements	Man-years		
	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Inheritance Tax -----	111.0	111.5	112.0
Gift Tax -----	17.2	18.2	18.2
Tax Collection -----	8.6	8.4	8.3
Gas Tax Refund -----	47.1	44.6	47.2
Total -----	183.9	182.7	185.7

Fund support for this program is shown in Table 1. The Inheritance and Gift tax elements are supported entirely from the General Fund. The tax collection and gas tax refund elements receive support from three special funds and the General Fund. The first two elements are administered by the Inheritance and Gift Tax Division.

*We recommend approval of a clerk I (\$4,860) for the file section of the Los Angeles office of the Inheritance Tax program.*

This office has absorbed an increase in workload for five years with no increase in clerical staff. Inheritance tax reports have increased from 29,399 in 1965-66 to 34,137 in 1969-70. The division estimates that this workload will increase by another 10 percent through the end of the budget year.

#### **Tax Collection and Gas Tax Refund**

These two program elements are principally the responsibility of the Division of Tax Collection and Refund. The taxes collected under this element are limited to delinquencies in the Motor Vehicle Fuel License Tax, the Motor Vehicle Transportation License Tax, and the Insurance Premium Tax. Petroleum and gas assessments and subsidence abatements are also collected under this program.

Due to improved procedures in the collection of delinquent transportation taxes, one accounting technician (\$7,008) was abolished in the current year and one accountant I (\$8,112) position is proposed to be deleted from the 1971-72 budget. Fund support shown in Table I has been reduced accordingly.

*Shift in Gas Tax Refund Charges.* The Controller estimates that 42,000 valid gasoline tax refund claims will be paid in the budget year. Of this total, about 35,000 will be paid from the Motor Vehicle Fuel Fund, and the remaining 7,000 will come from the Aeronautics Fund. These claims represent the refunds of excise taxes on gasoline when it is consumed off the highways. Before the state makes these refunds, it deducts both the state and local sales taxes on this gasoline because off-highway usage is subject to the sales tax.

Table 4 shows that the cost of administering this gas tax refund and sales tax offset program will be \$696,328 in 1971-72. This is a net increase of \$70,422 over the current year and represents a reduction in salary savings which provides 2.6 additional audit positions, plus other overhead costs. Due to General Fund budgetary pressures the Controller's office reexamined its method of allocating gasoline tax refund costs among the various funds. Both the old and new methods of allocation were based on the time spent on each activity, rather than the amounts refunded or collected as sales tax. The new study showed that a disproportionate share of the costs had been charged to the sales tax offset, and as a result, these costs will be reduced in the budget year. (See Table 4) Sales taxes will be charged only 2.6 percent of the total costs because the main purpose of this program is ascertaining the correct amount of the gasoline tax refund, and then the sales tax computation is a very easily determined byproduct of the total staff effort.

## State Controller—Continued

Table 4

## Comparison of Gasoline Tax Refunds and Administrative Costs

Refunds and revenues (thousands)	1970-71	1971-72	Change
Gasoline tax refunds -----	\$13,400	\$13,400	-
Sales tax offset			
State -----	1,320	1,320	-
Local -----	335	335	-
Total -----	\$15,055	\$15,055	-
Distribution of administration costs			
General Fund -----	\$38,126	\$13,563	-\$24,563
Local sales tax reimbursements -----	6,500	4,500	-2,000
M. V. Fuel Fund -----	544,493	639,382	94,889
Aeronautics Fund -----	36,787	38,853	2,066
Total cost -----	\$625,906	\$696,328	\$70,422
Man-years -----	44.6	47.2	2.6

## LOCAL GOVERNMENT FISCAL AFFAIRS

Table 5 identifies the four elements and staffing patterns in this program. In the budget year, the Controller proposes to divert staff from two of the elements, which are General Fund supported, in order to free manpower to conduct a series of audits for the Department of Public Works on the following new federal grant programs:

1. County and City Federal Traffic Operations Program to increase capacity and safety (TOPICS).
2. State Aid for Urban Extension Program.
3. County Federal-Aid Secondary

These new audits will be funded by the Motor Vehicle Fuel Fund, but there is a possibility that federal reimbursements will share part of this cost.

The net effect of this shift is a \$78,800 reduction in General Fund support for this program and a \$75,900 increase from the Motor Vehicle Fuel Fund. The diversion of staff from existing activities will cause some delays in the publication of, and less verification of the data in, the financial transaction reports of the Controller's office. These annual reports cover city, county, school, and special districts financial transactions.

Table 5

## Staff of the Local Government Fiscal Affairs Program

Program elements:	Man-years		
	Actual 1969-70	Estimated 1970-71	Proposed 1971-72
Financial Reporting and			
Budgeting -----	16.0	15.9	12.4
Streets and Roads -----	20.6	23.3	27.3
Uniform Accounting -----	3.4	3.2	2.2
Tax-Deeded Lands -----	7.8	8.7	8.7
Total -----	47.8	51.1	50.6

## ADMINISTRATION DIVISION

The executive office of this division provides general supervision for the six operating divisions and also assists the Controller in his duties as a member of various boards and commissions. The adminis-

trative service staff provides auxiliary services for the entire agency including accounting, personnel and mail services. Table 6 summarizes the distribution of the staff and the sources of funding. About two-thirds of the division's costs are allocated to the three programs of this agency. The direct cost of the Controller, his personal staff, plus secretarial support, are not allocated. The basis for allocation is the personnel costs, by fund, of each of the programs elements. For example, if the Motor Vehicle Fuel Fund accounts for a certain percentage of program costs, then that same percentage of administration costs are allocated to that fund. Table 6 shows that the General Fund's share of administration costs has declined while the special funds shares have increased. These changes reflect the reallocation of funding in the three programs of the agency.

**Table 6**  
**Division of Administrative Personnel and Expenditure Summary**

	1969-70 <i>actual</i>	1970-71 <i>estimated</i>	1971-72 <i>proposed</i>	<i>Proposed change</i>
Personnel man-years				
Executive office -----	17.0	21.0	18.8	-2.2
Administrative services ----	15.6	15.1	16.7	1.6
Total -----	32.6	36.1	35.5	-0.6
Expenditures (thousands)				
General Fund -----	\$449.2	\$576.8	\$537.0	-\$39.8
M.V. Transportation				
Tax Fund -----	9.7	4.1	6.1	2.0
M.V. Fuel Fund -----	52.3	26.3	62.4	36.1
School Building				
Aid Fund -----	6.7	4.5	8.3	3.8
Aeronautics Fund -----	3.5	1.9	4.0	2.1
Total -----	\$521.4	\$613.6	\$617.8	\$4.2

#### Administrative Reorganization

The Controller, in a minor reorganization during the current year, transferred the internal audit function from the division of audits to the administration division. This transfer, involving one governmental auditor III and two governmental auditors II, was made in response to the Auditor General's recommendation that the internal audit unit be located at the management level in order to achieve the independence necessary to conduct objective reviews of all programs in the Controller's office.

*We recommend approval of a supervising governmental auditor I (\$16,860) to direct the activities of the internal audit unit.* This position is requested for two reasons:

1. In addition to its normal workload the internal audit unit will review the potential application of computer audit programs including the identification of potentially erroneous payroll disbursements, the analysis of overtime payments, the identification of overdrafts on blanket positions and the analysis of computer generated exceptions.

2. To study the feasibility of the Controller's participation in the consolidation of several agencies' data-processing resources into a single service center. The state EDP master plan has identified seven initial areas of consolidation with the Controller included in a fiscal and personnel group composed of eight agencies.

## State Controller—Continued

*We recommend disapproval of the associate management analyst for a General Fund savings of \$15,276.* This position is requested to assist the Controller in the implementation phase of consolidating EDP services into one service center. This request is premature because the group assigned to study the feasibility of consolidation has not yet determined which programs should be combined or which agency should provide the central computer service.

## STATE CONTROLLER

## Item 48 from the Motor Vehicle

## Transportation Tax Fund

Vol. I p. 117 Budget p. 35

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Requested 1971-72	-----	\$103,402
Estimated 1970-71	-----	140,356
Actual 1969-70	-----	137,277
Requested decrease \$36,954 (26.3 percent)		
Total recommended reduction	-----	None

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## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

This appropriation is for the cost of collecting the motor vehicle transportation (truck) tax, the details of which are included under Item 47.

## STATE CONTROLLER

## Item 49 from the Motor Vehicle

## Fuel Fund

Vol. I p. 117 Budget p. 35

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Requested 1971-72	-----	\$1,108,488
Estimated 1970-71	-----	937,445
Actual 1969-70	-----	940,151
Requested increase \$171,043 (18 percent)		
Total recommended reduction	-----	None

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## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

This appropriation is for administration of the gasoline tax audits and gasoline refund functions, the details of which are included under Item 47.

**STATE CONTROLLER****Item 50 from the State School  
Building Aid Fund****Vol. I p. 117 Budget p. 35**

Requested 1971-72 .....	\$141,566
Estimated 1970-71 .....	135,973
Actual 1969-70 .....	140,968
Requested increase \$5,593 (4.1 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid Program. These activities are included under Item 47.

**STATE CONTROLLER****Item 51 from the Aeronautics Fund****Vol. I p. 117 Budget p. 35**

Requested 1971-72 .....	\$74,637
Estimated 1970-71 .....	71,776
Actual 1969-70 .....	72,136
Requested increase \$2,861 (3.9 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

This appropriation covers the auditing and accounting activities for the Airport Assistance Program, which are included under Item 47.

**BOARD OF EQUALIZATION****Item 52 from the General Fund****Vol. I p. 134 Budget p. 37**

Requested 1971-72 .....	\$25,310,832
Estimated 1970-71 .....	24,304,257
Actual 1969-70 .....	23,969,842
Requested increase \$1,006,575 (4.1 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. The termination of the  $\frac{1}{2}$ -percent sales tax imposed by the Southern California Rapid Transit District will reduce the board's reimbursements and increase its General Fund costs for administering the sales and use tax during 1971-72. 121



**Board of Equalization—Continued****GENERAL PROGRAM STATEMENT**

The Board of Equalization is the largest tax collection agency in California. It is governed by five elective members, four of whom are from geographic districts, and the fifth is the State Controller who serves ex officio. The chairman of the board automatically serves as a member of the Franchise Tax Board which administers the personal income and bank and corporation franchise taxes.

The main responsibilities of the board, and the percentage of total staff assigned to each, are outlined as follows:

1. Administer the state and use taxes—77 percent.
2. Assess and collect the motor vehicle fuel (gasoline), use fuel (diesel) and truck taxes—8 percent.
3. Impose and collect the alcoholic beverage, and the state and local cigarette taxes—2 percent.
4. Assess and allocate the property tax values of public utilities—3 percent.
5. Advise county assessors and conduct intercounty property tax equalization surveys—7 percent.

The board's responsibilities are divided among 11 operative programs and will be implemented by a proposed staff of 2,324 man-years in 1971-72.

**GENERAL REVIEW OF THE 1971-72 BUDGET INCREASE**

The board draws its support from four major sources: the General Fund, the Motor Vehicle Fuel Fund, the Motor Vehicle Transportation Tax Fund, and through reimbursements from other agencies, primarily from cities, counties, and a transit district for which the board collects a portion of the sales tax. As shown in Table 1, General Fund support will increase in the budget year by slightly more than one million dollars. This change does not reflect a startling increase in expenditures or new level of service but represents primarily the loss in reimbursements from the discontinuance of the temporary (July 1 to December 31, 1970)  $\frac{1}{2}$ -percent sales tax imposed by the Southern California Rapid Transit District (SCRTD). The board charged SCRTD a pro rata share of the total sales tax administrative costs (rather than the marginal increment) and as a result, when this tax was discontinued, reimbursements dropped substantially more than the cost of the 16.5 temporary positions which were added during 1970-71 to administer this local tax. This shift in funding reduced the General Fund's share of total sales tax administrative costs in 1970-71 and will increase it in the budget year.

Table 1  
A Comparison of Program Staff and Budget Source  
Board of Equalization

Program	Man-years		Change
	1970-71	1971-72	
I. Local property tax equalization -----	150.2	150.0	—0.2
II. State-assessed property tax -----	80.0	79.9	—0.1
III. County appeals of inter-county appraisals -----	11.3	11.3	-----
IV. Sales and use tax -----	1,830.0	1,803.6	—26.4
V. Alcoholic beverage tax -----	29.2	29.1	—0.1
VI. Cigarette tax -----	24.2	24.1	—0.1
VII. Motor vehicle fuel license tax -----	15.4	15.3	—0.1
VIII. Use fuel tax -----	88.3	87.9	—0.4
IX. Motor vehicle transportation license tax -----	86.3	85.9	—0.4
X. Insurance tax -----	1.5	1.5	---
XI. Appeals from other governmental programs -----	7.6	7.6	---
XII. Administration and support -----	(147.8)	(147.2)	(—0.6)
Contracts with other public agencies -----	28.0	28.0	---
Total -----	2,352.0	2,324.2	—27.8
Expenditures			
General Fund -----	\$24,804,257	\$25,310,832	\$1,006,575
Motor Vehicle Transportation Tax Fund -----	1,114,622	1,130,386	15,764
Motor Vehicle Fuel License Tax Fund -----	1,334,101	1,352,553	18,452
Reimbursements -----	7,048,871	6,251,497	—797,374
Total all programs, all funds -----	\$33,801,851	\$34,045,268	\$243,417

Table 2 shows the composition of the increases in the board's 1971-72 budget. The first item, "merit salary increase," represents more than one-third of the total budget increase this year. It is fixed cost, as are the majority of the other increases in this department's request. Salary savings are at a level dictated by the Department of Finance. Transit district workload decreases because the special tax is no longer in force in southern California. Travel is increased now that the board has been able to fill vacant auditor positions in the out-of-state offices at New York and Chicago. Each of the other increases is beyond the control of the board, being set by the Department of Motor Vehicles as a service charge for collecting use tax on private party automobile or pleasure boat sales, by the Department of General Services for rent and building security, or, in the case of cigarette tax stamps, simply by the increase in the number of cigarette packages the board expects will be sold in California next year. This latter increase of \$57,061 for stamps represents a \$7 million increase in cigarette tax revenue from stamped packages.

General expenses will be reduced by a net of \$34,344. Included in this category is restriction on printing expenses which will result from the discontinuance of the biennial publication of the *Revenue Laws of*

Board of Equalization—Continued

*California* (to be replaced by a series of unbound pamphlets), and the issuance of fewer annual reports and property tax manuals.

A major item of expenditure for all tax collecting agencies is their postage bill. For 1971-72 the board requests \$287,000 for postage, compared to \$278,000 in the current year, a sum easily matched by the Controller (\$256,000), and more than 40 percent of the anticipated expenditure of the Franchise Tax Board (\$660,000). These three agencies will face greatly increased postage costs if the federal postage rate is increased from 6 cents to 8 cents in May 1971. As submitted, this budget does not contain any allowance for this possible 30-percent increase in postal costs.

Table 2  
Schedule of 1971-72 Budget Changes, All Funds  
Board of Equalization

By purpose	
Merit salary increase	\$362,022
Salary savings increase	—163,500
Transit district workload	—124,080
Staff benefits and other	37,138
Operating expense and equipment	
General expense	—34,344
Travel out of state	17,183
Travel in state	—1,434
Facilities expense	30,033
Data processing	5,847
Services by D.M.V.	57,491
Cigarette tax stamps	57,061
Reimbursements (decrease)	797,374
	\$1,040,791
By source	
General Fund	\$1,006,575
M.V. Transportation Tax Fund	15,764
M.V. Fuel License Tax	18,452

ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

1. LOCAL PROPERTY TAX EQUALIZATION

This program consists of two phases, the supervision of local assessment administration and intercounty equalization. Table 3 shows the distribution of the staff among these phases.

A. Supervision of Local Assessment Administration

Since the enactment of AB 80, the 1966 Property Tax Reform Bill, the role of the board in supervision, training, and advice it provides to county assessors has been strengthened significantly.

By law, the board has to survey, at least once every six years, the assessment practices in each county. These surveys are designed to improve assessment practices and achieve better intracounty and intercounty equalization. Table 3 shows that 20.3 man-years will be assigned to this activity in the budget year, and the board expects to survey 10 counties during this period. One of the results of this increased

Table 3

## Staff of the Board's Local Property Tax Equalization Program

## 1. Supervision of Local Assessment Administration

	Man-years		
	1969-70	1970-71	1971-72
Assessment practices surveys.....	18.7	19.7	20.3
Appraiser training and certification.....	10.0	9.3	9.5
Assessor's handbook .....	8.5	6.1	6.2
Technical services.....	15.9	13.6	13.9
Contract auditing services.....	6.2	6.9	6.9
All other .....	10.1	10.6	10.8
Subtotal .....	69.4	66.2	67.6
2. Intercounty equalization .....	79.5	78.0	77.9
Total .....	148.9	144.2	145.5

supervision by the board is the continued improvement in the uniformity of assessment ratios among properties within the same county. Prior to 1966, there were 26 counties which had widely varying intracounty assessment ratios. The latest surveys covering the period 1966-67 to 1969-70, show that the number with wide variations in intracounty assessments has dropped to 11 counties.

The board also conducts training sessions for county appraisers to enable them to complete the annual requirements for schooling which are specified by law. An estimated 1,300 county appraisers will attend these courses during the budget year, and the board will allocate 8.6 man-years to conduct these classes.

The 1970 Legislature reduced the staff of this program by six man-years. The reductions were made in technical assistance to county assessors, time devoted to the updating of the assessors handbook, and a minor decrease in the board's training staff.

*New Homeowners' Exemption Compliance Program.* The board has requested, and the Department of Finance has approved 1.5 man-years to be used in eliminating duplicate claims for the homeowners' exemption. Every qualified homeowner must submit an application for this \$750 exemption in the spring of the year and because the state pays the local jurisdictions for their tax losses it is vital that duplicate claims be found and eliminated. In some cases there are duplicates on a single parcel or there may be claims on two properties by a single owner. Often these two properties are located in different counties so that a statewide check of claims is necessary.

For 1970-71, there were 1,900 duplicate homeowner claims discovered and denied by the State Controller for a savings of \$150,000 in General Fund costs. In the budget year, the board rather than the State Controller will conduct this compliance program.

*We recommend approval.*

## B. Intercounty Equalization

Each year a survey of assessments is conducted in one-third of the counties to determine the actual level of assessments. These surveys are crucial for determining the level of state aid received by each school district within the county for the following three years. In the years

**Board of Equalization—Continued**

between physical appraisals, the county's assessment ratio is determined by using a formula reflecting changes in economic activity and population. During the budget year, the board plans to sample 5,200 properties in order to determine the assessment levels in 19 counties.

**2. STATE-ASSESSED PROPERTY TAX PROGRAM**

Most of the staff in this program is assigned to the assessment of public utilities. The remainder is involved in the administration of the private car tax. Table 4 shows the distribution of manpower among the various activities in this program.

**Table 4**  
**Staff of the Board's State-Assessed Property Tax Program**

	<i>Man-Years</i>		
	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>
<b>A. Assessment of public utilities</b>			
Derivation of value indicators .....	2.3	2.3	2.3
Field appraisals .....	21.9	21.8	21.8
Allocation of assessed value to taxing districts.....	26.7	26.8	26.7
Preparation of tax area maps .....	21.6	21.3	21.3
Subtotal .....	72.5	72.2	72.1
<b>B. Private car tax</b> .....	7.9	7.8	7.8
<b>Total</b> .....	80.4	80.0	79.9

**A. Assessment of Public Utilities**

As illustrated in Table 4, the derivation of the unit values for utilities constitutes a very small portion of the total staff effort. The three activities consuming most of the manpower are (1) field appraisals, which consist of assessing nonunitary properties of the utilities, e.g., farmland owned by a railroad; (2) allocating the assessed values back to the 23,800 tax code areas in the state; and (3) preparing and updating the tax code area maps.

*Map Service Charge.* In our 1969-70 Analysis, we recommended that a fee schedule be adopted which would insure that at least half of the board's cost for providing and distributing tax code area maps be borne by the counties and private firms (e.g., utilities) which receive them. This recommendation was adopted and the board established a fee schedule. During the 1970-71 budget hearing, we recommended that the board should increase its fee schedule to adjust for cost increases so that revenues would continue to support one-half of the total costs. The Conference Committee on the Budget, however, concluded that the total cost should be paid by the users of these maps, one-half to be revenue to the General Fund and the other half to be reimbursement to the board. This cost is expected to be \$278,113 in the current year and \$280,876 in the budget year.

The 1971-72 budget proposes that the total cost of the mapping service be financed by the users, with all fees to be treated as General Fund revenues. The reimbursement feature will be discontinued.

*Declining Assessment Ratio for Utilities.* For several years the board has had a policy of reducing the assessment ratio on unitary

(those directly associated with the utility function) properties by two percentage points each year. In 1969-70, the ratio was 33 percent of full cash value. In 1970-71, the ratio dropped to 31 percent. If this trend continues, utility property will reach the 25-percent level used by county assessors for all other types of property in 1973-74.

#### B. Private Car Tax

Railroad cars not owned by railroad companies are assessed by the board and taxed at the average statewide property tax rate. All funds derived from this source are placed in the General Fund for state purposes—the only property tax revenue currently received by the state. Most of these cars are for special purposes such as transportation of automobiles, glass, refrigerated fruit, or bulk liquid cargoes. During the budget year the board expects about 715,000 movements of private cars into and out of the state, and this tax will produce about \$4.4 million in General Fund revenue.

### 3. COUNTY APPEALS OF INTERCOUNTY EQUALIZATION APPRAISALS

The board's Division of Intercounty Equalization (discussed under program 1, Local Property Tax Equalization) makes sample property tax appraisals in one-third of the counties each year, to ascertain the actual assessment ratio in these counties. On occasion, the board's appraisers and the county assessor will disagree on the values assigned to these sampled properties. To resolve such differences, the board established a separate Office of Appraisal Appeals, which has its own appraiser staff. When a disputed assessment is brought to the attention of OAA by the counties, then the property is reappraised by this independent group of appraisers. This office has operated through one complete three-year cycle and has been tested by each of the assessors. Results of this period can be seen in Table 5 which indicates that the assessors and the board's Division of Intercounty Equalization are each relying more often on OAA for settling their disputes rather than carrying them to the board. Those cases not resolved to the satisfaction of either party may be appealed to the board for final determination. In the 10 cases presented to the board in 1969-70, OAA values were accepted four times, the county assessor values five times, and the Division of Intercounty Equalization values one time. Workload in this office has sporadic increases and slumps which make scheduling of reassessments difficult and, therefore, during periods of highest activity, the Office of Appraisal Appeals augments its staff temporarily by hiring appraisers from the Department of General Services under an inter-agency agreement. This mechanism allows OAA to process its cyclical workload with a minimum permanent staff. This office has proved to be a useful means of satisfying a longstanding problem between the board's appraisers and the county assessors.

Table 5  
Disposition of Appeals to Office of Appraisal Appeals

	1967-68	1968-69	1969-70
Number of appraisals contested .....	552	334	227
Number of cases settled by OAA .....	496	272	217
Settled by board action .....	56	62	10

## Board of Equalization—Continued

## 4. SALES AND USE TAX PROGRAM

During 1971-72 the board expects to collect almost \$2.5 billion in sales taxes; the General Fund portion will be almost \$2 billion, the city and county share will be almost \$500 million, and the  $\frac{1}{2}$ -percent tax levied by the San Francisco Bay Area Rapid Transit District will yield about \$28 million. About 77 percent of the board's total staff, or 1,803.6 man-years, is allocated to this program in the budget year. Table 6 shows the distribution of the manpower among the four main activities.

Table 6  
Staff for the Sales Tax Program

Program element	Man-years		
	1969-70	1970-71	1971-72
Auditing .....	800.6	802.2	800.9
Processing tax returns .....	296.1	317.6	298.6
Collection activity .....	276.1	282.5	280.1
Registration of taxpayers and maintenance of accounts .....	421.8	427.7	424.0
Total .....	1,794.6	1,830.0	1,803.6

## Sales Tax Audits

During 1969-70 the board collected \$25.7 million in net revenue from 27,519 audits, at a cost of \$12 million, for a ratio of \$2.14 to each dollar of cost. Table 7 shows the revenue and cost ratios for each district, including the out-of-state offices, over the last three years. These audits typically cover a three-year period, and as a result the latest experience includes a large portion of accounts which were subject to the new 4-percent state tax rate (increased in 1967). The higher tax rate automatically increases the net revenue without changing administrative costs. This is the main reason why Table 7 shows that all of the districts produced revenues in excess of costs during 1969-70.

Table 7  
Net Revenue per Dollar of Cost from the Sales Tax Field Audit Program

District	1967-68	1968-69	1969-70
Los Angeles .....	\$1.75	\$2.45	\$2.07
San Bernardino .....	2.32	1.51	2.39
Marysville .....	1.47	2.90	1.77
San Francisco .....	0.91	1.61	1.53
San Jose .....	1.56	1.48	2.28
Oakland .....	1.12	1.47	1.53
Santa Rosa .....	0.82	1.43	1.39
Sacramento .....	1.15	1.62	1.72
San Diego .....	1.68	1.59	2.17
Fresno .....	1.18	0.95	1.27
Average in-state .....	\$1.55	\$1.96	\$1.92
Average out-of-state .....	4.12	3.63	3.81
Average total .....	\$1.85	\$2.14	\$2.14

*Out-of-State Travel.* This budget appropriates \$242,000 for out-of-state travel by auditors, an increase of \$24,000 over the current year. The increase reflects higher cost of transportation, a new tax on

airline tickets, and an increase in the number of traveling auditors. For several years the board had unfilled auditor positions in its eastern offices, partially because of the higher salaries offered by competing governments and private businesses in and around New York. The general downturn in the economy has lessened the pressures which helped to recruit young auditors away from these state offices and the increased salary which was granted by the State Personnel Board last year aided in our own recruitment drive. The board anticipates that almost all of these positions will be filled in the budget year, and as a result audit revenues will increase.

#### Processing Tax Returns

In the budget year, the board anticipates a 5.8-percent increase in the number of sales tax returns processed, but a 7.3-percent increase in the number of delinquency notices. The staff support for this activity shows a decrease because of the termination of the  $\frac{1}{2}$ -percent sales tax by SCRTD.

*Budget Reduction, 1970-71.* The Conference Committee on the 1970-71 budget reduced the funding for the sales tax program. The board implemented the reduction by eliminating 15 positions including eight auditors, three tax representatives and four clerical positions.

#### 5. ALCOHOLIC BEVERAGE TAX

California's alcoholic beverage taxes include six separate tax rates. These are the \$2-per-gallon levy on distilled spirits, 4 cents per gallon on beer, and 2 cents per gallon on sparkling hard cider, and 1, 2, and 30 cents per gallon on dry, sweet, and sparkling wines, respectively. Revenue from these sources is expected to reach \$113 million in 1971-72. Only 29.1 man-years are assigned to the administration of these taxes because most of them are paid by a few large producers or distributors. No change is requested for the support of this program in the budget year.

#### 6. CIGARETTE TAX

*Per Capita Consumption Increases.* For the first time in seven years, per capita consumption of cigarettes increased during 1970. This upward trend is expected to continue despite the ban on television cigarette commercials. The Department of Finance estimates that 2.5 billion packages will be sold in California during the budget year. The General Fund receives 70 percent of the proceeds from the 10-cent-per-pack tax, and cities and counties share the remainder.

*Cost of Tax Stamps.* To show that the tax has been levied, a small stamp or meter impression is placed on the bottom of each package. These cigarette stamps are sold to the distributors by a bank acting as an agent of the state on a three-year contract. Only one bank in the state has bid for the contract although 17 were contacted by the board to see if they would be interested in serving the cigarette stamp distributors. The bank's charge has increased and is expected to be \$30,000 in the current year and budget years.

#### 7. MOTOR VEHICLE FUEL LICENSE (GASOLINE) TAX

The gasoline tax is imposed upon the manufacturer or importer of gasoline at a rate of 7 cents per gallon and on noncommercial aircraft



Board of Equalization—Continued

jet fuel at 2 cents per gallon. Although there are 425 of these manufacturers and importers registered and paying tax in this state, nine of them pay almost 90 percent of the total revenue. The State Controller shares responsibility for the administration of this tax by collecting delinquencies and making refunds for gasoline used for non-highway purposes such as farm equipment, certain aircraft, and contractor's machinery. When a refund is made, the fuel becomes subject to the sales tax which the Controller deducts from the reimbursement. Receipts from this tax are deposited in the Motor Vehicle Fuel Fund which reimburses the board for the cost of collection. The Department of Finance estimates that this tax will produce \$673 million in 1971-72. No significant change is planned in staffing this program during the budget year.

8. MOTOR VEHICLE USE FUEL TAX

This levy complements a similar tax on gasoline. The rate is 7 cents per gallon for diesel and 6 cents for liquefied petroleum gas and compressed natural gas. Legislation enacted at the 1970 session exempted natural gas and liquefied petroleum gas from this tax when they are used in a propulsion system which meets the 1974 pollutant emission standards. This will reduce the tax revenue from those two fuels and may also cause a small shift from the use of gasoline to these fuels. Revenue estimates indicate that the state will realize \$43 million from the use fuel tax in the budget year.

This year we asked the board to prepare schedules which show the audit productivity of the use fuel and truck taxes. The results for 1969-70 are shown in Table 8 and indicate that use fuel audit costs exceeded net revenues. This was an unusual occurrence because refunds were very heavy in that year, about 28 percent of total tax change. The net revenues per dollar of cost in previous years were \$1.01 in 1967-68 and \$1.10 in 1968-69. This three-year record indicates that these audits are made primarily for compliance purposes.

Table 8  
Net Revenue Per Dollar of Cost in 1969-70 from the  
Use Fuel and Truck Tax Audits

District	Use fuel	Truck tax
Los Angeles	\$0.68	\$1.56
San Bernardino	1.86	1.14
Marysville	.94	.26
San Francisco	.06	.78
San Jose	1.24	.44
Oakland	.64	.59
Santa Rosa	-.03	.35
Sacramento	1.63	.74
San Diego	.85	1.20
Fresno	1.20	.85
Average in-state	\$0.87	\$1.09
Average out-of-state	.23	2.19
Average total	\$0.81	\$1.17
Audit staff (man-years)	19.9	27.2
Audit cost (thousands)	\$275	\$380

**9. MOTOR VEHICLE TRANSPORTATION LICENSE TAX**

This tax is imposed on 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 board's cost of collection is reimbursed from the Motor Vehicle Transportation Tax Fund.

Forty-two percent of the truck tax auditing staff is located in the Los Angeles office. Many of the districts in Table 8 which show net losses have only a small auditing staff. Audit refunds accounted for only 19 percent of the total tax change in 1969-70. As a result, the net productivity of these audits showed a surplus. In the two prior years, the ratio of net revenue per dollar of audit cost was \$1.72 in 1967-68 and \$1.38 in 1968-69.

Legislation enacted at the 1970 session requires the board to prepare a formula for the application of this tax to household goods carriers (Chapter 1267). In order to determine what factors should be considered in the new formula, two man-years of auditor time must be diverted from auditing accounts for revenue purposes and turned to auditing household goods carriers time reporting statistics.

**10. INSURANCE TAX**

The Board of Equalization administers the gross premiums tax on insurance compromises 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. Only 1.5 man-years are allocated to the administration of this tax.

**11. APPEALS FROM OTHER GOVERNMENTAL PROGRAMS**

Taxpayers who disagree with the amount of state 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. Senior citizens who are denied property tax assistance or are allowed only part of what they expect may also appeal to the board.

Intracounty equalization appeals arise from disputes between a county assessing property and the public agency which owns it and must pay a property tax on it. When property owned by a governmental agency is located outside its own jurisdiction (normally outside its service area) the board acts as arbitrator in valuation disputes.

Table 7  
Appeals from Other Governmental Programs

	1969	1970-71 *
Franchise and income tax -----	190	186
Senior citizens' -----	162	156
Intracounty, equalization -----	9	8

\* Based on actual number through December 1970.

**BOARD OF EQUALIZATION****Item 53 from the Motor Vehicle  
Transportation Tax Fund****Vol. I p. 134 Budget p. 37**

Requested 1971-72 -----	\$1,130,386
Estimated 1970-71 -----	1,114,622
Actual 1969-70 -----	1,077,379
Requested increase \$15,764 (1.4 percent)	
Total recommended reduction -----	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page**1. We recommend approval.*

The Board of Equalization assesses and the State Controller 123 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 are included under Item 52.

**BOARD OF EQUALIZATION****Item 54 from the Motor Vehicle Fuel  
Fund****Vol. I p. 134 Budget p. 37**

Requested 1971-72 -----	\$1,352,553
Estimated 1970-71 -----	1,334,101
Actual 1969-70 -----	1,289,620
Requested increase \$18,452 (1.3 percent)	
Total recommended reduction -----	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. The Board of Equalization assesses and the State Controller 122 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 52.

**SECRETARY OF STATE**

Items 55 and 56 from the  
General Fund

Vol. I p. 172 Budget p. 39

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Requested 1971-72	-----	\$2,154,000
Estimated 1970-71	-----	2,258,241
Actual 1969-70	-----	1,650,020
Requested decrease \$104,241 (4.6 percent)		
Total recommended reduction	-----	None

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**GENERAL PROGRAM STATEMENT**

The Secretary of State is a constitutional officer responsible for carrying out the duties prescribed by the Government Code. He is custodian of the enrolled copy of the Constitution, all acts passed by the Legislature, journals of the Legislature and the Great Seal, and has specified responsibilities in the following program categories.

**CORPORATE FILINGS**

Strict adherence to the laws governing the establishment, revision or dissolution of the state's corporations must be maintained to protect the public interest. Attorneys on the staff of the Secretary of State examine all articles of incorporation and related documents which revise or dissolve corporate entities, and attest to their compliance with the appropriate statutes before accepting them for formal filing. In addition, all applications for trademarks, corporate and fraternal names, and other documents required by law, are reviewed and registered.

**ELECTIONS**

The Secretary of State is the chief elections officer and oversees and coordinates all state elections. Lists of registered voters within city, assembly, senatorial and supervisory districts, by party affiliation, are compiled by this office, and various statistical reports required by the Election Code are published.

He also solicits, assembles, supervises the printing of, and distributes all ballot arguments. A semiofficial and official canvass of election results is conducted and made a matter of public record.

The Secretary of State serves on the State Commission on Voting Machines and Vote Tabulating Devices with the Governor and Attorney General, and acts as the commission's secretary. Because of the substantial investment of time required by this activity, the Secretary of State was authorized, during the last fiscal year, to hire an executive secretary to the commission for general administrative duties and to revise and evaluate proposals for new devices or changes in already acceptable devices.

## Secretary of State—Continued

**FINANCING STATEMENTS**

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financial statements which perfect security interests in personal property. On January 1, 1970, the Secretary of State began filing notices of tax liens as well.

Most of the electronic data processing equipment in the department is used for this activity because the program entails the storage of these documents and retrieval of information upon request from the public.

**NOTARY PUBLIC**

The Secretary of State has statutory responsibility for the appointment of notaries public. This responsibility includes the issuance of original certificates and review of certificates every four years for purposes of renewing the appointments. The Secretary of State also provides verification of the authenticity of notary signatures upon request from the public.

**ARCHIVES**

The Chief of Archives and his staff collect, catalog, index and preserve historic and otherwise valuable papers and artifacts. Documents requiring repair are restored by a document restoration technician and they are laminated for permanent preservation. Reference services are provided for the public. The archivists receive some advice and direction from the Heritage Preservation Commission of which the Secretary of State is secretary.

**ADMINISTRATION**

The Secretary of State and his staff provide policy and supervision to the above functional activities, and perform personnel, budgetary, accounting and other administrative functions for the department including the development and operation of electronic data processing systems which support the other departmental programs.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The amount requested for fiscal year 1971-72 represents a decrease of \$104,241 or 4.6 percent under the current year estimated expenditures. The decrease is due largely to the fact that no general election will be held during the next fiscal year and to the completion of an interim system associated with a corporate officer filing program instituted in the current fiscal year.

It is estimated that the Secretary of State will remit to the General Fund revenues of \$4,578,871 during fiscal year 1971-72, an increase of \$485,767 or 11.9 percent over this year's estimated revenues. This increase is due to anticipated increase in filing fees collected.

Table 1 is a summary of the workload data for the past three years for the five functional programs discussed.

**Table 1**  
**Workload Data By Program**

<i>Program and Output</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>	<i>Percent change over 1970-71</i>
<b>Corporate Filings Program</b>				
Number of corporate documents filed -----	46,838	47,100	49,350	4.7
Statement of officers filed -----	-	175,000	183,000	4.6
<b>Elections Program</b>				
Voters registrations -----	7,661,633	8,700,000	9,000,000	3.4
Candidates certified -----	885	615	900	
<b>Financing Statements Program</b>				
Number of statements and notices filed -----	157,793	161,000	166,158	3.2
Number of certificates issued --	32,723	34,846	35,720	4.0
<b>Notary Public Program</b>				
Number of notaries public appointed -----	24,566	26,731	28,068	5.0
<b>Archives Program</b>				
Archives material -----	29,253 cf	31,000 cf	32,000 cf	3.2
Accessions -----	1,257 cf	2,250 cf	1,250 cf	-4.4
Documents processed -----	566 cf	1,750 cf	1,250 cf	-2.9
Documents laminated (pages) --	1,400	2,800	3,500	2.5

#### ELECTIONS PROGRAMS

As a result of federal legislation granting 18-year-olds the voting privilege and a Supreme Court ruling which reduces the state residency requirements from one year to ninety days, the Secretary of State anticipates an increase of approximately 1.5 million voter registrations over the approximately 8 million now registered.

The federal legislation gives 18- to 20-year-olds the privilege of voting for President and congressional candidates only. In the absence of state legislation granting this group full enfranchisement, local government can expect an overall increase in cost of between 10 percent to 20 percent or from approximately \$0.8 million to \$1.6 million per election for the preparation, printing and distribution of separate ballots, one for 18- to 20-year-olds and one for the remaining registered voters. If the Legislature passes legislation enfranchising the 18- to 20-year-olds in state and local elections, the anticipated increased local cost of elections will be reduced significantly. However, costs will still increase because of the increased voter registrations.

#### ARCHIVES PROGRAM

As State Archivist, the Secretary of State is engaged in a program of restoration and preservation of valuable documents, papers and artifacts. Since late 1966, a laminating machine has been used as the principal method of restoring and preserving documents. The lamination process involves a careful preparation of the document, including the delicate process of deacidification, and the lamination of the document with a plastic material. The archivist has pioneered this technique and gets frequent requests from outside concerns for laminating services.

**Secretary of State—Continued**

The major undertaking to date has been the restoration of the California State Census of 1852 which contains valuable population data for the Gold Rush and early statehood era. The documents being restored are oversized and some are badly decomposed, making lamination a delicate process. This project is about 60 percent complete. Other workload has included the restoration of many individual state documents and artifacts as well as some work performed at cost for outside concerns (the Nevada State Constitution was restored during the past year). Outside work has been kept to a minimum however because of the workload of state documents.

**CORPORATE FILING PROGRAM****New Legislation**

As a result of legislation passed during the 1969 session, the Secretary of State, between April 1 and July 1 of this year and each succeeding year, will receive for recordation information not formerly filed regarding corporations and their agents. As indicated by Table 1, 175,000 filings are expected this fiscal year and 183,000 are expected during the next fiscal year. The Secretary of State, in accordance with law, has set a \$3 filing fee for this activity to cover administrative costs. Fees collected are remitted to the General Fund.

**Consultant Study**

Anticipating that the entire process could be automated, the Secretary of State made a preliminary budget request to the Office of Management Services and the Department of Finance for upgrading its data processing equipment and for additional personnel to handle the design and implementation of the new program. Because the department took the position that it must have its own computer facility and because the Office of Management Services was in the process of preparing a statewide plan for consolidation of computer facilities, it was decided that a management consultant firm would be retained to examine the entire data receipt, storage and retrieval requirements of the department, including financial filings, election requirements and the new corporate filing applications. Major findings contained in the consultant report of March 1, 1970, included: (1) the Secretary of State had not accurately defined its data processing requirements in its initial request for an upgrade, (2) additional personnel and data processing equipment would be required to meet the level of service planned by the Secretary of State, (3) a number of alternatives exist for providing the data processing capacity required, including sharing of electronic data processing resources, (4) objections to shared data processing facilities raised by the Secretary of State have no significant management or technical validity, and (5) all alternatives reviewed have significant obstacles which must be overcome before any one alternative will be reasonably successful.

Based on the above findings the consultant recommended that the Secretary of State: (1) develop an interim system which would meet the minimum requirements of the new program; (2) develop concurrently a system which meets the long-range requirements for a com-

bined corporate index and officer name system; (3) implement the interim system with the present computer configuration; and (4) once the interim system is operational, reevaluate the alternatives considered by the consultant.

As a result of the consultant study, the department, with assistance from the Office of Management Services, designed an interim corporate officer filing system and submitted to the Legislature an amendment to the 1970-71 budget requesting \$202,767 to implement and operate the system. The Legislature approved the request and, concurring with the consultant's findings, expressed its intent that the Secretary of State receive its data processing services from the shared computer facility being developed at the Department of General Services. The Legislature also directed that the Secretary of State and the office of Management Services take appropriate steps to implement its intent and report their progress to the Joint Legislative Budget Committee by June 1, 1971.

#### **State Master Plan for Electronic Data Processing**

In May 1970, the Office of Management Services (OMS) published the Long-Range Master Plan for the utilization of electronic data processing in the State of California. The plan, as approved by the Governor's cabinet and the State Electronic Data Processing Policy Committee, creates seven consolidation groups for the purpose of analyzing common needs and consolidating computer services wherever possible. Each state agency is a member of a consolidation group. The Master Plan placed the Secretary of State in Consolidation Group No. 4 which includes Public Employees Retirement System, State Teacher's Retirement System, Veterans Affairs, Franchise Tax Board, State Controller, State Personnel Board, and State Treasurer. However, Consolidation Group No. 4 does not include the Department of General Services. It is apparent therefore, that the Secretary of State has two directives, one from the administration which directs consolidation with the other members of Consolidation Group No. 4 and one from the Legislature which provides that it should receive its data processing services from the Department of General Services. As a result of this incongruence, the Secretary of State, under direction of the Office of Management Services and in conjunction with consolidation Group No. 4, has begun an analysis of its data processing requirements. It is intended that the findings of this effort will provide a basis upon which to evaluate all the alternatives for service to the Secretary of State. It is anticipated that the findings and recommendations resulting from this effort will be contained in the progress report to the Joint Legislative Budget Committee required June 1, 1971.

#### **Expanded Filing Program for 1971-72**

The Secretary of State is also unilaterally planning to develop and expand the present computer system to meet the long-range needs for corporate information. The department requires funds during fiscal 1971-72 to take additional steps toward that goal. However, since the required analysis and planning have not as yet been completed for ex-



## Secretary of State—Continued

panding the system, the proposed budget for fiscal 1971-72 does not provide funds for this purpose. The department plans to request a budget augmentation during the early part of the legislative session and expects to provide supporting justification at that time.

In the absence of a specific budget request and a detailed justification from the department, we are unable to make an analysis of the proposed systems expansion. Further, Consolidation Group No. 4 has not concluded its analysis of the information requirements of the Secretary of State. *We therefore withhold any recommendation pending receipt of these documents.*

**HERITAGE PRESERVATION COMMISSION**

Item 57 from the General Fund

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Requested 1971-72	-----	\$800
Estimated 1970-71	-----	800
Actual 1969-70	-----	634
Requested increase—None		
Total recommended reduction	-----	None

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**GENERAL PROGRAM STATEMENT**

The California Heritage Preservation Commission was created by Chapter 1938, Statutes of 1963, and continued by Chapter 1383, Statutes of 1965. The Commission is composed of the Secretary of State, who serves as the commission secretary, representatives of four designated state agencies, a private college or university, six private citizens appointed by the Governor, and two members of each house of the Legislature. Members serve without compensation and meet on an irregular basis, usually four times a year.

The purpose of the commission is to advise the Secretary of State, whose duty it is to preserve historical and otherwise valuable documents, on matters regarding the identification, restoration and preservation of such documents. The commission will provide a report of its activities to the 1971 Legislature.

**ANALYSIS AND RECOMMENDATIONS**

The commission has requested \$800 to provide for travel and general administrative expenses during the 1971-72 budget year.

*We recommend approval.*

## STATE TREASURER

Item 58 from the General Fund

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Requested 1971-72	\$958,815
Estimated 1970-71	958,815
Actual 1969-70	896,267
Requested increase—None	
Total recommended reduction	None

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. We recommend that the Treasurer use optical character recognition (OCR) equipment during the budget year to process its increasing warrant workload. 135

2. The Districts Securities Commission will be supported entirely from reimbursements in the budget year. We support this change in funding. 137

## GENERAL PROGRAM STATEMENT

The State Treasurer is charged with the following responsibilities:

1. Provide custody for all money and securities belonging to, or held in trust by the state;
2. Invest temporarily idle state and other designated funds;
3. Pay warrants and checks drawn by the State Controller;
4. Prepare, sell and redeem general obligation bonds of the state;
5. Prevent the issuance of unsound securities by districts and by other agencies.

These responsibilities are implemented through the six programs shown in Table 1.

Table 1  
Program Requirements of the State Treasurer

	Man-years			Expenditures		
	Actual 1969-70	Estimated 1970-71	Proposed 1971-72	Actual 1969-70	Estimated 1970-71	Proposed 1971-72
Bond sales and service	10	10.3	10.3	\$264,386	\$299,121	\$303,678
Investment services	4	4	4	112,542	121,857	131,305
Paying and receiving	22.6	28.5	27.5	333,088	420,231	464,280
Trust services	11.6	12.9	12.9	197,681	206,492	226,052
District securities	4.9	9.1	9.1	166,176	194,614	189,488
Administration (costs distributed to other programs)	12.9	14	14	(233,328)	(270,986)	(293,699)
Totals	66	78.8	77.8	\$1,073,873	\$1,242,315	\$1,314,803
Reimbursements				-177,606	-283,500	-355,988
General Fund cost				\$896,267	\$958,815	\$958,815

Higher operating expenses and merit salary increases account for most of the 5.8 percent increase in total expenditures in 1971-72. Higher reimbursements, however, will completely offset the increase and, as a result, there will be no change in the General Fund support.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

## State Treasurer—Continued

## BOND SALES AND SERVICE

This program includes the issuing, selling, servicing, and redeeming of all General Obligation Bonds, State Building Certificates and California State College Revenue Bonds. Bond servicing and brochure costs, reimbursed from individual bond funds, are estimated at \$65,000 in the budget year.

*Bond Sales Improved.* The Treasurer's bond marketing volume is shown in Table 2.

Table 2  
Treasurer's Bond Sales

	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Value of bonds sold, in millions -----	\$329.7	\$610	\$630
Average interest rate -----	5.9%	5.5%	5.7%

The increase in bond sales during the current and budget years is attributable to: (1) the passage of Proposition 7 on the June 1970 ballot which authorized higher interest rates, and (2) an improvement in the bond market.

## INVESTMENT SERVICES

The main objective of this program is to maximize the interest return on state investments. The Treasurer, under the direction of the Pooled Money Investment Board (composed of the Treasurer, State Controller and Director of Finance) is responsible for the investment of idle state funds.

The investment program provides services for the Pooled Money Investment Account (composed of temporarily unused balances from the General Fund and other state funds which joined the pool) and several other independent state funds, which utilize the Treasurer's services for their investment program. These independent funds include the State Highway Fund, the Condemnation Deposit Fund (money held in trust as a result of condemnation proceedings) and the Unemployment Compensation Disability Fund. During the past fiscal year, some 4,800 investment transactions, totaling over \$40.5 billion were completed. Table 3 compares interest earnings from the Treasurer's investment service during 1968-69 and 1969-70 fiscal years.

Table 3  
Investments by the Pooled Money Investment Board  
(millions)

Investment program	1968-69			1969-70		
	Average daily amount invested	Earnings	Percent yield	Average daily amount invested	Earnings	Percent yield
Pooled Money --	\$1,256.6	\$75.7	6.02%	\$1,184.5	\$83.0	7.01%
Condemnation --	44.7	2.5	5.59	31.4	1.8	5.73
Total -----	\$1,301.3	\$78.2		\$1,215.9	\$84.8	

A portion of the idle state funds is not invested. It is left in non-interest-bearing bank accounts (called "compensating balances") with nine banks to compensate them for warrant and deposit handling services. The size of the compensating balances, determined on a formula basis, is governed by the prevailing interest rates. Table 4 shows the distribution of investments, including the compensating balances during 1969-70.

**Table 4**  
**Distribution of the Average Daily Amounts of Temporary Idle Funds**  
**in the Pooled Money Investment Account During 1969-70**  
**(millions)**

<i>Distribution</i>	<i>Average daily balances</i>	<i>Interest earnings</i>	<i>Percentage yield</i>
Investment in securities -----	\$946.4	\$67.8	7.16%
Investment in time (savings) deposits -----	225.2	14.2	6.32
Loans to General Fund -----	13.4	1.0	7.23
<hr/>			
Total investments -----	\$1,185.0	\$83.0	7.00%
Compensating balances -----	39.5	None	--
Bond and coupon collection service -----	-- <sup>1</sup>	--	--
<hr/>			
Total -----	\$1,224.5	\$83.0	--

<sup>1</sup> Reimbursement in form of direct payment, instead of compensating balance.

*Lower Investment Earnings Expected.* Due to the recent easing of the money market and the continued sluggishness of investment demand, the Treasurer expects investment earnings in the current and budget years to be below the record level of 1969-70.

The investment program also includes deposit of state moneys in time bank (savings) accounts. The total amount to be deposited is determined by the Pooled Money Investment Board, but the allocation of the designated amount among the depository banks is determined by the Treasurer.

Starting in June 1970, the Treasurer, on approval of the Pooled Money Investment Board, reallocated investments by shifting funds from government securities to short-term bank time deposits. Table 5 shows that the regular time deposits (normally one year maturity) were \$225 million per month, but short-term (30 to 89 days) time deposits ranged from \$75 million in June to \$340 million in July of 1970. The Treasurer invested in these short-term deposits because:

1. The Federal Reserve Board removed the interest rate ceilings on these deposits, and

2. Banks were anxious to obtain these state funds, and pay a high interest rate, because they needed these substitute savings to compensate for the decline in commercial paper investments. During this time period, these short-term time deposits yielded a higher interest rate than security investments.

## State Treasurer—Continued

**Table 5**  
**Treasurer's Investments in Bank Time Deposits During 1970**  
 (millions)

<i>Month</i>	<i>Regular Deposits</i>	<i>Short-term Deposits</i>	<i>Total</i>
January	\$225	--	\$225
February	225	--	225
March	225	--	225
April	225	--	225
May	225	--	225
June	225	\$75	300
July	225	340	565
August	225	319	544
September	225	264	489
October	225	201	426
November	225	337	562
December	225	179	404
Monthly average	\$225	\$245 <sup>1</sup>	\$470

<sup>1</sup> Seven-month average.

Another investment program responsibility is to insure that the state's time deposits are sufficiently collateralized with securities by the depository banks at all times. The minimum legal requirement for such collateral is 110 percent of the time deposit. The portfolios used as collateral must be reviewed periodically to insure that changing market conditions have not eroded the value of the securities below the required minimum.

**PAYING AND RECEIVING**

This program provides banking services for state agencies. It includes depositing tax collections, redeeming warrants issued by the State Controller and other agencies, and accounting for state time deposits placed in banks throughout California. These activities supplement the investment program by providing the necessary reporting on the state's daily cash position and furnishing information used in calculating the "compensating balance" formula.

*Workload Increase Anticipated.* Table 6 shows that the Treasurer's office processed 8,785,000 warrants during 1969-70, or an average of 34,600 per working day. During the budget year, the volume of warrants could be substantially increased, because processing of Medi-Cal payments is expected to become part of the Treasurer's workload and

**Table 6**  
**Potential Workload of the Treasurer's Paying and Receiving Program**  
 (thousands)

<i>Fiscal year</i>	<i>Agency trust warrants</i>			<i>Controller warrants</i>		<i>Total</i>	<i>Percent increase</i>
	<i>Regular</i>	<i>Disability insurance</i>	<i>Medi-Cal</i>	<i>Regular</i>	<i>With- holding</i>		
1969-70	1,322	1,255 <sup>1</sup>	--	6,208	--	8,785	--
1970-71	1,381	2,830	--	6,487	--	10,698	21.78%
1971-72	1,450	3,034	2,165 <sup>2</sup>	6,778	750 <sup>3</sup>	14,177	32.52
1972-73	1,523	3,252	2,316	7,083	4,850	19,024	34.19

<sup>1</sup> Included in the trust system starting January 1, 1970.<sup>2</sup> Expected to start during the budget year.<sup>3</sup> Subject to adoption of a withholding plan by 1971 Legislature with July 1 effective date.

there is a possibility that the Legislature may adopt personal income tax withholding. If the latter occurs, the Treasurer will have to process about 750,000 income tax refund warrants in addition to the other workload. These two contingencies mean that the Treasurer's warrant processing workload may be increased by almost one-third during the budget year.

An anticipated workload of this magnitude requires a sophisticated electronic data-processing capability (EDP) with adequate backup to insure uninterrupted processing of the daily volume. Furthermore, the Treasurer has to meet a 4:00 p.m. deadline to compute the state's daily cash position.

*Data-Processing Problem Continues.* The agency's data-processing problem, outlined in our previous Analysis, has not been resolved. The Treasurer participated in the experimental optical character recognition (OCR) test program conducted by the Department of General Services on equipment provided by Recognition Equipment Incorporated (REI) on a rent-free basis. The department's summary report on the test indicated that reading and recording of warrants by the OCR equipment was 95 percent successful. The other 5 percent was handled through a reentry process. With regard to meeting the Treasurer's deadline, the report estimated that the chances for meeting it with the OCR equipment are six to seven times better than using the present RCA Spectra 70 system. The OCR testing period ended in December 1970, but due to inadequate test utilization and lack of workload commitment by other agencies, no firm cost figures could be developed. Negotiations are currently being conducted with REI for retention of this equipment.

*Continued Testing Needed.* As a result of the uncertainty of the availability and cost of the OCR equipment, the Treasurer's proposed EDP budget for the 1971-72 fiscal year is based on continued utilization of the RCA Spectra 70 system. Calculations by the Department of General Services, based on preliminary cost figures, show a potential savings of \$2,250 per month by using OCR processing. The Treasurer generated cost data showing OCR slightly higher than those based on the present system. The Treasurer is also considering the utilization of magnetic character recognition (MICR) equipment, currently used by banks, as a possible alternative for the solution of its warrant processing problem. Firm cost data, based on actual test application is needed for all the proposed alternatives to select the most suitable and economical system.

*An Interim Solution.* If the Department of General Services and Recognition Equipment Incorporated are able to agree upon an acceptable contract to retain the OCR equipment, *we recommend that the Treasurer's office use this OCR equipment during the budget year to process its increasing warrant workload.* We base this recommendation upon the Department of General Services' report that this equipment can effectively handle the workload. It also affords the Treasurer the time necessary to evaluate alternative proposals, such as MICR.

## State Treasurer—Continued

In addition, retention of the OCR equipment would allow other state agencies the opportunity to continue feasibility studies on the application of this equipment to their particular EDP workload. If subsequent tests justify feasible and economical application and, if workload commitments are received from other agencies, then definite hourly cost figures could be calculated. This process could lead to successful establishment of a central service installation with the capability to serve the EDP needs of several state agencies, resulting in substantial savings for the state.

## TRUST SERVICES

This program provides for the safekeeping of all state-owned securities in the Treasurer's vault or in approved depositories. The securities are held under agreement between the Treasurer and the banks or trust companies and are under the Treasurer's control.

The total value of securities held at the end of fiscal 1969-70 was \$7.4 billion. The Treasurer's use of TWX communication system for the settlement of securities traded results in considerable savings in transportation and insurance costs, in addition to savings accruing from prompt settlements.

Other trust activities include the preparation and keeping of agreements on the state's time deposits, the control and maintenance of the required collaterals on these time deposits, as well as clipping and processing of coupons for the collection of interest on bonds held. The Treasurer expects to receive an estimated \$75,000 in the current year and \$100,000 in the budget year as reimbursements for collection and transfer-agent costs from the various state agencies for handling of their securities.

## DISTRICT SECURITIES COMMISSION

The 1969 Legislature terminated the District Securities Commission as a separate entity and transferred it to the State Treasurer. Its present staff of 9.1 man-years, consists of an executive secretary, assistant executive secretary, three engineers, an auditor and clerical support.

The prime function of the commission is the technical and fiscal evaluation of construction projects proposed by water and certain other districts. Its main objective is to promote sound financial programs for districts in order to prevent excessive indebtedness and thereby protect the public against the issuance of unsound securities.

Table 7 indicates funding for the Districts Securities Commission.

Table 7  
Budgetary Support for the District Securities Commission

	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Program costs -----	\$166,176	\$194,614	\$189,488
Reimbursements -----	--	--137,000	--189,488
General Fund cost -----	\$166,176	\$ 57,614	--

In our previous Analysis, we recommended that the commission be entirely funded by inspection fees charged to the local districts which use its services. These fees would be reimbursements, i.e., not included in budgetary totals, and the expenditures of the commission would be limited by the amount of fees collected. For example, if actual receipts fall below estimates in the budget year, then the commission would have to reduce its expenditures or receive an allocation from the Emergency Fund. The Legislature did not adopt this recommendation, but the conference committee on the budget instructed our office and the Treasurer to evaluate how the commission could be put on a fully reimbursable basis for the 1971-72 fiscal year. It also asked us to evaluate the feasibility of transferring the commission to the Public Utilities Commission.

*District Securities Commission Should Be Fully Reimbursable.* Our reevaluation is that the commission can and should be supported entirely from fees charged to the local districts which use its services. The Governor's proposed 1971-72 Budget supports this position by placing the commission on a fully reimbursable basis. Historically, fee collections have been consistently below budget estimates. The commission attributed this discrepancy in collections to the slowdown in construction activity during the last two years, but it now contends that its existing fee schedule will produce sufficient revenue to cover its costs in the budget year. This is based on the assumptions that the increase in federal funds and the improvement in the bond market will result in an upturn in district construction activity during 1971-72. *We would recommend that the commission observe the trend of actual fee collections during the remainder of this fiscal year and if revenues continue to fall below estimates, then an upward adjustment should be made in these fees at the beginning of the budget year. We also suggest that the commission alter its fee collection schedule in order to obtain a larger portion of the total fees at the beginning of its review of these projects.*

If the commission takes these corrective actions, the fees should provide sufficient revenues to cover costs, and there would be no need to transfer these activities to the Public Utilities Commission. Our recommendation of the possible transfer was made only as a substitute in the event the commission could not operate on a reimbursable basis.

#### ADMINISTRATION

The administrative staff, under the direction of the Treasurer and deputy treasurer provides supervision for the management of the agency and its programs. Its total costs are allocated to the five other programs under its direction.



## DEPARTMENT OF FINANCE

Item 59 from the General Fund

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Requested 1971-72 -----	\$4,091,000
Estimated 1970-71 -----	4,091,000
Actual 1969-70 -----	4,041,850
Requested increase—None	
Total recommended reduction -----	\$56,396

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. *We recommend elimination of the chief financial economist (\$24,512) because it is vacant and its responsibilities have been transferred to the program managers.* 140

2. *We recommend deletion of the newly created specialist I position (\$17,268) which has been substituted for the vacant chief, program and policy office.* 141

3. *We recommend disapproval of one personnel assistant I (\$6,420) and one senior stenographer (\$8,196) requested for the budget division, because the division has sufficient clerical staff to handle the indicated increase in workload.* 141

4. *The audits division shifted a majority of its personnel into special management studies and plans to audit state agencies on a sharply reduced schedule.* 143

5. *It is recommended that approval of the 1971-72 request for the budget data system be withheld pending receipt and approval of a management plan of implementation.* 147

## GENERAL PROGRAM STATEMENT

The Department of Finance advises the Governor regarding the fiscal condition of the state and assists in the preparation and enactment of the Governor's budgetary and legislative program. Currently the department is composed of an executive office and two divisions: (1) the budget division which is responsible for evaluating existing state programs and the preparation of the Governor's Budget, and (2) the audits division which is responsible for program compliance.

For the second time in two years the Department of Finance has undergone a major program reorganization. In 1969, the department was relieved of a substantial amount of its central control responsibilities for budgetary review and administration. In the past, the Budget Division received budget requests from the department, conducted hearings and then, based upon policies approved by the Governor, determined a level of support for each program. The current budget was prepared largely by the agency secretaries with Budget Division personnel made available to the agencies as a staff resource. The 1969 reorganization involved only the Budget Division.

## 1970 Reorganization

The 1970 reorganization affected the department generally and in summary involved the following programs:

1. The program and policy unit, which was part of the executive office, was eliminated and its personnel transferred to the Budget Division.

2. Management direction of the revenue and population estimating section in the Budget Division was transferred to the program budget managers when the chief financial economist position became vacant during the current fiscal year.

3. A new career executive assignment series at the staff level was created within the Budget Division.

4. About 60 percent of the professional staff in the audits division was shifted from regular agency audit assignments to special management studies during 1970-71.

5. The Los Angeles office of the Audits Division was closed during the current fiscal year.

## Emphasis on Special Management Studies in 1970-71

Prior to 1969-70 there were only 11.9 staff level analysts in the department who were working on assignments not directly related to an agency's budget or compliance program. This number includes the eight analysts then assigned to the Program and Policy Office. When the Budget Division was reorganized in 1969, a staff resource pool was created within this division with an initial complement of 24.5 analysts. The number of staff level personnel within the department who were working on special studies, or were part of a Budget Division resources pool, increased to 77.1 man-years when the Audits Division at the beginning of the current year was directed to allocate 48 additional positions to special management studies. Conversely, the number of

Table 1  
Allocation of the Professional Staff of the Audit's Division and  
Budget Division Between Agency Assignments and Special Studies

	Man-years			
	1968-69 actual	1969-70 actual	1970-71 estimated	Change from 1968-69
Audits Division				
Agency audits .....	101.4	95.0	32.0	-69.4
Special management studies.....	0	3.0	51.0	51.0
Subtotal.....	101.4	98.0	83.0	-18.4
Budget Division				
Budget assignments .....	48.0	38.0	34.9	-13.1
Budget control .....	13.0	13.0	14.0	+1.0
Finance and population research..	17.0	13.5	14.0	-3.0
Staff resource pool.....	11.9	24.5	26.1	+14.2
Subtotal.....	89.9	89.0	89.0	-0.9
Total, Department of Finance				
Audits and budgets.....	179.4	159.5	94.9	-84.5
Resource pool and special studies..	11.9	27.5	77.1	+65.2
Total professional staff.....	191.3	187.0	172.0	-19.3

## Department of Finance—Continued

analysts and auditors directly assigned to agency budgets and compliance programs decreased from 159.5 positions in 1969-70, to 94.9 positions during the current year. Table 1 traces the growth in the number of personnel assigned to special studies as a result of the 1969 and 1970 reorganizations.

## BUDGET DIVISION

During the current and budget years this division will have 128.8 man-years, consisting of 89 professional and 39.8 clerical positions. Table 1 shows that 34.9 of the professional positions were assigned to specific budgets. This group is able to call upon the "staff resource pool" for special studies and to provide manpower when temporary increases in workload develop.

The direct budget staff is divided among four program units, each headed by a program manager. This distribution is shown in Table 2.

Table 2  
Staff of the Program Units in the Budget Division

Program units	Man-years	
	Actual 1969-70	Estimated 1970-71
Education .....	9.5	9.5
Human Relations .....	12.5	9.4
Agriculture and Government .....	10.0	10.0
Resources, Business and Transportation .....	6.0	6.0
Total professional staff .....	38.0	34.9

A fifth program, Financial and Population Research, was until the current year the responsibility of the chief financial economist.

*We recommend elimination of the vacant chief financial economist position for a General Fund saving of \$24,512.*

This position formerly supervised a 23-man section (14 professionals and 9 clericals) which prepared the Department of Finance's revenue estimates, projected economic conditions and compiled the Governor's annual economic report, and estimated both state and local populations. The chief financial economist also represented the administration before legislative tax committees and was the department's principal adviser on tax matters. After this position became vacant during the current fiscal year, the department reorganized this section by transferring the management control of: (1) the revenue estimating and economic units to the program budget manager for agriculture and government, and (2) the population unit to the program manager for Resources, Business and Transportation. As a result, these units will not be directed by a specialist, but will become one of many functions reporting to these two program managers.

The department proposes to retain this position, even though it has no assigned duties, in the event the reorganization plan is not effective. Our position is that it should be abolished because it has no assigned duties. If the reorganization is not effective, the department can request reestablishment of the position in a subsequent budget.

**Program and Policy Office Abolished**

This office was first created in 1963 and has been located in the executive office of the director. The duties of the office have centered on assisting in the development and implementation of the Governor's legislative program and in the development of new programs. Table 3 summarizes the staffing pattern of the office in 1969-70.

**Table 3**  
**Staff of the Program and Policy Office**

Position	1969-70
Chief -----	1.0
Senior program and policy consultant, C.E.A. -----	3.0
Senior budget analyst -----	1.0
Programmed policy consultant, C.E.A. -----	2.0
Clerical -----	2.3
<b>Total -----</b>	<b>9.3</b>

This office was abolished in January 1971 and the staff was transferred to the "staff resource pool" in the budget division.

*We recommend deletion of the newly created specialist I position, which is the substitute for the vacant position of chief, program and policy office. This reduction will be a General Fund saving of \$17,268.*

The position, chief, program and policy, became vacant October 1, 1969, and was reclassified to an education specialist I on June 1, 1970. However, this office continued to exist until January 1971. This reclassification was not approved by the Legislature.

We believe that it was improper to reclassify this leadership position to a staff level function without legislative review while the office remained independent of other operating units in the department. Now that the office has been abolished, and its staff merged with the Budget Division, there is no longer any justification for this position. Likewise there is no convincing justification for an educational specialist. The department could have handled any increased workload in this area by using one of the 25 man-years in the staff resource pool.

*We recommend disapproval of one personnel assistant 1 (\$6,420) and one senior stenographer (\$8,196) requested for the Budget Division.*

These two positions are requested to replace personnel training services formerly provided under contract with the Department of General Services. This service involves the processing of Budget Division personnel documents and scheduling personnel attendance in training programs. The Budget Division presently has a personnel administration capability and has sufficient clerical personnel to handle this relatively minor increase in workload without adding staff.

**C.E.A. Classification Extended to Staff**

The career executive assignment (CEA) program was authorized by the Legislature in 1963 to increase management flexibility in the assignment and removal of civil service executives to specially designated positions with major administrative and policy influencing responsibilities. This is accomplished through two principal provisions: (1) the appointing authority can select from among 10 qualified com-

## Department of Finance—Continued

petitors compared to three for non-CEA civil service positions, and (2) employees gain no tenure rights to CEA positions. Termination of an assignment is not a disciplinary matter and cannot be appealed on grounds other than for racial, religious, or political reasons.

The career executive assignment program was adopted by the Budget Division when four Program Budget Manager, CEA positions were established during the 1969 reorganization.

During the current year a new CEA series was established, that of principal program budget analyst III and II. The program budget analyst I is a new civil service series with a salary range one step above the senior budget analyst level. The new and former position classification structure in the budget operations section are contrasted in Table 4.

Table 4  
Budget Operations Position Classifications  
1969-70 Contrasted with 1970-71

1971-72 Monthly salary range	Position	1969-70 Number	Position	1970-71 Number
\$1,882-\$2,288	Chief, Budget Division, civil service -----	1	Chief, Budget Division, civil service -----	1
1,708-2,076	Program budget man- ager, CEA -----	4	Program budget man- ager, CEA -----	4
1,475-1,793	Assistant chief budget analyst, civil service---	6	Assistant chief budget analyst, civil service---	6
1,475-1,793	--		Program budget analyst III, CEA -----	1
1,405-1,708	--		Program budget analyst II, CEA -----	3
1,337-1,626	--		Program budget analyst I, civil service -----	9
1,273-1,548	Senior budget analyst, civil service -----	21	Senior budget analyst, civil service -----	11
1,048-1,273	Associate budget ana- lyst, civil service -----	29	Associate budget ana- lyst, civil service -----	26
863-1,048	Assistant budget ana- lyst, civil service -----	5	Assistant budget ana- lyst, civil service -----	5
	Subtotal -----	66	Subtotal -----	66

In 1969-70 there were four C.E.A. positions within the budget division established at the management level. In 1970-71 an additional four were established, all at the senior staff level. The department's reasons for creating the new C.E.A. series is based upon the following proposal presented to the Personnel Board:

The proposed new class series of principal program budget analyst I, II, and III, describes a group of positions that have primary responsibility for the budget of a specific program such as the Resources Agency, Department of Mental Hygiene, or Public Health and Industrial Relations. Incumbents are expected to provide creative leadership and program expertise in developing program alternatives for the consideration of the Director of Finance, line departments,

agency secretaries, and the Governor in the budget area for which they are responsible. They will obtain assistance from lower level analysts on a project basis or be temporarily assigned a staff depending on the conditions of the program assignment.

We indicated last year that the creation of a C.E.A. series at the management level would provide the department sufficient supervisory flexibility to carry out the Governor's budgetary and legislative program.

We do not believe that the newly created principal program budget analyst series describes a sufficiently new or different program assignment to warrant a C.E.A. designation. The assignments described in the department's C.E.A. proposal continue those responsibilities which have been traditionally the responsibility of the civil service senior budget analyst series.

Before the new C.E.A. series was established, the division had a total of 27 assistant chief and senior budget analysts. This pool of senior level civil service analysts should provide the department sufficient flexibility in making policy level assignments without recourse to a C.E.A. system of appointment.

#### AUDITS DIVISION

Traditionally, this division attempted to audit all state agencies including state colleges every two years. In the past the audits focused on fiscal compliance, but in recent years they have been expanded to include a management performance audit of each state agency. Table 5 shows that 95.0 man-years were used in these agency audits during 1969-70 but in the current year this staff decreased to 32 man-years. Part of this decline is attributable to the department's decision in its 1970-71 budget to reduce its staff by 15 man-years which in effect decreased the emphasis on these audits. However, the major change results from the department's decision to shift 53 man-years into three special management studies covering:

- (1) Local education, grades K to 12,
- (2) Higher education including the state colleges and the University,  
and
- (3) Social welfare and health care services.

The agency's program budget does not separately identify the allocation of these audit positions to the special management studies. Therefore the data in Table 5 will not agree with input information shown in the budget.

The agency's reference in the program budget to this shift in assignments states: "it will be necessary during the budget year to minimize the traditional fiscal compliance performance-type audit. It will be impossible to continue the preexisting plan of conducting comprehensive field examinations of all state government on a review cycle that assured an audit every two years." The agency proposes to limit such work to reviews "in the higher risk and more sensitive areas," and will restrict such work to an examination of internal control procedures, rather than detailed verification of supporting data, together with a review of the most current financial statements.

## Department of Finance—Continued

Table 5  
Shift in Department of Finance  
Audit Programs

	<i>Professional man-years</i>		
	1969-70	1970-71	Change
State agency audits -----	95	32	-63
Special management studies			
Education, K-12 -----	--	16	16
State colleges -----	--	7	7
University of California -----	3	12	9
Social welfare -----	--	4	4
Health care services -----	--	12	12
Total, special studies -----	3	51	48
Total man-years -----	98	83	-15

## Local Education Task Force

The special management studies, termed by the department as "major management review projects" started in July 1970 with the assignment of 28 (16 man-years) auditors to a special local education task force. This study, completed in December 1970, involved 127 California elementary and high school districts and covered the following areas:

1. Organization and management of districts including operations and maintenance, transportation services, purchasing, insurance, textbook utilization and a review of EDP facilities.
2. A cost comparison between large and small districts.
3. Workload, salary and tenure.
4. Facility utilization and construction.

The local education study was performed under the direction of the Deputy Director of Finance and will be tied in with a related study of policy alternatives which was prepared by the program and policy office. The department plans to publish a report of the audit findings and to circulate it to all school districts.

## Higher Education Task Force

The Audits Division began the special examination of the state college system in December 1970, with six auditors assigned to the colleges at Sacramento, Los Angeles, San Francisco and Fresno. Both these studies and the task force assigned to the University will emphasize faculty workload and utilization, and also will include a conventional audit examination. Table 5 shows that the department expects to use seven man-years on the state college assignment during the current year.

The University of California special audits will start in February 1971 and initially involve 20 auditors (12 man-years) during the remainder of this fiscal year. The department intends to perform a comprehensive examination of the entire university system during the budget year.

**Welfare and Health Care Services**

The welfare task force is an interdepartmental program in which the Audits Division has a minor role. This special study has not been completed. The audits division will contribute four man-years to examine eligibility requirements at the county level and will begin a review of county administrative costs during the current year.

The department has assigned 15 auditors (12 man-years) to the examination of the health care services program. This examination will include a cost effectiveness study of the fiscal intermediaries and a review of state and local administrative costs. This study also is incomplete.

While these new management studies concentrate audit personnel in those areas where the greatest growth in expenditures has occurred, any recommendations which may result will be primarily advisory. Their effectiveness will depend either upon voluntary management acceptance or their implementation in law.

We believe that the department should have the flexibility to depart from its authorized audit responsibilities in order to examine critical policy areas. The department, however, intends to devote a considerable portion of its staff to these studies in the budget year and possibly thereafter. Traditional agency audits, in the meantime, will be drastically curtailed and while there is a risk of some loss in state agency fiscal control there is no way to measure such risk.

**THE BUDGET DATA SYSTEM**

In 1969, the Legislature authorized the Department of Finance to develop a budget data system. This system would utilize EDP technology to compile comprehensive fiscal information and to support the development, monitoring and management of the Governor's Budget.

The program outputs of the budget data system include the following:

1. Provide automated accumulation, summarization and verification of the fiscal information contained in the Governor's Budget, Change Books and Budget Bill;
2. Provide responsive budgetary inquiry and analysis as well as demand reporting capabilities on a year-round basis.
3. Permit comparison and review of the revenue received and the costs generated for all state program and organizational levels within a common frame of reference;
4. Support traditional organizational line item fiscal information requirements as well as program requirements;
5. Provide the flexibility necessary to accommodate incremental implementation for those departments which do not have established program structures. The system will also accept standardized summary level financial data as output from the varying sophistication levels of existing departmental accounting systems.
6. Provide for the receipt and storage of output indicators in the detail system specifications to accommodate this data when it becomes available; and



## Department of Finance—Continued

The following table traces support for the system since its inception.

Budget Data System History of Expenditures			
	1969-70 actual	1970-71 expenditures	1971-72 proposed
Budget Act appropriation -----	\$88,600	\$175,000	\$188,927
Section 28 -----	127,000 <sup>1</sup>	--	--
Total expenditures appropriated and proposed -----			\$579,527

<sup>1</sup> The department was authorized under Section 28, Budget Act of 1969, to utilize salary savings to procure contract programming services.

## Legislative Analyst Involvement

Our office has maintained a continued interest and involvement in the budget data system since the original proposal was submitted to the Legislature. In the Analysis of the Budget Bill for fiscal years 1969-70 and 1970-71, and in remarks prepared for a joint legislative budget committee hearing on the subject in May 1970, we have supported the concept of this system, reported the plans and activities related to the system and made a number of recommendations which were adopted in the form of language in the Supplementary Report of the Committee on Conference relating to the 1969 and 1970 Budget Bills. The primary objectives of these recommendations were to (1) guarantee that the Legislature have independent access to information through keyboard terminals; (2) require the Department of Finance to develop an overall management plan that integrates the budget data system with the program and budgeting system and enhances the system with measures of effectiveness and output; (3) insure that the system be installed on a state EDP facility rather than a non-governmental EDP service center as originally proposed; (4) provide reports regarding the cost of designing, implementing, and operating the system; and (5) involve appropriate legislative staff in regular meetings to assist in the development of adequate budgetary information for the Legislature. At the request of the Senate Finance and Assembly Ways and Means Committee, it was also recommended that terminal access into the budget data system by those committees be provided no later than July 1, 1971.

## Lack of Adequate Fiscal Information

The budget data system final report (May 1, 1970) was required by the 1969 Legislature and summarized the objectives, requirements and design of the system. This report formed the basis of the May 13, 1970 hearing before the Joint Legislative Budget Committee.

At this hearing, we prefaced our remarks with the assumption that the Department of Finance was committing itself to the development of a broad-based information system to support the program budgeting system. We noted the loss of information by our office and the Legislature resulting from conversion from a line-item budget to a program budget format, and expressed concern that under the proposed system there did not appear to be a structure that would provide a guar-

antee that we would not lose even more information and control because there was no mention in the system design concept of a proposed structure for actually building a budget at the operating department level. Neither was insight provided into the administrative decision process which, in our opinion, should include options considered and the accompanying cost/benefit analysis necessary for the selection of an option. It was the absence of a plan to integrate the budget data system processes with the standard budget process that caused us to recommend the development of the management plan discussed below.

Before leaving the issue of a lack of fiscal information, it should be noted that on page 26 of the May 1, 1970, final report, one major benefit of the system was described as the ability to identify real and potential fiscal problems in time to react effectively (trend development, revenue and expenditure discrepancies, etc.). According to the system description, it will be possible to generate monthly actual and revised expenditures on the basis of claims filed.

At the time of the Budget Committee hearing, we discussed this system benefit and suggested that it might have been possible to predict a shortage of funds relating to payments for Medi-Cal drug claims (a crisis in Medi-Cal funding existing at that time) in order to react with an appropriate response. Given the current crisis in Medi-Cal funding, it appears that the implementation of such a system is mandatory for proper fiscal management. However, we again must emphasize that without a management plan describing how, for example, the Department of Health Care Services would be required to prepare its input for the system, we will have little confidence in the validity of the system outputs.

Also critically important for an integrated fiscal management system is the orderly development of automated budgeting and accounting at the department level. We discuss the lack of coordination and control which exists in this important area under our analysis of the budget of the Department of General Services.

#### **Failure to Submit Management Plan**

Item 108 of the Supplementary Report of the Committee on Conference, 1970 Budget Bill, required the Department of Finance to submit a management plan to the Legislature by September 1, 1970, that would include all of the steps necessary to phase in the budget data system, enhance the program and budgeting system with measures of effectiveness and output and provide a comprehensive base of information for decisionmaking.

The Director of Finance requested that the date for submission of this plan be extended to January 1971. The Chairman of the Joint Legislative Budget Committee, in granting this request, stated that it was imperative for the program managers within the Department of Finance and the budget data system personnel to work closely in developing a plan which is not solely limited to the budget data system.

*The required management plan has not been received and we therefore withhold our recommendation on funding the budget data system for 1971-72. When the plan is received, we will prepare an analysis for discussion before the fiscal committees.*

Department of Finance—Continued  
Progress During Fiscal Year 1970-71

With the development of detailed systems specifications by a private consulting firm and the submission of a final report in May 1970, the Legislature approved funds for implementation of the system during the current year. A contract for computer programming services was granted in June 1970 to the same private consulting firm that completed the systems design.

The transfer of the Department of Education's computer to the Department of General Services was accomplished by legislative mandate on July 1, 1970, for operation as the state's first "shared computer utility." This data-processing facility was modified to accommodate the requirements of the budget data system during the first six months of the fiscal year by adding sophisticated teleprocessing and file management software, an improved operating system, and additional magnetic disk and bulk use storage.

Actual programming began in October 1970. The budget data system will be operated in parallel with the manual system during fiscal year 1971-72 and declared operational for fiscal year 1972-73.

The ambitious and probably unrealistic original implementation schedule of the budget data system called for parallel operations during the current fiscal year. Recognizing that delays would occur in developing the shared computer utility, we suggested that this schedule be abandoned and a flexible schedule be developed with gradual conversion.

This new schedule has prompted a revision of the timetable for implementation of our terminal from January to June 1971. Similarly, the availability of meaningful test data in the system for use by the fiscal committees should probably revise their terminal installation date from July 1971 to January 1972.

**COMMISSION ON CALIFORNIA STATE  
GOVERNMENT ORGANIZATION AND ECONOMY**

Item 60 from the General Fund

Vol. I p. 195 Budget p. 43

Requested 1971-72	\$53,000
Estimated 1970-71	53,034
Actual 1969-70	49,043
Requested decrease \$34 (0.1 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

The Commission on California State Government Organization and Economy was created by the 1961 Legislature to review state organization and administrative procedures, and to promote economy and efficiency in state government. The commission makes its recommendations to the Governor and to the Legislature. Although the commission is part of the executive branch it operates with considerable inde-

pendence due to the composition of its membership—five citizens appointed by the Governor, four citizens appointed by the Legislature, and two legislative members from each house, with no more than seven of the 13 members from one political party.

The staff of the commission consists of an executive secretary and a senior stenographer. Commission members are reimbursed for necessary expenses incurred in the performance of their duties, but receive no salary.

Table 1  
Expenditure History

	<i>Actual</i> 1968-69	<i>Actual</i> 1969-70	<i>Estimated</i> 1970-71	<i>Proposed</i> 1971-72
Total Expenditures -----	\$49,428	\$49,043	\$53,034	\$53,000

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

In 1970 the commission continued its efforts in expanding the state's ability to invest in banker's acceptances for further investment flexibility. A study of the Department of Industrial Relations has been completed and the commission has drafted legislation to implement its recommendations for increased savings. A pilot study to determine the possible need for fundamental changes in workmen's compensation provisions applicable to public agencies was also made in 1970.

In 1971 the commission will consider a number of issues including further reorganization for the Department of Industrial Relations and a study of real property management and utilization by state educational institutions.

#### COMMISSION OF THE INTERSTATE COOPERATION

Item 61 from the General Fund

Vol. I p. 197 Budget p. 44

Requested 1971-72 -----	\$99,100
Estimated 1970-71 -----	99,100
Actual 1969-70 -----	96,037
Requested increase -----	None
Total recommended reduction -----	Pending

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis*  
*page*

1. The Council of State Governments, which derives a portion of its support from this item, revised its nationwide contribution schedule for member states in 1969. The proposed budget does not reflect this revision, which would have increased California's contribution from \$94,300, the level proposed in this item, to \$110,730, an increase of \$16,430 or 17.4 percent.

Commission of the Interstate Cooperation—Continued  
**GENERAL PROGRAM STATEMENT**

The objective of the commission's program is the promotion of cooperation between various agencies of California state government and their counterparts in other state governments and at the federal level. This objective is met through the state's participation as a member of the Council of State Governments, a quasi-official body which prepares and disseminates reports and comparative studies on the operations of the 50 state governments. In addition, the council provides the staff and planning of arrangements for the annual meetings of a number of associations of state officials.

The California commission is composed of 19 members, seven from each house of the Legislature who are members of the committees on interstate cooperation of their respective bodies, and five state officers appointed by the Governor, one of whom is designated by him as chairman of the commission.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend special review.*

The \$99,100 proposed for the budget year is at the same level as the current year. Of this amount, \$94,300 or 95 percent is the state's proposed contribution for the support of the Council of State Governments. The remaining 5 percent is allocated for travel and per diem expenses of the state officials who serve on the commission. Expenses of the legislative members of the commission are paid separately from the contingent funds of the Legislature.

Since its inception in 1939, the commission has been instrumental in securing California's ratification of 19 interstate compacts, one of which is awaiting congressional approval. Among the compacts now in effect are the Western Regional Education Compact, the Arizona-California Boundary Compact, and the Interstate Civil Defense and Disaster Compact.

The Council of State Governments in fiscal year 1969-70 published 53 reports concerning a variety of state programs and problems and, as in the past, provided staff support for the annual conferences of its nine affiliated organizations, which include the states' legislators, chief justices, court administrative officers, attorneys general, budget officials, and the Governors' conference.

**Funding of Council of State Governments**

As noted above, the \$94,300 proposed as California's contribution to the support of the Council of State Governments is \$16,430 or 17.4 percent less than the council has requested from California under its revised appropriations schedule for member states. This new schedule, reflecting for the first time a flat contribution of \$7,000 from each state in addition to an amount based on a population formula, has been structured to produce \$1,645,960 for support of the council in the budget year, compared to \$1,178,150 which the old schedule provided for the current year. The new schedule contemplates a contribution of \$110,730 from California, followed by New York at \$107,600 and Pennsylvania

at \$73,110. Alaska and Wyoming, at \$14,070 each, are scheduled for the smallest contributions.

The effect of adding a flat contribution to the population formula has been to increase the contributions of the least populous states by the highest percentages. For example, the appropriations requested from Alaska and Wyoming are approximately 100 percent above their current support levels. The council states that utilization of a flat-rate factor in the appropriations schedule is justified for a number of reasons, one of them being that smaller states proportionately receive more council services than larger ones. Moreover, there remains a substantial spread between the top and bottom of the appropriations schedule.

Historically, the council's support request to the states have been adjusted every four years, but, after experiencing operating deficits resulting from the recent inflationary trend, the council in 1969 adopted a two-year cycle for making adjustments in the appropriations schedule. The adjustment for the two-year period beginning in 1969-70 resulted in California's present contribution level of \$94,300, which represented an increase of \$24,725 over the 1968-69 contribution.

At our request, the San Francisco office of the Council of State Governments has supplied information on its current budget and proposed 1970-71 budget. In addition to support from the states totaling \$1,178,150 in the current fiscal year, the council estimates that it will generate revenues of \$100,000 from the sale of publications, \$40,700 from interest earnings, and \$2,500 from reimbursements, thus producing a total current expenditure program of \$1,321,350.

Based on the revised state contributions schedule, and including additional estimated revenues of \$112,500 from the sources noted above, the council's proposed 1971-72 budget totals \$1,758,460, which is an increase of \$437,110 or 33 percent over the current year. The major items of increased cost are salaries, up from \$804,850 to \$914,400 (13.6 percent), and travel and conference expenses, up from \$121,200 to \$148,700 (22.7 percent).

We are advised that the council has a current staff of 80 positions (5 administrators, 40 technical, and 35 secretarial and clerical), approximately 30 of which are assigned to the council's headquarters in Lexington, Kentucky, and the remaining 50 are distributed among five regional offices. The budget data supplied by the San Francisco office does not reflect the staffing level proposed for 1971-72, but it appears that additional staff is contemplated for the Lexington office because the salary item for that office is increased by 22.3 percent, from \$394,250 to \$482,000. Similarly, most of the \$27,500 increase in travel and conference expenses occurs in the Lexington office budget.

The Council of State Governments is an authoritative and comprehensive source of comparative information on state governmental activities and developments, and it merits the continued support and participation of the states. However, the council's request for an overall budget increase of 33 percent, which includes substantial added funding for staff, travel, and conferences, appears excessive in view of the tight budget restrictions and priorities confronting California and most other states.

**MILITARY DEPARTMENT**

Item 62 from the General Fund

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Requested 1971-72 -----	\$4,112,938
Estimated 1970-71 -----	4,133,354
Actual 1969-70 -----	4,341,514
Requested decrease \$20,416 (0.5 percent)	
Total recommended reduction -----	None

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**GENERAL PROGRAM STATEMENT**

The mission of the Military Department is to provide: (1) A military organization capable of protecting the lives and property of the people in California during periods of natural disaster and civil disturbance and to perform other functions required by the California Military and Veterans Code or as directed by the Governor, and (2) to be prepared for federal mobilization during national emergencies.

The Military Department consists of the Army National Guard, Air National Guard and Office of the Commanding General.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

**ARMY NATIONAL GUARD PROGRAM**

The troop and officer strength is determined by the federal government which pays most of the expenses. The projected total Army National Guard consists of approximately 22,500 men and officers, which is the same as the current fiscal year, assigned to 158 units, most of which are at 93 percent of wartime strength. The units are stationed at various locations to provide military support if needed to local entities anywhere in the State of California. Most of the troop strength is concentrated in or near the large metropolitan areas of the state. The state owns and operates 109 armories which are used for training, housing of the guard, administration and storage and federally funded maintenance and supply activities.

Thefts of arms and ammunition have occurred by forced entries into National Guard armories. To reduce these incidents, security measures are being increased. The amount of \$43,000 is requested to initiate a security program which includes lighting and anti-intrusion devices.

No civil disturbances have occurred in the current fiscal year which required use of the guard.

**AIR NATIONAL GUARD**

The purpose of the Air National Guard is to provide units which are well trained and equipped to provide protection of life and property of the people of California. It is also the firstline reserve of the Air Force. As a practical matter the latter is its primary purpose.

The organization consists of 48 units assigned to four flying bases and three nonflying installations located throughout the state on a geographical basis. The authorized strength is approximately 5,800 officers and airmen, but the current force is limited to 87 percent or 5,000

assigned personnel. The air guard has three primary operational forces which are air defense, tactical airlift and communications. Different types of federally supplied aircraft are used for air defense and tactical airlift operations.

The federal government provides funds for the construction of facilities at these bases and installations. Most of the operation and maintenance of the California Air National Guard installations is done by contract between the state and federal governments wherein the federal government reimburses the state for certain expenses in providing services and maintenance of these facilities. The maximum the federal government will reimburse the state is 80 percent. The development expenditures, to date, of the federal government at the seven California air guard bases is \$18 million. Fifty-five new positions are being added to this program which will be financed by a federal grant.

#### OFFICE OF THE COMMANDING GENERAL

The Commanding General of the Military Department has the responsibility for the direction and supervision of all programs that are necessary to organize and maintain a California National Guard in a state of readiness to respond to all types of emergencies which may occur in the State of California or in the nation as a whole. To carry out the many duties required by federal and state laws necessitates a diversified full-time staff at headquarters.

#### General Administration and Services

The functions performed under this program are general policy determination, supervision and management and departmental administrative services.

Included in this framework of services are fiscal and personnel management, assignment of space, procurement, warehousing of materials and supplies, etc.

#### Total Costs Versus State Share

The total cost of operating this department exclusive of federal payments to guardsmen for training activities is projected to rise substantially from \$4,921,367 estimated for the current fiscal year to \$5,684,670 for the budget year, an increase of \$763,303 or 15.5 percent. Principally, this is due to an increase of 55 authorized positions.

However, the increase in gross cost is more than offset by an increase in federal participation from \$788,013 in the current fiscal year to \$1,571,732 in the budget year. This results in a decrease in net state cost of over \$20,000 from the current fiscal year to the budget year. In the 1970-71 fiscal year, the federal share represents 15.8 percent of the gross cost, while in the budget year it is 27.6 percent.



**Military Department**  
**MILITARY RETIREMENT**

Item 63 from the General Fund                      Vol. I p 210    Budget p. 45

Requested 1971-72	-----	\$387,183
Estimated 1970-71	-----	294,289
Actual 1969-70	-----	228,349
Requested increase \$92,894 (31.6 percent)		
Total recommended reduction	-----	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This program applies only to military personnel ordered to state active duty prior to October 1, 1961. Those who are ordered to active duty after that date will become members of the Public Employees' Retirement System. There are a total of 56 people eligible for this retirement. Thirty-three had retired as of the current fiscal year. It is anticipated that some additional personnel will retire in 1971-72 which is the justification for the estimated increase of \$92,894 over the amount estimated for the current fiscal year.

**Military Department**  
**CALIFORNIA CADET CORPS**

Item 64 from the General Fund                      Vol. I p. 210    Budget p. 45

Requested 1971-72	-----	\$97,871
Estimated 1970-71	-----	95,389
Actual 1969-70	-----	92,703
Requested increase \$2,482 (2.6 percent)		
Total recommended reduction	-----	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The objective of this program is to afford an opportunity for those high school students who as a general rule do not engage in other activities such as football, basketball and track to participate in a program designed to develop their leadership, citizenship and community service. The training given in this program is in basic military subjects directed under conditions of military discipline as a part of the regular educational curriculum. The Military Department provides training aids, awards, rifles, ammunition and uniforms. The department also supervises and coordinates the program for the commandants of cadets who are credentialed teachers and whose salaries are paid by the schools. All activities of this program are conducted on school property. Current enrollment is approximately 4,300 students in 77 schools. The same number is projected for the budget year.

The department provides overall guidance and control through 3.7 man-years allocated to the activity. The slight increase of \$2,482 for 1971-72 over the amount estimated for the current year is due to salary adjustments and staff benefits.

### PUBLIC UTILITIES COMMISSION

Items 65 and 66 from the General  
Fund and the Transportation Rate  
Fund

Vol. I p. 219 Budget p. 48

Requested 1971-72 -----	\$12,408,963
Estimated 1970-71 -----	12,730,824
Actual 1969-70 -----	12,052,771
Requested decrease \$321,861 (2.5 percent)	
Total recommended augmentation (General Fund) -----	\$395,057

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

We recommend retention of 13 of the 26 positions proposed 157 in the budget for abolishment, and addition of 21 positions relating to regulation of utilities. Total cost of these retentions and additions is \$395,057, resulting in a General Fund support level for the budget year of \$6,895,057, which is \$20,412 or 0.3 percent above the current-year General Fund support level.

#### GENERAL PROGRAM STATEMENT

The Public Utilities Commission, created by constitutional amendment in 1911, is responsible for the regulation of privately owned public utilities. The term "public utility" includes such entities as truck, bus, and airline companies, pipeline corporations, electric companies, telephone companies, gas companies, and warehouse companies. The commission's primary objective is to insure adequate facilities and services for the public at reasonable and equitable rates consistent with a fair return to the utility on its investment. The regulatory activities and powers of the commission relate to:

- a. Adequacy of service
- b. Rates to be charged
- c. Minimum safety standards
- d. Sale or encumbrance of useful utility property
- e. Issuance of certificates to operate or to construct facilities
- f. Issuance of securities
- g. Financial accounting procedures on which rate decisions are based

#### Commission Organization

The commission is composed of five members appointed to staggered six-year terms by the Governor with the advice and consent of the Senate. The commissioners annually elect one of their members as chairman.

**Public Utilities Commission—Continued**

The commission's staff of 775.5 authorized positions is organized into six divisions: Administrative, Transportation, Utilities, Finance and Accounts, Examiner, and Legal. Approximately 70 percent of the staff positions are located at the commission's headquarters office in San Francisco, 15 percent in the Los Angeles area office, and the remainder in 15 Division of Transportation field offices located throughout the state.

**Programs**

The commission's two major programs are (1) regulation of transportation companies and (2) regulation of utilities. These programs are administered by the Division of Transportation and the Division of Utilities, each of which receives supportive services from the other four divisions.

**Operating Procedures**

The commission passes judgment on all changes in operating methods and rate schedules proposed by regulated utilities and transportation companies. It investigates complaints registered against utilities and may also initiate investigations of utility companies on its own volition. In all such cases, data are accumulated by the staff, hearings are held, decisions rendered, and compliance secured through enforcement procedures. Appeal of commission decisions may be made only to the California Supreme Court, whose review power is limited to questions of law.

An application or complaint presented to the commission by or against a utility, for example, would be studied by the Utilities Division. Any financial implications would be reviewed and evaluated by the Finance and Accounts Division. The Legal Division advises the commission on questions of law and assists the staff and other interested parties in presenting their findings before the commission at hearings which are conducted by the Examiner Division. The Administrative Division provides staff supervision, administers commission policies, and maintains housekeeping services.

**Support of the Commission**

The commission is supported by the General Fund and the Transportation Rate Fund. The Transportation Rate Fund finances only those commission activities relating to the rates, charges and practices of highway freight carriers. All other commission functions are supported by the General Fund.

Transportation Rate Fund revenues are derived from a fee on the gross operating revenues of highway freight carriers. Currently, this fee is set at one-quarter of 1 percent of such revenues. Additional Rate Fund revenue is produced by a \$4 quarterly "filing fee" which is paid by all highway motor carriers at the time of filing their quarterly reports on gross operating revenue with the commission. Other revenues are derived from a miscellany of penalties, application fees for permits and certificates, and from the sale of documents.

Legislation enacted in 1970 requires the commission to collect, simultaneous with collection of the one-quarter of 1 percent fee, a "business license tax" equal to one-tenth of 1 percent of highway carriers' gross operating revenues. Revenue from this tax is distributed among the cities of the state on the basis of population in lieu of their charging taxes on truckers' intercity highway transportation. Such taxes are in turn prohibited by the legislation.

#### ANALYSIS AND RECOMMENDATIONS

The commission's total request for the budget year is \$12,408,963, which represents a decrease of \$321,861 or 2.5 percent from estimated current-year expenditures of \$12,730,824. The budget indicates proposed expenditures of \$6,500,000, or 52.4 percent of the total, to be paid from General Fund appropriations, with the remaining \$5,908,963, or 47.6 percent, to be paid from Transportation Rate Fund revenues. This is a decrease of 5.4 percent from the current-year General Fund appropriation and an increase of 0.9 percent over the current-year Rate Fund appropriation.

#### General Fund Augmentation Needed

Since all commission programs other than regulation of highway carriers must be supported by General Fund appropriations, the proposed 5.4 percent decrease in the General Fund allocation for the budget year primarily will affect utility regulation rather than regulation of transportation. The budget proposal provides for elimination of 26 positions, consisting of 10 positions in the Utilities Division, eight positions in the Administrative Division, three positions in the Financial and Accounting Division, three positions in the Examiner Division, and two positions in the Legal Division. The apparent rationale used in choosing these positions for elimination was that they related to General Fund activities and were vacant at the time the reduction was decided upon. Ten new positions, all relating to legislation enacted in 1970, are proposed for Transportation Division functions.

*For reasons stated below, we recommend retention or addition of the following positions relating to regulation of utilities.*

2 Senior utilities engineers @ \$15,276	\$30,552
10 Associate utilities engineers @ \$13,200	132,000
7 Assistant utilities engineers @ \$10,860	76,020
1 Financial examiner IV	15,276
1 Financial examiner III	12,576
3 Financial examiners II @ \$10,356	31,068
1 Counsel II	17,700
1 Senior legal stenographer	7,188
1 Senior stenographer	6,744
2 Stenographer II @ \$5,904	11,808
5 Clerk-typists II @ \$5,484	27,420
<b>34 Total, salaries</b>	<b>\$368,352</b>
Staff benefits @ 10 percent	36,835
	<b>\$405,187</b>
Estimated salary savings (2.5 percent)	10,130
<b>TOTAL PROPOSED AUGMENTATION</b>	<b>\$395,057</b>

## Public Utilities Commission—Continued

In our judgment, any reduction of positions relating to regulation of utilities at this time, when measured against the current duties and workload of the Utilities Division, will result in a dilution of the commission's regulatory ability and will have adverse effects for both the public and the regulated utilities.

This augmentation is equivalent to 5.7 percent of the current-year General Fund appropriation of \$6,874,645, and will offset the 5.4 percent decrease in General Fund appropriations proposed for the budget year. It will result in a total General Fund appropriation for the budget year of \$6,895,057, which exceeds the current-year appropriation by \$20,412 or 0.3 percent.

Table 1 shows the level of financial and personnel support of commission activities over the past eight years, and the number of positions assigned to utility and transportation regulation over the past four years (the period for which these program figures are available).

Table 1  
Funding and Personnel Growth  
Public Utilities Commission

Year	General Fund appropriation	Total budget <sup>1</sup>	Total <sup>2</sup> personnel	Regulation <sup>2</sup> of utilities	Regulation <sup>2</sup> of trans- portation
1963-64-----	\$4,168,000	\$8,066,000	709	---	---
1964-65-----	4,596,000	8,896,000	740	---	---
1965-66-----	4,912,000	9,397,000	762	---	---
1966-67-----	5,363,000	10,074,000	770	---	---
1967-68-----	5,789,000	10,588,000	765	---	---
1968-69-----	6,070,000	11,361,000	775	256	404
1969-70-----	6,593,000	12,053,000	782	252	423
1970-71-----	6,875,000	12,731,000	757	245	406
(estimated)					
1971-72-----	6,500,000	12,409,000	756	240	418
(proposed)					

<sup>1</sup> Includes General Fund and Transportation Rate Fund revenues.

<sup>2</sup> Actual positions filled in man-years.

As indicated in Table 1, the total staffing level proposed for the budget year will be the lowest since fiscal year 1964-65. Similarly, the number of positions assigned to regulation of utilities has decreased from 256 in 1968-69 to 240 in the budget year.

Some of the commission's primary functions do not lend themselves totally to workload measurement. A request by a utility for a rate increase involving many millions of dollars, for example, may require greater staff effort than a dozen smaller rate decisions. Furthermore, the outcome of such cases is not solely dependent on the quality and completeness of the staff's findings and presentations. It varies also with the quality of the presentations of the utilities and other interested parties, and with the discretionary judgment of the commissioners. Adequate staffing, however, is necessary if utility proposals and public complaints are to be evaluated thoroughly and objectively by the commission's staff.

Table 2 shows basic indicators of commission workload relating to the regulation of the rates charged by utilities.

Table 2  
Workload Indicators—Regulation of Utility Rates

	Actual 1967-68	Actual 1968-69	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Rate decisions .....	112	72	121	123	124
Commission resolutions .....	307	316	300	280	290
Advice letters .....	1,017	1,041	1,050	1,075	1,100
Public inquiries .....	1,932	2,244	2,340	2,400	2,440
Informal complaints .....	7,516	8,292	8,850	9,450	10,050

#### Workload Growth

Although the commission estimates that the total number of rate decisions will increase only very slightly during the budget year, the number of major cases before the commission is unprecedented. Utilities regulated by the commission consist of approximately 15 electric companies (three of which provide 95 percent of the state's total electric service), 30 telephone and 45 radio-telephone companies (two of which provide 97 percent of the state's telephone service), 17 gas companies, and 500 water companies (400 of which are comparatively small).

During the decade preceding 1970, no major electric rate cases were filed before the commission. This year, however, the commission has studied rate requests by all three major electric utilities. Similarly, between 1961 and 1968 there were no major gas rate cases before the commission. Today the staff is involved in 14 cases before the commission or the Federal Power Commission.

This growth in major rate increase proposals is based on several factors, among which are: (1) the effect of inflation on rates charged; (2) the higher cost of money for facility expansion and for refinancing loans originally made at much lower interest rates; and (3) higher costs relating to environmental concerns (e.g., nonpolluting electric generation facilities, and underground electric and telephone cables). Inflation probably is the most pervasive single factor. Table 3 shows annual rates of inflation during the past decade.

Table 3  
Annual Rates of Inflation

1961.....	1.3 percent	1966.....	2.8 percent
1962.....	1.1 percent	1967.....	3.2 percent
1963.....	1.3 percent	1968.....	4.0 percent
1964.....	1.6 percent	1969.....	4.7 percent
1965.....	1.8 percent	1970.....	5.3 percent

So long as inflation continues at or near its present rate, many utilities will probably seek rate increases approximately every second year.

The Utilities Division consists of five branches, dealing with (1) communications (telephone companies), (2) electric utilities, (3) gas utilities, (4) hydraulics (water companies), and (5) general (regulation of management functions common to all utilities corporations, such as rates of depreciation). Each of the first four branches performs the following regulatory functions: regulation of rates, regulation of the quality and quantity of existing service and facilities, regulation of

**Public Utilities Commission—Continued**

proposals for new facilities and services (certification), and regulation of safety standards.

The communications branch currently is studying rate increase proposals totaling over a quarter billion dollars proposed by the Pacific Telephone and General Telephone companies, which together provide 97 percent of the state's telephone service. This is the first time that the commission has analyzed two communications rate proposals of such magnitude simultaneously. As a result, this branch has been forced to set aside other primary functions, such as investigating service complaints and reviewing tariffs charged for new communications products.

Similarly, the gas branch faces an unprecedented number of major rate increase requests, reflecting in part the recent increases in the price which the utilities must pay for gas delivered from the wellhead. Since approximately two-thirds of the state's electric power is generated by burning gas, these price increases by gas producers will affect the number of electric rate increase proposals, also.

The hydraulics branch analyzes over 75 formal and 30 informal rate increase requests from water companies annually, compared with a total of 50 four years ago, and has a backlog of cases which is greater than at any time in the past seven years. Often the smaller water companies are less able to cope with the effects of inflation than are larger utilities, particularly since consumer water use has not increased as fast as consumer electric or telephone service. As a result, commission delays in considering their rate increase requests may work a special hardship on these smaller companies.

The scope and complexity of the rate proposals now before the commission have required the utilities division to shift personnel away from other important functions, including investigation of service and review of new facilities. Similarly, development and enforcement of comprehensive safety orders relating to gas and electric transmission facilities have been curtailed due to a shift of personnel to the rate cases.

**New Positions Needed**

Therefore, we recommend that one senior utilities engineer, six associate utilities engineers, and six assistant utilities engineers, and related clerical positions be assigned to the Utilities Division to meet the increased workload relating to rate increase proposals in the communications, gas, electric, and water branches. This augmentation will permit some of the personnel now assigned to rate cases to return to other commission programs relating to quality of service, certification of new facilities, and safety.

We also recommend that one fiscal examiner IV, one fiscal examiner III, and three fiscal examiners II be added within the Financial and Accounting Division to handle its increased workload pertaining to analysis of rate increase proposals.

This division, in addition to reviewing utility applications to issue securities and auditing the financial reports and data of carriers and other utilities, prepares rate and cost studies and reviews the financial reports which are submitted relative to rate increase proposals. It ascertains, among other things, the utilities' methods of recording invest-

ment and plant and their compliance with systems of accounting prescribed by the commission.

The five positions proposed for this division, three of which are authorized for the current year but are proposed for elimination in the budget year, form a necessary complement to the positions proposed for retention or addition in the Utilities Division. As noted earlier, the positions selected for elimination were chosen on the basis of current vacancies.

In addition to the above positions which are proposed to meet present workload and backlog in utility rate work, we also recommend implementation of the following programs.

**Four Positions Recommended for Review of  
Utility Proposals for Nuclear Generating Plants**

*We recommend that one senior utilities engineer, two associate engineers, and one assistant engineer be added to the commission's staff to implement Commission General Order 131, relating to planning and construction of electric generating plants and transmission facilities.* New generating plants are evaluated and certified by the commission as one of its primary programs. However, recent proposals to build nuclear generating plants require considerably greater analysis and investigation than do the previous proposals for plants powered by hydroelectric or fossil-fuel sources. The commission makes evaluations of such factors as cost, operating efficiency, safety, effect on environment, and return on investment in determining which designs will provide the public with the safest and most adequate service at the most reasonable cost.

Previously, three or four days of hearings and 50 to 60 man-days of staff time were required to evaluate each proposal for a new plant. Due to increased public concern over nuclear generating plants, however, and due to the highly sophisticated problems associated with their design, up to 20 days of hearings and 200 man-days of preparation are now required in each such certification case. Since utilities must plan now for future needs, and since the public is better served by adequate commission review of all such plans, we believe that it is essential that these positions be added in the budget year.

**Two Positions Proposed for Cable TV and Gas  
Pipeline Safety Regulation**

Chapter 1240, Statutes of 1968, authorizes the commission to set safety standards for the construction and operation of community antenna television corporations (cable TV). Similarly, legislation enacted by the U.S. Congress in 1968 authorizes the commission to enforce federal safety standards pertaining to gas pipelines. However, the commission has not been able to implement these programs due to lack of sufficient personnel. Since approximately 1,000 miles of new pipelines will be added to the existing 64,000 miles during the budget year, and since explosions in other states have demonstrated the need for adequate inspection of such pipelines and enforcement of safety standards, *we recommend that two associate engineer positions be authorized to implement and enforce the above safety programs.*



## Public Utilities Commission—Continued

Recommend Restoration of One Attorney Position and  
One Legal Steno Position

Workload within the Legal Division increased by more than 20 percent during calendar year 1970, as shown in Table 4.

Table 4  
Filings Initiated by Legal Division Before  
Courts and Federal Agencies

	1969	1970	Percent increase
Federal Communications Commission -----	1	5	--
Interstate Commerce Commission -----	6	5	--
Supreme Court (California) -----	13	10	--
Superior courts -----	3	3	--
Municipal courts -----	4	4	--
Atomic Energy Commission -----	0	1	--
Civil Aeronautics Board -----	1	6 <sup>1</sup>	--
Totals -----	28	34	21.4
Number of items presented to Commission Conference (memoranda, memoranda-with- orders, and orders) -----	244	333	36.5
Other letters and memoranda (exclusive of Commission Conference) -----	1,509	1,735	15.0

<sup>1</sup> One of these filings before the CAB has 9 subdivisions and 23 pages of docketing.

The budget document indicates elimination of one attorney position and one legal stenographer position. The legal division, however, already is understaffed clerically to the extent that some attorneys must type their own briefs or search for clerical assistance from other divisions. By way of comparison, the Department of Justice maintains a ratio of two stenographers for every three attorney positions, while the commission employs one stenographer for every three positions. This ratio would be further reduced as a result of eliminating the stenographer position. *In our judgment, the proposal to eliminate these two positions in the legal division appears unwarranted, and we recommend that they be restored.*

## CALIFORNIA ARTS COMMISSION

Item 67 from the General Fund

Vol. I p. 233 Budget p. 50

Requested 1971-72 -----	\$168,000
Estimated 1970-71 -----	168,000
Actual 1969-70 -----	170,997
Requested increase—None	
Total recommended reduction -----	None

## GENERAL PROGRAM STATEMENT

The California Arts Commission was established by Chapter 1742, Statutes of 1963, to provide leadership and stimulate initiative and interest in the establishment of arts programs and activities at the state and local levels.

The commission, which is composed of 15 members appointed by the Governor plus two Assemblymen and two Senators appointed by their respective houses, is representative of all fields of the performing and visual arts. The commission and its presently authorized staff of 7.5 positions have assisted communities in establishing 140 local art councils and developing cultural programs by providing technical advice and support when requested.

Commission activities are financed from (1) the General Fund, (2) the California Arts Commission Fund, and (3) federal grants. The California Arts Commission Fund was established by Chapter 1051, Statutes of 1970, and consists of contributions from financial institutions and other private donors.

Major projects sponsored by the commission during the current year include a touring exhibit titled, "Horizons: A Century of California Landscape Painting," which will appear in 30 California cities between April 17, 1970, and May 14, 1971, and "Dimension: An Exhibition of Sculpture for the Sighted and Blind," which appeared at museums in six California cities between January 12 and November 27, 1970. The commission also initiated a project to select the 10 best youth orchestras in the state, from which a statewide touring youth orchestra composed of the 100 best performers will be chosen. The commission has also established statewide associations of symphony orchestras and ballet companies to consider matters of common and statewide interest and to solicit financial support on a unified, cooperative basis.

#### ANALYSIS AND RECOMMENDATIONS

##### *We recommend approval.*

The commission proposes General Fund expenditures of \$168,000 in the budget year, which is the same as the current level. However, the commission anticipates a total budget-year expenditure program of \$697,000, which includes \$404,000 in private donations through the California Arts Commission Fund, and federal grants totaling \$125,000 from the National Endowment of the Arts. To date, the California Arts Commission Fund has received approximately \$150,000 in contributions for current-year projects.

The commission requests that its permanent staff of 7.5 positions be supplemented by 12.5 temporary positions to produce and tour its visual and performing arts projects during fiscal years 1971-72 and 1972-73. Most of these temporary positions will be used to organize and tour an extensive exhibit of paintings and sculpture relating to the American Revolution period. Five and one-half of these positions were established administratively in the current year to begin the planning and designing phases of these projects and to enlist the support of community art groups, private industry, and interested individuals. The requested new positions consist of nine art advisers, a community services officer, and 2.5 clerical positions having a total budget-year cost of \$121,728. The commission states that the cost of these positions will be covered by the increased federal grants and the anticipated private donations.

**HORSE RACING BOARD**Item 68 from the Fair and  
Exposition Fund

Vol. I p. 236 Budget p. 51

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Requested 1971-72	-----	\$355,465
Estimated 1970-71	-----	355,465
Actual 1969-70	-----	331,929
Requested increase	None	
Total recommended reduction	-----	None

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. We recommend legislation which will eliminate the mandatory annual renewal of all horseracing occupational licenses. As a substitute, the Horse Racing Board should be authorized to establish a more flexible licensing period. This change would allow the board to absorb future increases in licensing workload without adding new staff.

2. We recommend legislation to establish the same cashiering system at the tracks that generally prevails in banking and retail establishments. Under existing contractual relationships, the parimutuel clerks must make up cash shortages and, conversely, may retain overages. This arrangement has placed the betting patrons at a disadvantage and has resulted in many complaints of being short changed.

**GENERAL PROGRAM STATEMENT**

The California Horse Racing Board, which consists of three members appointed by the Governor for four-year terms, supervises all race meetings in the state where parimutuel wagering is conducted. The board has a staff of 23.2 authorized positions and its main office is in Los Angeles. It maintains mobile offices which are moved from track to track as the racing season progresses throughout the state. These offices are staffed by license clerks and track investigators. The stated purposes of the board are (1) the protection of the betting public and (2) the sanctioning of every person who participates in any phase of horseracing.

The board's objectives are achieved by three programs: licensing, enforcement and administration.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

**LICENSING**

The board licenses all persons who are participants in activities connected with horseracing. These occupational licenses encompass 37 different job classifications including trainers, jockeys, parimutuel clerks, stable employees, owners and officials. Licenses are issued by license clerks assigned by the board to each track as the racing season begins. Licenses are valid for one year.

**Adopt a More Flexible Licensing Period**

*We recommend that Section 19512 of the Business and Professions Code be amended to delete the mandatory requirement that all occu-*

*pational licenses be renewed annually and, as a substitute, empower the Horse Racing Board to determine the time period for which each license shall be valid.*

Table 1 shows a moderate increase in the number of occupational licenses processed with no substantive change in the board's licensing staff. One method of avoiding future workload increases is to eliminate the requirement that all occupational licenses be renewed annually. There are certain occupational groups associated with horseracing, such as owners, trainers, jockeys, etc., which have a very low turnover, and as a result, we question the necessity for annual licenses. These low turnover groups constitute about half of the total licensees. Under our recommendation, the board would be given the discretion to issue multi-year licenses to either: (1) occupational groups with a low rate of turnover, or (2) persons with a long history of acceptable participation in California racing. Annual registration could be retained for new participants. If multiyear licenses are allowed, the fees would have to be adjusted in order to avoid any revenue loss.

Table 1  
Number and Revenues From Horseracing Occupational Licenses

	Actual 1968-69	Actual 1969-70	Estimate 1970-71	Estimate 1971-72
Occupational Licenses:				
Number issued -----	14,089	14,144	14,500	15,000
Fees collected -----	\$106,786	\$211,203*	\$260,000	\$280,000
Board's licensing personnel -----	7	7.1	7.2	7.2

\* Occupational license fees were raised effective January 1, 1970.

Racing associations are also licensed by the board. Fees for these licenses are based on a formula applied to the total amount of money wagered at the track (the "handle") and are collected weekly during the course of a horseracing meeting. Approximately 15 percent of the handle is divided between the racing associations, horse owners, and the state; 85 percent is returned to winning ticketholders.

#### ENFORCEMENT

Supervision of racing activities and of all individuals within the race-track grounds is the responsibility of the board's bureau of investigation. The racing associations across the U.S. maintain active files on persons inimical to horseracing and circulate this information. The associations maintain security personnel in addition to the board's enforcement bureau. These two groups cooperate with state and local enforcement agencies to identify undesirable patrons. Racing stewards appointed by the board have the power to suspend occupational licenses for violation of the board's rules. The licensee can appeal the steward's decision to the board. If the board denies the appeal, the licensee may take his appeal to the civil courts. A licensee may not participate in horseracing in another state if his license is suspended or revoked in California.

Compliance with laws and regulations is secured through inspections and tests of horses before and after each race and the investigation of all complaints and irregularities by the board inspectors assigned to each track during the course of its race meeting.

## Horse Racing Board—Continued

The 1970 Legislature enacted AB 2185 (Chapter 1536) which authorized the addition of eight weeks of harness racing at Cal Expo by a licensee other than the California State Exposition and Fair. This increased number of racing weeks is reflected in Table 3. The board has been able to absorb the increases in racing weeks with its current staff and can continue to do so as long as there are not more than three race meetings going on simultaneously either at northern or southern tracks.

Table 3  
Number of California Horseracing Days and the Board's  
Enforcement Personnel

	<i>Actual</i>		<i>Estimated</i>	
	1968-69	1969-70	1970-71	1971-72
Number of Racing Days:				
Thoroughbred .....	361	342	376	393
Harness horse .....	119	96	120	173
Quarter horse .....	131	125	128	133
Fairs .....	101	93	103	105
Total Dates .....	712	656 *	727	804
Number of days .....	498	435	479	498
Number of nights .....	214	221	248	306
Total .....	712	656	727	804
Number of enforcement personnel man-years .....	8.5	8.3	9	9

\* Decline due to race track labor dispute.

## ADMINISTRATION

The board's administrative and business service activities contain the functions that are essential to the operation of all other programs. Staffing requirements are based upon the number of days and length of racing weeks, geographical location and number of racing meetings which may be in progress at any given time. The board currently licenses 20 race meetings. Seven man years are allocated to this program element at a cost of \$108,000 for the 1971-72 budget year.

**Disputes Over Short Changing**

Parimutuel clerks in the state have an unusual agreement with the race tracks wherein individual cashiers must make up any cash shortages out of pocket and conversely may retain any overages at the end of a racing day. Under this arrangement the tracks are benefited because they never have any cash shortages. However, the betting patrons are placed in a disadvantageous position when they are purchasing tickets as is evidenced by the four and five hundred complaints to the horse racing board each year from people who claim they have been short-changed at the parimutuel ticket window. Investigations have been made by the board as time permits but evidence is difficult to obtain after the fact.

*We recommend that legislation be adopted to eliminate this arrangement between the parimutuel clerks and tracks and to substitute the same cashiering arrangement that generally prevails in banking and retail industries. Such legislation would fix the responsibility for shortages and overages with the tracks rather than with the parimutuel clerks who make the actual transactions.*

**BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF  
SAN FRANCISCO, SAN PABLO AND SUISUN**

Item 69 from the Pilot Commissioner's  
Special Fund

Vol. I p. 241 Budget p. 52

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Requested 1971-72 .....	\$34,224
Estimated 1970-71 .....	33,731
Actual 1969-70 .....	27,991
Requested increase (\$493 (1.5 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Governor's Reorganization Plan No. 1 of 1969 abolished the functions of this board effective January 1, 1971, and funds were provided in the 1970 Budget Act to continue board operations only

**Board of Pilot Commissioners—Continued**

through December 31, 1970. However, the board was reestablished, effective January 1, 1971, by Chapter 1302, Statutes of 1970. Funds to continue the operations of the board from January 1, 1971, through June 30, 1971, have been provided by an emergency authorization.

This board of pilot commissioners consists of three members appointed by the Governor. They draw part-time salaries of \$300. The board maintains an office in San Francisco and has an authorized staff of one full-time secretary.

The board has responsibility for supplying qualified pilots for vessels entering or leaving the Bays of San Francisco, San Pablo and Suisun. Bar pilots were the first occupational group to be licensed by the State of California (1850). The number of licensees is presently limited to 28.

The board administers a single program consisting of the licensing and regulation of bar pilots. It conducts pilot examinations and acts on disciplinary complaints. It also provides staff services to the Pilotage Rate Committee, a body established in 1961 to prepare recommendations on pilotage rates for submission to the Legislature. This committee is composed of five members appointed by the Governor to four-year terms, two representing the pilots, two the shipping industry, and one representing the public. The public member draws a \$50 per diem when meeting and also receives travel expenses.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

During fiscal year 1971-72, the board proposes to expend \$34,224, which exceeds estimated expenditures for the current year by \$493 or 1.5 percent. Operations for the period January 1, 1971, to June 30, 1971, are covered by an emergency authorization of \$18,731.

**Support Funds**

The board is supported from the Pilot Commissioner's Special Fund, which is derived from a percentage assessment on pilotage fees collected directly by the pilots from ships which they pilot. Assessments are established at a level adequate to cover board operating costs. The bar pilots maintain their own association and their own pilot ships. The fees which they collect are deposited in a common treasury from which their salaries and expenses are paid.

**PERSONAL SERVICES NOT ELSEWHERE REPORTED**

Item 70 from the General Fund

Vol. I p. 244 Budget p. 53

Requested 1971-72	\$3,158,104
Estimated 1970-71	2,345,655
Actual 1969-70	1,689,052
Requested increase \$812,449 (34.6 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

This statutorily required appropriation provides the state's contribution toward payment of the health benefits plan premiums of annuitants of retirement systems to which the state made contributions as an employer. These systems are the Judges' Retirement System, the Legislators' Retirement System, the Public Employees' Retirement System (for retired state employees only), and the Teachers' Retirement System (for retired state employees only).

The objective of this program is to provide a degree of postretirement security for employees by defraying up to \$12 per month of the premium of a state-approved health insurance plan. The state contribution toward the premium for each participating annuitant in fiscal year 1971-72 is \$12 per month, or the total amount of the premium should it be less than \$12. Under Chapter 212, Statutes of 1970, this monthly contribution will increase two dollars per annuitant in each succeeding fiscal year until 1973-74, at which time the state's contribution will have reached the \$16 per month limit established by that law.

This budget item includes an amount equivalent to 4.5 percent of the total premiums paid which is deposited in the State Employees' Contingency Reserve Fund for administrative and contingent expenses. The annual support for the health benefits division of the Public Employees Retirement System (which administers the program) is derived from this fund.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The \$3,158,104 requested for the budget year is to provide payment for part or all (depending on the plan) of the health plans premiums for an estimated 20,996 annuitants of the state's retirement systems. In the current year, an estimated 18,980 annuitants will be covered by this program.

We note that although the system's estimates of annuitants participating in the program have been extremely accurate, the amounts requested and appropriated in support of the program in the past three fiscal years have been insufficient to meet the state's obligations. Emergency fund allocations of \$138,000 and \$101,040 were required in fiscal years 1968-69 and 1969-70 respectively, and an estimated allocation of \$539,191 will be needed from the Emergency Fund in the current year. Most of the emergency allocation in the current year is attribut-



**Personal Services—Continued**

able to the increased premium contribution provided by Chapter 212, Statutes of 1970.

Expenditures for this program have increased approximately 131 percent during the five-year period 1966-67 to 1970-71, while the number of annuitants has risen 48 percent. This program is similar to one covering active employees as described on analysis page 291. The difference, however, is in the manner of funding. The state's contribution for the active employee appears in the staff benefits portion of the personal services category of individual agency budgets and is paid by the fund from which the employing agency is supported. However, this program for the retired employee is financed entirely from the General Fund.

**REFUND OF TAXES, LICENSES AND OTHER FEES****Item 71 from the General Fund****Vol. I p. 245 Budget p. 54**

Requested 1971-72	\$30,000
Estimated 1970-71	20,000
Actual 1969-70	26,847
Requested increase \$10,000 (50 percent)	
Total recommended reduction	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

Funds appropriated by this item provide refunds for noncontroversial claims due to overpayment or erroneous payment by persons receiving permits, taking examinations or seeking inspections. The item is also used to pay prior judgments, liens and encumbrances under Government Code Section 12516. A few tax refunds are made from this item although most are paid from appropriate feeder funds prior to deposit in the General Fund.

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE****Item 72 from the General Fund****Vol. I p. 249 Budget p. 56**

Requested 1971-72	\$10,000,000
Estimated 1970-71	8,600,000
Actual 1969-70	7,858,999
Requested increase \$1,400,000 (16.3 percent)	
Total recommended reduction	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

The budget estimates that the number of senior citizen claimants reached its peak in 1969-70, and will decline hereafter because inflationary increases in income are disqualifying some claimants.

## GENERAL PROGRAM STATEMENT

This program, administered by the Franchise Tax Board, provides property tax assistance to senior citizens with limited incomes for property tax payments on their homes. Claimants who have household incomes from all sources of less than \$3,350 per year, and are at least 65 years of age, may make annual application for this property tax assistance. The amount of assistance ranges from 1 percent to 95 percent of the property taxes paid on the first \$5,000 of assessed value. For example, those with incomes below \$1,000 have 95 percent of their property taxes reimbursed, while those with incomes between \$3,325 and \$3,350 receive a 1 percent reimbursement.

The state reimbursement always lags one year behind the actual payment of property taxes. For example, the tax assistance paid in 1971 would be reimbursement for property taxes paid by the claimant in 1970.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

About 4 percent of the senior citizens in California participated in this property tax assistance program. The distribution of claimants by household income groups is illustrated in Table 1. The average claimant had \$2,072 in household income, paid \$249 in property taxes and was reimbursed about one-half of that amount, or \$122.

Table 1  
Senior Citizens Property Tax Assistance Payments  
1969 Income Year

Household income class	Number of claimants	Percent of total	Averages		
			Household income	Property taxes	State assistance
\$0-\$1,000	3,222	5	\$755	\$217	\$206
1,001- 1,500	10,539	16	1,308	227	189
1,501- 2,000	15,391	24	1,758	240	154
2,001- 2,500	15,768	25	2,248	251	111
2,501- 3,000	13,296	21	2,738	262	65
3,001- 3,350	5,807	9	3,063	289	30
Totals	64,023	100	\$2,072	\$249	\$122

The property tax assistance payments vary considerably between counties as illustrated in Table 2, which shows the variations among the 15 most populous counties. These payments ranged from a high of \$179 in San Francisco County to a low of \$54 in Kern County. The variations were directly related to the property tax rate and values in these counties rather than to differences in household income.

## Senior Citizens' Property Tax Assistance—Continued

Table 2

Average Senior Citizens Property Tax Assistance Payments  
By Selected County, 1969 Income Year

County	Property tax	State assistance
Alameda	\$334	\$163
Contra Costa	280	133
Fresno	148	74
Kern	112	54
Los Angeles	280	140
Orange	213	102
Riverside	184	90
Sacramento	247	115
San Bernardino	170	83
San Diego	200	97
San Francisco	365	179
San Joaquin	197	96
San Mateo	342	162
Santa Clara	265	127
Sonoma	209	102
Statewide average	249	122

Table 3 illustrates the growth of tax rates and assessed value of the homes occupied by senior citizens. The average payment in 1971-72 will be about \$163, which is approximately 49 percent of the net property taxes on these homes after \$750 homeowners' exemption has been deducted. As shown in Table 3, the budget estimates that the number of claimants reached its peak in 1969-70 and has since declined because inflationary increases in household income are disqualifying some claimants by boosting them over the \$3,350 income limit. In other cases, when the assistance amounted to only 2 or 3 percent of their property taxes the amount of reimbursement was not sufficient to induce eligible claimants to file.

Table 3

Senior Citizens' Assistance by Year of Reimbursement  
(averages)

	1968-69	1969-70	1970-71	1971-72
Assessed valuation				
per claimant	\$2,919	\$3,104	\$3,269	\$3,485
Property tax rate	9.25	9.76	10.31	11.42
Gross property tax	\$270	\$303	\$337	\$398
Homeowners' exemption	0	-\$54 <sup>a</sup>	-\$60 <sup>a</sup>	-\$66 <sup>a</sup>
Net property tax	\$270	\$249	\$277	\$332
Senior citizen assistance	\$136.00	\$122.29	\$136.50	\$163.40
Assistance as percent of tax	50.4%	49.1%	49.3%	49.2%
Number of claimants	57,354	64,023	63,000	61,200
Total state cost (000)	\$7,800	\$7,829	\$8,600	\$10,000

<sup>a</sup> A sample of 1,200 returns showed that only 77 percent of senior citizens claimed the \$70 homeowners' rebate. For example, in 1969-70, 77% × \$70 = \$54.

Using a property tax rate of \$11.42, the Department of Finance estimates that this program will cost \$10 million in the 1971-72 fiscal year.

In the budget year, the Franchise Tax Board will spend an estimated \$538,000 to administer the property tax assistance program. Our discussion of the administrative cost is included in the Franchise Tax Board analysis.

### HOMEOWNERS' PROPERTY TAX RELIEF

Item 73 from the General Fund

Vol. I p. 251 Budget p. 57

Requested 1971-72	\$235,000,000
Estimated 1970-71	217,700,000
Actual 1969-70	199,693,836
Requested increase \$17,300,000 (7.9 percent)	
Total recommended reduction	None

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis*  
*page*

1. Although last year's budget anticipated a 90,000 increase in the number of homeowner exemption claimants, the actual number *declined* by 25,000. Despite this decline, the cost of the program exceeded the budgeted amount by \$4.7 million because property taxes grew much faster than anticipated.

#### ANALYSIS AND RECOMMENDATIONS

##### *We recommend approval.*

This item provides state funds to reimburse local governments for property tax losses resulting from the \$750 homeowners' exemption. Table 1 shows the direct costs of this program since it was begun in 1968. Administrative costs of the Controller for preparing the \$70 checks for each claimant in 1968-69 are not included nor is the one-time payment to the counties for their administrative work in that first year. Costs for the 1970-71 year were originally estimated at \$213.0 million but increased \$4.7 million when local property taxes were adopted at higher than predicted rates. The increased cost will be covered by an emergency fund authorization which will require a deficiency appropriation.

The 1970-71 budget estimated that the number of claimants would increase from 2,580,000 in 1969-70 to 2,670,000 in 1970-71. This increase would consist of 50,000 veterans who would shift to this program when the wealth limits made them ineligible for the veterans' exemption, and 40,000 newly constructed single-family dwellings. Actual data show that the number of veteran exemptions declined by 60,000 during the current fiscal year, and 80,000 new single family homes were built during 1969. Despite this potential increase of 140,000 new homeowner claimants in 1970-71, the actual number declined by 25,000 from the previous year's level. We are unable to ascertain the reasons for this decline.

**Homeowners' Property Tax Relief—Continued**  
**Spectacular Increase in Local Property Tax Rates**

The original \$213 million cost estimate for the current fiscal year assumed that the average property tax rate on homes would increase from \$10.31 in 1969-70 to \$10.70 in 1970-71, or \$0.39. The actual level, however, was \$11.34 or an increase of \$1.03 which is the *largest one year increase* in California's history. This spectacular growth in property tax rates is responsible for the \$4.7 million excess cost of this program during 1970-71, despite the drop in the number of claimants.

**Table 1**  
**Homeowners' Property Tax Exemption**

<i>Number of claimants (thousands)</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>
Original estimates -----	2,540	2,735	2,670	2,615
Actual -----	2,499	2,580	2,555	N/A
<i>Cost (millions)</i>				
Budget estimate -----	\$178.0	\$211.7	\$213.0	\$235.0
Actual -----	174.5	199.7	217.7	N/A
Average property tax relief per claimant -----	\$70	\$77.32	\$85.05	\$89.77

The budget anticipates that local property tax rates on homes will increase to \$11.97 in 1971-72. The number of claimants is estimated to increase by 60,000 from new construction and the continuing shift of veterans to the homeowners' exemption.

We estimate that new construction and the shift of veterans will account for \$5 million of the \$17.3 million increase and that higher property tax rates will explain the remainder.

**PAYMENT OF INTEREST ON GENERAL FUND LOANS**

**Item 74 from the General Fund**

**Vol. I p. 254 Budget p. 59**

Requested 1971-72 -----	\$14,400,000
Estimated 1970-71 -----	9,200,000
Actual 1969-70 -----	767,256
Requested increase \$5,200,000 (56.5 percent)	
Total recommended reduction -----	Pending

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

For the first time since the 1930's, the state in September 1971 will not have sufficient cash to meet its obligations. *We recommend this item be held over pending the determination of how this cash deficit will be financed.*

**GENERAL PROGRAM STATEMENT**

This item presents a statement of the cash flow of General Fund receipts and disbursements on a monthly basis through the past, current and budget years. Each statement indicates the months in which the

Department of Finance anticipates that General Fund disbursements will exceed collected revenues and provides an estimate of the total special fund resources available to meet temporary borrowing requirements of the General Fund. The interest paid will depend upon the total amount borrowed and the length of the borrowing period in conjunction with the current rate of interest.

Normally, the General Fund will borrow from other state funds during 7 of the 12 fiscal months with peak borrowing occurring during the month of March. These loans are then repaid in April when personal income tax payments are received. Table 1 summarizes for the current and budget years the estimated monthly cash condition of the General Fund, the anticipated schedule of borrowing and repayment of General Fund loans, and the estimate of available borrowing resources from special funds. The last column in Table 1 estimates the unused borrowing capacity and identifies remaining special fund reserves available from which the General Fund can borrow without resorting to external financing (e.g. tax anticipation notes or registered warrants).

#### ANALYSIS AND RECOMMENDATIONS

Due to heavier-than-normal borrowing, the projected General Fund loan requirements for September and October 1971 and March 1972 will for the first time since the 1930's exceed the state's internal borrowing capacity. Table 1 shows that on September 30, 1971, the General Fund will have cumulative borrowing requirements amounting to \$497 million. Internal borrowing resources, however, will be able to provide only \$449 million of this amount, leaving a cash deficit of approximately \$48 million. This means that unless corrective action is taken, the state will run out of cash in September 1971.

The Department of Finance anticipates that this deficit can be financed by the issuance of tax anticipation notes, by starting personal income tax withholding on July 1, 1971, or by the issuance of registered warrants. The first two alternatives require special legislation, whereas the issuance of registered warrants is presently authorized by law.

It must be emphasized that the availability of borrowable funds is estimated on an end-of-month basis and that these figures do not represent peak-period borrowing requirements for all months. In those months where revenues from major tax sources are received during the last few days of the month, peak borrowing will occur on or near the 26th day when the salary transfer is made from the General Fund to the State Payroll Revolving Fund. Peak-period borrowing requirements may exceed end-of-month requirements shown in the budget by as much as \$100 million. As a result September 1971 cash needs will be substantially in excess of the \$48 million shown in Table 1.

The General Fund will be forced to borrow more heavily in 1971-72 than it did in 1969-70 and 1970-71 for two reasons in addition to the budgetary deficits.

1. *The unrestricted surpluses derived from the 1967 tax program and the 1968-1969 revenue windfall from the Vietnam buildup were depleted at the beginning of the current year. The 1969-70 excess of disbursements over receipts was funded from a beginning cash balance*

## Homeowners' Property Tax Relief—Continued

**General Fund Cash Flow 1970-71 and 1971-72**  
**Estimate of General Fund Borrowing and Borrowing Capacity**  
(in millions)

<i>Month</i>	<i>Receipts</i>	<i>Disbursements</i>	<i>Current deficiency or excess</i>	<i>Cumulative borrowing</i>	<i>Borrowing capacity</i>	<i>Unused borrowing capacity</i>
July 1970	\$323.8	\$362.8	\$-39	-- <sup>1</sup>	\$640.6	\$640.6
August	319.9	485.7	-165.8	\$141.8	534.9	393.1
September	227.0	347.3	-120.3	262.2	547.1	284.9
October	390.8	441.2	-50.4	311.8	497.0	185.3
November	537.4	382.0	155.4	156.3	462.3	306.1
December	247.4	451.6	-204.2	360.9	475.1	114.2
January 1971	252.0	409.7	-157.7	518.9	706.9	188.0
February	348.1	484.5	-136.3	655.9	800.2	144.3
March	455.3	387.7	67.5	587.8	742.2	154.4
April	1,006.9	525.7	481.2	107.0	629.9	522.9
May	357.0	358.4	-1.3	107.0	583.2	476.2
June	370.9	388.6	-17.8	126.0	549.8	423.8
1971-72						
July	233.6	401.9	-168.4	294.0	534.8	240.8
August	368.1	456.3	-88.2	382.0	488.4	106.4
September	271.7	386.7	-115.0	497.0	448.8	-48.2
October	405.8	393.4	12.3	485.0	456.4	-28.6
November	574.1	395.8	178.3	307.0	420.2	113.2
December	256.6	393.8	-137.2	444.0	477.0	33.0
January 1972	296.1	390.3	-94.3	538.0	695.8	157.8
February	357.0	466.4	-109.4	648.0	793.2	145.2
March	509.6	619.9	-110.3	758.0	738.9	-19.1
April	1,085.0	388.9	696.1	62.0	632.5	570.5
May	402.0	357.0	45.1	17.0	535.8	518.8
June 1972	391.8	374.6	17.2	--	497.7	497.7

<sup>1</sup> The General Fund had a cash balance of \$64.3 million on June 30, 1970, therefore it was not necessary to borrow in July 1970 to cover the revenue deficiencies.

of \$309 million. This cash balance was drawn down to a balance of \$144 million (including \$80 million in advances to bond funds) at the beginning of the current year. In contrast, the budget year will begin with a cash balance of \$1.6 million and a cash deficit (i.e. outstanding debt) of \$126 million.

2. *Unencumbered balances of continuing appropriations will be liquidated during the current year.* Prior- and current-year cash surpluses were partially protected by appropriations which would normally be expended over a period of years. Expenditures from these appropriations were made in addition to current-year authorizations, but as long as new appropriations, which would also carry over into future years, were continued at or near the level of the prior year, the cash position was protected. The prior-year obligations which carried over into 1970-71 amounted to \$130 million. Most of these appropriations will not be continued, but will be liquidated during the current year. Because the 1970-71 Budget did not set aside an amount equal to these prior-year obligations, the unrestricted surplus was overstated and the budget in effect appropriated more funds than were actually available.

#### Borrowing Resources

The General Fund normally borrows from two internal sources, the State Highway Fund and the Pooled Money Investment Account. Table 2 compares the original 1970-71 Budget estimate of loanable funds available during the current year with the actual available during the first six months of this year and the estimates for January through June 30, 1971, contained in the Governor's 1971-72 Budget.

Table 2  
Comparison of 1970-71 and 1971-72 Budget  
Estimates of Loanable Funds Available  
During the 1970-71 Fiscal Year  
(in millions)

Month	1970-71 Budget estimate		1971-72 Budget	
	PMI <sup>1</sup> Account	Highway Fund	PMI <sup>1</sup> Account	Highway Fund
			Actual	
July 1970 -----	\$565.6	\$20.0	\$528.1	\$112.5
August -----	488.6	20.0	470.0	64.9
September -----	470.8	10.0	475.4	71.7
October -----	519.6	10.0	456.7	40.3
November -----	439.9	--	427.3	35.0
December -----	483.8	--	457.7	17.4
			Estimated	
January 1971 -----	663.2	10.0	675.9	31.0
February -----	775.5	20.0	768.2	32.0
March -----	751.0	20.0	725.2	17.0
April -----	639.8	--	609.9	20.0
May -----	511.5	50.0	503.2	80.0
June 1971 -----	507.9	50.0	491.8	58.0

<sup>1</sup> Pooled Money Investment Account.

The Department of Finance has indicated that the estimate of loanable funds available on an end-of-month basis will vary from the actual depending upon the day-to-day transfer of tax payments, the unpredictable requirements of the major funds such as the Highway Fund,



## Homeowners' Property Tax Relief—Continued

and on the changing composition of funds with respect to their borrowability. This explanation accounts for most of the variations found in the Pooled Money Investment Account.

Table 2 shows that the availability of loanable funds from the State Highway Fund has increased significantly since the original 1970-71 Budget estimate. This increase is misleading, because the earlier estimate prepared by the Division of Highways was based upon the monthly low point of anticipated fund availability. The revised estimate contained in the 1971-72 Budget is based upon the end-of-month Highway Fund condition which is consistent with the estimates for the pool.

## PROVISION FOR SALARY INCREASES

Items 75, 76, and 77 from the General  
Fund

Vol. I p. 264 Budget p. 60

Requested 1971-72	\$4,754,000
Estimated 1970-71	39,044,885
Actual 1969-70	58,830,356
Requested decrease \$34,290,885 (87.8 percent)	
Total recommended augmentation	\$81,593,900

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. *Salary Increase. Augment \$42,350,000 from the General Fund and \$34,590,000 from special and other funds. Recommend a budget augmentation to provide a 5-percent general salary increase for all state employees except certain statutory and faculty positions to offset the increase in cost of living.* 179

2. *Salary Increase. Augment \$39,243,900 (General Fund). Recommend a budget augmentation to provide a 10-percent increase in faculty salaries at the University and state colleges to provide for a two-year cost-of-living adjustment.* 180

## CIVIL SERVICE AND RELATED CLASSES

*We recommend a budget augmentation of \$76,940,000 to provide a 5-percent general salary increase for all state employees except certain statutory and faculty positions.*

The proposed salary increase augmentations for the fiscal 1971-72 year total \$11,072,000 (\$4,754,000 General Fund, \$6,318,000 special and other funds) and provide only for fringe benefits which are related to (1) premium pay for overtime, (2) night shift differential, and (3) unemployment insurance. Provision for increases in judges salaries is in Item 78.

No augmentation is provided in the budget to offset the increase in cost of living to the state employee. The consumer price index for California shows a cost of living increase of 5 percent for the current year. Other governmental bodies in California are increasing compen-

sation to employees in response to the rise in cost of living. For example, between October 1969 and October 1970, the City of Los Angeles provided an average increase of 9.8 percent; the County of Los Angeles 8.2 percent; and San Francisco, 5.4 percent. The July 1, 1970 salary increase for federal civil service employees averaged 6.0 percent in response to a national cost of living increase of 6.0 percent.

Under Section 18850 of the Government Code, it is stated clearly that consideration shall be given to the prevailing rates for comparable service in other public employment and in private business in relation to establishing and adjusting compensation to civil service employees. As a consequence, we recommend a salary increase augmentation of \$76,940,000 to provide a 5-percent general salary increase for all state employees except statutory positions under the following four salary setting authorities: (1) the Department of Finance for certain exempt positions, (2) the State Personnel Board for the state civil service employees, (3) the Trustees of the State Colleges for its employees and (4) the Regents of the University of California for its employees. The total amount requested for civil service and related classes is funded as follows: \$42,350,000 from the General Fund, \$22,220,000 from special funds, and \$12,370,000 from other funds. These latter two amounts are not included in the Budget Bill but are allocated by the Department of Finance in accordance with language included in the salary augmentation items of the Budget Bill governing the General Fund appropriations. Table 1 summarizes the recommended salary adjustments by funding source. No funds are recommended for special inequity adjustments.

Table 1

## Summary of Recommended Augmentations for Salary Increases

(a) 5.0 percent general increase (civil service and exempt) -----	\$30,050,000	
(b) 5.0 percent general increase (nonfaculty classes of University) -----	7,090,000	
(c) 5.0 percent general increase (noninstructional classes of state colleges) --	<u>5,210,000</u>	
		\$42,350,000
<b>Special and Other Funds <sup>1</sup></b>		
Special Funds 5.0 percent general increase (civil service and exempt) -----	\$22,220,000	
Other Funds 5.0 percent general increase (civil service and exempt) -----	<u>12,370,000</u>	
Total Special and Other Funds -----		\$34,590,000
GRAND TOTAL, all funds -----		<u><u>76,940,000</u></u>

<sup>1</sup> "Other funds" are nongovernmental cost funds for which moneys are derived from sources other than general or special taxes, licenses, fees or other state revenues. Examples are the State Compensation Insurance Fund, Unemployment Compensation Disability Fund, Correctional Industries Revolving Fund and the Professional and Vocational Standards Fund.

## Provision for Salary Increases—Continued

SALARY STRUCTURE AT THE UNIVERSITY AND  
STATE COLLEGES

Those positions generally categorized as "academic" positions at the University and state colleges normally receive separate salary consideration in the Budget Act appropriations. These classes include faculty and faculty related groups at the University and instructional and instructional related groups at the state colleges. Separate consideration is necessary because these academic classes are not included in the State Personnel Board salary survey resulting in the possibility of different rates of increase from those given civil service employees.

In the 1970-71 budget the Legislature approved a "cost-of-living" increase equivalent to 5 percent for all state civil service and exempt employees plus those nonacademic employees at the University and state colleges but no salary increase funds were appropriated for the academic classes. The budget makes no provision for salary increases for these academic classes in 1971-72.

Table 1 shows the percentages appropriated for academic salary increases since 1959-60 for the University and state colleges.

Table 1  
Faculty Salary Increases 1959-60 through 1971-72

	University California	California State Colleges	Effective date
1959-60	5.0%	5.0%	7/1/59
1960-61	7.5	7.5	7/1/60
1961-62	--	--	--
1962-63	6.0	6.0	4/1/62
1963-64	5.0	5.0	1/1/64
1964-65	--	--	--
1965-66	7.0	10.0	7/1/65
1966-67	2.5 <sup>1</sup>	6.6	7/1/66
1967-68	5.0	5.0	7/1/67
1968-69	5.0	7.5	7/1/68
1969-70	5.0	5.0	7/1/69
1970-71	--	--	--
1971-72 (proposed)	--	--	--
(Legislative Analyst's recommendation)	(10.0)	(10.0)	(7/1/71)

<sup>1</sup> Plus employer contributions equivalent to 3 percent for an annuity to complement the retirement system.

## Academic Salaries

We recommend an augmentation of \$39,243,900 for a 10-percent increase in faculty salaries at the University and state colleges to provide for a two-year cost-of-living adjustment. The elimination of the academic classes from participation in the 1970-71 cost of living increase resulted in a penalty to those individuals in the form of a reduction in purchasing power. Our recommendation is based on the concept that this penalty should be limited to one year and not be continued on a permanent basis. To accomplish this, a 5-percent increase is necessary to equalize the purchasing power of the academic classes with that of other state employees plus an additional 5 percent for estimated cost of living increases during 1971-72.

This would be broken down as follows:

University of California	
Faculty .....	\$11,961,100
Faculty related .....	5,646,900
California State Colleges	
Instructional .....	\$20,975,400
Instructional related .....	660,500

#### Coordinating Council Recommendations

Senate Concurrent Resolution No. 51 of the 1965 General Session directed the Coordinating Council for Higher Education to submit annually to the Governor and the Legislature a faculty salary and welfare benefits report including certain supplemental information affecting the welfare of faculties and involving cost implications to the state. The formal report adopted by the council on November 9, 1970, was limited to salary comparison data and at our request the supplemental information was submitted to us by council staff on January 21, 1971.

The recommendation of the Coordinating Council was for 11.2 percent for faculty salaries at the University of California plus an increase in fringe benefits of 5.3 percent for a total compensation increase of 16.5 percent. For the state colleges the recommended increase was 13 percent for salaries plus an increase of 6 percent for fringe benefits for a total of 19 percent. If implemented, these recommendations would require a total appropriation of \$70,824,000 of which \$29,123,000 would be for the University and \$41,771,000 for the state colleges.

The recommendations were developed using the revised methodology as approved by the council in July 1969 and used for the first time in last year's report. The method uses the average all ranks salary data reported to the American Association of University Professors (AAUP) and compares this to the median salary of 19 comparison institutions for the University and 102 comparison institutions for the state colleges. Because the latest data available are for the 1969-70 academic year, a two-year projection of the comparison institution data is necessary using a five-year moving average.

For the University a list of 19 institutions are used for comparison. These are Ivy League institutions (minus Dartmouth because of its lack of graduate emphasis) and the "Big Ten" institutions plus Chicago and Stanford.

For the state colleges three groups of institutions were combined to form a list of 102 universities. The first group represents the major public university from each of the 50 states. The second group adds 20 more public universities that have a minimum of two professional schools and confer an annual average of 15 doctorates in at least three nonrelated disciplines. The third group was comprised of 32 private universities that meet the criteria for the second group. The results of the council survey using these lists are shown in Tables 2 and 3. These include seven years of actual salary data and two years of projected data.

## Provision for Salary Increases—Continued

**Table 2**  
**University of California Faculty Salary Comparisons**

	Comparison institutions		University of California		
	Median average salary	Percent change over prior year	Average salary	Percent change over prior year	Percent salary lag
<i>Actual</i>					
1963-64	\$10,366	--	\$11,054	--	--
1964-65	11,450	10.5	11,175	1.2	2.5
1965-66	12,451	8.7	11,899	6.5	4.6
1966-67	13,124	5.4	12,281	3.2	6.9
1967-68	13,855	5.6	13,174	7.3	5.2
1968-69	14,603	5.4	13,965	6.0	4.6
1969-70	15,557	6.5	14,895	6.7	4.4
<i>Projected</i>					
1970-71	16,431	5.3	15,403	3.4	6.7
1971-72	17,123	4.2	(15,403)	--	11.2

**Table 3**  
**State College Faculty Salary Comparisons**

	Comparison institutions		California State Colleges		
	Median average salary	Percent change over prior year	Average salary	Percent change over prior year	Percent salary lag
<i>Actual</i>					
1963-64	\$9,257	--	\$9,210	--	0.5
1964-65	9,769	5.5	9,692	5.2	0.8
1965-66	10,438	6.8	10,613	9.5	(+1.7)
1966-67	10,947	4.9	11,272	6.2	(+2.9)
1967-68	11,969	9.3	11,850	5.1	1.0
1968-69	12,724	6.3	12,882	8.7	(+1.2)
1969-70	13,446	5.7	13,598	5.6	(+1.1)
<i>Projected</i>					
1970-71	15,394	6.8	13,618	0.1	6.0
1971-72	15,394	6.7	(13,618)	--	13.0

**Objections to the Coordinating Council Survey**

In our last year's analysis we expressed reservation to the new procedure developed by the council, particularly the list of 102 universities used to compare with the state colleges. This list was developed in response to a legislative directive to revise the list of state college comparison institutions to more properly reflect institutions assigned the same functions as the colleges. It is interesting to note that the state colleges could not meet the criteria necessary to qualify as one of the comparison institutions. Our greatest reservation with the list was what we believe to be the unjustified inclusion of 32 private universities (Stanford, Harvard, Yale, MIT, Princeton, etc.) which are not comparable and substantially increased the salary level of the comparison list.

There are other indications that the procedure used is unreliable. Because the latest AAUP data are from 1969-70 salaries, a two-year projection is necessary. In last year's projection for the state colleges, 1969-70 average salaries were estimated to be \$13,647 or a 7.3-percent increase. Actual data show this was \$13,446 or only a 5.7-percent increase. This difference probably occurs because of the use of a five-year moving average increase, thus eliminating from the projection any immediate effect in the nationwide salary increase patterns.

Of even greater unreliability is the use of all ranks average data without adjusting for staffing patterns of different institutions. If one institution has a large percentage of its faculty in the professor rank, then its average salary would be greater than an institution with a lesser percentage even though both institutions may have the same salary rate structure. A clear example of this is a comparison of individual state colleges with each other using AAUP data. Using the same uniform salary scales, San Jose reported an average 1969-70 salary of \$14,537 while Dominguez Hills reported an average of \$12,301 or a difference of \$2,236. In other words, even though faculty at San Jose and Dominguez Hills are paid on the basis of identical salary scales, the AAUP data show that an increase in excess of 18 percent would be necessary to adjust Dominguez Hills to the average level at San Jose. Nearly 13 percent would be necessary to bring Humboldt to the San Jose level.

Extending this type of comparison further, one could clearly show that the 1969-70 state college salaries were superior to those in the Big Ten. Only one of the nine public universities of the Big Ten, Michigan, exceeds the average salaries of San Jose and only one other institution, Iowa, exceeds San Francisco. Even if we compare total compensation (salaries plus fringe benefits), San Jose still exceeds five of the nine schools (Indiana, Illinois, Michigan State, Wisconsin, Ohio State).

Our point is not that the state colleges were highly salaried in 1969-70 but that the AAUP data is not reliable for comparing one institution to another.

In recognition of some of these difficulties the regents did not endorse the 11.2-percent salary and 5.3-percent fringe benefits recommendations of the council. Although the regents authorize transmission of the data supporting these recommendations to the council they did so with the stipulation that the regents' recommendations would follow at a latter date. As of this writing no action has been taken by the regents.

The Coordinating Council, although approving this year's report, directed its staff to restudy the entire salary increase procedure with the goal of developing a more reliable method for next year.

#### **Fringe Benefits**

No provision has been included in the Governor's Budget for faculty fringe benefits. The Coordinating Council recommended increases of 5.3 percent at the University and 6 percent at the state colleges. The council recommendations are for overall percentage increases only and no specific proposals have been recommended. We believe it is inappropriate to provide funds for increased employee retirement, health and other benefits without prior review of specific proposals as to how these funds would be used. We believe the council should take a stronger role in the evaluation of the need for fringe benefits increase.

The council recommendations were based on the same AAUP report and data used for salary recommendation. These fringe benefit data are even less reliable than the salary data because of wide variances in

**Item 78****Provision for Salary Increases****Provision for Salary Increases—Continued**

types of retirement systems causing the elimination of many institutions from the listing.

While we have recommended faculty salary increases and have also recommended an increase in faculty positions more nearly in line with the requirements of existing standards, we are aware that numerous students complain that faculty do not meet all their academic responsibilities. We believe that there needs to be stronger peer review and positive action by department chairmen against offenders.

**PROVISION FOR SALARY INCREASES****Item 78 from the General Fund****Vol. I p. 263 Budget p. 60**

Requested 1971-72 -----	\$5,000
Estimated 1970-71 -----	692,906
Requested decrease \$687,906 (99.3 percent)	
Total recommended augmentation -----	Pending

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. Judicial Salary Increase. Withhold recommendations for a budget augmentation pending a more precise determination of the cost of living increase provided by law.

**ANALYSIS AND RECOMMENDATIONS**

The judicial salary increase augmentation for fiscal 1971-72 is proposed at \$5,000. This amount is considerably less than what will be required to provide the cost of living increase required by law.

Under the provisions of Chapter 144, Statutes of 1964, as amended by Chapter 1507, Statutes of 1969, judges are entitled to an annual salary increase effective on September 1 of each year. The amount of the increase is the percentage change in the previous calendar year reflected by the California consumer price index, as compiled and reported by the California Department of Industrial Relations. In accord with these provisions, judicial salaries for 1970-71 were augmented \$699,890 by a legislative change to the Governor's Budget for a 4.9674 cost of living increase.

For fiscal 1971-72, it is expected that judicial salaries will require an augmentation of approximately 5 percent. Pending a more precise determination of the adjustment percentage required, we withhold an augmentation recommendation for this item of the budget.

## Reserve for Contingencies

## EMERGENCY FUND

Item 79 from the General Fund Vol. I p. 266 Budget p. 61

Requested 1971-72 .....	\$1,000,000
Appropriated by the 1970-71 Budget Act .....	1,000,000
Requested increase—None .....	
Total recommended reduction .....	None

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The Emergency Fund provides a source from which the Department of Finance can allocate funds to state agencies for expenses resulting from unforeseen contingencies not covered by specific appropriations. This item also provides authorization for the Department of Finance to make loans to agencies whose operations would be curtailed due to delayed receipt of reimbursements or revenue.

The Emergency Fund request of \$1,000,000 is a token of the amount actually needed in every year since 1959-60. To meet the actual requirements a deficiency appropriation has been necessary toward the end of each fiscal year. For 1970-71, the department anticipates a deficiency of \$4,175,000. Listed below are the 1970-71 allocations of more than \$100,000 each exclusive of transfers to meet salary increases. Salary increases added \$39.7 million to the allocations shown.

## Support

Department of Justice, aid to victims of crimes of violence .....	\$100,000
Increase in health benefits and annuitants .....	539,191
Department of Conservation, contracting counties, salary increase .....	125,669
Emergency fire suppression and detection .....	3,138,000
Department of Corrections, court costs and county charges .....	127,540
Cost of additional judgeships .....	360,291

Total Allocations ..... \$4,675,718

The anticipated \$4.7 million deficit in the 1970-71 Homeowners' Property Tax Relief Program is not included in this schedule. Special Emergency Fund legislation will be required to fully reimburse local governments for property tax losses resulting from this exemption.

Emergency Fund expenditures in 1970-71 have not been subjected to legislative review. Where appropriate, we comment on such expenditures in the analysis of the individual agency budgets. Control language in the 1970 Budget Act limited the use of the Emergency Fund to purposes which had been specifically approved by the Legislature in the budget act or other bills.

Shown below are the amounts budgeted and allocated along with the deficiency appropriations for years since 1963-64.



## Emergency Fund—Continued

Emergency Fund, Appropriations and Allocations  
1963-64 to 1971-72

<i>Fiscal year</i>	<i>Appropriated</i>	<i>Allocated to agencies</i>	<i>Deficiency appropriation</i>
1963-64 -----	\$1,000,000	\$4,297,640	\$4,750,000
1964-65 -----	1,000,000	5,106,500	4,436,500
1965-66 -----	1,000,000	5,148,643	5,400,000
1966-67 -----	1,000,000	9,321,117	8,341,951
1967-68 -----	1,000,000	4,238,515	3,908,000
1968-69 -----	1,000,000	4,954,513	5,086,631
1969-70 -----	1,000,000	4,259,585	4,000,000
1970-71 -----	1,000,000	4,675,718	4,175,000
1971-72 (proposed) -----	1,000,000	—	—

## LEGISLATIVE CLAIMS

Item 80 from the Several Funds

Vol. I p. 271 Budget p. 25

Requested 1971-72 -----	\$95,617
Estimated 1970-71 -----	232,802
Actual 1969-70 -----	230,686

## ANALYSIS AND RECOMMENDATIONS

These funds pay all general claims and "good samaritan act" awards approved by the Board of Control as well as miscellaneous claims granted on direct appeal to the Legislature. Claims approved between March 1970 and November 1970 are included in the 1971-72 request shown above although all claims approved through March 1971 will be included in the 1971-72 budget. At the time this item is set for hearing the Department of Finance will request that the 1971-72 budget figure be augmented to include claims approved by the board between November 1970 and March 1971.

Because the amount originally requested in each budget reflects only eight months of claims it always appears lower than the amount which is actually expended in the previous year and the increase is generally assumed to be a result of legislative action. In reality, the Legislature has given the claims bill a very critical review and has reduced or eliminated many of the awards each year.

Table 1  
Proposed and Actual Expenditures for Legislative Claims

	<i>Request</i>	<i>Actual</i>
1971-72 -----	\$95,617	-----
1970-71 -----	166,921	\$232,802
1969-70 -----	140,039	230,686
1968-69 -----	539,963	645,364

All of the claims which are approved by the board are reviewed by the Legislative Analyst and those which are of special interest, those which were recommended for denial by the agency charged with their review, or those involving large sums of money are specifically brought to the attention of the subcommittee in each house which hears the

item. Approximately 300 awards were made in 1970 and 41 of these were presented for legislative review. This office will prepare a supplemental report on the 1971-72 claims and present it to the subcommittees when the item is set for hearing.

### DEPARTMENT OF AGRICULTURE

Item 81 from the General Fund

Vol. I p. 279 Budget p. 65

Requested 1971-72	\$12,178,574
Estimated 1970-71	12,315,863
Actual 1969-70	12,694,095
Requested decrease \$137,289 (1.1 percent)	
Total recommended reduction	\$500,000

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Department Budget. Recommend that all department and 189 marketing order budgets be shown in Governor's Budget or a supplement.
2. Woolly Whitefly Program. Recommend department sub- 191 mit plan for partial industry support at such time as this program changes from eradication to control.
3. Predatory Animal Control. Recommend department de- 192 velop plan for partial industry support to be implemented in 1972-73 budget.
4. *Plant Quarantine. Reduce \$500,000.* Recommend reduc- 193 tion in support for border inspection activities.
5. Pesticide Quality Control. Recommend the Legislature and 197 department study feasibility of issuing citations to aid enforcement of pesticide quality standards and pesticide use regulations, and that the department develop a program to improve pesticide quality control.
6. *Pesticide Registration. Augment Item 82 by \$60,000.* Rec- 199 ommend (1) that the pesticide registration program become a General Fund activity with fees deposited in the General Fund and (2) that the pesticide registration program be augmented by \$60,000 from available registration fees.
7. Bureau of Weights and Measures. Recommend weigh- 200 master license fee increase to finance program deficit, augment staffing, and improve container tare regulations.
8. Market News. Recommend department develop plan for 204 deriving financial support from primary users of Market News information.

#### GENERAL PROGRAM STATEMENT

The Agricultural Code grants the State Department of Agriculture the authority to: (1) promote, protect and further the agricultural industry in the State of California, (2) assure producers, handlers and