

DEPARTMENT OF JUSTICE

Items 38 and 39 from the
General Fund and the Mo-
tor Vehicle Fund

Budget p. 23 Program p. 51

Requested 1972-73.....	\$28,162,928
Estimated 1971-72	25,811,518
Actual 1970-71	23,125,108
Requested increase \$2,351,410 (9.1 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

Purging Fingerprint File

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1. Recommend department report to the Legislature by June 1, 1972, on the costs and feasibility of purging its fingerprint and record files of deceased persons and persons whose records show no new entries since 1932.

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

<i>Unit</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Increase over current year</i>	
				<i>Amount</i>	<i>Percent</i>
General administration.....	\$404,670	\$828,528	\$800,446	—\$28,082	—3.5
Legal services.....	11,529,358	10,978,782	12,630,270	¹ 1,651,488	15.0
Civil law.....	5,256,718	4,759,962	5,385,050	¹ 625,088	13.1
Criminal law.....	3,350,333	3,380,243	4,019,440	639,197	18.9
Special operations.....	2,922,307	2,838,577	3,225,780	387,203	13.6
Law enforcement.....	15,694,911	20,764,619	21,553,047	788,428	3.8
Enforcement and investigation.....	3,988,701	5,389,254	6,053,448	664,194	12.3
Identification and information.....	10,909,211	14,502,803	15,344,355	841,552	5.8
Organized crime.....	796,999	872,562	155,244	² —717,318	² —82.2
Total.....	\$27,628,939	\$32,571,929	\$34,983,763	\$2,411,834	7.4

¹ Includes \$796,086 for administration and payment of tort liability claims transferred from Item 46 of the 1972-73 Budget Bill.

² Does not reflect requested federal grant of \$1,149,810 for organized crime program element.

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ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted.

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

Item 38 Support of Department of Justice	\$25,592,657
Item 39 Augmentation transferred to Item 38	
from the Motor Vehicle Fund	2,570,271
Total.....	\$28,162,928

The \$28,172,928, including \$10,000 from Chapter 1429, Statutes of 1970, requested for the budget year is \$2,361,410 or 9.1 percent above estimated expenditures (excluding federal grants) in the current year. The excluded amount of federal funds is estimated at \$3,062,961 in the current year and a somewhat greater amount in the budget year. The budget includes an anticipated federal grant of \$2,091,839 for continued implementation of the Criminal Justice Information System, and the department informs us that additional federal funds for organized crime unit programs may be forthcoming. In addition, the department anticipates reimbursements totaling \$3,922,910 for services to other state and public agencies. Thus, the total proposed departmental expenditure program (including \$796,086 from Item 46 for tort liability claims and \$2,091,839 in federal funds) amounts to \$34,983,763.

LEGAL SERVICES PROGRAM

The legal services program, which consists of (a) civil law, (b) criminal law, and (c) special operations elements, provides virtually every type of legal service practiced in the state. The \$12,630,270 proposed for this program in the budget year represents an increase of \$1,651,488 or 15 percent over estimated expenditures for the current year. The largest portion of this proposed increase, \$639,197, would go to the criminal law program element, while \$625,088 and \$387,203 would be allocated respectively to the civil law and special operations elements.

A. Civil Law Program Element

A budget-year expenditure of \$5,385,050 is proposed for the three components of this element as outlined below.

Counsel for state agencies	\$4,291,066
Tort liability.....	796,086
Subsequent Injuries Fund	297,898
Total.....	\$5,385,050

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, 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 an increase of 27.2 personnel man-years between the current and budget years in the civil law program elements. This proposed addition would consist of 10 attorney positions to handle workload increases in the public welfare section, six attorney positions for increased workload in the professional and vocational standards section, one special investigator to investigate claims against the state in the tort liability section, and 11 related clerical positions. The costs of these proposed positions would be reimbursed by the agencies and programs receiving services.

Workload, staffing, and cost data for this element are indicated in Table 2.

Table 2
Civil Law Element, Workload, Staffing and Cost Data

	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Percent in- crease over current year</i>
Legal opinions and opinion letters issued	560	590	590	—
Administrative hearings closed	1,925	1,950	2,250	15.4
Court cases closed	2,035	2,050	2,150	4.9
Expenditures (including reimbursed expenditures)	\$5,256,718	\$4,759,962	\$5,385,050	13.1
Man-years	192.1	197.3	224.5	13.8

B. 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.

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Proposed budget-year expenditures for this program element total \$4,019,440, which is an increase of \$639,197 or 18.9 percent over estimated expenditures for the current year. The criminal law element is requesting 19 attorney positions to handle increased caseload in criminal writs and appeals, four attorney positions to assist the trials and investigations section with cases of statewide significance, and 16 related clerical positions. Workload, staffing, and cost data for the criminal law element are indicated in Table 3.

Table 3
Criminal Law Element, Workload, Staffing and Cost Data

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Proposed</i> 1972-73	<i>Percent in- crease over current year</i>
Briefs filed in the Appellate and Supreme Courts	3,309	3,300	4,000	21.2
Criminal trials	35	40	50	25.0
Expenditures	\$3,350,333	\$3,380,243	\$4,019,440	18.9
Man-years	182.9	187.4	225.8	20.4

C. Special Operations Program Element

The special operations element seeks to protect the public's rights and interests through legal representation in five program components: (1) public resources law, (2) land law, (3) statutory compliance, (4) environment and consumer protection, and (5) special services.

The public resources law component provides formal and informal legal assistance to those state agencies which administer and enforce the laws and programs relating to the use and protection of the state's air, water, agricultural, timber, fish, and wildlife resources.

The land law component handles all litigation arising from the administration of state-owned lands by the State Lands Commission. In addition, it is involved in the legal questions pertaining to public rights in private lands arising from the doctrine of implied dedication announced in a recent court decision. This concept may have substantial implications for privately owned lands throughout the state, particularly lands adjacent to bodies of water.

The statutory compliance component investigates the financial practices of charitable trusts to insure that these institutions are in fact charitable (as defined by law) and that they operate in compliance with state tax laws. Amendments to the Federal Tax Reform Act of 1969 may place additional responsibilities on this component to recover on behalf of California beneficiaries against delinquent charitable trusts. However, no cases have yet been received by the department from the Federal Internal Revenue Service.

The environment and consumer protection component is responsible for representing the public's interest in antitrust, consumer fraud, and environmental matters. The special services component is respon-

sible for legal recruitment, quality control of legal opinions issued by the department, and review and control of the department's printed publications.

The department requests four new attorney positions to handle an increase in major litigation affecting state-owned lands; four attorney positions for the public resources law component; and nine attorney positions to prosecute antitrust actions. Because antitrust law provides for recovery of investigation and prosecution costs as well as damages, the nine positions for the antitrust unit would be fully financed from antitrust recoveries. Table 4 describes the current and estimated workload, staffing and expenditures for these three program components.

Table 4
Public Resources, Land Law, and Environment and Consumer Protection
Program Components: Workload, Staffing and Cost Data

	<i>Actual</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>	<i>Estimated</i> <i>1972-73</i>	<i>Percent in-</i> <i>crease over</i> <i>current year</i>
Public Resources:				
Cases closed	122	141	175	24.1
Dollar recoveries for client agencies	\$900,126	\$1,000,000	\$1,000,000	—
Personnel man-years	21.1	22.0	28.4	29.1
Expenditures	\$445,612	\$447,599	\$551,569	23.2
Land Law:				
Opinions rendered	25	41	60	46.3
Cases closed	150	191	225	17.8
Personnel man-years	11.4	11.8	17.9	51.7
Expenditures	\$244,216	\$246,873	\$343,213	39.0
Environment and Consumer Protection:				
Consumer protection civil penalties collected	169,467	95,000	120,000	26.3
Consumer complaints and inquiries	8,000	10,000	12,000	20.0
Estimated recoveries on antitrust actions filed	— ¹	— ¹	\$44,600,000	—
Personnel man-years	54.3	56.7	66.5	17.3
Expenditures	\$1,500,281	\$1,410,279	\$1,573,425	11.6

¹ Antitrust recoveries from 1965-66 through 1970-71 totaled \$33,018,000.

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 recordkeeping services to local, state, and national criminal justice agencies. The department proposes a budget-year expenditure of \$21,553,047 for this program (including \$2,091,839 in federal funds and \$1,094,600 in reimbursements), which is an increase of \$788,428 or 3.8 percent over estimated total current-

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year expenditures. Anticipated additional federal funds may augment the proposed budget-year expenditure level.

Reorganization

In line with the recommendation made in our analysis of the department's 1971-72 program budget, the Division of Law Enforcement has undertaken a restructuring of its constituent bureaus and units in order to group together (1) all functions which relate primarily to law enforcement and field investigations of illicit activities; (2) all functions which are concerned primarily with storage or analysis of the information contained in the department's massive criminal history and fingerprint files; and (3) all functions pertaining to organized crime and criminal intelligence. Each of these programs is administered by an assistant director who reports directly to the Director of the Division of Law Enforcement.

Under this reorganization, the department has consolidated the eight program elements contained in its 1971-72 program budget into three: (a) the enforcement and investigation program element, (b) the identification and information program element, and (c) the organized crime program element. Each of these is discussed in sequence below.

A. Enforcement and Investigation Program Element

This element is comprised of the bureaus of (1) investigation, (2) investigative services, and (3) narcotic enforcement.

1. The Bureau of Investigation, which prior to reorganization of the division comprised a part of the former Bureau of Criminal Identification and Investigation (CII), provides field investigative services to local enforcement agencies in the solution and prosecution of crimes, particularly crimes perpetrated by criminals or criminal groups which operate in more than one county or area or whose activities are of major significance. The bureau also supervises the activities of the division's 15 organized crime agents and the investigators who work with civil law programs such as tort liability, subsequent injury fund, antitrust, and charitable trusts.

The Bureau of Investigation is requesting 12.7 temporary positions in the budget year having a cost of \$152,686 to provide payment for overtime worked by agents and investigators.

2. The Bureau of Investigative Services furnishes criminalistics assistance to local agencies through its criminalistics laboratory, questioned document (forgeries) section and latent fingerprint section. In addition to analysis of physical evidence and interpretation of scientific findings, it furnishes expert testimony in court cases concerning examinations conducted, participates in field investigations where

specialized knowledge is required at the crime scene, and provides instruction to local law enforcement personnel in analysis of physical evidence.

The Bureau of Investigative Services is requesting 11.5 new positions to meet workload demands resulting from the increased emphasis placed on scientific analysis of evidence in criminal trials as a result of recent court decisions, and the increased activity of local law enforcement agencies in collecting and preserving physical evidence. The proposed positions consist of two documents examiners, four assistant criminalists, three latent fingerprint examiners, and 2.5 clerical positions.

3. The Bureau of Narcotic Enforcement infiltrates groups involved with narcotics traffic, develops intelligence, and gathers evidence to apprehend major narcotics violators. The bureau also administers a triplicate prescription system to prevent diversion of legal supplies of narcotics into illegal channels; maintains a file of narcotic registrants and licentiates; conducts formal instruction and on-the-job training to local and state enforcement personnel in techniques of narcotic enforcement; and cooperates with federal, local and foreign agencies which have responsibilities in this area of law enforcement.

Major emphasis 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.

Projections by the Bureau of Criminal Statistics indicate that narcotic arrests in calendar years 1971 and 1972 have and will continue to increase in practically all categories, particularly in the dangerous drug and opiate (heroin) arrest 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

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

<i>Detail</i>	<i>Actual</i>			<i>Estimated¹</i>		<i>Percent increase, 1971 over 1970</i>
	<i>1968</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>	<i>1972</i>	
Marijuana arrests						
Adult	33,573	38,170	48,859	48,450	49,000	-0.8
Juvenile	16,754	17,006	20,162	21,250	22,000	5.4
Opiate arrests						
Adult	10,411	11,164	12,796	14,550	14,800	13.7
Juvenile	838	943	779	1,000	1,100	28.4
Dangerous drug arrests						
Adult	13,459	27,777	27,603	33,200	35,000	20.3
Juvenile	8,240	13,503	10,793	14,100	14,500	30.6
All other drug violations						
Adult	7,196	9,018	10,247	9,900	10,200	-3.5
Juvenile	4,115	5,302	4,925	5,250	5,400	6.6

¹ 1971 arrest estimates represent doubling of January-June actual arrest totals.

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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 \$3,327,976, which is an increase of \$157,045 or 4.9 percent over estimated expenditures in the current year.

The enforcement and investigation element proposes a total of 24.5 new positions and an increase in expenditures of \$664,194, or 12.3 percent. Workload, staffing and cost data for its three program components are indicated in Table 6.

Table 6
Enforcement and Investigation Element, Workload,
Staffing and Cost Data

	<i>Actual</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>	<i>Proposed</i> <i>1972-73</i>	<i>Percent in-</i> <i>crease over</i> <i>current year</i>
Field investigations	700	725	750	3.4
Criminalistics:				
Physical evidence cases	1,311	1,377	1,445	4.9
Blood alcohol cases	4,202	4,412	4,633	5.0
Latent fingerprint cases	1,600	1,760	1,936	10.0
Questioned document cases	3,850	4,235	4,658	10.0
Narcotic Enforcement:				
Arrests of narcotic traffickers ..	3,000	2,550	2,600	2.0
Investigations closed by report	625	531	540	1.7
Narcotics seized (ounces)	178,000	151,000	152,000	0.7
Dangerous drugs seized				
(ounces)	21,000	17,800	17,900	0.6
Lab. analyses performed for				
BNE	3,400	2,890	2,900	0.3
Lab. analyses performed for				
others	7,380	7,400	7,400	—
Expenditures:				
Field investigation	\$426,193	1,821,193	2,135,269	17.2
Investigative services	\$323,985	397,130	590,203	48.6
Narcotic enforcement	\$3,238,523	3,170,931	3,327,976	4.9
Man-years:				
Field investigation	54.0	88.5	103.0	16.4
Investigative services	18.6	20.3	31.1	53.2
Narcotic enforcement	156.1	167.7	166.9	-0.5

B. Identification and Information Program Element

This program element is the department's largest, with nearly 1,000 positions assigned to its four program components: (1) criminal statistics, (2) identification services, (3) automated information services, and (4) program planning services.

1. The Bureau of Criminal Statistics compiles, analyzes, interprets and reports statistical facts on crime and delinquency and the operations of criminal justice agencies in California. The bureau collects

data from city, county and state agencies that administer criminal justice including law enforcement and correctional agencies and all levels of courts. Annual reports are published which 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.

Table 7, which reflects a decrease of 41.5 positions for the criminal statistics component and a reduction of \$266,918 in its budget-year expenditures, does not include federal funds estimated at \$180,000 which the department anticipates will be available in the budget year to continue 16 to 20 positions which are included in the current-year data.

Table 7
Criminal Statistics Component, Workload, Cost and Staffing Data

	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Percent Change From current year</i>
Special studies and reports	35	40	50	25.0
Reference tables	5	5	5	—
Midyear summaries	2	2	2	—
Annual report, digest, trends	4	4	4	—
Expenditures	\$894,696	\$1,085,012	\$818,094	-24.6
Man-years	76.9	107	65.5	-38.8

2. Identification services are provided by the Bureau of Identification, which 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 4.5 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.

Bureau of Identification services are provided through (a) the fingerprint section, which processes criminal fingerprints submitted by law enforcement agencies and noncriminal (job applicant) fingerprints received from law enforcement, licensing, and regulatory agencies; (b) the record section, which makes tentative identifications (subject to verification by the fingerprint section) between incoming data, fingerprint cards, crime reports, etc., and the information already stored in its files; and (c) the special services section, which analyzes incoming and stored information on criminal activities and provides information to assist law enforcement agencies in identifying and apprehending criminals. The special services section also maintains and analyzes records on registered firearms, stolen and pawned property, and nonrehabilitated criminals including drug and sex offenders. Table 8 shows workload, cost, and staffing for this component.

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Table 8
Information Services Component, Workload, Cost and Staffing Data

	1970-71	1971-72	1972-73	Percent increase over current year
Records sealed.....	3,680	4,048	4,452	10.0%
Criminal fingerprints processed..	930,406	958,955	988,085	3.0
Noncriminal fingerprints processed	429,161	275,000	325,000	18.2
Name searches	906,694	901,167	934,840	3.7
Crime reports processed	2,300,614	2,821,726	3,342,838	18.5
Crime reports referred for modus operandi analysis	812,662	844,866	877,070	3.8
Expenditures	\$5,487,809	\$5,894,090	\$6,205,360	5.3
Man-years	553.8	559.5	536.4	-4.1

Purging Fingerprint File

We recommend that the department report to the Legislature by June 1, 1972, on the costs and feasibility of purging its massive fingerprint and record files of deceased persons and persons whose records show no new entries since 1932.

As stated in our analysis of the department's 1971-72 budget, 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 9 shows the growth in record folders since 1954.

Table 9
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

Because the rapid growth in departmental records posed serious problems of space and efficiency in information retrieval, we recommended last year that the department reduce the inflow of noncriminal records and fingerprint cards submitted by local and state agencies by charging a fee equal to the cost of processing each set of noncriminal (job applicant) fingerprints which it checks, and by ceasing to create new records pertaining to noncriminal job applicants or licentiates. Legislation was passed implementing these recommendations, and the department reports that the number of applicant fingerprint

cards received for processing in the current year has diminished substantially from 1970-71 levels.

However, the continued increases in reported criminal activity place sustained heavy demands on the department's recordkeeping activities and facilities. For this reason, the department's 12 million name cards, 8 million fingerprint cards, and 4.2 million criminal and noncriminal records should be purged of useless and inactive entries. Such purging will also be necessary in the near future to permit full implementation of the computerized Criminal Justice Information System (CJIS), discussed below.

3. The automated information services component consists of an automated data processing section and the California Law Enforcement Telecommunications System (CLETS) section. The automated data processing section provides data processing services to the Department of Justice and information services to law enforcement agencies throughout the state. Automated files pertaining to wanted persons, stolen firearms, and stolen property have been established which are available for almost instantaneous access by local law enforcement agencies through the CLETS network. Direct communications are maintained between these files and the FBI's National Crime Information Center in Washington, D.C.

CLETS was established pursuant to Chapter 2.5 of the Government Code to provide law enforcement agencies with an efficient and effective statewide communications service. The state's portion of CLETS consists of two switching centers, one in Los Angeles and the other in Sacramento, and sufficient circuitry to one location in each county to handle the message traffic load to and from the counties.

CLETS became operational on April 1, 1970, and now has over 1,000 terminals in city, county, state and federal law enforcement agencies. The department has been actively engaged in working with the local users to achieve maximum benefit from the system. CLETS also provides all agencies with direct access to computerized information files, such as wanted persons, firearms, and property files, which are maintained by the Department of Justice, the Department of Motor Vehicles, the Highway Patrol, and the FBI National Crime Information Center.

Table 10
Automated Information Services Component, Workload, Staffing and Cost Data

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Proposed</i> 1972-73	<i>Percent in-</i> <i>crease over</i> <i>current</i>
Directed messages	13,370,000	15,754,000	17,330,000	10.0
Bulletins	680,000	801,000	880,000	10.0
Processed cards				
for data base files	3,559,026	3,767,000	3,928,000	4.3
Expenditures	\$3,086,668	\$3,706,262	\$3,926,959	6.0
Man-years	94.1	99.2	100.7	1.5

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Workload, staffing, and cost data for the automated information services program component appear in Table 10.

4. The program planning office administers three primary programs—(a) local agency liaison, (b) data processing, systems analysis and programming, and (c) record analysis and coding, all of which relate to implementation of the California Criminal Justice Information System (CJIS).

The local agency liaison section assists local agencies in their dealings with the division, particularly with regard to implementation of effective and compatible automated information systems. The other two sections function to (1) develop CJIS and (2) convert records in the department's existing files for entry into the automated criminal history system which is now being developed (CJIS).

CJIS is funded in the current fiscal year by \$1,982,000 in state funds and \$1,835,000 in federal funds provided under the Omnibus Crime Control and Safe Streets Act of 1968. The department proposes for the 1972-73 fiscal year that the federal government furnish \$2,091,839, the State General Fund \$1,508,587 and the Motor Vehicle Fund \$793,516. The federal portion would include \$426,362 for general administrative costs, leaving a net operating budget of \$3,967,580 for CJIS. Ninety-four of the positions for continued implementation of CJIS depend upon the approval of federal funding.

Workload, staffing, and cost measures for CJIS are indicated in Table 11.

Table 11
Criminal Justice Information System, Workload, Cost
and Staffing Data

	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Percent in- crease over current year</i>
Criminal History System:				
Data base entries—				
records coded	20,000	166,000	240,000	44.6
Data base updates—				
subsequent transactions	—	89,000	179,000	201.1
Inquiries	2,176,700	7,506,100	7,876,200	4.9
Wanted Persons System:				
Entries, modify, locate	26,902	56,496	59,320	5.0
Clears and cancel	13,278	27,885	29,279	5.0
Inquiries	240,915	505,923	531,217	5.0
Inquiries to NCIC	220,953	464,003	487,203	5.0
Updates to NCIC	4,640	9,744	10,231	5.0
Other center traffic	80,632	168,762	177,198	5.0
Responses	301,059	632,114	663,832	5.0
Expenditures	\$1,440,038	\$3,817,439	\$4,393,942	15.1
Man-years	83.7	271.0	237.0	-12.5

C. Organized Crime Program Element

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 business 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 38.7 positions in the current year funded in substantial part by federal funds.

The department's staffing and expenditure data for this element do not reflect continued federal funding which is anticipated in the budget year. The Organized Crime Unit has applied for a grant of \$1,149,810 in federal funds from the California Council on Criminal Justice to support present operations of the unit, and for a second grant of \$511,123 from the Federal Law Enforcement Assistance Administration for 10 field agents to obtain and verify information relating to organized crime. Thus, continued funding of most organized crime unit activities is contingent on the receipt of federal grant money in the budget year.

Workload, staffing, and expenditure data for this element are contained in Table 12.

Table 12
Organized Crime Element, Workload, Staffing and Cost Data

	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Percent in- crease over current year</i>
Loans of scientific investigative equipment.....	2	40	75	87.5
Technical equipment training (man-hours).....	30	100	200	100.0
Peace officer receiving training.....	265	250	350	40.0
Man-days of training.....	265	2,500	3,500	40.0
Subjects indexed.....	28,325	30,000	33,000	10.0
Requests for information.....	9,000	10,000	11,000	10.0
Answered analysis reports prepared.....	2	25	40	60.0
LEIU ¹ cards distributed.....	52,365	58,000	62,000	6.9
Expenditures ²	\$796,999	\$872,562	\$155,244	— ²
Man-years ²	14.1	38.7	9.7	— ²

¹ Law Enforcement Intelligence Unit.

² Workload and expenditure data are incompatible pending receipt of federal funding.

DEPARTMENT OF JUSTICE—Continued**STATUS REPORT ON THE CRIMINAL JUSTICE
INFORMATION SYSTEM (CJIS)**

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. After five years of development and a total expenditure of approximately \$7 million, CJIS is approximately 10 percent complete. The department has been successful in implementing a wanted persons, stolen gun, and stolen property file and has begun the conversion of 200,000 criminal history records to an automated file. In addition, the department is now converting the Highway Patrol Automated Statewide Auto Theft Inquiry System (Auto-Stat) to the Department of Justice computer system. This conversion will be complete and the Auto-Stat system fully operational by October 1, 1972.

FBI National Criminal History System

The news media recently reported that the Federal Bureau of Investigation (FBI) began operation of a computerized criminal history data base that will eventually give police almost instantaneous access to an individual's criminal arrest record from all of the 50 states and federal investigative agencies and courts. The system is to be fully operational by 1975 and would replace a project called "Project Search" in which California was a participant.

As stated above, the California Department of Justice has been actively engaged in the development of CJIS which is designed to provide a central statewide criminal history file with telecommunications links to all law enforcement agencies in the state. The major objectives of CJIS are: (1) to provide needed criminal information to all criminal justice decision makers when it is needed, and (2) to protect the rights of privacy of individuals by placing strict security and confidentiality controls on criminal justice information.

For the past two years California has also participated in Project Search, a federally sponsored program to develop a common criminal history record among the 50 states and to design an information system which would allow the exchange of criminal history records between the states and the federal government. The results of Project Search indicated that a federated criminal history system should be developed, utilizing the computer-based criminal history records of the several states, rather than developing a central criminal history file at the national level. This concept was tested in 10 states, including California, and was proven to be a feasible and desirable approach.

Letter to FBI

As the above cited press report indicates, the FBI is building a national computer file of criminal histories, thereby raising a question as to whether California should continue the development of its crimi-

nal justice information system. In order to clarify the situation, we wrote to the Director of the FBI on December 15, 1971.

The director responded in a letter dated December 23, 1971, stating that the FBI intends to establish a national index to state computer files and will develop a system based on a "single-state/multi-state offender record concept." This concept provides for an abbreviated summary of single state records in a national FBI index with a state-to-state switching capability between the states for single and multi-state records when required.

Interim Approach

The FBI response states however, that in the beginning the national files will include the full record now being kept at the state level because: "(a) This approach enables all states to obtain the benefits of the Computerized Criminal History Program, (b) This provides all states time to develop and implement the necessary related programs to fully participate, and (c) Familiarity with and adherence to all systems standards will speed program development."

It is apparent that the federal approach represents a duplication of state records at the national level until such time as all the states maintain automated criminal history files. Approximately 16 states now have automated files, and the NCIC Advisory Policy Board has set 1975 as a goal by which all states will be automated.

The FBI asserts that, although the interim system described above departs from the decentralized concept proposed by Project Search, a continual evaluation of the interim system will be performed in order to convert to that concept as soon as possible.

Based on our past experience with regard to California automated criminal justice systems, and our discussions with state and local law enforcement and other criminal justice officials over the years, we are not convinced that (a) all states can be automated by 1975 and (b) once the centralized record concept is implemented it will ever revert to a decentralized system. On the first point, it is possible that as long as one state retains manual recordkeeping, the national file may be deemed necessary under the proposed interim system. This could mean that all but one state file would be fully duplicated at the federal level.

Department of Justice Analysis

Following our letter to the FBI director, we asked the California Department of Justice to prepare an analysis of the FBI proposal, including a description of alternative methods which may be feasible in California for implementing the proposal. At this writing we have not received the requested analysis, but the department staff assures us a study is in progress and will be complete prior to the department's first budget hearing.

We recommend that the Department of Justice be fully prepared

DEPARTMENT OF JUSTICE—Continued

to discuss this program before the fiscal committees during the 1972 session. The object of such discussion should be to clarify the approach to be taken by the FBI in implementing a nationwide system of sharing criminal histories and the policy, fiscal, operational and technical impact the proposed system will have on the State of California.

**COMMISSION ON PEACE OFFICERS
STANDARDS AND TRAINING**

Item 40 from the Peace Officers Training Fund

Budget p. 24 Program p. 63

Requested 1972-73.....	\$934,595
Estimated 1971-72	932,971
Actual 1970-71	459,630
Requested increase \$1,624 (0.2 percent)	
Total recommended reduction	\$20,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Unfilled Position. Reduce \$20,000.* Recommend deletion of assistant executive officer position. 000

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 which 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, presently consisting of 100 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 40 hours for advanced officer training courses. Additional courses, including a 120-hour middle management and executive development course and an 8-hour course in the handling of tear gas, are also reimbursed.

ANALYSIS AND RECOMMENDATIONS

We recommend approval in the reduced amount of \$914,595 representing deletion of the assistant executive officer position for an annual saving of \$20,000 to the Peace Officers' Training Fund.

The \$934,595 in requested state funds for support of the commis-

sion's activities in the budget year is \$1,624 or 0.2 percent above estimated current-year expenditures and \$474,965 or 103.3 percent above actual state expenditures in fiscal year 1970-71. The increase over the 1970-71 level results primarily from the addition of 21.8 positions by the 1971 Legislature, thus providing a currently authorized staffing level of 51.5 positions. As discussed under the program headings below, the commission is requesting five additional positions (three consultants, a graphic artist, and a clerk-typist) at a budget-year cost of \$56,817. This added cost is largely offset by reductions in operating expenses and equipment.

The commission's ongoing operations and administrative expenses are supported by the Peace Officers' Training Fund, which derives its revenues from a penalty assessment of \$5 for each \$20 or fraction thereof of criminal fines and \$1 for each \$20 or fraction thereof of traffic fines levied by municipal and justice courts.

Federally Funded Programs

In addition to the state support, the commission has received \$652,094 in federal funds in the current year, consisting of \$79,485 for administration of a Traffic Program Management Institute, \$81,506 to provide administrative counseling services to local law enforcement agencies, and \$491,103 for Project STAR, a 39-month, multistate research effort to define the roles, functions, objectives, and skill requirements for six major classes of criminal justice personnel. Additional federal grants are anticipated for Project STAR and the administrative counseling project in the budget year, but such funds are not indicated in the budget document, because final federal approval has not yet been received.

The commission's administrative program consists of four primary elements: (1) Peace Officer Education and Training; (2) Peace Officer Selection Standards; (3) Administrative Counseling Services; and (4) Administration and Special Projects. These programs are summarized below.

Peace Officer Education and Training

This element monitors the quality of course teaching and content at some 125 educational institutions which provide training under the POST program, formulates and helps implement improved instructional techniques, and seeks to upgrade the level of teaching by introducing experimental techniques and methods which have been found successful elsewhere. 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.

The workload of the education and training element is summarized in Table 1, which indicates budget-year increases in the number of peace officers receiving training, courses requiring consulting and

STANDARDS AND TRAINING—Continued

inspection services, and schools providing POST-certified courses.

Table 1
Education and Training Element Workload and Cost Data

	1970-71	1971-72	1972-73
Peace officers receiving training-----	19,900	20,500	21,500
Man-days of training supervised-----	325,000	340,000	350,000
Number of courses receiving training, consulting and inspecting services----	180	300	350
Schools examined for certification-----	90	125	150
Personnel man-years -----	7	13	14
Expenditures -----	\$122,795	\$207,775	\$233,649

This element is requesting an additional consultant position to assist in (1) developing new courses required by recent commission decisions and legislative actions (Chapter 1504, Statutes of 1971) and (2) certifying and inspecting additional courses at junior colleges and training academies. Currently, five POST consultants are assigned to inspection and quality control of courses at the approximately 125 training institutions in the state. As indicated in Table 1, the number of such institutions is expected to increase in the budget year.

The commission states that each consultant is able to provide training, consulting, and monitoring services to an average of 60 courses annually, and that the number of POST-certified courses increased from 300 to 335 in the current year prior to imposition of a temporary moratorium on certification because of staff inability to handle certification workload. In view of the increased workload indicated in Table 1, the increased responsibilities resulting from recent commission and legislative actions, and the fact that a number of new courses are awaiting certification when the temporary moratorium is lifted, we recommend approval of this position.

Peace Office Selection Standards

Inspections are made of the 523 local and state agencies which participate in the POST program to ascertain compliance with personnel and operating standards. During the course of these investigations, POST consultants also inform local departments of new training programs, impart new ideas in recruitment and retention techniques, and gain firsthand information on local law enforcement problems which may benefit other POST programs.

Table 2
Peace Officer Selection Standards, Workload and Cost Data

	1970-71	1971-72	1972-73
Inspections conducted -----	80	214	480
Personnel man-years -----	2	8	8
Expenditures -----	\$36,383	\$132,976	\$130,843

The increased number of inspections shown in Table 2 for the current and budget years is a result of the additional personnel authorized for this element by the 1971 Legislature. The commission has experienced some difficulty in filling all of these positions to date. When fully staffed and trained, however, the unit will be able to conduct approximately 535 field investigations annually, an average of 107 investigations per consultant.

Administrative Counseling Services to Local Agencies

This element, on request of local law enforcement agencies, reviews administrative procedures and organizational patterns to secure better utilization of police personnel. Organizational and management problems 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.

Table 3
Administrative Counseling Services, Workload and Cost Data

	1970-71	1971-72	1972-73
Surveys made -----	15	25	36
Reports prepared -----	15	25	36
Personnel man-years ¹ -----	10.3	17	15
Expenditures -----	\$173,124	\$322,524	\$261,687

¹ Positions supported by federal funds are included in current-year figures but excluded from budget-year figures pending approval of federal grants.

STANDARDS AND TRAINING—Continued

The commission is requesting an additional clerk-typist position for this element. Currently, four clerical positions provide assistance to the 11.5 professional staff personnel who conduct administrative analyses of local police agencies and prepare comprehensive reports setting forth recommended changes in their structure and procedures. In view of the substantial increase in proposed reports for the budget year, this position appears justified.

Administration and Special Projects

This program element maintains records on reimbursements to local agencies and the educational attainments and POST certification levels of local law enforcement personnel; provides clerical, research, and general management services to other POST programs; and administers special projects. The latter include federally assisted programs, such as Project STAR, and special studies and programs requested by the Legislature, such as the study of minority recruitment problems encountered by local agencies (authorized by ACR 158 of the 1971 session).

Table 4
Administration and Special Projects, Workload and Cost Data

	1970-71	1971-72	1972-73
Certificate applications processed-----	14,500	15,225	15,984
Claims for reimbursement processed-----	12,000	12,600	13,320
Special projects coordinated-----	2	4	2 ¹
Planning and research projects-----	12	12	36
Personnel man-years -----	8.2	15.5	17
Expenditures -----	\$140,987	\$249,329	\$308,416

¹ Does not reflect two anticipated federally funded projects in the budget year.

Two senior consultant positions are proposed to implement a planned reorganization of the commission's administrative structure. One position would supervise the special projects section, while the other would provide needed assistance to the executive officer.

Under the proposed reorganization plan, the head of each of the commission's four major program elements will report directly to the executive officer rather than to the assistant executive officer as has been the case under the present structure. This reorganization will provide the executive officer with four administrative subordinates reporting directly to him (rather than one), thus enabling him to give better direction to the commission's various program elements. Implementation of the plan requires an additional senior consultant position to supervise the operations of the administration and special

STANDARDS AND TRAINING—Continued

projects unit, a responsibility which has been assumed by the assistant executive officer.

We concur in the proposed reorganization of the administrative structure, provided that the assistant executive officer position is deleted for an annual savings of approximately \$20,000. This position currently is unfilled, and the commission has no immediate plans to fill it. The assistant executive officer position is not needed under the proposed reorganization and, therefore, should be deleted.

The other senior consultant position is requested to assist the executive officer with overall commission responsibilities, such as handling written and telephone correspondence to provide policy direction to the 523 agencies which participate in POST programs; providing technical and managerial advice and direction to the staff; maintaining awareness of court decisions and legislative actions affecting commission programs; and furnishing assistance to other state criminal justice agencies which conduct education and training programs. This proposed position would be filled by senior staff members on a biannual rotating basis, providing them with an opportunity to gain an overall perspective of POST activities which should be of value to them upon return to their own primary areas of responsibility.

In addition, the commission requests that a graphic artist position be authorized for this section. A part-time student draftsman has been utilized in the current year to prepare graphs, charts, diagrams, and other training aids for the education and training programs and for the administrative counseling surveys of local agencies. The limited nature of this part-time assistance, however, has proven inadequate to keep pace with the expanded education and training and administrative counseling programs.

ASSISTANCE TO CITIES AND COUNTIES FOR PEACE OFFICERS STANDARDS AND TRAINING

Item 41 from the Peace Officers Training Fund

Budget p. L-8 Program p. 63

Requested 1972-73.....	\$12,170,000
Estimated 1971-72	10,400,000
Actual 1970-71	5,170,369
Requested increase \$1,770,000 (17.0 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, beginning in the current fiscal year, up to 100 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 40).

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 budget year are estimated at \$9,000,000.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The sum of \$12,170,000 is requested for the budget year from the Peace Officers Training Fund for allocation to local government. This amount, which represents the maximum foreseeable level of funding to participating law enforcement agencies in the budget year, is an increase of \$1,770,000 or 17 percent above estimated local assistance expenditures of \$10,400,000 for the current year.

Disbursements to local agencies approximately doubled between fiscal years 1970-71 and 1971-72 as a result of a decision by the commission to reimburse up to 100 percent rather than 50 percent of the salaries and expenses of officers selected to participate in training programs. The higher rate, which was adopted as a means of reducing fund surpluses, is subject to reduction in future years, depending on revenue trends and the funding needs of participating law enforcement agencies.

Revenues to the Peace Officers Training Fund during fiscal year 1972-73 are estimated at \$9,000,000. These revenues, together with an estimated fund surplus of \$7,216,326 as of July 1, 1972, will provide sufficient funding resources for the commission's proposed expenditure program.

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE

Items 42 and 43 from the
General Fund

Budget p. 25 Program p. 68

Requested 1972-73.....	\$1,843,868
Estimated 1971-72	143,086
Actual 1970-71	77,986
Requested increase \$1,700,782 (1,288.6 percent)	
Total recommended reduction	29,360

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Recommend that seven limited-term positions be added to the council's staff to conduct field audits of funded projects, in lieu of the 29 permanent positions requested by the CCCJ, for a General Fund reduction of approximately \$29,360 annually (based on federal-state funding ratio). 81
2. Recommend legislation to reduce the 30-member, part-time council to a 5-member, full-time council at an added General Fund cost of approximately \$14,000 annually. 85

GENERAL PROGRAM STATEMENT

The 30-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, 17 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

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

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 statewide 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.

Table 1 shows the federal funds received for council allocation to state, local, and private action grant projects since inception of the program to the present time.

Table 1
Federal Funds Received by CCCJ for
Allocation to Action Grant Projects
(In millions of dollars)

	Year received				
	1968-69	1969-70	1970-71	1971-72	1972-73 (Estimated) ¹
Federal funds available					
for council allocation ²	\$2.3	\$17.3	\$35.9	\$43.0	\$17.4 ¹
Cumulative total	\$2.3	\$19.6	\$55.5	\$98.5	(\$115.9)

¹ Amount receivable based on proposed General Fund matching allocation of \$1,665,000.

² Consists of both Part C (general action grant) and Part E (corrections) federal funds (Omnibus Crime Control and Safe Streets Act of 1968, as amended).

As of January 1, 1972, the council had made 525 grant allocations totaling \$44,497,647 to some 400 projects. The federal grant funds have a three-year life, so that funds which are not spent in the fiscal year during which they are received by the council may be spent during either of the two succeeding fiscal years.

The staff's tentative 1972 California Comprehensive Plan for Criminal Justice contains extensive tables summarizing proposed allocations

Table 2
Proposed CCCJ Allocations to Action Grant Projects in
Calendar Year 1972 by Functional Category

Category	Millions of dollars	Percentage of total allocations
A. Upgrade law enforcement personnel	\$4.3	10%
B. Prevention of crime, including public education	4.4	10
C. Prevention and control of juvenile delinquency	6.5	15
D. Improvement in detection and apprehension of criminals	8.3	20
E. Improve prosecution, courts and law reform	3.1	7
F. Increase effectiveness of corrections and rehabilitation, including probation and parole	9.8	23
G. Reduce organized crime	2.0	5
H. Prevent and control riots and disorders	1.0	2
I. Improve community relations	1.8	4
J. Research and development	1.3	3
Totals	\$42.5	99 ¹

¹ Does not equal 100 percent due to rounding to nearest percent.

for projects, categorized by region and type. As indicated in Table 2, this plan, if adopted in present form, will place primary emphasis on (1) increasing the effectiveness of correction and rehabilitation programs (including probation and parole programs); (2) improving methods of detecting and apprehending criminals, particularly through grants for criminal justice information systems and police communications systems; and (3) assisting programs to prevent and control juvenile delinquency, especially those aimed at attacking the causes of delinquency.

These categories are too broad in some instances to reflect precisely the nature of the projects which the council proposes to fund in 1972. Each category, therefore, is subdivided into three to seven program areas. Table 3 shows the six program areas which will receive the greatest council support under the proposed allocation of funds.

Table 3
Proposed CCCJ Grant Applications of Major Program Areas

	<i>Millions of dollars</i>	<i>Estimated number of projects</i>
1. Programs to attack the causes of delinquency	\$5.9	40
2. Programs to establish community-based rehabilitation programs	5.7	27
3. Programs to prevent specific crimes (principally burglary)	4.0	13
4. Programs to provide interdisciplinary training of law enforcement personnel	3.3	10
5. Criminal justice information systems	3.0	8
6. Programs to provide material and operational assistance for courts, prosecutors and defenders	2.2	11
Totals	\$24.1	109

In addition to the 109 projects in the six program areas listed in Table 3, the plan proposes to fund approximately 144 other projects in 38 other program areas. Federal law requires that at least 75 percent of the federal grant moneys be allocated to projects sponsored by units of local government. The remaining 25 percent will be allocated primarily to state projects, with a few grants to projects sponsored by private agencies.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two General Fund appropriations for the council—\$178,868 for council operating expenses, and \$1,665,000 as cash match for the federal funds which are awarded by the council to local and state projects. The latter appropriation is required as a result of 1970 amendments to the federal Omnibus Crime Control and Safe Streets Act of 1968, which require the states, beginning in 1973, to provide (1) one-fourth of the non-federal match for *all* action grant

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

projects supported by 1972-73 and subsequent federal funds, and (2) a cash appropriation of at least 40 percent of the non-federal match for grants made to state agencies. Prior to the effective date of these amendments, in-kind services may be used as match for federal funds. The projects are funded on a 75-percent federal, 25-percent non-federal matching basis.

The requested \$178,868 for council operating expenses represents an increase of \$35,782 or 25.0 percent over estimated General Fund expenditures for this purpose in the current year. This sum would be supplemented by \$2,051,800 in federal matching funds for CCCJ planning and administration, thus giving the council a total support budget of \$2,230,668 for the following three programs: (1) Criminal Justice Comprehensive Planning, which involves developing and revising the annual comprehensive state plan to reduce crime; (2) Criminal Justice Program Implementation, which implements and administers the federal action grant award program; and (3) Support Services and General Administration, which reviews grant proposals, provides fiscal and accounting services, and conducts field audits of projects.

Council Faces Funding Uncertainties, Probable Program Reduction

The council's program and workload data for the budget year are based on the assumption that approximately \$60 million in new federal grant moneys will be allocated to California in 1972-73 as indicated in the workload data for the "proposal review, monitoring and audit" program element. However, to receive that level of federal funding, the state would need to appropriate \$5,750,000 in matching funds. The budget proposes an appropriation of \$1,665,000 in state funds, an amount sufficient to provide match for approximately \$17,372,610 in 1972-73 federal funds. Thus, the council's program description and the proposed state allocation are incompatible, in that the council's operating budget assumes that California will receive an additional \$42.6 million in 1972-73 federal matching funds for which no state match has been provided in the budget.

Although the council has not yet expended any of the \$43 million in federal 1971-72 grant moneys, and most of those funds thereby will be available for project allocation in the budget year, the proposed \$1,665,000 General Fund appropriation signals a reduction in state and federal support of the council's program which will reduce staffing requirements by the end of the budget year. Unless additional state or federal support for council programs is provided, for example through amendments to the federal Crime Control Act eliminating the state buy-in provision, enlargement of the council's staff as requested below appears unwarranted.

Seeks 29 New Positions

The council, which has a presently authorized staff of 83.5 positions, requests the addition of 29 new positions in the budget year at a total annual salary cost of \$282,507. Most of these new positions would be assigned to the Support Services and General Administration Program, which would increase from an estimated 24 man-years of staff support at the beginning of the current year to 54.5 man-years in the budget year. Part of this increase results from shifting program elements from other programs to Support Services and General Administration.

Based on anticipated reductions in the council's federal grant program by the end of the budget year resulting from the proposed state cash matching level of \$1,665,000 indicated in the budget document, we recommend that the Legislature authorize a net addition of seven limited-term positions (rather than the 29 proposed new positions indicated on page 77 of the Program Budget Supplement) to the council's current authorized staff of 83.5 positions, consisting of a division chief, one fiscal examiner III, three fiscal examiner II, one accounting technician, and one stenographer position, for a total General Fund reduction of \$29,360.

Due to the large number and substantial size of federal grants that have been made in the past thirty months, the council has a responsibility to conduct field audits of funded projects in order to account for the expenditure of federal funds. The fiscal examiner, accounting, and clerical positions recommended above would be used for this purpose. Due to uncertainties regarding future council funding, we suggest that these positions be filled for a limited term ending December 31, 1973.

The division chief position is requested for a limited term ending October 31, 1972, and is needed for temporary replacement of a division chief who is on loan until that date to organize a regional planning board for Contra Costa County. Costs for this position are reimbursed fully by the regional planning board.

The total salary cost of the seven addition staff positions which we recommend is \$63,478, which is a reduction of \$219,029 from the salary cost of the 29 new positions requested by CCCJ. This reduction in new positions in turn would cause a total reduction of approximately \$367,000 in council expenditures, consisting of approximately \$242,100 in personnel costs (salary costs plus staff benefits) and \$125,000 in operating costs. Because the General fund appropriation supports approximately 8 percent of the council's operating budget, the recommended reduction in new positions would result in an overall General Fund reduction of 8 percent of \$367,000, or \$29,360.

Table 4 shows the council's existing staffing level, its proposed staffing level, and the staffing level which we recommend for fiscal year 1972-73.

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

Table 4

Existing, Proposed, and Recommended CCCJ Staffing Levels
for Fiscal Year 1972-73

(In Personnel Man-years)

	Existing staffing level ¹	Proposed staffing level	Staffing Level recommended by Legislative Analyst
I. Comprehensive Planning			
A. Preparation, development and revision of state comprehensive plan	7.8	11.8	7.8
B. Comprehensive planning for juvenile delinquency prevention and control	0	0	0
C. Planning and coordination with related federal programs	0.5	1.5	0
D. Development, assistance and review of regional and local planning competence	<u>9.9</u>	<u>10.9</u>	<u>10.9</u>
	(20.2)	(24.2)	(18.7)
II. Program Implementation			
A. Technical assistance to local agencies	3.5	4.3	3.5
B. Task force support	<u>24.8</u>	<u>27.5</u>	<u>24.8</u>
	(28.3)	(31.8)	(28.3)
III. Support Services and General Administration			
A. Executive	3.9	3.9	3.9
B. Research, development and evaluation	2.5	3.5	2.5
C. Fiscal and accounting	6.4	9.4	8.4
D. Proposal review, monitoring and audit	10.7	17.7	14.7
E. Business services	11.1	11.1	5.1
F. Grant contract services	1.3	2.3	1.8
G. Criminal justice system liaison	3.5	3.5	2.0
H. Training	1.5	1.5	1.5
I. Management analysis	<u>1.6</u>	<u>1.6</u>	<u>1.6</u>
	(42.5)	(54.5)	(41.5)
Totals	91.0 ¹	110.5	88.5

¹ Includes 9.5 temporary positions added administratively in the current year.

For reasons discussed below, we believe the recommended staffing level shown in Table 4 would permit the council to function effectively even if full federal funding is provided in the budget year. The recommended staffing levels in the following analyses of council program elements are a restatement of our general staffing recommendation, and may require the council to make internal staffing adjustments or to reclassify positions.

CRIMINAL JUSTICE COMPREHENSIVE PLANNING PROGRAM**Preparation, development and revision of state comprehensive plan**

The council requests two positions for preparation, development and revision of the annual state comprehensive plan to reduce crime. Last year the council requested and received three new positions for

this function, increasing the staffing of this program element to 9.8 man-years.

In our judgment, the 1972 state plan demonstrates significant progress toward realistic and useful planning, and future plans will benefit substantially from the effort that has gone into it. Given the increasing level of criminal justice planning at local and regional levels, and the long-range planning carried out elsewhere within the council in the Research, Development and Evaluation program element, we recommend disapproval of the two proposed positions and two existing positions, leaving eight positions to prepare future annual plans.

Planning and coordination with related federal programs

The council refers to this program element elsewhere in the program budget under the title, "Planning and Coordination with State Agencies and Other Related Programs," and describes its output as follows:

"The product of this element will be an annually updated document which will be distributed to regions and local units of government to improve knowledge and information dissemination. Staff will be available to serve as experts in the development and coordination of the concerned programs."

The council proposes a staffing allocation of 1.5 man-years to this element at a cost of \$25,893. In the absence of workload data indicating specific federal or state programs which require coordination with council programs and justify these 1.5 positions, we recommend their deletion. The coordination referred to should be the responsibility of the council's executive director and other staff members. Production of the "annually updated document" should be the responsibility of the program element which prepares and revises the annual state comprehensive plan.

CRIMINAL JUSTICE PROGRAM IMPLEMENTATION PROGRAM

We recommend deletion of 3.5 proposed positions.

This program consists of two elements: (1) technical assistance to local agencies, and (2) task force support. The functions of the two program elements are (1) assisting local agencies in developing acceptable projects which will fit into and become integral parts of the regional plans, and (2) reviewing the 21 annual regional plans.

Rather than reviewing and acting upon individual grant applications submitted directly by proponents as it has in the past, the council now reviews and approves regional plans submitted by the 21 regional criminal justice planning boards which it has established throughout the state. Each regional plan contains projects which are recommended by the regional board for funding by the council.

The council is requesting that staffing for the technical assistance to local agencies element be increased from 3.5 man-years to 4.3 man-

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

years, and that staffing for the task force support element be increased from 24.8 man-years to 27.5 man-years.

Because the regional planning boards are now operational and able to evaluate projects at the regional level, and because the CCCJ's role is shifting from review of literally hundreds of individual projects to review of 21 regional plans, we recommend that council staffing for this program remain at the current-year level. The increased level of planning and project review now being conducted at the regional level should ultimately reduce workload for this council program.

SUPPORT SERVICES AND ADMINISTRATION PROGRAM

The Support Services and Administration Program consists of nine functional elements: (1) executive, (2) research, development and evaluation, (3) fiscal and accounting, (4) proposal review, monitoring and audit, (5) business services, (6) grant contract services, (7) criminal justice system liaison, (8) training, and (9) management analysis.

Staff support for this program has increased from 14.3 positions last year to 42.5 positions in the current year and would be increased to 54.5 positions under the proposed budget. Eight of these positions, however, relate to program elements which have been transferred to Support Services and General Administration from the other two council programs in the past year.

The level of staffing for four program elements—fiscal and accounting, proposal review, monitoring and audit, business services, and grant contract services—would increase under the proposed budget from 11.5 positions in fiscal year 1970-71 to 40.5 positions in the budget year. We concur with the need and desirability of conducting field audits of funded projects, maintaining accurate financial records, and providing business services, and we are aware of the substantial amounts of paperwork which accompany federal grant projects. However, given the council's funding uncertainties and probable program reduction in the budget year, a staffing increase of 350 percent since 1970-71 for the above-mentioned four program elements appears unwarranted.

Business Services Program Element is Overstaffed

The 1971-72 Governor's Budget estimated staffing requirements for this program element at 2.7 man-years for 1970-71 and 4 man-years for 1971-72. The proposed budget indicates that an estimated 11.1 man-years will be utilized in 1971-72 and requests continuation of that staffing level in the budget year.

Comparison with other state agencies indicates that the staffing level for these services (which pertain to payroll, supplies and equipment, printing and duplication, and central filing services) is excessive. Because the council has provided no workload information to justify the increase, this program element should be funded at a re-

duced staffing level of five positions.

Fiscal and Accounting Program Element

The council proposes an increase of three positions (from 6.4 to 9.4 man-years) for this program element. However, the workload information provided indicates increases of 37 percent in invoices processed and 25 percent in grants accounted for. Based on the workload indicators shown in Table 5, the element should receive two additional positions rather than three.

Table 5
Fiscal and Accounting Element, Workload, Staffing and Cost Data

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Proposed</i> 1972-73	<i>Percent</i> Increase
Invoices processed	3,416	6,500	8,900	37
Grants accounted for	390	845	1,060	25
Expenditures	\$54,049	\$108,211	\$128,616	19
Man-years	4.4	6.4	9.4	47

Proposal Review, Monitoring and Audit Program Element

The council requests seven new positions for this element. Based on a standard of one project audit per financial examiner per week, four additional examiners, rather than the seven requested, would be adequate to provide annual audits of all funded projects.

Grant Contract Services

Staffing for this program element, which is responsible for drawing up contracts with grant recipients, should be increased by one-half position rather than by one as requested, based on the projected workload increase indicated in Table 6.

Table 6
Grant Contract Services Element Workload and Staffing Data

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Proposed</i> 1972-73	<i>Percent</i> increase
Number of grant contracts processed	384	525	732	39.4
Man-years	0.4	1.3	2.3	77.9

Recommend Smaller, Full-Time Council

We recommend legislation to replace the 30-member, part-time council by a five-member, full-time council.

The council holds monthly meetings to consider applications for federal matching funds submitted by state, local and private agencies and to conduct related business. The agenda of a typical council meeting includes the executive director's report and reports from the executive, operations, and task force committees. These latter reports, which constitute the primary subject for council action at most meetings, generally involve consideration and approval of several regional

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

plans containing a total of 30 or more applications for council grants of federal money.

Due to (1) the size of the 30-member council, (2) the limited time available (most members fly to and from meetings on the same day), (3) the other full-time responsibilities of the members which may limit their familiarity with council actions and practices, (4) the formality necessary to conduct a public meeting of a 30-member group, and (5) the procedural requirements set by the council itself, a disproportionate amount of the council's time is devoted to the mechanics of council operation and consideration of grant applications, debatable aspects of individual grant applications, and other technical and operational questions. Limited or negligible attention traditionally has been given to broad policy questions such as the relative values or priorities of, for example, alcohol or narcotics treatment programs as compared with programs seeking to reduce organized crime or the relative value of streamlining specified police administrative procedures compared to correctional rehabilitation programs.

Furthermore, it appears uncertain whether genuinely productive discussion of broad policy issues is possible under the council's current structure. The council appears to lack a unified, ordered set of priorities describing how it intends to reduce crime and improve the efficiency of criminal justice in California. This deficiency results from the fact that the council has not been able to focus on broad policy areas or agree on how to evaluate and rank these priorities.

Because the council meets only one day a month, members who are absent from previous meetings sometimes are unable to evaluate proposed actions fully. A lack of time also hinders some council members from familiarizing themselves fully with the recommendations of the council's staff and task forces. The press of other responsibilities often precludes council members from engaging in the necessary dialogue with each other or with expert witnesses to convert technical concepts into layman's language and to provide full and consistent rationale for council decisions.

For these reasons, we recommend that a five-member, full-time council be established consisting of persons with training and background in the following fields: law enforcement, local government, corrections, the court system, and criminal-justice related studies or research. Five years of experience in one of these areas should be set as the minimum experience requirement, and all five areas of expertise should be represented on the council. A three-member majority vote would be required to approve general policy and operational decisions and grants of federal funds to state or local agencies or to regional planning boards. The existing council members could be reconstituted as an Advisory Committee on Criminal Justice to meet quarterly and make recommendations for council consideration and

to bring matters to the council's attention. The existing task force committees could report to the newly constituted council as at present, subject to further review of their usefulness and possible modification of their role.

The suggested council structure should be able to provide day-to-day, in-depth attention to policy matters. Moreover, a full-time council would relieve the council's executive director of many of his appearances before local, state and national groups so that he could devote his primary attention to coordinating the efforts of the council's expanding staff.

If patterned after the Water Resources Control Board, salary costs for the council would approximate \$26,500 for the chairman and \$25,000 for each of the other four members, plus staff benefits of approximately \$13,600. This total additional cost of \$140,000 would be shared by the federal government (approximately 90 percent) and the State General Fund (approximately 10 percent). Thus, the annual added state cost resulting from these reforms would be \$14,000.

CALIFORNIA CRIME TECHNOLOGICAL RESEARCH FOUNDATION

Item 44 from the General
Fund

Budget p. 27 Program p. 78

Requested 1972-73.....	\$78,750
Estimated 1971-72	75,000
Actual 1970-71	75,000
Requested increase \$3,750 (5.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Crime Technological Research Foundation (CCTRF), a 20-member nonprofit public corporation, was established by Chapter 1661, Statutes of 1967, to foster scientific and technological research relating to the prevention and detection of crime, the apprehension and treatment of criminals, and the administration of criminal justice. Chapter 1119, Statutes of 1971, extended the foundation's existence to 1975, increased the membership of its board of directors from 15 to 20 members, and eliminated the former organizational relationship between CCTRF and the California Council on Criminal Justice (CCCJ) whereby the foundation had acted primarily as the Science and Technology Task Force of CCCJ by reviewing all science and technology-related grant applications for federal funds submitted to the council and making recommendations for council action.

CALIFORNIA CRIME TECHNOLOGICAL RESEARCH—Continued
ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The foundation proposes a total budget of \$1,308,030 for fiscal year 1972-73, consisting of \$78,750 in General Fund support, \$1,128,480 in federal funds, and an anticipated \$100,800 in grants from private foundations and corporations which will be deposited in a "special deposits account" and used to match federal grant money. The proposed General Fund appropriation exceeds the current-year appropriation of \$75,000 by \$3,750, or 5.0 percent. State funding supports the foundation's staff and related expenses while federal and private grants support the various projects administered by the foundation.

The foundation currently is engaged in administering a number of multi-state, federally funded projects aimed at providing better methods of preventing and detecting crime and administering criminal justice. These projects include efforts to (1) develop new nonlethal weapons; (2) establish national standards and goals for criminal justice information and statistics systems (Project SEARCH); (3) assist states in implementing meaningful and usable systems of criminal justice statistics; (4) upgrade administrative practices of state agencies which are engaged in maintaining records which identify criminals; (5) establish a computerized national index of the information pertaining to organized crime activities which is maintained by various law enforcement agencies; (6) transmit and receive fingerprint facsimiles nationwide via satellite; (7) develop means of searching for and identifying fingerprint cards in fingerprint files electronically; and (8) develop means of perimeter control (detection of intruders) utilizing laser beams, seismic and sonic devices (Operation BREAKTHROUGH).

Currently, the foundation's authorized staff consists of two executive and two clerical positions. The following positions were established administratively during the current year and are proposed for continuation.

1 criminal justice specialist I.....	\$15,276
1 accountant I.....	9,396

The criminal justice specialist has assisted with projects to improve the safety of state prison guards by utilizing pulse-sensory devices connected to radio transmitters, and to develop methods of perimeter control at state prisons using laser beams and seismic devices. The accountant administers the fiscal details of approximately ten projects, most of which involve other states as well as California and require preparation of detailed grant applications for federal funds and payments of operating expenses, salaries, and other claims submitted by project members in other states.

ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS

Item 45 from the General
Fund

Budget p. L-8 Program p. 82

Requested 1972-73.....	\$775,000
Estimated 1971-72	775,000
Actual 1970-71	775,000
Requested increase—None	
Total recommended reduction	None

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 RECOMMENDATIONS

We recommend approval.

The \$775,000 requested for 1972-73 is identical to the amounts authorized for the past four fiscal years. For the current year, the appropriation represents only 2.7 percent of the amount budgeted by the counties for this purpose. 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>
1968-69	\$14,422,835	\$775,000	5.4
1969-70 ¹	19,732,974	775,000	3.9
1970-71 ¹	23,983,100	775,000	3.2
1971-72 ¹	29,004,324	775,000	2.7

¹ 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 1971-72 represent county expenditures of \$6,668,235 and a state reimbursement of \$668,823. Thus, with less than \$106,177 of the current-year appropriation remaining, funds for this program undoubtedly will be exhausted in the second quarter.

ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS

Item 46 from the General

Fund

Budget p. 28 Program p. 82

Requested 1972-73.....	\$1,000,000
Estimated 1971-72	1,000,000
Actual 1970-71	1,106,693
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 1681, Statutes of 1963, defines the liability of public entities and public employees for tortious acts. In 1970 the state negotiated a three-year insurance policy which protects it against claims between \$2 million and \$50 million at a cost of \$198,000 annually. (A second premium of \$5,937 covers the state's liability for accidents involving state-owned and state-hired aircraft.) The state assumes direct liability for payment of claims of less than \$2 million and more than \$50 million, because insurance against the smaller claims has proved too costly and insurance to protect against those exceeding \$50 million (natural catastrophes) is not generally available.

The item provides for administration of the tort liability program, payment of the insurance premiums, and 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 special insurance. Special fund agencies, with the exception of the Department of Public Works which investigates, litigates and pays its own claims, reimburse the General Fund for payments made under the program on their behalf.

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.

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. The workload is reflected in Table 1.

Table 1
Department of Justice Tort Section Workload

	1967-68	1968-69	1969-70	1970-71	Estimated 1971-72
Number of claims received by					
Board of Control.....	387	895	472	480	475
Dollar amount of claims received ..	N.A.	\$2,197,196,909	\$119,653,827	\$279,607,282	\$150,000,000
Number of claims paid by Board of Control	45	71	70	30	50
Total amount paid by Board of Control	\$34,245	\$45,467	\$15,722	\$6,500	\$10,000
Lawsuits filed	166	172	150	149	150
No. won by Attorney General	(28)	(67)	(79)	(88)	(70)
No. lost or settled out of court	(17)	(22)	(40)	(29)	(36)
Amounts paid on lawsuits, settlements and judgments	\$66,815	\$1,024,000	\$509,276	\$426,431	\$600,000

The \$1 million appropriation request covers the payment of claims (estimated to total \$374,000), the related investigative and administrative costs of the Department of Justice (\$410,063), the administrative costs of the Board of Control (\$12,000), and the cost of the insurance premiums (\$198,000 and \$5,937) for the budget year. The Attorney General's office indicates, however, that settlement of claims pending in the budget year could total more than the \$374,000 allocated for that purpose. In that event, a deficiency appropriation would be necessary, since the state is obligated to pay whatever claims may result from court decisions and negotiated settlements.

INDEMNIFICATION OF PRIVATE CITIZENS

Item 47 from the General

Fund

Budget p. 29 Program p. 84

Requested 1972-73.....	\$500,000
Estimated 1971-72	400,000
Actual 1970-71	419,760
Requested increase \$100,000 (25.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Level of awards. Based on passed year's experience and the current-year level of awards, amount proposed may be inadequate to cover all grants of aid made during budget year. 93

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 \$50,000 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

Table 1
Expenditures for Indemnification of Private Citizens
(Aid to Victims of Crimes of Violence)

	1967-68	1968-69	1969-70	1970-71	Estimated 1971-72	Proposed 1972-73
General Fund	\$15,414	\$25,000	\$125,000	\$125,000	\$325,000	\$500,000 *
Indemnity Fund	6,997	5,728	5,080	1,414	2,090	2,000
Emergency Fund	-	49,055	66,565	294,760	75,000	-
Totals	\$22,411	\$79,783	\$196,645	\$421,174	\$402,090	\$502,000

* Includes \$50,000 for funding claims of citizens who have benefited the public pursuant to Chapter 1111, Statutes of 1969 ("Good Samaritan Act").

levied on the perpetrators of the crimes. Receipts from these fines are deposited in the Indemnity Fund. Table 1, summarizing the history of program expenditures, shows that Emergency Fund allocations were required in fiscal years 1968-69 through 1970-71, and reflects an estimated Emergency Fund allocation of \$75,000 in the current year.

In the current year, 113 claims totaling \$202,616 were approved between July and December 1971. Comparable figures for July to December 1970 were 66 claims totaling \$171,344. Sixteen of the current-year claims were for the maximum \$5,000 amount, compared with 12 such claims during the same period in 1970 and three during the comparable period in 1969. If grant payments authorized at the semimonthly Board of Control meetings continue to increase at the present rate, the board estimates that program requirements in the current year will total approximately \$550,000 (including the \$50,000 investigative expense of the Attorney General) rather than the \$402,090 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, both the amount estimated to be expended in the current fiscal year and the amount proposed for fiscal year 1972-73 may be inadequate to cover all grants made by the Board of Control.

The proposed General Fund appropriation of \$500,000 for fiscal year 1972-73 includes \$50,000 for the funding of claims filed under the "Good Samaritan Act." Such claims were previously funded through the legislative claims process, but pursuant to legislation enacted in 1971 (Chapter 1269) they are now funded in this item.

STATE CONTROLLER

Item 48 from the General
Fund

Budget p. 29 Program p. 85

Requested 1972-73	\$6,237,871
Estimated 1971-72	5,899,862
Actual 1970-71	5,701,815
Requested increase \$338,009 (5.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. The State Controller will assume the disbursement function for the Medi-Cal Management System commencing on a pilot basis in August 1972. A budget increase of \$163,000 proposed for this purpose will be reimbursed by the Department of Health Care Services. 97
2. Withholding of state income taxes will require expendi- 97

STATE CONTROLLER—Continued

tures of \$680,000 in 1972-73 for disbursement of tax refund warrants. This amount is not included in the Governor's Budget but will be contained in a supplemental budget request to the Legislature from the Department of Finance. *The request will include funds related to the acquisition of a new small scale computer which we recommend deferring pending resolution of the consolidated EDP service center issue.*

3. The Inheritance and Gift Tax Division requests a budget increase of \$96,000 in 1972-73 to support the workload generated by the acceleration of inheritance and gift tax payments. This increase will also be covered by a supplemental budget request. 100

4. We recommend augmenting the Controller's budget by \$28,000 in 1972-73, to establish a two year pilot program of contracting for civil service property tax appraisers to review the values submitted by inheritance tax referees. 101

5. The Local Government Fiscal Affairs Division proposes to transfer seven positions from the Street and Road program element to the Financial Reporting and budgeting element for purposes of improving the timeliness and accuracy of the special district financial reports. *We recommend legislation to require these districts to have their individual reports certified by a public accountant or certified public accountant. We further recommend elimination of four of the positions proposed for transfer, for a General Fund reduction of \$41,424.* 104

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 services provided to other agencies.

Estimated program expenditures for 1971-72, the proposed expenditures for 1972-73 and the budget increase over the current year are also shown in Table 1.

ANALYSIS AND RECOMMENDATIONS

The net increase in proposed program expenditures, all funds, for 1972-73 includes \$115,000 for merit salary adjustments and higher staff

Table 1
State Controller's Program Budget—All Funds
(in thousands)

<i>By program and element</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Change</i>
I. Fiscal control			
Control accounting	\$626	\$652	\$26
Financial analysis	193	199	6
Unclaimed property	189	215	26
Claim audit	447	454	7
Field audit	647	656	9
General disbursement.....	679	886	207
Payroll.....	1,370	1,422	52
Data Processing	(202)	(194)	(-8)
Subtotal.....	\$4,151	\$4,484	\$333
II. Tax administration			
Inheritance tax	\$1,683	\$1,735	\$52
Gift tax	293	292	-1
Tax collection	116	119	3
Gas tax refund	680	699	19
Subtotal.....	\$2,772	\$2,845	\$73
III. Local government fiscal affairs			
Financial reporting	\$231	\$322	\$91
Streets and roads	478	342	-136
Uniform accounting.....	49	66	17
Tax-deeded land.....	125	129	4
Subtotal.....	\$883	\$859	-\$24
IV. Undistributed administration	\$204	\$207	\$3
Total program costs.....	\$8,010	\$8,395	\$385
Reimbursements.....	-682	-820	-138
Net totals	\$7,328	\$7,575	\$247
<i>By funds</i>			
General Fuel	\$5,900	6,238	\$338
Motor Vehicle Transportation Tax	103	106	3
Motor Vehicle Fuel	1,108	990	-118
State School Building Aid	142	160	18
Aeronautics	75	81	6

benefits, \$87,000 for anticipated higher prices of materials and supplies, and workload adjustments of \$44,000 for increases of four authorized positions, two in the unclaimed property element, and two for the inheritance and gift tax group. Expenditures for the implementation of the Medical Management System will total \$163,000, and will consist primarily of postage, printing and new equipment, but this cost will be reimbursed by the Department of Health Care Services.

At this time, the Controller's proposed budget does not include augmentations of \$680,000 for staffing, supplies and new EDP equipment to meet the requirements for disbursing income tax refunds in 1973, \$96,000 in additional support for the inheritance and gift tax

STATE CONTROLLER—Continued

element to meet the workload associated with the acceleration of these tax payments, and up to \$100,000 for inventory exemption audits. We understand that the Department of Finance will submit supplemental budget augmentations to the Legislature covering these three areas.

FISCAL CONTROL

The objectives of this program are to maintain an effective system of internal control over the state's financial transactions, and to report accurately the state's financial condition and operations in order to assure fiscal integrity in the administration of the state government. The divisions of accounting, audits, and disbursements carry out the activities of the seven program elements. The allocation of personnel to these elements and budget changes from the current year are shown in Table 2. Our comments will be limited to the unclaimed property and general disbursement elements because practically all of the workload changes will occur in these two areas.

Table 2
Fiscal Control Program Staff

	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Man-years</i>		
			<i>Total</i>	<i>Change Authorized positions</i>	<i>Salary savings</i>
<i>Program elements</i>					
Control accounting	40.2	40.2			
Financial analysis	9.0	9.0			
Unclaimed property	11.6	13.6	2.0	2.0	
Claim audit	39.8	39.8			
Field audit	39.1	39.1			
General disbursement.....	36.1	37.2	1.1		1.1
Payroll	118.7	120.9	2.2		2.2
Data processing	16.7	15.4	-1.3		-1.3
Total.....	311.2	315.2	4.0	2.0	2.0

Unclaimed Property

The unclaimed property element is responsible for the administration of laws relating to estates of deceased persons and unclaimed or abandoned property. Under the Unclaimed Property Act, holders of property (banks, insurance companies, etc.) which has not been claimed for a specified period of time must deliver such property to the state. The state may liquidate any noncash items at public auction, and the proceeds are deposited in the General Fund. Any owner who appears, however, is entitled to a refund, and a reserve fund of \$50,000 is maintained for this purpose.

Since the passage of this act in 1959, the state has received approximately 53,000 stock certificates. To date, none of the shares represented by these certificates has been sold. About 5,000 certificates are for

shares of listed companies or shares traded over the counter, while the remainder consists of unlisted shares with unknown market values. It is proposed to add two positions to the Controller's staff to prepare and maintain an inventory and investigate the market value of these unlisted shares. It is anticipated that at least three years will be required to establish the initial inventory listing and market evaluation. *We recommend approval of these two new positions.*

General Disbursements

The adoption of a state withholding tax program and the prototype testing in two counties of a new Medi-Cal Management System by the Department of Health Care Services starting August 1, 1972, will significantly increase the disbursement workload of the State Controller during the budget year.

As a result of these two changes, the Controller's volume of warrants will increase from 3.9 million in 1971-72 to 10.1 million in 1972-73, or an increase of 160 percent. In the following year, 1973-74, this warrant volume will double again to over 21 million.

Medi-Cal Management System. Currently, the function of disbursing Medi-Cal payments is handled by a contractual arrangement with fiscal intermediaries. However, the Controller's office intends, under its constitutional authority, to prepare all payments under the proposed Medi-Cal Management System (MMS). If for some reason MMS is not implemented, we assume that the Controller will insist on taking over the warrant issue responsibility from any fiscal intermediary.

The initial implementation of MMS will be undertaken on a pilot basis in two counties beginning in August 1972 and continuing for a period of approximately six months. If the prototype operation is successful, the MMS program will gradually be expanded to all 58 counties. During 1972-73 this program is expected to increase the number of warrants issued by the State Controller by approximately 1.2 million.

During the initial six-month period these Medi-Cal disbursements will be handled with no additions to staff or EDP equipment but the following expenses will be incurred, which will be reimbursed by the Department of Health Care Services.

Postage	\$94,000
Mailing equipment	29,000
Building alterations	20,000
Supplies, travel and other	20,000
Total	\$163,000

The cost of this program after the initial test period will depend upon what actions are taken at that time.

Withholding Tax Refunds. The adoption of personal income tax withholding will result in the issuance of approximately 5.2 million refund warrants during the first half of 1973. These refunds will cover

STATE CONTROLLER—Continued

overpayments on 1972 income taxes. The issuance of these refunds, coupled with the scheduled expansion of MMS, will overtax the capacity of the Controller's existing EDP equipment. To handle the increased workload, the Controller proposes to install an additional small-scale electronic computer in the range of the IBM 360/30 to be replaced in fiscal year 1973-74 by a machine in the range of the IBM 370/135.

We concur with the need for additional computer capability to meet the above workload increases and also agree that the existing second generation computing equipment now in use in the State Controller's office is obsolete and not amenable to augmentation.

Support for the expanded EDP program is not included in the budget. A supplementary budget augmentation request in the amount of \$680,000 will be submitted to the legislature by the Department of Finance to cover EDP expenditures and other requirements for the two programs. The detail of this request is shown below:

Personal Services	
Permanent positions—EDP personnel	
(3 positions, 1.25 man-years for 1972-73)	\$11,000
Permanent positions—Other	
(8 positions, 4.5 man-years for 1972-73)	30,000
Temporary positions	14,000
Staff benefits	6,000
Subtotal	\$61,000
Rental of IBM Model 360/30 (5 months)	100,000
Other general expense	32,000
Printing	56,000
Postage	418,000
Facilities operations	9,000
Equipment	4,000
Total	\$680,000

Controller Studying Consolidated EDP Service Center. The State Controller has taken the initiative in complying with a legislative recommendation contained in the Supplementary Report of the Committee on Conference (Budget Bill of 1971) which states that any planning for a new electronic computer system for the Controller should be completed in cooperation with EDP Master Plan Consolidation Group IV. The Supplementary Report also recommends that the State Treasurer, State Personnel Board and other fiscal and personnel agencies be considered as prime customers for a State Controller Data Processing Service Center.

A detailed discussion of this planning effort for a consolidated EDP service center and an integrated fiscal and personnel system can be found on page 000 of the *Analysis* in the section dealing with statewide EDP issues.

We expect that the requirement for additional EDP equipment in the Controller's office will occur in February 1973. Because this date coincides with the tentative date for installation of the first computer for a consolidated EDP center, it is likely that joint use of the equipment can occur. Therefore, planning for this new system should be completed as part of the EDP service center study.

Further, if an IBM 360/30 is selected as an interim system to solve the increased warrant workload problem, we recommend that the Department of Finance EDP Control and Development Unit take steps to assign one of three IBM 360/30 machines that should be available from the Secretary of State, Highway Patrol or the Department of Social Welfare (as recommended in other sections of this *Analysis*).

We therefore withhold recommendation regarding the \$100,000 for equipment rental in the supplemental budget request pending resolution of the consolidated EDP service center issue and possible availability of a similar computer system from another state agency.

Long-Range EDP Plans

As we indicated before, the Controller's office has taken the lead in developing a plan for consolidating the fiscal and personnel data systems of six state agencies into a processing service center. Basing much of his plan for improved EDP service on the recommendations of the Governor's Survey on Efficiency and Cost Control, the Controller desires to replace all of his obsolete computing equipment with modern computer systems. This would result in the capability to install centralized and automated accounting systems replacing the hand copy ledger cards, establish an integrated financial management information system and develop compatible payroll and personnel EDP master files as recommended by the Governor's Survey and a personnel Board study (APTDAC).

If the planning for a consolidated center is successful and results in a large central computer system which should be a more cost-effective operation, the Controller and the other participating agencies will be able to achieve their long-range EDP objectives with a significantly improved state system for processing both fiscal and personnel information. It is expected that a budget augmentation request will be presented to the fiscal committees during the 1972 session if the six agencies agree to embark on a consolidated EDP program.

TAX ADMINISTRATION

The function of this program is to administer the inheritance and gift tax laws, gasoline tax refunds, delinquent motor vehicle fuel license taxes, motor vehicle transportation tax and insurance premium taxes. The allocation of personnel to the program elements and the budget changes from the current year are shown in Table 3.

STATE CONTROLLER—Continued

Table 3
Staff of Tax Administration Program

<i>Program element</i>	<i>Man-years</i>		<i>Change</i>	
	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Total</i>	<i>Authorized positions</i> <i>Salary savings</i>
Inheritance tax	109.7	112.6	2.9	2.0 0.9
Gift tax	18.0	17.9	-0.1	— -0.1
Tax collection	9.0	9.0	—	— —
Gas tax refund.....	46.2	48.2	2.0	— 2.0
Total.....	182.9	187.7	4.8	2.0 2.8

Inheritance Tax

Under the provisions of AB 1, 1971 First Extraordinary Session, inheritance tax payment dates are amended to conform with 1970 federal estate tax changes. The delinquency period for payment of inheritance taxes was shortened from two years to nine months, and the 5-percent discount for payment of these taxes within six months of the decedent's death is eliminated. Even without state conformity, the federal law was expected to result in a significant acceleration in the filing of state tax reports. The projected normal caseload, the impact of federal acceleration of payment dates, and the effect of state conformity is shown in Table 4.

Table 4
Inheritance Tax Projected Caseload

	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Projected normal caseload prior to federal and state acceleration	37,600	39,500	41,500	43,600
Caseload including federal acceleration and state conformity	42,500	47,900	44,900	46,200
Percent increase over 1971-72 "normal" caseload	13%	27%	19%	23%

The heaviest impact of the state acceleration will be felt in the last quarter of 1972 and the first half of calendar 1973. Although some dropoff will occur in fiscal 1973-74, the cumulative effect of continual growth will maintain the number of cases well above the 1971-72 normal level.

As a result of this caseload, the Controller is requesting a budget augmentation of eleven permanent positions and five temporary positions. Two of these positions are included in the Governor's Budget for 1972-73 and the remaining positions will be covered by a supplementary request to the Legislature by the Department of Finance. It is anticipated that the five temporary positions will be eliminated within

one year. The eleven permanent positions represent an increase of approximately 10 percent in the man-years devoted to this program element. *We recommend approval of the two positions in this budget, and we will review the other positions when the supplemental request is submitted to the Legislature.*

Inheritance Tax Property Appraisals

We recommend augmenting the Controller's budget by \$28,000 in 1972-73 to conduct a two year pilot program of having civil service property tax appraisers review the values submitted by inheritance tax referees. Under current law, court-appointed inheritance tax referees appraise all real and personal property, other than cash and cash-type items, which is subject to inheritance tax, and make the initial determination of the amount of tax payable. Referees are appointed by the superior court from a panel of eligible persons appointed by the State Controller for four year terms. To qualify for appointment to the panel, an applicant must pass a written examination administered by the State Personnel Board, and have five years of acceptable experience. At the present time there are approximately 160 panel members throughout the state, and a large portion of these members are attorneys and businessmen rather than real estate brokers or appraisers.

Although appointed by the Controller, inheritance tax referees act independently and are not subject to the control or supervision by the Controller. The tax reports prepared by the referee are audited to verify the tax computations and the propriety of the application of the inheritance tax law. The property appraisals, however, which form the basis for the tax computations, are accepted by the Controller without verification. Although the referee is required by law to furnish any information concerning appraisals which the Controller may request, supporting evidence or documentation of the appraisal is rarely requested.

We believe that a potential exists for a significant loss in inheritance tax revenue because of the absence of any control over the appraisal work performed by the referees. Table 5 shows that real property constitutes about 30 percent of the total assets in taxable cases. This potential revenue loss could be minimized by employing appraisers on the staff of the Inheritance and Gift Tax Division who would audit and evaluate the work of the referees. The approach and the objectives of these audit activities would be twofold. First, staff appraisers would regularly perform a postaudit type of appraisal to evaluate the judgment of the various referees.

The second type of activity would involve the staff appraiser working in conjunction with the referee on specific cases where the size of the estate or the nature of the property involved presented particular problems. The objective of this activity would be to eliminate or minimize any deficiencies or biases in the appraisal by reviewing question-

STATE CONTROLLER—Continued

able areas with the referee prior to the time the tax report is filed.

Because this would be a pilot program, we recommend that the Controller contract with the State Board of Equalization to obtain the services of two associate real property appraisers to perform these special audits. Such an interagency contract would allow maximum administrative flexibility for this new program.

Table 5
Distribution of Assets, by Type of Property,
in Taxable Inheritance Tax Cases
1967-68 Data

	<i>Millions</i>	<i>Percent of total</i>
Real property		
Residential	\$681	
Commercial	107	
Industrial	37	
Vacant lots	37	
Farms	187	
Other real estate	21	
Total real property	\$1,070	30%
Intangible personal property		
Corporate stock	\$1,390	
Bonds	157	
Notes and mortgages	189	
Cash type assets	539	
Other intangibles	206	
Total intangible	\$2,481	69%
Tangible personal property		
Furniture and furnishings	\$8	
Motor vehicle, planes, trailers	12	
Jewelry	5	
Other	17	
Total personal property	\$42	1%
Grand total	\$3,593	100%

LOCAL GOVERNMENT FISCAL AFFAIRS

This program is responsible for prescribing uniform accounting systems for cities, counties and special districts, and for issuing consolidated reports of financial transactions for several classifications of local governmental agencies. The personnel involved in the elements making up this program are shown in Table 6.

In 1971-72, three positions were reallocated from Financial Reporting and Budgeting and one from Uniform Accounting to the Street and Road program element to conduct audits for the Department of Public Works on three new federal grant programs. The volume of

Table 6
Staff of Local Government Fiscal Affairs Program

Program element	Man-years				
	Estimated 1971-72	Proposed 1972-73	Change		
			Total	Authorized positions	Salary savings
Financial reporting and budgeting	10.0	17.6	7.6	7.0	0.6
Street and road reports	26.1	17.4	-8.7	-8.0	-0.7
Uniform accounting	2.2	3.3	1.1	1.0	0.1
Tax-deeded lands	9.8	9.8	—	—	—
Total	48.1	48.1	—	—	—

projects connected with these programs has been only a fraction of the number anticipated and as a result, these four positions, plus an additional four positions can be released from this activity. The Controller proposes to transfer seven of these positions to the Financial Reporting and Budgeting group and one to Uniform Accounting in order to improve the accuracy and timeliness of the consolidated financial reports, in particular the reports of special districts. Table 7 shows that the 1971-72 Budget, as enacted, would have reduced the special district report staff to 1.1 man-years. However, the transfers proposed in that budget were not made, and as a result, 5.1 man-years are actually assigned to this report. The 1972-73 budget proposes to increase this staff to 8.1 man-years, but no noticeable improvement would be made in the timely completion of this special district report.

Table 7
**Preparation of Financial Transaction
Reports of Local Governments**

Reports	Controller's staff (man-years)			Average time lapse— in months—to prepare these reports ¹		
	1971-72		1972-73	Goal	1971-72	1972-73
	Original	Revised	Proposed			
Cities	3.4	2.7	3.4	5	5	5
Counties	0.9	0.9	0.9	4	4	4
Water districts	3.3	3.3	3.3	6	8	7
Other special districts	1.1	5.1	8.1	9	12	12
Subtotal	8.7	12.0	15.7			
Miscellaneous positions	1.3	1.3	1.9			
Total staff	10.0	13.3	17.6			

¹ Only the processing time of the Local Government Fiscal Affairs Division is counted. Excluded is the EDP processing time.

Problems of Special District Reports

The Controller's special district financial transaction report covers over 4,000 districts. One of the major problems involved in compiling this report is the reviewing and checking the completeness and arith-

STATE CONTROLLER—Continued

metical accuracy of the information submitted by each of the districts. Missing or questionable information requires a field trip to the offices of the agency to obtain the correct information. In the case of the smaller special districts, the individual responsible for preparing the report is frequently a part-time employee who is not trained in accounting or financial management. As a result, the Controller's representative often finds it necessary to correct the deficiencies himself. This occurs in about half of the districts.

We recommend elimination of four government auditor II positions for a General Fund saving of \$41,424. This change would restore the staffing pattern of the Financial Reports and Budgeting element to its pre 1971-72 level. We also recommend that legislation be enacted which would require these special districts to have either a C.P.A. or public accountant prepare and certify the material which is submitted to the Controller's office as the basis for this special district financial report. This legislation should also specify that the preparation of the reports be carried out in accordance with the uniform accounting system as specified by the State Controller. A similar statutory requirement now exists for reports submitted to the Department of Education by all school districts (Section 17206, Education Code). We believe that such a requirement would minimize the deficiencies in the incoming reports and permit the Local Government Fiscal Affairs program to reach its objective of improved accuracy and timeliness of reporting without increasing its staff over the 1970-71 level. We therefore recommend approval of the transfer of three positions from the Street and Road element, but recommend elimination of the additional four positions scheduled for transfer. We also recommend approval of the transfer of one position to the Uniform Accounting element.

ADMINISTRATION

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 administrative service staff provides auxiliary services for the entire agency including accounting, personnel and mail services. 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.

STATE CONTROLLER

Item 49 from the Motor Vehicle Transportation Tax Fund

Budget p. 29 Program p. 85

Requested 1972-73.....	\$106,358
Estimated 1971-72	103,402
Actual 1970-71	140,356
Requested increase \$2956 (2.8 percent)	
Total recommended reduction	None

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 48.

STATE CONTROLLER

Item 50 from the Motor Vehicle Fuel Fund

Budget p. 29 Program p. 85

Requested 1972-73.....	\$990,255
Estimated 1971-72	1,108,488
Actual 1970-71	923,654
Requested decrease \$118,233 (10.7 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation is for administration of the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 48.

STATE CONTROLLER

Item 51 from the State School

Building Aid Fund

Budget p. 29 Program p. 85

Requested 1972-73	\$159,801
Estimated 1971-72	141,566
Actual 1970-71	135,973
Requested increase \$18,235 (12.9 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 48.

STATE CONTROLLER

Item 52 from the Aeronautics

Fund

Budget p. 29 Program p. 85

Requested 1972-73	\$81,103
Estimated 1971-72	74,637
Actual 1970-71	71,776
Requested increase \$6466 (8.7 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 48.

STATE BOARD OF EQUALIZATION

Item 53 from the General

Fund

Budget p. 31 Program p. 97

Requested 1972-73.....	\$26,486,349
Estimated 1971-72	25,345,769
Actual 1970-71	24,108,759
Requested increase \$1,140,580 (4.5 percent)	
Increase to improve level of service \$411,247	
Total recommended reduction	\$398,233

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. The implementation of Chapter 1400, Statutes of 1971, which imposes the sales and use tax on gasoline will require 51 additional positions in 1972-73. We recommend approval of these positions. 119
2. Two new property tax appraisers are requested for the board's intercounty equalization surveys. We recommend approval. 113
3. In order to maintain and improve the auditing coverage of the medium and small sales tax accounts, the budget proposes 39 additional auditor positions for the field offices, and one auditor, one clerk and one tax counsel position for necessary support in headquarters. 118

We recommend disapproval of the 42 additional audit and related positions for a General Fund savings of \$398,233.

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 (newly reapportioned by Chapter 1796, 1971 Session) and the State Controller serving 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 sales and use taxes—78 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

STATE BOARD OF EQUALIZATION—Continued

equalization surveys—6 percent.

The board's responsibilities are divided among 11 operative programs and will be implemented by a proposed staff of 2,431 man-years in 1972-73.

General Review of the 1972-73 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 somewhat more than \$1.1 million, approximately \$410,000 of which constitutes an improvement in the level of service.

Table 2 shows the composition of these increases broken down by prevailing service level and budget augmentations due to the implementation of Chapter 1400, Statutes of 1971 (which imposes the sales and use tax on gasoline and changes the state and local rates for these taxes), and proposals to expand the level of sales tax auditing and property tax appraisals.

The first item "merit salary increases" represents 49 percent of the budget change relating to the prevailing level of service and amounts to about one-third of the total budget increase. It is fixed cost, as are many of the other increases in the department's request. Salary savings reflect the Department of Finance's decision to make the agency absorb in the current year, \$125,407 in additional costs to prepare for the implementation of Chapter 1400 during the budget year. Most of the other cost increases reflect inflationary adjustments, increases in the Department of Motor Vehicle charges for the services rendered to the board, and increases in the cost for cigarette stamps due to an increase in cigarette consumption. Communication expenses are higher due to the increased charges on telegrams used in the board's collection procedures. The major portion of the increase for facility operations is due to the rent increases for the various district and the headquarter's office.

The magnitude of reimbursements is determined by three factors:

1. The mapping service provided to the counties and the state property tax assesses. In the past this cost was largely financed from reimbursements by the users. In the future, it will be financed by fees paid by local governments submitting information on tax code area changes. As a result of this change, the money collected will be treated as a revenue rather than as reimbursements.

2. The board realized an increase in reimbursements when 19.5 positions were transferred from the data processing center of the Department of Agriculture. These positions will continue to provide essentially the same service to this department, which will in turn

Table 1

A Comparison of Program Staff and Fund Source—Board of Equalization

Program	Man-years		Change
	1971-72	1972-73	
1. Local property tax equalization.....	143.9	145.4	+1.5
2. State-assessed property tax.....	82.5	82.2	-0.3
3. County appeals of intercounty equalization appraisal.....	10.4	10.4	--
4. Sales and use tax.....	1,796.0	1,889.8	+93.8
5. Alcoholic beverage tax.....	25.6	25.5	-0.1
6. Cigarette tax program.....	19.0	18.9	-0.1
7. Motor vehicle fuel license tax.....	15.1	15.1	--
8. Use fuel tax program.....	85.0	84.7	-0.3
9. Motor vehicle transportation license tax.....	84.5	84.2	-0.3
10. Insurance tax program.....	1.5	1.5	--
11. Appeals from other governmental programs.....	6.7	6.7	--
12. Administration and support—distributed to other programs.....	(148.9)	(148.5)	(-0.4)
13. Data Center contracts with other public agencies.....	67.1	66.6	-0.5
Totals.....	2,337.3	2,431.0	+93.7
<i>Expenditures</i>			
General Fund.....	\$25,345,769	\$26,486,349	\$1,140,580
Motor Vehicle Transportation Tax Fund.....	1,130,386	1,147,386	17,000
Motor Vehicle Fuel License Tax Fund.....	1,352,553	1,370,553	18,000
Reimbursements.....	6,608,746	7,070,150	461,404
Total all programs, all funds.....	\$34,437,454	\$36,074,438	\$1,636,984

Table 2

Schedule of 1972-73 Budget Changes, All Funds—Board of Equalization

I. Existing Programs:	
Merit salary increase.....	+ \$354,916
Salary savings decrease.....	+ 21,999
Workload and administrative adjustments.....	- 144,668
Proposed new positions.....	+ 147,714
Premium pay and night shift differentials.....	+ 9,063
Staff benefits and others.....	+ 78,233
Operating expenses and equipment:	
General expenses.....	+ 100,558
Printing.....	- 9,035
Communications.....	+ 58,687
Travel in-state.....	+ 1,224
Travel out-of-state.....	+ 2,400
Data processing.....	+ 574
Facilities operation.....	+ 106,135
Equipment.....	+ 24,000
Prorated charges.....	+ 2,874
Reimbursements.....	- 29,204
Total.....	+ \$725,470
II. New or Expanded Programs	
1. 40 sales tax auditors, and 2 supporting positions.....	+ \$398,233
2. 2 property tax appraisers.....	+ 28,767
3. Chapter 1400, net cost of 51 new positions.....	+ 23,110
Total—New or Expanded Programs.....	+ \$450,110
III. Grand total.....	
General Fund.....	\$1,140,580
Motor Vehicle Transportation Tax Fund.....	17,000
Motor Vehicle Fuel License Tax.....	18,000
	+ \$1,175,580

STATE BOARD OF EQUALIZATION—Continued

reimburse the board for its costs.

3. Chapter 1400 changed the formula whereby cities, counties and a transit district reimburse the state for collecting the sales and use taxes. In the past these governments paid a pro rata share of the total costs equivalent to 1.09 percent of their receipts. This measure provides a fixed ratio of 0.82 percent of local receipts as the future charge. This change will reduce state reimbursements by about \$1.1 million annually starting in 1972-73.

ANALYSIS AND RECOMMENDATIONS**1. Local Property Tax Equalization**

This program consists of two phases, the supervision of local assessment administration and practices as well as intercounty equalization. Both elements of the program are designed to induce and maintain an acceptable degree of intracounty and intercounty equalization.

While the supervision of local assessment administration is mainly directed at assisting the local assessors to accomplish their assessment responsibilities, it also includes a compliance program whereby the board makes a comprehensive survey of each local assessor's office once every six years. Within the intercounty equalization element of the program the board conducts a triennial appraisal survey of every county to determine the prevailing assessment levels.

Table 3 shows the distribution of the staff between the two program elements.

Table 3
Distribution of the Board's Staff among the Elements of the
Local Property Tax Equalization Program

	<i>Man-years</i>		
	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>
A. Supervision of local assessment administration			
Assessment practices surveys.....	20.8	21	20.9
Technical services and assessor's handbook ..	20.6	19.2	19.1
Appraiser training and certification.....	9	8.5	8.5
Contract auditing services ¹	5.8	5.4	5.4
All others.....	8.2	10.8	10.8
Subtotal.....	64.4	64.9	64.7
B. Intercounty equalization.....	79.4	79	78.7
Workload and administrative adjustment....	--	--	2
Total.....	143.8	143.9	145.4

¹ Fully reimbursable.

A. Supervision of Local Assessment Administration

Since the enactment of AB 80, the 1966 Property Tax Reform Bill, the board's role in the joint effort with the local assessors to improve intracounty equalization has been strengthened considerably. The board provides assistance to the assessors in property tax matters, and it also influences local assessment practices by conducting surveys and verifying the qualifications of the local appraisal personnel.

Assistance. In assisting the local assessor's offices, the Legislature, other interested groups and the general public with respect to property tax problems, the board's staff replies to inquiries, provides assistance in the form of research into special problems, and publishes the board's recommendations in the form of handbooks on general and special appraisal guidelines for the assessors' use. These handbooks are detailed outlines of special appraisal techniques and are advisory by nature.

Property tax forms and rules also are prescribed by the board, but they are mandatory rather than advisory, and they are designed to ensure equitable treatment in all local jurisdictions.

In addition, the board performs out-of-state property tax audits for the counties. These audits cover personal property where the full cash value is \$50,000 or more. The counties reimburse the board for these audits.

The board also provides a series of appraisal courses in large counties and regional (central) schools to assist the county appraiser personnel to meet the qualification requirements specified by law. The board reviews and approves in-service training courses developed by counties and courses conducted by these schools, and it keeps a central file on each of the approximately 3,000 appraisers regarding their civil service status, appraisal experience, and annual training.

Control. The board exercises partial control over local assessment practices by conducting an assessment practices survey in each county at least once every six years. This survey includes an analysis of all aspects of the county assessor's appraisal practices and related activities, a written report is prepared and submitted after conference with the assessor and the assessor has one year to respond to the recommendations. The board estimates that it will complete 18 survey reports during 1971-72 and expects to complete nine additional surveys in 1972-73.

Control activities of the board also include the surveillance of property tax exemptions granted by local assessors in order to protect the property tax base of the state. The board has statutory duties with respect to three categories of exemptions. Claims for welfare exemptions have to be submitted to the board for approval, the board ensures the elimination of duplicate homeowners' exemption claims on the basis of an intercounty matching program, and board representatives inspect exempt timber stands and serve on the timber maturity board.

STATE BOARD OF EQUALIZATION—Continued

B. Intercounty Equalization

Each year a survey of local assessments is conducted in one-third of the counties of the state in order to determine the actual assessment level prevailing in the respective counties. This is done by selecting a random sample of properties within the counties. The samples contain all types of properties such as residences, vacant lots, business, commercial and rural properties.

Sample Selection. The properties of every county included in the annual survey are selected on a random basis, taking into consideration, however, the appraiser manpower available, the distribution of the types of properties to be appraised, and the statistical confidence level desired.

Appraisal and Review. All appraisals made by the board's staff are reviewed with the county assessor. After review, the appraised value determined by the board may be appealed by the assessor to the Office of Appraisal Appeals and ultimately to the board. The results of the board's appraisals are used to compute the county assessment ratio. If this ratio does not come close to the ratio required by law, the respective county is required to adjust all the assessments on the secured roll for the current fiscal year.

Decrease in Number of Properties Appraised. The local assessors have become more and more sensitive to the impact of this program, with the result that the board's staff has to devote more of its time to a review and discussion with the county assessors, thus reducing the "direct" manpower available for actual field appraisals. In addition, the analysis of samples drawn in prior surveys often results in the adjustment of the sample for the next survey with the impact that the composition of the total sample becomes more complex and time consuming to appraise. As a result, the total number of the board's sample appraisals has had to be reduced during the past few years as follows:

Year	Actual number of appraisals	Percentage change
1965-66.....	6,084	
1966-67.....	5,859	-3.7
1967-68.....	5,669	-3.2
1968-69.....	5,413	-4.5
1969-70.....	5,168	-4.5
1970-71.....	5,165	--
1971-72.....	5,165 (estimate)	--

In order to maintain the confidence level aimed at for the total survey, the sample size should be maintained, due to the increased importance of the survey findings.

Fund Allocations Based on Survey Findings. While the sample size decreased over the years the relevance of the sample findings increased due to the development of the fiscal transactions affected by

the assessment ratio findings.

The board's findings on local property tax assessment ratios will affect the distribution of about a \$1 billion in state funds during 1972-73. The programs affected by these ratios are: school equalization and pupil transportation aid, repayment of school building aid loans, and the county costs for Medi-Cal under the new law (Chapter 577, Statutes of 1971). These intercounty appraisals also have an impact on local property taxes because the board's market value findings, especially on large valuable properties, frequently are used by the county assessor to compute the future assessed value. The Board of Equalization estimates that between \$12 and \$15 million annually in increased local property taxes result from the assessors levying tax on escaped assessments discovered by the board's appraisals.

New Appraisers. The board is requesting two additional appraisers for the intercounty equalization program in order to prevent a further decline in the number of sample property tax appraisals, statewide. *We recommend approval of these positions on a workload basis.* This additional staff will be able to make about 150 additional appraisals each year, which is about eight extra field appraisals for each of the counties surveyed. As part of the long-range solution to this staffing problem, the board is studying the feasibility of changing their methods of appraising different types of properties, i.e. single family homes.

2. State-Assessed Property Tax Program

Generally the ad valorem (property) tax is a locally assessed and levied tax but the State Board of Equalization is assigned the function assessing certain types of property which cannot be adequately assessed by local assessors. The board is also required to allocate the assessed values to the rolls of the local jurisdictions concerned. In addition the board assesses, levies and collects a state property tax on private railroad cars owned by companies other than railroads. The revenues are deposited into the General Fund. The staff of the valuation division which fulfills the functions described is distributed among the different functions as follows:

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

	1970-71	1971-72	1972-73
A. Assessment of public utilities			
Derivation of value indicators.....	1.6	1.6	1.6
Field appraisals.....	22.5	22.6	22.5
Allocation of assessed value to taxing districts	32.4	29.0	28.9
Preparation of tax area maps.....	22.3	22.2	22.1
Subtotal.....	78.8	75.4	75.1
B. Private car tax			
Inventory of cars.....	6.9	6.1	6.1
Assessment and collection of tax.....	.8	1.0	1.0
Subtotal.....	7.7	7.1	7.1
Total.....	86.5	82.5	82.2

STATE BOARD OF EQUALIZATION—Continued

A. Assessment of Public Utilities

Each year the board values the taxable property owned and used by common carrier railroads, telephone and telegraph companies, gas and electric companies, express companies, as well as radio-telephone companies. These assessments include unitary (property used for the primary function of the company) as well as nonunitary property. In addition the board assesses intercounty pipelines, aqueducts, canals and ditches, and the properties owned or used by railroad car companies. For the unitary property the board establishes the market value of the property by use of four value indicators prepared by the staff, and after determination of the assessment ratio to be used, the valuation division allocates the assessed values to the local rolls according to the location reports submitted with the property statements by the assessees. As shown in Table 4, the allocation function and the field appraisals require the largest portion of the manpower. This is due to the number of field appraisals to be made (all land and nonunitary properties), as well as the widespread location of the properties among the approximately 23,400 tax rate areas in the state.

Value Indicators. One of the most important value indicators used by the board for the determination of the market value of unitary property is *capitalized earnings* computed by application of an appropriate capitalization rate to income reported in the financial statements of the assessees. Over the years the accuracy of these financial statements submitted to the Public Utilities Commission by the smaller utility companies has become of increasing concern to the board due to the expansion of these companies and the recognized lack of annual review of these statements by the PUC. Though the assessment procedures were adjusted to reflect these conditions it seems advisable to provide for a closer scrutiny of the accounting procedures used and reports submitted by the respective companies. *We recommend that the Public Utilities Commission improve their review of the accounting systems and reports of the smaller utility companies, thus also improving the quality of the information used by the board for assessment purposes.*

Fee Schedule. Since the 1969-70 fiscal year at least part of the board's cost for providing and distributing tax code area maps was borne by the users of these maps (e.g. counties and utilities) by paying a charge. The 1970-71 Conference Committee then decided that the total cost should be borne by the users. During the 1971-72 budget hearings opposition to this method of financing was raised by utilities which resulted in legislative action during 1971. Chapter 1137, which provides for a complete redesign of the method of financing. It re-

quires the board to develop a schedule of fees to be charged to local jurisdictions which report changes in tax area boundaries (i.e. annexations, establishment of special districts) which result in an adjustment of the tax code area maps. The board's cost for the mapping service for 1972-73 is estimated at \$318,902, while it expects to receive \$287,000 from the sale of the maps and the filing fees. This would amount to approximately 90 percent coverage of the cost.

B. Private Car Tax

Railroad cars not owned by railroad companies but operating on California's railways are assessed and taxed by the board. The revenue collected from this state property tax is deposited in the General Fund. The number of cars to be assessed to every private car owner is determined on the basis of a car-day count developed from the information contained in the car movement records submitted by the assessees. The number of cars (by type of car) is then multiplied by the average market value per type of car and after application of the assessment ratio, the assessed valuation for the respective assessee is determined. The tax rate used for computation of the private car tax is the average statewide property tax rate for the previous fiscal year. Therefore the private car tax for the current year is based on last year's figures with respect to car movements and the tax rate. There exist no collection problems due to the board's ability to attach credits, preventing the railroads from reimbursing the private car owner for the use of the cars before the tax liability is paid. The board expects 675,000 car movements into and out of California during 1972-73 and the tax is expected to yield approximately \$4.8 million in 1971-72.

3. County Appeals of Intercounty Equalization Appraisals

AB 80, the 1966 Property Tax Reform Bill, provided for the establishment of the Office of Appraisal Appeals operating independently from the property tax department of the board. This office is designed to make available to the local assessors an institution where to express their disagreement with the appraisals made in context with the intercounty equalization surveys at a time of increasing importance of the findings made by the survey.

On occasion, the board's appraisers and the county assessor will disagree on the values assigned and if the differences cannot be resolved in a conference, the assessor can submit the dispute to the OAA and ask for a settlement. The office's own appraiser personnel then review the case and make their own value determination either on basis of the material submitted by both sides or after an independent field appraisal. In general the office is able to settle the dispute. If it fails to do so, either side can present the case to the board which then makes the final decision. In general, workload in this office has periodic increases and slumps. To keep the permanent staff at a minimum, additional appraiser staff from the Department of General Services is

STATE BOARD OF EQUALIZATION—Continued

used during periods of highest activities.

During the early, slower months of the survey cycle, the office reviews appraisals made by the valuation division of the property tax department. If wide differences occur in these appraisals, the two parties hold a conference and the final report is submitted to the assistant executive secretary, property taxes.

Though the office was requested to take action on the largest number of cases during the first year of its existence, there was a noticeable increase in the office's workload last year as shown in Table 5.

Table 5
Disposition of Appeals to Office of Appraisal Appeals

	1967-68	1968-69	1969-70	1970-71
Number of appraisals contested.....	552	334	227	330
Number of cases settled by OAA.....	496 (90%)	272 (81%)	217 (96%)	290 (88%)
Settled by board action.....	56	62	10	50

4. Sales and Use Tax Program

During 1972-73, the board expects to collect almost \$2.8 billion in sales taxes; the General Fund portion will be almost \$2.1 billion, the city and county share will be \$681 million, and the one-half percent tax levied by the San Francisco Bay Area Rapid Transit District will yield about \$30 million. About 78 percent of the board's total staff, or 1,889.8 man-years, is allocated to this program in the budget year. Table 6 shows the distribution of manpower among the four main activities:

Table 6
Staff of the Sales Tax Program

Program element	Man-years		
	1970-71	1971-72	1972-73
I. Auditing.....	805.9	814.3	816.0
New positions requested.....	--	--	41.0
Chapter 1400.....	--	.4	7.5
II. Processing tax returns.....	316.3	321.1	321.7
Chapter 1400.....	--	.5	20.7
III. Collection activity.....	252.3	252.8	253.4
Chapter 1400.....	--	.5	8.9
IV. Registration of taxpayers and maintenance of accounts.....	403.6	405.8	406.7
Chapter 1400.....	--	.6	13.9
Total.....	1,778.1	1,796.0	1,889.8

Sales Tax Audits

During 1970-71, the board collected \$32.5 million in net revenue from 26,905 sales tax audits at a cost of \$12.6 million, for a ratio of \$2.58 for 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.

Table 7

Net Revenue Per Dollar of Cost from the Sales Tax Field Audit Program

<i>District</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>
Los Angeles.....	\$2.45	\$2.07	\$2.50
San Bernardino.....	1.51	2.39	2.16
Marysville.....	2.90	1.77	1.58
San Francisco.....	1.61	1.53	2.13
San Jose.....	1.48	2.28	2.02
Oakland.....	1.47	1.53	1.71
Santa Rosa.....	1.43	1.39	1.52
Sacramento.....	1.62	1.72	1.43
San Diego.....	1.59	2.17	2.53
Fresno.....	0.95	1.27	1.62
Average in-state.....	\$1.96	\$1.92	\$2.19
Average out-of-state.....	3.63	3.81	5.30
Average-total.....	\$2.14	\$2.14	\$2.58

For many years we have studied the sales tax field audit program. Our analysis has focused attention on the manpower assigned to, and the revenue productivity of, the various types of sales tax audits, both in-state and out-of-state. A study of Tables 8 and 9 indicates that there were 14,000 large sales tax accounts which were eligible for a field audit in 1970. Over a three-year period, 81 percent of these eligible accounts will be audited and they produce a high rate of net revenue per dollar of auditing costs. Table 8 also indicates that the out-of-state audits are the most productive,

There were about 103,000 medium sales tax accounts, and over a three-year auditing cycle about 37 percent of these accounts will be audited. During 1970-71, these in-state audits required 187.7 direct audit man-years, which is equivalent to 46 percent of the total in-state audit manpower. In our 1967-68 Analysis we contended that the board had an excessive number of audits in its medium size sales tax accounts, and therefore we recommend a 30-position reduction in the auditing staff. The Legislature deleted 40 auditor positions.

About 60 percent of the sales tax accounts are in the small category. During 1970-71, the board allocated 43.5 man-years of in-state audit staff to cover these accounts, and through careful preselection of the

Table 8

Analysis of Sales Tax Field Audits, by Type of Audit, 1970-71

<i>Type of sales tax accounts</i>	<i>Number of audits</i>	<i>Audit man-years</i>	<i>Net revenue per dollar of cost</i>
1. In-state only			
Large.....	3,388	137.0	\$2.65
Medium.....	11,130	187.7	1.42
Small.....	3,301	43.5	1.78
Closeouts.....	7,014	36.1	4.92
Total.....	24,833	404.3	\$2.19
2. Out-of-state			
Large.....	396	25.2	\$6.25
Medium.....	972	16.0	2.39
Small.....	292	4.8	4.78
Closeouts.....	412	5.6	9.81
Total.....	2,072	51.6	\$5.30
3. Grand total.....	26,905	455.9	\$2.58

STATE BOARD OF EQUALIZATION—Continued

audits, the net revenue per dollar of cost was kept close to the total in-state average. Over a three-year cycle, only about 6 percent of these accounts will be audited because their potential for audit recovery is very low.

Closeouts are a special type of compliance auditing which occurs when the retailer goes out of business.

Table 9
Sales Tax Field Audit Coverage Over a Three-Year Auditing Cycle—1970 Data

Type of account	Number of eligible accounts	Audit coverage	
		Percent	Number
Large.....	14,000	81	11,340
Medium.....	103,000	37	38,100
Small.....	176,000	6	10,560
Total.....	293,000	20	60,000

Board Requests New Auditors. In the proposed budget, the board is requesting 40 new sales tax auditors plus two supporting positions. Four of these auditors are requested in order to maintain the existing level of audit coverage as the number of sales tax accounts increases. The other 36 auditors, plus the supporting positions, are requested in order to increase the board's audit coverage in the medium and small in-state sales tax accounts.

The board contends that:

1. The audit coverage in these two groups has been significantly reduced since 1967-68, and that now it is below an effective level, and
2. At least 36 new positions are needed to correct this situation.

We recommend disapproval of these 40 auditors plus two supporting positions for a net General Fund savings of \$398,233.

Our reasons for this position are:

1. The drop in audit coverage during calendar 1971 was largely due to the Governor's December 1970 employment freeze, and the board's level of salary savings, rather than to a lack of authorized positions. For example, Table 10 shows that 418.9 man-years were spent on in-state audits during 1970, but this level dropped by 30.9 man-years in 1971. Now that the employment freeze is over, the audit level can be restored to its 1970 level by filling vacant positions. There is no need to create new authorized positions.

2. Table 9 showed that at 1970 workload levels, 37 percent of the medium sales tax accounts will be audited over a three-year cycle. If the board's audit request is approved, then about 32 out of the 40 new auditors would be assigned to these medium accounts, and this staff

increase would raise the audit coverage to 43 percent. The board has not proved to our satisfaction the need for this six-point increase in audit average. Table 8 showed that this group of accounts has the lowest ratio of net revenue to audit costs.

Table 10
Comparison of the In-State Sales Tax Field Audit Manpower Quotas and Actual Work

		In man-years				
In-state only type of sales tax accounts	1969 actual	1970		1971		1972 Quota
		Quota	Actual	Quota	Actual	
Large.....	130.2	137.7	149.9	152.9	136.0	160.5
Medium.....	179.3	199.9	189.1	187.5	172.1	196.9
Small.....	56.2	56.2	42.5	62.9	42.9	66.0
Closeouts.....	39.2	53.2	37.4	51.3	37.0	53.9
Total.....	404.9	447.0	418.9	454.6	388.0	477.3

Chapter 1400. The board is requesting 51 new positions to administer Chapter 1400, Statutes of 1971, which removes the sales and use tax exemption on gasoline, changes the state sales tax rate to 3¾ percent and allows counties to increase the local sales tax rate to 1¼ percent. All of these changes will occur on July 1, 1972, and they will require several major changes in the board's sales tax activities. For example, the sales tax liability of 22,200 gasoline stations will be substantially increased. This type of retail outlet, typically has a high rate of turnover, and causes collection and compliance problems. With the substantial increase in the sales tax liabilities of these sellers, the potential for future collection problems is drastically increased. The board hopes to reduce the collection problems by requiring monthly payments from the 12,700 service stations which currently are on a quarterly payment basis. This change will increase the cashiering and other return processing activities of the board. The board also intends to increase the number and coverage of closeout audits of these taxpayers.

A listing of the new positions, by organizational unit, which will administer this workload change, follows:

<i>Unit</i>	<i>Positions</i>
Data processing	1 programmer 5 keypunch operators
General services	2 cashiers (intermittent help)
Headquarters processing of returns	3 calculating machine operators 2 clerical positions 2 tax representatives

STATE BOARD OF EQUALIZATION—Continued

Compliance	6 clerical positions
	2 tax representatives
Allocation of revenue	1 tax auditor III,
	1 senior account clerk
Auditing	1 tax auditor II
	1 clerk II
Districts	
auditing	5 tax auditors II
compliance	11 tax representatives
	8 clerical positions

We recommend approval of these 51 new positions for the administration of Chapter 1400.

The board has not solved all of the problems associated with this legislation. One of the major unresolved issues is the question of "security" when the new law takes effect. At present, all new sales taxpayers are required to post security (bonds, savings certificates, cash, etc.) at the time they obtain their sales tax permit. The usual practice is to have the security be equal to twice the normal reporting liability. For example, if a taxpayer is on a quarterly payment basis, and his normal sales tax payment was \$100, then he would have to post \$200 in "security." If the taxpayer in this example was a service station operator, then his sales tax liability could be \$1,000 a quarter after gasoline becomes subject to the sales tax. His security requirements would change to \$2,000 if he continued on a quarterly payment basis, or it would be about \$650 if his taxes were due monthly. In either case, there would be a substantial increase in the security deposits by this type of taxpayer.

At the present time the board is reviewing this security issue and its related collection problems. Its ultimate decision, which should be imposed uniformly among the four equalization districts, could have an impact on the future staffing needs of this agency. A possible solution to this problem would be for the major oil companies to guarantee the sales tax payments of their franchised dealers. If this occurred, then the board would not have to require large security deposits from each service station, nor would it be necessary for the board to substantially expand its field collection staff.

5. Alcoholic Beverage Tax

California's alcoholic beverage taxes include six separate tax rates according to the type of beverage taxed. Revenue from these taxes is expected to reach \$116 million in 1972-73. Only 25.5 man-years are assigned to the administration of these taxes because they are paid by

a limited number of producers and distributors. No change is requested for the support of this program which mainly consists of surveillance and the matching of data from monthly returns filed by the taxpayers against shipment information submitted by agencies involved in the transportation and distribution of the merchandise. Every four months the amount of the security posted and the taxes paid by each taxpayer are reviewed and the security requirement is adjusted automatically. Once a year the account of every one of the 1,023 taxpayers is reviewed in a desk audit, and if discrepancies exist, a field audit is made. There are relatively few problems with respect to the collection of this tax due to the close surveillance maintained.

6. Cigarette Tax

The 10-cent-per-package tax on cigarettes is collected from 186 distributors through the sale of stamps and meter impressions which they obtain from a commercial bank. The state contracts with this bank for the issuance of the indicia.

This tax is largely administered at headquarters, due to the type of operations required. The taxpayers (wholesale distributors) submit detailed monthly reports (returns) on their handling of cigarettes, and the information is matched with that received from the bank. Reconciliations are made of the purchase of stamps and the sale of cigarettes, taking into account changes in the respective inventories. Every three to four months the distributor accounts are checked more closely and if any unreconcilable differences occur, a physical inventory by the district personnel is scheduled. A comprehensive desk audit of every distributor account is conducted annually, based on an extensive matching process of information submitted by all parties involved (ex. manufacturers, distributors, common carriers, banks, wholesalers), and the banks' handling of the indicia is reviewed. Due to the close surveillance of all parties concerned the program is as much a policing activity as it is concerned with the administration of the tax.

The agency estimates state revenue of more than \$176 million during 1972-73 fiscal year, while the estimated cost of stamp supply and distribution is \$602,853 for the budget years. These estimates are based on the assumptions that the existing contract with the banks will be renewed, and that cigarette consumption will increase by 2.9 percent in 1972-73.

7. Motor Vehicle License (Gasoline) Tax

The gasoline tax is imposed upon distributors and brokers of gasoline at a rate of 7 cents per gallon, and at the rate of 2 cents per gallon on fuel sold to noncommercial aircrafts by jet fuel dealers. Although there are 471 taxpayers registered, 99 percent of the revenue is paid by about 20 distributors. The State Controller shares responsibility for the administration of this tax by collecting delinquencies and making

STATE BOARD OF EQUALIZATION—Continued

refunds for gasoline used for nonhighway purposes. Receipts from this tax are deposited in the Motor Vehicle Fuel Fund, and the board receives reimbursements from the fund for the administration cost. Revenues are estimated to amount to \$684 million in 1972-73. No significant change in the staffing of the program is planned. The manpower available is predominately occupied with the processing of the tax returns in headquarters (the system employed is similar to that of the alcoholic beverage and cigarette taxes) and the auditing of the accounts. While the major companies are audited annually, the others are covered by audit every other year. The auditing program is complemented by an extensive field inspection program.

8. Motor Vehicle Use Fuel Tax

This levy is similar to the tax on gasoline; however, the point of imposition is different. The tax is imposed on fuel placed into the tank of a motor vehicle by either a licensed vendor or user (large trucking companies with own bulk storage which buy the fuel ex-tax) at a rate of 7 cents per gallon for diesel and 6 cents for liquefied petroleum gas and compressed natural gas. The tax applies to highway uses only, and the board makes refunds upon request from those who pay taxes on fuels consumed in other than highway uses. Approximately 3,800 vendors and users are licensed with the board, and it is estimated that \$46.1 million revenue for the Highway User Fund will be collected from them in 1972-73.

The program setup is similar to that of the sales and use tax, with a similar compliance and audit procedure. The audits are conducted on a three-year cycle and are more of a compliance and policing activity than a tax recovery effort as is the sales and use tax audit program. The results of the latest field audits, for 1970-71, are shown in Table 11. The surveillance element is especially important due to

Table 11
Net Revenue per Dollar of Cost in 1970-71 from the
Use Fuel and Truck Tax Field Audits

<i>District</i>	<i>Use fuel</i>	<i>Truck tax</i>
Los Angeles.....	\$1.34	\$1.18
San Francisco.....	.14	1.03
Oakland.....	.08	.42
Fresno.....	1.22	.98
San Bernardino.....	1.34	1.17
San Diego.....	-.84	.13
San Jose.....	-1.02	2.14
Santa Rosa.....	.44	.21
Sacramento.....	6.74	.39
Marysville.....	.38	.99
Average in-state.....	\$1.18	\$.99
Average out-of-state.....	2.48	5.24
Average total.....	\$1.24	\$1.31
Audit staff (man-years).....	21.3	29.1
Audit cost (thousands).....	\$312	\$443

the type of accounts involved. The staffing of the program is unchanged.

9. Motor Vehicle Transportation License Tax

This tax is imposed on the gross receipts from vehicles transporting persons or freight for hire on the state highways. Administration of the tax is shared by the board with the State Controller who collects delinquent accounts. Revenues collected are deposited in the Motor Vehicle Transportation Fund and are eventually allocated to the Highway User Fund, after both agencies have been reimbursed for the administration cost incurred. The administrative procedures related to this tax are similar to those of the sales and use tax program, and involve approximately 28,000 taxpayers, for whom licences are issued, returns processed, and audits made. The tax is expected to produce \$28 million in 1972-73.

Legislation enacted at the 1970 session (Chapter 1267) required the board to prepare a formula for application of the tax to carriers of household goods, and to report to the Legislature by March 15, 1972, on the fiscal effect of the formula. Chapter 424 (1971 session) repealed this requirement and the board now expects to increase the number of audits in the regular audit program by utilizing the two man-years of audit time which would have been required to fulfill this obligation.

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 12
Appeals From Other Governmental Programs

	1969-70	1970-71	1971-72 *
Franchise and income tax	190	236	124
Senior citizens'	162	96	54
Intracounty equalization	9	3	3

* July 1, to December 31, 1971.

STATE BOARD OF EQUALIZATION—Continued**Administration**

During 1971, the Department of Agriculture eliminated its data processing operations, and as a substitute contracted with the Board of Equalization to provide these EDP services. A total of 19.5 positions were transferred to the board for this purpose. The 1972-73 budget includes 148,000 in salaries and wages for these positions and \$19,000 in general expenses to cover a transfer of equipment. The board will be reimbursed by the Department of Agriculture for the cost of providing EDP services.

BOARD OF EQUALIZATION

Item 54 from the Motor Vehicle Transportation Tax Account in the Transportation Tax Fund

Budget p. 31 Program p. 97

Requested 1972-73.....	\$1,147,386
Estimated 1971-72	1,130,386
Actual 1970-71	1,114,622
Requested increase \$17,000 (1.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted.

The Board of Equalization assesses and the State Controller collects the 1.5 percent gross receipts motor vehicle transportation license tax on for-hire truck operations. This appropriation is to cover the board's cost of administering the tax, the details of which are included under Item 53.

Item 55 from the Motor Vehicle Fuel Account in the Transportation Tax Fund

Budget p. 31 Program p. 97

Requested 1972-73.....	\$1,370,553
Estimated 1971-72	1,352,553
Actual 1970-71	1,314,101
Requested increase \$18,000 (1.3 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted.

The Board of Equalization assesses and the State Controller collects the motor vehicle fuel (gasoline) tax. The board assesses and collects the use fuel (diesel) tax. This appropriation is to cover the board's cost of administering these two taxes, the details of which are included under Item 53.

SECRETARY OF STATE

Items 56-58 from the General

Fund

Budget p. 129 Program p. 118

Requested 1972-73.....	\$2,602,740
Estimated 1971-72	2,366,231
Actual 1970-71	2,175,419
Requested increase \$236,509 (9.9 percent)	
Increase to improve level of service \$120,797	
Total recommended reduction	None

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 Elections 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 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 proposed budget for the Secretary of State in fiscal year 1972-73 represents an increase of \$236,509 or approximately 10 percent over the current-year estimated expenditures. The increase is due largely to a minor capital outlay program for the State Archives Program and because 1972 is a general election year requiring additional expenditures for ballot pamphlets and for expenses of presidential electors.

It is estimated that the Secretary of State will remit to the General Fund revenues of \$4,394,200 during fiscal year 1972-73, an increase of 5.3 percent over this year's estimated revenues. This increase is less

than the percentage increase expected in the current fiscal year over fiscal year 1970-71 (11.9%) because candidate filing fees are collected for primary elections and are not required for most candidates in general elections. Revenues from candidate filing fees in the proposed budget year will decrease by \$225,000 because of this situation. This revenue loss is more than offset, however, by increased revenues (with associated workload increase) in the Corporate Filing, Financing Statements and Notary Public programs. Estimated revenues to be remitted to the General Fund during fiscal year 1972-73 are expected to exceed program expenditures by nearly 170 percent.

New Office in Los Angeles

During the 1971 legislative session the Secretary of State requested an augmentation to the Governor's Budget of \$209,283 to provide functional and staff realignments and funding for offices in Los Angeles and San Francisco. Justification for the request was made on the basis of providing a more direct service to corporations and the public in the Los Angeles region and the requirement for office facilities in San Francisco for use by the Secretary of State while performing duties in that city.

This request was granted by the Legislature and office space was secured in Los Angeles and San Francisco soon after the current fiscal year began. Beginning in January 1972, the Secretary of State will process articles of incorporation, financing statements and corporate name documents in the Los Angeles office. The secretary plans to increase the capability of the Los Angeles office as workload requires, but there is no request for this purpose in fiscal year 1972-73.

ARCHIVES PROGRAM

The largest single budget increase is \$92,555 (68 percent over estimated current year expenditures) for support of the Archives Program. The proposed increase will provide for a historical document display facility in the State Archives Building. Currently, there are two small displays in the building which are incidental to the storage areas. Therefore, the only visitors to observe the displays are those persons engaged in research of the files.

The new display facility will permit all visitors to (1) view many more historical and otherwise valuable documents and artifacts regarding the State of California than would otherwise be possible and (2) view the documents in an atmosphere conducive to full appreciation of the artifacts.

We recommend approval.

CORPORATE FILING PROGRAM

As a result of legislation passed during the 1969 session, the Secretary of State receives, between April 1 and July 1 of each year, approximately 175,000 documents regarding corporations and their agents for recordation. In accordance with law, a \$3 filing fee has been set for this

SECRETARY OF STATE—Continued

activity to cover administrative costs. Fees are remitted to the General Fund.

Consultant Recommends Interim System

Recognizing that the corporate filing process could be automated, the Secretary of State had developed a preliminary budget request to upgrade data processing equipment and obtain additional personnel to conduct the design and implementation of the new program. The office took the position that it must have a dedicated computer facility but the Office of Management Services (whose duties have now been transferred to the Department of Finance) recommended that the Secretary of State consider a consolidated EDP facility in lieu of upgrading its present computer to accommodate the new system. To resolve this issue, a management consultant was retained to examine the entire data storage and retrieval requirements of the office, including financial filings, election requirements and the new corporate filing applications. Major findings of the March 1, 1970, consultant report were: (1) the Secretary of State had not accurately defined his data processing requirements in the initial request for computer 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 combined 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, an interim corporate officer filing system was designed and the 1970-71 budget request was augmented \$202,767 by the Legislature to implement and operate the system. In approving the request the Legislature also expressed its intent that the Secretary of State receive data processing services from the shared computer facility being developed at the Department of General Services. The Legislature directed the Secretary of State and the Office of Management Services to take appropriate steps to implement this recommendation and report progress to the Joint Legislative Budget Committee by June 1, 1971.

Conflicting EDP Directives

In May 1970, the Long-Range EDP Master Plan was approved by the State Electronic Data Processing Policy Committee. This plan created seven consolidation groups for the purpose of analyzing common needs and consolidating computer services wherever possible. Each state agency was a member of a consolidation group and the Secretary of State was placed in Consolidation Group No. 4 together with most of the state fiscal and personnel agencies. Consolidation Group No. 4 did not include the Department of General Services and it was apparent, therefore, that the Secretary of State had two directives, one from the administration which directed consolidation with the other members of Consolidation Group No. 4 and one from the Legislature which recommend that data processing services be received from the Department of General Services.

Final Resolution Expected

The incumbent Secretary of State took office in January 1971 and therefore had no part in earlier deliberations relative to either the interim corporate filing program or requests for an upgraded computer system. However, it was apparent that members of his staff disagreed with the consultant's findings and the consolidation of computer facilities.

The Supplementary Report of the Committee on Conference (Budget Bill of 1971) repeated the previous year's recommendation that the Secretary of State obtain data processing services from the Department of General Services. We have also consistently recommended that the Secretary of State join the Legislature, Department of Finance and Department of Education as customers of the shared computer facility in General Services.

We expect the various issues discussed above to be brought into focus by a second consultant study which is now in progress under direction of the Secretary of State with approval of the Department of Finance. This study will review the adequacy of the interim corporate officer program which is not fully meeting requirements of the 1969 legislation, suggest improvements in other automated programs and make recommendations regarding the optimum solution for providing EDP service to the Secretary of State.

The final report from the consultant is expected in late January 1972. We have not reviewed the preliminary findings of the study and therefore are not able to comment on the report at this time. However, as we discussed above, any recommendation for a dedicated computer system would be contrary to existing legislative policy regarding EDP facilities.

By receiving data processing services from a shared computer facility, the Secretary of State will be relieved of operating the small inefficient computer system now installed, have access to a large computer with the capacity available to run an upgraded corporate officer

SECRETARY OF STATE—Continued

filing program, improve remote terminal service in the Uniform Commercial Code application if required and offer any other improved level of service which can be cost-justified before the Legislature.

We will analyze the consultants report and be prepared to discuss the various aspects of the above problems during the Secretary of State budget hearings.

CALIFORNIA HERITAGE PRESERVATION COMMISSION

Item 59 from the General

Fund

Budget p. 33 Program p. 123

Requested 1972-73.....	\$800
Estimated 1971-72	800
Actual 1970-71	463
Requested increase—None	
Total recommended reduction	None

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.

1971 Report to the Legislature

As required by statute, the commission submitted a report to the Legislature during the 1971 session. In this report the commission recommends, among other things, that exhibits of valuable documents be displayed in state buildings outside Sacramento; exhibits be installed in appropriate nonstate museums, libraries and other facilities; a mobile history display unit be developed for use in schools; designation of a new Archives Building in the California State Capitol Plan; and the development of a program for safeguarding historically valuable county records.

ANALYSIS AND RECOMMENDATIONS

The commission has requested \$800 to provide for travel and general administrative expenses during the 1972-73 fiscal year.

We recommend approval.

STATE TREASURER

Item 60 from the General

Fund

Budget p. 35 Program p. 124

Requested 1972-73.....	\$1,020,474
Estimated 1971-72	960,451
Actual 1970-71	837,438
Requested increase \$60,023 (6.2 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. We recommend approval of the one man-year staff increase in the investment program. 135
2. We withhold recommendation on the amount budgeted for data processing, pending completion of an acceptable EDP proposal. 137
3. Subject to the presentation of an acceptable EDP proposal, we recommend approval of the additional computer operator trainee on the warrant processing staff. 138

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's Office

<i>Program elements</i>	<i>Man-years</i>			<i>Expenditures (in thousands)</i>		
	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
1. Bond sales and service...	10.4	11.9	11.5	\$290.5	\$322.7	\$339.0
2. Investment services	4.2	4	5	121.5	131.8	147.7
3. Paying and receiving	18	24.2	25.8	350.7	456.7	477.1
4. Trust services	12.5	13.2	13.1	200.9	219.6	227.3
5. District						
Securities Division	8	9.1	9.1	177.7	187.2	185.8
6. Administration (cost distributed to other programs)	13	15.4	15.3	(267.4)	(292.8)	(319.4)
Totals	66.1	77.8	79.8	\$1,141.3	\$1,318.0	\$1,376.9
Reimbursements	—	—	—	—303.9	—357.6	—356.5
General Fund cost	—	—	—	\$837.4	\$960.4	\$1,020.4

STATE TREASURER—Continued

Higher operating expenses (predominantly rent) and the proposed two staff positions largely account for the increase in total expenditures during 1972-73. Lower reimbursements, however, increase the growth in General Fund support to 6.2 percent.

Rental expenses are increased from \$53,425 in the current year to \$78,808 in the budget year, a 47 percent growth. This change is due exclusively to a new policy by the Department of General Services which is designed to equalize rental costs among state agencies. At the present time, the State Treasurer pays 22½ cents per square foot. Under the new policy, this office will pay 40 cents per square foot, which is a standard charge being applied to several state agencies.

ANALYSIS AND RECOMMENDATIONS

BOND SALES AND SERVICE

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

Bond Interest Rates Expected to Increase

History of the Treasurer's bond marketing activity is shown in Table 2.

Table 2
Treasurer's Bond and Note Sales
(in millions)

	Actual 1970-71		Estimated 1971-72		Estimated 1972-73	
	Amount	Average int. rate	Amount	Average int. rate	Amount	Average int. rate
General obligation bonds ..	\$585.5	5.36%	\$500	4.70%	\$430	4.75%
Revenue bonds	35.7	6.55	133	6.00	80	6.00
Bond and revenue anticipation notes	100	2.35	510 ¹	2.80	—	—

¹ This figure represents revenue anticipation notes issued during calendar 1971.

The authority to issue these notes expires at the end of 1971-72.

The interest cost of bonds issued by the state declined during the current fiscal year. This trend reflects the recent liberal monetary policy of the federal government and the sluggishness of private demand for long-term funds. During 1972-73, however, a more moderate expansion in the money supply and an increase in private credit needs will result in an increase in the cost of the state's borrowing.

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 4,600 investment transactions, totaling over \$30.5 billion were completed. Table 3 compares interest earnings from the Treasurer's investment service during 1969-70 and 1970-71 fiscal years.

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

	1969-70			1970-71		
<i>Investment program</i>	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent yield</i>	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent Yield</i>
Pooled money	\$1,184.5	\$83.0	7.01%	\$1,236.9	\$75.9	6.14%
Condemnation.....	31.4	1.8	5.73	28.0	1.6	5.75
Total.....	\$1,215.9	\$84.8		\$1,264.9	\$77.5	

A portion of the temporarily 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 that distribution of investments, including the compensating balances during 1970-71.

Table 4
Distribution of the Average Daily Amounts of Temporary Idle Funds
in the Pooled Money Investment Account During 1970-71
(millions)

<i>Distribution</i>	<i>Average daily balances</i>	<i>Interest earnings</i>	<i>Percentage yield</i>
Investment in securities	\$668.6	\$37.7	5.64%
Investment in time (savings) deposits	432.9	29.6	6.83
Loans to General Fund	135.4	8.6	6.38
Total investments.....	\$1,236.9	\$75.9	6.14%
Compensatory balances	41.1	—	
Total.....	\$1,278.0	\$75.9	

STATE TREASURER—Continued

The investment program also includes deposit of state moneys in bank time (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 113 participating banks is determined by the State Treasurer. These state savings deposits must be collateralized with securities by the depository banks. The minimum legal requirement for such collateral is 110 percent of the time deposit. The Treasurer is charged with the responsibility to review periodically the portfolios used by the banks as collateral to insure that changing market conditions have not eroded the value of the securities in the portfolios below the required minimum.

Investment Program of the Pooled Money Investment Board

Maximizing return on investments within the statutory framework allowed is the major criterion guiding the investment policy of the Pooled Money Investment Board. Prior to 1966, when the state was on a cash accounting and budgeting system, this investment policy was geared toward medium (i.e. 90 days to one year) and longer term (i.e. over one year) investments in federal government securities, as well as in bank time deposits with fixed maturity.

The 1966 change to accrual accounting and budgeting necessitated heavier reliance on short-term (i.e. below 90 days maturity) issues due to periodic cash shortages. Gradually, investment authority was extended to other types of securities. These new authorizations not only allowed the state to take advantage of a higher return often prevailing in the short-term securities market, but opened the door for greater liquidity by allowing the Treasurer to utilize the flexible maturity dates of the newly authorized securities.

In addition to U.S. Treasury and other federal government securities, the Treasurer is authorized to invest state funds in commercial paper, repurchase agreements and, as the result of Chapter 1392, Statutes of 1971 (AB 1220), in banker's acceptances. Investment in commercial paper of 1-90 day maturity is limited to a maximum of 15 percent of the fund's portfolio. Repurchase agreements are used intermittently for investment of very short (i.e. 1-30 days) duration. Rates for these securities fluctuate considerably more than for other types of investment, but a sophisticated investment program will produce substantial short-term gains.

During recent years securities with maturities of less than 90 days have accounted for over 60 percent of the total investment portfolio of the Pooled Money Investment Account. Table 5 shows the composition of these holdings for two recent years.

Table 5
Composition of Pooled Money Investment Account Holdings

<i>Maturity term</i>	<i>1968-69</i>			<i>1969-70</i>		
	<i>Purchase price (thousands)</i>	<i>Percent of total</i>	<i>Average yield</i>	<i>Purchase price (thousand)</i>	<i>Percent of total</i>	<i>Average yield</i>
Under 10 days	\$229,725	28.9%	7.24%	\$346,432	27.3%	7.93%
10-30 days.....	144,715	18.2	7.94	47,595	3.7	7.26
31-90 days.....	128,352	16.2	7.92	399,270	31.5	6.61
91 days-1 year	73,957	9.3	5.96	163,344	12.9	7.20
1-3 years	68,010	8.6	6.13	128,883	10.3	5.65
Over 3 years	149,190	18.8	5.20	181,342	14.3	5.38
Total.....	\$793,949	100.0%	6.88%	\$1,266,866	100.0%	6.80%

The state's recurring cash flow problem has been the main reason for this concentration of investments in very short-term securities. This move actually resulted in a financial advantage to the state, because, as Table 5 illustrates, short-term interest rates for this period ranged above medium and long-range earning rates.

The recent enactment of state income tax withholding is expected to ease the cash flow problem and allow the Treasurer more flexibility to invest in long-term securities. Chapter 1243, Statutes of 1971, calling for monthly apportionment of moneys from the Pooled Money Investment Fund to special funds, however, could reduce the size of the pool available for longer-term investment.

Increase in Interest Yields

During the fall of 1971, short-term interest rates declined substantially. A number of economic forecasting groups anticipate the short-term rates will increase throughout calendar 1972, but will not reach their historic peaks of early 1970.

Staff Increase Proposed

Four technical positions currently participate in the investment program. The investment officer, with the help of the other positions shown in Table 6 directs this program.

Table 6
The Treasurer's Investment Program Staff

<i>Position</i>	<i>Percent of time on this program</i>
Assistant deputy treasurer	50%
Treasury cashier	50
Investment officer	100
Assistant treasury officer	100
Secretary	100

As the result of additional duties being assigned to the cashier and the assistant deputy treasurer, their future participation in this program will be reduced. The addition of a second assistant treasury

STATE TREASURER—Continued

officer is proposed in the budget. This position will help the investment staff to cover the securities market in greater depth.

We recommend approval of this additional position.

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.

Processing Workload to Increase. Table 7 indicates that during 1970-71, the Treasurer's office processed 10 million warrants, or an average of about 40,000 per working day. Last year we called attention to the potential increase in the Treasurer's warrant workload from the adoption of income tax withholding (with its 5.2 million refund warrants), and the pilot program of the Controller making direct payments of Medi-Cal warrants. Withholding became effective on January 1, 1972, and the refunds will be paid during the first half of calendar 1973. The pilot Medi-Cal program is scheduled to start in two counties in August 1972, and if it is successful, it will be implemented statewide. Table 7 summarizes the Treasurer's current and projected warrant processing workload.

Table 7
Projected Workload of the Treasurer's Paying and Receiving Program
(thousands)

<i>Fiscal Year</i>	<i>Agency trust warrants</i>		<i>Controller warrants</i>				<i>Percent increase</i>
	<i>Regular</i>	<i>Disability Insurance</i>	<i>Regular</i>	<i>Medi-Cal</i>	<i>Withholding</i>	<i>Total</i>	
1969-70	1,322	1,255	6,208			8,785	
1970-71	1,462	2,649	5,909			10,020	14.03%
1971-72 (est.)	1,535	2,913	6,500			10,948	9.28
1972-73	1,688	3,204	7,150	1,173 ¹	5,220	18,435	68.68
1973-74	1,856	3,524	7,865	11,821	5,537	30,603	66.13
1974-75	2,041	3,876	8,652	15,912	5,814	36,295	18.60

¹ Workload expected to be produced by pilot program involving only two counties.

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

Data-Processing Problem Unresolved

In our previous Analysis we indicated that the Treasurer participated in an experimental optical character recognition (OCR) test program, conducted by the Department of General Services. Based on

the results of that study, we recommended that, if the OCR equipment were retained on a contract basis, the Treasurer use this equipment to process its warrant workload. The equipment, however, was subsequently released and the Treasurer reverted back to the old EDP system consisting of punchcard input and data capturing by a Spectra 70/45 computer system provided by the General Services Data Processing Service Center. About half of the time, this system has been incapable of computing the state's daily cash position by the Treasurer's 4 p.m. deadline. As a result, the state has not been able to maximize its investment potential.

Consolidated Data Processing Approach

The Treasurer is currently participating in a study to determine the feasibility of developing a consolidated data processing service center to serve the Controller, Treasurer, State Personnel Board, Public Employees Retirement System, State Teachers Retirement System and Veterans Affairs. This consolidated approach was recommended in the Supplementary Report of the Committee on Conference (1971 Budget Bill) and its progress is discussed in detail under Item 61, Department of Finance—Statewide EDP.

Use of MICR Equipment Anticipated

In a recently completed feasibility study, the State Treasurer concluded that magnetic ink character recognition (MICR) equipment, a system already used by most banks for warrant processing, would be the most suitable and economical system for its own processing purposes and would be most suitable to meet the anticipated increase in processing workload.

Based on this study, the Treasurer recommended:

1. Use the existing key-punch entry with the Spectra 70/45 data capturing system for the balance of the current fiscal year.
2. Starting July 1, 1972, use the MICR data entry and reader system and the existing Spectra 70/45 computer for the reconciliation process.
3. Beginning January 1, 1973, replace the Spectra 70/45 with file sorting and report generation capabilities, thus creating a complete MICR "stand alone" system with its own dedicated computer.

This MICR feasibility study is currently being reviewed by the EDP Control and Development Division of the Department of Finance.

The special group of state EDP technicians, studying the feasibility of a consolidated service center for the Controller, Treasurer and other agencies, has reviewed this MICR feasibility study, and it recommends support for this new system, provided it meets the requirements of the entire warrant processing cycle, including the Controller's bank reconciliation activities. The group also states that the operation of the MICR system should be compatible with the

STATE TREASURER—Continued

operations of a consolidated Controller-Treasurer EDP service center.

We concur with this policy statement by the Consolidated Group Four EDP Study Group. We withhold recommendation on the \$387,-662 EDP budget of the Treasurer's office until an acceptable proposal covering the increased warrant processing workload is approved by the EDP Control and Development Division of the Department of Finance, and presented to the Legislature.

Proposed Staff Increase

In view of the withholding and Medi-Cal increases in warrant workload, the Treasurer proposes the addition of a computer operator trainee to help with the increasing volume. *Subject to the presentation of an acceptable EDP proposal, we recommend approval of this new position on a workload basis.*

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 1970-71 was \$7.8 billion. The Treasurer's use of a 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 \$104,000 in the current and budget years, 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 8 shows funding for the District Securities Commission.

Table 8
Budgetary Support for the District Securities Commission

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Proposed</i> 1972-73
Program cost	\$177,670	\$187,200	\$185,797
Reimbursements	<u>-103,501</u>	<u>-187,200</u>	<u>-185,797</u>
General Fund cost	\$74,169	—	—

Prior to the current fiscal year, the commission was supported from the General Fund, with its inspection revenues being deposited into that fund. If revenues from fees failed to cover costs, the difference became an added General Fund cost.

In our 1970-71 Analysis, we recommended that the commission be entirely funded by fees charged to the local water 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. If actual receipts fell below estimates the commission would have to reduce its expenditures or receive an allocation from the Emergency Fund.

The Governor's 1971-72 Budget followed our recommendation by placing the commission on a reimbursable basis.

Historically, fee collections have been consistently below budget estimates. In 1970-71, for instance, the commission's expenditures exceeded fee revenues by \$74,169. The commission attributes this problem of fee collection to the unique nature of its work, in that its activities on a particular project are expended over several years, but the resulting fee revenues usually are received near the end of the project. This problem has been compounded by tight money markets and lack of federal funds, which resulted in slowdowns in construction activity and payment of inspection fees.

Commission Expects to Cover Expenditures

The commission reports that, as a result of the general improvement in economic conditions, an increase in federal funds and an improved bond market, it will probably collect at least \$166,000 in fees and, given a continuing favorable economic climate, it may collect as much as \$208,000 during 1971-72. If actual revenues are at the midpoint (\$187,000) of this range or above, the commission will cover its expenses. If not, the commission will need funding from other sources within the Treasurer's office, or an allocation from the Emergency Fund.

Reimbursement Budgeting to Continue

For fiscal 1972-73 the commission is again budgeted on a reimbursable basis. This pressures the commission to improve, as far as it can, its fee collection procedure and, if necessary, to adjust fees upward to meet expenses. The commission is currently considering an adjustment in its fee schedules.

DEPARTMENT OF FINANCE

Item 61 from the General

Fund

Budget p. 36 Program p. 127

Requested 1972-73.....	\$4,648,873
Estimated 1971-72	4,410,389
Actual 1970-71	4,020,659
Requested increase \$238,484 (5.4 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Budgetary Process. New budget procedures were formalized in 1971 to improve and expedite budget development and to aid in the clarification of the role of the Department of Finance in the budgetary process. 142
2. Departmental Program Budget. We have requested the department to redefine its own program budget categories to make them a more meaningful tool for evaluation. 146
3. Audits Division Reorganization. The Audits Division of the Department of Finance is undergoing a reorganization aimed at expanding and upgrading the financial audit coverage of state agencies 148
4. Budget Data System. The outside contract services for programming and implementation of the budget data system were terminated in December 1971. Although basic programming and documentation is completed, extensive modifications remain to be completed by state personnel. *Recommend a delay in budget approval for the budget data system pending a successful demonstration of the capabilities of the system and the submission of a schedule which specifies reporting requirements and dates for the fiscal year 1972-73.* 149
5. EDP Planning. During 1971 responsibility for statewide planning and coordination of EDP systems and facilities was transferred to the Department of Finance. 153

GENERAL PROGRAM STATEMENT

The Department of Finance is responsible for advising the Governor regarding the fiscal condition of the state and assisting in the preparation and enactment of the Governor's budgetary and legislative program. The department is composed of an executive office, the Budget Division, the Audits Division, and the newly established Office of EDP Control and Development. The programs which the department has established to carry out their responsibilities are shown in Table 1 together with a comparison of man-years for each program

and total expenditures for the current and budget years.

Table 1
Distribution of the Staff of the Department of Finance, by Programs

<i>By Programs</i>	<i>Man-years</i>		<i>Difference</i>
	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>	
Programming and budgeting system ..	166.6	153.6	- 11.0
Fiscal and program compliance	58.0	70.4	12.4
EDP Control and development	14.4	15.0	.6
Total staff	239.0	241.0	2.0
Total program expenditures (thousands)	\$4,410	\$4,649	\$239

The 1972-73 proposed budget includes \$76,000 for merit salary and staff benefit increases plus an increase of \$52,000 in rent expense due to reallocation of rental charges for occupancy of state-owned buildings. Under the new policy adopted by the Department of General Services, rental charges to state agencies will be equalized at 40 cents per square foot; a substantial increase over the rate currently being charged to the Department of Finance. The shift in man-hours between programs stems from the redirection of effort in the Audits Division toward financial auditing.

PROGRAMMING AND BUDGETING SYSTEM

The basic objective of this program is to insure the financial integrity of the state through the continuing evaluation of the benefits and costs of all state government programs, and the development of an annual financial plan and implementing legislation. The Budget Division is primarily responsible for carrying out the activities of this program. The division is organized into four units under program budget managers, each of whom have responsibilities in all of the elements of this program. The Audits Division also contributes to the programming and budgeting system through its management performance audits and joint studies with Budget Division personnel.

Finance's Role in Budget Making Changed

Prior to 1969 the Department of Finance had extensive central control responsibilities for budgetary development, review, and administration. In its capacity as the central budget authority, the department received budget requests from various state departments, conducted hearings and then, based upon policies approved by the Governor, determined a level of support for each program. In 1969 the basic responsibility for budget preparation was transferred to the agency secretaries. Beginning with the 1970-71 fiscal year, budgets were prepared largely by agency personnel under the direction of the agency secretaries, with Budget Division personnel made available to the agencies as a staff resource. This rather drastic shift of responsibility and authority created problems of communication between the

DEPARTMENT OF FINANCE—Continued

agencies and the Department of Finance, and left the department without a clear delineation of its role in the budget development process.

New Budget Procedures Adopted

To remedy these deficiencies new procedures were formally adopted during 1971 which are designed to clarify the role of the Department of Finance in the budgetary process and to improve the information flow between all parties involved. These procedures are also expected to expedite the mechanical aspects of budget assembly. As an important byproduct, they will facilitate the integration of the budget data system into the programming and budgeting system.

The newly adopted procedures, which are set forth in detail in the State Administrative Manual, are summarized below.

a. *Policy Guidelines.* Fiscal and program guidelines for developing the budget are established by the Governor and his cabinet and transmitted through the agency secretary to each department. Revenue estimates will be prepared by the Department of Finance to be used in the formulation of these guidelines.

b. *Baseline Budget Planning Estimates.* Budget planning estimates will be prepared by the Department of Finance as the starting point for the budget development process. The planning estimates will be based on the prior year's budget adjusted for price level increases (but not workload increases), merit salary increases, and any salary or fringe benefit programs approved for the current year. Planning estimates will also incorporate shifts in priority or emphasis, or other policy guidelines established by the Governor and the cabinet.

c. *Program Proposals.* All requested changes from the budget planning estimate will be documented in the form of a program maintenance proposal or a program change proposal. The maintenance proposals are designed to cover budget augmentations required to maintain existing levels of service, while the change proposals cover either increases or reductions in the scope of the program or a redirection of its efforts. Demographic studies by the Department of Finance will be furnished to assist in estimating the change in demand for state services.

It is the responsibility of the individual department to prepare these proposals and to submit them to the Department of Finance for its analysis and evaluation. Finance personnel will be made available to assist in the development of these proposals and to render a preliminary evaluation as to their acceptability.

The Department of Finance staff may independently develop program change proposals based upon its review and analysis of the department's activities and programs.

d. *Budget Hearings.* The agency secretaries will schedule and hold budget meetings with representatives of their respective depart-

ments and finance representatives and formalize their recommendations to the cabinet. All program maintenance and program change proposals approved at these meetings will be summarized and referred to the cabinet for information and ratification. All Department of Finance proposals not accepted by the agency secretary or department proposals accepted by the agency but not by the Director of Finance may be separately presented to the cabinet for action. It is the hope of the Department of Finance that, through preliminary discussions and joint evaluations, the number of change proposals falling in this latter category will be minimized.

e. *Updating of Budget Planning Estimates.* All program maintenance proposals and change proposals which are mutually approved by the agency secretary and Department of Finance, will be incorporated into the initial budget planning estimate.

f. *Governor's Cabinet Review.* The budget proposals incorporating the approved program maintenance and change proposals will be presented by the agency secretaries to the cabinet for final review and approval.

As indicated by these procedures, the basic responsibilities of the Department of Finance are (1) to prepare the initial revenue estimates and furnish demographic data, (2) to develop the budget planning estimates, (3) to assist in an advisory capacity to the departments and agencies in preparation of program maintenance proposals and program change proposals, and/or to evaluate such proposals, (4) to evaluate programs and program management efficiency with a view toward independently initiating program change proposals.

Preliminary rulings on program proposals are made by the agency secretary and the Director of the Department of Finance, with final approval authority vested in the cabinet.

The extent to which the various departments will actually utilize the availability of finance personnel in the development of their maintenance and change proposals is at the discretion of the individual departments or the agency secretary. During the preparation of the current year's budget, the degree of participation by finance personnel in this advisory capacity varied widely between agencies and also between departments within agencies. It is the intent of the Department of Finance to continue to encourage the maximum utilization of finance personnel by the various agencies so that differences may be resolved in the early stages of the budget development period and the number of change proposals not having mutual approval be held to a minimum.

Department Plans Comprehensive Program Review Schedule

To carry out their program review responsibilities the department plans to conduct program evaluation studies on a regularly scheduled basis which will provide for a review of all existing programs on a four-year cycle. Conceptually, program budgeting involves two dis-

DEPARTMENT OF FINANCE—Continued

tinct areas of concern with respect to program appraisal, budgetary planning, and budget decisionmaking. The first involves both the initial determination of the desirability of a program in terms of its total costs compared to its benefits, and subsequent appraisals of its effectiveness in actually achieving its stated objectives. The results of an effectiveness appraisal should answer questions related to the continuation, expansion, curtailment or redirection of particular programs. The second area focuses on program efficiency, i.e. whether the various tasks and activities making up the program are being performed efficiently and at minimum cost.

The program review effort of the department will concentrate on the first of these areas, and program change proposals will be generated as appropriate on the basis of their findings. The department will also be concerned with assessing the efficiency of program management. To this end management performance audits conducted by the Audits Division will complement the analysis efforts of the Budget Division personnel.

Measures of Program Output

In response to the legislative recommendation that the budget data system be enhanced to include measures of effectiveness and program output, the Department of Finance has established a task force of six analysts. This group is charged with the responsibility of developing the necessary output measures to provide reliable program evaluation.

The task force commenced their study in October 1971. Their initial effort was to develop workable definitions of output and establish criteria which would guide the development of output measures for all state programs.

An essential consideration of this phase of the project was that each proposed output measure represent a valid index of accomplishment or progress toward the specified goals or objectives of the program. A clear distinction would be made between data which measures progress toward objectives and that which constitutes only workload indicators or simply a quantification of the level of activity.

The second step was to begin the formulation of specific measures for six of the departments included in the pilot study. These departments had been selected to represent the six general areas of state government, as shown in Table 2.

Table 2**Departments Participating in the Output Measurement Pilot Project**

<i>Agency or area of activity</i>	<i>Department</i>
General government	Board of Equalization
Agriculture and Services	Agriculture
Business and Transportation	Highway Patrol
Resources	Conservation
Human Relations	Public Health
Education	Scholarship and Loan Commission

The basic development work which is currently in progress on these six departments is nearing completion. Testing and refinement of these measures will then be carried on for approximately six months.

The next phase of the study will proceed with the development of measures for an additional six departments, again selected from each of the agencies or general areas of government. Upon completion of this phase the validity of the measures developed in evaluating program effectiveness will be assessed. If necessary, the initial definitions and measurement criteria will be modified to meet any deficiencies. The project will then be expanded to include all state departments, with a target date of June 1978 for completion of the development of measures for all programs. A preliminary progress report on this project will be made to the Legislature in February 1972.

Budget Division Organization

Both budget development and program review activities are carried on within all four units of the Budget Division. The organizational structure is geared to the program specialist concept with each unit assigned to specific areas of state government. Within a unit, individuals at the principle program analyst level are given all budgetary responsibilities for a specific department. In general, each unit has additional analysts available to work on an as-needed basis with the program specialist. Special sections have been established for such functions as revenue analysis, demographic research and fiscal control for all areas of government. Table 3 shows the assignment of personnel to these various functions.

Table 3
Budget Division Professional Staff Man-Years by Assignment

<i>Assignment</i>	<i>1971-72 Man-years</i>
Human Relations	14
Education	15
General government, Agriculture, Service	7
Business and Transportation	2
Resources	4
Financial research	8
Demographic research	7
Revenue, disbursements and cash management	5
Fiscal control	8
Internal management	11
Total.....	81

DEPARTMENT OF FINANCE—Continued**Department's Own Program Budgeting Is Weak**

Despite the fact that the Department of Finance has spearheaded the drive for adoption and implementation of program budgeting for the State of California, the department's own program budget structure exhibits several deficiencies. The program elements are not clearly defined, especially in the programming and budgeting system which has 64 percent of the agency's total staff.

This program consists of four elements:

	1972-73 Man-years
A. Program evaluation	60.1
B. Development and enactment of Governor's financial and legislative programs	67.5
C. Analysis and enactment of legislation.....	24.5
D. Budget data system	3.5
Total.....	155.6

The descriptions of these program elements are too broad and vague to be meaningful budget evaluation classifications. For example, a Department of Finance representative testifying before a single meeting of a legislative fiscal committee, could have part of his time allocated to program evaluation (A), another portion to development and enactment of the Governor's legislative program (B), and a third portion to the analysis of legislation (C) and still be speaking to the same subject. As a result of the crossover among these activities it is not possible to gather meaningful workload data. *Therefore, we have requested the department's management to redefine its program budget categories so that by next year its budget presentation will be a model for other agencies to emulate.*

FISCAL AND PROGRAM COMPLIANCE

The objectives of this program are to assure that expenditures on programs are made as provided in the Governor's Budget, to insure the integrity and reliability of financial statements and reports of state agencies, to evaluate compliance with statutes, directives, and administration policies, and to appraise agency performance. Statutory authority for these objectives is contained in various sections of the Government Code. Section 13294 stipulates that the Department of Finance shall examine the books of state agencies as often as the director deems necessary, and Section 13070 gives the department general powers of supervision over all matters concerning the financial and business policies of the state. In this regard, the department is empowered to conduct such investigations and studies as it deems appropriate.

From an organization standpoint the Audits Division of the Department of Finance has the primary responsibility for this program. The

activities which are carried on in order to achieve the program objectives may be described as follows:

1. *Regular Agency Audits.* This activity has three components which are: (a) financial and fiscal compliance auditing (b) program and policy compliance auditing, and (c) operational or management performance auditing.

2. *Special Studies and Investigations.* This is not a regularly scheduled activity but is carried on whenever circumstances indicate the need for a particular investigation.

The man-years devoted to these activities are shown in Table 4. The cash management section of the Budget Division contributes a minor number of man-years to this program.

Table 4
Distributing of Fiscal and Program Compliance Staff

	<i>Man-Years</i>		<i>Difference</i>
	<i>1971-72</i>	<i>1972-73</i>	
Regular agency audits			
Financial auditing and			
fiscal compliance	15.0	36.0	21.0
Management performance and			
program compliance auditing.....	17.0	—	—17.0
Subtotal	32.0	36.0	4.0
Special management studies	19.0	26.5	7.5
Total Audits Division.....	51.0	62.5	11.5
Budget Division	2.0	2.9	.9
Administration	5.0	5.0	—
Total compliance staff.....	58.0	70.4	12.4

In our Analysis for 1969-70 and again in 1970-71, we commented on the shift of emphasis that had been taking place in agency auditing from the financial audit aspect to the management or performance aspect. In 1970-71 the Audits Division staff was reduced by approximately 25 percent, which required a drastic reduction in the number of total man-years devoted to regular agency audits, and further diluted the financial audit coverage. In 1971-72 another reduction in man-years devoted to agency audits occurred as a result of a shifting of staff effort from this area to special studies and investigations. The department's program statement noted this curtailment of regular audit coverage and pointed out that fiscal and compliance auditing would be limited to "reviews designed to determine the reliability of financial reporting and compliance with basic requirements of the state's financial and reporting procedures." These reviews, the statement continued, would be concentrated on the higher risk and more sensitive areas, and would consist basically of reviews of the existence and use of internal control procedures, rather than detailed verification of supporting data.

DEPARTMENT OF FINANCE—Continued**Financial Audit Requirements Reassessed**

In view of this series of events the department in 1971 reassessed the need for regular financial auditing and concluded that this activity had been reduced below an acceptable minimum. To insure that sufficient staff effort and management attention will be devoted to financial auditing, the division is currently undergoing a reorganization which will involve the establishment of a financial audit section within the division, headed by an assistant division chief. Initially 36 positions will be assigned to this new section and their efforts devoted exclusively to financial auditing and fiscal compliance. A schedule of regular agency audits will again be established which will provide coverage for all agencies within a four-year cycle. Audits in the more critical areas will be completed on a two- or three-year cycle, but the four-year period will be the maximum. The audits by this section will be traditional financial audits in the sense that they will be directed toward the evaluation of the reliability and integrity of the financial statements and other fiscal reports of the various agencies, and as such will include the examination of journals, ledgers, and other supporting records and documents. Detailed tests of individual transactions, however, will be minimized and heavy reliance placed on surveys of internal controls. A new financial audit procedures guide is being prepared for this purpose. Regular audit reports will be issued setting forth statements of coverage and audit findings.

Relationship With Other Audit Activities in State Government

On a statewide basis there are three levels of internal audit activity which can be characterized as financial auditing of the "postaudit" type. The first level is composed of the internal audit units within the various state agencies. Personnel in these units perform a variety of audit procedures aimed at verification of agency records and compliance with internal procedures. There are currently a total of 82 authorized positions in these units as shown in Table 5. These groups generally are responsible to a departmental deputy director or division chief. The second level of financial audit activity is that performed by the Audits Division of the Department of Finance. The third level is represented by the Auditor General's office, which is responsible to the Joint Legislative Audit Committee. The Auditor General maintains a staff of approximately 45 professionals who perform both financial and management audits, as well as conduct special investigations at the request of members of the Legislature.

In addition to postaudit programs, a preaudit function is performed by the claims audit section of the Controller's office. This office is currently staffed by 37 personnel who verify the propriety of requests for disbursements of funds submitted by state agencies.

Because each of these levels of audit activity has different respon-

sibilities and authority, it is in the interest of the state to identify and eliminate or minimize areas of overlapping effort. The Audits Division is cognizant of this fact and intends to plan and schedule their work accordingly. The division views its function as complementary to these activities and will tailor their program to meet this criterion.

Table 5
Authorized Internal Audit Positions 1971-72

<i>Department</i>	<i>Number of positions</i>
Department of Public Works.....	32
Department of Employment.....	10
Department of Water Resources	8
Department of Motor Vehicles.....	5
Board of Equalization	4
State Compensation Insurance Fund	7
Department of Consumer Affairs.....	3
Department of Parks and Recreation	5
Department of Agriculture	1
State Controller.....	4
California Highway Patrol	2
Public Employees Retirement System	<u>1</u>
Total	82

The Budget Data System

The Department of Finance was authorized by the Legislature in 1969 to install a budget data system. Primary purpose of the system was to support the development, monitoring and management of the Governor's Budget.

We have made numerous recommendations regarding the budget data system in the past three volumes of the Analysis of the Budget Bill and in a statement prepared for a Joint Legislative Budget Committee hearing on this subject in May 1970. Essentially, these recommendations which have subsequently been accepted by the Legislature were to: (1) guarantee that the Legislature would have independent access to information through keyboard terminals; (2) require information regarding plans and costs for design, implementation and operation of the system; (3) insure that security and continuity were maintained by installing the system on a state EDP facility rather than a nongovernmental facility as originally proposed; (4) involve appropriate legislative staff to assist in the development of adequate budgetary information for the Legislature; (5) require that the Department of Finance develop an overall plan that integrates the budget data system with the program and budgeting system (PABS); and (6) enhance the system with program measures of effectiveness and output.

DEPARTMENT OF FINANCE—Continued**Integration With PABS**

The plan required in (5) above to integrate the operation of the budget data system with PABS was submitted to the Legislature on May 20, 1971. This plan and a budget data system supplement received on November 1, 1971, represent the most current publications describing the system.

In the May 1971 report, the Department of Finance identified four interrelated modules of PABS. Each module is considered by finance as a natural division of the system and therefore each module lends itself to being developed independently using feedback information from the other modules. These four modules are: program definition, program input, program output, and method of collection and analysis of data.

The department states that the budget data system is the process chosen for developing the data gathering module which will identify all input within the program structure and sort and display (using EDP methods) the essential information available in an orderly fashion for specific programs.

System Architecture and Costs

The basic architecture of the budget data system is modular in design with the following primary elements: (1) a data base containing budget, current and prior year information (records) for programs, appropriations, funds and revenues; (2) an EDP control program which permits manipulation of the information in the data base; and (3) a series of application programs which perform the vital functions of keeping the data base current with valid information, as well as reporting and summarizing the data. The application programs indicated in (3) are grouped into "phases" and are intended to function as follows: editing, updating, summarizing and reporting legislative process and budget development.

The updating activity is performed on current-year budget data, as well as on actual expenditures and revenues. This involves recording in the system all revisions to the current year's budget, as they occur, and the accumulation of year to date actual expenditures and revenues on a monthly basis. The legislative process and budget development phases also involve an updating procedure. The starting point of the budget development phase is the budget planning estimate, based on the current year's initial budget as adjusted for price level and merit salary increases. The planning estimate is updated as proposals to maintain existing programs or alternatively to effect changes move through the final approval stages, with the fiscal data for the Governor's Budget and the Budget Bill as end products.

The legislative process phase begins with the Budget Bill and records amendments by appropriation item as they are adopted in ei-

ther house.

Table 6 displays the costs of the budget data system over a three-year period:

Table 6
Budget Data System Costs

<i>Category</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Personnel costs	\$28,050	\$50,840	\$60,850
Contract costs	^a	41,000	22,000
EDP services received	106,783	186,000 ^b	223,740
Total other costs	18,500	4,900	3,500
	<u>\$153,500</u>	<u>\$283,540</u>	<u>\$310,090</u>

^a Contract costs for services of a private consultant total \$202,500 and were encumbered during fiscal years 1968-69 and 1969-70 with disbursements made in payments through December 1971.

^b Includes \$85,000 recorded as 1970-71 expenditures, for EDP services actually received during 1971-72.

Budget Data System Outputs

The system outputs as described by the Department of Finance are summarized below. Although the basic programs are written, the output formats have not been finalized in many cases and numerous modifications are expected.

1. Video terminal displays. Available through this medium will be expenditure data by organization, program, and appropriation, revenue data, and fund analysis. The display format for expenditure and revenue reporting will provide the following:
 - a) Prior year revised budget and actual dollar amounts.
 - b) Current year initial budget and revised budget dollar amounts.
 - c) Current year planned expenditures for the year to date, based on a month-by-month allocation of the budget dollars over the 12-month period.
 - d) Current year actual expenditures and revenues for the year to date.
 - e) Budget year estimate, dollar amounts.

The system will be programmed to provide expenditures for organization levels from state through agency, department, division and section, with object of expenditure detail available at all organization levels. Program expenditures can be provided at the program, element, and component levels. Object of expenditure detail is also available within program element or program. Initially, however, input and reporting will be restricted to the department and program element levels.

Video terminal output from the legislative process system phase will be a display providing budget bill item amounts, as introduced and as amended in the Senate and in the Assembly. Supplementary data will indicate the status of each item with respect to its location in subcommittee, full committee, or on the floor of each house.

DEPARTMENT OF FINANCE—Continued

Data produced from the system by the Department of Finance for its use in the budget development phase will be held in confidence by the Department of Finance.

2. Printed reports. The printed reports which will be made available on request include expenditure, revenue, fund, and appropriation data in format and detail equivalent to the various schedules now contained in the appendix to the Governor's Budget. Also available will be an appropriation budget reconciliation, fund condition statement, and a statewide summary of expenditures by object.

Timetable for Data Input

The input of "live" data into the system is now in process. The building of the data base was started with the input of the 1971-72 budget data and this has been completed. Actual expenditures and revenues for 1971-72 year to date are currently being recorded in the system, and it is anticipated that the expenditure and revenue updating phase can be commenced on a test basis after this step is complete. Incorporation of 1972-73 budget data is scheduled for completion by March 1, 1972, and the legislative process phase will be activated during March. By April 1st it is anticipated that the programming modifications for the video display formats will be finalized and the remote terminals will be operational on a regular basis.

Implementation Difficulties

The Department of Finance has experienced considerable difficulty in bringing the budget data system to a stage of development where a complete parallel test with the manual budget processes could be conducted during the current year as scheduled. The original plan called for completion and acceptance of all computer programs and documentation by June 30, 1971. By contract amendment, this milestone was reset to August 31, 1971, and actual delivery of the system programs and their acceptance by state staff occurred on November 3, 1971.

The state withheld \$34,000 from the contractor pending the receipt of final documentation and the final acceptance testing of all computer programs. The final payment was made to the contractor on December 30, 1971. Total cost of the system continues to be covered by the original fixed-price contract and therefore the delays have not resulted in additional payment to the contractor. In making the final payment the Department of Finance stated in a letter to the contractor that payment and acceptance of the system have been made with the knowledge that the system and programs delivered will require extensive modifications by the state as "live" budget data is entered into the system and this system is run in a parallel mode.

It appears that problems experienced in completing the detailed

design and programming of the budget data system stem from: (1) the contractor underestimating the complexity of the state budget process; (2) personnel problems associated with the contractor's staff, and (3) a general lack of both general and technical communication and consideration among the Budget Division (the user), the contractor and the General Services' Data Processing Service Center No. II (the EDP utility).

Testing and Demonstrating of System Incomplete

Our office was informed by the Department of Finance that the budget data system would be sufficiently operational during the middle of the current year for us to install the Legislative Analyst terminal and begin using the system on an experimental basis in early 1972. Prior to installing our terminal, we had expected to observe actual demonstrations of the system's capability.

To date, we have not had a satisfactory demonstration which illustrates the system capabilities as described in the Final Report of the budget data system (the basic design document). We are cognizant of the problems surrounding the development and implementation of the budget data system and recognize the complexity of the California budget process.

However, our major concern at this time is whether the problems encountered in programming the system are so severe as to make the basic system design specifications unworkable. The only satisfactory way to resolve this particular concern is through an adequate systems test using "live" data and through a successful parallel operation.

Unacceptable Information Flow to Legislature

Of even greater concern to our office at this time is the continued reluctance on the part of the administration to release fiscal and program information to the Legislature on a timely basis. This "information flow problem" is evident in (1) the reporting of expenditures and experiences relating to ongoing programs during the current year and (2) in the transmittal of the usual "confidential" budget information which is customarily made available to the Legislative Analyst in order for us to prepare the Analysis of the Budget Bill.

As we stated in our May 1970 presentation, there was a loss of backup information in the conversion from line item to program budgeting. Therefore if the intent of the budget data system was to facilitate the conversion to program budgeting and produce an improved management and cost reporting system as originally indicated, the system must materially improve the availability of budget information. To achieve this improvement in information, however, we must have a workable system (as discussed earlier), and a commitment to enter data into the system on a timely basis to facilitate both the executive and legislative decision processes.

For example, on page 26 of the Final Report of the budget data

DEPARTMENT OF FINANCE—Continued

system, a 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 would be possible to generate monthly actual and revised expenditures on the basis of claims filed.

At the time of the Budget Committee hearing on the budget data system, we suggested that this system benefit might have assisted in predicting a shortage of funds relating to payments for Medi-Cal drug claims (a crisis in Medi-Cal funding existing at that time) providing the proper data were entered into the system.

To illustrate, with a more current example, the necessity for timely information, AB 1 (1971 First Extraordinary Session) amended the Welfare and Institutions Code and required each county welfare department to submit to the Department of Finance each month a copy of the monthly reports of caseloads and expenditures submitted by the counties to the State Department of Social Welfare. The Department of Finance is required by AB 1 to submit these data to the Joint Legislative Budget Committee and the data are also to be incorporated into and made an integral part of the budget data system. This legislative action was required to improve the flow of welfare information.

Summary of Concerns

Given the above circumstances, we recommend a delay in budget approval for the budget data system pending (1) a successful demonstration of the capabilities of the system and (2) the submission of a schedule by the Department of Finance by May 1, 1972, to the fiscal committees and the Joint Legislative Budget Committee which specifies the reporting requirements and dates for fiscal year 1972-73 relative to both monthly expenditure reporting (as described in the final system design document) and the submission of budget information for the 1973-74 fiscal year. This schedule should cover manual and budget data system information requirements. To represent an executive commitment to provide the Legislature with information within normally accepted guidelines, this schedule should have the endorsement of the Governor or his cabinet.

If the schedule is received by May 1, 1972, we will analyze the contents and make recommendations regarding funding of the system for the budget year.

STATEWIDE ELECTRONIC DATA PROCESSING

Summary of Recommendations

1. Recommend that the Department of Finance in cooperation with six departments in Consolidation Group Four take steps to implement the study-team conclusions relative to a consolidated EDP center by January 1973 rather than July 1973.

2. Recommend that the Department of Finance and Human Relations Agency together with involved departments take the necessary steps to establish a centralized agency EDP facility in the Human Resources Department thereby releasing three independent departmental computers.

3. Recommend that Department of Finance and the Legislative Analyst present to fiscal committees by April 1, 1972, recommendations for any revisions to Section 4 of the Budget Bill of 1972 and related criteria together with findings relative to EDP supplementary budgetary information.

The Department of Finance is currently responsible for statewide coordination and control of electronic data processing (EDP). The provisions of Chapter 1237, Statutes of 1971 (AB 1663) and Section 4 of the Budget Act of 1971, specifically give the Department of Finance the responsibility for certifying that EDP expenditures and budget requests by state departments meet certain criteria and procedures which have been established by the Legislature.

In addition to declaring legislative intent relative to the present role of the Department of Finance during fiscal year 1971-72, this legislation also establishes the California Information Systems Implementation Committee. This committee is given the specific responsibility of reviewing the adequacy of state EDP policies and is required to develop an organizational structure and the necessary functions and activities to effectively operate the state's data processing installations.

Although statewide EDP issues are discussed under this item, the specific recommendations relative to departmental EDP are made under the budget items which support individual department expenditures.

Legislature Abolishes Office of Management Services

Through the Budget Act of 1971, the Legislature removed fiscal support for the Office of Management Services (OMS) by deleting Item 37. Other actions included the transfer of 15 positions with related support to the Department of Finance for control and coordination of EDP and the transfer of two positions to the State Personnel Board for continuation of the EDP training program. This was followed by enactment of a statute eliminating OMS and transferring its functions to the Department of Finance.

ELECTRONIC DATA PROCESSING

Historical Review

Before discussing the newly organized EDP Control and Development Unit and other assigned responsibilities within the Department of Finance to better coordinate and control EDP, we will briefly summarize the events of the past few years.

The Joint Legislative Budget Committee was required to conduct a study of EDP and related systems analysis techniques by Resolution Chapter 120, 1966 First Extraordinary Session (SCR 34). A required report was prepared by the Legislative Analyst as staff to the Budget Committee and released in January 1967 under the title "Automatic Data Processing in California Government." In this study, we discussed in considerable detail: (1) the total absence of policy to guide the development of EDP in state government; (2) the lack of a state-wide master plan; (3) the proliferation of electronic computers throughout the individual departments of state government; (4) the inability to exchange similar information between departments because of a lack of standardized data elements, codes and programming languages; and (5) the probability of EDP costs rising from \$32 million annually in 1966 to \$140 million by 1975. Numerous actions to correct the above problems were recommended including creating one central agency to establish EDP policy, planning and control.

The Governor's Survey on Efficiency and Cost Control conducted during 1967 essentially agreed with the findings and recommendations in our report, drew attention to the continued low utilization of state computers, and made 135 specific recommendations relating to the use of EDP by state departments. The Office of Management Services was established by executive order in November 1967 to serve as the central coordination and control agency as recommended by the Governor's survey.

During the 1968 Regular Session the Legislature enacted Chapter 1327, Statutes of 1968 (SB 959), which clearly established legislative intent, objectives and policies for EDP and created three organizational entities: The Intergovernmental Board of Electronic Data Processing, the State Electronic Data Processing Policy Committee and the Office of Management Services.

In each *Analysis of the Budget Bill* since our 1967 study, we have reviewed in detail the status of data processing and made numerous recommendations consistent with the findings of the original study and new developments in EDP technology which have occurred in this rapidly changing field.

Similarly, the Legislature has consistently approved the continued proliferation of new computers throughout the state departments, specified a number of computer consolidations, and deleted funds for various programs and projects which were poorly planned or executed.

Reduction of Installed Computers

As a result of recommendations contained in the Supplemental Report of the Committee on Conference (Budget Bill of 1971) and executive branch plans for consolidating certain computer installations, the number of installed computers can be reduced from 45 to 36 during the current year (exclusive of state colleges and the University).

The conference committee recommendations are summarized below:

Item 47—Recommend that the State Controller consider various state fiscal and personnel agencies as prime customers on any new computer system in order to reduce duplicative systems and insure full equipment utilization.

Item 55—Recommend that the Secretary of State receive data-processing services from the Department of General Services (in lieu of continuing to operate his own computer system).

Item 173—Recommend that the California Highway Patrol consolidate its electronic data processing operation into the Department of Justice Law Enforcement EDP Service Center. (Implementation plan due October 1, 1971.)

Item 176—Recommend that the Department of Motor Vehicles merge its two separate data processing divisions into one central operation.

Table I shows the computer additions and reductions contemplated by the end of this fiscal year.

Table I
Proposed Computer Releases and Additions

<i>Department</i>	<i>No. released</i>	<i>Type</i>	<i>No. added</i>	<i>Type</i>
Highway Patrol.....	2	IBM 7740		
Franchise Tax Board	2	IBM 360/40	1	IBM 360/65
Youth Authority	1	IBM 360/20		
Dept. of Agriculture	1	IBM 360/20		
Dept. of General Services	1	RCA 301		
Dept. of Human Resources Development.....	1	IBM 7080		
	2	IBM 360/30	1	IBM 360/165
Dept. of Justice	2	RCA 301	1	RCA Spectra 70/60 (also upgrade one existing 70/46 to a 70/60) ¹

¹ This upgrade will allow the Department of Justice to absorb the California Highway Patrol Auto Status system and also implement the California Criminal Justice Information System.

In addition, if recommendations regarding the Secretary of State and fiscal/personnel agencies (State Controller, Personnel Board and Public Employees' Retirement System) are followed, an additional five computers can be released and one new machine installed as a

STATEWIDE ELECTRONIC DATA PROCESSING—Continued

replacement.

Finally, recommendations in this *Analysis* regarding the Human Relations Agency will reduce three more computers leaving the new statewide total of installed computers at 28 by the end of fiscal year 1972-73. Other consolidations of equipment and integration of systems are possible to improve the state's utilization of modern computer technology, but the above reflects what is readily achievable in the immediate future. For example, consolidations in the Department of Motor Vehicles, revenue and taxing agencies, the Department of General Services, State Colleges and University of California are possible but the exact details must await the results of further study.

STATEWIDE EDP MASTER PLAN

Last year's *Analysis* described in detail the Long Range Master Plan for the Utilization of Electronic Data Processing in the State of California which was adopted on May 21, 1970, and purported to set forth a direction for the state in its use of EDP during the period 1970-1975. The major provision in the plan was the formation of seven consolidation groups made up of operating departments which were functionally related either by programs or an existing EDP service structure.

We were especially critical of the consolidation group concept and stated that this represented, in our judgment, an approach which would produce much talk about issues and little concrete action. With few exceptions, this prediction has been correct.

This is not to suggest that the state must develop a new or revised EDP Master Plan. In fact, the original draft of the EDP Master Plan, the adopted plan itself and both executive and legislative EDP recommendations which have been developed and are expected to be implemented by the California Information Systems Implementation Committee should be more than adequate to place the state's EDP program on a sound basis. To illustrate, two major consolidation efforts which hold considerable promise are discussed below.

Fiscal-Personnel EDP Consolidation

The fiscal and personnel agencies of state government (all in Consolidation Group Four) including the State Controller, State Treasurer, State Personnel Board, Public Employees Retirement System (PERS), and the State Teachers' Retirement System (STRS) are typical of state agencies which operate independent or obsolete data processing equipment and which have requested funding for new dedicated computer systems or system upgrades.

Because of a legislative resolve to halt computer proliferation, funding requests for new computers have been consistently denied to these agencies. As a result, the Treasurer now receives EDP service from the Department of General Services, STRS is a customer of the PERS data center, and the Controller and Personnel Board are con-

tinuing to operate obsolete second-generation equipment.

A number of studies within state government have recommended centralization of information and computer processing with respect to accounting and personnel functions of state government and have identified substantial savings. The Personnel Board's 1966 Automated Personnel Transaction Data Communication (APTDAC) study identified savings of \$500,000 in clerical salaries alone through an improved procedure for handling the complex processes relating to personnel and payroll transactions and records.

The Governor's Survey on Efficiency and Cost Control recommended in November 1967 a study to determine the feasibility of developing a compatible payroll and personnel master file using EDP mass storage units to eliminate duplication and provide an integrated personnel management information and payroll system.

The Controller in 1968 requested funds to begin planning toward the objectives indicated in these two studies. Based on the Controller's concept of this system, development costs through 1975-76 would total \$6,675,443 and accumulative savings would total \$7,651,000 in the same period. The Legislature approved \$60,000 to study the concept, and the April 1969 FPMIS report recommended staffing to prepare a detailed system design and funds totaling \$350,000.

Although the funding request was never formally submitted to the Legislature, we reviewed the 1969 effort and concluded that it did not sufficiently address the fundamental question of a consolidation of computer facilities as a prerequisite to an integrated "data base" approach to a fiscal and personnel management system.

Conference Committee Recommends Consolidation

After a special request by the State Controller for a major system upgrade during the 1971 session (which was subsequently withdrawn), the Supplementary Report of the Committee on Conference (Budget Bill of 1971) recommended that any planning for a new electronic computer system or improved data processing service for the Controller be completed in cooperation with EDP Consolidation Group Four. It further recommended that the State Treasurer, State Personnel Board and any other fiscal or personnel agency requiring data processing service be considered as prime customers of a Controller data processing service center in order to reduce duplication of fiscal and personnel systems and insure full utilization of any proposed new computing equipment.

As a result of this recommendation, the Controller solicited the cooperation of the other four state agency heads as well as the Department of Veterans Affairs (also a Group Four member) to begin planning for a consolidated data-processing facility.

STATEWIDE ELECTRONIC DATA PROCESSING—Continued

Feasibility Study Team Formed

After a planning workshop in September 1971, a Consolidation Feasibility Study Team was organized and a project manager selected. This team is now engaged in a comprehensive factfinding project and the schedule calls for a plan to be completed in January 1972.

As the Controller's representative stated in the opening address at the workshop, "FPMIS joined APTDAC in a state of limbo" and "... Consolidation Group Four has been meeting regularly—twice a month—for over a year and absolutely nothing tangible has been produced. Everybody is in favor of consolidation—as long as their department operates the data-processing service center."

Budget Augmentation Request Probable

The study team will complete a detailed analysis of the EDP needs of each agency and reduce these requirements to a possible machine configuration to serve all participants. In addition, a logical systems approach to integrating the various processes and alternatives available for operating an EDP service center will be presented to each constitutional officer or department administrator in Consolidation Group Four.

The approach and recommendations of the study team are contained in the preliminary copy of the Final Report dated January 14, 1972. The following represents the summary of recommendations:

1. "Establish a single, consolidated EDP center to provide services to the six departments: Public Employees' Retirement System, State Controller's Office, State Personnel Board, State Teachers' Retirement System, State Treasurer's Office, and Department of Veteran's Affairs.
2. Centralize essentially all EDP personnel and equipment in the center.
3. Place the center within the State Controller's Office, separate from the existing EDP unit, reporting to the Deputy Controller, Administrative.
4. Install the center in the State Archives Building (1020 "O" Street) with alterations for security.
5. Establish a joint users' steering committee consisting of policy level representatives from each of the six departments to guide the implementation and operation of the center.
6. Transfer administratively all affected EDP facilities and personnel now a part of the six departments to the center effective July 1, 1973.
7. Use existing state EDP facilities in interim to satisfy immediate expansion needs of participating departments.
8. Adopt the implementation plan as specified in Part 2 of the report."

The cumulative cost comparison of operating a consolidated center according to the Final Report indicates that for the fiscal year period 1972-73 through 1976-77, decentralized costs for data processing would total \$33,271,214 and centralized costs for the same period would total \$28,523,510 or a cumulative savings of \$4,747,704.

After a review of the preliminary final report of this task force, we are in general agreement with the approach and conclusions as stated below:

- (1) The magnitude of the savings may be conservative if an integrated system approach is taken and the departments utilize a common data base to the extent possible. It is possible however that conversion and systems design costs would offset savings, but the benefits of this approach should be apparent as the agencies begin an in-depth analysis and the long-term savings should definitely outweigh the initial development costs.
- (2) The July 1, 1973 date to establish the center administratively should be moved forward to January 1, 1973. This date allows almost a full year for planning and also coincides with the date the Controller must have additional EDP equipment to accommodate a significantly heavier workload related to the issuing of Medi-Cal and withholding tax refund warrants.

To facilitate the implementation of the recommendations of this study team, *we recommend that the Department of Finance EDP Control and Development Unit in cooperation with the six departments of Consolidation Group Four take the necessary budgetary and planning steps to establish a Consolidated EDP center and implement the conclusions of the study team contained in the January 14, 1972 report by January 1973.*

If agreement among the agencies is reached, we anticipate a request for an augmentation to the various budget items which support the participating members. If no agreement is reached, each agency may continue to request funds from the Legislature to upgrade their individual EDP programs, a course of action that has proven unsuccessful in recent years.

Human Relations Agency Consolidation

In last year's analysis, it was pointed out that the Human Relations Agency had a unique opportunity to establish an agency-wide data processing center to serve the member departments. Consolidation Group No. 1 was established for this purpose but we warned that without strong leadership from the agency, the outcome might only be bickering and foot-dragging.

One year later we find that the consolidation group has ceased meeting, a technical specialist has been released and the one agreed consolidation (Youth Authority and Corrections into the Mental Hygiene computer center) is progressing very slowly.

STATEWIDE ELECTRONIC DATA PROCESSING—Continued

Because the Department of Human Resources Development (HRD) will install a new powerful computer in April 1972, the issue of consolidation in this agency once again becomes important if the state is to gain maximum utility from this new equipment.

HRD Computer System Upgrade

The Department of Human Resources Development has selected an IBM 370/165 to replace its existing obsolete IBM 7080 and two 360/30 computer systems. Chapter 1107, Statutes of 1971 (AB 1503) appropriated \$3,435,000 to permit HRD to purchase the central processing unit and related peripheral devices using moneys credited to California's account in the Unemployment Trust Fund.

Under provisions of the fund created under the Reed Act, the department can use federal funds for this purchase and realize savings to the state of approximately \$2,800,000 over a straight lease plan. We supported this acquisition during the 1971 session because of the savings and the fact that a machine of this size and expandibility will greatly enhance the computing capability of HRD and also facilitate the efforts to develop a consolidated EDP center providing computer service to departments within the Human Relations Agency.

The U.S. General Accounting Office has examined the procurement of computers in the State of California where federal funds are involved (as recommended by the Supplemental Report of the Committee on Conference—Budget Bill of 1970). Its finding with regard to the HRD procurement was that there would be available time on this new computer and the U.S. Department of Labor encourages the sale of unused computer time to state and local governments.

Potential Departmental Consolidations

The IBM 370/165 selected for purchase by HRD when fully expanded is comparable to approximately $\frac{1}{3}$ of the computing capability now existent in the entire executive branch of state government. This acquisition plus the plans of the Department of Health Care Services to install a Medi-Cal management system requiring equipment equivalent to two IBM 370/165's will result in a tremendous computing capacity resident within the Human Relations Agency.

The potential for duplication of computing equipment, data communications lines and data files on persons served by the member departments make an agency approach to this problem mandatory. We therefore have recommended in this *Analysis* under the various items supporting departmental expenditures consolidation with the HRD computer and the release of: (1) an IBM 360/30 in the Department of Social Welfare; and (2) an RCA Spectra 70/45 in the Department of Public Health and another in the Department of Mental Hygiene.

We are certain that this recommendation will produce savings in

computer costs, a reduction in EDP management and operations personnel, greatly improved capability for the participating departments and an economy of scale resulting from the use of a single large computer over the numerous small and medium-scale machines now installed in the agency.

Our preliminary assessment indicates that with the work of these three machines added to the HRD computer, approximately one-half the maximum capacity of the equipment would still be available for other uses. The issue of computing capability required to support the Department of Social Welfare's proposed expanded data reporting system must also be approached from an agency perspective because of the substantial capacity which will be available in HRD and the Department of Health Care Services and the potential duplication of both data processing and communication facilities.

Given the above, we recommend that the Department of Finance in cooperation with the Human Relations Agency and the Department of Human Relations Development, Public Health, Mental Hygiene and Social Welfare take the necessary steps to establish a centralized agency EDP facility in HRD thereby releasing three independent electronic computers now operated by the individual departments.

EDP CONTROL AND DEVELOPMENT UNIT

The Department of Finance assumed responsibility for statewide control and coordination of EDP on July 1, 1971. After establishment of the EDP Control and Development Unit (EDPCDU) comprised of personnel transferred by the Budget Act of 1971 from OMS to Finance, two high-level positions were established: (1) a Chief of EDP-CDU (a civil service position) with a salary range of \$1,708-\$2,076, and (2) a State Data Processing Officer statutorily provided under Chapter 1237 with a salary range of \$1,882-\$2,288. Appointments have been made to these positions (the latter by contract until the effective date of the legislation), and the Department of Finance is now discharging its new responsibilities. Authorized positions for this unit total 15 and the expenditure level for fiscal year 1972-73 has been budgeted at \$361,896.

Under the provisions of Section 4 of the Budget Act, the Director of Finance must now certify that all EDP expenditures (excepting the University, State Compensation Insurance Fund and Legislature) over \$10,000 from any source for expansion, improvement or addition to any electronic data processing activities meet certain criteria which have been specified by the Legislature. These criteria include consolidation and optimum utilization (defined as 24 hour-7 day operation) of EDP equipment, maximum practical integration of EDP systems, the establishment of service centers, adherence to standards, the establishment of proper management controls, and the creation of functional information systems. It should be noted also that Section 4 of the

ELECTRONIC DATA PROCESSING

STATEWIDE ELECTRONIC DATA PROCESSING—Continued

Budget Act requires that these criteria be applied to all expenditures budgeted for fiscal year 1972-73 as well as to funds allotted for expenditure in this fiscal year.

We understand that there are certain problems associated with the provisions of Section 4 of the Budget Act such as excessive paper work for both departments and the control agency, double justification of projects and funding, and delays in acquiring needed personnel or equipment. Although we continue to support the requirement for this provision, it is possible that the provisions of Section 4 and the criteria should be reevaluated before the adoption of the Budget Bill. Similarly, the supplementary program and budgeting information for EDP prepared by each department and submitted to Finance and the Legislative Analyst apparently presents some problems regarding preparation time, validity of data, etc. In fact this year the information has not been submitted to our office in time for us to include our charts on statewide EDP costs in the *Analysis*. (These will be published as supplementary material for the fiscal committees.)

In order to resolve each of the above problems, *we recommend that the Department of Finance and the Legislative Analyst present to the fiscal committees by April 1, 1972, recommendations for any revisions to both Section 4 of the Budget Bill of 1972 and related criteria together with findings relative to submission of supplemental budgetary information for electronic data processing.*

Monthly EDP Reports Required

Upon request we have reported monthly to the Assembly Committee on Efficiency and Cost Control and the joint Legislative Budget Committee during this fiscal year (beginning September 1, 1971) on the status of state EDP with particular emphasis upon the Department of Finance control activities.

We requested the Department of Finance to inform our office on a monthly basis of its major EDP activities and accomplishments. Early in the fiscal year the department indicated that it intended to be action oriented in this field, and to date there are positive indications that the provisions of Section 4 and legislative criteria are being enforced to the extent possible considering the diffusion of authority within the executive branch. The monthly reports will continue throughout the fiscal year and they can be made available to the fiscal committees if additional information is required.

Specific Unit Activities

The specific activities of the EDP Control and Development Unit include the following:

1. Certification of EDP expenditure as required by Section 4 of the Budget Act of 1971;
2. A review and approval of all expenditures budgeted for fiscal

year 1972-73 under Section 4;

3. The continuation on a limited basis of an EDP installation evaluation program which was established by the Legislature;
4. A review of requests for new computer equipment in the Departments of Social Welfare, Health Care Services, Human Resources Development and Justice;
5. Coordination of efforts by state agencies to determine the level of support which can be expected from the Radio Corporation of America following RCA's announcement of withdrawal from the general computer business: (It should be noted in this regard that the Univac Division of Sperry Rand Corporation has assumed responsibility for RCA's existing general purpose computers including the 16 RCA computers installed in state agencies.)
6. The requirement that computer utilization reports be filed on all installed computers starting in January 1972 as part of an initial effort to improve utilization of the state's computers.

We understand that the EDP Control and Development Unit will be developing specific plans and policies to improve utilization of computer technology within California state government. However, any formal release of such plans will probably not come until later in the current year. As we indicate below, if the administration and the Legislature cannot agree on a plan to implement existing or revised EDP policies and develop an organizational structure for the management on a statewide basis of EDP resources, the Department of Finance will be faced with continued resistance, and confrontations in its efforts to carry out the responsibilities assigned to it by the Legislature.

CALIFORNIA INFORMATION SYSTEMS IMPLEMENTATION COMMITTEE

Under the provisions of Chapter 1237, the California Information Systems Implementation Committee is established with membership of the chairmen of the Joint Legislative Budget Committee, Assembly Committee on Efficiency and Cost Control, Joint Legislative Audit Committee and the Directors of Finance and General Services and the Governor or his designee as members.

Committee Responsibilities

Chapter 1237 gives the committee numerous specific responsibilities which will serve to answer the following questions:

1. Are existing state policies and plans relative to EDP adequate?
2. Can a program be developed to encourage, accommodate and accomplish the utilization of appropriate electronic data processing technology in meeting the state's information requirements?
3. How should the state be organized to best utilize and manage its electronic data processing resources?
4. Once the above are determined, what are the required steps to implement the committee's recommendations?

STATEWIDE ELECTRONIC DATA PROCESSING—Continued

Although this committee expires on June 30, 1972, we believe it is possible with coordinated effort to accomplish the goals established by Chapter 1237.

The State of Illinois is perhaps the best example of the accomplishments which can be achieved when the Governor and Legislature unite behind a plan to apply modern computer technology to the state's information handling problems. In this instance, *IMPACT 70 (Illinois Master Plan Applying Computer Technology in the 1970's)* was developed and implemented in a spirit of cooperation that reduced the kind of continuing antagonism and confrontation that have hindered efforts to consolidate and control computer resources in California.

The Illinois plan will reduce the number of computers from 35 in state government (exclusive of higher education) to three large-scale data centers, each operating a duplexed system or a total of six installed computers. EDP costs without the planned consolidation were expected to grow from a total of \$50 million a year to \$95 million by 1975-76. Costs to operate the three consolidated data centers is expected to total \$47,520,000 in 1975-76. Therefore, the potential savings over a five-year period with the consolidated approach will total in excess of \$100 million.

EDP Organizational Structure

We believe that specific state policies to provide for consolidation of EDP resources and the development of an integrated (data base) approach to information systems coupled with an organizational structure to effectively manage and operate data processing on a statewide basis become the two central issues for this committee to deal with.

If these issues are successfully resolved, it will be possible for the state to: (1) take advantage of the economies of scale inherent in large computing facilities; (2) utilize and train its scarce technical personnel resources in an efficient and effective manner; (3) develop for access by both the executive and legislative branches the data bases required for management decision making; (4) maintain data communication networks without duplication of facilities; (5) deploy on an orderly basis small-scale "mini computers" and remote job entry devices for EDP users who have a demonstrated requirement for this kind of equipment; and (6) reverse the trend which has seen EDP costs rise rapidly while producing in many instances only marginal benefits to users.

The following are what appear to be the alternative organizational structures available to the state for managing and operating electronic data processing:

1. A Department of Data Processing Services which would centralize all EDP planning, management of facilities, equipment, technical consulting services and software development within one

department of state government. This concept has been recommended in our *Analysis of the Budget Bill* for fiscal year 1970-71 and 1971-72 and was embodied in SB 338, 1971 Session.

2. An agency approach which would establish four data-processing organizations serving the member departments.
3. A modified agency approach which would designate certain departments within state agencies as service centers for all other departments. The current environment embodies this approach except that there has been little effort to consolidate to some logical number of state EDP facilities (ranging from 6 to 10 for example).
4. Consolidation along strictly functional lines. This would result in such centers as law enforcement, fiscal and personnel, health and welfare, engineering, scientific and natural resources, etc.

None of the above alternatives except No. 1 approaches EDP with a statewide perspective regarding deployment of equipment, utilization and training of personnel, common data communications network, compatible programming languages and software development and the standardization of data elements and codes. However, any of the other alternatives could bring about the desired objectives with a strong central coordination and control group and a limited number of large EDP service facilities.

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

Item 62 from the General

Fund

Budget p. 37 Program p. 135

Requested 1972-73.....	\$54,692
Estimated 1971-72	50,564
Actual 1970-71	51,419
Requested increase \$4,128 (8.2 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Identification of Personnel. Recommend any future temporary assignment of personnel be clearly identified in the budgets of both the lending and the receiving agency.

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The commission has obtained staff support for several recent major studies by temporary assignment of personnel from other agencies. Cost of these services has not been charged to the commission nor has the budget

GOVERNMENT ORGANIZATION AND ECONOMY—Continued

made any provision for such costs.

GENERAL PROGRAM STATEMENT

The Commission on California State Government Organization and Economy was created by the 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. The membership of the commission is composed of five citizens appointed by the Governor, four citizens appointed by the Legislature, and two legislative members from each house, with no more than 7 of the 13 members from one political party. Commission members are reimbursed for necessary expenses incurred in the performance of their duties, but receive no salary.

The permanent staff of the commission consists of an executive secretary and a senior stenographer. Additional staff support for the conduct of studies and investigations is obtained on an as-needed basis from other agencies or by contract with outside consultants. Consulting fees have been held to minimal amounts during the last three years by extensive use of personnel from other agencies temporarily assigned to the commission. With one exception, however, the salaries, staff benefits and other expenses of these personnel have not been charged to the commission's operations. *In order to obtain accurate and complete program costs in accordance with the objectives of the Programming and Budgeting System, we recommend that inter-departmental transfers of positions be clearly identified in the budgets of both the lending and the receiving agency.*

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During 1971 the commission completed a study of the operation of district and county fairs, all of which receive state support from horseracing revenues. Included in the commission's report was a recommendation that an attempt be made to put these fairs on a more self-sustaining basis. The Department of Agriculture, with the assistance of the Department of General Services, is following up on this recommendation by investigating potential revenue-producing uses of land now held exclusively for fair and exhibition purposes. Another major project nearing completion is an evaluation of property management practices of the Division of Highways. The preliminary findings of this study indicate that substantial state holdings of real property do not appear on the division's inventory records. In 1972 the commission will conclude this study and make specific recommendations for improvements in property management procedures and disposition of surplus holdings.

Also scheduled for completion in 1972 is a study of the exempt salary

structure for state employees and a survey of the operations of all state boards and commissions.

COMMISSION ON INTERSTATE COOPERATION

Item 63 from the General

Fund

Budget p. 37 Program p. 136

Requested 1972-73.....	\$110,730
Estimated 1971-72	110,730
Actual 1970-71	94,887
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The objective of the Commission on Interstate Cooperation 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 approval.

The proposed appropriation of \$110,730, which is the same level as in the current year, represents California's contribution for the support of the Council of State Governments. The contributions from the various states consist of a flat contribution of \$7,000 plus an additional amount based on a population formula.

The council's proposed budget for fiscal year 1972-73 is \$1,709,700, which is an increase of \$125,750 over the current budget of \$1,583,950. Of the council's total revenues \$1,587,500 will be provided by contributions from the 50 states. The balance will be generated from the sale of council publications, interest income and reimbursements. Such revenues are expected to total \$227,500 in the budget year.

The Council of State Governments reports that in fiscal year 1970-71 it published 40 major reports and, as in the past, provided staff support for the annual conferences of its nine affiliated organizations which

COMMISSION ON INTERSTATE COOPERATION—Continued

include the states' Chief Justices, court administrative officers, Attorneys General, budget officials, the Governors' conference and others.

MILITARY DEPARTMENT

Item 64 from the General

Fund

Budget p. 38 Program p. 137

Requested 1972-73	\$4,364,564
Estimated 1971-72	4,112,938
Actual 1970-71	3,960,638
Requested increase \$251,626 (6.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The purpose of the Military Department is to provide an effective military organization for deployment within the State of California, with the capability to: (1) protect the lives and property of the people in California during periods of natural disaster and civil disturbances, (2) perform other functions required by the California Military and Veterans Code or as directed by the Governor, and (3) provide military units ready for federal mobilization.

The Military Department consists of three major units: the Army National Guard, Air National Guard, and administration (office of the commanding general, state military forces). The total proposed budget for the Military Department is in excess of \$72 million. Of this amount, approximately 93 percent is federally funded with the remaining 7 percent from the General Fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Army National Guard

The troop strength of the Army National Guard is determined by the Department of Army to meet the current contingency plans of the United States as developed by the joint chiefs of staff with concurrence of the Governor. The Army National Guard consists of approximately 22,500 officers and men in 181 functional units which are at approximately 93 percent of authorized wartime strength.

The department requests \$3,009,267 for state support of this program. This represents an increase of \$203,442 (7.7 percent) over the \$2,805,825 estimated for the current year. The army section operates 108 armory facilities throughout the state. The age of these facilities coupled with increasing utility costs accounts for nearly all the requested increase. The department anticipates its personnel level for

the budget year to remain the same as the current year.

Air National Guard

The Air National Guard as an integral part of the state's military force consists of air force type units allocated to the state by the Department of the Air Force with concurrence of the Governor. The current staffing of officers and men is limited to 5,000, representing 88 percent of the authorized 5,648. There are 57 units at four flying bases and three nonflying installations throughout the state.

The department requests \$437,910 for this program representing an increase of \$18,410 (4.2 percent) over the \$419,500 estimated for the current year. This increase is due to increased facility operating costs similar to those described above for the Army National Guard armories. Also, the department has assumed maintenance and operational cost of a facility in Fresno, 80 percent of which is reimbursed from federal funds. The new facility is required to house, store and check out the new air-to-air missile now required for the F-102 aircraft. The site was previously occupied by the Aerospace Defense Command and consists of missile storage and check out buildings, pilot and maintenance alert shelters and alert aircraft revetments.

Office of the Commanding General

The office of the commanding general is composed of state active duty personnel and state and federal civil service personnel responsible for the management and administration of the Military Department. The department is requesting \$917,387 for support of this program. This represents an increase of \$28,274 (3.2 percent) which is attributable mostly to merit salary adjustments.

Under this element, the department administers the California Specialized Training Institute located at Camp San Luis Obispo and completely funded by federal funds. This school began in September of 1971 and is related to the federal Omnibus Crime and Safe Street Act of 1968. The department has a three-year grant to operate the school for members of law enforcement, government officials, school administrators, fire services, public utilities and the military. Twenty-four, five-day courses with 47 participants per course will be offered each year. There have been 482 participants in the course to date. The main objective is to teach the participants: (1) what can be done to prevent riots, (2) what can be done and what aids are available if a riot is anticipated, and (3) how to control a riot. The program has been well received by past participants and the department anticipates future participation of between 1,200 to 1,300 persons per year.

Minor Capital Outlay

The department is requesting \$57,900 for minor capital outlay construction in the budget year. This request is for 10 projects at 10 armories throughout the state. The projects are as listed below. *We recommend approval of all projects.*

MILITARY DEPARTMENT

Item 65

MILITARY DEPARTMENT—Continued

(a) Torrance—Construct retaining wall	\$12,000
(b) Los Angeles—Bridewell Armory, construct retaining wall	\$10,000
(c) Repair roofs at eight armories	\$35,900

Military Department
MILITARY RETIREMENT

Item 65 from the General

Fund

Budget p. 38 Program p. 143

Requested 1972-73	\$448,506
Estimated 1971-72	387,183
Actual 1970-71	289,171
Requested increase \$61,323 (15.3 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. Chapter 2174, Statutes of 1961, provided that commencing October 1, 1961, military personnel ordered to active duty after October 1, 1961, would become members of the Public Employees' Retirement System and military personnel activated prior to that date would have the option of joining the state retirement system or remaining under the Military Retirement System.

There are now 32 people retired under this program and still living. They account for the current year's cost. Twelve additional eligible people are expected to retire during the budget year. They account for the added cost. Thereafter, only 13 additional people will remain eligible for this program.

**Military Department
CALIFORNIA CADET CORPS**

Item 66 from the General

Fund

Budget p. 38 Program p. 143

Requested 1972-73.....	\$100,653
Estimated 1971-72	97,871
Actual 1970-71	94,720
Requested increase \$2,782 (2.8 percent)	
Total recommended reduction	\$100,653

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *Delete Program. Reduce \$100,653.* Recommend deletion of state support for California Cadet Corps. 173

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of the program.

The California Cadet Corps is authorized by Sections 500-530 of the California Military and Veterans Code. Section 500.1 mandates that "... each college, community college, high school and senior high school in this state having 100 or more male students of 14 years of age or older and in which there is not maintained an ROTC unit shall establish a cadet company . . ." The section provides that a cadet company is not required unless a number of qualified male students sufficient to constitute a company voluntarily enroll. Schools with less than 100 male students may establish a cadet company. Participation in the Cadet Corps has been relatively constant with only a slight decline of 8 percent from 4,200 at 84 schools in 1968 to 3,823 at 71 schools in 1971. Actually, of the current enrollment, 50 percent of the cadets are located at 22 schools in six cities throughout the state.

The Cadet Corps goals are to provide an educational program to develop qualities of leadership, citizenship and community service. These are worthy goals and there may be a capacity within the Cadet Corps program to achieve them in some measure. However, there is a wide spectrum of programs offered by the various school districts which strive to attain these same goals. The decision to offer these programs is based on the merit of each as ascertained by the individual district and the program is sustained at the district level. Such programs are successful at the district level, and in our opinion the California Cadet Corps, if desired, should be established and sustained by the district in the same manner. We should also point out that although the federal government funds approximately 93 percent of the Military Department expenses, there is no federal support for the California Cadet Corps.

CALIFORNIA CADET CORPS—Continued

PUBLIC UTILITIES COMMISSION

Items 67 and 68 from the

General Fund and the

Transportation Rate Fund

Budget p. 40 Program p. 147

Requested 1972-73	\$12,860,187
Estimated 1971-72	12,408,963
Actual 1970-71	12,280,430
Requested increase \$451,224 (3.6 percent)	
Total recommended augmentation (General Fund)	\$80,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Recommend addition of five financial examiners and one clerical position to conduct field audits of utilities' financial records an added General Fund cost including travel of approximately \$80,000 annually. 178

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.

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. Approximately 63 percent of the commission's staffing and expenditures are allocated to regulation of transportation, while the remaining 37 percent relate to regulation of utilities.

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 reve-

PUBLIC UTILITIES COMMISSION—Continued

nues are derived from a miscellany of penalties, application fees for permits and certificates, and from the sale of documents.

ANALYSIS AND RECOMMENDATIONS

The commission's total request for the budget year is \$12,860,187, which represents an increase of \$451,224 or 3.6 percent over estimated current-year expenditures of \$12,408,963. The budget indicates proposed expenditures of \$6,815,963, or 53 percent of the total, to be paid from the General Fund with the remaining \$6,044,224, or 47 percent, to be paid from the Transportation Rate Fund. This is an increase of 4.9 percent over the current-year General Fund appropriation and an increase of 2.3 percent over the current-year Rate Fund appropriation.

Table 1 shows the level of financial and personnel support of commission activities over a nine-year period and the number of positions assigned to utility and transportation regulation over the five-year period for which such data have been maintained.

Table 1
Funding and Personnel Growth
Public Utilities Commission

Year	General Fund appropriation	Total budget ¹	Total ² personnel	Regu- lation ² of utilities	Regu- lation ² of trans- portation
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	6,585,591	12,280,430	753	235	417
1971-72 (est.)	6,500,000	12,408,963	756	240	419
1972-73 (proposed)	6,815,963	12,860,187	763	246	421

¹ Includes General Fund and Transportation Rate Fund expenditures.

² Actual positions filled in man-years.

Proposed New Positions

The commission is requesting a total of 7.5 new positions for the budget year consisting of (1) three utilities engineers, one financial examiner, and a half-time clerical position to implement Chapter 1109, Statutes of 1970, which provides for commission regulation of sewer system corporations, (2) one utilities engineer (erroneously identified as an examiner position in the Governor's Budget) for regulation of gas pipeline safety, financed by federal funds under the Federal Natural Gas Pipeline Safety Act of 1968, and (3) two clerical positions to handle increased workload relating to the issuance of annual truck cab stamps and registration of interstate motorcarriers as required by Chapter 1279, Statutes of 1969.

Commission's Staff Reduced in Current Year

The Governor's 1971-72 Budget reduced the commission's staff from 801.5 to 775.5 authorized positions by deleting 26 positions whose duties related to the regulation of utilities. In our *Analysis* of that budget, we noted the large number of requests being filed by major utilities for rate increases and stated that "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."

The Legislature concurred with our evaluation and authorized 34 new positions for utility regulation which were subsequently deleted by the Governor.

The number of requests by utilities for rate increases is projected to remain at a high level in the budget year as indicated in Table 2. Some utilities, in fact, have filed for rate "adjustments" immediately after receiving a rate increase from the commission.

Announcement by the President on August 14, 1971, of a national "wage-price freeze" resulted in a 90-day moratorium on the granting of rate increases by the commission. Upon termination of phase I of the President's price stabilization program on November 14, 1971, the commission resumed issuing rate adjustment orders. Such adjustments, however, must be consistent with guidelines developed by the Federal Price Commission and are subject to review by that body. In brief, the federal guidelines permit rate adjustments to cover wage and salary increases of up to 5.5 percent annually and price increases of up to 2.5 percent annually, provided that the utility's rate of return on investment is not increased.

Table 2 shows basic indicators of commission workload, staffing, and expenditures pertaining to regulation of the rates charged by utilities.

Table 2
Regulation of Utility Rates Workload, Staffing, and Cost Data

	<i>Actual</i> 1968-69	<i>Actual</i> 1969-70	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Estimated</i> 1972-73	<i>Percent</i> <i>change</i> <i>since</i> 1968-69
Utility charges (billions)	\$4.30	\$4.53	\$5.14	\$5.50	\$5.88	37
Rate decisions	72	121	80	90	100	39
Commission resolutions	316	300	380	400	420	33
Advice letters	1,041	1,050	1,320	1,350	1,380	33
Public inquiries	8,292	8,850	9,590	9,900	10,200	23
Informal complaints	2,244	2,340	2,500	2,700	2,900	29
Expenditures (millions)	\$3.27	\$3.24	\$3.44	\$3.24	\$3.45	5.5
Personnel man-years	191	177	175	171	177	-7.9

PUBLIC UTILITIES COMMISSION—Continued**More Staff Needed to Conduct Field Audits of Utility Records**

We recommend addition of six positions—one financial examiner IV, four financial examiner II's, and one clerk-typist at a total annual cost of \$80,000 including travel expenses—to increase the level of audits of the financial records of regulated utilities to insure that these records are maintained in accordance with the policies and procedures required by the commission.

Utilities' accounting records constitute the principal data upon which the commission relies in performing its regulatory functions of approving rate schedules, mergers, consolidations, and security issues. Such records indicate whether a company is financially able to provide adequate service to the public, and serve as a primary source of information for investors. They also are used as indicators by the State Board of Equalization in determining assessed valuations of utilities for property tax purposes.

The commission conducts two types of field audits of utility records: (1) rate-case audits, which ideally are performed in conjunction with reviewing utility requests for rate increases, and (2) compliance audits, which are conducted on a routine, on-going basis. Both types of audits are important, the former to determine if the utility's stated financial records justify the requested rate increase, and the latter to prevent deterioration in the quality of utility records and insure their accuracy for tax valuation purposes. Failure to make routine compliance audits may increase the commission's workload when a utility files for a rate increase because of the greater difficulty of rectifying record deficiencies or errors that may have accumulated over a period of months or years.

Compliance audits of nontransportation utilities have been curtailed for the past three years because of the high level of filings for rate increases which has required the full attention of all ten of the financial examiners in the Utility Branch who regularly are assigned to field audits. Even so, we are advised by the commission's staff that rate increases were granted to several major utilities last year on the basis of financial statements which, because of staff limitations, have not been verified by field audits. In 1971, the Finance and Accounts Division participated in 20 of the approximately 30 rate cases involving major or medium-sized utilities. Failure to participate in the other 10, by means of field audits and rate of return comparisons, resulted in part from the deletion of three financial examiner positions by the Governor last year. Therefore, we recommend the addition of a financial examiner II position to conduct field audits in conjunction with rate increase cases.

The commission's goal is to conduct either a compliance or a rate case audit of each of the approximately 625 gas, electric, water, telephone, and radiotelephone utilities under its jurisdiction at least once

every five years. This standard, however, is not being met, as only ten to twelve of these 625 nontransportation utilities received compliance audits in 1971. Therefore, we recommend addition of four financial examiner positions and a clerk-typist for this function, which should permit the PUC to conduct an estimated 120 to 160 additional compliance audits per year based on an average annual examiner workload of 30 to 40 audits.

COMMISSION ON THE STATUS OF WOMEN

Item 69 from the General

Fund

Budget p. 41 Program p. 153

Requested 1972-73.....	\$49,500
Estimated 1971-72	45,500
Actual 1970-71	43,531
Requested increase \$4,000 (8.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Advisory Commission on the Status of Women was originally established by Chapter 1378, Statutes of 1965, and was to terminate on June 30, 1967. However, the existence of the commission has been extended by subsequent legislation enacted in 1967 (Chapter 854), 1969 (Chapter 721) and 1971 (Chapter 541). The most recent legislation deleted the word "advisory" from the commission's title, continued the commission without a termination date and broadened its functions. The law requires that the commission report to the Legislature "from time to time, but not less often than every odd-numbered year."

The commission is a 17-member body consisting of the Superintendent of Public Instruction, the Chief of the Division of Industrial Welfare, one public member and three Assemblymen appointed by the Speaker of the Assembly, one public member and three Senators appointed by the Senate Committee on Rules, and seven public members appointed by the Governor. Authorized staff consists of 2.5 positions, including an executive secretary, a stenographer and temporary help.

The commission is directed by statute to study:

- (1) Women's educational and employment problems, needs, and opportunities.
- (2) State laws in regard to the civil and political rights of women.
- (3) The effect of social attitudes and pressures and economic considerations in shaping the roles to be assumed by women in society.
- (4) Any laws, practices, or conditions concerning or affecting women which impose special limitations or burdens upon them or

COMMISSION ON THE STATUS OF WOMEN—Continued

upon society, or which limit or tend to limit opportunities available to women.

The commission also acts as an information center, project coordinator and adviser to organizations concerned with women's needs and problems. The 1969 legislation mentioned above authorized the commission to encourage women's organizations and other groups to promote implementation of its recommendations and gather information concerning women's educational, employment and related needs at the local level. The commission advises that approximately 30 of these "local coalitions" are active at the present time.

The commission studied and made recommendations on the following general subjects in its 1971 report: child care services, vocational instruction for girls, textbook treatment of accomplishments achieved by women, participation of women in the educational system, promotion of opportunities for women in the medical field, and counseling and referral needs of adults and protective labor laws.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget request of \$49,500 is \$4,000 or 8.7 percent above estimated current-year expenditures of \$45,000. The increase reflects higher rental and travel costs necessary to maintain the current level of service.

CALIFORNIA ARTS COMMISSION

Item 70 from the General

Fund

Budget p. 42 Program p. 154

Requested 1972-73.....	\$200,030
Estimated 1971-72	168,000
Actual 1970-71	167,791
Requested increase \$32,030 (19.1 percent)	
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 20 positions have assisted communities in establishing 163 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 (1) "Directed by John Ford," a film which portrays the development of U.S. history and filmmaking through excerpts from 27 of Ford's films and interviews with the actors appearing in them most frequently—John Wayne, Henry Fonda, and James Stewart; (2) the California Dance Project, which includes a statewide listing of dance performance facilities at colleges, universities, civic centers and commercial theaters, a list of all dance companies which tour California, and other information aimed at promoting and assisting dance groups in California; and (3) Music for Youth, which consists of music presentations for elementary school children, seminars for orchestra students, orchestral tours, and opportunities for noted professional artists to teach and assess the talent of students.

CALIFORNIA ARTS COMMISSION—Continued

The commission's program also includes 18 other projects which relate to film, educational television, local arts councils, dance, opera, symphony orchestras, youth music groups, publications, and various touring exhibitions of paintings and sculpture.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The commission proposes General Fund expenditures of \$200,030 in the budget year, which is \$32,030 or 19.1 percent over the current-year level. However, the commission anticipates a total budget-year expenditure program of \$705,030, which includes \$380,000 in private donations of money and services which are accounted for through the California Arts Commission Fund and federal grants totaling \$125,000. To date, the California Arts Commission Fund has received approximately \$40,000 in cash contributions for current-year projects, and the commission estimates that several times that amount has been contributed directly to commission projects in the form of donated services and facilities. No new positions are requested.

Approximately \$25,000 of the requested increase would be used to secure an additional \$25,000 in federal funds which the commission anticipates will be available on a matching basis in the budget year but which is not reflected in the budget document. The commission states that approximately \$175,000 to \$260,000 in federal funds may be received in the current year rather than the \$125,000 reported in the budget, and that approximately \$125,000 in additional federal assistance to fund a variety of projects may be anticipated in the budget year if additional matching funds are available from private sources.

HORSE RACING BOARDItem 71 from the Fair and
Exposition Fund

Budget p. 42 Program p. 155

Requested 1972-73	\$374,487
Estimated 1971-72	355,465
Actual 1970-71	346,922
Requested increase \$19,022 (5.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Board's Augmentation Request. Legislation enacted in 1971 authorized 18 additional weeks of racing per year beginning in 1972. The 1972-73 proposed budget does not provide for the additional staffing which the Horse Racing Board believes will be required to service the increased licensing and enforcement workload. It is the board's intention to request a budget augmentation for this purpose at such time as additional weeks of racing are actually scheduled. 184
2. Renewal of Licenses. Recommend legislation to eliminate mandatory annual renewal of all horseracing occupational licenses and allow the board to establish more flexible licensing period. Change would permit board to minimize future staff increases necessary to handle additional workload. 185

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.

HORSE RACING BOARD—Continued**Number of Racing Weeks Increased for 1972**

State law limits the number of weeks of horseracing each year in California. Under previous law, the state was divided into two racing zones, with a total of 122 weeks of racing (exclusive of state and county fair racing) allocated between the zones. AB 205 (Chapter 1759, Statutes of 1971) added a third zone and authorized an additional 18 weeks of racing per year beginning in 1972. It is anticipated that one new quarter horse meet and one new harness racing meet will be scheduled each year under the new law. These new meets will generate an increase in the licensing and enforcement workload which the board believes will require additional staff. No provision is made in the budget for this increase and the board plans to request budget augmentation when the new meets are approved and placed on the schedule.

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. Licensing offices are in operation at each racetrack during the time a meet is in progress. All licenses are valid for a period of one year only.

Table 1 shows the number of occupational licenses issued, the amount of fees collected, and the number of licensing personnel. The estimated number of licenses to be issued during 1972-73 does not include the increase in the number of licensees which may be required in connection with the additional racing weeks.

Table 1
Number and Revenues from Horseracing Occupational Licenses

<i>Occupational Licenses</i>	<i>Actual 1969-70</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Estimated 1972-73</i>
Number issued	14,144	15,421	16,808	17,648
Fees collected	\$211,203	\$266,895	\$290,000	\$305,000
Board's licensing personnel	7.1	6.4	7.2	7.2

Annual Licenses

We again recommend legislation to delete the requirement that all occupational licenses be renewed annually. Alternatively, the Horse Racing Board might be empowered to determine the period for which each license shall be valid.

In our 1971-72 Budget Analysis, we recommended legislation be enacted to (a) eliminate the mandatory annual renewal of all horseracing occupational licenses, and (b) give the Horse Racing Board authority to establish a more flexible licensing period. During the 1971 legislative session, AB 1812 was introduced to implement this recommendation but failed of passage.

Future staff increases could be minimized by allowing flexibility in the issuing of occupational licenses. There are certain groups associated with horseracing, such as owners, trainers, jockeys, etc., which have a low turnover. It appears to be unnecessary to require annual licenses for individuals in those groups, which constitute about half of the total licensees. The board should be given the discretion to issue multiyear 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.

Financial Impact of Chapter 1759

The major source of state revenue from horseracing is the license fees paid by the racing associations. These fees 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 meet. Prior to enactment of Chapter 1759, 15¼ percent of the handle, plus "breakage," was divided between the racing associations, horse owners, and the state. The balance was returned to winning ticket holders. Under Chapter 1759, the take out, or amount extracted from the handle, is increased to 15¾ percent, with the additional ½ percent distributed to the racing associations and horsemen. The state license fee percentage remains the same.

HORSE RACING BOARD—Continued

The distribution of "breakage," which is the aggregate amount resulting from the deduction of odd cents on payments to winning ticket holders, is also affected by the new law. When the total handle exceeds \$125 million the state receives one-half of the breakage on the first \$24 million wagered at a meet, plus all of the breakage on the handle in excess of \$24 million. For all meets at which the total handle is less than \$125 million, the state receives breakage only on the handle in excess of \$50 million. The tracks and the horsemen share the remaining portions of the breakage. This \$50 million exemption was scheduled to become inoperative on December 31, 1972, but under Chapter 1759 it is retained, resulting in a loss of revenue to the state in the second half of 1972-73 and in all subsequent years.

Table 2 displays the Department of Finance's estimates of the overall impact of Chapter 1759 on revenues to the state, racing associations, and horse owners for the 1972-73 fiscal year. The total handle is forecast to increase by \$31.7 million as a result of the additional racing days. The \$1.7 million increase in license fees to the state will be largely offset by a \$1.1 million loss in revenue from breakage. Total revenues to the racing associations and horse owners will increase \$4.8 million and \$4.4 million respectively. Increases in commissions and purses will be generated by the additional racing days, as well as the ½-percent boost in the takeout.

Table 2
Total Revenue Effect of Chapter 1759
On State, Racing Associations, and Horseowners

	<i>1972-73 estimates in thousands</i>		
	<i>Without Chapter 1759</i>	<i>With Chapter 1759</i>	<i>Difference</i>
Total parimutuel handle.....	\$949,822	\$981,564	+ \$31,742
State revenues			
License fees.....	64,011	65,712	+ 1,701
Breakage.....	6,284	5,202	- 1,082*
Total.....	\$70,295	\$70,914	+ \$619
Racing Association revenues			
Commissions	\$44,869	\$49,391	+ \$4,522
Breakage.....	1,837	2,114	+ 277
Total.....	\$46,706	\$51,505	+ \$4,799
Horseowners' revenues			
Purses	\$34,542	\$37,763	+ \$3,221
Breakage.....	2,451	3,671	+ 1,220
Stallion awards	1,425	1,394	- 31
Total.....	\$38,418	\$42,828	+ \$4,410
Payments to holders of winning tickets.....	\$794,403	\$816,317	+ \$21,914

*Represents only one-half-year impact.

ENFORCEMENT

Supervision of racing activities and of all individuals within the racetrack 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.

Table 3 shows the number of racing days and number of disciplinary hearings, which are indicative of the enforcement workload. The data in this table do not reflect the increase from the expanded racing schedule authorized by Chapter 1759.

Table 3
Number of Horseracing Days, Disciplinary Hearings,
and Horse Racing Board Enforcement Personnel

	<i>Actual</i> <i>1969-70</i>	<i>Actual</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>	<i>Estimated</i> <i>1972-73</i>
Number of racing days	669	740	781	775
Number of disciplinary hearings by board	71	146	160	168
Number of enforcement personnel	8.3	8.7	9	9

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 22 race meetings. Seven man years are allocated to this program element at a cost of \$111,000 for the 1972-73 budget year.

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

Item 72 from the Special Pilot
Commissioner's Fund

Budget p. 43 Program p. 158

Requested 1972-73.....	\$37,030
Estimated 1971-72	37,646
Actual 1970-71	52,719
Requested decrease \$616 (1.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The board is responsible 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 (since 1850) by the State of California. The law limits the maximum number of licensees to 30 and the minimum is set at 24. Presently, 25 pilots are licensed by the board.

The board administers a single program 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.

The Governor's Reorganization Plan No. 1 of 1969 abolished the functions of the board effective January 1, 1971, but the board was reestablished by Chapter 1302, Statutes of 1970, effective that same date.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During fiscal year 1972-73, the board proposes to expend \$37,030, which is \$616 or 1.5 percent less than estimated expenditures for the current year. This decrease reflects a reduction in such costs as general office operating expenses, printing and form purchases.

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. At the end of the budget year, the fund will have an estimated surplus of \$3,671. 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.

HEALTH BENEFITS FOR ANNUITANTS

Item 73 from the General
Fund

Budget p. 44 Program p. 159

Requested 1972-73.....	\$4,503,764
Estimated 1971-72	3,331,983
Actual 1970-71	2,292,541
Requested increase \$1,171,781 (35.2 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 \$14 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 1972-73 is \$14 per month, or the total amount of the premium should it be less than \$14. Under Chapter 212, Statutes of 1970, this monthly contribution will increase two dollars per annuitant in each 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 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.

HEALTH BENEFITS FOR ANNUITANTS—Continued**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The \$4,503,764 requested for the budget year is to provide payment for part or all (depending on the plan) of the health plan premiums for an estimated 26,095 annuitants of the state's retirement systems. In the current year, an estimated 22,481 annuitants will be covered by this program.

We note that 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, \$101,040 and \$539,191 were required in fiscal years 1968-69, 1969-70, and 1970-71, respectively, and an estimated allocation of \$133,879 will be needed from the Emergency Fund in the current year. Most of the emergency allocation in the current year is attributable to an underestimate of the number of retirements that would occur in 1971. The unanticipated increase resulted from an improvement (effective July 1, 1971) in the retirement formula for state "miscellaneous" employees. The funding deficit in 1970-71 resulted from the increased premium contribution provided by Chapter 212, Statutes of 1970.

This program is similar to one covering active employees as described on analysis page 345. 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.

REFUNDS OF TAXES, LICENSES, AND OTHER FEES

Item 74 from the General

Fund

Budget p. 45 Program p. 160

Requested 1972-73.....	\$30,000
Estimated 1971-72.....	30,000
Actual 1970-71.....	13,159
Requested increase—None	
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 feeder funds prior to deposit in the General Fund.

SENIOR CITIZEN'S PROPERTY TAX ASSISTANCE

Item 75 from the General

Fund

Budget p. L-10 Program p. 163

Requested 1972-73.....	\$9,200,000
Estimated 1971-72.....	8,800,000
Actual 1970-71.....	8,575,972
Requested increase \$400,000 (4.3 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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- | | |
|---|-----|
| 1. Supplementary Budget. Recommendation withheld on this item pending submission of a supplementary budget proposal which will raise the total cost to about \$56 million in 1972-73. | 192 |
| 2. Level of Assistance. AB 1 of the 1971 First Extraordinary Session substantially increased the state cost and coverage of this program. | 192 |
| 3. Increased Claimants. The number of senior citizen claimants is expected to increase from 55,000 to 240,000 during the budget year as a result of AB 1. About 90 percent of senior citizen homeowners will be eligible for property tax | 193 |

SENIOR CITIZEN'S PROPERTY TAX ASSISTANCE—Continued

assistance under this newly expanded program.

4. Eligibility. AB 1 also reduced the age of eligibility from 193 65 to 62.

GENERAL PROGRAM STATEMENT

The original senior citizen property tax assistance program was adopted in 1967 and was designed to provide property tax assistance to certain senior citizens with limited incomes. This program was administered by the Franchise Tax Board and the payments would have totaled about \$9.2 million to 55,000 claimants during 1972-73.

Chapter 1, Statutes of 1971, First Extraordinary Session (AB 1) increased significantly the level of assistance to be provided homeowners under this program. The household income limitation was increased from \$3,350 to \$10,000 per year, and the level of assessed valuation upon which assistance is to be computed was increased from \$5,000 to \$7,500. The age of eligibility was decreased from 65 to age 62.

ANALYSIS AND RECOMMENDATIONS

AB 1 includes as a statement of legislative intent that, "The senior citizens' program shall provide not less than \$56 million in state assistance during 1972-73." Because of the late enactment date of AB 1, the amount requested in the budget is based upon the schedule of assistance provided under former law. The Department of Finance will request augmentation of this item in accordance with the provisions of AB 1 by separate letter to each of the fiscal committees. *We therefore withhold recommendation on this item pending submission of a supplementary budget proposal by the Department of Finance.*

Table 1 shows the statutory percentage of assistance and estimated amount of property tax assistance paid by the state under the new law in comparison with assistance which would have been allowed under prior law.

Table 1
Senior Citizens' Property Tax Assistance
Payments Comparison of Former Law With AB 1

Selected household income brackets	Average property tax reimbursed by state			
	Former law		AB 1	
	Percent of taxes paid	Average assistance	Percent of taxes paid	Average assistance
\$1,000-\$1,500	85	\$295	92%	\$319
1,500- 2,000	65	239	92	339
2,000- 2,500	45	176	88	344
2,500- 3,000	25	104	80	332
3,000- 3,500	5	34	70	308
4,000- 4,500	0	0	52	257
5,000- 5,500	0	0	38	215
6,000- 6,500	0	0	26	167
7,000- 7,500	0	0	16	116
8,000- 8,500	0	0	8	64
9,000- 9,500	0	0	5	40

This new schedule of assistance becomes operative for property taxes paid during 1971-72, the state assistance payments on which are made in 1972-73.

The Department of Finance estimates that 240,000 senior citizen homeowners will be eligible for assistance under this expanded program. The schedule was designed to provide \$56 million in property tax assistance during 1972-73, a five-fold increase over the \$9.2 million which would have been provided under former law.

Because the bill institutes a new announcement procedure, i.e. enclosure of claims request forms with the homeowner property tax exemption forms mailed by each county assessor, it is expected that a higher proportion of senior citizens will respond under the new program than did under the former. The expected increase in workload and a detailed explanation of the administration expenses of the program will be found in the analysis of Item 135, The Franchise Tax Board budget.

PERSONAL PROPERTY TAX RELIEF

Item 76 from the General

Fund. (To be added to

Budget Bill)

Budget p. L-11 Program p. 164

Requested 1972-73	\$53,494,713
Estimated 1971-72	110,365,478
Actual 1970-71	90,571,047
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Business Inventory Exemption. AB 1 of the 1971 First Extraordinary Session made the 30 percent business inventory exemption permanent starting in 1972-73. It also changed the nature of this program from a statutory reimbursement to a system whereby counties file annual claims with the State Controller. 194
2. Supplementary Budget. The present wording in the budget does not reflect the enactment of AB 1. Therefore we withhold recommendation on this item pending submittal of a supplemental proposal which will raise the total cost to about \$138 million in 1972-73. 194

PERSONAL PROPERTY TAX RELIEF—Continued**GENERAL PROGRAM STATEMENT**

This item reimburses local government for property tax losses resulting from the partial exemption of business inventories. The legislative history of this program follows:

Chapter 963, Statutes of 1967, created the Property Tax Relief Fund and allocated one-fourteenth of the bank and corporation franchise tax revenues to this fund for business inventory or household furnishings property tax relief.

Chapter 927, Statutes of 1968, reduced the assessed valuation of motion picture films by limiting valuation to the tangible value of film, and appropriated sufficient funds from the Property Tax Relief Fund to cover the annual local property tax loss resulting from this change in valuation.

Chapter 1, Statutes of 1968, First Extraordinary Session, exempted 15 percent of the assessed valuation of business inventories beginning in 1969–70 and appropriated \$43 million from the Property Tax Relief Fund to counties according to a statutory schedule of reimbursement. Expenditures from this fund for subsequent year tax losses were to be based upon this same fixed schedule, expanded or contracted in the same proportion as future franchise tax revenues changed from the base year 1969–70.

Chapter 1526, Statutes of 1969, increased the inventory exemption from 15 percent to 30 percent for the 1970–71 and 1971–72 fiscal years only.

Chapter 272, Statutes of 1970, amended the schedule of county reimbursements to more accurately reflect actual 1969–70 local tax losses. Under the original schedule, which was based upon estimates made before the exemption was adopted, 17 counties received more than their tax losses, while 41 counties experienced deficits.

Chapter 777, Statutes of 1970, provided that if a school district lost over 30 percent of its assessed valuation because of the special assessment treatment granted to wines, winery products and brandy, the district would be reimbursed from the Property Tax Relief Fund.

Chapter 520, Statutes of 1971, appropriated \$15.6 million to fully fund actual 1970–71 losses due to the 30 percent inventory exemption. The statutory schedule adjusted by the change in franchise tax revenues had underfunded the program by this amount.

Chapter 1, Statutes of 1971, First Extraordinary Session, abolished the Property Tax Relief Fund and established the business inventory exemption at a permanent level of 30 percent, with the General Fund to reimburse local governments for actual tax losses.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending submittal of a supplementary budget proposal by the Department of Finance. Because of the

late enactment of AB 1 (Chapter 1, Statutes of 1971, First Extraordinary Session) the amount requested in the budget is based upon the schedule of reimbursement allowed under former law. The Department of Finance will request augmentation of this item in accordance with the provisions of AB 1 by letters to each of the fiscal committees.

The schedule of reimbursement provided under former law upon which the budget request is based is not directly related to actual county losses resulting from the partial exemption. The former law provided that the county statutory reimbursement schedule shall be either increased or decreased depending upon changes in bank and corporation tax revenues. This provision was included in the original law because the business inventory exemption was supposed to be entirely financed from corporate tax revenues. During 1970-71, actual local tax losses from the 30 percent exemption amounted to \$103.7 million, but the fixed schedule of reimbursement authorized state reimbursement of \$88 million, leaving the counties with a deficit of \$15.7 million. Without corrective legislation the unfunded county tax losses in the current year would have amounted to \$25 million.

AB 1 eliminates the Property Tax Relief Fund and the statutory schedule of county reimbursements and provides that beginning with the 1971-72 year the State General Fund shall reimburse counties for actual tax losses resulting from the inventory exemption which is fixed permanently at the 30 percent level. Payments to counties are to be made in three equal installments on September 15, December 31, and April 30 of each fiscal year. Under former law, 75 percent of these payments were to be made in August and the other 25 percent in the following April. The total cost of the 30 percent exemption, plus the special reimbursements for movie films, wines and brandy, will approximate \$138 million in 1972-73.

OPEN SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 77 from the General
Fund. (To be added to
Budget Bill)

Requested 1972-73.....	\$13,000,000
Increase to improve level of service \$13,000,000	
Total recommended reduction	None.

GENERAL PROGRAM STATEMENT

This Budget Bill item which was not included in the Governor's Budget appropriates \$13 million for payments to school districts, cities and counties for land placed under open-space restrictions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1 and Chapter 2, Statutes of 1971, First Extraordinary Session, authorize the allocation of state funds to:

1. Reimburse school districts for part or all of the property tax losses resulting from the reduction in assessed valuation of lands placed under open-space restrictions.

2. Make payments to cities and counties for all prime agricultural land and nonprime land of statewide significance placed under open-space restrictions.

School Districts. This program will be administered by the Superintendent of Public Instruction and reimbursements will be based on all land, prime and nonprime, placed under restricted use. Reimbursements will be equal to the loss in assessed value as adjusted by the school district equalization aid formula, so that assistance will range from 100 percent for poorer districts to nothing for wealthier "basic aid" districts.

Cities and Counties. Payments to cities and counties are to be administered by the Secretary of the Resources Agency and are to be differentiated by the location and type of land placed under restriction. Payments are to be made on a flat amount per acre, regardless of assessed valuation.

Payments on prime agricultural land will be equal to \$3 per acre if it is located:

- a. Within an incorporated city.
- b. Within three miles of a city with at least 1,500 registered voters.
- c. Within one mile of a city with less than 1,500 registered voters.

Payments on all other prime land will amount to \$1.50 per acre under restriction.

Nonprime land will qualify for payment of fifty cents per acre only if the Secretary of Resources determines that such land is devoted to a use of statewide significance, i.e. has statewide ecological, economic or educational value or could be developed into prime agricultural land.

There are presently 9.5 million acres of land under restriction, of which 2.1 million acres have been defined as prime agricultural land. If the amount appropriated is not sufficient to fund all qualified claims, reimbursements are to be reduced on a pro rata basis, first on payments to cities and counties and second on reimbursements to school districts.

At the present time, we do not have reliable data to determine the total cost of this program during the budget year. Acreage estimates indicate that payments to cities and counties for prime agricultural land will amount to \$3.5 million. Information on schools and the magnitude of qualified nonprime land is insufficient at this time to compute the cost of these two elements.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 78 from the General

Fund

Budget p. L-11 Program p. 165

Requested 1972-73	\$252,300,000
Estimated 1971-72	232,500,000
Actual 1970-71	218,035,732
Requested increase \$19,800,000 (8.5 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Program Growth. During the current year the cost of this program is \$2.5 million below the budgeted amount, with both the number of claimants and the average property tax rate slightly below estimates. The 1972-73 budget anticipates a growth of 3½ percent in the num-

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

ber of claimants and an increase of \$0.58 in the average property tax rate.

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 its inception in 1968. Costs for 1971-72 are estimated at \$232.5 million, which is \$2.5 million below the amount budgeted. The number of homeowners claiming the exemption for the current year was 2,603,000, up 48,000 from the previous year, but 12,000 below the original budget estimate. With the notable exception of Los Angeles County, the rate of growth in claimants was highest in the metropolitan areas. The number of claimants in Los Angeles County has declined for two successive years, dropping by 9,000 for the current year and by 30,000 in the previous year. The reason for this decline has not been determined.

Tax Rate Increase Below Prior Year

The average property tax rate on homes of \$11.91 per \$100 of assessed value in the current year was slightly below the original budget estimate of \$11.97. The increase of \$0.57 over the prior year was well below the record jump of \$1.03 for 1970-71.

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>	<i>1972-73</i>
Original estimates	2,540	2,735	2,670	2,615	2,694
Actual	2,499	2,580	2,555	2,603	N/A
<i>Cost (millions)</i>					
Budget estimate	\$178.0	\$211.7	\$213.0	\$235.0	\$252.3
Actual	174.5	199.7	218.0	232.5	N/A
Average property tax rate on homes	9.77	10.31	11.34	11.91	12.49
Average property tax relief per claimant.....	\$70	\$77.32	\$85.05	\$89.32	\$93.67

For 1972-73, the number of claimants is forecast to increase 91,000 to 2,694,000. Homeowners shifting from the veterans exemption because of ineligibility due to wealth limitations are expected to account for 32,000 of this increase, with newly constructed dwellings making up the balance. The higher number of claimants, coupled with an anticipated increase in the average tax rate to \$12.49 will result in a total cost to the state of \$252.3 million for 1972-73. Of the \$19.8 million increase over 1971-72, \$11.7 million is attributable to the expected higher tax rate and \$8.1 million due to the larger number of homeown-

ers claiming exemptions.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 79 from the General

Fund

Budget p. 46 Program p. 167

Requested 1972-73.....	\$14,400,000
Estimated 1971-72	24,400,000
Actual 1970-71	8,746,288
Requested decrease \$10,000,000 (41.0 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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page*

1. The amount requested does not incorporate the fiscal effect AB 1 (Chapter 1, Statutes of 1971, First Extraordinary Session) will have on this item. We therefore withhold recommendation pending receipt of a supplementary budget proposal by the Department of Finance. 199

GENERAL PROGRAM STATEMENT

Temporary loans are required at various times during each year when the General Fund lacks the necessary cash to pay its bills. The interest paid is affected by the total amount borrowed and the length of the borrowing period in conjunction with the current rate of interest. The General Fund borrows from three internal sources: the State Highway Fund, various other special funds and the Pooled Money Investment Account.

ANALYSIS AND RECOMMENDATIONS

This item normally presents a statement of cash flow of General Fund receipts and disbursements on a monthly basis, which is used to estimate funds required to finance interest payments on General Fund loans.

The cash flow schedules for 1971-72 and 1972-73 are not included in the budget, however, because the late passage of AB 1 (Chapter 1, Statutes of 1971, First Extraordinary Session) made it impractical to incorporate estimated revenues from this legislation, principally withholding, into the cash flow statements. Consequently the amounts estimated for the current year and requested for 1972-73 overstate funds required for payment of interest on General Fund loans. The Department of Finance plans to reestimate General Fund cash flow incorporating the expected revenues from Chapter 1 and will request a reduction of this item by letter to each of the fiscal committees. We

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

therefore withhold recommendation on this item pending submission of a supplementary budget proposal by the Department of Finance.

The Legislature enacted two laws during 1971 which will have a significant effect on the payment of interest on General Fund loans:

1. *Senate Bill 734 (Chapter 223, Statutes of 1971) authorizes the state to issue revenue anticipation notes.* General Fund loan requirements were projected to exceed the state's internal borrowing capacity during eight months of the current year. Chapter 223 authorizes the state to finance these cash shortages by issuing revenue anticipation notes rather than registering warrants which was the only financing alternative under former law. These notes have been issued in various denominations as required to meet General Fund shortages with the last and expected final issue made in December 1971. Table 1 identifies each sale of notes, their retirement dates and the interest rate.

Table 1
Revenue Anticipation Notes issued During 1971

<i>Issue Date</i>	<i>Amount (millions)</i>	<i>Interest Rate</i>	<i>Retirement Date</i>
August 1971	\$150	2.72%	10-31-71
September	5	3.10	3-31-72
September	10	3.18	3-31-72
September	185	3.22	3-31-72
December.....	160	2.37	4-28-72

The interest rates on these notes are much lower than originally estimated, primarily because of an unexpectedly large supply of short-term money available during this period. Interest payments on all revenue anticipation notes issued during 1971 are expected to amount to \$5.5 million.

2. *Assembly Bill 1 (Chapter 1, Statutes of 1971, First Extraordinary Session) initiates a system of income tax withholding beginning January 1, 1972.* Thirty percent of General Fund revenues are derived from the personal income tax. In the past the major portion of these revenues has been received in April. This uneven flow of revenues has resulted in an intensive period of borrowing during the first half of the fiscal year when General Fund disbursements exceeded receipts, with subsequent repayment of loans in the second half of each fiscal year when the bulk of personal income tax revenues was received.

Under withholding, personal income taxes will be remitted to the state on a monthly basis and quarterly estimates will be paid by persons with income not subject to withholding. This more even flow of income tax revenues will materially reduce the frequency and intensity of General Fund borrowing and subsequent loans should only be required during those months when

unusually large disbursements (e.g. the February school apportionment) are made.

PROVISION FOR SALARY INCREASES

Items 80, 81, and 82 from the
General Fund

Budget p. 46 Program p. 173

Requested 1972–73	\$74,233,000
Estimated 1971–72	5,394,000
Actual 1970–71	41,400,000
Total recommended augmentation.....	\$42,022,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Civil Service. Augment \$15,829,000 General Fund and \$16,039,000 special and other funds.* Recommend augmentation to provide a 7.5 percent general salary increase for civil service and exempt state employees. 201
2. *Higher Education. Augment \$26,193,000 General Fund.* Recommend augmentation to provide a 7.5 percent salary increase to nonfaculty employees and a 12.5 percent increase to faculty employees of the University and state colleges. 204

We recommend a budget augmentation of \$58,061,000 (\$42,022,000 General Fund) to provide for a 7.5 percent general salary increase for all state civil service employees and nonfaculty employees of the university and state colleges, and a 12½ percent increase for faculty and faculty-related employees at the University and state colleges.

The Governor's Budget proposes a total of \$106,314,000 for state employee salary increases. This amount represents an average increase of 5 percent for civil service and exempt employees to be allocated to various employee classes giving due weight to the recommendations of the State Personnel Board. University faculty and faculty-related classes and state college instructional and instructional-related classes are proposed to receive an average increase of 7½ percent. Table 1 presents the allocation for each employee group by fund.

Table 1
Allocation of Salary Increase Funds—1972–73 Budget

Employee group	General Fund	Special and other funds	Total	Percent increase
Civil service and exempt	\$31,659,000	\$32,081,000	\$63,740,000	5
University faculty and related	13,314,000	—	13,314,000	7.5
University nonfaculty	7,391,000	—	7,391,000	5
State college instructional and related	16,151,000	—	16,151,000	7.5
State college noninstructional	5,718,000	—	5,718,000	5
	\$74,233,000	\$32,081,000	\$106,314,000	

PROVISION FOR SALARY INCREASES—Continued

Although the budget provides for an average 5 percent salary increase, the State Personnel Board will determine the amounts to be utilized for across-the-board increases and equity adjustments.

State Personnel Board Recommendations

The 1971 Annual Report of the State Personnel Board stated that \$134 million (\$72 million General Fund and \$62 million special and other funds) would be required to bring state employees salaries to a par with that of other governmental jurisdictions and private industry. This amount represents a 10.7 percent increase in salaries across the board, more than double that proposed by the 1972-73 budget for civil service employees.

The State Personnel Board Fall 1971 Salary Data reports that other governmental bodies in California are increasing their compensation to employees in response to the rise in the cost of living. For example, on July 1, 1971, San Francisco City-County employees received an average 6.3 percent increase in salaries, and the City of Los Angeles an average of 4.3 percent, the County of Los Angeles 5.7 percent and other jurisdictions surveyed had increases which averaged 4.7 percent. As we indicated in our analysis last year, the above jurisdictions received 5.4 percent, 9.8 percent and 8.2 percent cost-of-living salary adjustments respectively between October 1969 and October 1970.

White collar federal workers have also received cost-of-living salary adjustments over the past two years. In January 1971 federal employees received a 5.9 percent across-the-board increase and in January of this year, an additional 5.5 percent increase.

State Employees Lag

There were no funds provided in the Budget Act of 1971 for salary adjustments and therefore state employees have not received cost-of-living salary adjustments during the past year equal to those of other public jurisdictions. The September 1971 California Consumer Price Index (all items category) indicates that the cost-of-living increase from June 1970 to September 1971 has increased by 5.2 percent. Although the President's wage and price controls have slowed inflation somewhat, we estimate that the cost of living will continue to rise so that by July 1972 the index will have increased by 7.9 percent over the June 1970 level.

Greater Increase Recommended

Under Section 18850 of the Government Code, it is stated 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. The above State Personnel Board and California Consumer Price Index data demonstrate that the prevailing rates in other public jurisdictions and the private sector include periodic cost-of-living adjustments. State employees have been denied those adjustments since July 1970. Further, even if the increases provided by the 1972-73 Governor's Budget are granted, state employees' salaries will continue to trail employees of other large governmental bodies and the private sector. We, therefore, recommend a salary increase augmentation of \$58,061,000 to provide a 7½ percent across-the-board increase for all civil service and nonfaculty employees of the University and state colleges and a 12½ percent increase for all faculty and faculty-related employees at the University and state colleges.

We recommend that the State Personnel Board distribute any salary increase granted by the Legislature and included in the Budget Act of 1971 across the board, leaving the resolution of salary inequities for separate action in future budget requests. We are fully cognizant that many state employee salary classifications lag far behind their counterparts in the private sector and in other public jurisdictions. However, because of a lack of cost-of-living increases since July 1970, the basic purchasing power lag which exists for all state employees should be eliminated before any classification or special group parity inequity is rectified.

This recommendation will result in a total salary increase of \$164,375,000 for fiscal year 1972-73 (\$116,255,000 General Fund and \$48,120,000 special and other funds). Table 2 summarizes the difference between our recommended salary increase and that provided by the Governor's Budget. Our recommended amount does not include salary increases for 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 California State Colleges for its employees, and (4) the Regents of the University of California for its employees.

Table 2
Summary of Recommendations For Changes
In Salary Increase Items
(General Fund and Special Funds)

<i>Employee group</i>	<i>Governor's Budget</i>	<i>Legislative Analyst</i>	<i>Difference</i>
Civil service and related	\$63,740,000	\$95,608,000	\$31,868,000
U.C. faculty and related	13,314,000	22,188,000	8,874,000
U.C. nonfaculty	7,391,000	11,086,000	3,695,000
State College instructional	16,151,000	26,917,000	10,766,000
State College noninstructional	5,718,000	8,576,000	2,858,000
Total.....	\$106,314,000	\$164,375,000	\$58,061,000

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. No salary increases were included for academic classes or civil service employees in 1971-72. The 1972-73 budget provides sufficient funds for the equivalent of a 7.5 percent increase for academic salaries.

Table 3 shows the percentages appropriated for academic salary increases since 1959-60 for the University and state colleges.

Table 3
Faculty Salary Increases 1959-60 through 1972-73

	<i>University of California</i>	<i>California State Colleges</i>	<i>Effective date</i>
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 ¹	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	—	—	—
1972-73 (proposed)	7.5	7.5	7-1-72
(Legislative Analyst's recommendation)	(12.5)	(12.5)	(7-1-72)

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

Academic Classes

We recommend an augmentation of \$19,640,000 for a 12.5 percent increase in academic salaries at the University and state colleges to equalize cost of living to that provided to the civil service classes. The elimination of the academic classes from participation in the 1970-71 cost-of-living increase resulted in a two-year reduction in purchasing power to the academic classes as compared to only one year for state civil service classes. Our recommendation is based on the concept that this cost-of-living differential should be eliminated between these two groups of employees and the 7.5 percent increase proposed in the budget is not adequate to accomplish that purpose. 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 to correspond to increases proposed in the budget for civil service classes. It should be noted that whereas the statutory and traditional policy of the state is to maintain "comparability" of salaries of state personnel this has been abandoned in recent years and the more austere policy of cost-of-living adjustments substituted.

This would be broken down as follows:

	Governor's Budget (7.5%)	Legislative Analyst (12.5%)	Difference (5%)
University of California			
Faculty	\$9,051,000	\$15,084,000	\$6,033,000
Faculty related	4,263,000	7,104,000	2,841,000
Total	\$13,314,000	\$22,188,000	\$8,874,000
California State Colleges			
Instructional	\$15,691,000	\$26,152,000	\$10,461,000
Instructional related	460,000	765,000	305,000
Total	\$16,151,000	\$26,917,000	\$10,766,000
Grand Total	\$29,465,000	\$49,105,000	\$19,640,000

Coordinating Council Recommendations

Again this year we have not been able to rely on the recommendations of the coordinating council because of several reservations we have to the council's report.

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 was adopted by the council on December 7, 1971.

The recommendation of the coordinating council was for 13.1 percent for faculty salaries at the University of California plus an increase in fringe benefits of 5.9 percent for a total compensation increase of

PROVISION FOR SALARY INCREASES—Continued

19 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. These proposals were based on salaries and fringe benefits paid by comparison institutions, as distinguished from the cost-of-living policy.

The recommendations of the council endorsed the independent requests of the University and the state colleges and rejected the recommendations of its own staff. The staff of the council had proposed a 9.94 percent increase in faculty salaries at the University plus an increase in fringe benefits of 2.2 percent for a total compensation increase of 12.14 percent. For the state colleges the proposed increase was 11.5 percent for salaries plus an increase of 2.9 percent for fringe benefits for a total of 14.4 percent.

The council staff's recommendations for lower levels were based on adjusting the rate of inflation used in the projection of probable salary increases in 1972-73 at the comparison institutions to more accurately reflect national Phase II salary guidelines.

In addition, the University statistical procedure used the assumption that the comparison institutions should be treated independently rather than as a total system comparable to the University system. This concept was a new one never previously accepted by the council. Although opposed by the council staff, the council accepted the concept which increased the salary amount more than 1 percent for the University.

Council Recommendations Inconsistent

One of the primary reasons that the Legislature directed the coordinating council to submit annual reports on faculty salaries was because prior submissions from the University and the state colleges lacked consistency. For several years the council reports presented uniform supporting data and consistent comparison methods.

In this year's report the council departed from this pattern by allowing the University and state colleges to develop salary comparisons independently of each other's procedures. The result is that state college salaries are compared to the median of the average salaries of its comparison institution, while the University salaries were compared to the average salaries by rank adjusted to the University staffing pattern.

We believe it is inappropriate for the council to recommend specific salary adjustments to the Legislature without using a uniform procedure for both segments.

State College Comparison Institutions Are Not Comparable

For the past two years we expressed reservation to 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 which substantially increased the salary level of the comparison list.

University Comparison Institutions Changed

The list of comparison institutions for the University has been changed this year from 19 to 8 institutions. In last year's report the comparison institutions consisted of the "Ivy League" institutions minus Dartmouth, the "Big Ten" institutions plus Chicago and Stanford. This year the University returned to using the list of eight comparison institutions of several years ago which includes Cornell, Harvard, Illinois, Michigan, Stanford, Wisconsin, Yale, and State University of New York (SUNY) at Buffalo.

Inconsistent Data Submission

Senate Concurrent Resolution No. 51 of the 1965 session specifically recommended the council report contain "comprehensive and consistently reported information" in supplementation to the basic report. The supplemental data presented by the University and state colleges in this year's report lacks consistency in form and content. For instance the University reports the number of faculty members holding the doctorate by rank, the state colleges do not. Much of the data in the report is presented in a different form from prior years, making trend analysis difficult.

Council Recommendations Limited to Faculty

The salary recommendations of the council are traditionally based on a comparison limited to the four ranks of faculty (i.e., professor, associate professor, assistant professor and instructor). Although there are numerous other teaching or other academic classes included in the budgets of the University and state colleges, the council recommendations are silent on these other classes.

This problem was apparent to the Legislature in 1967 when the Assembly Ways and Means Committee adopted the following statement:

"The Coordinating Council for Higher Education is requested to include as part of its annual study of faculty salaries and welfare benefits in the University of California and California State Colleges, made pursuant to Senate Concurrent Resolution No. 51 of the 1965 Regular Session of the Legislature, similar information and recommendations concerning salaries and welfare benefits for all academic administrators, other administrative and related classes, and all

PROVISION FOR SALARY INCREASES—Continued

other academic-related classes which are not otherwise included under the designation of 'faculty'."

Recent council reports have not been responsive to this request.

Fringe Benefits

No provision has been included in the Governor's Budget for faculty fringe benefits. The Coordinating Council recommended increases of 5.9 percent at the University and 6 percent at the state colleges. Again this year the council recommendations are for overall percentage increases only and no specific proposals have been recommended. As we have noted for several years 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 have been consistently critical of the council report regarding fringe benefit recommendations and have proposed the council take a stronger review role on this matter. Our 1965 report pursuant to HR 250, 1964, First Extraordinary Session, and endorsed in Senate Concurrent Resolution No. 51 of 1965 made specific recommendations for reporting fringe benefits including the following.

"It is recommended that fringe benefit comparisons of type of benefit be included in faculty salary reports but compared separately from salaries. Such comparisons should include an analysis of the quality of the benefits as well as the dollar cost to the employer."

As far as we can determine, a comparison by type of benefit has not been used as the basis for determining council recommendations nor has the quality of the benefits been considered.

Beyond this, we believe that highest priority in salary adjustments should be a restoration of the real purchasing power of established salary relationships. For that reason we have recommended the 12.5 percent salary increases for the faculty and related classes. This also is consistent with the calculations and assumptions which we presented to the Legislature in formulating a basis for determining the state budget requirements in connection with the tax increases legislated in 1971.

PROVISION FOR SALARY INCREASE

Item 83 from the General

Fund

Budget p. 46 Program p. 173

Requested 1972-73.....	\$688,000
Estimated 1971-72	100
Actual 1970-71	692,906
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

Funds to provide for a judicial salary increase for fiscal year 1972-73 are budgeted at \$688,000. This amount is based on the requirements of Chapter 144, Statutes of 1964, as amended by Chapter 1507, Statutes of 1969, which provide that judges are entitled to an annual salary increase based on the California Consumer Price Index as compiled and reported by the California Department of Industrial Relations. Based on the figures for the first three-quarters of calendar 1971 and one month of the last quarter of 1971, the price index increased by 4.2645 percent. The budgeted amount accommodates this increase.

Last year, the Legislature increased the amount provided for this purpose in the Governor's Budget from \$5,000 to \$820,144 (the amount required to meet the statutory requirement). The Governor reduced this item to \$100. We are informed, however, that the State Controller is paying judge salaries at the increased rate as a result of an Attorney General's opinion on this matter.

We recommend approval.

PROVISIONS FOR HEALTH BENEFITS

Item 84 from the General

Fund

Budget p. 46 Program p. 173

Requested 1972-73.....	\$2,062,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

The proposed budget provides \$3,018,000 (\$2,062,000 General Fund and \$956,000 special and other funds) for increased employee health benefits. During fiscal year 1972-73 the state's contribution to state employee health insurance premiums will increase from \$12 to \$14 pursuant to Chapter 212, Statutes of 1970. Funds to meet this cost are included in the operating budget of each state department.

Sufficient funds are provided in this item to permit an additional increase in employee health benefits from \$14 to \$16. Enabling legisla-

tion will be introduced according to the Governor's Budget to authorize this acceleration.

We recommend approval.

Reserve for Contingencies

EMERGENCY FUND

Item 85 from the General

Fund

Budget p. 47 Program p. 176

Requested 1972-73.....	\$1,000,000
Appropriated by the 1971-72 Budget Act.....	1,000,000
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 1971-72, the department anticipates a deficiency of \$6,250,000. Listed below are the 1971-72 budgeted allocations of more than \$100,000 each exclusive of transfers to meet salary increases. Salary increases added \$3.8 million to the allocations shown.

Support

	1971-72
Increase in health benefits and number of annuitants	\$133,879
Franchise Tax Board, move to Aerojet	258,888
Franchise Tax Board, postage rate increase	133,606
State Fair, police costs	119,129
Emergency fire suppression and detection	1,173,815
Department of Public Health, increase in venereal disease program	238,000
Cost of additional judgeships	290,581
Contribution to Judges' Retirement Fund	150,000
Department of Youth Authority, assistance to counties	2,167,897
Crippled children, assistance to counties	1,200,000
Capital outlay, Sacramento River bank protection	110,000
Total allocations	\$6,286,219

Emergency Fund expenditures in 1971-72 have not been subjected to legislative review. Where appropriate, we comment on such expenditures in the analysis of the individual agency budgets. Control lan-

guage in the 1971 Budget Act limited the use of the Emergency Fund except for \$100,000 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, Appropriations and Allocations
1963-64 to 1972-73**

<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	4,919,594	4,375,000
1971-72	1,000,000	6,286,219	6,250,000
1972-73 (proposed)	1,000,000	—	—

LEGISLATIVE CLAIMS

Item 86 from the Several
Fund

Budget p. 48 Program p. 180

Requested 1972-73	\$51,202
Estimated 1971-72	394,090
Actual 1970-71	232,785

ANALYSIS AND RECOMMENDATIONS

This item includes all the general claims against the state which are approved by the Board of Control and referred to the Legislature for review and payment in a consolidated fiscal package called the "omnibus claims bill." This 1972-73 budget request now includes only the claims granted by the board between March 1971 and November 1971, although all claims approved through March 1972 will be included in the 1972-73 budget. At the time this item is set for hearing in the Legislature, the Department of Finance will request that the 1972-73 budget figure be augmented to include claims approved by the board between November 1971 and March 1972. 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.

Good Samaritan Claims to be Disposed of Without Legislative Review

As a result of the enactment of Senate Bill No. 464 (Chapter 1269) of the 1971 Session, future Good Samaritan claims up to the statutory

LEGISLATIVE CLAIMS—Continued

maximum of \$5,000, as well as attorney's fees up to 10 percent of such claims, may be approved by the Board of Control without legislative review and paid from a separate appropriation (Item 47).

All of the general claims approved by the Board of Control are reviewed by the Legislative Analyst and all those which are of special interest, those involving large sums of money, as well as those which were recommended for denial by the state agency charged with their review are brought to the attention of the respective subcommittee in each house which hears the Claims Bill. Through this review, the Legislature exercises final judgment on each general claim presented and may reduce, augment or eliminate any claim approved by the Board of Control.

This office will prepare a supplemental report on the 1972-73 claims and present it to the respective subcommittees at the time of the hearing on the Claims Bill.

Table 1 traces the history of preliminary and actual expenditures for the "omnibus claims bill."

Table 1
Proposed and Actual Expenditures for Legislative Claims

<i>Fiscal Year</i>	<i>Requested^a</i>	<i>Actual^b</i>
1972-73	\$51,202	-
1971-72	95,617	\$394,090
1970-71	166,921	232,785
1969-70	140,039	230,686

^a Includes claims approved by the Board of Control between March and November of the calendar year immediately preceding the respective fiscal year.

^b Includes *all* claims approved by the Board of Control over a 12-month period (March to March) and granted by the Legislature.

DEPARTMENT OF AGRICULTURE

Item 87 from the General

Fund

Budget p. 51

Program p. 187

Requested 1972-73	\$12,527,061
Estimated 1971-72	12,044,863
Actual 1970-71	11,853,803
Requested increase \$482,198 (4.0 percent)	
Total recommended reduction	\$258,275

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Exclusion and Detection. Reduce \$70,000.* Recommend budget for the exclusion element be reduced by \$70,000. 216
2. *Comstock Mealybug. Reduce \$88,275.* Recommend 217