

**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<sup>a</sup></i>	<i>Actual<sup>b</sup></i>
1972-73 .....	\$51,202	-
1971-72 .....	95,617	\$394,090
1970-71 .....	166,921	232,785
1969-70 .....	140,039	230,686

<sup>a</sup> Includes claims approved by the Board of Control between March and November of the calendar year immediately preceding the respective fiscal year.

<sup>b</sup> 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

elimination of General Fund support for Comstock mealybug research and suppression efforts. The program should be financed by the Agricultural Emergency Fund.

3. *Farm Worker Safety.* Recommend department develop a program for farm worker safety as part of its pesticide registration and evaluation effort. 221
4. *Pesticide "Quality" Standards.* Recommend department implement a citation program in the 1972-73 budget year for violations of pesticide "quality" standards. 224
5. *Market News. Reduce \$100,000.* Recommend unallocated reduction in market news program support. 226

#### General Program Statement

Under the Agricultural Code the Department of Agriculture has authority to: (1) promote, protect, and further the agricultural industry in the State of California, (2) assure producers, handlers and consumers true weights and measures of commodities and services, and (3) protect the health and welfare of the people of the state.

The department's activities are broad in scope and range from the financial supervision of local fairs through agricultural pest and disease control, to enforcement of quality, quantity and safety standards of certain agricultural and consumer goods.

The financial resources of the department are derived from the General Fund and the Department of Agriculture Fund. The Department of Agriculture's policy concerning funding of departmental programs is as follows: (1) programs which are basically for the direct benefit of the general public are the obligation of the General Fund, (2) programs which directly benefit industry are the obligation of special taxes, fees or charges against the industry, (3) programs which generally benefit the public and industry jointly are supported jointly, (4) programs which create a substantial or widespread adverse impact on the agricultural industry or the general public with consequent enforcement needed to protect the public are funded by the industry, (5) programs for the detection and eradication of pests and diseases not already established in the state are an obligation of the General Fund, and (6) programs to control rather than eradicate pests or disease infestations are an obligation of special taxes, fees or charges against the industry.

The total proposed budget for the Department of Agriculture in 1972-73 is \$27,140,742. Of this, \$12,527,061 or 47 percent will come from the General Fund while the Department of Agriculture Fund will provide \$7,863,527 or 35 percent. The Department of Agriculture Fund support portion is appropriated under Item 88. Total Department of Agriculture expenditures are detailed in Table 1.

The Fair and Exposition Fund which derives from horseracing pro-

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vides \$256,701 which largely supports the Division of Fairs and Expositions.

The federal government contributes a substantial amount to the overall budget of the Department of Agriculture in the form of reimbursements or unbudgeted program participation. The major area of support is in the meat inspection program where the federal government will reimburse the department over \$2 million in 1972-73. This approximates 50 percent of the expenditures for meat inspection.

The department also collects and expends approximately \$22.4 million under 38 marketing orders or similar programs established at industry request to aid in solving problems related to production, control and advertising of agricultural products. These marketing order expenditures do not appear in the Governor's Budget because they are handled as special trust fund accounts in the Agricultural Fund.

**Table 1**  
**Department of Agriculture Total**  
**Expenditures by Program**

<i>Program</i>	<i>Costs</i>		
	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Agricultural pest and disease prevention .....	\$7,915,971	\$9,223,174	\$9,584,460
Agricultural standards and inspection services .....	9,306,962	9,306,653	9,137,902
Agricultural marketing services .....	9,383,614	5,883,635	5,999,770
Financial supervision of local fairs.....	331,478	388,264	420,757
Assistance to counties for agricultural purposes .....	1,418,121	1,486,599	1,642,796
Administrative supporting costs			
Distributed to other programs .....	(1,091,877)	(931,184)	(1,025,803)
Distributed to continuing programs (other state departments and trust funds) .....	186,160	337,041	355,057
Undistributed administrative costs .....	35,176	—	—
Total programs .....	\$28,577,482	\$26,625,366	\$27,140,742
Reimbursements .....	—2,846,669	—3,917,211	—3,350,657
Net program totals.....	\$25,730,813	\$22,708,155	\$23,790,085
General Fund .....	12,021,924	12,216,909	12,737,107
Agricultural Fund.....	13,485,712	10,285,661	10,796,277
Fair and Exposition Fund .....	181,688	205,585	256,701
Federal funds .....	41,489	—	—
General Fund change from prior year.....		1.6 percent	4.3 percent

**Payments to Counties for Agricultural Programs**

Various statutes in recent years have provided for allocation of funds through the Department of Agriculture to counties for agricultural purposes. Chapter 1571, Statutes of 1970, provides for the transfer to the Department of Agriculture Fund of unrefunded taxes derived from gasoline purchases for off-highway agricultural use. These funds are continuously appropriated (1) \$500,000 each year to the Department of Agriculture for administrative expenses charged to Agricultural Fund programs, (2) \$1 million each year for emergency detection, eradication and research on agricultural plants, pests and diseases, with the unexpended balance added to the allocation to counties, and (3) the remainder of the unrefunded taxes transferred each year are allocated to counties as a partial reimbursement of their expenses in carrying out agricultural programs authorized under the Agricultural Code. In the 1972-73 budget of the Department of Agriculture there is approximately \$810,000 for this allocation to the counties.

Chapter 1367, Statutes of 1971, established an 8 mill tax per dollar on designated sales in California of registered economic poisons. The statute provided that the tax was to be apportioned five-eighths to the counties and three-eighths to the Department of Agriculture for its costs in administering designated pesticide programs. The county and state programs to be financed through these fees are for enforcement of Agricultural Code provisions involving economic poisons, injurious materials, and environmentally harmful materials. The Department of Agriculture's budget for 1972-73 provides for a \$600,000 allocation to counties under Chapter 1367. In addition, there will be a minor allocation of \$22,750 to counties under Section 12112 of the Agricultural Code consisting of 50 percent of the moneys collected from licensing pesticide dealers.

Total allocations to counties in 1972-73 from the Agricultural Fund are \$1,432,750 and \$210,046 from the General Fund.

**AGRICULTURAL PEST AND DISEASE PREVENTION**

The objectives of this program are to protect California agriculture from damage resulting from the introduction or spread within the state of harmful plant and animal diseases, weeds, and other pests. The largest of the elements of this program are exclusion and detection budgeted at \$2,478,668 in the budget year, and control and eradication budgeted at \$2,675,770. In addition, there are laboratory services, nursery services, animal health and veterinary laboratory service activities.

The General Fund contribution to this program in the budget year is \$7,466,905. The Agricultural Fund portion is \$1,853,819, with \$263,736 derived from reimbursements. Total program expenditures are \$9,584,460 which is \$361,286 or 4 percent above the current year. These expenditures include a \$1 million appropriation under Chapter 1571,

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Statutes of 1970, to the Department of Agriculture for emergency detection and eradication of agricultural pests and diseases.

**EXCLUSION AND DETECTION****Agreement With Arizona on Border Stations**

The Department of Agriculture has concluded a cooperative agreement with the State of Arizona which provides for a cooperative border station inspection activity. Under this agreement the State of Arizona would enforce California quarantines at Arizona's northern and eastern border stations. Gradually as Arizona increases its inspections at the above stations, the need for California to inspect at southern border stations in California will be eliminated. As a consequence the California Department of Agriculture intends to reduce California border station activity at Blythe, Needles, Vidal and Winterhaven. The department expects no significant savings in 1972-73 but estimates that substantial savings amounting to perhaps \$350,000 will occur in 1973-74 and annually thereafter. The department has included \$75,000 in its 1971-72 budget and \$150,000 in 1972-73 to pay Arizona under this cooperative agreement.

**Inadequate Justification for Exclusion Expenditures**

*We recommend that the exclusion element be reduced by \$70,000 because of lack of justification.* The Legislature directed in the Supplementary Report to the 1971 Budget Act that the department review the costs, benefits, and alternatives to its present border station activities. The department in response to this and earlier directives of the Legislature, has negotiated an agreement with Arizona noted above. In addition, the department has joined with the University of California in an evaluation of its exclusion work, the objective being development of insight and methodology to permit intelligent evaluation of the effectiveness of border station exclusion activities.

If the department is to carry out the directives of the Legislature to review the costs, benefits and alternatives to the border station activity, it is essential that it have detailed information on the cost of such activities. However, when we requested such information for preparation of this analysis, the department indicated that it could only give cost data for exclusion work which combines both border inspection and interior detection work. It is clear that the department cannot evaluate the cost-benefits and alternatives to border station activities if it does not maintain separate costs. This additionally raises doubt as to the basis for calculating the potential savings from the inspection agreement with Arizona. Such calculations required detailed analysis of the cost of four southern border stations.

The department reports estimated expenditures of \$1,646,000 for the overall exclusion activities in the current year. This includes \$75,000 for the payment to Arizona under the cooperative agreement. In

the budget year the department proposes to spend \$1,818,000 for exclusion including an increase of \$150,000 for the Arizona agreement. The proposed budget represents a \$172,000 General Fund increase over the present level of service in exclusion. Approximately \$27,000 of this is accounted for by salary and operating expense increases, and \$75,000 is accounted for by the cooperative agreement. There has been no justification given us by the department for the remaining \$70,000 General Fund increase in this program. We therefore recommend deletion of \$70,000 from the Exclusion and Detection Program.

#### **Comstock Mealybug Emergency Program**

*We recommend that the Agricultural Emergency Fund finance Comstock mealybug emergency efforts during the first half of 1972-73, and that the department's budget be accordingly reduced by \$88,275.*

The Department of Agriculture began an emergency eradication program in 1971 against the Comstock mealybug in Tulare County. The largest economic danger from this pest appears to be to the citrus industry. Biological control was attempted in the Porterville area after an infestation was discovered in 1967. Climatic conditions such as temperature variations were not favorable for such biological control in that area on a large scale and still do not appear feasible. Following a more recent outbreak in Tulare County near Lindsay, chemical control was begun in order to assess its feasibility and to control the pest until the department could establish an approved state program. The department hopes to know by the end of 1972 whether it can develop an eradication program against this pest.

When the outbreak of Comstock mealybug was first discovered, the department used the "Agricultural Emergency Fund." This fund contains unrefunded gasoline taxes appropriated to the Department of Agriculture at the rate of \$1,000,000 per year for purposes of emergency detection, eradication or research on agricultural, plant or animal, pests or diseases, pursuant to Section 224 of the Agricultural Code. The department currently estimates expenditure of approximately \$500,000-\$600,000 from this fund in 1971-72.

The department proposes in the 1972-73 Governor's Budget to finance the cost of research and chemical control of the Comstock mealybug from the General Fund at a cost of \$88,275. The department has no program to deal with the pest, but is researching and developing such a program. The Comstock mealybug still presents an emergency situation within the meaning of Section 224 and therefore appears to continue to qualify for financing from the Agricultural Emergency Fund.

The department's stated policy on expenditures from the Agricultural Emergency Fund reads in part: "The emergency funds should be used for the period of time required until normal fiscal, budgetary, administrative and legislative review processes can function. Appropriate program and funding decisions can then be made." The appro-

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prate funding source cannot be determined for the Comstock mealybug until the department has developed a program to combat the Comstock mealybug either as an eradication or control effort. In order for the department to develop a program, further emergency work is needed and that work can be financed from the Agricultural Emergency Fund. Present indications are that there will be sufficient money in the fund for that purpose. We therefore recommend that the Agricultural Emergency Fund be used to finance this program and that the department's budget be reduced by \$88,275.

**Predatory Animal Control Program Funding**

In the 1971 Supplementary Report of the Committee on Conference on the Budget Bill the Department of Agriculture was instructed to work with the livestock and poultry industries in developing industry funding for 1972-73 of an amount equal to one-half of the state contribution to the cooperative federal, state and county Predatory Animal Control Program. After we made an inquiry in late November 1971, the department informed us that mitigating circumstances made compliance with the directives of the Legislature impractical in the 1972-73 budget year. Reasons given for this noncompliance were that federal changes in predatory animal control and environmental concerns made funding changes unreasonable at this time.

The department has indicated that it foresees revision of the Predatory Animal Control Program in the near future including a decision on shared funding. We plan to analyze the proposal when it is formalized to assure its compliance with legislative intent. We do not recommend at this time that the state contribution to the cooperative Predatory Animal Control Program for 1972-73 be disapproved by the Legislature but recommend approval subject to the condition that the department report to the Legislature as soon as possible on the revised program and funding approach.

**AGRICULTURAL STANDARDS AND INSPECTION SERVICE**

The Agricultural Standards and Inspection Service Program is made up of diverse elements including enforcing standards for agricultural products, inspecting meat and dairy products for wholesomeness, and sampling agricultural commodities for pesticide residues. Another significant element of this program involves maintaining standards in agricultural chemicals, and insuring accurate weights, measures and counts of commodities purchased by the public. This program contains more elements involving protection of the general public than any other program of the Department of Agriculture. The overall budget for this program is \$9,137,902 in 1972-73 which is \$168,751 or 1.8 percent below the current year. In the budget year the General Fund contribution to this program is \$3,592,175, compared to \$3,713,796 in the current year. The Agricultural Fund support is increased

from the current level of \$2,562,084 to \$3,066,019. The primary component of this increase is in the department's pesticide work.

#### **PESTICIDE PROGRAM**

The Legislature and the public have shown an increasing interest in the administration of pesticide control statutes by the Department of Agriculture. This interest has produced substantial changes in statutes which have significantly broadened the scope of present department work in registration and use restriction, added new responsibilities and increased funding.

The pesticide program of the Department of Agriculture will cost approximately \$843,000 in 1972-73. This is an increase of close to \$300,000 from the current year. The present program has two major activities, the pesticide evaluation and registration activity, and the quality control and sampling activity. Pesticide evaluation and registration in 1972-73 is anticipated to account for approximately 60 percent of expenditures, while quality control is budgeted at about 40 percent.

At the present time economic poisons must be registered by the California Department of Agriculture before they can be sold in California. The Director of Agriculture is empowered to place restrictions on the use, the quantity applied, the area and manner of application, etc. In addition the director is charged with conducting a continuous program of evaluation in order to eliminate from use or restrict the use within the state of any economic poison which endangers the agricultural and nonagricultural environment. All previously registered economic poisons for which annual registration renewal is sought are to be reevaluated according to statutory criteria which include consideration of environmentally adverse effects, benefits versus costs of a particular chemical, and alternatives which may be less hazardous.

Chapter 1276, Statutes of 1971, added new and revised pesticide regulatory authority. The chapter repealed the present injurious materials pesticide category and placed all pesticides in one of two categories, restricted or exempt. Restricted materials are to be determined by the Director of Agriculture considering (1) danger of impairment of public health, (2) hazards to applicators and farm workers, (3) hazards to domestic animals (4) hazards to the environment, (5) hazards generally from the pesticide residues, and (6) hazards to agricultural crops from persistent pesticides.

#### **Registration Problems**

The present registration workload of the department consists of approximately 12,000 products which are annually submitted for registration. The task of applying the previously existing statutory criteria to this large number of formulations is yet to be accomplished and the department has not started related work under Chapter 1276. The present program is not able to evaluate effectively each product at the



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time of annual renewal or to handle the label review. The result is that many formulations may be sold in California even though the registration of the material is awaiting corrective action or has not been processed.

One reason the registration workload is not handled on a timely basis is because the registration staff spends a large portion of its time correcting errors in the applications for registration or requesting copies of the proposed label. This time-consuming and expensive practice of correcting errors should be curtailed. It is the responsibility of the registrant prior to submitting the application to assure that it is correct. The department now permits itself to be used as a service arm of the industry which it is to regulate. Much of the time which should be spent implementing new statutory policies is diverted to performing a service for the most inefficient registrants of economic poisons.

The registration practices of the department have over the years reflected the wishes of the industry to use the police powers of the state to secure quality control and accuracy in its product labeling. Effective administration of the law requires a belief by the licensees and registrants that the State Director of Agriculture will do more than aid the registrants but will enforce the law fully. There is evidence that registrants do not believe that disciplinary action will be taken against them if they fail to comply with registration regulations or that no serious penalty will be imposed for the sale or improperly labeled pesticides. It should also be noted that there should be more interaction between (1) the registration and identification of mislabeled products and (2) quality control work, in order to prevent the sale of mislabeled agricultural chemicals.

The department has indicated that it plans a reorganization of the pesticide registration activity. In addition to the registration problems discussed above, the substantial additional funding now becoming available from the 8 mill tax enacted last session to finance new positions will increase the need for better organization. Finally, the work added by Chapter 1276 should be organized as part of the registration function.

The department has also been slow to implement its new pesticide regulatory authority and to hire the staff necessary to meet its responsibilities. One major factor cited for the delays has been pending federal legislation on pesticide labeling. However, the responsibilities to be implemented by the department under recent state legislation deal primarily with the evaluation of pesticides before registration, not labeling this legislation requires actions relative to nonregistration or placing appropriate restrictions on use rather than labeling.

**Restricting Injurious Pesticide Materials**

The department has been charged with some control of injurious pesticide materials for over 22 years. The control has evolved until

now it is for the protection of the agricultural industry; the health, welfare and safety of the people of the state; and the protection of the environment from misuse or uncontrollable adverse effects of economic poisons. During all this time the department has not established a defined policy for placing chemicals on the restricted list which limits their use.

The department's policy approach has traditionally been reaction to problems identified elsewhere and involves restricting pesticide use after problems have arisen. The inconsistency of not placing some chemicals on the injurious materials list, while at the same time placing on the list chemicals of similar or lower toxicity or hazard demonstrates that the department has no clear administrative policy for determining potential dangers of pesticides. There are many pesticide materials classified as noninjurious which are higher in toxicity and other hazards than those on the injurious materials list. Unless the Department of Agriculture changes its present policy relative to injurious agricultural materials, the materials it will classify under Chapter 1276 may continue to be only those which have already caused serious agricultural problems.

#### **Agricultural Worker Safety**

*We recommend that the Director of Agriculture (1) locate responsibility to develop a program for farmworker safety in its reorganized pesticide registration and evaluation program; (2) begin to staff the pesticide evaluation unit immediately to provide management and program capability to deal with problems relating to environmental factors, public health, and worker safety; and (3) coordinate utilization of the department's pesticide residue testing staff and equipment with research at the University of California concerning pesticide effects on agricultural workers.*

Present law declares that the State Department of Agriculture is among other things, to assure agricultural and pest control workers of safe working conditions whenever pesticides are present. The Director of Agriculture in determining what restrictions to place on pesticide material is to consider the danger to public health, domestic animals, and other crops; hazards to the environment, and persistency of residues in the air, water and soil. He must also consider specifically the hazards to applicators and farm workers. The director is required to develop an orderly program for the continuous safety evaluation of all economic poisons registered.

In evaluating the pesticide regulatory system in California, we have found work on pesticide regulation conducted as part of three primary functions: (1) the registration and restriction of the use of pesticides, (2) licensing of pest control operators, and, under recent legislation, pest control advisors, and (3) pesticide residue analysis.

Pesticide residue analysis is a \$580,000 program in the current year. It is directed primarily toward analysis and testing of agricultural

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produce in wholesale markets in order to detect harmful pesticide residue levels and prevent such produce from entering trade channels. In addition the program serves a monitoring function in that its general sampling of produce maintains a surveillance over the general level of pesticide residue in agricultural produce. During our evaluation of the department's efforts to control pesticide residues there appears still another significant area where the department has yet to develop an adequate program approach.

Pesticide residues, as well as being a danger to the ultimate consumer of agricultural produce, are a problem of major proportions among California farmworkers. Very little was known of the magnitude of the pesticide problem among farmworkers until recent studies were conducted, and new illness and injury reporting systems instituted.

The State Department of Public Health—Community Pesticide Study Unit conducted a comprehensive study of the impact of agricultural pesticides on farmworkers in Tulare County in 1968. The investigation found 146 reports of illness from agricultural chemicals in Tulare County during the period under study, 79 or 54 percent of those involving farm laborers. This information was derived from the doctor's first report of injury filed under workmen's compensation.

**Validity of Data on Pesticide Accidents**

In order to assess the validity of data available on pesticide accidents from the doctor's first report of injury, the Department of Public Health conducted an exhaustive survey of agricultural laborers. The survey involved questioning workers as to certain symptoms they may have had during the past year, and which they stated resulted in a visit to a physician. The symptoms described were those associated with pesticide injury or poisoning and included nausea, eye and skin irritation, and chronic headaches. Out of the 1,120 workers interviewed, 279 reported such illness or injury and subsequent visits to physicians. This converts to a rate of approximately 249 per 1,000 per year, which contrasts with the rate of 2 per 1,000 reported under the doctor's first report of injury.

There are major difficulties associated with validating the type of data gathered by the Department of Public Health. However, the difference reported between illness among farmworkers and illness discovered through the survey of pesticide related illness symptoms, is so great that it cannot be ignored.

The State Department of Public Health, Bureau of Occupational Health and Environmental Epidemiology in its report of "Occupational Disease in California Attributable to Pesticides in 1969," stated, "Occupational disease caused by agricultural chemicals is one of the most important health problems in the state." The report stated that the agricultural industry has the highest rate of occupational disease,

over three times the rate for all industrial divisions. The report went on to recognize the importance of pesticide residues, especially from the organophosphorus pesticides on foliage and its apparent role in pesticide poisoning among farm laborers. Outbreaks of pesticide poisoning have reoccurred periodically through the years, with the department citing at least three severe episodes prior to 1970.

A recent University of California study has shown that crops containing pesticide residue considered safe for human consumption may still cause injuries to fieldworkers who are in prolonged contact with foliage during harvest. The study found that exposure to some of the more toxic organophosphorus pesticides can have a cumulative impact which may cause illness even with very low levels of pesticide residues. Tests showed that even when state regulations relative to pesticide use and worker safety are complied with, worker health problems could arise.

#### **Worker Safety Time Intervals**

The major effort of the Department of Agriculture in attempting to comply with legislative intent as to pesticides and farmworker safety has been the establishment of farmworker safety time intervals. These "reentry periods" are intended to provide a margin of safety by prohibiting workers for a specified period from entering a treated area to engage in any activity requiring substantial contact with foliage. These regulations went into effect on July 30, 1971, and cover citrus, grapes, peaches and nectarines, for some of the more common and dangerous agricultural chemicals. The time intervals vary according to the pesticide involved.

Based on preliminary indications these time intervals may have had a substantial value in helping to reduce or prevent worker illnesses. Unfortunately the worker reentry periods which have been established are based largely on educated judgment. Reentry periods were determined using available information on the toxicity and degradation rate of chemicals, the rate and frequency of application, the form in which applied, the individual crops, and the degree of worker exposure. This general information was used in conjunction with past experience on reported injuries and the few studies available in this area to set what was hoped would be adequate worker reentry periods.

The lack of adequate scientific knowledge on which to base the current reentry periods, or on how the cumulative action of pesticides on workers affects health, means that worker reentry times can only be the first step in an effective worker safety program. Due to the many complex variables affecting this problem, ranging from the weather, particular crops and chemicals involved, the past exposure of individuals, etc., not only does the basis for establishing the reentry periods which now exist need to be strengthened and the periods themselves extended to other important crops and chemicals, but

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many other program approaches need to be explored.

At the present time university scientists have indicated to us that it is not possible to test an agricultural crop for pesticide residue and thereafter to declare that the residue level is such that it is safe for workers to enter. Although residue tolerance limits exist for consumption of agricultural products, pesticide tolerance levels have not been set on agricultural crops for the protection of workers.

The Community Pesticide Study Unit of the State Department of Public Health, the Department of Industrial Relations, the University of California, and the Department of Agriculture (with the aid of its Pesticide Advisory Committee) have all been engaged to some extent in pesticide and agricultural worker health problems. It is obvious that more remains to be done to insure safe working conditions for agricultural workers.

The University of California, in cooperation with the Department of Public Health should continue studies on the complex factors involved in the pesticide hazard to farmworkers. Some federal funds are now available for this purpose. The Department of Agriculture and the Department of Industrial Relations should cooperate in developing regulations and enforcing these regulations to implement the findings of the University of California and Department of Public Health relative to farmworker safety. Members of the above-named organizations are now represented on the Pesticide Advisory Committee of the Director of Agriculture.

In carrying out its duty to assure safe agricultural working conditions and to consider hazards to farm workers when determining pesticide restrictions, the Department of Agriculture must provide among other things, an adequate system of accident investigation and some means of ensuring that harmful pesticides are not present in crops to be harvested. The University of California has aided the department in the past in these general areas by providing technical expertise and conducting tests on pesticides and workers.

We recommend that the Director of Agriculture (1) locate the responsibility for developing a program of farmworker safety in its reorganized pesticide registration and evaluation effort; (2) begin to staff the pesticide evaluation unit immediately to provide management and program capability in the areas of environmental, public health, and worker safety problems; and (3) coordinate utilization of the department's pesticide residue testing staff and equipment with research at the University of California concerning pesticide effects on agricultural workers.

**Citation Program for Pesticide Quality Control**

*We recommend that the Department of Agriculture implement a citation program in the 1972-73 budget year for violations of pesticide "quality" standards.*

In our analysis of the 1971-72 Governor's Budget we recommended that the department study the feasibility of instituting a citation program to enforce pesticide quality control standards and pesticide use regulations. We pointed out that the department's pesticide quality control activity (sampling of pesticide products) had not resulted in many prosecutions or in serious monetary penalties for those violating the quality or labeling requirements. In most cases the only penalty the manufacturer of a deficient chemical suffered was the removal of the chemical from sale to be returned to the factory for reformulation or relabeling. In many cases due to the time lag between testing the chemicals for compliance and removal from sale, the pesticide was already sold. Stronger enforcement seemed necessary to bring about adequate compliance with the law.

In addition, we pointed out that the prosecution of pest control operators or farmer applicators for pesticide misuse is a very cumbersome process. The general enforcement procedures which involve an administrative hearing or prosecution by the local district attorney are often time consuming and unproductive. The procedures are so unwieldy as not to encourage frequent use. The Legislature accepted our recommendation that the Department of Agriculture study the merits of expediting enforcement by issuing citations in pesticide quality control and pesticide use regulation.

The Department of Agriculture has now reported on its study of the feasibility of using a citation procedure in pesticide use regulation which is largely a county responsibility. The department has indicated that county commissioners of Lake, Glenn, and Contra Costa Counties now use citations to a limited extent for county enforcement work. The department intends to begin a pilot citation program in Fresno County in 1972-73 to work out the problems of implementing the citation system throughout the state in pesticide use regulation.

The department has not reported at this time on the feasibility of the citation procedure in pesticide quality control. However, we believe that sufficient study has been done in the department to warrant implementation of a citation system. Institution of a citation procedure in the quality control activity of the Department of Agriculture has fewer complications than statewide implementation of a citation system involving county agricultural commissioners, and could provide a nucleus of trained state personnel to subsequently assist in supervising expansion of pesticide use citations. We therefore recommend in order to avoid further delay that the Department of Agriculture implement a citation program for violation of pesticide quality standards in the 1972-73 budget year.

#### **Agricultural Marketing Services**

The objectives of this program are to assist and protect agricultural producers and handlers and the consuming public by providing regulatory, informational, and other marketing services. The total depart-

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mental expenditure in 1972-73 for agricultural marketing services is budgeted at \$5,999,770, which is \$116,135 or 2.0 percent above the current year. This consists of \$1,467,981 from the General Fund, and \$4,443,689 from the Agricultural Fund.

**Market News**

*We recommend that \$100,000 be deleted from the Market News program to stimulate efficiencies and economies.*

The Department of Agriculture was instructed in the Supplementary Report of the Committee on Conference to the 1971 Budget Bill to work with the agricultural industry in developing as soon as possible an equitable means for industry financing of a substantial contribution to the Market News program. The department was to report to the Legislature by December 1, 1971. Submittal of a report at that time would have allowed time for study of the report by all interested parties in preparation of the 1972-73 budget.

The department, however, submitted a report to the Legislature on January 11, 1972, about one and one-half months late. The report contained no recommended means of assessing industry for a financial contribution to the present program, it contained no statement relative to a proposed "reasonable" share of present program costs to be funded by industry, it did not study and evaluate cost-sharing experience in other states and federal sharing of program costs in those states, and it contained no timetables for implementation of future industry funding. The response in this report to the legislative directive is merely that new programs to provide "special" news services requested by segments of the industry should be at least partially industry funded. This suggested approach may be inequitable in that groups benefiting from extended services in the past would not be required to help defray those added program costs. Commodity groups with new problems or commodities expanding in importance and desiring some market news coverage would presumably have to pay a substantial part of the cost of their market news coverage.

A significant contribution made by the Marketing Information Advisory Committee which was formed to aid the department in studying market news, was the recognition that "some joint industry-USDA-CDA financing method (for market news) could provide a means to insure unbiased marketing information for the benefit of all interested individuals and groups." The advisory committee did feel, however, that industry operation of marketing program would put industry in a position to control marketing information. We believe there is no danger of industry controlling marketing information under the shared funding approach suggested in the past by this office. We recommended that the Market News program continue to be administered by the State of California, but with substantial industry support.

In its report the department indicated that it has demanded that the industry provide funds for this program. Industries response has been minimal. In the current year the department expects about \$250 from the Lodi grape industry and about \$500 for special postage expense from other groups.

The State Department of Agriculture believes that there are economies and efficiencies possible in the federal-state organizational framework for this program in California. The latest available information also shows that California pays a higher portion of market news costs than other states. This condition may imply a higher proportion of local rather than interstate service being provided in California as a General Fund cost than in other states. In order to stimulate economies and efficiencies in the program we recommend at this time that the Department of Agriculture budget for the Market News program be reduced by about 10 percent or \$100,000 in 1972-73. This reduction should be feasible with no reduction in essential services by: (1) securing industry funding through a means as yet to be determined by the department; (2) increased federal contributions or improved organization for the California program; (3) efficiencies derived through consolidation of commodity offices and further federal integration; and/or (4) reduction in the level of low priority service in the present program.

#### **Financial Supervision of Local Fairs**

The Department of Agriculture maintains a Division of Fairs and Expositions which has as its objectives (1) providing assistance to fairs to upgrade services and exhibits and (2) keeping services and exhibits responsive to changing conditions in the state. In addition, the division is to assist the fairs in decreasing the need for financial assistance from the state by increasing their income from existing revenues and developing new revenues. The division's staff allocates state funds and accounts for these funds as well as funds generated locally, which are used for support and construction of the 76 local fairs. In addition, the division's staff directly assist managers from the various fairs to perform planning, accounting, exhibiting, construction and maintenance work.

In the proposed budget there is an increase of \$31,000 to finance two audit positions to provide surveillance of the 76 fairs under the supervision of the Division of Fairs and Exposition. In addition there is \$16,000 allocated for a study of concession and rental rates at fairs. The department informs us that the results of this study will be used to establish uniform procedures to maximize the income of fairs. The study will also be used to establish minimum rates to be charged by the individual fairs and the minimum standards of performance to be required.



DEPARTMENT OF AGRICULTURE—Continued

ADMINISTRATIVE SUPPORTING SERVICES

Total department expenditures proposed for administration, excluding certain direct reimbursements not shown in the Governor's Budget are \$1,380,860 in the budget year. These costs are all either allocated to other departmental programs or reimbursed from trust funds, other departments, or continuing appropriations.

The department's administrative support program is composed of seven elements. These elements are: (1) executive—\$602,750; (2) information—\$49,608; (3) fiscal—\$417,371; (4) personnel—\$152,073; (5) office services—\$138,290; and (6) data processing and MTST word processing (telephone dictating system)—\$20,768. The largest proposed increases are in the executive function which has a 10.4 percent increase and in fiscal services which has an 11.5 percent increase. These increases are about double the rate of increase of the department's total budget.

Department of Agriculture

Item 88 from the Agriculture

Fund

Budget p. 51 Program p. 187

Requested 1972-73.....	\$7,863,527
Appropriated for 1971-72.....	7,100,232
Appropriated for 1970-71.....	12,159,098
Requested increase \$763,295 (10.7 percent)	
Total recommended reduction .....	None

ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

This item appropriates from the Department of Agriculture Fund that portion of the department's budget requested by or benefiting particular groups. The fund is composed of fees and assessments derived from a variety of industry sources. Discussion of the programs which are fully or partially financed by the Agriculture Fund is under Item 87 of the analysis.

**Department of Agriculture**  
**Division of Fair and Expositions**

Item 89 from the Fair and Ex-  
position Fund

Budget p. 52   Program p. 205

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Requested 1972-73.....	\$256,701
Estimated 1971-72 .....	205,585
Actual 1970-71 .....	181,688
Requested increase \$51,116 (25 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The Division of Fair and Expositions derives its support through the operation of Section 19621, Business and Professions Code, which provides for an annual appropriation from the Fair and Exposition Fund to the division for the cost of supervising local fairs.

This item is discussed under Item 87, the General Fund support appropriation to the Department of Agriculture.

**Salaries of County Agricultural Commissioners**

Item 90 from the General  
Fund

Budget p. L-12   Program p. 205

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Requested 1972-73.....	\$171,600
Estimated 1971-72 .....	171,600
Actual 1970-71 .....	167,675
Requested increase—None	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item appropriates funds in accordance with Sections 2221-2224 of the Agricultural Code, which provide for cost-sharing agreements on agricultural commissioners' salaries in order to provide adequate and uniform enforcement of applicable agricultural code provisions. This appropriation makes available, through agreement between the Director of Agriculture and any county board of supervisors, a sum not to exceed \$3,300 per year or two-thirds of the salary of each commissioner, whichever is less. Fifty-two counties are participating in this program.

**Assistance to Cities and Counties for Land Under Contract**

Item 91 from the General

Fund

Budget p. L-12 Program p. 205

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Requested 1972-73.....	\$38,446
Estimated 1971-72 .....	446
Actual 1970-71 .....	446
Requested increase \$38,000	
Total recommended reduction .....	\$38,000

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend reducing the item by \$38,000*

The California Land Conservation Act (Chapter 1443, Statutes of 1965) provided that owners of prime agricultural land, and other lands compatible with agricultural uses, may enter into 10-year contracts with cities and counties for the establishment of agricultural preserves to restrict the use of such land to agricultural purposes. The act also provided for an annual payment by the state to counties of \$1 per acre for land under the contract with cities and counties.

In 1969, the act was amended to eliminate the \$1 per acre payment. A previously existing \$1 per acre payment of \$446 for one contract in Fresno County has been funded yearly. The Department of Agriculture is attempting to eliminate the payment for this contract. Litigation in Kern County involving the \$1 per acre payment is in progress. The budget includes \$38,000 for a possible settlement of this litigation. It is not customary to fund a settlement prior to determination of the amount on the basis for the settlement. The amount of \$38,000 should be removed from the item and funded after a settlement is reached.

**Department of Agriculture  
DISTRICT FAIRS**

Item 92 from the Fair and Ex-  
position Fund

Budget p. 54 Program p. 214

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Requested 1972-73 for transfer to General Fund .....	\$130,000
Estimated 1971-72 .....	130,000
Actual 1970-71 .....	130,000
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item reappropriates \$130,000 from the Fair and Exposition Fund in the budget year for transfer to the General Fund. This amount is a portion of the annual appropriation from horseracing revenues to the Fair and Exposition Fund for the support of district and county fairs. The \$130,000 is allocated annually for one fair that does not qualify for financial support and another fair that no longer exists. This reappropriation is consistent with action taken by the Legislature in the current and past fiscal years.

**Office of Emergency Services  
WORKMEN'S COMPENSATION FOR DISASTER  
SERVICE WORKERS**

Item 93 from the General  
Fund

Budget p. L-13 Program p. 327

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Requested 1972-73 .....	\$88,600
Estimated 1971-72 .....	110,000
Actual 1970-71 .....	98,882
Requested decrease \$21,400 (19.4 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

Community disaster services are usually performed by volunteer personnel who do not receive regular compensation. In recognition of the risks and hazards of such work, the state first accepted responsibility in 1943 to compensate such workers for injuries or deaths occurring in the line of duty. This is covered under the Labor Code.

The state appropriates annually for injury and death compensations based on estimates made by the State Compensation Insurance Fund

which handles the service. The amount fluctuates in accordance with the volume of services and activities which usually reflect both exercises and actual emergencies such as fire and flood incidents or earthquakes. Past experience has indicated that the estimates made by the State Compensation Insurance Services have been quite realistic.

### Agriculture and Services Agency DEPARTMENT OF CONSUMER AFFAIRS

Items 94-128 from Various

Funds

Budget p455 Program p. 218

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Requested 1972-73 .....	\$13,481,037
Estimated 1971-72 .....	13,127,297
Actual 1970-71 .....	11,260,071
Requested increase \$353,740 (2.7 percent)	
Total recommended reduction .....	\$5,000

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

- |   |     |
|---|-----|
| 1. Board of Barber Examiners. <i>Reduce \$5,000.</i> Recommend reduction of overstated budget.  | 238 |
| 2. Public Membership. Recommend legislation to increase public membership on the department's constituent agencies.   | 247 |
| 3. Departmental Funding. Recommend legislation to abolish all special funds and establish new Department of Consumer Affairs composite special fund or, alternatively, to place revenue in the General Fund.  | 248 |
| 4. Consolidation of Agencies. Recommend legislation to combine the following paired constituent agencies: (a) the Board of Nursing Education and Nurse Registration and the Board of Vocational Nurse and Psychiatric Technician Examiners; (b) the Board of Barber Examiners and the Board of Cosmetology; (c) the Bureau of Employment Agencies and the Nurses' Registry. | 248 |

**GENERAL PROGRAM STATEMENT**

The former Department of Professional and Vocational Standards was renamed the Department of Consumer Affairs by the Governor's Reorganization Plan No. 2 of 1970. The Consumer Affairs Act (Chapter 1394, Statutes of 1970, operative July 1, 1971) defined objectives and authorized activities which significantly broadened the department's responsibility and functions in the field of consumer affairs. Chapter 1399, Statutes of 1970, created within the department a Division of Consumer Services, which replaced the former Division of

Consumer Affairs. This division was designated as the administrative unit responsible for receiving, reviewing and acting upon consumer complaints not assignable to a specific departmental regulatory agency. Under the provision of Chapter 114, Statutes of 1971, the Director of the Department of Consumer Affairs is permitted to delegate his duties and powers to the Chief of the Division of Consumer Services.

#### **Departmental Organization**

The department is headed by a director appointed by the Governor and serving at his pleasure. Subject to such authority as is conferred upon the director by specific statute, each of the 32 constituent agencies within the department conducts its own statutory program. For purposes of administrative and budgeting convenience, the department has grouped its constituent agencies into the following functionally related program groups:

1. Healing arts
2. Fiduciary
3. Design and construction
4. Business and sanitation
5. Consumer services

In addition to these program groups, there is an administrative program, the cost of which is distributed pro rata to each constituent agency. While each agency maintains a semi-independent status, the departmental administration division provides such centralized services as accounting, budgeting, personnel management, internal auditing, and legal assistance. The department's Division of Investigation provides investigative and inspection services for constituent agencies. Electronic data processing services are secured under contract from the Board of Equalization. The administrative division manages the Sacramento headquarters building and maintains offices in San Francisco and Los Angeles.

Each program element or individual agency has the statutory objective of regulating an occupational group for the purpose of protecting the general public against incompetency or fraudulent practices. Each agency seeks to accomplish its objective through two types of activity—licensing and enforcement of laws, rules, and regulations. Licensing may involve a variety of activities such as the establishment of curricula, school accreditation, and required experience periods; examination, issuance and renewal of licenses or certificates; or a registration procedure. Law enforcement or compliance consists of procedures to insure that licensees obey laws, rules and regulations governing business or professional conduct. Compliance activity involves inspections, investigations, administrative hearings (before an officer of the Office of Administrative Procedure) or court proceedings where the act being enforced so provides.

**DEPARTMENT OF CONSUMER AFFAIRS—Continued****Healing Arts Group to Be Transferred**

The Governor's Reorganization Plan No. 1 of 1970, whose effective date was rescheduled by Chapter 1217, Statutes of 1971, for July 1, 1973, provides for the establishment of a State Department of Health for the purpose of consolidating the health care services presently administered by the Departments of Mental Hygiene, Public Health, Health Care Services, Social Welfare, and Rehabilitation. One provision of the plan provides for transferring to the new department 10 of the 12 boards now comprising the healing arts program within the Department of Consumer Affairs. The Board of Guide Dogs for the Blind and the new Board of Examiners for Nursing Home Administration are the two exceptions. The healing arts program represents a substantial portion of the department's support requirements as shown in Table 1.

**Table 1**  
**Staffing and Cost Data for Healing Arts Group Affected by**  
**Reorganization Plan No. 1 of 1970**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Estimated 1972-73</i>
Man-years .....	103.5	127.4	128.5
Cost .....	\$3,493,842	\$4,209,641	\$4,295,875

**New Bureau of Automotive Repair**

Chapter 1578, Statutes of 1971 (operative July 1, 1972), cited as the Automotive Repair Act, creates a Bureau of Automotive Repair within the Department of Consumer Affairs. This bureau, consisting of a nine-member advisory board and a chief appointed by the Governor, will be responsible for registering, licensing and regulating automotive repair dealers, lamp and brake adjustment stations, and pollution control device installation and inspection stations. The bureau's duties include (1) investigating complaints relative to automotive repairs, (2) initiating investigations into the practices of automotive repair dealers, (3) making recommendations with respect to policies, practices, and functions necessary for the protection of the consuming public, (4) "suggesting measures that would compensate the consumer for any damages suffered as a result of an alleged violation," and (5) enforcing, through administrative and civil penalties, the provisions of Chapter 1578.

The cost of the bureau, which is not included in this budget proposal due to the late passage of Chapter 1578, is estimated at approximately \$1.6 million for 1972-73. The bureau will be supported by the Automobile Dealers' Repair Fund which will generate its revenue through registration and license fees.

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

trade and consumer organizations; and developed consumer protection and counseling programs in disadvantaged areas.

In the first 10 months of 1971, the division received a total of 2,171 complaints covering such matters as false and misleading advertising, automobile servicing, credit, mail-order houses, and subscriptions. Each complaint is recorded by the division and referred to the affected public or private entity, generally with a request that the division be advised of the action taken. Other followup procedures involve further correspondence with the complainant and/or business establishment to ascertain whether the problem has been resolved. The division advises that on the basis of its followup activities to date, 954 of the 2,171 complaints mentioned above have been adjusted satisfactorily.

Table 2, showing staffing and operating costs for the administrative program, reflects the additional positions proposed for the Division of Consumer Services.

**Table 2**  
**Departmental Administration, Staffing and Cost Data**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Man-years .....	184.5	212.5	218
Cost (pro rated) .....	\$3,672,863	\$4,464,213	\$4,478,240

**ANALYSIS AND RECOMMENDATIONS**

*With the exception of the Board of Barber Examiners, we recommend approval of the departmental administration and agency budget requests.*

The net total budget request for the administrative costs of the department and its constituent agencies is \$13,481,037, which is \$353,740 or 2.7 percent above estimated net expenditures for the current year. Reimbursements, estimated at \$551,800, produce a total expenditure program of \$14,032,837. Due to the department's recent organizational changes and the failure to include in the budget request the cost of certain legislation which was enacted late in the 1971 Regular Session, it is difficult to draw meaningful comparisons between current and proposed expenditure levels. Generally, however, the departmental and individual agency budget requests propose maintenance of the present level of service.

Listed in budget item sequence below are selected workload statistics and summaries of the funding requests (excluding reimbursements) of the department's various boards, commissions and bureaus. In a number of instances, we comment on recent legislation or administrative proposals which affect agency programs or operating procedures.



**Departmental Funding**

Two departmental agencies, the Athletic Commission and the Board of Guide Dogs for the Blind, are wholly supported by the General Fund, but each of the remaining agencies, except for the Division of Consumer Services, is supported by one or more special funds. The department advises that the Division of Consumer Services, which received a General Fund appropriation of \$100 in the 1971 Budget Act, has been placed under departmental administration where its costs, estimated at approximately \$85,000 in 1971-72, are distributed pro rata to each constituent agency in the department. As discussed below, this same organizational and funding arrangement, with estimated costs of \$131,000, is proposed for continuation in the budget year as a means of providing support for the division's consumer affairs activities.

**Division of Consumer Services Transferred to Administrative Program**

The department is engaged in a two-phase restructuring of its administrative program to facilitate compliance with the provisions of the Consumer Affairs Act. Under the first phase, which was completed in November 1971, the Division of Consumer Services was placed, as noted above, in the administrative program with the division chief and deputy chief (position now vacant) reporting directly to the director. Previously, the chief of this division also served in the joint capacity as Chief of the Bureau of Furniture and Bedding Inspection with his costs as the Chief of the Division of Consumer Services being pro rated between the Bureau of Employment agencies and the Bureau of Repair Services.

The second phase, to become effective in January 1972, will consist of adding administratively a net total of 10.5 new positions to the staff of the division. These positions, plus an additional 5.5 positions, are proposed for continuation in the budget year for a net total of 16 new positions: 1 division chief, 1 deputy chief, 3 administrative analysts, 2 field representatives, and 9 clerical positions. The administrative analysts will provide research and analysis, consumer education, public information, and review legislation affecting consumers. The field representatives will identify and report on unfair or deceptive business practices relating to consumers, and the clerk-typist and temporary help positions will provide support for handling complaints, correspondence, and preparation of reports. The department states that these clerical positions may also be used to assist with the clerical workload in other elements of departmental administration.

Since its inception, the Division of Consumer Services has assumed a major portion of the Department of Consumer Affairs' consumer protection responsibilities, including the processing of consumer complaints and requests for information, compiling data and statistics, furnishing reports, and coordinating consumer protection activities with other consumer agencies. The division has also prepared consumer resource materials; established resource contacts with business,

**Board of Accountancy****Item 94 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	27,268	27,250	27,200
Examinations .....	5,804	6,300	6,500
Complaints .....	289	475	475
Man-years .....	9.8	10.8	11.8
Cost .....	\$367,877	\$418,911	\$458,746

The proposed budget reflects the addition of a clerical position to handle workload arising from increased examination and license renewal activity. The department states that the number of licensees does not fully reflect workload due to the fact that the number of licensed certified public accountants is increasing while the number of licensed public accountants (a category for which new licenses are no longer available) is decreasing. The net result is a relatively constant licensee figure with an increase in licensing workload.

**Board of Architectural Examiners****Item 95 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses:			
Architects .....	6,245	6,500	6,600
Building designers .....	1,160	1,160	1,160
Complaints .....	108	150	175
Man-years .....	5	6.3	6.3
Cost .....	\$126,314	\$148,849	\$146,960

**Athletic Commission****Item 96 General Fund**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	3,582	3,700	3,760
Complaints .....	823	840	850
Inspections/Investigations .....	4,111	4,286	4,396
Man-years .....	11.4	10.9	12.9
Cost .....	\$166,878	\$179,800	\$195,100
Revenue (General Fund) .....	\$401,369	\$260,621	\$310,000
(Net General Fund) .....	\$234,491	\$80,821	\$114,900

Chapter 1233, Statutes of 1971, requires that a permit be secured from the State Athletic Commission in order to charge or receive an admission fee for exhibiting a telecast of any live boxing or sparring match or wrestling exhibition viewed in California. It also requires that a member of the commission attend such performances or exhibitions to observe the computation of the number of tickets issued or sold and the determination of gross receipts. The measure appropriated \$40,000 from the General Fund to the State Athletic Commission to implement its provisions. The budget request reflects the addition

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

of one athletic inspector and one clerical position in the budget year for the commission to carry out its responsibilities under Chapter 1233.

**Board of Barber Examiners****Item 97 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	39,423	39,500	39,600
Examinations .....	2,259	2,300	2,400
Complaints .....	241	260	275
Inspections .....	16,685	17,000	17,000
Man-years .....	10.0	11.2	11.2
Cost .....	\$394,561	\$462,335	\$474,857

*We recommend that the Board of Barber Examiners' proposed budget be reduced by \$5,000.* Chapter 1067, Statutes of 1971, provides for the administering of licensing examinations by civil service personnel rather than by members of the Board of Barber Examiners and provides that members of the board shall receive per diem compensation and expenses instead of salaries. The department has estimated that the measure will produce a net annual saving of \$5,000 by eliminating salaries for board members and employing part-time examiners. We understand that, due to the late passage of Chapter 1067, the board's workload data and budget request do not reflect its provisions and, accordingly, the budget request is overstated by \$5,000.

**Board of Behavioral Science Examiners****Item 98 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	10,010	10,300	10,400
Examinations .....	615	700	700
Complaints .....	200	175	100
Investigations .....	13	145	45
Man-years .....	3.5	6.5	6.5
Cost .....	\$90,128	\$135,505	\$135,178

During fiscal year 1971-72, the board conducted an extensive survey of marriage, family and child counselors to determine the extent to which these practitioners were meeting licensing requirements. The survey, which led to the investigations reflected in the 1971-72 data, revealed that a number of practitioners were not licensed. The board advises that legal action will be taken against certain of these nonlicensed counselors.

**Cemetery Board****Item 99 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	1,746	1,800	1,875
Examinations .....	456	495	525
Complaints .....	64	75	80
Investigations/Inspections .....	377	382	384
Man-years .....	4.1	4.4	4.4
Cost .....	\$80,057	\$81,829	\$85,407

**Board of Chiropractic Examiners****Item 100 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	4,396	4,460	4,475
Examinations .....	164	145	150
Investigations.....	109	100	100
Man-years .....	3	3.2	3.2
Cost .....	\$101,173	\$114,214	\$115,177

**Bureau of Collection and Investigative Services****Items 101 and 102 (Two Special Funds)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Collection Agency Program			
Licenseses .....	6,877	3,500	4,000
Complaints .....	654	650	650
Man-years .....	9.9	11.3	11
Cost .....	\$190,789	\$208,518	\$209,310
Private Investigator and Adjuster Program			
Licenseses .....	2,351	2,250	2,450
Complaints .....	94	120	120
Man-years .....	3.3	3.4	3.2
Cost .....	\$96,743	\$111,378	\$106,212

**Contractors' State License Board****Item 103 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	91,576	90,000	92,000
Examinations .....	4,364	4,500	4,500
Complaints .....	19,902	20,100	20,300
Investigations/Inspections .....	18,023	18,200	18,400
Cases referred to disciplinary action.....	1,022	1,025	1,025
Man-years .....	150.4	159.5	159.5
Cost .....	\$2,617,747	\$2,819,846	\$2,876,688

**Board of Cosmetology****Item 104 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	162,596	175,000	185,000
Examinations .....	10,657	11,000	11,000
Investigations.....	1,190	1,400	1,400
Complaints .....	756	800	800
Man-years .....	25.3	29.3	30.5
Cost .....	\$800,523	\$876,304	\$938,187

## DEPARTMENT OF CONSUMER AFFAIRS—Continued

The Board of Cosmetology proposes an increase of \$61,833 (7 per cent over estimated current-year expenditures) for additional EDP services, temporary help, printing, postage and other miscellaneous costs necessary to meet extra workload in the budget year, which is a renewal year for the biennial licenses.

**Board of Dental Examiners****Item 105 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses (all classes) .....	19,363	21,285	21,267
Radiation Safety Certificates .....	-	25,000	36,000
Examinations .....	1,984	29,420	16,195
Complaints .....	420	450	500
Investigations .....	111	115	120
Man-years .....	7.2	11.1	11.2
Cost .....	\$260,294	\$327,044	\$339,446

The \$12,000 increase in budget request for the Board of Dental Examiners reflects the enactment of Chapter 1011, Statutes of 1971, which provides for a 10-member examining committee, appointed by the board, to assist in the examination of applicants and perform various other duties assigned by the board.

**Board of Dry Cleaners****Item 106 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	16,597	17,500	18,500
Examinations .....	749	800	900
Complaints .....	1,800	1,800	1,800
Investigations .....	10,323	10,400	10,400
Suspensions/Revocations .....	32	40	45
Man-years .....	7.8	8.8	8.6
Cost .....	\$280,727	\$324,366	\$328,379

The Governor's Reorganization Plan No. 2 of 1971 proposed the abolition of the Board of Dry Cleaners and the transfer of its functions to the Office of the State Fire Marshal. Accordingly, the Governor's 1971-72 budget proposal contained \$40,000 for the Board of Dry Cleaners to provide for an orderly transfer of its programs. The Governor eliminated a legislative augmentation of \$278,970, which would have restored the board's original support level. When the provisions for transferring this agency's function to the Office of the State Fire Marshal failed to be enacted, the administration augmented the board's budget by \$278,970 through an emergency authorization, thus providing an authorized expenditure level of \$318,970.

We are advised by the Department of Consumer Affairs that the board's 1971-72 cost estimate, as reported in the budget, is erroneous and should be \$318,970 instead of the \$324,366 shown. Accordingly, the proposed budget for the Board of Dry Cleaners is an increase of \$9,409 or 2.9 percent over current-year expenditures.

#### Bureau of Employment Agencies

##### Item 107 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	1,513	1,600	1,825
Examinations .....	352	400	450
Complaints .....	967	1,100	1,200
Inspections/Investigations .....	618	425	450
Man-years .....	4.8	8	7.5
Cost .....	\$201,674	\$248,580	\$254,886

#### Board of Funeral Directors and Embalmers

##### Item 108 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	4,622	4,700	4,700
Complaints .....	127	105	135
Inspections/Investigations .....	1,950	3,150	3,175
Man-years .....	5.4	6.5	6.5
Cost .....	\$104,615	\$115,994	\$122,675

#### Bureau of Furniture and Bedding Inspection

##### Item 109 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	20,856	22,856	21,000
Complaints .....	1,578	1,600	1,650
Inspections/Investigations .....	11,609	12,000	12,000
Samples analyzed .....	2,472	2,500	2,500
Action taken as a result of sample analysis:			
Finished Articles:			
Articles destroyed .....	2,613	2,631	2,640
Articles relabeled .....	3,621	3,640	3,655
Articles returned to manufacturer .....	2,859	2,900	2,900
Articles ordered sterilized .....	4,978	4,988	4,989
Bulk Materials:			
Relabeled/returned to manufacturer (pounds) .....	35,895	36,000	36,000
Man-years .....	13.9	14.6	14.6
Cost .....	\$429,416	\$482,885	\$488,212

Chapter 881, Statutes of 1971, placed water beds under the regulation of the State Bureau of Furniture and Bedding Inspection but, due to the late passage of this measure, the budget request does not reflect

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

its fiscal impact. The department has estimated that initial one-time costs for temporary help and special equipment necessary for inspections and the establishment of safety standards might exceed \$10,000. It is anticipated that most of this cost will probably occur in the current year. However, the new function could increase budget-year costs above the proposed expenditure level.

**Board of Registration for Geologists****Item 110 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	3,814	3,844	3,874
Man-years .....	2.1	1.7	1.7
Cost .....	\$50,108	\$51,194	\$50,011

**State Board of Guide Dogs for the Blind****Item 111 General Fund**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	20	23	25
Man-years .....	-	0.1	0.1
Cost .....	\$2,191	\$2,600	\$2,670

**Board of Landscape Architects****Item 112 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	845	890	920
Complaints .....	14	35	35
Investigations.....	10	35	35
Man-years .....	0.8	1	1.5
Cost .....	\$32,534	\$37,629	\$39,851

**Board of Medical Examiners****Items 113, 114 and 115 (Three Special Funds)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses:			
Medical Practice Act .....	65,128	72,752	73,762
Psychology Certification Act .....	3,075	3,200	3,300
Licensed Physical Therapists .....	4,182	5,000	5,000
Corporations .....	2,685	4,040	5,050
Hearing Aid Dispensers .....	—	1,000	1,000
Physicians' Assistants .....	—	500	500
Psychology assistants .....	233	500	725
Complaints .....	1,083	1,300	1,300
Investigations.....	1,255	1,100	1,200
Suspensions/Revocations .....	17	20	20
Criminal Convictions.....	36	38	38
Man-years .....	22.7	28.9	28.1
Cost (all funds) .....	\$1,082,018	\$1,357,076	\$1,385,286

Legislation enacted in the 1971 Regular Session affecting this board or its constituent committees included: (1) Chapter 838 which increased the license fee structure and revised the administrative functions of the Physical Therapy Examining Committee, (2) Chapter 1498, which appropriated \$125,000 from the Board of Medical Examiners' Contingent Fund to the Board of Medical Examiners' for curricula evaluations, (3) Chapter 113, which permits U.S. citizens who graduate from four-year medical schools in Mexico to take the same written examination as prescribed for graduates of California medical schools, and (4) Chapter 1494, which authorizes the Physical Therapy Examining Committee to license assistant physical therapists.

We are advised that due to their late passage in the 1971 Regular Session, none of these measures is reflected in the board's workload and cost data for the budget year.

#### State Board of Examiners of Nursing Home Administrators

##### Item 116 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Applications .....	-	1,400	200
Licenses .....	-	1,400	1,600
Man-years .....	0.4	3.1	3.1
Cost .....	\$12,867	\$108,252	\$75,483

The Board of Examiners of Nursing Home Administrators was originally scheduled to start operations in the 1970-71 fiscal year, but it did not formally begin to function until the board members were appointed on June 8, 1971. The board will begin examining applicants in January 1972, and expects initial workload to be quite high. The current-year expenditures reflect the one-time cost of equipment and operating expenses relating to the application workload.

#### Board of Nursing Education and Nurse Registration

##### Item 117 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Schools of Nursing .....	80	82	84
Licenses .....	148,000	150,000	154,000
Investigations .....	330	315	350
Hearings .....	91	105	100
Prosecutions .....	20	27	25
Man-years .....	25.4	30.3	30.8
Cost .....	\$661,856	\$774,540	\$796,187



**DEPARTMENT OF CONSUMER AFFAIRS—Continued****Nurses' Registry****Item 118 (Special fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	92	100	130
Man-years .....	0.6	1	1
Cost .....	\$4,640	\$14,167	\$14,031

**Board of Optometry****Item 119 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	3,067	3,207	3,400
Complaints .....	300	315	315
Investigations .....	23	25	30
Man-years .....	2.6	3	3
Cost .....	\$97,332	\$90,359	\$86,623

**Board of Osteopathic Examiners****Item 120 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses (all classes) .....	282	280	278
Investigations .....	5	6	6
Hearings .....	4	4	4
Suspensions/Revocations .....	-	1	1
Cost .....	\$12,388	\$13,788	\$14,452

No new osteopathic physicians have been admitted to practice in California since 1962. Pursuant to existing law, when the number of licensees declines to 40 or less the remaining licensees will become subject to the jurisdiction of the Board of Medical Examiners. Current staff service is provided to the osteopaths' board under contract with the Board of Chiropractic Examiners.

**Board of Pharmacy****Item 121 (Special Fund)**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenses .....	23,166	23,000	23,500
Complaints .....	1,000	2,000	1,000
Inspections/Investigations .....	7,002	7,500	7,500
Disciplinary actions .....	320	330	330
Man-years .....	24	26.2	26.3
Cost .....	\$670,585	\$750,987	\$764,699

Chapter 1060, Statutes of 1971, created a Committee for the Continuing Education of Pharmacists, consisting of six members appoint-

ed by the State Board of Pharmacy, and established requirements concerning the continuing professional education of pharmacists. We are advised that due to its late passage, the fiscal effects of this measure are not reflected in the 1972-73 budget request. However, the department indicates that the measure could have a substantial cost impact on the State Board of Pharmacy Contingent Fund for the budget year.

#### Board of Registration for Professional Engineers

##### Item 122 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	60,215	61,500	62,000
Complaints .....	482	500	500
Investigations .....	504	500	500
Man-years .....	33.8	38.9	38.2
Cost .....	\$692,050	\$719,973	\$733,449

Prior to the effective date of the Governor's Reorganization Plan No. 2 of 1970 (November 23, 1970), the State Board of Registration for Professional Engineers consisted of eight licensees of the board and one public member. The Governor's Reorganization Plan provided for replacement of one of the licensee members with a public member, thus changing the composition of the board to seven licensees and two public members. Chapter 1328, Statutes of 1971, provides that an additional licensee member and an additional public member shall be added to the board, thereby increasing the board to 11 members. The department advises that the two additional members will increase annual costs to the Professional Engineers' Fund by approximately \$3,000 for per diem and other expenses. However, due to the late passage of Chapter 1328, this cost is not provided for in the 1972-73 budget request. In the event that this expense cannot be met within budgeted funds, the board could request an emergency authorization for additional money.

#### Bureau of Repair Dealer Services

##### Item 123 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	5,941	6,118	6,000
Complaints .....	2,445	2,659	2,700
Inspections/Investigations .....	3,010	3,000	3,000
Man-years .....	9.3	12.4	12.4
Cost .....	\$260,948	\$311,237	\$322,706

## DEPARTMENT OF CONSUMER AFFAIRS—Continued

## Certified Shorthand Reporters' Board

## Item 124 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	1,682	1,850	1,950
Complaints .....	50	110	115
Man-years .....	1.6	1.7	1.8
Cost .....	\$38,850	\$41,817	\$45,124

## Structural Pest Control Board

## Item 125 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	4,677	4,700	5,565
Complaints .....	1,474	1,500	1,500
Inspections/Investigations .....	1,290	1,300	1,300
Personnel Man-years .....	17.1	18.7	18.6
Cost .....	\$487,507	\$544,657	\$525,298

## Board of Examiners in Veterinary Medicine

## Item 126 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Licenseses .....	3,227	3,350	3,500
Complaints .....	270	300	330
Investigations .....	175	200	200
Man-years .....	1.1	1.7	2
Cost .....	\$92,341	\$94,136	\$95,818

## Board of Vocational Nurse and Psychiatric Technician Examiners

## Items 127 and 128 (Special Fund)

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Proposed 1972-73</i>
Vocational Nurses:			
Licenseses .....	39,200	45,340	50,940
Complaints .....	600	685	775
Inspections/Investigations .....	120	130	155
Psychiatric Technicians:			
Licenseses .....	12,021	12,726	13,511
Complaints .....	105	125	135
Inspections/Investigations .....	12	18	20
Man-years .....	14	16.5	17.5
Cost .....	\$401,825	\$490,151	\$517,598

The proposed increases in cost and staffing for the budget year reflect (1) estimated increases in disciplinary actions arising from complaints and investigations, (2) initiation of a research project to determine the adequacy of licensee training, and (3) increased license renewal workload.

### Policy Recommendations

The Governor's Reorganization Plan No. 2 of 1970 emphasized and the Consumer Affairs Act of 1970 expanded the authority and responsibility of the department as a consumer affairs agency. The stated objective of the Consumer Affairs Act is to promote and protect the interests of consumers by facilitating the proper functioning of the free enterprise market economy through (1) consumer education programs, (2) consumer protection from the sale of goods and services through deceptive methods, acts, or practices which are inimical to the general welfare, (3) the fostering of competition, and (4) the promotion of effective governmental representation of consumer interests.

It appears, however, that the department may not be fully able to implement the spirit of the Governor's Reorganization Plan No. 2 or the policy statements in the Consumer Affairs Act partly because of the composition of constituent boards and commissions and the special fund nature of their financing. We believe, therefore, that legislative attention to the following problem areas is necessary as a means of strengthening the department's role as a consumer affairs agency.

1. *Place more public members on the department's constituent agencies.* In past years, our office has raised the question of whether the department's boards and commissions are properly formulated to represent the public interest and welfare in the most effective manner. This question has particular relevance in view of the department's new name and "consumer affairs" responsibilities. Moreover, a 1971 state court of appeals decision (*Bayside Timber Company, Inc. vs. Board of Supervisors of San Mateo County, and Planning Commission of San Mateo County*) has significant implications for the composition of the department's constituent agencies. The court determined that the Forest Practice Act, insofar as it provides for the promulgation of forest practice rules, is violative of the State and Federal Constitutions. The court based its decision, in part, on the fact that the rules under which private logging operations are conducted are decreed exclusively by persons pecuniarily interested in the timber industry, i.e., timber owners and operators. The court noted that without agreement of the private timber ownership no administrative body has authority to impose rules to insure reasonable environmental and public protection from logging abuses.

The court cited a 1953 California Supreme Court opinion in *State Board vs. Thrift-D-Lux Cleaners* (40 Cal. 2d 436) which stated, in part, "where the Legislature attempts to delegate its powers to an administrative board composed of interested members of the industry. . . , that delegation may well be brought into question."

The main point of the decision in the Bayside Timber Company case appears to be that regulatory bodies should not be composed mainly of licensees of the vocation or profession which is subject to the regulation. We believe this is sound public policy. Accordingly, we recom-

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

mend that the composition of the various boards in the Department of Consumer Affairs be changed so that each has a majority of public members.

2. *Abolish the special funds relating to the various boards, commissions and bureaus and establish in their place a new Department of Consumer Affairs composite special fund or, alternatively, place the revenue in the General Fund.* Either of these funding arrangements would strengthen the department's central administration and eliminate the proprietary attitudes which tend to characterize special fund activities. A new funding arrangement would also alleviate the problem of large protected surpluses developing in the various boards' special funds.

3. *Combine the following paired agencies: (a) The Board of Nursing Education and Nurse Registration and the Board of Vocational Nurse and Psychiatric Technician Examiners; (b) The Board of Barber Examiners and the Board of Cosmetology; (c) The Bureau of Employment of Agencies and the Nurses' Registry.* These agencies administer laws regulating the practice of similar vocations or professions. In the interest of securing greater operating efficiency and reducing costs, we recommend that consideration be given to consolidating the three pairs of boards listed above. As a minimum, consolidation would reduce administrative costs and, assuming a reduction in the total number of board members, provide savings in per diem and travel expenses.

**BOARD OF CONTROL**

Item 129 from the General  
Fund

Budget p. 56 Program p. 270

Requested 1972-73.....	\$151,207
Estimated 1971-72 .....	121,085
Actual 1970-71 .....	106,012
Requested increase \$30,122 (24.9 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Pro Rata Charges. Recommend Department of General Services streamline its method of computing pro rata administrative charges. 249

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval as budgeted.*

This item provides administrative support for the Board of Control

and the Merit Award Board which share a single staff under the supervision of the Secretary of the Board of Control.

#### **Board to Have Final Say on Good Samaritan Claims**

General claims against the state are presented to the Board of Control for review and disposition. Tort liability (see Item 46) and aid to victims of violent crimes (see Item 47) claims are reviewed and acted upon only by the board and, those approved are paid from funds appropriated for those purposes. As a result of the enactment of Chapter 1269, Statutes of 1971, in the future Good Samaritan claims up to a statutory maximum of \$5,000 will also be approved by the board without legislative review and paid from a separate appropriation. All other claims, approved by the board are referred to the Legislature for final review, under an annual omnibus claims appropriation.

Other responsibilities of the board include the review of various fiscal and related transactions, the disposal of unclaimed property, as well as the adoption of administrative rules governing state employees' travel pay and moving allowances. One of its fiscal duties is the determination of the pro rata share of general government overhead charges which are charged to special fund agencies. These overhead charges include a portion of the General Fund costs of the Governor's office, the Legislature, the State Controller and Treasurer, the Department of Finance and certain other agencies which serve both General Fund and special fund departments. The Department of General Services, as a staff service, computes these pro rata charges for the board.

#### **Board's Cost for Professional Services to Rise**

In the past the board was not charged for this computational service. For the first time, a charge will be included in the board's 1972-73 budget, because the Department of General Services now is requiring reimbursements for all of its direct services. The cost of computing these pro rata charges will be \$19,530, which represents one-man year of staff time, and constitutes 64 percent of the total increase in the board's budget. We do not object to the inclusion of this charge in the board's budget, but we do question the need for the expenditure of this magnitude of staff time to compute these bookkeeping charges among state agencies. These computations involve the gathering of specific workload information such as personnel, transportation, communications, etc., from the affected general governmental agencies, and then allocating the resulting costs to the special fund departments. In the past, several state agencies have complained about the fluctuations in the magnitude of these charges from year to year.

*To resolve these issues, we recommend that the Department of General Services, in conjunction with the special fund agencies most affected, review the method of computing these charges with the objective of establishing a new system which will be less expensive to*

**BOARD OF CONTROL—Continued**

*compute, and more stable in its results.* There are potential savings in revising the system; for example, the department could use average workload measurements of prior years rather than painstakingly computing new ones each year.

Past and projected claim workload of the board is indicated in Table 1.

**Table 1**  
**Volume of Board of Control Claims**

	1968-69	1969-70	1970-71	1971-72	1972-73
Original Estimate .....	2,608	2,759	2,980	3,000	3,000
Actual .....	2,429	2,652	2,946	3,200 *	---

\* Based on the July-November average.

The 1968-69 and 1969-70 totals have been adjusted downward, because of the unusually high caseload during mid-1969, resulting from the southern California floods of that year. These flood claims were handled in two large groups (306 in 1968-69 and 94 in 1969-70), with combined fact sheets and other administrative devices which simplified the workload of the board's staff. In effect, these 400 cases were treated as two "claims" and, therefore, it would have been misleading to give full workload weight to each "case" in the statistics in Table 1.

**THE MERIT AWARD BOARD**

The Merit Award Board reviews all state employee suggestions for more efficient government operation and recommends cash awards for those whose ideas are adopted.

Table 2 shows the past and projected workload of this program.

**Table 2**  
**Volume of Employee Suggestions**

	1969-70	1970-71	1971-72	1972-73
Original Estimate .....	3,025	3,000	3,100	3,100
Actual .....	2,735	2,925	2,700 *	---

\* Based on the July-November average.

The proposed budget includes \$3,000 for designing and printing of posters to publicize among employees the state's suggestion program.

**CALIFORNIA EXPOSITION AND FAIR**

Items 130, 131 and 132 from  
the General Fund and  
transfer from the State Fair  
Fund

Budget p. 57 Program p. 271

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Requested 1972-73	
(General Fund) .....	\$1,311,322
(State Fair Fund) .....	265,000
Estimated 1971-72	
(General Fund) .....	1,492,586
(State Fair Fund) .....	439,260
Requested decrease (General Fund) \$181,264 (12.1 per-	
cent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The California Exposition and Fair Executive Committee operates the California Exposition and Fair (Cal Expo). The committee is composed of 14 members appointed by the Governor. The exposition is the successor to the old State Fair and is located on a site in northeastern Sacramento. The original concept of the exposition and fair was for an exposition of the resources, commerce and unique values of California, in addition to various educational and recreational features. It was intended that the exposition would operate approximately 9 or 10 months each year, with the fall period augmented by special exhibits and agricultural attractions which would be similar to those at the old State Fair. The exposition has not operated on this basis, however, but has continued much as the old State Fair. During 1972 the exposition is scheduled to run for 17 days, from August 25 through September 13.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

In the budget year the General Fund appropriation request for Cal Expo is \$1,311,322 or 12.1 percent below the General Fund estimated expenditures for this budget in the current year. This appropriation covers two purposes: (1) \$1,130,000 for principal and interest payments on the original \$13 million revenue bond issue for capital outlay and (2) a \$181,322 General Fund support subsidy for operating Cal Expo. The General Fund support subsidy in the current year is now estimated at \$362,586. This support subsidy increased primarily because of a \$185,727 allocation from the Emergency Fund. A variety of adverse effects on the operating revenues and expenditures at Cal Expo produced this increase. These are discussed below. Additional funding is provided to Cal Expo each year by an automatic annual \$265,000 transfer from the Fair and Exposition Fund.



**CALIFORNIA EXPOSITION AND FAIR—Continued****Fair Revenues Decline and Costs Increase**

Until 1971 Cal Expo's attendance and revenues from fair operations, including parimutuel wagering, have shown an increase each year. However, the 1971 season was a disappointment. As Table 1 shows, total attendance was down about 59,000 and racing attendance was down about 29,000 from 1970. Admission revenues decreased \$86,000 from 1970 and parimutuel revenue declined about \$129,000.

**Table 1**  
**Attendance and Revenue—Cal Expo 1969-1971**

	1969	1970	1971
Attendance			
General .....	857,426	952,691	893,737
Thoroughbred racing .....	119,717	127,709	98,140
Revenue			
Total .....	\$1,913,015	\$2,077,101	\$1,921,360
Admissions .....	549,492	564,246	478,212
Parimutuel .....	810,060	864,036	734,055

Disturbances occurred for three nights at Cal Expo in 1971, resulting in substantial crowd control problems for police. These disturbances accounted for part of the decrease in attendance at the fair. Substantial aid by the City of Sacramento, Sacramento County and the California Highway Patrol was required by the exposition security personnel who are not equipped or trained for riot control. The aid provided by Sacramento City and Sacramento County will cost about \$119,000 in the current year. These costs were unanticipated and therefore constitute a large portion of the increased General Fund subsidy required by the exposition in the current year.

**Racing Revenues**

The most severe decline in revenues at Cal Expo did not occur in admissions but in Thoroughbred horseracing, with the parimutuel handle declining from an all time high in 1970 of \$8,393,513, to \$6,765,137 in 1971. This was a decline of 19.3 percent which produced a \$129,000 decrease in revenues to the exposition.

Along with the traditional Thoroughbred racing at the California Exposition and Fair in 1971, there were 40 nights of harness racing preceding the fair. Attendance at the harness racing was 149,712 with a total handle for 40 nights of \$5,869,001. Net revenue to Cal Expo was quite minor, however, as this meet is sponsored by the Capitol Trotting Association, Ltd., of Sacramento and the exposition does not receive a share of the handle. Cal Expo ended up with a total of \$27,421 in net revenue after all deductions took place. Of this amount \$21,521 was from concessions and \$5,900 from rental of the track.

In addition to the direct revenue from harness racing received by Cal Expo, the State Fair and Exposition Fund receives a substantial license fee totaling about \$323,000 in 1971. This revenue, however,

would accrue to the state wherever or whenever this meet were held and should not be directly attributed to Cal Expo. Another positive factor other than direct revenue is that the Capitol Trotting Association, Ltd., has installed lights at Cal Expo at a cost of over \$300,000. These lights will eventually become another capital asset of the exposition, and in the interim may be used for other purposes such as Thoroughbred racing.

An analysis of the racing results of the exposition since 1968 is given in Table 2. An important factor to note is that the "overlap," i.e., dates of concurrent Thoroughbred racing in the bay area with that at Cal Expo, was three days in 1968, 1969 and 1970. The 1971 year had one more day of overlap but the effect of this appeared to be minor. Although overlap must have a financial impact on Cal Expo's racing revenues, there is no reason to expect this impact to be proportionately different in 1971 than in prior years except for one factor. In 1971 there were five days of harness racing in the bay area on days of Thoroughbred racing at Cal Expo. There had formerly been no overlap on these days. The racing handle at Cal Expo in 1971 declined almost 25 percent on these days of harness racing overlap. However, on four days with no overlap there was an average 22-percent decrease in handle, and on the four days of Thoroughbred overlap (similar to 1970) the decline from 1970 was about 14 percent. Overlap, therefore, would seem to offer little to explain poor racing results at Cal Expo in 1971.

**Table 2**  
**Cal Expo Thoroughbred Racing Results**  
**(Selected Indicators)**

	1968	1969	1970	1971
Attendance.....	100,469	119,707	127,709	98,140
Handle.....	\$6,707,408	\$7,793,862	\$8,393,513	\$6,765,137
Percentage change in handle from previous year.....		+16%	+8%	-19%

Although impossible to estimate, it is obvious that a portion of the money bet on night harness racing at Cal Expo must have been subtracted from the wagering during the fair period on Thoroughbreds. The total handle for the 40 nights of night harness racing was \$5,869,001. The total Thoroughbred racing handle for 14 days in 1971 was \$6,765,137. If only 20 percent of the wagering at the harness meet was added to the handle at the Thoroughbred meet, this would increase the handle at the Thoroughbred meet by over \$1 million. Substantial wagering in the Sacramento area on harness horses prior to the fair period appears to be the most obvious adverse factor in the decline of the parimutuel revenues at Cal Expo. Thus, it is probably that the decision of Cal Expo to initiate harness racing had a negative rather than a beneficial impact on Cal Expo's revenues for 1971.

## STATE FIRE MARSHAL

Items 133-134 from the Gen-  
eral Fund and the Dry  
Cleaners Fund

Budget p. 58 Program p. 274

Requested 1972-73.....	\$1,012,256
Estimated 1971-72 .....	995,103
Actual 1970-71 .....	971,050
Requested increase \$17,153 (1.7 percent)	
Total recommended reduction .....	\$149,099

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

*Plan Review Function. Reduce \$149,099.*

1. Delete requirement for Fire Marshal review of construction plans for public structures, thereby reducing authorized positions by nine deputy fire marshal III positions. 256

## GENERAL PROGRAM STATEMENT

The Office of the State Fire Marshal, under the Agriculture and Services Agency, has as its fundamental objectives the prevention of loss of life and property by fire through fostering, promoting and developing ways and means to protect against fire and panic. The basic program is specifically aimed at various types of occupancies to which the public has general access. However, the Fire Marshal's activities also promote fire and panic safety in nonpublic occupancies through influence on applicable building codes.

The objectives of this office are achieved through three elements, (1) enforcement, (2) analysis and development and (3) administration.

## Enforcement

The enforcement element is composed of eight components affecting public assembly occupancies (occupancy of 50 or more persons), educational occupancies, institutional occupancies, state-owned buildings, dry cleaning establishments, portable fire extinguisher servicing concerns, fireworks and transportation of flammable liquids. Enforcement is conducted on a two-phase basis, (1) review of construction plans for new facilities, and (2) onsite or field inspection applicable to the various components. The prime responsibility for enforcement rests with the local authorities. The State Fire Marshal has no responsibility or authority over local officials regarding the integrity or capability of local enforcement. However, when there are no local authorities, and in all state-owned buildings, drycleaning establishments and cargo tanks used in the transportation of flammable liquids,

the State Fire Marshal is charged with or has assumed enforcement responsibilities.

#### **Analysis and Development**

The analysis and development element is composed of three components. The construction materials and equipment component is responsible for evaluation of technical data and test reports of construction materials and equipment to determine conformance with State Fire Marshal adopted test methods and standards. A listing of conforming materials and equipment is published annually. The licensing regulating and certification component is responsible for these requirements within the functions relating to flame retardants, fireworks, explosives, portable fire extinguishers, and cargo tanks used in the transportation of flammable liquids. The third component, which has been greatly curtailed in recent years due to funding limitations, is public education and training. The function of this component is to provide the public with fire and panic safety information and train and inform local enforcement agencies as to the most recent developments, regulations and practices in fire and panic safety.

#### **Administration**

An administrative program, which includes planning, coordinating and application of appropriate statistical, fiscal and technical information and data is, for accounting purposes, distributed to the enforcement, and analysis and development elements in the amount attributable to each.

All functions of the State Fire Marshal are financed by the General Fund with the exception of the activity relating to drycleaning establishments. The latter is supported from the Dry Cleaners Fund, which receives its revenue from licensing and other fees incidental to the operation of cleaning and dyeing establishments.

#### **ANALYSIS AND RECOMMENDATIONS**

The State Fire Marshal is requesting \$1,012,256 for support during the 1972-73 fiscal year, an increase of \$17,153 or 1.7 percent over estimated expenditures in the current year. General Fund support of \$937,256 is requested for the budget year, an increase of \$42,153 over the current year, and support from the Dry Cleaners' Fund is scheduled to decrease from \$100,000 to \$75,000 contingent upon the enactment of proposed legislation which would terminate on January 1, 1973, the State Fire Marshal's regulatory responsibility over the drycleaning industry. The phasing out of this activity results in a reduction of \$30,223 during the current year in authorized expenditures from the Dry Cleaning Fund and a request from this fund for the budget year sufficient to carry this activity until the proposed termination date.

The drycleaning industry has significantly reduced the usage of flammable cleaning solvents, and it is the opinion of the State Fire

**STATE FIRE MARSHAL—Continued**

Marshal that regulation can best be served by local government and that the health and safety of the public and occupational security of employees can be maintained by the State Board of Dry Cleaners through the licensing procedure. We agree with the proposal. However, we would anticipate that the Fire Marshal would continue to act as a consultant in the establishment of regulations concerning dry-cleaning establishments.

The General Fund increase of \$42,153 for the budget year reflects an increase of \$47,917 to implement Chapter 1428, Statutes of 1971, partially offset by a reduction of \$5,764 in temporary help required in the current year for the biennial registration of cargo tanks transporting flammable liquids.

Under the provisions of Chapter 1428, Statutes of 1971, the Fire Marshal is required to establish and enforce fire safety standards in certified family care homes, out-of-home placement facilities, halfway houses and similar facilities including those housing mentally retarded persons under the provisions of the Lanterman-Petris-Short Mental Retardation Act. Approximately 1,000 of these facilities are estimated to be within the enforcement jurisdiction of the State Fire Marshal.

**Delete Plan Review Responsibility**

*We recommend that the plan review responsibility of the State Fire Marshal be deleted and the authorized positions related to this responsibility be eliminated. These positions total nine deputy fire marshal III classifications representing a reduction in the requested amount from the General Fund of \$149,099 in salaries and wages plus the appropriate share of operating expenses.*

The State Fire Marshal has administratively assumed the responsibility of reviewing construction plans for facilities within the areas previously described under the enforcement element program. The plan review is for the purpose of determining adherence to code requirements on fire and panic safety. We believe this is an unnecessary duplication. The plans reviewed by the State Fire Marshal are prepared by professional architects and/or engineers licensed to practice in this state. These professionals have substantial education and training in their fields. Prior to obtaining a license to practice, an individual must have specific education and work experience background and then must pass a stringent examination. We believe the standards for professional architects and engineers in California in effect certify competence and knowledge of their professions including code requirements.

**FRANCHISE TAX BOARD**

Item 135 from the General

Fund

Budget p. 59 Program p. 278

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Requested 1972-73 .....	\$22,525,594
Estimated 1971-72 .....	22,032,917
Actual 1970-71 .....	20,225,695
Requested increase \$492,677 (2.2 percent)	
Total recommended reduction .....	Pending

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

1. New Tax Resources. *We withhold recommendation on this item because the requests contained in this budget are for ongoing programs and do not include funds for the new withholding, bank and corporation tax, and senior citizen programs enacted under Chapter 1, Statutes of 1971, First Extraordinary Session (AB 1).* 258
2. Move to Aerojet. The board moved all central operating divisions to Aerojet Center with potential savings to the state but higher costs to many employees. 263
3. Data Processing. The electronic data processing systems are expanded to accommodate increased workload under the new withholding program. 264

**GENERAL PROGRAM STATEMENT**

The Franchise Tax Board was created on January 1, 1950, as successor of the Franchise Tax Commissioner. It administers the Personal Income Tax Law and the Bank and Corporation Tax Law. In 1968 the board was given the additional responsibility of administering the Senior Citizens Property Tax Assistance Program. The Franchise Tax Board is composed of the Director of Finance, State Controller and Chairman of the Board of Equalization. The board delegates its administrative responsibilities to an executive officer while retaining the policy functions of adopting rules and regulations and setting the tax rate on banks and financial institutions.

Chapter 1, Statutes of 1971, First Extraordinary Session (AB 1) incorporated a number of tax changes which will have a significant impact on the programs and workload of this agency. They include:

1. Withholding. A system of personal income tax withholding and quarterly estimated payments was initiated starting January 1, 1972. The employer is required to remit income tax withheld on a monthly basis unless total taxes withheld each month are less than \$100 in which case a quarterly remittance is required. Persons with income not subject to withholding are required to file quarterly declarations of their estimated taxes and to make corresponding payments if the annual tax

**FRANCHISE TAX—Continued**

is expected to exceed \$100 per year. The Department of Human Resources Development will administer the employer withholding portion of this program under a \$2.2 million interagency agreement with the Franchise Tax Board which is included in the \$5.5 million 1971-72 support appropriation contained in AB 1.

2. Bank and Corporation Tax Quarterly Payments. For calendar year corporations a quarterly payment of estimated tax is due in April, June, September and December with a final adjustment due in March of the following year. Under former law a 50 percent prepayment of the estimated tax was due in June and a second payment (25 percent) was due in November with the final payment due in March of the following year.

3. Senior Citizens' Property Tax Assistance. This program is expanded to provide assistance on the first \$7,500 of assessed valuation when household income does not exceed \$10,000 and the age of eligibility is reduced from 65 to 62. Under former law, assistance was allowed on the first \$5,000 of assessed valuation where household income did not exceed \$3,350. A significant increase in workload is expected due to the number of claimants increasing from 60,000 to 240,000 estimated for the budget year.

AB 1 appropriated \$5,511,000 to cover the board's cost of administering the provisions of this legislation during the current year. In addition \$600,000 was appropriated to the Department of General Services to fund the cost of completing alterations at the board's new Aerojet Center facilities.

**Current Year Expenditures**

The expenditures estimated for the current year which are reported at the level of \$22,032,917 do not reflect the amounts appropriated in AB 1 for 1971-72 nor do they include the following Emergency Fund allocations:

	<i>Franchise Tax Board 1971-72 Emergency Fund allocations</i>
Postage rate increase.....	\$133,606
Aerojet relocation expense .....	258,888
Total.....	<u>\$392,494</u>

The Aerojet relocation expenses include the cost of shifting telephone equipment, \$44,510; moving company charges, \$36,617; alterations amortization, \$75,240; and, rent differential resulting from the move to Aerojet, \$102,521.

**ANALYSIS AND RECOMMENDATIONS**

*We withhold recommendation on this item pending submission of a supplementary budget proposal by the Department of Finance. The late enactment of AB 1 made it impractical to include funds to imple-*

ment the new withholding, franchise tax and senior citizen programs in the Governor's Budget. The Department of Finance will request augmentation of this item by separate letters to each fiscal committee after reviewing the agency's AB 1 program estimates.

This analysis will, therefore, concentrate on: (1) an analysis of workload adjustments proposed in the budget which are unrelated to program changes required under AB 1, (2) an analysis of the agency's move to Aerojet, and (3) a description of program changes expected under withholding. Distribution of the board's manpower and expenditures by program is summarized in Table 1.

**Table 1**  
**Franchise Tax Board**  
**Distribution of Manpower and Expenditures by Program**

	<i>Actual 1970-71</i>		<i>Estimated 1971-72</i>		<i>Proposed 1972-73</i>	
	<i>Man-years</i>	<i>Expenditures (thousands)</i>	<i>Man-years</i>	<i>Expenditures (thousands)</i>	<i>Man-years</i>	<i>Expenditures (thousands)</i>
Personal income tax.....	690.9	\$13,742	744	\$14,816	*739.4	\$15,146
Bank and corporation tax....	332.3	6,032	342	6,677	342.9	6,826
Senior citizens' property tax assistance.....	36.2	498	39	543	39	556
Administration and support <sup>1</sup>	544.0	(7,186)	555	(7,710)	553.3	(7,885)
<b>Totals.....</b>	<b>1,603.4</b>	<b>\$20,272</b>	<b>1,680</b>	<b>\$22,036</b>	<b>1,674.6</b>	<b>\$22,528</b>

<sup>1</sup> Funds distributed to other programs.

\* Incorrectly reported as 741.4 man-years in the Governor's Budget.

The board requests a net increase of 1.1 authorized positions in 1972-73 which is composed of seven additional clerical positions in the Operations Division and the elimination of 4.9 EDP positions and one telephone operator in the southern region. Salary savings have been increased from 39.5 man-years estimated for the current year to 46.2 man-years in the budget year for a net program reduction of 5.6 man-years in the budget year.

Expenditures related to these personnel adjustments and requested increases in personnel costs and operating expenses for the budget year are listed in Table 2.

**Table 2**  
**Franchise Tax Board 1972-73 Budget Adjustments**

Merit salary increase.....	\$262,955
Workload and administrative adjustments.....	- 32,322
Proposed new positions.....	34,688
Overtime and night differential.....	4,183
Salary savings.....	- 57,839
Staff benefits.....	44,518
Operating expense and equipment:	
General expense.....	6,465
Printing and communications.....	150,814
EDP.....	14,946
Travel.....	11,680
Facilities expense.....	19,057
Equipment.....	46,462
<b>Total.....</b>	<b>\$492,677</b>



## FRANCHISE TAX—Continued

## RELOCATION TO AEROJET CENTER

In anticipation of the enactment of withholding and the desire to install a more sophisticated EDP system, the Franchise Tax Board requested the Department of General Services to acquire alternative space in which the board could consolidate all of its operations.

A new facility was acquired, under lease with Aerojet-General Corporation, at Aerojet Center located 20 miles east of the Capitol on Highway 50.

In moving to Aerojet Center the board will eventually release a total of 246,611 net square feet. Table 3 identifies the space to be released and the total space to be acquired at Aerojet Center.

**Table 3**  
**Franchise Tax Board Space Released and**  
**Acquired Under Aerojet Relocation (net square feet)**

<i>Location</i>	<i>Space released</i>	<i>Space acquired</i>
-----------------	-----------------------	-----------------------

Headquarters.....	169,181	
Florin Road.....	77,430	
Basic Aerojet.....		188,988
Supplementary Aerojet.....		50,233
<b>Total, square feet.....</b>	<b>246,611</b>	<b>239,221</b>

The headquarters space was released immediately and made available to other state agencies. The Florin space, however, is under private lease which will not expire until September 1973. The board proposes to continue the use of the Florin Road space to house its spring 1972 income tax return cashing operation and subsequently release this space to the Department of General Services for subletting on July 1, 1972. The board does not intend to release 14,497 square feet of storage space at the R Street warehouse and proposes to maintain executive offices at the former headquarters building on P Street.

The Aerojet Center lease commits the state for 10 years and initially covered 188,988 net square feet consisting of one two-story building and part of an attached single-story structure. The state has exercised an option to lease an additional 50,233 square feet which represents the remaining portion of the two buildings covered by the lease. The agency plans to centralize its 1973 cashing operations in this added space. Additional space may be leased in minimum 25,000 net square foot increments at the beginning of the third year, 1973, and once again at the beginning of the seventh year, 1977, at a slightly higher (\$.26 per square foot per month) rate than is provided in the initial lease.

**Alteration Costs**

The Aerojet building meets the agency's requirements for large expansive areas which provide flexibility in processing operations, but

serious lighting and acoustical problems caused considerable employee discomfort with undetermined loss in employee productivity.

Aerojet, within the terms of the lease, agreed to make necessary alterations to the board's new offices. The lease stipulated that the alterations were to be amortized over 10 years at an annual interest cost of  $8\frac{3}{4}$  percent to the state. The lease indicated that alteration costs were not to exceed \$500,000, and that necessary alterations were to include:

1. Construction of a controlled environment computer room in the center of the main building.
2. The correction of lighting and acoustical problems in the open areas.
3. Construction of individual legal offices and an executive suite of offices for management.

Actual costs will exceed the original estimate contained in the lease, however. Expenditures as of December 23, 1971, amounted to approximately \$583,000 but an unknown additional amount will be needed to complete the construction of legal and executive offices, to correct the lighting and acoustical problems, and to bring the supplementary space up to necessary standards for housing of the cashiering and warehousing operation.

After reaching the conclusion that the state could secure financing at a much lower cost than the  $8\frac{3}{4}$  rate provided in the lease, the administration decided to include \$500,000 in AB 1 to refund the cost of alterations already completed. An additional \$600,000 was appropriated to complete these alterations. If total alteration costs equal the \$1.1 million provided in AB 1 the cost per net square foot will amount to \$4.60, compared to the \$2.65 originally estimated in the lease.

One of the primary reasons actual costs will exceed the lease estimate is the expediency with which the move to Aerojet was made. The lease was signed on April 28, 1971, and the board moved two months later. Because preliminary space alterations and the computer facility had to be completed in this very short time, costs were escalated between 20 and 25 percent. Alteration of 10,000 square feet necessary to house the computer hardware alone ran \$370,000, or \$37 per square foot.

#### **Purchase vs. Lease**

The alterations investment represents a sunk cost to the state and would not be recoverable if these facilities are not made the permanent operation center of the board.

The lease contains a purchase option identical to the schedule contained in Table 4 and includes, in addition to the two buildings, parking area for 2,270 automobiles.

The basic lease agreement includes all maintenance and basic utilities for 10 years at a monthly rate of \$45,307. The only escalation clause contained in the lease is for expected property tax increases over the

## FRANCHISE TAX—Continued

**Table 4**  
**Lease Established Purchase Price of Franchise Board**  
**Facilities at Aerojet Center (239,221 net square feet)**

<i>Purchase date</i>	<i>Purchase price</i>	<i>Annual increase</i>	<i>Cost per net sq. foot</i>
July 9, 1972.....	\$3,750,000	-----	\$15.68
1973.....	4,000,000	6.7%	16.72
1974.....	4,250,000	6.3	17.77
1975.....	4,500,000	5.9	18.82
1976.....	4,850,000	7.8	20.28
1977.....	5,125,000	5.7	21.43
1978.....	5,400,000	5.4	22.58
1979.....	5,650,000	4.6	23.62
1980.....	5,950,000	5.3	24.87
1981.....	6,250,000	5.0	26.13

10-year period. Our estimate of the average cost per square foot of leasing this facility is shown in Table 5.

**Table 5**  
**Average 10-Year Cost of Leasing Aerojet Center**  
**(239,221 net square feet)**

<i>Item</i>	<i>Cost/month</i>	<i>Average cost/foot</i>
Basic lease: Includes all maintenance and basic utilities.....	\$45,307	\$0.1894
Property tax escalator (\$62,947 for 10 years).....	524	.0022
Interest cost on \$1.1 million alteration investment compounded at 6 percent.....	7,249	.0303
Computer utility surcharge.....	2,624	.0109
<b>Total average lease cost per month.....</b>	<b>\$55,704</b>	<b>\$0.2328</b>

This lease cost of 23 cents per square foot per month compares favorably with the current rental cost of state-owned space, which ranges from 24 cents (state-owned buildings) to 41 cents (Office Building No. 8 and 9) per square foot.

Our estimate of purchasing the Aerojet facility is shown in Table 6. Both the lease estimate and the purchase estimate include an imputed interest cost of the state's capital investment in the facility.

**Table 6**  
**Average 10-Year Cost of Purchasing Aerojet Center on July 9, 1972**  
**(239,221 net square feet)**

<i>Item</i>	<i>Cost/month</i>	<i>Average cost/foot</i>
1. Interest cost on \$3,750,000 initial investment compounded at 6 percent.....	\$24,714	\$0.1033
2. Interest cost on \$1.1 million alterations investment compounded at 6 percent.....	7,249	.0303
3. General Services maintenance and basic utility cost of 13.7 cents/square foot compounded at 4 percent.....	39,347	.1645
4. Computer utility surcharge.....	2,624	.0109
<b>Total, average purchase cost per month.....</b>	<b>\$73,934</b>	<b>\$0.3090</b>

*The lower monthly rental rate, seven cents per square foot less than the average cost to purchase, clearly indicates that this facility should not be purchased in the foreseeable future. The state has an option to extend the lease an additional five years beginning in 1981 which we believe would be a more appropriate time to review the permanent space requirements of this agency.*

The board and many of its employees have experienced a number of added expenses as a result of moving to Aerojet Center. Employee transportation expenses were significantly affected, and while free parking is provided those employees who commute by private car, no consideration has been given those employees who live close to the former facility and who do not own their own car. The employees have privately chartered three buses which operate daily at a private cost of \$25 per month per employee.

The board assisted approximately 150 employees who requested transfers to state agencies located in the downtown area. As of January 1, 1972, 50 employees had not found alternative employment in state service.

Any assessment of future state savings which may result from moving this agency to Aerojet Center, should also recognize the unreimbursed employee costs associated with commuting to this location.

#### **PERSONAL INCOME TAX PROGRAM**

The personal income tax program is composed of three basic elements: (1) taxpayer self assessment, (2) audit activities, and (3) filing enforcement. Immediate and major changes will occur in the first and third elements as a result of the implementation of withholding, while more gradual changes will occur in the auditing activities as prior year workload is completed.

##### **1. Taxpayer Self-Assessment Activities**

The entire concept of this program will change under withholding, shifting from the processing of returns accompanied by a remittance to the processing of returns with claims for refund. Due to the over-withholding of taxes from persons without an ultimate tax liability there will be a substantial increase in the number of tax returns which the board will process. The board estimates that 6.2 million 1971 tax returns will be processed during the current year. Under withholding the board's preliminary estimates indicate the number of 1972 returns filed will amount to 8.2 million, an increase of 32 percent.

The annual surge in workload associated with the April 15 filing

**FRANCHISE TAX—Continued**

requirement will shift from a priority cashiering operation directed toward maximizing interest earnings on tax receipts, to the rapid processing of refund claims and issuance of refund checks. It is expected that the peak period staff requirements will be reduced because refund returns will be filed earlier in the year thus spreading the receipt of workload more evenly from January through June.

The October estimate prepayment will be discontinued and will be replaced by a quarterly estimate program which will cover persons with incomes not subject to withholding (e.g. dividends, interest, capital gains, etc.). This change will shift workload flow from the processing of a single payment to the processing of four quarterly payments.

Data filing will be increased significantly under withholding. The board presently maintains a master file of approximately two million taxpayers who: (1) are required to estimate their tax liability during the year, (2) have filed a return but have submitted only partial payment of the tax liability, or (3) have not submitted any payment at all. These taxpayers create an accounts receivable file of two billion characters of information. The new master file will maintain information on all taxpayers and will contain over five billion characters of information.

**EDP Systems Design**

Withholding has been anticipated by the department for nearly 10 years and the present EDP capability has been acquired with that program in mind. Therefore, the present EDP system encompasses all of the basic technical design features required for withholding and needs only to be enhanced to accommodate the increased volumes anticipated.

To minimize the costs associated with maintaining a file of five billion characters, the board has planned a system which has most applications being processed in a batch mode at various times during the year, and a minimum number of on-line random access computer applications. In effect, the department plans to maintain only an index to the master file in random access storage rather than store the entire master file in this fashion. This permits a rapid response to overwithholding claims and speeds the refund check to the taxpayer. All other processing (research, statistics compliance activities, etc.) will be scheduled and processed from magnetic tape files. This approach is significant in terms of costs since random access files and processing would be considerably more expensive than is batch processing.

Until August of 1971, the board operated two IBM 360/40 Computer Systems (medium scale third-generation computers). Due to the rapid increase of existing workload, the department found it necessary to replace these two machines with one IBM 360/65 computer in July 1971. It was intended that the 360/65 be used for one year, at which time a larger system would be procured to accommodate the in-

creased workload due to withholding. However, with the release of a new line of 370 computers by IBM, the board determined that it was beneficial to acquire an IBM 370/155 computer in January 1972, thereby saving an estimated \$173,000 during the current fiscal year. This saving is possible because of a reduction in rental costs, and an increase in speed, capacity, and flexibility of the new equipment which requires fewer peripherals. The board anticipates that this computer system will perform adequately until January 1973, when a long-term computer system will be selected after a competitive procurement procedure.

*Employer Withholding.* The withholding of income tax by employers and subsequent deposit of these moneys will be administered and enforced by the Department of Human Resources Development (HRD) in conjunction with its existing employer unemployment and disability insurance withholding programs. It was originally estimated that the Franchise Tax Board would be charged for the *additional* cost related to the income tax withholding. The federal government, however, disapproved of a direct cost reimbursement and required that HRD be paid for the *pro rata* cost of income tax withholding resulting in a \$2 million increase in cost to the board during the budget year. The contract with HRD is considered by the board to be an interim solution, avoiding duplicate employer systems and administrative costs, with a permanent resolution of which agency should perform this function expected after an extended evaluation period.

## 2. Audit Activities

To insure the legal and mathematical accuracy of tax returns, the board administers several auditing programs designed to review a sample of all returns. Each program's contribution to the total audit effort is shown in Table 7.

**Table 7**  
**Personal Income Tax Audit Revenue and Costs**

<i>Audit program</i>	<i>Actual 1970-71</i>			<i>Estimated 1971-72</i>			<i>Proposed 1972-73</i>		
	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>
Mathematical verification.....	\$5,676	77.7	\$3.88	\$5,400	61.5	\$3.83	\$6,000	56.9	\$4.16
Smaller return audits.....	622	19.7	1.75	2,170	21.5	6.33	2,450	21.5	6.98
Larger return audits—headquarters.....	5,215	25.4	9.71	5,424	28.5	10.47	5,641	28.5	10.65
Larger return audits—field.....	5,028	58.3	4.40	5,229	56.3	4.63	5,438	56.3	4.72
Federal audit reports.....	14,920	24.2	29.17	15,517	23.4	31.46	16,138	23.4	32.01
Fiduciary return audits.....	237	6.3	1.84	246	5.7	1.98	256	5.7	2.01
Other state tax credits.....	74	3.3	6.38	71	2.6	6.87	73	2.6	6.98
<b>Totals.....</b>	<b>\$31,772</b>	<b>214.9</b>	<b>\$7.49</b>	<b>\$34,057</b>	<b>199.5</b>	<b>\$8.32</b>	<b>\$35,996</b>	<b>194.9</b>	<b>\$8.61</b>

Because an average of 150 characters of information per income tax return will be maintained in the EDP file under withholding, major economies are expected in the audit of 1972 and subsequent year tax returns. The existing math verification program manually verifies each return and issues notices of error. Under withholding the present large math verification comptometer operation will be eliminated and each return will be mechanically math verified within the EDP system which will also automatically issue notices of error. Audits will be selected by the EDP system comparing specific items of information on each return individually and in combination against a predetermined set of criteria established to evaluate the return's potential value as an audit case.

The board's traditional manual audit selection program will be phased out by 1974-75 as the audit of the 1971 returns, which will not be placed on the EDP file, is completed.

### 3. Filing Enforcement

The board's present filing enforcement program will continue through completion of the processing of 1971 income tax returns. Objectives of the present program are carried out primarily by the Federal Comparison Program, which is a comparison of those persons who filed a federal return with those who filed a state return. Other comparisons are made with 599 reports (similar to W-2 forms) filed by employers with the board. Table 8 illustrates the current program costs and resulting assessments in the filing enforcement activities.

**Table 8**  
**Filing Enforcement Activity**

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Estimated</i> 1972-73
Personnel man-years.....	145	152.6	152.6
Administrative costs (thousands).....	\$2,609	\$2,879	\$2,943
Net assessments (thousands).....	\$22,222	\$23,111	\$24,035
Net assessment per dollar of cost.....	\$8.52	\$8.03	\$8.17

The Filing Enforcement Program will be significantly reduced under withholding because most income taxes due will be collected by the employer as wages are earned. The department will continue to mechanically compare federal returns filed in California with state returns and notices-to-file will be mailed automatically by EDP.

*Administrative Reorganization and Taxpayer Correspondence.* All of the withholding processes will be administered within a new Administrative Services Division. One uniquely new operating unit, the taxpayer service section, will be responsible for all correspondence for the division. This centralized correspondence procedure will be established because the board expects a substantial increase in mail under withholding.

### **BANK AND CORPORATION TAX**

The Bank and Corporation Tax laws, enacted in 1929, impose a franchise tax on corporations doing business in California and an in-



**FRANCHISE TAX—Continued**

come tax on those having incomes from California sources but not doing business in this state.

The bank and corporation tax program has three essential elements; (1) self-assessment activities, (2) audit activities, and (3) filing enforcement activities. The administration of the bank and corporation tax laws will not be affected by withholding. Many of the systems concepts to be employed for the processing of personal income tax returns will closely parallel those utilized for bank and corporation return processing, i.e. data entry techniques, mathematical verification of returns, automated accounting systems, etc.

The budget request for 1972-73 is limited to the addition of one temporary help position in the corporation tax audit program. The budgetary augmentations necessary to implement quarterly payment of franchise taxes as provided in AB 1 will be submitted in separate finance letters to each of the fiscal committees.

**Board Action on Bad Debt Reserves**

Prior to the December 1971 adoption of new regulations by the Franchise Tax Board, banks and savings and loan institutions have been allowed to exclude a certain percentage of income as a reserve for bad debts which was substantially in excess of their actual loan loss experience. Such reserves, to the extent that they exceeded actual losses, constituted a source of tax-exempt income to these institutions.

The allowable level of reserves exceeded actual losses because financial institutions were allowed to use any 20-year period of loan loss experience commencing after 1927. Banks, since 1954, and savings and loan associations, since 1959, have used the depression period 1928 to 1947 as the basis for computing the bad debt reserve. Three times the average loan loss ratio during this period constituted the reserve ceiling.

The Franchise Tax Board estimated that reserve additions in excess of actual experience under the 20-year formula have resulted in a total tax loss of about \$95 million.

The December 1971 action of the board discontinued the 20-year reserve allowance and provided a more reasonable method of computing the allowable level of income which may be reserved for bad debts. Effective January 1, 1972, total additions to reserves by banks shall be limited to three times the moving average of the industrywide loan loss experience for the prior six years. For savings and loan associations, the reserve ceiling is established at five times the six-year moving average loss experience.

The Department of Finance estimates that General Fund revenues resulting from this change will amount to \$15 million during the budget year.

**1. Self-Assessment Activities**

Principal objectives of this program are to provide voluntary compliance, timely filing, and correct assessment of bank and corporation taxes. To accomplish this objective, information is publicized, tax forms are distributed and tax returns are processed. When full payment is not received with the tax return, an accounts receivable is established and subsequent billings are sent to the taxpayer.

During the current fiscal year an estimated 157,000 in taxable returns will be received with voluntary assessments yielding \$520 million. Corporations will make two prepayments during 1971-72 in addition to filing an annual return. Beginning with 1972-73 these prepayments will be made on a quarterly basis, which will double the number of estimate payments filed.

**2. Audit Program**

Each return submitted is verified for mathematical and legal accuracy and then sorted into one of two categories: (1) those corporations with operations only within California, called "nonallocation corporations" and, (2) corporations operating both in and out of state which are called "allocating corporations." The latter group must report income from all sources and also the portion allocated to California operations. Efforts in the audit section have resulted in substantial assessments as illustrated in Table 9.

**3. Filing Enforcement**

The agency accomplishes its compliance activities by obtaining tax returns from all entities subject to filing and by comparing returns against a record of active corporations. The agency also notifies and explains requirements to nonfilers who have a filing obligation and initiates assessments against those who fail to comply.

**Table 9**  
**Bank and Corporation Tax Audit Revenue and Costs**

	<i>Actual 1970-71</i>			<i>Estimated 1971-72</i>			<i>Proposed 1972-73</i>		
	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>	<i>Net assess- ments in thousands</i>	<i>Man- years</i>	<i>Net assess- ments per dollar of cost</i>
<i>Audit program</i>									
270 Mathematical verification.....	\$1,496	20.0	\$4.97	\$1,571	24.6	\$4.59	\$1,650	24.6	\$4.72
Federal audit reports.....	9,925	8.8	58.82	10,422	11.2	54.29	10,943	11.2	55.76
Nonallocating corporation audits—									
headquarters.....	2,499	11.4	11.89	2,625	9.7	11.00	2,756	9.7	11.29
field.....	1,912	48.1	2.32	2,008	46.9	2.14	2,108	46.9	2.20
Allocating corporations audits—									
headquarters.....	2,829	13.9	10.47	2,970	13.4	9.68	3,119	13.4	9.97
field—in-state.....	5,399	36.3	7.97	5,570	27.6	7.24	5,848	27.6	7.43
field—out-of-state.....	13,559	56.5	12.37	14,240	53.6	11.43	14,950	53.6	11.74
Totals.....	\$37,619	195.0	\$10.59	\$39,406	187.0	\$11.10	\$41,374	187.0	\$10.03

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE**

This program, which is administered by the Franchise Tax Board provides property tax reimbursements to senior citizens who have limited incomes.

AB 1 increased significantly the level of assistance to be provided homeowners during 1972-73. The household income limitation was increased from \$3,350 to \$10,000 per year, and the age of eligibility was reduced from 65 to 62. A comparison of the property tax assistance paid by the state under the new law with assistance which would have been allowed under prior law is shown in our analysis of Item 75. The history of this program is shown in Table 10.

**Table 10**  
**Number of Claimants and Costs of Administering**  
**The Senior Citizens' Property Tax Assistance Program**

	<i>Actual</i>		<i>Estimated</i>
	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>
Number of claims received.....	67,921	69,880	70,000
Number of claims paid.....	64,871	62,400	63,000
Assistance grants (thousands).....	\$7,829	\$8,576	\$8,800
Administrative costs.....	\$487,070	\$497,426	\$543,328
Administration cost per claim paid.....	\$7.50	\$7.97	\$8.62

The board expects a four-fold increase in the number of claims filed during 1972-73 as a result of the expanded program enacted in AB 1, with the number of claimants increasing from 70,000 under former law to 240,000 under the new 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 homeowners will respond under the new program than did under the former.

The staffing requirements of the Franchise Tax Board, for the new senior citizen program, were not completed when the Governor's Budget was prepared. Therefore, these new workload estimates will be reflected in a supplementary budget proposal which will be submitted to each of the fiscal committees in February.

## DEPARTMENT OF GENERAL SERVICES

Item 136 from the General

Fund

Budget p. 60 Program p. 286

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Requested 1972-73 .....	\$5,145,000
Estimated 1971-72 .....	5,434,667
Actual 1970-71 .....	4,851,052
Requested decrease \$289,667 (5.3 percent)	
Total recommended reduction .....	None

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## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. Land Inventory. Recommend the Department of General Services determine the feasibility of establishing a central inventory of state-owned lands in a central organization responsible for coordination and control of all state-owned land. The department should submit a feasibility study with conclusions and recommendations to the Joint Legislative Budget Committee by November 1, 1972. 283
2. Rental Rates. Recommend the department report on the effects of greater standardization of rental rates to the Joint Legislative Budget Committee by November 1, 1972. 285
3. Property Acquisition. Recommend that the department and the Department of Water Resources (DWR) jointly study their respective property acquisition functions to determine if DWR functions should be consolidated into the General Services Property Acquisition Unit. Results of this study should be submitted to the Joint Legislative Budget Committee by November 1, 1972. 288
4. State Printing. 295
  - (a) *Recommend disapproval of a web press at the State Printing Plant for a saving of \$790,000, which is reflected in a corresponding reduction in Item 139 Service Revolving Fund—Printing.*
  - (b) Recommend the Department of General Services with the cooperation of the Bureau of Textbooks conduct a feasibility study and initiate a pilot program of open bidding whereby commercial printing firms compete with the State Printer on textbook production. Results of this study and pilot program should be presented to the Legislature by June 1, 1973.
  - (c) Recommend the State Printer survey requested re-

ports to be published by state agencies to establish standards. The State Printer's recommendations should be made available to the Directors of Finance and General Services.

5. Heavy Equipment Vehicles. Recommend the department submit to the Joint Legislative Budget Committee by November 1, 1972, final conclusions and recommendations of a study now in progress to reduce duplication and improve utilization of heavy equipment vehicles. 300

#### **GENERAL PROGRAM STATEMENT**

The Department of General Services was created October 1, 1963, by Chapter 1768, Statutes of 1963, to administer various service functions administered formerly by the Department of Finance, the Division of Architecture in the Department of Public Works, and the Secretary of State's Central Records Depository.

The responsibilities of the Department of General Services are contained primarily in Sections 14600 to 14973 of the Government Code. These responsibilities relate to supervision of financial and business matters and providing certain centralized services.

The department has three main objectives: (1) perform certain management and support functions as assigned by the Governor and specified by statute; (2) provide central services to operating departments more efficiently and economically than they can provide themselves; (3) improve the effectiveness and efficiency in state government administration by establishing, maintaining and enforcing statewide standards and guidelines and by developing and implementing improved government policies and procedures.

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1972-73. The department is funded by (1) direct support appropriations; (2) revolving fund appropriations; and (3) reimbursements from specific interagency agreements.

Direct support is obtained mainly from the General Fund but also from the State School Building Aid Fund and the Architecture Public Building Fund.

Revolving fund support is provided by the Service Revolving Fund and the Architecture Revolving Fund.

Reimbursements include transfers of funds from one account to another within the General Fund as well as transfers from other funds. A reimbursement is payment for an agreed service at a specified price. Revolving fund payments are based upon allocated cost for the service provided. Table 1 shows that most of the department functions are supported by revolving funds (69.5 percent) and reimbursements (23.2 percent).

## DEPARTMENT OF GENERAL SERVICES—Continued

Table 1

Department of General Services  
Total Expenditures by Source of Funds

<i>Source of funds</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	<i>Percent of Total</i>
Direct support appropriations:				
General Fund .....	\$4,851,052	\$5,434,667	\$5,145,000	
State School Building				
Aid Fund .....	904,870	963,972	1,000,530	
Architecture Public				
Building Fund .....	<u>1,416,233</u>	<u>1,404,222</u>	<u>1,438,280</u>	
Total .....	\$7,172,155	\$7,802,861	\$7,583,810	7.3
Appropriations from				
Revolving funds:				
Service Revolving Fund,				
Printing .....	\$20,413,184	\$22,328,160	\$23,150,731	
Service Revolving Fund,				
other activities .....	25,744,924	29,134,000	43,916,197	
Architecture Revolving Fund .....	<u>6,806,332</u>	<u>4,887,916</u>	<u>4,719,639</u>	
Total .....	\$52,964,440	\$56,350,076	\$71,786,567	69.5
Reimbursements:				
General Fund activities .....	\$20,352,095	\$22,478,480	\$23,523,852	
Architecture Revolving				
Fund activities .....	53,222	448,596	447,800	
Architecture Public				
Building Fund .....	<u>32,386</u>	<u>—</u>	<u>—</u>	
Total .....	<u>\$20,437,703</u>	<u>\$22,927,076</u>	<u>\$23,971,652</u>	23.2
Total expenditures .....	<u>\$80,574,298</u>	<u>\$87,080,013</u>	<u>\$103,342,029</u>	100.0

Table 2 presents total expenditures of the department's program elements by source of funds for the 1972-73 budget year. The department is engaged primarily in providing consolidated services which constitute essential elements in the programs of other departments. Table 2 shows that the Department of General Services has four major programs: (1) Administration; (2) Property Management; (3) State-wide Support Services; and (4) Statewide Management Services. The Administration Program consists of management, personnel, and fiscal services dedicated exclusively to support the other department activities. It is important to note that the various program elements for the most part are of sufficient magnitude and so specialized that we consider them as separate programs in themselves.

**Table 2**  
**Department of General Services**  
**Total Expenditures by Source of Funds and Programs—1972-73**

<i>Operating unit</i>	<i>Direct support appropriations</i>	<i>Revolving Fund Approp- riations</i>	<i>Reimbursements</i>	<i>Total expenditures</i>	<i>Percent of total</i>
Administration .....	—	—	\$2,246,576	\$2,246,576	2.2
Property Management ....	\$3,963,086	\$18,036,484	15,196,687	37,196,257	36.0
Local assistance.....	1,014,530	—	20,469	1,034,999	—
Buildings and grounds .....	1,486,260	—	13,607,283	15,093,543	—
Facilities planning .....	10,000	—	622,167	632,167	—
Property acquisition ....	—	—	498,968	498,968	—
Architecture and					
Construction .....	1,438,280	4,719,639	447,800	6,605,719	—
Building standards .....	14,016	—	—	14,016	—
Rented buildings .....	—	13,316,845	—	13,316,845	—
Statewide Support					
Services .....	2,494,037	53,750,083	3,062,975	59,307,095	57.4
Communications .....	—	9,685,072	19,360	9,704,432	—
Data processing .....	—	3,785,942	341,369	4,127,311	—
Office services .....	55,865	3,032,550	178,668	3,267,083	—
State printing .....	—	23,150,731	—	23,150,731	—
Procurement .....	1,404,095	8,535,921	321,612	10,261,628	—
Transportation .....	62,926	5,559,867	94,652	5,717,445	—
Security and protection	971,151	—	2,107,314	3,078,465	—
Statewide Management					
Services .....	1,126,687	—	3,465,414	4,592,101	4.4
Administrative hearings	—	—	1,247,714	1,247,714	—
Legal services .....	176,642	—	164,700	341,342	—
Management assistance	851,303	—	25,000	876,303	—
Insurance services .....	98,742	—	2,028,000	2,126,742	—
Totals .....	\$7,583,810	\$71,786,567	\$23,971,652	\$103,342,029	100.0
Percent of total .....	7.3	69.5	23.2	100.0	

Table 3 represents the allocation of staff among the various program elements over the three-year period ending June 30, 1973. The most significant staff changes are increases of 50 and 24.3 positions respectively in the Communications Division and the Data Processing Office and reductions of 21 and 13 positions respectively in the Office of State Printing and the Office of Architecture and Construction. The increase in the Communications Division staff is due mainly to consolidating within General Services functions performed previously by the Division of Highways. The increase in the data-processing personnel is due to growth and expanded capabilities of the department's two data processing service centers. The reduction in printing personnel is attributable mainly to economies being achieved by substituting photocomposition. The reduction in Office of Architecture and Design staff results from a declining workload which has resulted from a reduction in capital outlay projects.



## DEPARTMENT OF GENERAL SERVICES—Continued

**TABLE 3**  
**Department of General Services**  
**Staff by Programs 1970-71 Through 1972-73**

<i>Operating unit</i>	<i>Filled positions</i>	<i>Authorized positions</i>		<i>Percent of total</i>
	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	
Administration .....	140.2	152.9	158.9	4.0
Property Management .....	1,761.4	1,656.0	1,643.0	41.5
Local assistance .....	62.1	63.5	63.5	—
Buildings and grounds .....	1,201.9	1,216.3	1,216.3	—
Facilities planning .....	46.7	33.5	33.5	—
Property acquisition .....	48.1	24.0	24.0	—
Architecture and Construction .....	401.4	318.7	305.7	—
Building standards .....	1.2	—	—	—
Statewide Support Services .....	1,826.6	1,961.5	2,023.3	51.1
Communications .....	180.7	188.3	238.3	—
Data Processing .....	121.1	165.6	189.9	—
Office Services .....	146.2	184.3	185.3	—
State Printing .....	885.5	871.7	850.7	—
Procurement .....	162.2	168.5	171.0	—
Transportation .....	145.1	154.9	154.9	—
Security and Protection .....	185.8	228.2	233.2	—
Statewide Management				
Services .....	132.9	129.6	135.0	3.4
Administrative				
Hearings .....	61.7	62.1	61.8	—
Legal Services .....	18.3	16.0	16.0	—
Management Assistance .....	46.9	45.5	51.2	—
Insurance Services .....	6.0	6.0	6.0	—
Totals .....	3,861.1	3,900.0	3,960.2	100.0
Percent of change .....	(.01)	.01	.02	—

Table 4 displays total expenditures by program element during the three-year period ending June 30, 1973. The 16.2 million increase in the department's total budget for fiscal year 1972-73 is more apparent than real. Eighty-two percent (\$13.2 million) is a "paper increase" in the rented buildings program element which results from Assembly Bill 2614 (Chapter 992, Statutes of 1971) which requires that effective July 1, 1972, all rent received by the Department of General Services is to be deposited in the Service Revolving Fund. Payments are to be made from this fund for all building costs. The purpose of this change is to enable the department to use the Service Revolving Fund as a device for standardizing rental rates. This change in the law is the reason why expenditures for rented buildings increased from \$88,000 in the current year to \$13,316,845 in the budget year. This change in procedures is explained more fully in our analysis of the rented buildings program element.

**TABLE 4**  
**DEPARTMENT OF GENERAL SERVICES**  
**Total Expenditures by Programs 1970-71 Through 1972-73**

<i>Operating unit</i>	<i>Actual 1970-71</i>	<i>Estimated 1971-72</i>	<i>Estimated 1972-73</i>
Administration .....	\$1,769,486	\$2,076,149	\$2,246,576
Property Management .....	24,431,779	23,473,482	37,196,257
Local assistance.....	912,349	996,928	1,034,999
Buildings and grounds .....	13,367,102	14,530,835	15,093,543
Facilities planning .....	803,743	622,011	632,167
Property acquisition .....	899,246	483,260	498,968
Architecture and con- struction .....	8,338,226	6,740,734	6,605,719
Building standards .....	25,971	11,714	14,016
Rented buildings .....	85,142	88,000	13,316,845
Statewide Support			
Services .....	50,229,738	56,554,036	59,307,095
Communications.....	7,641,499	8,695,609	9,704,432
Data processing services .....	2,410,621	3,552,957	4,127,311
Office services.....	2,248,545	3,178,576	3,267,083
State printing .....	20,413,184	22,328,160	23,150,731
Procurement .....	8,955,191	9,906,694	10,261,628
Transportation.....	6,123,273	6,036,356	5,717,445
Security and Protection .....	2,437,425	2,855,684	3,078,465
Statewide Management			
Services .....	4,143,295	4,976,346	4,592,101
Administrative hearings.....	1,186,908	1,810,676	1,247,714
Legal services .....	361,707	329,207	341,342
Management assistance.....	930,746	792,551	876,303
Insurance services .....	1,663,934	2,043,912	2,126,742
Totals .....	\$80,574,298	\$87,080,013	\$103,342,029
Percent of Increase .....	5.5	8.1	18.7

#### Improved Cash Flow Reporting

In our 1971-72 *Analysis* we recommended that a current cash flow statement and a current source and expenditure of funds statement be made available monthly to General Services executive management. We commented upon the department's critical need to know the current condition of cash flowing into and out of the revolving fund (with the increase in revolving fund financing). We pointed out, further, that the department lacked the type of responsive reporting system needed to plan and manage adequately its revolving fund expenditures.

General Services management is in agreement with this recommendation and is making satisfactory progress in improving its cash flow reporting. Efficient management of funds requires a balance of providing sufficient funding for programs without providing more than is needed. The department's improved cash flow reporting capability will enable it to make more efficient use of the state's cash resources.

**DEPARTMENT OF GENERAL SERVICES—Continued****Program to Improve Services to Customers**

A new Director of General Services was appointed in July 1971 and under his direction a determined effort is being made to impose throughout the department the philosophy and practice of providing quality services to each customer.

The department planning officer has been assigned responsibility to direct and coordinate a Client Services Program. The purpose of the program is to identify and correct deficiencies in services the department provides. Each division chief and executive staff member is required to spend at least one day a month with his customers. In addition, client opinion surveys are being conducted within agencies the department serves to pinpoint problems. As problems are detected, teams composed of executive staff members, division chiefs responsible for areas in which deficiencies are found, and customers work together to develop practical ways to improve the service.

**Workload Measurement and "Concept Management"**

We have recommended in previous analyses that the Department of General Services develop meaningful workload standards. Although the department has published workload standards previously, the new director intends to have included as an integral part of any such standards quantitative measures of services (outputs) the department provides. Such measures are intended to facilitate practical cost/benefit evaluation of what General Services should be doing and how.

The department is emphasizing a "concept management" philosophy to instill in every division a substitute for the profit motive that exists in the private sector. The purpose is to create a keener awareness of customer needs and increase the department's ability to satisfy each need at a reasonable cost to the customer. It is our understanding that division managers are to assess critically each service their units provide as to whether (1) the value provided is worth the cost to the customer, (2) the department can do it at less cost, (3) someone else can do it at less cost, or (4) it should be done at all. Answers to these questions are to serve as a continuing basis for improving department operations.

To support this approach, efforts are being made to develop and apply practical quantitative judgments and measures geared to specific department services. We will monitor these efforts and practices, for we believe practical quantitative measures are necessary to determine more accurately when consolidations should occur, and evaluate effects of consolidations in terms of staffing, costs, and level of service.

**Consolidation of Services Continues**

In previous analyses we have stressed the benefits to the state from consolidation of services, particularly in the areas of communication, duplicating, warehousing, transportation, and electronic data processing. A summary of recent progress in the Department of General Services' consolidation efforts follows:

1. *Communications.* The department proposes that a two-year trial consolidation, which began July 1, 1970, to centralize Division of Highways communication functions with General Services, be made permanent and that 46 positions assigned temporarily from Highways remain permanently in the Communications Division.
2. *Duplicating.* Department of Social Welfare's duplicating activities along with 17 positions were consolidated into the Office Services Division effective July 1, 1971. The Department of General Services is making a study to determine the feasibility of consolidating all state duplicating operations within the three-block area in Sacramento bounded by N, O, 10th and 13th Streets.
3. *Warehousing.* Department of Social Welfare's warehousing program was consolidated into the Department of General Services warehousing system effective July 1, 1971. Plans are being formulated to consolidate warehouses operated by the Department of Human Resources Development, California Highway Patrol, and Department of Motor Vehicles.
4. *Transportation and Heavy Equipment Vehicles.* A number of minor consolidations are being made in which some agencies are turning over their cars to the Transportation Division for central management, storage and maintenance. The Department of General Services initiated a study in December 1971 to determine how the state can make more efficient use of its heavy equipment vehicles that are dispersed currently among various state agencies.

In this analysis we are recommending studies to determine the potential benefits of further consolidation of property acquisition and a central inventory of state-owned land.

#### ANALYSIS AND RECOMMENDATIONS

This analysis is presented in the sequence of expenditures for operating units found in Table 2. The analysis for each unit is preceded by a statement of funding which specifies the type of support, source of funds, proposed expenditures and proposed staff.

Although the department groups its functions into four major programs, we treat each as a separate program in this analysis because of the magnitude of the functions and their degree of specialization.

#### ADMINISTRATION

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditure</i>	<i>Proposed staff</i>
Reimbursements.....	Item 136	\$2,246,576	158.9

**DEPARTMENT OF GENERAL SERVICES—Continued**

The Administrative Program consists of central overall management, fiscal, and personnel functions that support the department's operational programs. These functions are performed by the department's executive management, Comptroller's office and personnel office. Costs of these services are distributed among the department's operational programs.

**Consolidation of Administrative Staff**

Effective July 1, 1971, the department transferred 21.3 accounting positions from the Office of State Printing (OSP) to the accounting unit within the Comptroller's office. Persons occupying these positions will remain physically at OSP until space at the central facility is made available. This consolidation was made to enable the Comptroller to use the total accounting staff more flexibly and efficiently. For similar reasons, the department also will transfer six personnel positions from OSP into its personnel office effective July 1, 1972.

**PROPERTY MANAGEMENT**

In the section of the analysis which follows we will describe a major reorganization of property management functions, recommend the central coordination and control of state-owned lands, and recommend a report be required on a new program which has been implemented to standardize rental rates.

**Facilities Planning Functions Reorganized**

A major reorganization has occurred within the Department of General Services involving the following divisions: (1) Facilities Planning, (2) Property Acquisition, (3) Buildings and Grounds, and (4) the Office of Architecture and Construction. The events surrounding the reorganization are discussed in this section prior to our description of the revised divisions' responsibilities and budgetary requirements.

As originally structured, the Facilities Planning Division provided centralized coordination and control of all noninstitutional office space needs on a statewide basis. Space standards, designs, plannings and the negotiation of leases were all a part of this responsibility.

Statewide centralization in General Services was accomplished as recommended by the Governor's 1967 Task Force on Efficiency and Cost Control. However, it was apparent that considerable duplication existed among units of state government performing this function and we therefore recommended against proposals to acquire additional staff during the past three fiscal years. The Legislature accepted our staffing recommendations and also adopted Senate Resolution 399 in the 1969 Regular Session which directed us to conduct a two-year

study to ascertain the extent of duplication of responsibilities and services.

#### **Study Results Trigger Reorganization**

The report required by SR 339 was completed in February 1971 under the title *Survey of Division of Facilities Planning*. The findings and major recommendations (which were accepted by the Legislature in the Supplementary Report of the Committee on Conference—Budget Bill of 1971) are summarized below:

1. Technical and professional services by the Office of Architecture and Construction are being provided as well by the Facilities Planning Division. Because the prime purpose of Facilities Planning is to provide management, coordination and control, this division's technical and professional services (including design, drafting, and construction supervision) should be transferred to the Office of Architecture and Construction.

2. The Divisions of Facilities Planning, Property Acquisition, and Building and Grounds are involved in similar or overlapping responsibilities in regard to property management and lease contracts. The leasing unit of Facilities Planning should be merged with the Divisions of Property Acquisition and Buildings and Grounds and operated as the Property Management Division.

3. The Facilities Planning Division should be reorganized to perform analyses, make recommendations, set standards, develop policies and procedures for coordination and control, and offer staff advice to the Director of General Services in matters pertaining to space utilization.

4. The major part of the Facilities Planning workload is devoted to consideration related to leasing alternatives after the preliminary decision to lease has already been made. It is essential that adequate cost/benefit analysis be applied to all alternatives and written procedures must be developed and followed to insure that thorough analysis occurs.

5. In some cases, the Facilities Planning Division permits agencies to perform their own analysis and, in these cases, the division tends to rubber stamp the alternative selected by the agency.

6. The state needs to develop and consistently apply design criteria based upon estimated length of use of state facilities.

#### **New Division Responsibilities**

Pursuant to our findings and the recommendations of the Legislature, the Department of General Services reports that it has made the following functional and organizational changes:

1. Functions of design, drafting, and on-the-job inspection of construction projects were transferred from the Facilities Planning Division to the Office of Architecture and Construction effective June 1, 1971. This involved the transfer of ten positions.

**DEPARTMENT OF GENERAL SERVICES—Continued**

2. The Leasing Unit from the Facilities Planning Division and the Property Management Unit from the Property Acquisition Unit were transferred to the Buildings and Grounds Division and placed under a common supervisor effective June 1, 1971. Fifteen positions from Facilities Planning and 13 positions from Property Acquisition were transferred to Buildings and Grounds. The Buildings and Grounds Division is now solely responsible for the property management and control function, while the Property Acquisition Division has retained responsibility for the property appraisal, purchase and sale, and appraisal review functions.

3. The Facilities Planning Unit, divested of the Leasing Unit, was reorganized effective June 1, 1971, to:

- a. Provide long-range planning for space utilization, including leasing, buying, and building.
- b. Perform economic analyses and make recommendations regarding whether state-owned or leased premises should be used in specific circumstances.
- c. Develop space standards and occupancy guides to provide for the adequacy and uniformity of accommodations among state agencies.
- d. Review and analyze all space requests and make space assignments in state-owned or leased office buildings.
- e. Provide staff to the State Public Works Board and maintain space and land inventories.

With the exception of the establishment of a Property Management Division, this realignment of real property and facility management functions generally follows the recommendations of the Legislature and our report.

**New Procedures Developed**

According to General Services management, improvements in operational effectiveness and efficiency have resulted from the reorganization and the following procedures have been adopted:

1. The Facilities Planning Division is developing and following written procedures intended to insure that both quantitative and qualitative analyses are made of all alternatives for each request for space.

2. The Buildings and Grounds Division processes building alterations and lease requests and both are now available for legislative review.

3. Sole occupancy leases are identified separately and are subjected to the same procedural controls as state-constructed projects.

4. Uniform design criteria are being developed for all state office space based upon estimated length of future occupancy. The department reports that it expects to use these criteria in planning for all future office space needs.

Finally, it should be noted that the Legislature included Control

Section 28.2 in the Budget Act of 1971, which requires the Director of General Services to notify the Joint Legislative Budget Committee of his intention to initiate a lease agreement with a firm lease period of five years or longer, an annual rental in excess of \$5,000, or if an agreement contains an option for the purchase of lease property. Such notification to the Budget Committee must be made not less than 30 days prior to such authorization.

The purpose of this section is to provide a measure of legislative review to lease or lease-purchase decisions that may obligate the state to significant expenditures of funds. Had this section been in effect, the recent decision to move the Franchise Tax Board to the Aerojet-General facility would have come to the attention of the Legislature before administration decisions were final and contracts negotiated.

#### **Central Coordination and Control of State-Owned Lands**

*We recommend that the Department of General Services conduct a study to determine the feasibility of (1) placing an inventory of all state-owned lands in a central organization, (2) charging that organization with responsibility for statewide coordination and control of all state-owned land, and (3) computerizing this inventory to the state's optimum advantage. We recommend further that the department submit the study, together with conclusions and recommendations, to the Joint Legislative Budget Committee by November 1, 1972.*

#### **State-Owned Land is Big Business**

According to estimates by the Department of General Services, the total value of state-owned lands (exclusive of structures upon those lands and of state highway properties) is about \$270 million. The department estimates the total value of all state-owned *surplus* land (including those parcels held by the Division of Highways) to be about \$130 million. In the interest of statewide efficiency and economy, it seems evident that the state should make effective use of these valuable resources.

#### **Diffusion of Functions and Responsibilities**

Separate inventories of state-owned land are being maintained by the State Division of Highways, the State Lands Division, and the Department of General Services.

In the Division of Highways decentralized inventories are maintained, by each of the 11 district offices, of lands acquired by the division and no central inventory is available. A subcommittee of the Commission on California State Government Organization and Economy has completed an extensive study of the Division of Highway's excess land program. The subcommittee's preliminary findings indicate that a number of major deficiencies exist in the program including the following:

1. There is a lack of central responsibility and authority over the



**DEPARTMENT OF GENERAL SERVICES—Continued**

- right-of-way excess land program;
2. The excess land inventory system is incomplete, inaccurate, and ineffective in providing for early disposal of land and reducing the inventory to a minimum level.
  3. There has been an almost total lack of controls over engineering holds;
  4. The estimated value of surplus lands is grossly understated (book value, which was listed at about \$30 million in April 1971, may actually be worth about \$100 million).
  5. The present computer inventory system does not provide management with adequate information to control the program effectively.

The findings also indicate that the excess land program is regarded as of minor importance by the Division of Highways because the organization is primarily engineering oriented.

The State Lands Division maintains an inventory of all sovereign lands (lands acquired from the Federal Government when California was admitted to the Union). These are mainly school lands and tide and submerged lands. The division publishes a biennial statistical report entitled, *Public Land Ownership in California*, pursuant to Section 14683 of the Government Code. The State Lands Division has \$93,375 included in its budget for fiscal year 1971-72 for its work on its Land Information System. Chapter 1435, Statutes of 1971 (Assembly Bill 2935), added Section 603 to the Revenue and Taxation Code. According to this section, the assessor of each county "... shall annually prepare a list of all real property, except dedicated streets and highways, in the county which is owned by any governmental entity. The list shall contain the assessor's parcel number and, if such information is available, a statement of the market value and existing use of each such property. The list shall be delivered by September 1 to the State Lands Commission and upon delivery shall become a public record." This act should improve the information available about state-owned lands in the individual counties.

The Department of General Services, pursuant to Section 14730 of the Government Code, maintains an inventory of all proprietary lands (lands acquired for state government use). This inventory consists of about 21,000 edge-punched cards filed by state agency and county. It includes lands acquired by the University of California but does not include lands acquired by the Division of Highways, sovereign lands or tax-deeded and escheated lands (properties that revert to the state when owners die with no known heirs). The inventory is verified with the various state agencies at five-year intervals, as required by law. Each agency receives information about only those property items entered under its name and it is not published otherwise. The Department of General Services has budgeted \$10,000 to maintain this inven-

tory during fiscal year 1972-73.

In our opinion, there is a definite requirement for a central inventory of all state-owned property which should be under the jurisdiction of a single organization if the state is to make the most of its total land resources.

Under existing procedures the Department of General Services contacts annually all state agencies (excluding the Division of Highways) requesting each to identify lands which are surplus and can be transferred to another state agency or sold. To perform this function adequately, it appears to us that one organization should (1) have a complete, up-to-date inventory of all state-owned lands (including the Division of Highways), (2) examine critically the use of each parcel, (3) challenge the controlling agency whenever a parcel appears not to be used sufficiently, and (4) reassign or dispose of properties where appropriate in a manner that is to the state's best interest. This organization should also use the inventory to assure that the state acquires additional property *only* when no other suitable property is available. To make effective and efficient use of such an inventory, it should probably be computerized.

We therefore recommend that the Department of General Services conduct a study with the full cooperation of the State Lands Division and the Division of Highways to determine the technical, economic, and operational feasibility of (1) placing responsibility for an inventory of state-owned lands in one central organization, (2) charging that organization with responsibility for state-owned land, and (3) automating this inventory to the state's best advantage. We recommend further that the department submit to the Joint Legislative Budget Committee on November 1, 1972, the study together with conclusions, recommendations, timing estimates and cost considerations.

#### **Movement Toward Standard Rental Rates**

*We recommend that the Department of General Services report on the effects of this increase of standardization (including customer acceptance, fiscal impact, problems encountered and plans for overcoming them) to the Joint Legislative Budget Committee by November 1, 1972.*

The Department of General Services is moving toward standardizing rental rates to state agencies for office and storage space.

Currently, costs are averaged among all General Fund buildings (the 12 debt-free buildings, including the Capitol, owned by the General Fund). State agencies that occupy these structures are being charged for office and storage space monthly rates per square foot of 24¢ and 6¢, respectively.

Costs are being averaged also among Office Buildings 8 and 9 (which were built from funds derived from general obligation bonds) and the eight buildings purchased by loans from the Public Em-

**DEPARTMENT OF GENERAL SERVICES—Continued**

ployees' Retirement System. State entities that occupy these buildings are being charged for office and storage space monthly rates per square foot of 41¢ and 11¢ respectively.

Effective July 1, 1972, the Department of General Services will average costs among all of the buildings mentioned above and charge state occupants standard monthly rates of 40¢ and 10¢ per square foot for office and storage space. Individual rates will remain in effect for buildings the state leases and for buildings the state has purchased with special fund moneys. Department of General Services management, however, plans to standardize rental rates for *all* buildings, beginning possibly as soon as fiscal year 1974-75.

**Benefits of Standard Rental Rates**

Standardization of state rental rates would offer the following significant benefits:

1. State organization units could be placed and relocated more flexibly.
2. Program budgeting would be facilitated in that true costs would be represented more consistently.
3. The level of quality among state building facilities would tend to be more consistent because substandard facilities would be upgraded by General Services.
4. All departments would pay for their space needs on a more equitable basis.

We support the approach the Department of General Services is taking to standardize rental rates. We point out, however, that any system of standard rates for building space on a statewide basis can be fully successful only if the following conditions exist:

1. The system is supported by accurate cost accounting.
2. The Department of General Services continues to acquire additional space on a cost-benefit basis; and
3. The department has, and applies consistently, good criteria so that customers are provided facilities of comparable quality.

Because the success of this system hinges upon proper implementation and customer acceptance, its effects must be monitored closely and problems should be diagnosed and remedied promptly.

We therefore recommend that the Department of General Services report the effects of this increase of standardization after the first few months of operation (including customer acceptance, fiscal impact, problems encountered and plans for overcoming them) to the Joint Legislative Budget Committee.

**LOCAL ASSISTANCE**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 137	\$1,014,530	63.5
Reimbursements.....	Item 136	20,469	—
Total.....		\$1,034,999	63.5

The main activity of this office is the administration of the State School Building Aid Law. Under this law, financial assistance is made available to school districts for the acquisition and development of school sites, construction of school buildings, and purchase of school furniture and equipment. Other activities include (1) allocation of funds to local agencies under the Emergency Flood Relief Law for repair and restoration of local streets and roads damaged by floods; (2) partial reimbursement to counties for providing legal counsel to indigents; and (3) administering other financial assistance programs to local agencies.

#### BUILDINGS AND GROUNDS

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$1,486,260	1,216.3
Reimbursements.....	Item 136	<u>13,607,283</u>	<u>—</u>
Total.....		\$15,093,543	1,216.3

The Buildings and Grounds Division is responsible for providing leasing, property management, and building and grounds maintenance services as described below.

##### Leasing

This function consists of acquiring office and warehouse space for state agencies in accordance with recommendations made by the Facilities Planning Division. This involves lease negotiation, document preparation, relocating state agencies, developing state leasing policies, and managing state leases.

##### Property Management

This service includes management of state-owned properties acquired but not yet occupied by the purchasing agency, leasing of properties declared surplus prior to their disposal, and evaluating leases of state-owned property not under jurisdiction of the Department of General Services.

##### Building and Grounds Maintenance

The building maintenance function provides all services needed for the maintenance and operation of state buildings. Members of the various crafts as well as general maintenance personnel are employed. The major part of the grounds maintenance workload is Capitol Park in Sacramento.

## DEPARTMENT OF GENERAL SERVICES—Continued

## FACILITIES PLANNING

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$10,000	33.5
Reimbursements.....	Item 136	622,167	—
Total.....		\$632,167	33.5

The main purpose of the Facilities and Planning Division is to provide central coordination and control of noninstitutional office space needs on a statewide basis. The state occupies over 9.5 million square feet of office space excluding the University, state colleges, and other state institutions. The cost to the state for this space exceeds \$25 million per year.

An advance planning unit is responsible for developing short-range and long-range programs to meet future state space needs, conducts economic analyses to determine whether state-owned or leased premises should be used in specific circumstances, and develops standards and criteria for selecting space facilities for state agencies. Consulting services for space and long-range facilities planning are provided to state entities and are available to local governments. A land control function provides staff to the State Public Works Board, reviews acquisition and site selection requests of state agencies, identifies and conducts analyses of surplus property and controls the acquisition of state property after an appropriation is approved. The Facilities Planning Division also maintains a proprietary land inventory which contains about 21,000 entries covering 1,165,000 acres of state property.

## PROPERTY ACQUISITION

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Reimbursements.....	Item 136	\$498,968	24

*We recommend that the Department of General Services together with the Department of Water Resources study the property acquisition functions of the two departments to determine if there are benefits to be gained from integrating the Department of Water Resources workload into the Department of General Services Property Acquisition Division or whether the two departments should continue to perform this function independently. We recommend further that results on this study be submitted to the Joint Legislative Budget Committee by November 1, 1972.*

The Property Acquisition Division performs two major functions: (1) acquisition of property required by the state and (2) disposal of real property determined to be surplus to the needs of the state.

The property acquisition functions involve the following four related activities:

1. *Property appraisal*, which consists of collecting and analyzing

data for determining market value (appraisals are prepared for acquisition, condemnation, and surplus sales).

2. *Appraisal review.* Each appraisal is reviewed independently by staff not involved in making the appraisals. This review function is designed to insure that fair market value is paid for property acquired. In addition, the appraisal review staff provides advice and review services upon request to other state agencies.
3. *Property negotiations* with property owners. When contract negotiations are concluded successfully, the division prepares a written summary for review by the Director of General Services and the State Public Works Board.
4. *Expert valuation testimony.* Division appraisers serve as witnesses at condemnation trials.

Surplus state property is sold to the private sector and thereby returned to the property tax rolls.

#### **Further Consolidation of Property Acquisition**

In a February 3, 1969, report entitled *A Survey of Land Acquisition and Disposal by State Agencies*, prepared pursuant to Assembly Concurrent Resolution 143 (1968 Regular Session), we reviewed the land acquisition and disposal functions as performed by different state agencies. The major recommendation in the report was that all property acquisition services except the Division of Highways should be consolidated within the Department of General Services. In the report we noted that the property acquisition workload of the Department of Water Resources was diminishing rapidly and, therefore, little other than disruption would have been achieved by transferring this function to the Department of General Services at that time. We added, however, that after fiscal year 1971-72, this workload would shrink to a level where continued high efficiency might not be possible.

The Department of Water Resources Right of Way Division projected a decline from a high of 210.9 man-years in 1967-68 to 31.3 man-years in fiscal year 1974-75.

Since our study was completed the Legislature has shifted the acquisition work and staffing of the Reclamation Board to the Department of Water Resources. This has resulted in reducing by one the number of state agencies purchasing land. This shift has also increased the workload of the Department of Water Resources and added an element of stability over the long term which did not exist when our original study was made. It therefore seems appropriate to reassess the advantages from further consolidation of the property acquisition function in the Department of Water Resources with the Department of General Services. Particular attention needs to be given to the ability of General Services to service the Reclamation Board workload as well as the Department of Water Resources does with its engineering oriented acquisition staff.

**DEPARTMENT OF GENERAL SERVICES—Continued**

We therefore recommend that the Department of General Services, working with the Department of Water Resources, make a study to determine if there are benefits to be gained from consolidation of the Department of Water Resources workload into General Services' Property Acquisition Division.

**ARCHITECTURE AND CONSTRUCTION**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$1,438,280	305.7
Revolving fund .....	Item 142	4,719,639	—
Reimbursements.....	Item 136	447,800	—
Total.....		\$6,605,719	305.7

This program element is discussed under our analysis of Items 141 and 142 which make separate appropriations from the Architecture Revolving Fund and the Architecture Public Building Fund respectively.

**BUILDING STANDARDS COMMISSION**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$14,016	—

The Building Standards Commission, which is responsible for reviewing proposed building code regulations and conducting hearings of construction industry appeals, receives staff support from the Office of Architecture and Construction.

This commission was established to codify uniformly building regulations published by various state agencies and to interpret this code upon request for state agencies, and others. Although this uniform codification has been completed, continual updating of these regulations is required. The Building Standards Commission is required by Chapter 1449 of the 1970 Statutes to adopt by reference applicable national specifications. This legislation facilitates current and economic updating of these codes.

The Building Standards Commission provides to the construction industry and to the general public an impartial hearing body. It makes both formal and informal determinations on appeals and interpretations.

**RENTED BUILDINGS**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund .....	Item 140	\$13,316,845	—

The Department of General Services collects rent on a nonprofit

basis from occupants of a number of state buildings. Under present law rent payments for state buildings are deposited directly into various specified funds according to whether the buildings are debt free, unamortized buildings funded by special funds, or unamortized buildings funded by general obligation bonds. In the current year therefore, only those payments made through the Service Revolving Fund are included because direct payments are not in the rented building program.

Effective July 1, 1972, in accordance with Assembly Bill 2614 (Chapter 992, Statutes of 1971) all rent received by the Department of General Services for building space owned, managed, or controlled by the state is to be deposited in the Service Revolving Fund. Payments are to be made from this fund for all building costs including rent, insurance, operating costs and maintenance expenses. This change in the law is the reason why expenditures for rented buildings increased from \$88,000 in the current year to \$13,316,845 in the budget year.

#### COMMUNICATIONS

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund .....	Item 140	\$9,685,072	238.3
Reimbursements .....	Item 136	19,360	—
Total .....		\$9,704,432	238.3

This program element involves planning for and managing the state's telecommunication facilities, assisting agencies in defining and satisfying their telecommunication requirements, providing installation and maintenance services and insuring system reliability. Microwave radio, VHF radio, telephone, teletype and data communication functions involve communication system planning, design, installation, alteration and maintenance. Telephone services consist of managing of the state's leased-line telephone system, operating state switchboards, and preparing state telephone directories.

#### Consolidation Results in Savings

During fiscal year 1970-71 further centralization of the communications function took place. The Division of Highways, the only state entity whose communication equipment was not being serviced by the Communications Division, is serviced now under an interagency agreement with the Department of General Services. Communication engineering and maintenance personnel were assigned from the Division of Highways to the Department of General Services for a two-year trial period that began July 1, 1970.

The Department of General Services reported that a total savings to the state of \$166,483 resulted in fiscal year 1970-71 as a result of this consolidation. The department proposes that this trial consolidation be made permanent, and that 41 radio technicians and five engineer



**DEPARTMENT OF GENERAL SERVICES—Continued**

positions assigned temporarily from the Division of Highways remain permanently in the Communication Division.

This type of consolidation which eliminates duplicate services is in line with our previous recommendations. We support the philosophy and this specific action taken to achieve further centralization of communication services.

**DATA PROCESSING**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund .....	Item 140	\$3,785,942	189.9
Reimbursements .....	Item 136	341,369	—
Total .....		\$4,127,311	189.9

The Department of General Services through the Data Processing Services Office is assuming a leadership role in providing centralized data processing capabilities to a number of departments and state agencies in order to preclude the acquisition of dedicated computers and to reduce the overall growth of state expenditures for EDP.

Currently, Data Processing Service Center I (DPSC I) operates a RCA Spectra 70/45 computer which provides EDP services to the divisions within the Department of General Services, the Office of State Printing, the State Treasurer and the Departments of Corporations and Real Estate. Data Processing Service Center II (DPSC II) operates an IBM 360/50 computer which was transferred to General Services from the Department of Education by action of the 1970 Legislature through the Budget Act of 1970. This center provides EDP services to the Department of Education, the Department of Finance, State Legislature and various state agencies who use this equipment to process work during peak periods in order to preclude acquisition of additional dedicated computer capability. The Data Processing Services Office also provides systems analysis and programming services to state agencies on a contract basis and is directed by a data-processing officer who coordinates the work of the two operating units.

**Legislative Support of "Utility" Approach**

The Legislature has played a significant role in establishing a centralized EDP capability within the Department of General Services by the following actions:

1. The transfer of the IBM 360/50 on July 1, 1970, when it was determined that this machine was being operated inefficiently and underutilized by the Department of Education.
2. Designation of DPSC II as a "shared computer utility" and the requirement that the Department of Finance use this utility rather than a private service bureau for the Budget Data System (Supple-

mental Report of the Committee on Conference—Budget Bill of 1970).

3. The requirement that the Secretary of State receive data-processing services from DPSC II in lieu of upgrading or operating a dedicated computer system (Supplemental Report of the Committee on Conference—Budget Bill of 1970 and 1971).

4. Recommendation that the Department of General Services and control agencies investigate the technical and economic feasibility of front-end communications processors (mini computers) for DPSC II. A report on this investigation is to be made to the Joint Legislative Budget Committee on May 1, 1972 (Supplemental Report of the Committee on Conference—Budget Bill of 1971).

5. The raising of the expenditure level (Service Revolving Fund) of the Department of General Services for data processing by \$700,000 to provide for an increased level of service and a flexibility in equipment procurement and staffing to accommodate potential customers (1971 Budget Bill—Conference Committee action).

6. Authorization for the Office of State Printing and the Department of General Services to install electronic photocomposition and related computer equipment to permit automation of legislative printing beginning with 1972 session.

The Legislature also recommended that the Department of General Services take steps to reduce the number of monitors now resident in the data-processing system (DPSC II) which result in a loss of efficiency. In a report to the Joint Legislative Budget Committee on November 1, 1971, the department indicated that two of three of these monitors will be eliminated from regular operation by February 1, 1972, and the monitor "intercom" will be the only monitor in regular use for current and future telecommunications systems. The IBM 360/50 has been enhanced with certain devices that bring the state closer to the computer utility method of operation.

#### **Improved Customer Service Planned**

In keeping with the newly established departmental program to improve service, the Data Processing Services Office is making a concerted effort to: (1) improve their responsiveness to customer requests; (2) reduce the cost of EDP service through increasing utilization of equipment and reducing overhead; and (3) provide liaison with customers by designating project managers who are responsible for the various specialized applications.

With a projected budget of \$4,127,311 and a staffing authorization of 189.9 technical personnel, it is clear that the Department of General Services is responsible for a large EDP service operation. Because this service is supplied to a number of key state agencies, it is imperative that high standards of quality be maintained.

**DEPARTMENT OF GENERAL SERVICES—Continued****Future Role of General Services**

The Director of General Services is a member of the six-member California Information Systems Implementation Committee established under AB 1663 (Chapter 1237, Statutes of 1971). The work of this committee includes the development of an organizational structure which will encourage, accommodate and accomplish the utilization of appropriate electronic data processing technology in meeting the state's information requirements.

We would expect that the committee will discuss the role the Department of General Services now plays in serving as a computer service utility and also the future of such general purpose computer utilities in California state government. In our judgment, it could be very appropriate for the Department of General Services to be eventually designated as the EDP service center for most departments within the Agriculture and Services Agency.

To improve its existing operation, we understand that plans are being developed within the Department of General Services to merge the EDP equipment currently operated in Data Processing Service Centers I and II into a single consolidated center with an upgraded computer. We will monitor this planning effort which should result in reduced costs and an increased capability resulting from the economies of scale and improved utilization of technical personnel resources.

**OFFICE SERVICES**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$55,865	185.3
Revolving fund .....	Item 140	3,032,550	—
Reimbursements .....	Item 136	178,668	—
Total.....		\$3,267,083	185.3

The Office Services Division provides the following functions for state agencies: (1) supportive services, (2) office machine repair, and (3) reproduction services.

**Supportive Services**

These services involve the following four activities: (1) mail and messenger services (includes distribution of U.S. mail as well as inter-agency correspondence), (2) maintaining office supplies, (3) operating a central typing pool which provides typing, stenographic services and relief personnel for the Departments of General Services, Finance and contracting agencies, and (4) maintaining property accountability records for all state equipment, real property and improvements.

**Office Machine Repair**

This function involves the repair and maintenance of typewriters, adding machines, calculators, and other office machines. This group provides technical services to cover master maintenance contracts and provides assistance to the Office of Procurement in evaluating office equipment.

**Reproduction Services**

This unit provides complete duplicating services to many state agencies that have no duplicating equipment of their own. It also provides specialized and partial services to agencies with workloads sufficiently large to justify their own reproduction units. In addition, this group advises agencies on reproduction equipment and methods and provides addressograph service for maintaining mailing lists and preparing address labels.

**Consolidation of Reproduction Services**

The Supplemental Report of the Committee on Conference (Budget Bill of 1970) recommended that the Department of General Services survey all agency duplicating facilities to determine the extent of excess reproduction equipment, possibilities for transferring such equipment to General Services, and the potential for eliminating small inefficient reproducing facilities. This recommendation was made because our office had found a proliferation of duplication equipment throughout state agencies. Last year the department reported that plans were in progress to begin such consolidation.

Effective July 1, 1971, the Department of Social Welfare's reproduction activities along with 17 positions were consolidated into the Department of General Services. We understand that in December 1971 the department completed the fact-gathering portion of a study to determine the feasibility of consolidating all state duplicating operations within the three-block area in Sacramento bounded by N, O, 10th and 13th streets.

**STATE PRINTING**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund .....	Item 139	\$23,150,731	850.7

1. *We recommend deletion of \$790,000 for a web press at the Office of State Printing. (Reduce Item 139, Revolving Fund—Printing.)*

2. *We repeat the recommendation contained in our analysis of the textbook item (Item 275) that the Department of General Services with the cooperation of the Bureau of Textbooks conduct a feasibility study and institute a one-year pilot program of open bidding where commercial printing firms would have an equal opportunity to compete with the State Printer on the production of all state-adopted textbooks and other educational materials. The results of this study*

**DEPARTMENT OF GENERAL SERVICES—Continued**

*and pilot program should be presented to the Legislature no later than June 1, 1973.*

3. *We recommend that the State Printer make a survey of requested reports to be published by all state agencies for the purpose of standardizing size, formats and paper quality. The State Printer's recommendations based upon this survey should be made available to the Directors of Finance and General Services in order that administrative directions for the preparation and printing of agency reports can be promulgated to all state agencies.*

The Office of State Printing (OSP) provides printing services for the legislative, executive, and judicial branches of state government. Legislative printing includes all bills, files, histories, journals and special reports required by both houses of the Legislature. Printing services are supplied to satisfy printing needs of the individual agencies. The OSP also produces the majority of the elementary textbooks specified by the State Board of Education.

During fiscal year 1970-71, the OSP expended funds for printing as follows: Legislature—\$3,211,825; state agencies—\$7,904,861; textbooks—\$8,991,265. This represents a total expenditure for work completed in the printing plant of \$20,107,951. In addition, \$1,447,000 was contracted to private firms in that year, primarily for preparation of textbooks.

**New Web Press Requested**

The Office of State Printing is requesting authorization to expend \$790,000 to purchase a new four-unit perfecting web press for installation at OSP early in fiscal year 1973-74. We are informed that this press will be used 90 percent for producing textbooks and 10 percent for agency printing. The OSP currently has two other large four-unit perfecting web presses that are devoted almost exclusively to producing textbooks.

Because of the almost total reliance on textbook production as justification for this new press, our analysis of the textbook program under Item 275 has a direct bearing on this request. In particular, the following should be noted:

1. According to the Governor's Budget, a substantial decline is projected in the volume of textbooks to be printed. Textbook printing during fiscal year 1970-71 totaled 19,763,880, as compared to the 13,312,882 expected to be printed in the budget year, a decline of 33 percent over the two-year period.

2. A further decline of 3,662,882 is anticipated if the current social studies adoption is reversed (a possibility according to our analysis and recent developments concerning this series).

3. The textbook utilization study has raised questions regarding the utilization of state-provided textbooks in the school district surveys thus far.

4. There are indications that the existing state textbook program is being reviewed by both legislative committees and the Department of Education with the possibility of proposals for major revisions or alterations to the current system whereby the state prints and distributes free textbooks to public schools for grades 1-8.

5. Our textbook analysis recommends that a one-year pilot program of open competitive bidding be instituted whereby commercial firms would have an equal opportunity to compete with the State Printer on the production of all state textbooks and other educational materials.

This last recommendation is consistent with an earlier report issued by our office, *An Analysis of the Operations of the Office of State Printing*, dated January 1969 and prepared pursuant to SCR 108 (1968 Regular Session). Essentially the same recommendation was made in that study, but the pilot program was never carried out. The State Printer contended that because the Government Code required that the OSP do all state printing except when sufficient capacity is not available a change in statutes would be required. Only then does OSP, working through the Office of Procurement, delegate work to the private sector on a competitive-bid basis.

In our 1969 report we pointed out that the United States Government Printing Office (GPO) had developed a good balance between public and private printing, resulting in a 50/50 division of the workload based upon the nature of the work, the capacity of the GPO and the private facilities available. We recommended a similar approach for the Office of State Printing and maintained that the pilot program of competition would be a start towards a more balanced program.

In light of the above, we do not concur with the acquisition of another web press at this time and therefore recommend the deletion of \$790,000 from Item 139 (Printing Revolving Fund) for this equipment.

#### **Equipment in Need of Replacement**

The department has requested \$180,000 to replace in March 1973 the inserter-stitcher-trimmer that was installed in the OSP in 1957. The present machine which is operated three shifts six days a week is unable to process the full workload, and, in addition to being obsolete, the present machine breaks down frequently. We understand that the new machine is capable of processing twice the volume of the present machine and therefore it will be able to process the OSP's entire workload. We recommend approval for this replacement of equipment.

#### **Standards for State Agency Reports**

In our analysis of the State Personnel Board Budget, we noted that the 1971 Annual Report printed for the board departs in format from previous reports in that pictures of the board members are included,

**DEPARTMENT OF GENERAL SERVICES—Continued**

the paper is of the high-quality type used in advertising brochures, and artist sketches adorn the cover and some pages. This report is bound with plastic on the narrow edge so that the 1971 report, when placed with other reports, is of different size and difficult to file.

Because of the difficulties in storing and analyzing agency annual reports of different sizes and formats, we recommend that the State Printer make a survey of the requests for printing of such reports by all state agencies for the purpose of standardizing size, formats, and paper quality.

The State Printer's recommendations based upon this survey should be made available to the Directors of Finance and General Services in order that administrative directions for the preparation and printing of agency reports can be promulgated to all state agencies.

**Electronic Photocomposition System Implemented**

The Office of State Printing is currently implementing a photocomposition system to improve the quality, efficiency and timeliness of its printing service to the Legislature and other state entities. This system capitalizes upon the speed and accuracy of the computer as well as advantages offered by the offset printing method (rather than the present hot-metal typesetting method). Offset printing provides a superior printed product at faster speed and lower labor costs. A key advantage of photocomposition is the ability to alter quickly and economically text previously captured in machine-readable form. Significant savings in time and cost result from applications such as legislative bills and college catalogs where textual data bases are preserved on magnetic tapes which can be updated readily for repeated use.

In this approach, input for printing, which includes text along with specifications for type fonts and page formatting, is entered at the OSP via 16 video terminals online to the RCA 70/45 computer at General Services' Data Processing Service Center I (DPSCI). This computer uses specialized software to perform composing functions (including page numbering, formatting, and hyphenation) and produces composed text on magnetic tapes. These tapes then are taken to OSP where they are processed on an RCA Videocomp device to produce masters for offset printing.

The OSP plans to produce all legislative bills, histories, and files by photocomposition beginning in January 1972. Full production of legislative journals by photocomposition is expected by the OSP to begin by March 1972. Approximately 80 Assembly Bills have been processed since May 1971; full production of Senate Histories began in June 1971; and Senate Journals have been processed intermittently since July 1971. In addition, three large tax bills (each in excess of 300 pages) were processed in June 1971 at a net saving of \$50,000.

Work force reductions of 20 composing room personnel (from 185 in January 1969 to the current 165 level) and three bindery employees

have resulted from increased processing efficiencies due to photocomposition. Further personnel reductions will be achieved as photocomposition continues to be implemented and given additional applications.

#### OFFICE OF PROCUREMENT

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$1,404,095	171
Revolving fund.....	Item 140	8,535,921	—
Reimbursements.....	Item 136	321,612	—
Total.....		\$10,261,628	171

The procurement element contains three program components: (1) Direct Purchasing, (2) Traffic Management, and (3) Warehouse—Resale.

#### Direct Purchasing

The Office of Procurement purchases supplies and equipment in excess of \$25 for all state entities except the University of California which is exempt completely and the state colleges which are exempt from purchases under \$500. This office is responsible for developing purchase specifications, requesting bids and awarding contracts. It also provides overall direction and review of purchasing methods, coordinates consolidated purchase projects, establishes product standards, and tests for compliance with these standards.

#### Traffic Management

This unit provides traffic services and reviews state shipping and freight receipt practices.

#### Warehouse—Resale

This program component consists of three separate functional units: (1) Documents and Publications, (2) Property Reutilization, and (3) Central Stores.

The Documents and Publication Unit is responsible for the public sale of state publications and for the distribution of these publications to libraries. It serves both as publisher of certain documents and as consignee for public sale of other documents printed by public agencies.

The Property Reutilization Unit reviews equipment being disposed of by state agencies. Based upon such reviews and the equipment needs of other agencies, this unit selectively obtains, refurbishes, and resells this equipment to other state entities.

Central Stores enables individual state agencies to purchase common use items at minimum cost through central volume purchasing. Another objective of this unit is to provide quality control of the items acquired.



DEPARTMENT OF GENERAL SERVICES—Continued

Consolidation of Small Item Purchasing

We recommended in our 1968-69 *Analysis of the Budget Bill* that more agencies should do their small-item purchasing through Central Stores to achieve savings and that department warehouses should be consolidated into the General Services system. A number of agencies have accepted this recommendation and are now purchasing their small items from Central Stores.

Redistribution warehousing programs of the Department of Water Resources and of the Department of General Services' own Building Grounds Division have since been consolidated into the central warehouse system. Consolidation of the Department of Social Welfare warehousing program was accomplished July 1, 1971.

We understand that these consolidations have resulted in the elimination of eight full-time positions, elimination of over 2,000 stock items from continued uneconomic storage and a one-time saving of about \$350,000 from reduced inventory requirements.

More Consolidations Are Planned

Methods and techniques have been developed and refined to plan and implement further consolidations. According to the Department of General Services such consolidations can be accomplished at the rate of one or two additional warehouses per year.

The result of this effort will be to consolidate the remaining redistribution warehouses now being operated independently by seven other state agencies. Plans are being formulated to consolidate the warehouse operated by the Department of Human Resources Development, next followed by warehouses operated by the California Highway Patrol and by the Department of Motor Vehicles, respectively.

Current plans are to maintain in operation the Department of Human Resources Development warehouse facility under management of the Department of General Services.

We have concluded that the warehouse consolidation effort is progressing in a steady and satisfactory manner at this time.

TRANSPORTATION

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$62,926	154.9
Revolving fund .....	Item 140	5,559,867	—
Reimbursements.....	Item 136	94,652	—
Total.....		\$5,717,445	154.9

*We recommend that the Department of General Services, in cooperation with the Department of Water Resources and the Divisions of*

*Highways and Forestry, submit to the Joint Legislative Budget Committee no later than November 1, 1972, final conclusions and recommendations of the heavy equipment vehicle study currently in progress. We recommend, further, that the department report to the Joint Legislative Budget Committee on an intermittent basis significant findings and recommendations as they are developed.*

The Transportation Program Element consists of a number of vehicle service activities. These activities include central management and coordination, vehicle pool operations, garage operations, preventive maintenance, vehicle inspections, parking for state employees and parking for the general public.

#### **Vehicle Pool Operations**

The Transportation Division maintains a fleet of 3,100 vehicles at 10 state locations to provide transportation to state employees in the performance of their duties.

#### **Garage Operations and Preventive Maintenance**

Garage operations are available at eight state locations. They provide storage, gas and oil, and car wash services for state vehicles. Preventive maintenance of state-owned vehicles is performed at seven locations. The main purpose of this service is to minimize major repair costs over the life of state vehicles.

#### **Statewide Inspection Service**

Vehicle inspectors make routine inspections of state vehicles. They also determine conformance of new vehicles to specifications, determine optimum maintenance schedules, review and approve repair needs, maintain liaison with representatives of vehicle manufacturers, and review vendor invoices.

#### **Employee and Public Parking**

This function includes the assignment of parking spaces to state employees, the operation of employee parking facilities in nine cities, and the operation of public pay parking facilities in five cities.

#### **Duplication of Heavy Equipment Evident**

There have been legislative inquiries into the economies that could be achieved through systematic interagency sharing of the state's heavy equipment resources. A preliminary survey conducted by this office indicated that there are approximately 50 types of heavy equipment vehicles distributed among nine separate state agencies. We note in particular what appears to be a heavy duplication of such vehicles among the Division of Highways, Department of Water Resources and the Division of Forestry.

We are informed that in December 1971 the Department of General Services initiated a study to determine how the state can make more efficient use of its heavy equipment vehicles. We are recom-

**DEPARTMENT OF GENERAL SERVICES—Continued**

mending, therefore, that the Department of General Services provide to the Joint Legislative Budget Committee the results of its findings.

**Transportation Division Reorganized**

The Transportation Division was reorganized recently and a new division chief appointed. In addition, positions were established for a statewide supervisor of all vehicle inspectors and a statewide supervisor of all state garages. These changes are designed to unify and standardize effective fleet management practices.

The division is conducting a number of experiments which will test the feasibility of making certain policy changes relative to transportation practices. These include:

- (1) An experiment involving 100 cars from the state's central pool each with over 100,000 miles (the existing standard for disposal). The purpose of this experiment is to determine if a higher mileage maximum would be more economical than the present standard. The results of this experiment will be available in May 1972;
- (2) An experiment to determine if selling 25 state cars through a Sacramento automobile dealer on his used-car lot would yield a higher price than current methods.

We also understand that the Department of General Services has arranged to have air conditioning installed in all new state cars to enhance both employee comfort and resale value. If the state continues to replace its cars at the present rate, all state cars will have air conditioning within five years. In the meantime, the air-conditioned cars are being delivered to areas with the warmest climates.

Over 13,000 passenger vehicles continue to be under the independent control of separate state agencies. A number of minor consolidations are being made in which some agencies are turning over their cars to the Transportation Division for central management, storage, and maintenance. Any major consolidations will depend on feasibility as determined by vehicle use data compiled on a regular basis by the Transportation Division.

**SECURITY AND PROTECTION**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$971,151	233.2
Reimbursements.....	Item 136	2,107,314	—
Total.....		\$3,078,465	233.2

The State Police Division provides protection services for state buildings and property, their occupants, and visitors from hazards and criminal actions. Division activities include patrol and surveillance; responding to calls relating to accidents, injuries, fires and other com-

plaints; conducting investigations and making reports; making arrests and appearing in court; and providing for the safety and security of individuals on state property. State police escort cashiers carrying large sums of money; provide escort and chauffeur services for state and other officials; control crowds; patrol state-owned canals and hydroelectric facilities; investigate bomb threats; maintain security at public ceremonies; and assist other organizations in major emergencies or disasters.

#### New Positions Established

Twenty-two additional positions were established during the current year to provide service to agencies that requested additional security and protection.

#### ADMINISTRATIVE HEARINGS

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Reimbursements.....	Item 136	\$1,247,714	61.8

The Office of Administrative Hearings performs three functions: (1) Conducts administrative hearings; (2) compiles and publishes the California Administrative Code, which consists of rules and regulations of state agencies; and (3) conducts studies of administrative law and procedure. The main function of this office is conducting hearings, which are adjudicatory proceedings under the Administrative Procedure Act and other laws. The purpose of this function is to prevent abuse of licensing authority given to 55 state agencies by providing fair and impartial hearings to denied applicants and licensees charged with legal violations.

Costs for this program element appear about \$600,000 higher for 1971-72 than for the preceding or succeeding years. This results from a \$600,000 increase appropriated in the Social Welfare Reform Act of 1971 to conduct additional impartial hearings relative to provisions of the act.

#### LEGAL SERVICES

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$176,642	16
Reimbursements.....	Item 136	164,700	—
Total.....		\$341,342	16

The legal office provides direct services to the Department of General Services, the Department of Finance, and various boards and commissions. These services include reviewing and drafting of legal documents and rendering legal advice. The office also reviews contracts, leases and real property transactions entered into by other state agencies which are subject to the approval of the Department of

**DEPARTMENT OF GENERAL SERVICES—Continued**

General Services. A major purpose of this unit is to assure that the state follows appropriate courses of action to avoid becoming involved in unnecessary litigation.

**MANAGEMENT ASSISTANCE**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$851,303	51.2
Reimbursements.....	Item 136	25,000	—
Total.....		\$876,303	51.2

The Office of Management Assistance consists of three units that provide service in areas of accounting and fiscal management; management research; and state records services. These services include maintaining the State Administrative Manual, assisting state agencies install effective paperwork management systems, maintaining the state's accounting system as required in Section 14626 of the Government Code, providing staff assistance to the State Board of Control, and providing management assistance to divisions within the Department of General Services.

In our *Analysis of the 1971 Budget Bill*, we recommended that the Department of General Services, Management Assistance Division, develop a pilot project which would test the feasibility of a central accounting system development program utilizing a "task force" approach. The primary reason for this recommendation was the proliferation of accounting systems designs which has occurred in the past several years. The Departments of Water Resources, Public Health, Social Welfare, Public Works, and Mental Hygiene all had recently completed computerized accounting systems which are in operation. We also noted that most of these departments utilized the services, at considerable cost to the state, of private accounting and computer systems firms while designing and implementing these systems.

In our judgment, the state could save as much as 50 percent of the developmental cost of accounting systems if we utilized state personnel who have gained experience while working with the private consultants in the above systems projects. This approach would also result in uniform or compatible systems design which would enhance the state's ability to coordinate and control program priorities and expenditures.

**Pilot Accounting System Development Program**

During the fiscal committee hearings, the Departments of General Services and Finance indicated full accord with our recommendations and language was included in the Supplemental Committee on Conference Report (Budget Bill of 1971) recommending the pilot project. The Legislature also adopted Resolution Chapter 160, 1971 Session

(ACR 88) which embodied a similar set of recommendations and outlined certain program budgeting goals and criteria. The resolution also gave the Department of Finance the primary responsibility for implementing the pilot study with the aid of the Department of General Services.

#### **Task Force Organized**

Pursuant to the legislative directive, the Department of General Services, in cooperation with the Department of Finance, began to develop a task force of experienced state personnel to begin the pilot project. The task force consists of one full-time accounting systems analyst from the Department of General Services, two full-time accountants from the Department of Education (one of which has previous experience in the development of the Water Resources and Mental Hygiene systems) and, on a consultant basis, one systems programming specialist from the Department of Public Health, and one data processing systems analyst from the Department of Water Resources. In addition, the supervising accounting systems analyst in the Department of General Services serves as a consultant to the task force.

#### **Department of Education Selected as Pilot Department**

The Department of Education was selected as the pilot project department and work was scheduled to begin early in the 1971-72 fiscal year. The objective of the pilot project for Department of Education purposes is to design and implement a budgeting, accounting and reporting system composed of four interrelated functional parts. Conceptually these parts are a budget accumulation module, a departmental control accounting module, a program accounting module, and a federal accounting module. The system must also produce output data compatible with the Department of Finance budget data system.

The work plan developed for the project calls for a four-phase program: Definition of Systems Concepts, Development of Detailed System Design, System Implementation and System Evaluation. The project goal is to complete the first three phases in time for implementation during the 1972-73 fiscal year. To meet this deadline, the task force evaluated two existing state automated accounting systems to determine if either were adaptable to the pilot project. The Department of Public Health's Program Accounting and Management Information System (PAMIS) and the Department of Water Resources Program Cost Accounting System (PCA) were reviewed and evaluated by the task force and the PCA system of the Department of Water Resources was selected for use in the pilot project for the following principal reasons: (1) the PCA system is an operationally proven system (10 years) whereas the PAMIS system has been operational for only six months, (2) the PCA system has a proven interfaced budget

**DEPARTMENT OF GENERAL SERVICES—Continued**

computer and personnel system, (3) the PCA system can be used to control budgeted expenditures by program or by organization at the departmentwide level while the PAMIS system is less flexible in terms of program and organizational relationships, (4) the PCA system appears to have more potential as a model for statewide use, and (5) the PCA system will meet the immediate needs of the Department of Education.

**Progress Reports**

As provided by Resolution Chapter 160, progress reports have been submitted by the Department of General Services to the Joint Legislative Budget Committee and the Assembly Committee on Efficiency and Cost Control on November 1, 1971, and December 31, 1971. Another progress report is due March 31, 1972, and a final report on the results of the pilot project is to be completed by June 30, 1972.

We will continue to monitor this project as it progresses and report any findings or problems to the fiscal committees or policy committees as appropriate.

**Additional Positions Requested**

The department has requested an additional 3.5 clerical positions based upon increased record volumes stored in State Records Centers and an additional two positions to implement a statewide microfilm and control program. In this program, the Department of General Services will review all purchases of microfilm equipment and provide instructions and guidelines for state agencies to use in determining the feasibility of using microfilm for specific applications.

**INSURANCE SERVICES**

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 136	\$98,742	6
Reimbursements.....	Item 136	2,028,000	—
Total.....		\$2,126,742	6

The Insurance Office provides services to protect the state's large investment in manpower, equipment, and facilities by transferring risks to insurance companies through the purchase of insurance. This office performs independent risk management studies of insurance requirements for state agencies with a goal of promoting uniform insurance procurement procedures and reducing state expenditures.

The automobile liability insurance rate for 26,000 state vehicles has increased from \$58 per vehicle in 1970-71 to \$75 in 1971-72. This rate is expected to increase to \$78 per vehicle in 1972-73. We understand that the department has evaluated recently the feasibility of having the state assume self-risk insurance of state vehicles but that the find-

ings indicated that it is more economical for the state to continue to insure commercially.

**DEPARTMENT OF GENERAL SERVICES**

Item 137 from the State  
School Building Aid Fund                      Budget p. 60    Program p. 286

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Requested 1972-73 .....	\$1,000,530
Estimated 1971-72 .....	963,972
Actual 1970-71 .....	904,870
Requested increase \$36,558 (3.8 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

This item provides support for the Office of Local Assistance chargeable to the School Building Aid Program. Analysis of the program is included in our analysis of Item 136.

**DEPARTMENT OF GENERAL SERVICES**

Item 138 General Fund Trans-  
fers to Service Revolving  
Fund

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item provides the authority for augmentation of the Service Revolving Fund from the General Fund or special funds for the purchase or replacement of equipment with funds available and intended for such use subject to the State Board of Control.



**DEPARTMENT OF GENERAL SERVICES  
OFFICE OF STATE PRINTING**

Item 139 from the Service Re-  
volving Fund

Budget p. 60    Program p. 286

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Requested 1972-73 .....	\$23,150,731
Estimated 1971-72 .....	22,328,160
Actual 1970-71 .....	20,413,184
Requested increase \$822,571 (3.7 percent)	
Total recommended reduction .....	\$790,000

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**ANALYSIS AND RECOMMENDATIONS**

This item is discussed in our analysis of Item 136 where we recommend disapproval of a web press at the Office of State Printing for a saving of \$790,000.

**DEPARTMENT OF GENERAL SERVICES**

Item 140 from the Service Re-  
volving Fund

Budget p. 60    Program p. 286

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Requested 1972-73 .....	\$43,916,197
Estimated 1971-72 .....	29,134,000
Actual 1970-71 .....	25,744,924
Requested increase \$14,782,197 (50.7 percent)	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

This item is discussed in our analysis of Item 136.

**Department of General Services**  
**OFFICE OF ARCHITECTURE AND CONSTRUCTION**

Item 141 from the Architect-  
 ture Revolving Fund

Budget p. 61 Program p. 296

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Requested 1972-73.....	\$4,719,639
Estimated 1971-72 .....	4,887,916
Actual 1970-71 .....	6,806,332
Requested decrease \$168,277 (3.4 percent)	
Total recommended reduction .....	Indeterminate

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

- |  |     |
|--|-----|
| 1. Private Architects. Recommend Government Code be amended to permit state to contract with private organizations for all its architectural and engineering work.   | 312 |
| 2. Phase Out Portion of Office. Recommend Department of General Services phase out by July 1, 1973, that portion of the Office of Architecture and Construction's activities identified as basic architectural and related services. | 312 |

**GENERAL PROGRAM STATEMENT**

The Office of Architecture and Construction functions primarily as an architectural and engineering service organization essentially similar to private architectural organizations. However, it is comparable only to the larger private organizations in that it provides a full spectrum of architectural and engineering services whereas the smaller private architectural organizations often provide only architectural services and must go outside their own organizations to obtain the various engineering services such as mechanical, electrical and civil.

One major difference between the state organization and private organizations is that it also operates an on-the-job inspection service during the construction period. This service is performed as a matter of course for all state projects which by law fall within its purview. In addition, it renders both an architectural and inspection service to the state college system on a contract basis because the latter system is not required by law to use the services of the Office of Architecture and Construction but may do so at its discretion. The University of California is not required by law to use the services of the organization and it never has, but has relied entirely on private architects and engineers for its major projects.

The method of compensation used for the Office of Architecture and Construction differs from a private architect in that the state

**OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued**

organization is reimbursed for all of its out-of-pocket and overhead expenses in connection with any one job. On the other hand, the private architect agrees in advance to a method of compensation which is determined by the conditions of a specific project.

For the current fiscal year, the average fee of the Office of Architecture and Construction is projected to be 7.52 percent of the cost of construction. This is larger than the 7.21 percent computed average rate of compensation for basic architectural services recommended by the California Council of the American Institute of Architects. Consequently, it appears that the cost to the state will be more than if the services were contracted.

Comparisons cannot be made between the service fees charged by the Office of Architecture and Construction for on-the-job inspection work and those of private architects who normally do not provide this service as part of their regular contracts. Usually, in relationships between private architects and private clients where a client desires constant on-the-job inspection, he employs one or more inspectors, directly paid by him, although the individuals may be recommended by the architect. For the current fiscal year the Office of Architecture and Construction estimates that the average cost of this service is 2.16 percent of the project construction cost as compared with 2.26 percent in the 1970-71 fiscal year. The goal for the budget year is 1.53 percent.

The Office of Architecture and Construction also performs a service which is rarely if ever rendered by a private architect to a private client. This is concerned with so-called "day labor" projects in which the state organization acts as architect and engineer, inspector and construction contractor. This is almost exclusively in connection with complex alteration or modernization projects. However, the level of activity in this area has diminished considerably.

The office also performs a somewhat unusual service under a separately funded special program in which it does not perform any architectural or engineering design work but instead reviews the elementary and secondary school construction plans of private architects to ascertain whether they meet the minimum standards for seismic, wind and fire safety generally as set forth in the "Field Act." This is discussed in Item 142.

The Architectural Revolving Fund from which the activities of the office are financed receives no revenues in the ordinary sense. Instead, funds appropriated by the Legislature for specific projects are deposited in the revolving fund and assessments are made against each project for the services of the office. Consequently, the actual volume of work for the office, and hence the potential amount of service funds which it may expend, is completely dependent upon the level of capital outlay appropriations provided by the Legislature. As a practical matter, the revolving fund is continuously appropriated to

the office, but for some years it has been the practice to include a specific appropriation from the revolving fund in the Budget Bill in order that the Legislature may have an opportunity to review the activities of the office and the cost of its services.

#### **ANALYSIS AND RECOMMENDATIONS**

The program budget for the Office of Architecture and Construction categorizes its Architectural Revolving Fund activities into two major service functions. They are:

- (1) Architectural and consulting services including civil, structural, environmental design and cost engineering, and related services, and
- (2) Construction services which primarily include construction supervision and inspection.

The architectural and consulting services function can be subdivided into two components, basic and extra services. Basic services are considered comparable to those services for which private firms receive compensation under normal service fee schedules. Extra services include field surveys, soil reports, soil and laboratory tests, blueprinting, advertising and administration of contracts. The preceding are not basic to every project and are services for which private firms receive separate compensation. This functional subdivision facilitates comparison of state costs to usual fees charged by private architectural offices as well as analysis of staff to workload ratios and adjustments.

#### **Workload Determination**

The budget proposal for the 1972-73 fiscal year is based on data analyzed in early December of 1971 and represents the best estimate possible under the prevailing circumstances. A final decision on the size of the capital outlay program in the Governor's Budget had not been made at that time and funds had not been released for previously authorized projects.

Given these restraints, the 1972-73 fiscal year workload level for the basic architectural services function, based on construction value, is estimated at \$30 million which is the same as estimated for the current year. However, the actual workload volume for the office will be approximately 10 to 13 percent less than the current year because of inflation in construction costs.

In contrast to the leveling off of workload for architectural and consulting services, the level for the construction supervision function, based on construction value, is estimated to decline to \$84 million. This is 16 percent less than the \$100 million estimated for the current fiscal year.

## OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued

## Proposed Staffing Level

The funding and staffing levels for the 1972-73 fiscal year appear in Table 1.

**Table 1**  
**ALLOCATION OF FUNDS AND STAFF BY FUNCTION**

	Actual 1970-71	Estimated 1971-72	Estimated 1972-73	Percent Increase or (Decrease) from current year
Basic Services				
Production Cost .....	\$3,597,427	\$2,262,681	\$2,256,060	(.3)
Man-years .....	168.8	105.2	105.2	0
Extra Services				
Production cost .....	\$998,474	\$917,880	\$961,350	4.7
Man-years .....	57.8	52.5	52.5	0
Construction Services				
Production Cost .....	\$2,263,653	\$2,155,951	\$1,950,029	(9.6)
Man-years .....	111.0	101.0	88.0	(12.9)
Total				
Production .....	\$6,859,554	\$5,336,512	\$5,167,439	(3.2)
Man-years .....	337.6	258.7	245.7	(5.3)

The budget for the current fiscal year was based on a staffing level of 252.7 authorized positions. The transfer of 10 positions from the Facilities Planning Division increased that level to 262.7. As indicated in Table 1, it is estimated that workload and administrative adjustments as well as salary savings will reduce the authorized level to 258.7 man-years.

For the budget year, it is proposed to reduce authorized positions to 248.7, a reduction of 10 positions or 3.9 percent. Estimated salary savings will further reduce this figure to 245.7 man-years, as shown in Table 1.

## The Role and Future of the Office of Architecture and Construction

We recommend that: (1) *The Government Code be amended to permit the state to contract with private organizations for all its architectural and engineering work,* (2) *the Department of General Services phase out by July 1, 1973, that portion of the Office of Architecture and Construction's activities identified as basic architectural and related services,* and (3) *the department retain an architectural consulting and construction capacity with adequate staff to:*

- a. *Supervise and inspect construction projects designed for the state,*
- b. *Coordinate the state's building program and serve as liaison with private architectural organizations, and*
- c. *Perform certain functions peculiar to the state's operation such as special investigation, space planning and preparation of reports.*

With certain statutory exceptions, the State Architect under Government Code Section 14751, has general charge, under the Department of General Services, of the erection of all state buildings and is required to have an inspector assigned to each building during its construction. The law also provides that the department may contract with qualified architects and engineers for the performance of work when the state lacks sufficient staff to perform the work in a timely manner.

At the time the state began providing its own architectural and engineering services, it was embarking on a large-scale postwar building program. With the volume of work involved, the state soon developed a large staff of architects and engineers having a continuity of experience with the peculiarities of the state's needs in its various specialized facilities. At the time, there were few private firms that had similar expertise and the capability to turn out such a large volume of work.

However, circumstances have changed. The amount of state construction requiring the services of the Office of Architecture and Construction has diminished due to program changes and a reduction in state college projects assigned to the office. In addition, numerous private architectural and engineering firms have the expertise and production capabilities to perform the work as competently as the state-employed staff and at no increase in cost.

#### **Lack of Flexibility**

The State Office of Architecture and Construction does not have the flexibility to adjust to fluctuations in workload as readily as a private firm. This is because of various considerations including rules and regulations governing layoff and demotion. This inflexibility coupled with the rapid decrease in workload experienced by the office over the past two years has resulted in the accumulation of undistributed expenditures totaling \$1,592,647. This cost will have to be recovered from open work orders and future work. The potential for this situation to recur is always present due to uncertainties as to the actual size of the state's capital outlay program until the Budget Bill is finally passed. It can be further compounded by administrative decisions not to release funds for previously authorized projects. This also makes it difficult to establish a staff to workload ratio that will hold state costs at a level comparable to private architects' fees.

We suggest that the benefits to be derived from maintaining this service are difficult to assess in light of the capabilities of private organizations, the inflexibility of the present arrangement, the potential for future cost overruns, and the budget proposal which indicates a greater cost for the state's services. However, we believe it would be advisable for the state to employ its own project coordinators and inspectors to interpret policy and program needs, control costs and

**OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued**

insure compliance with contract documents. We contemplate that a staffing level of approximately 100 man-years would be sufficient to perform the functions outlined above. We further suggest that a consistent method of funding this operation be developed to provide a sense of permanence and stability for the staff.

**Department of General Services****OFFICE OF ARCHITECTURE AND CONSTRUCTION**

Item 142 from the Architect-  
ture Public Building Fund

Budget p. 61 Program p. 296

Requested 1972-73.....	\$1,438,280
Estimated 1971-72 .....	1,404,222
Actual 1970-71 .....	1,416,233
Requested increase \$34,058 (2.4 percent)	
Total recommended reduction .....	\$1,438,280

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

- |  |     |
|--|-----|
| 1. The Field Act. Recommend the act be amended and the schoolhouse plan checking function be eliminated. | 316 |
| 2. Plan Check. Recommend the plan check function for fire and panic safety be eliminated.                | 316 |

**GENERAL PROGRAM STATEMENT**

In addition to its primary architectural and engineering functions, the Office of Architecture and Construction performs a plan checking function for all public school entities in the state. Education Code Section 15401 and following directs that all plans for construction or alterations to any public school building exceeding \$10,000 in cost be submitted to the Department of General Services for approval. The Office of Architecture and Construction is also responsible for checking plans for compliance with fire and panic safety requirements. Currently, this service is provided by contracting with the State Fire Marshal's Office for the staff required to perform this function.

The Office of Architecture and Construction performs no design work of any kind with respect to this program. It merely reviews the structural plans submitted by private architects and engineers for compliance with the wind and seismic load design criteria and in general checks the overall safety of the structural design concept. The plans which are not approved are returned to the source with exceptions noted and a request that corrections be made and the plans resubmitted. Following this review and approval procedure, the Office of Architecture and Construction inspects and monitors construc-

tion progress to insure compliance. Revenue to support this program is generated by a filing fee of one-half of 1 percent of the estimated project cost (\$50 minimum) which must accompany each set of plans submitted for checking.

#### ANALYSIS AND RECOMMENDATIONS

The estimated construction value of proposed schoolhouse work in the state serves as the basis for determining total workload for the schoolhouse plan review function as well as projecting the revenue from fees which go toward offsetting the cost of the program. Table 1 indicates the current trend in schoolhouse construction activity and its budgetary impact on the plan checking program.

**Table 1**  
**COMPARISON OF WORKLOAD FUNDING AND STAFFING CHANGES**  
**(1969-70 through 1972-73)**

	<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>	<i>Percent</i> <i>Change</i> <i>from</i> <i>Current Year</i>
Construction value	\$243,460,000	\$310,000,000	\$300,000,000	\$320,000,000	6.7%
Total revenues .....	1,206,526	1,376,258	1,403,825	1,425,846	1.6
Total expenditures	1,490,347	1,416,233	1,404,222	1,438,280	2.4
Production man-years	72	63.8	60	60	—

The figures in Table 1 are merely indicators and as such are somewhat misleading because of inflationary factors. For instance, if current construction cost trends continue and the construction volume estimated for the 1972-73 fiscal year is correct, the actual workload should be less than the current year. The equivalent volume of work with an estimated construction cost of \$300 million in 1971-72 would cost approximately \$340 million in 1972-73 due to rising construction costs.

The proposal for the budget year contemplates a \$34,058 or 2.4 percent increase over the amount estimated for the current year. Table 2 summarizes the proposal.

**Table 2**  
**SUMMARY OF MAJOR PROGRAM EXPENDITURE CHANGES**

	<i>Actual</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>	<i>Estimated</i> <i>1972-73</i>	<i>Percent</i> <i>Increase or</i> <i>from</i> <i>current year</i>
Operating expenses and equipment .....	\$227,100	\$237,179	\$257,990	8.8%
State Fire Marshal .....	74,000	81,900	81,900	—
Personal services .....	1,147,520	1,085,143	1,098,390	1.2
Total.....	\$1,448,620	\$1,404,222	\$1,438,280	2.4%

As indicated in Table 2, the largest increase occurs in the area of operating expenses and equipment. Involved are increases in rent,



**OFFICE OF ARCHITECTURE AND CONSTRUCTION—Continued**

intradepartmental overhead, equipment and earthquake research. The increase in rent is because of legislation passed in the 1971 Regular Session standardizing the rental rates charged occupants of state buildings. The equipment request is to replace existing antiquated items which have reached the point where further repair is uneconomical.

The increased emphasis on earthquake research reflects the need to learn more about the actual forces generated by earthquakes and the way buildings respond.

**Should Plans be Double-Checked?**

*We recommend the Field Act be amended to require that the professionals responsible for the design of public school buildings certify that the structural design complies with established wind and seismic load design criteria and assume responsibility for the overall safety of the structural design concept.* This would eliminate the necessity for the schoolhouse plan checking function for a savings of \$1,356,380 to local school districts.

Basically, there has been no change in the services provided by the schoolhouse section to the school districts since the creation of the function subsequent to the 1933 earthquake in southern California. The plan check staffing standard has been gradually increased by more spot checks of major design elements, and reducing time spent on details which do not play a major part in the overall structural stability of the buildings.

However, since the initiation of the state's plan check, there has been a general upgrading of the design profession and codes governing the construction of these buildings. In fact, code requirements governing design are very specific and school buildings must be designed by licensed architects and engineers with the same professional qualifications as the state personnel rechecking the plans. Consequently, we question whether the extra expense of double checking the designs is justifiable.

Some may argue that school buildings are inherently more susceptible to damage by seismic forces. Yet, this extra measure of protection is only applied to a portion of school construction activity in the state. All facilities constructed for parochial and private schools as well as facilities constructed for the community colleges, state colleges, the University of California and private universities are not subject to review by the state's schoolhouse section.

We believe the licensed professionals responsible for the design of school buildings are sufficiently competent and qualified to recheck their own work, certify that it complies with code requirements and be held accountable for code compliance. We believe the same rationale obviates the need for the State Fire Marshal to double check plans for fire and panic safety. Consequently, we have recommended that

this service be discontinued for a contractual savings to the Architectural Public Building Fund of \$81,900. This issue is discussed in Item 133.

**Agriculture and Services Agency**  
**DEPARTMENT OF INDUSTRIAL RELATIONS**

Item 143 from the General

Fund

Budget p. 63 Program p. 310

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Requested 1972-73.....	\$22,139,045
Estimated 1971-72 .....	21,704,801
Actual 1970-71 .....	22,264,557
Requested increase \$434,244 (2.0 percent)	
Total recommended reduction .....	-\$14,644

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

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|--|---|
| <p>1. Electronic Data Processing. Recommend the Department of Industrial Relations, with assistance from the Department of Finance Division of EDP Control and Development, study the feasibility of obtaining data processing services via remote terminal from the Agency EDP Center in Sacramento or from a private time-sharing company in the bay area and implement the alternative which best meets the needs of the Department of Industrial Relations and the state.</p> <p>2. Self-Insurer Program. Recommend the addition of six consultant/auditor positions and 4 clerical positions to the self-insurer program at an approximate increased cost of \$150,000. Pursuant to Chapter 1758, Statutes of 1971 (AB 197) all costs of this program will be fully reimbursed in the budget year. Recommended deletion of \$82,754.</p> <p>3. State Conciliation Service. Recommend legislation requiring costs incurred by the State Conciliation Service for fact-finding committees and hearing officers in connection with mediation of transit authority labor disputes be shared equally among the parties to the dispute.</p> <p>4. Workmen's Compensation Appeals Board. Recommend approval of the proposed new management analyst position on the condition that it be utilized by the Appeals Board to: (1) examine division staff allocations, local case-loads and backlog, calendaring procedures and administrative rules with a view to expediting the flow of cases both in critical areas and statewide, (2) review the recommenda-</p> | <p>319</p> <p>320</p> <p>322</p> <p>323</p> |
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**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

tions of the Governor's task force of 1971, (3) study recent experiments and innovations in court administration for possible adaptation to the Workmen's Compensation Appeals System, and (4) report findings and recommendations on the above matters to the Joint Legislative Budget Committee on or before February 1, 1973.

5. Fair Employment Practices. Augment \$68,110. Recommend the budget for the Division of Fair Employment Practices be augmented by four consultant positions for a total staff augmentation of eight consultant and two clerical positions for the purpose of handling complaints. 327

6. Industrial Safety. Recommendation on Division of Industrial Safety withheld, pending receipt of additional information.

**GENERAL PROGRAM STATEMENT**

The Department of Industrial Relations was created by the Legislature in 1927 to "foster, promote, and develop the welfare of the wage earners of California, improve their working conditions, and advance their opportunities for profitable employment."

To fulfill these broad objectives, the department provides services through the following eight divisions: (1) Industrial Accidents, (2) Industrial Safety, (3) Industrial Welfare, (4) Labor Law Enforcement, (5) Apprenticeship Standards, (6) Labor Statistics and Research, (7) Fair Employment Practices, and (8) State Compensation Insurance Fund. In addition, the department provides a Conciliation Service and administers the workman's compensation Self-Insurers plan. With the exception of the State Compensation Insurance Fund, which operates as a public service nonprofit enterprise, the department's programs will be discussed separately in the analysis and recommendations which follow.

The department's proposed General Fund appropriation of \$22,139,045 is \$434,244 or 2 percent above estimated General Fund expenditures for the current year. Federal funding estimated at \$434,782 produces a total budget-year expenditure program of \$22,573,827, which is \$12,781 or less than one percent over estimated expenditures for the current year.

The \$434,782 in federal funds budgeted for 1972-73 represents a reduction of \$421,463 or nearly 50 percent from current-year federal expenditure levels. This reduction reflects primarily the deletion of three one-year-only federal grant programs operative during 1971-72: (1) a \$178,063 contract with the Division of Industrial Safety for intensified inspection and enforcement efforts in five industries with exceptionally high accident rates (these industries, designated as "target areas" by the 1970 Federal Occupational Safety and Health Act, are roofing, sheet metal, lumber, meat packing and mobilehome construc-

tion), (2) \$210,000 (13 man-years) representing 90 percent of the cost of a task force which is reviewing California safety standards for conformity to the Occupational Safety and Health Act (OSHA) and developing California's application for federal approval of revised codes and procedures, and (3) a \$27,000 (1.2 man-years) grant to the Division of Labor Research and Statistics, for the purpose of planning the integration of California's labor statistics program with the data reporting and collecting requirements of the federal OSH Act.

A separate grant of \$6,400 was made to the Division of Apprenticeship Standards in the current year for a staff orientation program concerning the implementation of new federal minority apprenticeship regulations (29 Code of Federal Regulations Part 30).

None of these grants is currently scheduled for continuation in the budget year. As discussed later in this analysis, however, up to \$2.5 million in federal Occupational Safety and Health funds could be made available in the budget year, contingent upon state accommodation to as yet undefined federal qualification requirements.

## ANALYSIS AND RECOMMENDATIONS

### DIVISION OF ADMINISTRATION

The Division of Administration serves the administrative needs of the department's eight program divisions by providing the ancillary services of management analysis, fiscal management, personnel and training, duplication, data processing, and technical assistance in the compilation of statistical reports. The office of the director, which has the responsibility for planning, coordinating and executing the services provided by the semiautonomous program divisions, is also budgeted within the Division of Administration.

#### Data Processing—Bay Area Data Processing Service Center

*We recommend that the Department of Industrial Relations, with assistance from the Department of Finance Division of EDP Control and Development, study the feasibility of obtaining data processing services via remote terminal from the Agency EDP Center in Sacramento or from a private time-sharing company in the bay area and implement that alternative which best meets the needs of the Department of Industrial Relations and the state.*

In our 1970 Analysis of the Budget Bill, we recommended that the Office of Management Services and the Human Relations Agency make a thorough analysis of the technical and management aspects of the Bay Area Data Processing Service (BADPSC) due to the technical, fiscal and management problems which were being experienced by the participating departments including the Department of Industrial Relations. Since the BADPSC was intended to test the feasibility of a geographic concept for consolidated EDP resources, we felt it appropriate to evaluate that experiment and learn from that experience to

**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

prevent future mistakes and take advantage of any positive results.

The Office of Management Services and the Human Relations Agency performed the required evaluation of the BADPSC and made 20 recommendations for improvements. However, many of the observations and conclusions which were contained in the original draft report were absent or restated with lesser impact in the final report so that the final report did not reflect many of the substantive issues initially outlined.

In our judgment, the evaluation, did prove, however, that the BADPSC was not performing effectively and had virtually become a Department of Public Health computer center. The Department of Public Health's use of the center represents 70 percent of the center's total proposed budget. The Public Utilities Commission has reduced its requirements for service from the center over the past two years, and the Department of Health Care Services will withdraw its work soon, leaving only the Departments of Industrial Relations and Public Health and to a much lesser extent the Air Resources Board and the City of Berkeley to share the expense of the entire center.

The Department of Industrial Relations has now expressed its intention to seek other alternatives to meet its EDP requirements. On page 162 of this analysis we recommend the formation of an agency EDP center utilizing the IBM 370/165 computer now being installed at the Department of Human Resources Development. If this proposal is adopted, the Department of Industrial Relations could obtain services from the agency center in Sacramento via remote terminal or join the Public Utilities Commission in obtaining service from a private time-sharing company in the bay area. Either alternative should provide improved service to the Department of Industrial Relations.

We therefore recommend that the Department of Industrial Relations, with assistance from the Department of Finance Division of EDP Control and Development, perform a feasibility study of the above alternatives and implement that alternative which best meets the needs of the Department of Industrial Relations and the state.

**Regulation of Workmen's Compensation Self-Insurance Plans**

*We recommend the addition of six consultant/auditor positions and four clerical positions to this program at an approximate increased cost of \$150,000 resulting in an augmented program level of \$232,754. Pursuant to Chapter 1758, Statutes of 1971, all costs of this program will be fully reimbursed in the budget year. We therefore further recommend that the \$82,754 proposed for appropriation to this program in 1972-73 be deleted.*

Section 3700 of the Labor Code provides that the director of Industrial Relations may issue certificates to self-insure to those enterprises demonstrating financial capability to fully compensate their workers for industrial injuries. The unit handling this function is presently

composed of a staff of one manager, one consultant and one stenographer based in San Francisco, and one consultant without clerical help in Los Angeles. The staff processes new applications for self-insurance certificates, maintains security deposits, administers examinations, provides consultative services to plan managers, and reviews claims payments for promptness and adequacy.

The proposed budget is \$82,754, which represents a decrease of \$7,326 or 8.1 percent from estimated current-year expenditures of \$90,080. It should be noted that this amount was requested for appropriation before AB 197 (Chapter 1758, Statutes of 1971) was signed into law. According to Chapter 1758, all costs of this program are to be fully reimbursed in the budget year, and it is therefore unnecessary to make a General Fund appropriation to fund this activity.

*Growth in the Number of Self-Insurers.* During the five-year period 1964-65 to 1968-69, the average annual number of new applications to self-insure was 39. During fiscal year 1969-70 that figure rose to 57, in 1970-71 to 106, and in the current budget year the annual number of new applications for self-insurer certificates is expected to reach approximately 125. Because of the economic benefits to self-insurers and the active promotion of this plan by commercial workmen's compensation adjusting agencies, the division expects this upward trend to continue.

As a result of this sharp rise in new applications, the program staff has been forced to concentrate efforts on the issuing of new certificates and on maintaining files and records, and to deemphasize auditing and regulatory activity as shown in Table 1.

**Table 1**  
**Selected Self-Insurer Data**

	1969-70	1970-71	1971-72 (Est.)	1972-73 <sup>1</sup> (Est.)
New applications .....	57	106	123	125
Total self-insurers .....	382	417	509	595
Locations audited .....	75	8	8	8
Cases reviewed .....	7,343	1,136	1,150	1,150
Personnel (man-years) .....	5	1.1	1.5	1.5

<sup>1</sup>These data do not anticipate the impact of AB 197 (Chapter 1758, Statutes of 1971), as discussed below.

In contrast to the five man-years devoted to the auditing function in 1969-70, the program has allocated 1.5 for the current year. The Department of Insurance audits licensed insurers regularly on a three-year cycle while self-insurers may expect to be audited only on a spot-check basis. Program administrators estimate that only 8 out of 606 adjusting locations (i.e., offices at which workmen's compensation benefits are calculated) will be audited in 1970-71.

To correct this situation, Chapter 1758, Statutes of 1971 provides that: (1) all self-insurers be audited within a three-year cycle, and (2) the total administrative cost of the self-insured program be borne by the self-insurers through payment of license fees.

Consistent with the need we have described, the provisions of the

**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

new law and our past recommendations, we recommend the addition of six auditor/consultants and four clerical positions to this program at an increased cost of approximately \$150,000. Such an increase would result in an augmented program level of \$232,754 and a total staff of 1 manager, 8 consultants and 5 clerical positions. The staffing level described above, based on an estimated 35 audits per auditor man-year, should permit implementation of a three-year audit cycle for an estimated 606 adjusting locations and in addition absorb the increased maintenance workload generated by the increased number of outstanding self-insurance certificates.

We recommend deletion of the \$82,754 requested appropriation for 1972-73, as no General Fund appropriation should be made to fund a reimbursement item.

**INVESTIGATION, MEDIATION, AND ARBITRATION PROGRAM  
(Division of Conciliation)**

The Labor Code specifies that the department shall (1) investigate and mediate labor disputes on the request of any bona fide party involved in the dispute, (2) proffer mediation services to both parties when there is a threat of work stoppage and neither party requests intervention, (3) endeavor to promote sound union-employer relationships in the interest of preventing labor disputes, and (4) arrange for the selection of boards of arbitration on terms agreeable to all concerned parties.

In addition, the department has statutory responsibility for settling labor relations disputes or grievances relating to the nine transit districts or authorities (viz., the San Francisco Bay Area Rapid Transit District) now authorized by state law.

*We recommend legislation requiring that costs incurred by the State Conciliation Service for fact-finding committees and hearing officers in connection with the mediation of a transit authority labor dispute be shared equally among the parties to the dispute.*

The proposed expenditure for this program is \$380,084, which represents an increase of \$70,336 or 22.7 percent over estimated current-year expenditures of \$309,748. This increase reflects the division's proposed budget-year addition of three positions, including two conciliators and one stenographer.

Data supplied in the budget document indicate that workload is steadily increasing in all program elements. However, the proposed new positions are intended primarily to permit the division to participate more actively in the conciliation of employer-employee disputes in the public sector.

As the public has a substantial interest in the expeditious resolution of public sector labor disputes, and as the number and magnitude of these disputes (as shown in Table 2) have increased dramatically since 1967, we believe the three new positions are justified.

**Table 2**  
**Public Sector Work Stoppages**

	<i>Number of strikes</i>	<i>Number of employees involved</i>	<i>Number of man-days idle</i>
1967 .....	8	1,190	25,700
1968 .....	18	5,590	13,900
1969 .....	34	20,800	60,800
1970 .....	26	35,800	356,000

#### **Transit Authority Disputes**

The various Transit District Acts of the Public Utilities Code require the State Division of Conciliation to settle disputed bargaining unit and representation issues by holding hearings and elections. In some cases, an arbitrator may be appointed to settle a dispute, and in such cases the arbitration costs are shared equally by the contending parties. In cases where the disputing parties do not wish to submit to arbitration, the State Conciliation Service appoints and must bear the costs of fact-finding committees and hearing officers.

The conciliation service does not pay the cost of fact-finding committees and hearing officers for any other of the public or private disputes which it conciliates. However, because the law does not require the transit authorities to pay for this service, the Division of Conciliation has been forced to absorb this expense, which can amount to as much as \$9,000 for a single committee. We believe that such costs should be shared equally by the parties to the dispute.

#### **PREVENTING, SETTLING, ADJUDICATING, AND ADMINISTERING DIS- PUTES UNDER WORKMEN'S COMPENSATION LAWS** (Division of Industrial Accidents)

*We recommend approval of the proposed new management analyst position provided that it will be utilized by the appeals board to (1) examine division staff allocations, local caseloads and backlog, calendaring procedures and administrative rules with a view to expediting the flow of cases both in critical areas and statewide, (2) review the recommendations of the Governor's task force of 1971, (3) study recent experiments and innovations in court administration for possible adaptation to the Workmen's Compensation Appeals System, and (4) report to the Joint Legislative Budget Committee findings and recommendations on the above matters before February 1, 1973.*

The Workmen's Compensation Appeals Board and the referee teams in the Division of Industrial Accidents are responsible for the adjudication of workmen's compensation claims. The appeals board is composed of seven persons appointed by the Governor, who also designates the chairman of the board. The division's staff, under the supervision of an administrative director who is also appointed by the Governor, provides supportive services to the board.

The objective of the program is to insure the prompt payment of workmen's compensation benefits to workers who suffer industrial



**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

injury in the course of their employment. These benefits include medical expenses, rehabilitation costs, legal fees, awards for loss of earnings not to exceed \$105 per week, and death benefits.

The division proposes an expenditure of \$9,449,603, which is an increase of \$44,518 or less than one percent over estimated current-year expenditures of \$9,405,085. The increase reflects the proposed addition of one management analyst position for the purpose of aiding and advising the appeals board in administrative matters. This position is an exempt appointment of the board and will be responsible directly to the chairman.

**Increased Workload**

During the past three years the division has experienced a steady increase in case filings with no increase in the number of referee teams handling them. Table 3 presents comparative workload data from 1969-70 through the budget year.

**Table 3**  
**Workmen's Compensation Appeals Board—Comparative Workload Data**

	1969-70	1970-71	1971-72 (est.)	1972-73 (est.)
Total filings .....	127,091	131,541	134,779	138,018
Total Dispositions .....	126,197	129,664	131,000	133,000
Difference .....	1,894	1,877	3,779	5,018
Referee teams .....	102	100	100	100

We note that in the budget year the division estimates that filings will exceed dispositions by approximately 5,000 cases. These figures are not by themselves adequate measures of workload and production because the appeals procedure is often interrupted by petitions from claimants for independent medical examinations and additional time to prepare arguments. The statistics do suggest, however, that unless new procedures are devised to expedite the handling of disputes, an unmanageable backlog may begin to develop.

The division estimates that the median time span between filing and decision is approximately 1.8 months for the state as a whole. In some locales, however, there is a waiting period of up to three months before a case can go to hearing. Should this waiting period lengthen, the division may find itself in conflict with the constitutional mandate to handle workmen's compensation claims "expeditiously." We therefore recommend that the proposed new management analyst position be used by the appeals board to review the operations of the division as outlined above.

**PREVENTION OF INDUSTRIAL INJURIES AND DEATHS**  
(Division of Industrial Safety)

The Labor Code provides that the Division of Industrial Safety "has the power, jurisdiction, and supervision over every employment and place of employment in this state, which is necessary adequately to

enforce and administer all laws and lawful orders requiring such employment and place of employment to be safe, and requiring the protection of the life and safety of every employee in such employment or place of employment." Specifically excluded from the jurisdiction of the division are maritime workers, household domestics, federal employees and operating employees of interstate railroads.

The division provides services through seven program elements: construction, electrical, elevator, radiation, fumes and gases, industrial, pressure vessels, and educational activities. During the current year, the division has added an eighth element to provide for a federally funded task force which is charged with adapting the California industrial safety program to the requirements of the 1970 Federal Occupational Safety and Health Act.

The budget proposes an expenditure of \$4,957,773 for the division, which is an increase of \$35,675 or less than 1 percent over the current year estimated General Fund expenditure of \$4,922,098. Reimbursements of \$46,000 for services rendered in radiation inspections for the Department of Public Health bring total budget-year expenditures to \$5,003,773. Federal funds amounting to \$388,063 in the current year for the support of the OSHA planning element and for the "target industries" inspection contract, both discussed previously, will not be continued in the budget year.

Recent investigations conducted by the Assembly Select Committee on Industrial Safety have revealed serious inadequacies and inconsistencies in the enforcement of California industrial safety laws. Our own field review of the division's inspection activities confirms many of the findings of that committee. However, we would note that these problems are not solely fiscal and staffing in nature, but are in large part a question of administrative policy and practice.

We are withholding our recommendation on this portion of the department's budget pending receipt of further information from: (1) the Joint Legislative Audit Committee which is in the process of completing an audit report on the Department of Industrial Relations, including recommendations concerning the Division of Industrial Safety, and (2) the Federal Occupational Safety and Health Act Administration which, depending upon funding and qualification provisions yet to be promulgated, may provide up to 50 percent of the cost of certain California industrial safety programs in the budget year and thereafter.

#### **DEVELOPMENT AND ENFORCEMENT OF LABOR LAWS AND STANDARDS (A Program Consolidation)**

This program represents the administrative consolidation of the staff and functions of the former divisions of Labor Law Enforcement and Industrial Welfare. Prior to this consolidation, the divisions shared very similar responsibilities and functions: recovery of unpaid wages, review of wage records, licensing, administration of labor laws relating

**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

to children and enforcement of other labor laws. Previously, the Division of Industrial Welfare developed and enforced regulations governing female employees. However, because recent Supreme Court decisions have declared certain labor laws affecting women to be unconstitutional, on grounds that they are discriminatory, there appears to be little justification for continuing to treat Labor Law Enforcement and Industrial Welfare as separate programs. We have long urged the consolidation of these divisions and concur in the proposal to merge them.

The budget proposes an expenditure of \$4,128,000, which represents an increase of \$74,251 or 1.5 percent over the estimated current-year program expenditure of \$4,054,949. One division chief position is deleted to eliminate duplication caused by the merger, for a savings of \$30,000.

The department advises that any reduction in workload or any savings arising from the elimination of duplicate efforts will be more than offset by increased responsibilities under Chapter 1442, Statutes of 1971 (AB 528). This legislation, which prohibits employers from knowingly hiring illegal aliens, may produce substantial added workload which would require staffing adjustments in the budget year.

**PROMOTION, DEVELOPMENT AND ADMINISTRATION OF  
APPRENTICESHIP AND OTHER ON-THE-JOB TRAINING  
(Division of Apprenticeship Standards)**

The Division of Apprenticeship Standards has the responsibility under law to promote and foster apprenticeship programs and other "on-the-job" training opportunities for apprentices and journeymen. The division also attempts to promote equal opportunity practices in apprenticeship selection procedures, cooperate with other state agencies in training inmates of correctional institutions and placing them in jobs when they are released on parole, and administers the California Plan for Equal Opportunity in Apprenticeship. This plan requires apprenticeship programs registered with the U.S. Department of Labor or the Division of Apprenticeship Standards to be representative of the ethnic composition of the labor market areas in which they operate. In addition, the division inspects, approves and monitors apprenticeship and other on-the-job training programs for veterans under a contract with the U.S. Veterans Administration.

The proposed General Fund expenditure for this program is \$1,667,549 which is \$32,105 or 1.9 percent above estimated expenditures of \$1,635,444 in the current year. Federal funds in the amount of \$434,782 representing reimbursement for monitoring functions performed for the Veterans Administration bring total proposed program expenditures for the budget year to \$2,102,331.

This funding level should enable the division to maintain its current level of service.

**COLLECTION, COMPILATION, ANALYSIS AND DISSEMINATION OF  
CALIFORNIA LABOR STATISTICS  
(Division of Labor Research and Statistics)**

The Division of Labor Statistics and Research is required by statute "to collect, compile, and present facts and statistics relating to the condition of labor in the state." Pursuant to this general directive, the division compiles statistics on (1) work injuries, (2) provisions of collective bargaining agreements, (3) work stoppage, (4) union membership, and (5) negotiated work settlements. The division also provides statistical services to the other departmental divisions.

The division proposes an expenditure of \$386,865 which represents an increase of \$73,850 or 23 percent above estimated General Fund expenditures of \$313,015 in the current year. Reimbursements of \$15,000 from services rendered to the Departments of Public Health and Rehabilitation bring total program expenditures for the budget year to \$401,865. The department advises that a portion of the proposed increase is required to offset a budget-year loss of approximately \$98,000 in reimbursements arising from the transfer of the employment statistics function to the Department of Human Resources Development. The proposed budget-year expenditure will restore the industrial relations research element to approximately its 1970-71 funding level and should maintain current levels of service.

**PREVENTION AND ELIMINATION OF DISCRIMINATION IN  
EMPLOYMENT AND HOUSING  
(Division of Fair Employment Practices)**

*We recommend that the budget of the Division of Fair Employment Practices be augmented by four consultant positions at an increased state cost of \$68,110, resulting in a total staff augmentation of eight consultant and two clerical positions for the purpose of handling complaints.*

The Division of Fair Employment Practices, under the direction of the Fair Employment Practice Commission, is responsible for the administration and execution of (1) the provisions of the Fair Employment Practice Act (Labor Code Sections 1410-1433) relating to the rights of individuals in employment, and (2) that portion of the Health and Safety Code (Sections 35700-35745) relating to equal opportunities in housing. The director of the division, who serves as the executive officer of the commission, and the seven members of the commission are appointed by the Governor.

Chapter 1508, Statutes of 1970, expanded the provisions of the Fair Employment Practice Act to include prohibitions against employment discrimination on the basis of sex, thereby giving the commission enforcement authority in this area. The division also provides assistance to employers who wish to institute affirmative actions to expand equal employment opportunities for minorities.

The division proposes a budget-year expenditure of \$1,086,417, which is \$111,435 or 11 percent above estimated expenditures of \$974,-

**DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**

982 for the current year.

This increase represents the proposed addition of four consultants and two stenographers to the division staff. The proposed new staff, according to output estimates in the budget document, would be assigned to securing additional employment opportunities for minorities under the affirmative action portion of the program. However, we would note that the critical workload problem of the division (as demonstrated by caseload and backlog figures in Table 4) is in the handling of complaints rather than in affirmative action activities. Moreover, the Labor Code (Sections 1431 and 1423) makes affirmative action activities of the division permissive, while the handling of complaints is mandatory.

The complaint workload of the division, as shown in Table 4, has been increasing in the past two years with little appreciable addition in staff.

**Table 4**  
**Division of Fair Employment Practices**  
**Selected Workload Data**

	1969-70	1970-71	1971-72	1972-73 (Est.)
Formal cases (complaints) filed..	1,347	2,033	2,300	2,400
Formal cases closed .....	1,213	1,652	1,700	1,700
Difference .....	134	381	600	700
Consultant positions.....	21.6	23.8	22	22

Based on the workload data presented in Table 4 and an estimated maximum output per consultant of 93 cases per year, the division needs *eight* rather than four additional consultant positions for 1972-73. Such a staffing level would permit reduction of the anticipated current-year backlog of 600 cases and more adequate handling of the estimated caseload of 2,400 in the budget year. We therefore recommend that the division's budget be augmented by four consultant positions at an increased state cost of \$68,110, resulting in a total staff augmentation of eight consultant and two clerical positions for the purpose of handling complaints. We would note that the Legislature authorized an augmentation of eight consultants for this division in the 1971-72 budget, but the positions were deleted by the Governor.

**Agriculture and Services Agency**  
**WORKMEN'S COMPENSATION BENEFITS FOR**  
**SUBSEQUENT INJURIES**

Item 144 from the General  
Fund

Budget p. 65 Program p. 326

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Requested 1972-73.....	\$2,004,000
Estimated 1971-72 .....	1,770,000
Actual 1970-71 .....	1,636,207
Requested increase \$234,000 (11.6 percent)	
Total recommended reduction .....	None

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**SUMMARY OF MAJOR RECOMMENDATIONS**

1. *We recommend that future costs of this program be funded from no-dependency industrial death benefit claims paid to the state.* Implementation of this recommendation would require a constitutional amendment to permit the funding of the program through the insurance liability of the employer rather than by the state's General Fund.

**GENERAL PROGRAM STATEMENT**

This item funds the state's payment for injury compensation claims awarded by the Workmen's Compensation Appeals Board under Section 475 of the Labor Code which provides that when a worker with a preexisting permanent disability or impairment suffers a subsequent industrial injury resulting in a combined total permanent disability of 70 percent or more, the employer is responsible only for that degree of permanent disability arising from the subsequent injury. The balance of the disability benefit obligation is assumed by the Subsequent Injury Fund.

The purpose of this program is to provide an incentive for employers to hire persons who have a permanent or partial disability or impairment. The liability of the employer for any subsequent injury which aggravates the original disability is limited to that portion of the combined disability which is directly attributable to the latter injury. The difference between the employer's portion of the award and the total award, as determined by the appeals board, is funded through this appropriation.

The award payments are administered by the State Compensation Insurance Fund (a public enterprise), and the money appropriated by this item includes the service charges of that agency and those of the Attorney General who represents the state's interests in the hearings before the appeals board or court.

**WORKMEN'S COMPENSATION BENEFITS—Continued****ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

Table 1 shows the growth of the appropriation and the outstanding liabilities of the state for the years indicated.

**Table 1**  
**Selected Data, Workmen's Compensation for Subsequent Injuries**

	1969-70	1970-71	1971-72
Benefits paid .....	\$1,312,823	\$1,436,365	834,193 <sup>1</sup>
Service charges—S.C.I.F. ....	65,654	71,818	N.A.
Attorney General fees.....	148,219	185,978	N.A.
General Fund appropriations .....	1,444,000	1,653,000	1,770,000
Emergency Fund allocations.....	82,697	41,162	—
Number claims .....	238	270	N.A.
Outstanding obligations .....	23,176,542	25,381,055	N.A.

<sup>1</sup> Estimated midyear

The State Compensation Fund's midyear report on fund status will be available in February 1972.

The requested appropriation of \$2,004,000 is \$234,000 or 11.6 percent above estimated expenditures for the current year. This increase reflects an anticipated increase in claims and additional costs attributable to Chapter 1750, Statutes of 1971 (AB 486), which increased the maximum weekly permanent disability benefit from \$52.50 to \$70.

**ALTERNATE SOURCE OF FUNDING**

*We again recommend that consideration be given to funding this program from a source other than the General Fund.*

Implementation of this recommendation would require a constitutional amendment, similar to ACA 72 of the 1961 session, followed by appropriate legislation to permit the program to be funded by no-dependency death benefit claims paid to the state. Twenty-six states now fund subsequent injury totally or partially in this manner. Under current law, the statutory death benefits which normally are paid to legal heirs are paid to no one if legal heirs cannot be found. Only a burial expense of not to exceed \$1,000 is paid under these circumstances. It does not seem reasonable, however, that when an employee who has no legal heirs dies as a result of an industrial accident the employer should be relieved of an insurable liability which he must assume if heirs exist.

ACA 72 provided that in cases of an accidental industrial death of an employee who had no legal heirs to whom the statutory death benefit could be paid, legislation could require that the death benefit be paid to the state and used for the payment of subsequent injury claims. Such a provision would eliminate or substantially reduce General Fund expenditure for this program.

**STATE PERSONNEL BOARD**

## Item 145 from the General

Fund

Budget p. 66 Program p. 328

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Requested 1972-73 .....	\$5,300,631
Estimated 1971-72 .....	4,973,495
Actual 1970-71 .....	4,959,660
Requested increase \$327,136 (6.6 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT****Organization and Authority**

The State Personnel Board is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts rules and regulations for the administration of the state civil service system. The board has a responsibility for establishing and administering merit systems for city and county welfare and public health employees to insure compliance with federal requirements. In addition, the 1971 Welfare Reform Act allocated \$7 million to the State Personnel Board for the purpose of creating jobs in state and local governments for welfare recipients, and supplementing welfare grants for recipients salaries. The board employs an authorized staff of approximately 512 professional and clerical positions which are under the supervision of an executive officer.

**New Executive Officer and Reorganization**

In April of 1971, the State Personnel Board appointed a new executive officer, who immediately set about reorganizing the board staff. In June of 1971, the executive officer requested that five state executives serve as an advisory committee to assist in redefining the board's role and objectives. The Department of Human Resources Development, California Council on Criminal Justice, Department of Public Works, Department of Mental Hygiene and the Department of Water Resources each contributed one executive to the committee. The committee represented a number of years of varied experience in California state government.

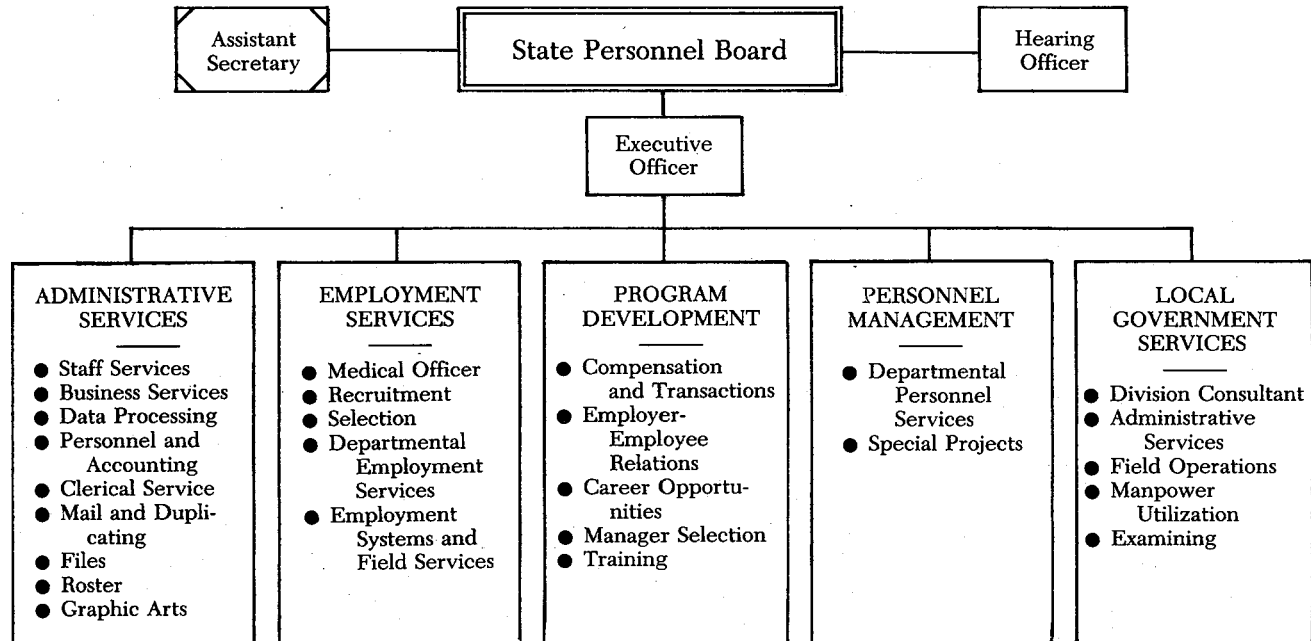
As a result of the Advisory Committee deliberations and research by the board staff, a major functional reorganization of the board was implemented on September 1, 1971. The new organization structure now consists of five functional divisions as illustrated in Figure 1. Four of the nine existing divisions were eliminated by consolidating a number of functional elements. The new organization appears to provide a more logical alignment of similar programs which were, in large part, scattered throughout the organization under the previous structure.



## STATE PERSONNEL BOARD—Continued

Figure 1

**State Personnel Board Organization  
As amended September 1, 1971**



**PAY PRACTICES AND POLICY REVIEW TASK FORCE**

In July 1971, the State Personnel Board appointed a pay practices and policy review task force consisting of both public and private sector members. The task force was asked to review prior studies made of the state's salary policies and practices and also to make a separate detailed inquiry into the salary-setting and adjustment process of the state and make recommendations as to how the process can be improved. The task force submitted its report in November 1971. In this report, the group noted the disparity between Personnel Board recommendations and the action of the Legislature and the Governor in granting funds for salaries and concluded that:

"The pay issue is further clouded by the apparent failure of the various parties to limit their activities to the specific responsibility which is allotted to them by the Government Code. The code clearly delegates salary-setting authority to the Personnel Board, while properly leaving the control over the amount of funds to the Legislature and the Governor. To vary this pattern on a case-by-case basis through selective appropriations makes it more difficult to administer an equitable salary program. An understandable goal which all could accept would do much to eliminate this pattern."

The task force acknowledged the great volume of data which must be reviewed under the present salary-setting process and observed that, "This volume of data must be reduced, simplified and standardized if the program is to be truly understood by all." Our discussion of efforts to automate Personnel Board paperwork processes elsewhere in this analysis and the board's interest in developing a management information system are pertinent to this observation.

**Task Force Recommendations**

Among the significant recommendations made by the task force are:

1. The State Personnel Board should identify employee benefits and wages as separate items, and adjustments in either should be undertaken only after consideration of the total compensation package.

**STATE PERSONNEL BOARD—Continued**

2. Geographic pay differentials are in conflict with the principle of "like pay for like work" and should not be pursued by the board.
3. The board should take steps to reduce the number of ranges comprising the salary schedule.
4. The board should reduce the number of job classifications.
5. The board should take a more positive role in assessing trends in benefit programs and recommending changes.
6. The board should review salary needs on a timetable which will allow earlier submission of estimated fund requirements in the state's budgetary process.
7. The board should modify its method of application of salary data to:
  - a. Relate changes in the salary range structure to changes of salary structures in private business and other governmental agencies;
  - b. Compare rates paid outside state services with the rates paid state employees using common statistical measures such as weighted average to weighted average and median to median;
  - c. Utilize bench marks with strong pattern-setting characteristics;
  - d. Standardize selected sources, measures and techniques to achieve consistency.
8. The board need not consider the cost of living separately in setting salaries of state employees.

In our opinion, the recommendations and conclusions reached by the pay practices and policy review task force appear to be sound and the board should give them careful consideration as it discharges its pay-setting responsibilities.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The new organizational structure displayed in Figure 1 appears to us to be more functional than the previous structure. It is too early to determine the level of effectiveness which will be achieved by the organizational change because the staff and board management must make adjustments to the new alignment and relationships. Therefore, we will monitor the board's activities during the next year in order to make an appropriate analysis of the benefits achieved and problems encountered under the new organization.

**PERSONNEL BOARD PROGRAMS AND RESOURCES**

The State Personnel Board is responsible for providing technical assistance to state departments in recruiting, retaining and developing state employees and has a responsibility to provide leadership for state agencies in improving personnel practices and procedures. The board plays a staff role in providing technical assistance and expertise to departmental management while, at the same time playing a line role in recruiting, testing, training, setting salaries and dealing with the vast flow of personnel transactions which state employees engender. In addition, the board provides testing and other personnel management services to many local governmental jurisdictions. To fulfill these responsibilities, the board has developed five functional programs and has organized the board staff around these functions. Table 1 presents a summary of the resources required for each of the board's five programs.

**Table 1**  
**State Personnel Board**  
**Summary of Resources Expended by Program**

Program	1970-71		1971-72		1972-73	
	Man- years	Budget	Man- years	Budget	Man- years	Budget
Employment services .....	223.3	\$2,927,423	220.6	\$3,081,644	220.6	\$3,250,295
Personnel Management services .....	44.4	802,702	43.9	844,537	43.9	900,193
Program development .....	95.7	1,679,927	108.2	5,852,056	113.4	4,760,280
Local government .....	86.9	1,057,502	103.8	1,405,569	105.8	1,490,011
Administrative services						
Undistributed .....	4.6	112,225				
Distributed						
to other programs .....	34.3	(939,445)	34.0	(983,030)	34.0	(1,175,840)
Total program .....	489.2	\$6,579,779	510.5	\$11,183,806	517.7	\$10,400,779

**STATE PERSONNEL BOARD—Continued****Employment Services Program**

The Employment Services Program includes the responsibility for recruiting, selecting and placing qualified job candidates. A competitive process consistent with the state's merit system is used to meet the quantitative and qualitative personnel requirements of state agencies on a timely basis. It is estimated that the board will screen 175,000 applicants during the 1972-73 fiscal year and will make 50,000 job appointments.

**Personnel Management Services**

A sound personnel management program is of primary importance to the state's objectives of retaining a qualified work force. The State Personnel Board is actively engaged in a program to foster equitable classification and salary standards and personnel management consulting services to the state departments. Included in this activity is the formulation, administration and evaluation of the classification and pay plan; personnel surveys at the departmental level; and assistance to departments in interpreting and applying laws governing civil service employees. The board expects to provide some 7,500 man-hours of consultation and complete 350 classification and pay studies during fiscal year 1972-73.

**Program Development**

Improvement of employee performance is the primary objective of program development. Training, employer-employee relations activities, salary surveys and special studies are elements of this program which has the largest budget of all board programs and is displayed in Table 2.

An important element of this program is the career opportunities element. As Table 2 illustrates, this element represents 87.3 percent of the 1972-73 funds budgeted for the entire program. It is estimated that 2,000 welfare recipients will be placed in permanent jobs during the next fiscal year due to the increased emphasis on this element. Approximately 350 recipients will be placed in permanent jobs during the current fiscal years.

**Local Governmental Services**

Many local governmental jurisdictions cannot provide all of the personnel management services necessary to support a public work force. In addition, in order to acquire certain federal grants, a local

**Table 2**  
**State Personnel Board**  
**Summary of Resources by Element—Program Development Program**

<i>Element</i>	<i>1970-71</i>		<i>1971-72</i>		<i>1972-73</i>	
	<i>Man- years</i>	<i>Budget</i>	<i>Man- years</i>	<i>Budget</i>	<i>Man- years</i>	<i>Budget</i>
Training program development .....	26.5	\$602,354	26.3	\$634,473	26.3	\$666,205
Employer-employee relations .....	2.0	29,687	2.0	32,985	2.0	32,902
Salary survey, special studies, transactions and review .....	61.2	704,760	60.5	740,212	60.5	788,993
Career opportunities development .....	6.0	343,126	19.4	4,444,386	24.5	10,272,180
Total.....	95.7	\$1,679,927	108.2	\$5,852,056	113.4	\$11,760,280

jurisdiction must have a merit system approved or operated by a central state agency.

To meet this local need, the State Personnel Board provides recruitment, selection, testing, technical personnel and consultant services to many local governments, and approves or operates a number of local governmental merit systems.

One special category of this type of service is required by the federal statutes which provide that the State Personnel Board, under contract with the State Department of Social Welfare and the State Department of Public Health, must maintain merit systems for city and county welfare and health departments. By July 1973, it is expected that approximately 49,287 employees in approximately 120 city and county welfare and health departments will be under merit system coverage.

#### **Administrative Services**

This division has been significantly affected by the recent reorganization. Most administrative services, including electronic data processing, business services, personnel and accounting, clerical services, files and maintenance of the state roster are now performed under this program instead of being dispersed throughout the other programs. Costs for the Administrative Services Program are allocated on a pro rata basis to the other board programs.

#### **ANNUAL REPORT TO GOVERNOR AND LEGISLATURE**

As required by Government Code Section 18712, the State Personnel Board submitted its annual report to the Governor and each house of the Legislature on December 2, 1971.

The annual report briefly describes the board's reorganization activities, its revised goals and objectives, employee selection and reten-

**STATE PERSONNEL BOARD—Continued**

tion programs, management development programs, and state employees salaries and benefits. Information presented in the report is of a general nature and is only minimally substantiated with factual data and analytical displays such as charts and tables.

We note also that the 1971 annual report represents a departure in format from previous reports in that pictures of the board members are included, the paper is of high quality such as is used in advertising brochures and artist sketches adorn the cover and some pages. This report is bound with plastic on the narrow edge of the report so that the 1971 report, when placed with other reports, is of a different size and difficult to file.

In our analysis of the Office of State Printing under Item 39 of this analysis we recommend that the State Printer make a survey of the required reports published by all state agencies for the purpose of standardizing the size, formats and paper quality.

Based on the State Printer's recommendations, we are suggesting that the Director of Finance and General Services disseminate regulations to all state agencies regarding reports which are made to the Legislature and Governor.

**ELECTRONIC DATA PROCESSING****Planning for Consolidated Computer Center**

The State Personnel Board has requested funds in the Governor's Budget totaling \$395,815 for electronic data processing (EDP). This level of expenditure will permit continued operation of the board's existing state-owned IMB 1401 computer system. However, it is generally recognized that this second generation, small-scale computer is not adequate to meet the future EDP requirements of the board. Previously, the board has been unsuccessful in obtaining legislative approval for upgrading the current computer system to a new machine dedicated only to Personnel Board work because this approach is inconsistent with the state policy to consolidate EDP activities.

Consistent with this policy, the legislature recommended in the Supplemental Report of the Committee on Conference (Budget Bill of 1971) that any planning for a new computer system or improved EDP service be completed in cooperation with the State Controller and EDP Master Plan Consolidation Group IV. As a result of this recommendation and similar recommendations relative to the State Controller and State Treasurer, a serious effort is now in progress among six state agencies to develop a consolidated data processing service center. This effort is discussed in detail under Item 61 of this analysis.

The Personnel Board reports that it currently is not planning for a new dedicated computer system and recognized the requirement to obtain future EDP services from a consolidated data processing serv-

ice center. Such an improved system, according to the board, could provide sufficient mass random storage capability to maintain the entire state employee roster file, civil service employment list files, and examination record files on line for immediate remote access. This approach would provide faster responses, reduced costs, reduced manual effort, provide readily available information for management and staff to raise the level of their effectiveness and provide a data base of employee information which would be useful to operating state departments.

#### **Centralized Personnel Management**

In previous analyses we have consistently recommended an integrated approach to payroll and personnel master files in order to simplify the complex processes of personnel and payroll transactions and records. Both The Automated Personnel Transaction Data Communication (APTDAC) study conducted by the Personnel Board in 1966 and the Governor's Survey of Efficiency and Cost Control report completed in 1967 recommended further study of the feasibility of developing compatible payroll and personnel management files using modern electronic data processing techniques. This approach would eliminate duplication and provide an integrated personnel management information and payroll system. The findings of these two studies are similar to the plans of the State Personnel Board to provide a centralized approach to state employee personnel data.

If the board and the other state agencies are successful in bringing about a consolidated approach, it should, in our judgment, be possible to eliminate numerous manual files of personnel data which are now maintained by operating departments. We therefore anticipate that part of the cost justification for a centralized personnel management system would be the savings which would result from reduced clerical effort and paperwork transactions which are now a part of the current decentralized personnel system. We will, therefore, monitor closely the development of the proposed system with a view toward reducing the cost and improving the effectiveness of the state's personnel management system.

The current schedule of the consolidated EDP service center study requires the initial feasibility study to be completed by the end of January 1972. It is therefore expected that the participating agencies will be submitting supplemental budget information to continue planning toward a consolidated computer center during fiscal year 1972-73. Any budget request by the State Personnel Board for this project will be evaluated by our office together with all other participating agencies.



**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Items 146, 147, and 148 from the  
General Fund, Public Em-  
ployees' Retirement Fund,  
and the State Employees'  
Contingency Reserve Fund

Budget p. 67 Program p. 334

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Requested 1972-73.....	\$5,178,137
Estimated 1971-72 .....	4,701,172
Actual 1970-71 .....	3,997,784
Requested increase \$476,965 (10.1 percent)	
Total recommended reduction .....	None

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Report on Social Security. Recommend the Public Employees' Retirement System study and report to the 1973 Legislature the feasibility of discontinuing participation of state employees in the federal Social Security program, giving particular attention to the improvements which could be made in PERS survivor, disability, and hospitalization benefits through utilizing for that purpose the present and projected employer contributions to Social Security and up to one-half the present and projected employee contributions to that federal system.

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**GENERAL PROGRAM STATEMENT**

The objective of the Public Employees' Retirement System is to provide the state and other public employers and their employees the opportunity to participate in the retirement and health benefits plans (including four major medical plans) administered by the system, thereby aiding in the recruitment and retention of competent personnel by assuring a measure of postretirement financial security for older or long-term employees and financial assistance for active and retired employees in times of illness or other temporary physical impairment. All of these plans are statutorily controlled and require joint funding in different proportions by the employer and the employee.

Responsibility for establishing policy direction and guidance for the system is vested in its Board of Administration, which consists of eight members when considering matters related to the retirement programs, but it is increased by three public members when health benefits and medical plans are under consideration. The board submits two annual reports to the Governor and the Legislature, one summarizing the system's operation and stating its recommendations for legislation affecting retirement benefits and the administration of the system,

and the other summarizing its investments and financial operations. The day-to-day operations of the system are performed by an authorized staff of 354.8 positions under the direction of the system's board-appointed executive officer.

The Public Employees' Retirement System administers three distinct programs, a Retirement Program, a Health Benefits Program, and a Social Security Program. The latter program consists of the administration of the coverage and reporting aspects of the Federal Old Age Survivors, Disability, and Health Insurance Program which applies to most state employees on a mandatory basis and to local public employees whose employers have elected such coverage.

The costs of administering these three programs are funded from different sources. The Public Employees' Retirement Fund (representing the contributions of all participating public employers and employees), supports the administrative costs of the retirement program from its annual interest earnings; the General Fund supports that portion of the administrative costs of the Social Security Program relating to the state's participation; and the State Employees' Contingency Reserve Fund supports the administrative costs of the Health Benefits Program from an assessment (not more than 5 percent), made on the total premiums paid to that program. Table 1 details the support by fund.

**Table 1**  
**Fund Support for Administration of Public Employees' Retirement System**

	<i>Actual</i> 1970-71	<i>Estimated</i> 1971-72	<i>Requested</i> 1972-73
General Fund (Item 146) .....	\$18,000	\$18,000	\$18,000
Public Employees' Retirement Fund (Item 147) .....	3,459,524	4,135,960	4,568,071
State Employees' Contingency Reserve Fund (Item 148) .....	520,260	547,212	592,066
Totals .....	\$3,997,784	\$4,701,172	\$5,178,137

#### ANALYSIS AND RECOMMENDATIONS

##### *We recommend approval.*

Including reimbursements, the system is proposing a total expenditure program of \$5,821,291 for fiscal year 1972-73, which exceeds the current-year's estimated expenditures by \$271,183 or 4.9 percent. This increase is composed of \$167,364 for personal services and \$103,819 in operating expenses and equipment. However, because reimbursements are expected to fall by \$205,782 in the budget year as a result of PERS Board action to eliminate a special assessment on public agencies, the net cost of the program (expenditures less reimbursements) will increase by \$476,965 or 10.1 percent.

Estimated expenditures in the current year have increased by \$215,453 over the amount originally budgeted primarily as a result of legis-

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

lation which increased the workload of the system as described later in this analysis. Thus, the net proposed expenditure for the budget year is \$692,418 or 15.4 percent higher than the amount originally budgeted for the current year.

The system is proposing a net total of 33.8 new positions, most of which were added administratively in the current year to handle workload. These positions are discussed under separate program headings later in this analysis.

Most of the system's internal administrative costs, which comprise over half of the total proposed expenditure, are distributed among the three previously mentioned functional programs. The Board of Administration and staff of the Public Employees' Retirement System also administer the Legislators' Retirement System, as well as the investments of the Legislators' Retirement Fund. The system is not reimbursed for the cost of these services, which amounts to approximately \$30,000 annually. The Legislators' Retirement Fund is reviewed under Item 16 of this analysis.

**Recent Legislation**

Chapter 170, Statutes of 1971 (SB 249), which became operative July 1, 1971, changed the basic retirement formula for the miscellaneous members of the system from one-sixtieth to one-fiftieth of final compensation for each year of service at age 60, which represented a 20 percent benefit increase over the old formula. The measure also increased the vesting requirement to a period of five years and reduced the mandatory retirement age in scheduled increments from age 70 to age 67 in 1973. The imminent passage of this legislation resulted in the delay of almost 500 retirements which had been calculated and made ready for payment. These calculations, plus a substantial increase in the number of retirements following enactment of this legislation, have increased the retirement workload by 33 percent from the 1970-71 level. Due to the aging of the general membership and application of the new mandatory retirement age to all employees after 1973, the retirement workload is expected to remain at a high level. The impact of Chapter 170 on the system's program elements is discussed later in this analysis. Table 2 shows the historic and estimated retirement workload.

**DEPARTMENTAL ADMINISTRATION**

Of the total proposed expenditure of \$5,821,291, the sum of \$3,020,544 or 51.9 percent is budgeted for the department's internal administration program, and of this amount \$2,647,289 or 87.6 percent is distributed to the three functional programs in proportion to the services provided. These services consist of executive guidance and policy implementation, actuarial, legal, and investment services, electronic

**Table 2**  
**Retirement Workload**

<i>Fiscal year</i>	<i>Total</i>			<i>Total</i>
	<i>Annuitants</i>	<i>Annuitants</i>	<i>Annuitants</i>	<i>Annuitants</i>
	<i>July 1</i>	<i>Added</i>	<i>Deleted</i>	<i>June 30</i>
1965-66 .....	34,551	5,189	1,510	38,230
1966-67 .....	38,230	5,502	1,602	42,130
1967-68 .....	42,130	5,766	1,541	46,355
1968-69 .....	46,355	6,976	1,893	51,438
1969-70 .....	51,438	7,735	2,087	57,080
1970-71 .....	57,086	8,353	2,331	63,101
1971-72 .....	63,108	12,273 <sup>1</sup>	2,546 <sup>1</sup>	72,835 <sup>1</sup>
1972-73 <sup>1</sup> .....	72,835	12,871	2,781	82,925
1973-74 <sup>1</sup> .....	82,925	14,072	3,038	93,959
1974-75 <sup>1</sup> .....	93,959	11,367	3,318	102,008
1975-76 <sup>1</sup> .....	102,008	12,504	3,624	110,388

<sup>1</sup> Projections.

data-processing services, and routine administrative activities. Under our discussion of each of the system's functional programs, we indicate the amount charged for these administrative services.

The remaining 12.4 percent or \$373,255 of the administrative cost is undistributed and is composed entirely of reimbursements; namely, \$151,937 for investment services rendered to the State Teachers' Retirement System, and \$221,318 for EDP services provided for the Department of Veterans' Affairs and the State Teachers' Retirement System.

#### **Current-Year Adjustments**

Estimated expenditures for departmental administration in the current year are \$102,037 or 3.7 percent higher than the amount originally budgeted, reflecting the salary costs of 8 full-time and 0.8 temporary position which were administratively added in the current year. The 8 positions, which are requested for continuation in the budget year, consist of (1) one clerk assigned to the member file unit for increased activity due to Chapter 170, (2) two data-processing systems analysts and two programmers to handle workload resulting from Chapter 170, and (3) three computer operators to meet normal workload requirements by allowing the system to operate the data processing center seven days a week.

#### **Proposed New Positions and Transfers**

For fiscal year 1972-73, the system's administration program is proposing a \$144,601 or 5-percent increase in administrative costs over estimated expenditures in the current year. This increase includes the above 8 positions and 5.7 additional positions requested in the budget year for workload arising from Chapter 170. These include two computer operators for the seven-day-a-week operation of the data processing center, one clerk for mailroom workload, two clerks for the data processing center, and 0.7 man-year of temporary help to conduct a board member election pursuant to Chapter 1086, Statutes of 1971 (AB

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

2387).

**RETIREMENT PROGRAM**

The administration of a number of alternate retirement plans is the major program of the system. Through this program, the state and various contracting agencies (57 county offices of superintendent of schools, the Los Angeles City School District, the Los Angeles City Junior College District, 281 cities, 35 counties, and 340 special districts and other agencies), offer their employees on a mandatory (as a condition of employment), but mutual contributory basis, retirement benefits based on service or disability, death benefits, survivor coverage (if not covered by Social Security), and special benefits to certain occupational groups for death or disability incurred in the line of duty. The contracting agencies are granted by statute a number of optional retirement plans from which they may choose.

The proposed support expenditure of \$4,624,071 for this program is \$197,111 or 4.5 percent higher than estimated expenditures in the current year. It is proposed that the support for this program be funded by an appropriation of \$4,568,071 from the Public Employees' Retirement Fund and \$56,000 in reimbursements from local agencies for actuarial and insurance services.

**Current-Year Adjustments**

Estimated expenditures in the current year have increased by \$196,937 over the amount originally budgeted, primarily to finance 14 full-time and 2.5 temporary positions which were administratively added in the current year to handle workload arising from Chapter 170. The 14 positions, which are requested for continuation in the budget year, consist of 10 clerks and 4 retirement officers as follows: (1) three retirement officers and two clerks for the area offices in Los Angeles and San Francisco, (2) one clerk in the accounting division to handle an increase in the number of members who, upon terminating employment, must receive a refund of contributions under the new five-year vesting requirement in Chapter 170, and (3) one retirement officer and seven clerks in the benefits division.

**Proposed New Positions**

In addition to the above 14 positions, the system is requesting the following six new positions: (1) three retirement officers to audit the employment records of public agency members; such auditing is necessary because under the provisions of Chapter 170, the assets of all "miscellaneous member" categories in the system have been combined, with employers sharing a common liability for member benefits, and discrepancies in reporting personnel transactions could ultimately affect the contribution rates of the state and other public agencies; (2) one accounting technician to handle increased mortgage

investment workload; (3) one retirement officer to review an increased number of disability retirement applications; and (4) one clerk for workload increases in death benefit claims.

Departmental administration costs in the amount of \$2,458,289 have been allocated to the retirement program. This is 92.9 percent of the administrative costs which are distributed to the system's three programs. Table 3 shows workload data for the retirement program over a five-year period.

**Table 3**  
**Retirement Program, Selected Workload Data**

<i>Detail</i>	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>
Membership					
State and U.C. ....	157,608	161,490	168,723	171,584	169,084
Public agencies .....	208,952	223,571	240,627	254,084	264,342
Total .....	366,560	385,061	409,350	425,668	433,426
Retired members .....	42,130	46,355	51,438	57,086	62,623
Number contracting agencies .....	553	604	640	670	715
Public employers' contributions <sup>1</sup> .....	\$163.0	\$187.1	\$218.6	\$248.9	\$273.7
Public employees' contributions <sup>1</sup> .....	\$142.3	\$154.3	\$171.9	\$191.8	\$209.2
Benefit payments <sup>1</sup> .....	\$79.6	\$89.0	\$105.4	\$120.1	\$131.1
Death benefits <sup>1</sup> .....	\$10.2	\$10.3	\$12.4	\$13.6	\$13.5

<sup>1</sup> In millions of dollars.

#### HEALTH BENEFITS PROGRAM

Through the Health Benefits Program, the state and (since 1968) other public employers who so elect offer their employees a number of health benefits and major medical plans on a premium-sharing basis. Under Chapter 212, Statutes of 1970, the employers' share of the premium cost increased from \$10 to \$12 per month per individual premium in the current year, with the employee paying the remaining difference. The employer's monthly share of the premium cost will increase to \$14 in the budget year, and to \$16, the limit established by law, in 1973-74.

The funds proposed to support the administration of the Health Benefits Program in the budget year total \$592,066, which is \$44,854 or 8.2 percent greater than estimated expenditures in the current year. Support for this program is derived from the State Employees' Contingency Reserve Fund, which receives as revenue annual contributions from all participating employers as a percentage of the total premiums paid, including those for annuitants. The maximum percentages are fixed by statute, but the levels are set annually by the Board of Administration. For the current fiscal year, they are 1.0 percent for administration and 3.0 percent for reserves.

Estimated current-year expenditures for the Health Benefits Program are \$18,516 or 3.5 percent higher than the amount originally budgeted, primarily as a result of Chapter 1165, Statutes of 1971 (SB 1303), which permits member school districts to participate in the system's health insurance plans. Three positions (one retirement offi-

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

cer and two clerks) were administratively added in the current year to handle the workload generated by this legislation. The system requests continuation of these positions plus three additional clerical positions to handle workload resulting from enrollment expansion.

Departmental administrative costs of \$155,000, representing 5.8 percent of internal administrative costs for the system, will be charged to the Health Benefits Program in the budget year. Table 4 illustrates the growth and scope of this program.

**Table 4**  
**Health Benefits Program, Statistical Data**

<i>Detail</i>	<i>1966-67</i>	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>
Average monthly enrollment .....	108,911	109,956	114,119	121,115	122,906
Number basic plans .....	11	10	10	11	11
Number supplementary plans.....	6	6	6	6	6
Number major medical plans.....	—	—	4	4	4
Premium payments (millions)					
State enrollees' share.....	\$17.4	\$19.9	\$21.0	\$24.5	\$28.5
State share .....	7.3	7.5	9.4	10.8	14.0
Public agency costs <sup>1</sup> .....	—	—	—	0.6	1.8
Total premium cost .....	\$24.7	\$27.4	\$30.4	\$35.9	\$44.3
State administrative (millions) cost <sup>2</sup> .....	0.87	0.90	0.94	1.3	1.8
Total state cost <sup>3</sup> .....	\$8.2	\$8.4	\$10.3	\$12.1	\$15.8

<sup>1</sup> Includes employer and employee contributions. Public agencies did not participate in this program until December 1, 1968; thus, figures for 1968-69 are insignificant in dollar amounts.

<sup>2</sup> Includes contributions to the State Employees' Contingency Reserve Fund for reserves.

<sup>3</sup> Includes administrative and premium contributions.

**SOCIAL SECURITY PROGRAM**

The Social Security Program provides public employers and their employees with an opportunity for coverage under the Federal Old Age, Survivor, Disability and Health Insurance Program through a master agreement with the federal Social Security Administration. Pursuant to such an agreement between the state and the federal government, state employees in 1961 were given the option to join Social Security, but all new state employees after that year (except those in exempt classifications) are automatically covered by this program. The retirement formula which applies to employees covered by Social Security has been modified to reflect the fact that they will receive dual retirement benefits—one from the state and another from the federal system.

Public agencies may also contract for Social Security coverage of their employees through the Public Employee's Retirement System. Such coverage may be exclusive of, coordinated with, or in full sup-

plementation to a local retirement plan, at the option of the agency. As in private employment, the employee and the employer contribute equal amounts to the Social Security Program.

The Public Employees' Retirement System is responsible for submitting to the federal government quarterly wage reports of all public agencies in the state which are covered by the Social Security agreement, as well as the employer and employee contributions due on the wages. To accomplish this objective, the system proposes an expenditure of \$231,899, which is \$6,913 or 3.07 percent greater than estimated expenditures in the current year. The increase includes \$4,413 for merit salary adjustments and \$2,500 for increased operating expenses. The system proposes that the number of authorized positions remain at the same level as in the current year, 15.8.

The system requests an \$18,000 appropriation from the General Fund for the state's share of administrative costs. The remainder of the funding consists of reimbursements totaling \$213,899 from the various public agencies covered by the Social Security agreement. Included in these reimbursements is \$34,000, representing 1.3 percent of the general administrative costs which are allocated to the three programs. Table 5 shows the growth of the program and the magnitude of wages covered in public employment in the State of California for a five-year period.

**Table 5**  
**Social Security Program, Selected Workload Data**

Detail	1966-67	1967-68	1968-69	1969-70	1970-71
Public employers <sup>1</sup> .....	2,596	2,566	2,601	2,611	2,631
Public employees .....	354,000	379,000	416,000	441,000	457,509
Employer and employee contributions <sup>2</sup> .....	\$153.8	\$170.6	\$209.2	\$248.4	\$278.7
Net covered wages <sup>2</sup> .....	\$1,776.0	\$1,930.0	\$2,310.0	\$2,630.0	\$3,270.0

<sup>1</sup> Variations in number reflect mergers and consolidations of districts and other governmental entities as well as creation of new entities.

<sup>2</sup> In millions of dollars.

#### **Review Feasibility of Discontinuing Social Security Coverage**

*We recommend that the Public Employees' Retirement System study the feasibility of discontinuing participation of state employees in the federal Social Security program, giving particular attention to the improvements which could be made in PERS survivor, disability and hospitalization benefits through utilization of the present and projected employer contributions to Social Security and up to one-half of the present and projected employee contributions to that federal system, and report thereon to the Legislature no later than the 5th legislative day of the 1973 Regular Session.*

Since 1961 when the state entered its social security agreement with the federal government, the maximum employer cost for each covered employee has risen from \$144 per year (3 percent of the first \$4,800 of salary) to \$468 (5.2 percent on the first \$9,000, effective



**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

January 1, 1972) an increase of 225 percent in 11 years. Under current federal law, the maximum employer cost for 1973 will increase to \$508.50 (5.65 percent of \$9,000) and will gradually increase in scheduled increments to \$544.50 by 1987 (6.05 percent of \$9,000). Because social security taxes apply equally to the employer and employee, the combined maximum contribution to Social Security now totals \$936 annually and by 1987 the total will be \$1,089.

**Likely Future Increases in Social Security Costs**

Under federal legislation (HR 1) which has passed the House and is now being considered by the U.S. Senate Finance Committee, the social security wage base will be raised to \$10,200 and the tax rate will be increased in scheduled increments from 5.2 percent in 1973 to 7.4 percent in 1977, at which time the maximum employer-employee contribution would be \$1,509.60. A major feature of HR 1 is a provision for automatic increases in social security allowances equal to the percentage of change in the cost of living if the cost-of-living index increases 3 percent or more in a year. Both the taxable wage base and tax rates are subject to automatic upward adjustment to fund the cost-of-living increases.

Another proposal now being discussed in Congress would apply the social security tax rate to the total amount of employees' wages. This provision would produce little or no increase in costs to lower income workers, but it would make it possible for them to receive higher benefits because persons with higher incomes would be financing the benefit improvements.

Even under present funding provisions, state costs for social security will continue to increase as the percentage of state workers covered by the system grows. Approximately 75 percent of the state work force is now covered and, due to the attrition of employees who elected not to come under social security in 1961, PERS estimates that about 92 percent of the state employees will be covered by the 1980's. Most state "safety" members of PERS have been excluded from social security under a provision of the federal law which permits exemptions of employees who are classified as "policemen."

Table 6 shows actual and projected state costs for social security from fiscal year 1970-71 through 1979-80 on the basis of the current and proposed federal law. In both cases, the addition of employee contributions would double the amounts shown.

**Variations in PERS Benefit Structure**

Annually, the Legislature considers numerous proposals to extend the benefits of "safety" membership in the Public Employees' Retirement System to additional employee groups in the system's "miscellaneous" membership category. The most significant differences between the safety and miscellaneous classifications concern survivors

**Table 6**  
**Estimated State Costs for Social Security**

<i>Fiscal year</i>	<i>Employees covered</i>	<i>Present Law</i>		<i>HR 1</i>	
		<i>Maximum tax per employee</i>	<i>State cost in millions</i>	<i>Maximum tax per employee</i>	<i>State cost in millions</i>
1970-71 .....	106,161	\$405.60	\$35.0 (actual)	—	—
1971-72 .....	110,407	468.00	44.7	—	—
1972-73 .....	114,823	508.50	51.4	\$550.80	\$56.2
1973-74 .....	119,415	508.50	53.7	550.80	58.8
1974-75 .....	124,191	508.50	56.2	632.40	71.5
1975-76 .....	127,917	526.50	61.3	632.40	74.9
1976-77 .....	130,477	526.50	62.7	754.80	92.4
1977-78 .....	133,087	526.50	64.1	754.80	94.5
1978-79 .....	135,749	526.50	65.5	754.80	96.5
1979-80 .....	138,464	535.50	68.1	754.80	98.5

and disability benefits, the safety member being covered by considerably more liberal benefits which are fully financed by the employer's contributions to the retirement fund. Thus, the miscellaneous member pays the full cost of providing an allowance for his survivor by taking a modified (reduced) allowance at the time of his retirement, the amount of the reduction being actuarially determined by the age of the beneficiary. In contrast, a full 50 percent post-retirement survivor's allowance to a widow is provided for all safety members without actuarial reduction in the member's benefits.

In the case of disability retirement, the miscellaneous member, regardless of the cause of his disability, may retire with a benefit equal to 1.5 percent of compensation per year of service with a minimum of one-third compensation guaranteed after 10 years of service based on a projection of service to age 60. In contrast, the safety member who sustains an industrial or job-related disability is entitled to retire with 50 percent of compensation for life without regard to age or length of service.

The "50 percent continuance" and industrial disability retirement benefits are costly, as reflected in the employer contribution rates to the retirement fund. For most safety categories, the employer's rate is 18.97 percent of salary (27.51 percent for members covered by the highway patrol formula), compared to 7.24 percent for the miscellaneous membership.

#### **Savings From Termination of Social Security Could Finance PERS Improvements**

In the interest of equality of treatment of all state employees, there appears to be considerable merit in standardizing the postretirement survivor's allowance at the full 50-percent level and improving to some degree the disability retirement benefit for miscellaneous employees whose disabilities are permanent and specifically job related.

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

However, improvements in these areas should first be evaluated within the framework of the Social Security program with which PERS is integrated. Benefits as well as costs under social security are continuing to increase, and at the present rate of cost expansion it is conceivable that in future years the combined social security contributions of the state and its employees will equal or exceed present combined contributions to PERS under the miscellaneous formula and possibly even approximate the present combined cost (employer and employee) of certain state safety formulas. Of the approximately \$179 million contributed by the state in 1970-71 to the retirement system, almost \$35 million, as indicated in Table 6, was for social security coverage. Presently scheduled increases in the social security tax rate, combined with an increasing percentage of state workers covered, will increase the state cost for social security to an estimated \$61.3 million by 1975-76.

An evaluation of the integrated PERS/Social Security program may reveal that the savings derived from termination of social security coverage (possibly including some portion of the contributions made by employees) would be adequate to finance substantial benefit improvements in PERS. For example, PERS has estimated that 20-percent improvement in retirement allowances provided by Chapter 170 of the 1971 session will cost approximately \$15 million annually, financed, however, by increased interest earnings of the retirement fund. The system also has indicated that extension of the 50-percent postretirement survivor's allowance to the miscellaneous membership would cost roughly \$25 million annually.

Although social security provides significant survivorship, disability and hospitalization benefits which would need to be thoroughly evaluated for purposes of pricing reasonable comparability of benefits under PERS, it is clear that many employees receive little, if any, benefit from the state's (and their own) social security contributions. For example, a substantial but unknown portion of the state's social security costs represent payments in behalf of its female employees (a group constituting approximately 39 percent of the state work force), many of whom, if married, never draw benefits based on their own social security taxes because they are eligible for a higher benefit based on the earnings of their retired husbands. It should be noted, however, that a working wife who becomes disabled may receive disability benefits from social security on the basis of her own work record.

In any event, the historical pattern has been to withdraw social security coverage for groups granted safety membership in PERS. Because the federal Social Security Law requires a two-year notice before public entities are permitted to terminate their participation in the program, it may be desirable to consider legislation this session

directing the PERS Board of Administration to notify the federal government of the state's intention to withdraw from the program. If the study concludes that social security should be retained, the notification could be withdrawn prior to the two-year effective date.

### STATE TEACHERS' RETIREMENT SYSTEM

Item 149 from the Teachers'

Retirement Fund

Budget p. 68 Program p. 341

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Requested 1972-73.....	\$3,535,813
Estimated 1971-72 .....	3,097,591
Actual 1970-71 .....	2,471,389
Requested increase \$438,222 (14.1 percent)	
Total recommended reduction .....	None

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#### GENERAL PROGRAM STATEMENT

In 1913, the Legislature established a statewide system for payment of retirement salaries to public school teachers in California. A public Teachers' Retirement Salary Fund was established to support the system. It was administered by the State Board of Education, the original governing board of the system. In 1944, the name of the system was changed to the State Teachers' Retirement System (STRS). The retirement system remained under the direct jurisdiction of the State Board of Education until 1963 when it was removed from the Department of Education and placed under the control and management of the nine-member State Teachers' Retirement Board.

#### ORGANIZATION

The retirement board consists of three ex officio members (Superintendent of Public Instruction, the Controller, and the Director of Finance) and six members appointed by the Governor for four-year staggered terms. The board is responsible for setting policy and making rules. It has the sole power and authority to hear and determine all facts pertaining to applications for benefits under the retirement system and to make all decisions pertaining to the administration. The board also has exclusive control of the investments of the Teachers' Retirement Fund and the administration of the fund.

The system has a presently authorized staff of 278.2 positions headed by a chief executive officer who is appointed by and responsible to the Retirement Board. The STRS headquarters is organized into five divisions: (1) Records and Statistics, (2) Member Service, (3) Accounting, (4) Management Control, and (5) Data Processing.

**STATE TEACHERS' RETIREMENT SYSTEM—Continued****OBJECTIVES**

The objectives of the State Teachers' Retirement System are to: (1) provide retirement allowances, disability benefits and survivor benefits for teachers working in the public schools, (2) aid in the recruitment and retention of a qualified body of teachers, (3) provide for the orderly retirement of aged and infirm teachers, and (4) assure that all members of the retirement program are aware of their rights, benefits and current status.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The State Teachers' Retirement System is proposing net expenditures (expenditures less reimbursements) of \$3,535,813 for administrative support in the budget year, which is \$438,222 or 14.1 percent higher than estimated net expenditures in the current year. (As a result of recent legislation discussed below, the system's support requirements, beginning in the budget year, will be totally financed by the Teachers' Retirement Fund.) The proposed increase consists of \$223,364 for personal services and \$214,858 in operating expenses and equipment. The rise in operating expenses reflects an increase of \$210,000 in the pro rata charges for statewide administrative services which are assessed to all special fund operations. Estimated budget-year reimbursements totaling \$289,000 (the same level as in the current year) produce a total expenditure program of \$3,824,813 in the budget year, a 12.9 percent increase over estimated current-year expenditures.

**Major Changes Effected by Recent Legislation**

Chapter 1305, Statutes of 1971 (AB 543), which becomes operative July 1, 1972, makes the following comprehensive changes in the State Teachers' Retirement Law: (1) revises the benefit structure to provide significantly better retirement benefits at an earlier age, (2) improves survivor benefits, and (3) provides automatic cost-of-living adjustments of 2 percent annually. In addition, it increases the guaranteed minimum retirement benefit and provides a one-time cost-of-living adjustment for all current retirees.

Chapter 1305 also changes the financing of STRS benefits from the previous unfunded basis (under which the state made annual appropriations to subsidize the school district portion of all benefits due and payable each year) to a more nearly funded basis whereby future benefits will be financed by employer and employee contributions made and invested as benefits are earned.

Under a further provision of Chapter 1305, as previously indicated, the administrative costs of the system, effective July 1, 1972, will be financed entirely from the interest earnings of the State Teachers' Retirement Fund. Currently, these costs are derived from three

sources: 50 percent from the General Fund, 25 percent from interest earnings of the Retirement Fund, and 25 percent from the school districts.

#### **Current-Year Staffing Adjustments and Proposed New Positions**

Primarily as a result of workload arising from Chapter 1305, 18.6 positions (10.7 professional, 4.5 clerical and 3.4 temporary) were administratively added during the current year, and the system is requesting that the following 13.8 of these positions be continued in the budget year: (1) 3.5 clerks and 1 retirement officer to process retirement applications, (2) 1 accounting technician to handle death claims, (3) 1 general accountant to audit school district reporting practices and implement changes in the accounting section necessitated by the new funding structure, (4) 2.5 computer programmers, (5) 3 data processing systems analysts and 1 clerk-typist for the management control unit, and (6) 0.8 man-years of limited-term positions to compute the one-time cost-of-living increase provided by Chapter 1305.

In addition to the above 13.8 positions, the system is requesting the following 15.3 new positions on a workload basis: (1) 1 senior clerk to assist the actuarial coordinator, (2) 4 clerks with a term limited to June 30, 1973, to investigate and correct discrepancies found during the preparation of member statements, (3) 1 clerk for the benefit section, and (4) 6 keypunch operators, 0.5 computer programmers and 2.8 man-years of temporary help for the data processing unit.

#### **VERIFICATION PROJECT**

Because length of service is one of the primary determinants of the size of the retirement benefit, it is necessary that STRS verify all service which members claim before granting benefits. In past years, this had been done only when the member applied for retirement, and the difficulty encountered in finding service records often resulted in inordinate delays before benefits were paid.

In 1965 a small verification unit began to verify some member service records before retirement applications were received. For fiscal year 1969-70, the Legislature authorized 46 limited-term positions to extend through June 30, 1972, in an attempt to eliminate the large number of unverified service records and attendant problems. However, because statutes in effect at that time prevented the system from assessing school districts more than \$2 per teacher per year for administrative costs, and because the number of participating teachers was overestimated, revenues from this source (supposedly 25 percent of total administrative costs) were greatly overstated. As a result, the system did not receive enough funds to support these positions. In the ensuing two-year period, 11 of these 46 limited-term positions have been used for the verification project. Twenty-seven of the remaining 35 positions have been assigned to the monthly and annual reporting element to replace an equal number of previously authorized, limited-

**STATE TEACHERS' RETIREMENT SYSTEM—Continued**

term positions which expired June 30, 1971, and the remaining 8 positions have been assigned to other elements for workload increases. The system is requesting that these 35 positions be made permanent and that the 11 positions in the verification unit be continued through June 30, 1976.

In the current year, the Legislature authorized 42 limited-term positions to extend through June 30, 1976, for the verification unit. Since 1965, the unit has grown to a currently authorized staff of 75 positions (22 permanent, 11 limited-term to June 30, 1972; and 42 limited-term to June 30, 1976). The unit has verified the service records of all members over the age of 64 and is currently working on the records of members who are age 63. Thus, the system is able to pay the initial retirement allowance to an annuitant within 45 days of his effective retirement date. In addition, the staff is now able to verify the service records of all new entrants into the system, all reentrants, and all those members who request clarifications of their records. It is estimated that the verification unit will verify 23,400 service records in the current year, and the records of 32,760 members in the budget year. The system anticipates that all member records will be verified by June 30, 1978.

**Monthly Reporting and Annual Member Statements**

The various employers (such as school districts) report all teacher accounts to the system through 70 different reporting units (usually the county superintendent of schools). These reports, prior to July 1, 1969, were made on an annual basis which caused delays of as much as three years in the preparation of annual member statements. Since that time, the units have been shifting to a monthly reporting procedure and the system anticipates that by July 1972 all reporting units will be on a monthly basis. This will enable the system to prepare annual statements of members' accounts on a current basis. During the current year, the system will prepare and mail member statements covering three fiscal years (1968-69, 1969-70, 1970-71).

**MEMBERSHIP**

On June 30, 1971, the system had 314,162 active members. An active member is anyone who has money on deposit in the Retirement Fund, including persons who are not currently contributing to the system. Service, disability and survivor benefits were paid to 43,017 persons in 1970-71. By the end of the budget year, the system estimates that active membership will increase to 330,612 persons, and the number of beneficiaries to 50,400 persons. Table 1 illustrates the actual and estimated growth of the active membership and beneficiaries of the system for an eight-year period.

**Table 1**  
**Number of Active Members and Beneficiaries**

<i>Fiscal year ending June 30</i>	<i>Active members</i>	<i>Percent increase over previous yr.</i>	<i>Benefi- ciaries</i>	<i>Percent increase over previous yr.</i>
1966 .....	263,533	—	31,795	—
1967 .....	274,788	4.3%	33,443	5.2%
1968 .....	290,848	5.8	35,510	6.2
1969 .....	305,707	5.1	37,661	6.1
1970 .....	312,563	2.2	40,238	6.8
1971 .....	314,162	0.5	43,017	6.9
1972 (est.) .....	323,254	2.9	45,650	6.1
1973 (est.) .....	330,612	2.3	50,400	10.4

### INVESTMENTS

All marketing and research functions which are necessary to execute the investment program approved by the STRS Retirement Board are performed by the staff of the Public Employees' Retirement System through an interagency agreement. Under this agreement, STRS will support 50 percent of the cost of the Public Employees' Retirement System Bond Investment Office and Investment and Mortgage Section during the budget year, at an estimated total cost of \$151,937. However, the investment accounting procedures necessary to maintain the records of the STRS portfolio and collect the earnings due on its investments are performed by STRS personnel.

During the 1970-71 fiscal year, a record 5.74 percent net yield was realized on the system's investments. This net rate is the return after planned losses and administrative expenses on a portfolio whose book value was \$1,927,011,633 at the end of the 1970-71 fiscal year. All of the system's investments are currently held in corporate and governmental bonds, and since 1968, in mortgages. Following approval of a constitutional amendment in 1970, enabling legislation was enacted in 1971 permitting the system to invest up to 25 percent of its assets in common stocks. Such investment activity is expected to begin in the current year. Table 2 indicates the book value of the investment portfolio and the rate of return for the past five years.

**Table 2**  
**Investment Portfolio**

<i>Fiscal year ended June 30</i>	<i>Investments at book value (millions)</i>	<i>Gross rate of return (%)</i>	<i>Net rate of return (%)</i>
1967 .....	1,235	4.38	—
1968 .....	1,367	4.57	—
1969 .....	1,535	4.93	—
1970 .....	1,708	5.44	5.33
1971 .....	1,927	5.87	5.74



**DEPARTMENT OF VETERANS AFFAIRS**

Items 150 and 151 from the  
General Fund and the Vet-  
erans Farm and Home  
Building Fund

Budget p. 69 Program p. 347

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Requested 1972-73.....	\$1,121,768
Estimated 1971-72 .....	1,105,657
Actual 1970-71 .....	667,580
Requested increase \$16,111 (1.5 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

Services to and for qualified California veterans and dependents as set forth in the Military and Veterans Code were first consolidated into a single Department of Veterans Affairs in 1946 which subsequently became a department in the Agriculture and Services Agency.

The code sets forth the services and assistance that may or shall be rendered to veterans or their dependents. The principal aim is to help qualified and needy veteran or dependent in obtaining any direct federal or state aid that may be or become available and to provide a hospital-nursing-home-domiciliary facility for those veterans requiring such services which might not otherwise be available to them.

In addition, the department operates a finance lending service to enable veterans to own their own homes, farms or mobilehomes. This service is self-supporting and self-liquidating from regular payments made by veterans who have availed themselves of it.

**Program Organization**

The services and operations of the department function under five major designations:

- I. Farm and Home Loans,
- II. Veterans Claims and Rights,
- III. Educational Assistance to Veterans Dependents,
- IV. Veterans Home and Hospital, and
- V. General Administration.

The latter is charged back (distributed or pro-rated) to the other four in order to properly reflect the cost of each operational program.

Each of the four major designations is divided into several significant subprograms.

**I. FARM AND HOME LOANS****A. Property Acquisition**

The loan program differs from conventional private financing in that the department acquires the property desired by the veteran,

retains title to it and then sells it to the veteran on a contract of sale. The title passes to the veteran only after he has completely paid off the contract. The department does its own appraising, plan review, applicant evaluation, acquisition processing, title review, escrow instructions and fund disbursement. Annual applications and appraisals have been averaging between 5,500 and 7,000. However, lendable fund limitations cause wide fluctuations in the number of actual purchases from about 1,500 in the 1969-70 fiscal year to 4,600 in the 1970-71 fiscal year, 7,500 estimated for the current fiscal year and 10,000 proposed for the budget year. Loan values committed for the same period increased from \$29 million in 1969-70 to \$180 million estimated for the budget year.

#### B. Loan Service

The department operates its own collection services, handles delinquent accounts, insurance claims and, as required, property repossession. Delinquent accounts had been averaging 12,000 annually but they have now jumped to 60,000 estimated for both the current and budget years. Also, repossessions have jumped from an average of 150 annually to 500 estimated for the current and budget years.

#### C. Loan Funding

The basic source of funds used for the purchase of property is by sale of general obligation bonds authorized from time to time by the electorate. To a more limited extent, funds become available as the result of early repayments which may exceed the needs for servicing the bonds. In any case, the bonds are fully financed by the participating veterans, so that even though these bonds are of the general obligation type the state is not required to contribute directly towards their interest or amortization.

Once authorization by the electorate has been achieved, the actual sale of bonds is dependent upon the need for cash and usually they are sold in blocks dependent upon bond market conditions. Decisions to sell bonds are made by the Veterans Finance Committee and the State Treasurer.

The department now has authority, provided by the Legislature in 1970, to sell revenue debentures not to exceed \$50 million.

In the 1970-71 fiscal year, \$100 million was realized from bond sales. It is estimated that a like amount will be realized in both the current and budget years.

## II. VETERANS CLAIMS AND RIGHTS

The population of California includes in excess of three million veterans who are qualified to participate in both state and federal programs. This number is growing at an accelerated rate each month as Vietnam veterans return. The program of the division is discussed under the following activities.

**DEPARTMENT OF VETERANS AFFAIRS—Continued****A. Claims Representation**

Claims representation is actually a form of joint venture among the department, the county veterans' service offices and various veterans organizations. Collectively, their purpose is to provide assistance to veterans in preparing and submitting claims to the federal Veterans Administration as well as to the department or any agency providing some form of assistance to veterans.

**B. Cal-Vet Eligibility**

All of the services offered by the department are based on a clear demonstration of eligibility of the veteran or dependent applicant. Consequently, it is an important function of the department to establish or help to establish the facts in each case. This includes questions of residency, period of active service, and other factors. Veterans who have received or are now receiving a bonus from another state are not eligible.

The workload in this function has been averaging 13,000 to 14,000 applications annually for all types of assistance.

**C. Veterans Preference**

The laws of California generally recognize the principle that a qualified veteran or dependent is entitled to some form of compensatory preference related to the time spent in military service and away from conventional civilian endeavors. This is particularly true with respect to the civil service which provides preferential treatment usually by the granting of additional points in civil service examinations. Applications for this special consideration have been averaging over 10,000 annually and the civil service preference lists average over 30,000 names each year.

**D. County Subvention**

It was mentioned earlier that the process of assistance in establishing veterans claims and rights involved a joint venture including the so-called county veterans' service offices which operate in 55 of the state counties. The state has recognized that the cost of the service rendered by the county offices is to some degree chargeable to the state and as a result the Legislature has provided subvention funds which are allotted to the counties on the basis of a formula in which the state's share represents about 20 percent of the cost experienced by the counties. For the last several years, the Legislature has been subventing \$500,000 annually for this purpose.

**III. EDUCATIONAL ASSISTANCE TO VETERANS AND VETERANS DEPENDENTS**

Educational assistance to veterans is now largely the responsibility of the federal government. The state no longer provides funds for direct assistance to veterans in pursuing educational betterment.

However, the state continues to assume a responsibility for assisting in the cost of education for veterans' dependent children, wives of totally disabled veterans and widows of deceased veterans.

This endeavor is based on the establishment of eligibility as previously noted and represents the second largest direct State General Fund cost in all areas of services to veterans and dependents. It is exceeded only by the cost of operating the Veterans Home and Hospital. The number of applicants per annum has been dropping. For example, in the 1969-70 fiscal year 3,141 applications were processed and ongoing enrollments in high schools, colleges and trade schools totalled 8,395. In the current fiscal year it is estimated that the applications will have dropped to 1,600 and ongoing enrollments will be down to 6,350. For the budget year the same figures are anticipated.

#### IV. VETERANS HOME AND HOSPITAL

The state-owned facility at Yountville has a capacity of 1,475 domiciliary beds and 868 for general medical, surgical and chronic purposes plus all of the necessary supporting facilities such as dining rooms, nurses' and employees' quarters, recreational facilities, etc. There has been a steady downward trend in the overall population at the home due principally to reduction in the domiciliary population while the demand for the hospital facilities continues to have a waiting list. Of the eight domiciliary buildings on the reservation, only four are partially occupied by veteran members since the average domiciliary membership has been dropping from an actual 529 in fiscal year 1970-71 to 450 estimated for the current fiscal year and to 400 estimated for the budget year. Unfortunately, despite the reduction in membership, general costs have continued upward due to rising prices of commodities, salaries and wages and other factors.

In September 1970 the home instituted, for the first time, a charge against members dependent upon type of service and ability to pay. The maximum charges are \$60 a month for the domiciliary type of care versus an average monthly cost to the home of \$290, \$90 a month for nursing or chronic care against an average monthly cost of \$382, and \$120 per month for hospital care against an average monthly cost of \$928. It will be recognized that the charge to the veteran represents a diminishing percentage of the cost from domiciliary to hospital care. Nevertheless, this fee has reduced the annual State General Fund costs of operating the entire facility. In addition, the federal government continues to make contributions based on the nature of each member's occupancy. The approximate breakdown in the cost sharing for the operation of the facility for the current fiscal year is 46.5 percent from the General Fund, 30.4 percent from federal funds and 21.5 percent from reimbursements which includes fees charged to veterans. The balance of less than 2 percent is from the Veterans Farm and Home Building Fund of 1943. For the budget year, relationships will remain approximately the same with a slight increase in percentage

**DEPARTMENT OF VETERANS AFFAIRS—Continued**

cost to the General Fund.

The operation of the facilities is divided into three broad categories:

**A. Domiciliary Care and Services**

This service represents the lowest level and is used principally by fully ambulatory veterans who are housed, clothed, fed, provided with recreational facilities, occupational therapy facilities and outpatient clinical facilities at the hospital as required. When a domiciliary member requires hospitalization, he is transferred for the required services and then returned to his domiciliary quarters. As has been noted, domiciliary requirements have been dropping steadily and three of the eight buildings are totally closed, four are occupied by veteran members at a very low occupancy rate and the eighth building is under lease to both the Napa school system and the State Department of Fish and Game which has its regional headquarters in the building. This returns a nominal income to the General Fund.

**B. Rehabilitation Care and Services**

This is a broad spectrum activity which provides services both to the domiciliary veterans as well as the chronically ill or nursing home type members and to some degree even in the hospital. The services involve occupational therapy, physical therapy, in some cases light work assignments, arts and crafts and counseling. Since the average population age is continuing to increase despite the influx of younger veterans, the need for many of the services continues to increase, particularly in the area of physical therapy. Workload statistics indicate a continuing rise from the fiscal year 1970-71 through the current fiscal year and as projected for the budget year. As a consequence, the cost of the service is continuing to rise.

**C. Hospital Care and Services**

The hospital at this facility is a fully accredited medical-surgical institution with a wide range of specialties including surgery, neuropsychiatry, radiology, dentistry, and social services. The hospital provides services not only for the domiciliary veterans but for seriously ill veterans who come directly from the outside into the hospital. Workload for the basic hospital has been rising from nearly 145,000 patient days in the 1970-71 fiscal year to 150,000 estimated for the current and budget years. In the chronic facilities, patient days were over 135,000 in the 1970-71 fiscal year and are estimated at 137,000 and 138,000 for the current and budget years. Domiciliary outpatient visits have remained fairly level between 13,000 and 14,000 annually and clinical services between 155,000 and 160,000 annually. The hospital continues to maintain a fairly extensive waiting list which is probably aggravated to some degree by the current economic slowdown which has affected veterans who have lost employment and the ability to pay

their own direct hospital bills in private institutions.

#### **V. GENERAL ADMINISTRATION**

General Administration provides overhead administrative leadership, coordination of programs, fiscal and personnel management and all of the other conventional "housekeeping" services incidental to the operation of a department of this size.

While the cost of this program appears to have risen since the 1970-71 fiscal year, in fact General Fund cost has increased only modestly to recognize salary adjustments and increased costs of materials. The apparent large increase is the result of moving certain functions from the farm and home loan program into the general administrative program with a commensurate reimbursement from the Farm and Home Building Fund. Essentially, the manpower level and activity level have remained fairly constant. The costs of the operation are charged back to each of the programs previously described with the major chargeback being to the farm and home loan program and the next largest chargeback to the Veterans Home and Hospital.

#### **ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The two Budget Bill items from the General Fund and the Veterans Farm and Home Building Fund covered in this analysis represent principally the costs of the veterans' claims and rights services plus the overhead charges to the farm and home loan program, educational assistance to veterans and dependents and the operation of the Veterans Home and Hospital. The major costs for the farm and home loan program are not included in the Budget Bill as such since in effect this is a revolving fund type of operation. The major cost of educational assistance to veterans' dependents and for the operation of the Veterans Home and Hospital are covered by separate Budget Bill items. The level of activities covered by these two items is proposed at approximately the same as for the current fiscal year and the overall cost increase merely represents salary adjustments and the increased cost of goods and outside services. There are no changes in proposed authorized staffing levels from the current fiscal year to the budget year which is commensurate with the fairly static workload condition.

**Department of Veterans Affairs****EDUCATIONAL ASSISTANCE TO VETERANS DEPENDENTS**Item 152 from the General  
Fund

Budget p. 69 Program p. 351

Requested 1972-73.....	\$2,085,100
Estimated 1971-72 .....	2,085,100
Actual 1970-71 .....	2,228,325
Requested increase —None	
Total recommended reduction .....	None

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

Analysis of this item is included with that for the main support of Item No. 150.

**Department of Veterans Affairs****VETERANS HOME OF CALIFORNIA**Item 153 from the General  
Fund

Budget p. 69 Program p. 352

Requested 1972-73.....	\$3,903,692
Estimated 1971-72 .....	3,791,482
Actual 1970-71 .....	3,884,646
Requested increase \$112,210 (3.0 percent)	
Total recommended reduction .....	None

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

Analysis and discussion of this item is included with that for the main support Item No. 150.

**Department of Veterans Affairs**  
**COUNTY VETERANS SERVICE OFFICERS**

Item 154 from the Veterans  
 Farm and Home Building  
 Fund

Budget p. 69    Program p. 351

Requested 1972-73.....	\$500,000
Estimated 1971-72 .....	500,000
Actual 1970-71 .....	499,929
Requested increase—None	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

In the main support Item No. 150 we discussed the role of the county veterans service offices which we believe are essential in providing for the veteran a point of contact and a fund of expertise needed to help the veteran to obtain those services to which he might be legally entitled. The county veterans service offices provide this necessary assistance and while it would be difficult to place all of the credit for aid and assistance to veterans upon these offices, it should be pointed out that the monetary benefits paid by the federal Veterans Administration to California veterans in fiscal year 1970-71 exceeded \$197 million, for the current fiscal year it will approach \$200 million and for the budget year it is expected to exceed \$200 million. Much of these benefits represent types of assistance which might otherwise have had to be rendered directly by the state or the county and to that degree there has been relief to state and county taxpayers.