

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

For the budget year the commission requests \$43,848, which is \$2,573 or 6.2 percent above estimated current expenditures. This increase consists of \$2,491 for operating expenses and \$82 in health benefit contributions for the staff. The increase in operating expenses is mainly attributable to (1) an adjustment (up \$1,384 from the current year) in the rate which the Department of General Services uses for assessing its costs for accounting, budgeting, and personnel services performed for the commission, (2) an increase of \$800 in travel expenses to reflect more accurately travel costs for the commission's 17 members, and (3) increased charges (up \$357) by the Department of General Services for processing the commissioners' purchase orders and legal contracts.

Among the commission's scheduled activities for the budget year are (1) continued attempts to gain employment in Mexico for unemployed California aerospace workers, (2) a review of airfield facilities and runway conditions in Baja California, and (3) the acquisition of equipment for Mexico's first federally funded drug clinic in Tijuana.

DEPARTMENT OF JUSTICE

Items 39 and 40 from the General Fund and the State
Transportation Fund

Budget p. 20 Program p. I-52

Requested 1973-74	\$34,273,630
Estimated 1972-73.....	31,367,189
Actual 1971-72	24,740,684
Requested increase \$2,906,441 (9.3 percent)	
Total recommended reduction	\$44,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| 1. Development of Workload Standards. Recommend approval of the two junior staff analyst positions in the Management Services element on condition that they be used to develop departmental workload and staffing standards. | 57 |
| 2. Civil Law Positions. Recommend full discussion of the need for 33.5 positions for the Criminal Law Division in view of the department's high level of salary savings and failure to provide adequate data to justify these positions. | 58 |
| 3. <i>Secret Agent Positions. Reduce \$44,000.</i> (a) Recommend six exempt agents not be given civil service status for a General Fund saving of \$44,000. (b) Recommend special review of the need for continuing authority to appoint such agents. | 61 |
| 4. Organized Crime. Recommend Organized Crime unit focus attention on elements of organized crime which constitute the greatest threat to society. | 69 |

DEPARTMENT OF JUSTICE—Continued**GENERAL PROGRAM STATEMENT**

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

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

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

ANALYSIS AND RECOMMENDATIONS

Including a \$85,000 balance from Chapter 885, Statutes of 1972, the department proposes a General Fund expenditure of \$31,106,449, representing an increase of \$2,753,493 or 9.7 percent over General Fund expenditures in the current year. However, the department proposes a total expenditure program from all funds of \$44,880,408, which is an increase of \$2,299,845 or 5.4 percent over the current-year estimate of \$42,580,563. Scheduled expenditures for support of the Law Enforcement Consolidated Data Center total \$3,547,203 (transferred from other items) as reflected in Item 41.

The total departmental expenditure includes (1) a General Fund appropriation of \$31,021,449 (Item 39); (2) \$3,252,181 from the State Transportation Fund (Item 40); (3) \$9,146,425 in reimbursements, consisting of (a) \$2,593,032 in reimbursements from the California Council on Criminal Justice (CCCJ), (b) \$510,415 in reimbursements from the federal Office of Traffic Safety (OTS), and (c) \$6,042,978 in fees for processing fingerprints and providing legal and investigative services to other state agencies; (4) \$579,267 in federal funds; and (5) \$796,086 in reimbursements for the administration and payment of tort liability claims. (In past years, the CCCJ and OTS reimbursements were included with the federal funds.) Including the proposed CCCJ and OTS funds, projected federal expenditures for the budget year total \$3,700,714, which is, a decrease of 44.6

Table 1
Department of Justice
Summary of Expenditures by Unit

<i>Unit</i>	<i>Actual 1970-71</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Increase over current year</i>	
					<i>Amount</i>	<i>Percent</i>
General administration (undistributed).....	\$404,670	\$791,183	\$859,151	\$1,276,381	\$417,230	48.6
Legal services	11,529,358	10,982,700	13,696,715 ¹	14,842,568	1,145,853	8.4
Civil law	5,256,718	4,861,410	5,900,975 ¹	6,323,208	422,233	7.2
Criminal law	3,350,333	3,234,778	4,331,090	4,696,772	365,682	8.4
Special operations	2,922,307	2,886,512	3,464,650	3,822,588	357,938	10.3
Law enforcement	15,694,911	19,293,335	28,024,697	28,761,459	736,762	2.6
Enforcement and investigation	3,664,716	4,891,204	6,164,703	5,937,214	-227,489	-3.7
Identification and information	10,909,211	12,839,686	16,958,541	17,614,334	655,793	3.9
Investigation services	323,985	542,270	2,565,008	3,081,964	516,956	20.2
Organized crime	796,999	1,020,175	2,336,445	2,127,947	-208,498	-8.9
Total	\$27,628,939	\$31,067,218	\$42,580,563	\$44,880,408	\$2,299,845	5.4

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

DEPARTMENT OF JUSTICE—Continued

percent from the current level of \$6,680,078. The decrease in federal funding results primarily from the expiration of federal support for the Criminal Justice Information System (CJIS) and organized crime projects amounting to \$2,383,736. The department proposes continuation of these programs through the General Fund.

New Positions

A total of 351.8 new positions are requested in the budget year, 98 of which were administratively established during the current year. Of the total new positions, 87.5 would be financed through reimbursements, 39 would be financed from the State Transportation Fund as a consequence of the transfer of the stolen vehicle file function from the California Highway Patrol to the Department of Justice and 225.3 would be paid from the General Fund. Included in this latter group are 53 positions for the Division of Administration. Part of their costs will be offset by reimbursements and federal funds because most administrative costs are distributed to the functional programs.

Excessive Salary Savings. The department is estimating budget-year salary savings of \$1,425,305, an increase of 330.4 percent over projected salary savings for the current year. This estimate, which is the equivalent of 98.6 man-years, appears excessive. Salary savings represent money saved through personnel turnover (which results in lower beginning salaries), retirements and temporary vacancies in authorized positions. A large savings estimate may represent a "freeze" on filling of positions rather than a realistic projection of normal turnover and vacancy factors.

Federal Positions Excluded from Man-Year Summaries. The department has not reported the staffing that is supported by federal funds for special projects in its man-year totals under the affected program and element summaries. Consequently, it is difficult to make valid comparisons of staffing levels between the current and budget fiscal years.

ADMINISTRATION

Overall policy determination and direction over the department are exercised by the Attorney General, his chief deputy and staff. The Attorney General also maintains a crime prevention and community relations unit which provides overall coordination and direction to public and private agencies for obtaining community involvement in reducing the rate of crime in the state. This unit is financed primarily by a federal Health, Education, and Welfare Grant.

The Division of Administration has been reorganized during the current year, giving it equal status with the Legal and Law Enforcement Divisions. All services in the division are now consolidated under the four following branches: (1) Personnel and Training, (2) Legal Opinion Administration, (3) Management Services and (4) General Administration. The latter includes all fiscal functions and legal office services which provide stenographic services for the attorneys.

The division proposes a total expenditure of \$8,394,834, which represents an increase of 18.3 percent over the \$7,095,509 estimated expendi-

ture for the current year. Of this amount \$4,798,633 and \$2,319,820 are distributed to the Legal Services and Law Enforcement Divisions, respectively. General Fund expenditures amount to \$579,101, which is a decrease of \$231,833 or 28.6 percent from the \$810,934 estimated expenditures for the current year. Total expenditures also include \$268,013 from the Commission on Peace Officers Standards and Training for a narcotics training program and a federal Health, Education and Welfare Grant of \$429,267 for the Crime Prevention Unit mentioned above.

New Positions

We recommend approval of the two junior staff analyst positions for the Management Services Branch on the condition that they be used to develop workload and staffing standards for the entire department, and particularly for the Legal Services Division.

The division proposes a total of 53 new positions (three of which have been administratively established during the current year), including two analysts, two accountants and 43 clerical positions for the General Administrative element. A total of 34 of these positions are proposed for the legal services unit which provides clerical support for the department's three legal services divisions. The remainder are requested for the fiscal unit.

The division also proposes two staff analysts for the Management Services element and two professional and two clerical positions for the Personnel and Training element. Three of the latter positions are proposed to implement the local narcotics training program which, as indicated above, is reimbursable from the Peace Officers Training Fund.

Over a period of years, we have pointed out that the department and especially the legal services divisions have developed inadequate workload and staffing standards to justify requests for additional positions. As we point out below in our discussion of the Civil Law Program, the department again is requesting additional attorneys without having developed adequate workload data.

LEGAL SERVICES PROGRAM

The Legal Services Program consists of (a) Civil Law, (b) Criminal Law, and (c) Special Operations elements. The \$14,842,568 proposed for this program represents an increase of \$1,145,853 or 8.4 percent over estimated expenditures for the current year. The largest portion of this proposed increase, \$422,233, is for the Civil Law Program element, while \$365,682 and \$357,938 would be allocated, respectively, to the Criminal Law and Special Operations Elements.

Civil Law Element

A budget-year expenditure of \$6,323,208, which represents an increase of 7.2 percent over current-year expenditures of \$5,900,975 is proposed for the three components of this program as outlined below.

Counsel for state agencies	\$5,116,015
Tort liability	796,086
Subsequent Injuries Fund	411,107
Total	<u>\$6,323,208</u>

DEPARTMENT OF JUSTICE—Continued

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

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

New Positions. The division proposes 33.5 new positions, 17 of which have been administratively established during the current year, and all but one of which are covered by reimbursements. Of these the following are proposed to provide legal services for state agencies: 10 for Social Welfare, two for Health Care Services, two for the Uninsured Employers program and one for Water Resources, and 10.5 for Professional and Vocational Licensing, three of which are proposed to handle litigation arising from the new automobile repair regulation program.

To handle increased workload, three positions are proposed for tort liability and four for the subsequent injury program. One remaining position, the only one financed by the General Fund, is proposed for the Government Law Section to handle additional workload. Workload, staffing and cost data for this element are shown in Table 2.

Table 2
Civil Law Element
Workload, Staffing and Cost Data

	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Proposed</i> 1973-74	<i>Percent increase</i> since 1971-72
Legal opinions and opinion letters issued.....	590	590	600	1.7
Administrative hearings closed	2,443	2,560	2,690	5.1
Court cases closed.....	2,958	3,070	3,230	5.2
Expenditures (including reimbursed expenditures)	\$4,861,410	\$5,900,975	\$6,323,208	7.2
Total man-years.....	108.8	141	148	5.0

We recommend special review of the need for 33.5 positions in the Civil Law Division. The workload and staffing data submitted by the department as reflected in Table 2 do not support the division's request for 33.5 positions. While the projected workload increases by approximately 5.2 percent and the division proposes to utilize a staff increase of 5 percent, it is requesting an authorized staff increase of 26.2 percent.

On a number of occasions in past years, we have noted that the Legal Services Divisions have not developed adequate workload data to measure staffing needs. Through subsequent discussions with the department, it appears that these positions may be needed to meet increasing legal workload, especially for house counsel, but the high level of salary savings suggests that most of these positions will not be filled.

Criminal Law Element

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

Proposed budget-year expenditures for this program total \$4,696,772 which is an increase of \$365,682 or 8.4 percent over estimated current-year expenditures of \$4,331,090. Included in this total is \$130,250 in CCCJ funds for the development of an information system for law enforcement.

New Positions. The Division of Criminal Law is requesting 12 attorney positions to handle increased caseload in criminal writs and appeals. Changes in the California Rules of Court have increased the workload of this division by requiring the Attorney General to file a brief within 30 days after an appellant has filed his appeal. As of December 31, 1972, the division has a backlog of 214 writs and 527 appeals which extend beyond a 30-day period. This backlog which is projected to increase to 1,500 by July 1973, will impair the ability of the division to comply with the new court rules unless staff is added. We therefore recommend approval of these positions.

Workload and cost data for the Criminal Law Element are shown in Table 3.

Table 3
Criminal Law Element, Workload Data

	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Proposed</i> 1973-74	<i>Percent In-</i> <i>crease since</i> 1971-72
Briefs filed in the appellate and Supreme Courts	3,555	4,350	4,698	32
Criminal trials.....	8	17	33	412
Expenditures.....	\$3,234,778	\$4,331,090	\$4,696,772	45.2
Man-years	106.3	138	139 ¹	30.8

¹ Excludes man-years funded by a federal CCCJ grant.

Special Operations Element

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

DEPARTMENT OF JUSTICE—Continued

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

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

The statutory compliance component investigates the financial practices of charitable trusts to insure that these institutions are in fact charitable (as defined by law) and that they operate in compliance with state tax laws. The environment and consumer protection component is responsible for representing the public's interest in consumer fraud, environmental matters and antitrust suits. The special services component is responsible for legal recruitment, quality control of legal opinions issued by the department, and review and control of the department's printed publications.

The division proposes a budget of \$3,822,588, which represents an increase of 10.3 percent over estimated current-year expenditures of \$3,464,650.

New Positions. The division is requesting the equivalent of a half-time attorney position to handle an increase in major litigation affecting state-owned lands; four attorney positions for the consumer protection component; and three attorney positions for the Statutory Compliance Element to prosecute antitrust actions. The cost of the latter seven positions would be fully covered by reimbursements because the Statutory Compliance and Consumer Protection Elements provide full recovery of investigation and prosecution costs as well as damages. Table 4 describes the current and estimated workload, staffing and expenditures for the division's program components.

LAW ENFORCEMENT PROGRAM

The Division of Law Enforcement, the department's largest and most complex, provides identification, analytical, investigative, laboratory, statistical, communications and criminal records services to local, state and national criminal justice agencies. Last year we reported that the division had, as we recommended, reorganized by consolidating its eight former programs into three new elements: (1) Enforcement and Investigation, which provides special field investigations of illicit activities for law enforcement agencies; (2) Identification and Information, which is responsible for all functions concerning the storage or analysis of the information contained in the department's massive criminal history and fingerprint files; and (3) the Organized Crime and Criminal Intelligence Element, which handles all functions pertaining to organized crime. During the past year, a fourth element, Investigative Services, has been added which furnishes specialized, criminalistic laboratory and other technical services.

Table 4
Special Operations Element: Workload, Staffing and Costs Data

	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Estimated</i> 1973-74	<i>Percent in- crease over current year</i>
Public Resources:				
Cases Closed	247	260	275	5.8
Dollar recoveries for client agencies	\$1,000,000	\$1,000,000	\$1,000,000	—
Land law:				
Opinions rendered.....	43	55	60	9.1
Cases closed.....	18	25	30	20.0
Statutory compliance				
Registrations	13,614	13,900	14,100	1.4
Audits performed.....	1,420	1,550	1,800	16.1
Financial reports processed.....	10,486	10,900	11,300	3.7
Cases closed.....	115	130	145	11.5
Estimated recoveries of antitrust actions filed since 1965-66	—	—	\$33,193,000	—
Environment and consumer protection				
Consumer protection civil penalties collected	110,258	120,000	120,000	—
Consumer complaints and inquiries	10,000	12,000	13,000	8.3
Total expenditures (all components)	\$2,886,512	\$3,464,650	\$3,822,588	10.3
Man-years.....	85.3	99	100	1

The division proposes a total expenditure of \$28,761,459 for this program which represents a 2.6-percent increase over estimated current year expenditures of \$28,024,697. This amount includes \$3,252,181 in motor vehicle funds, \$3,123,197 in federal funds (including OTC and CCCJ grants) and \$1,658,043 in reimbursements. Of the latter, \$1.4 million will result from fingerprint fees. A total of 245.8 or 69.8 percent of the department's proposed new positions are for this division.

In addition to the four branches, the division has an inspection and control unit which insures operational efficiency and integrity within the division and a security unit of 10 special investigators. This security unit through contract services, provides protection for the Attorney General, his family, and other state officials as authorized under Sections 12570 to 12574 of the Government Code. The department proposes to transfer these positions to civil service at an increased cost of \$44,000 for staff benefits.

Special Agent Positions

We recommend that the six special agents in the security unit not be transferred to civil service status for a General Fund savings of \$44,000. We further recommend that the Legislature review the need for continuation of these special agents.

Sections 12570 through 12574 of the Government Code authorize the Attorney General to appoint up to 20 special agents and investigators to assist him in carrying out his duties, including control of sabotage and subversive activities. The law also exempts these positions from civil service, provides that the Attorney General may not be required to divulge their identities, and authorizes the Attorney General to pay the cost of these positions from any fund in the State Treasury allocated to his use.

These special agents were appointed by the present Attorney General

DEPARTMENT OF JUSTICE—Continued

and are used, according to the department, to conduct special investigations and provide “. . . a complete, 24-hour personal protection and security organization to prevent harm, embarrassment and/or unintentional injury to the Attorney General, his family and other state officers. . .

The Government Code provisions authorizing the appointment of these agents were added in 1945 during a period when the fear of war and subversive activity was prevalent in this country. We question whether present conditions in the state warrant continuation of these positions on a secret basis. We recommend against civil service designation for these special agents because (1) Section 12574 exempts them from civil service status and (2) future Attorneys General who may not wish to continue these positions would have greater difficulty abolishing them if they are under civil service.

Enforcement and Investigation Element

This element, which is comprised of the Bureaus of Investigation and Narcotic Enforcement, proposes an expenditure of \$5,937,214, a decrease of 3.7 percent from the estimated current-year expenditure of \$6,164,703. This decrease is primarily due to a proposed increased salary savings of \$197,873 and a loss of 38.7 positions due to the transfer of the Bureau of Investigative Services out of this element. (As we noted above, Investigative Services was made a separate element.) An amount of \$63,300 in CCCJ funds is included in this element.

A total of eight new positions (six agents and two clerks) are proposed to implement a narcotics training program, which is totally reimbursable under a \$268,013 grant from the Peace Officer Standards and Training program. These positions are not yet allocated between the two bureaus, but the funds for this program are allocated to the Division of Administration. (Three additional positions for this training program are proposed for the Division of Administration and are discussed above.)

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

The bureau is requesting five investigative personnel and one clerk to handle additional workload arising from the tort liability and victims of violent crimes programs. The cost of these positions is reimbursed from the tort appropriation (Item 48). For the budget year, the bureau requests a support appropriation of \$2,229,873, which is a decrease of \$37,512 or 1.7 percent under estimated expenditures for the current year.

Narcotic Enforcement. The Bureau of Narcotic Enforcement infil-

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

Major emphasis is placed on ascertaining sources and arresting suppliers of illicit narcotics and dangerous drugs, rather than on apprehending and arresting users. In addition to its Sacramento headquarters, the bureau maintains field offices in San Francisco, Los Angeles, Fresno, San Diego and Santa Ana.

Projections by the Bureau of Criminal Statistics indicate that narcotic arrests will continue to increase in practically all categories, particularly in the dangerous drug and opiate (heroin) arrest categories. Table 5 shows the actual and estimated number of arrests by calendar year. The level of arrests is influenced by the enforcement policies of local governments and the number of personnel assigned to this work at both the state and local levels.

Table 5
Statewide Drug Arrests Statistics
Bureau of Narcotic Enforcement and Local Agencies
1968-72

<i>Item</i>	<i>1968</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>	<i>Estimated 1972¹</i>
Total arrests.....	94,586	122,883	136,164	137,561	142,032
Adult	64,639	86,129	99,505	102,761	110,344
Juvenile	29,947	36,754	36,659	34,800	31,688
Drug category					
Marijuana					
Adult	33,573	38,170	48,859	46,143	49,612
Juvenile	16,754	17,006	20,162	18,454	18,892
Opiates					
Adult	10,411	11,164	12,796	15,124	18,270
Juvenile	838	943	779	875	980
Dangerous drugs					
Adult	13,459	27,777	27,603	31,609	30,734
Juvenile	8,240	13,503	10,793	11,127	8,162
Other					
Adult	7,196	9,018	10,247	9,885	11,728
Juvenile	4,115	5,302	4,925	4,344	3,654

¹ Based on first six months' reported data.

For the budget year, the bureau proposes a total expenditure of \$3,707,341, \$189,977 or 4.9 percent under estimated expenditures in the current year. The decrease reflects the termination of a federally funded drug abuse project, which results in the deletion of 10 positions administratively established in the current year to staff this project.

DEPARTMENT OF JUSTICE—Continued

Identification and Information Element

The Identification and Information Element is the department's largest with over 1,200 positions assigned to its three components: (1) criminal statistics, (2) identification, and (3) program planning services.

Criminal Statistics. The Bureau of Criminal Statistics compiles, analyzes, interprets and reports statistical facts on crime and delinquency and the operations of criminal justice agencies in California. It collects data from city, county and state agencies that administer criminal justice including law enforcement and correctional agencies and all levels of courts. Annual reports are published which describe the changing aspects of crime and delinquency in California and the effectiveness of law enforcement, judicial, and correctional institutions in dealing with criminals and delinquents.

The bureau's proposed expenditure of \$1,224,283 includes \$112,006 in CCCJ funds for the development of a police arrest and disposition system and \$67,936 for a jail-space utilization study.

New Positions. The bureau proposes 16 new technical and clerical positions for development of an offender-based transaction statistical system, which is designed to track each offender through the California Criminal Justice System from point of entry to point of exit. Although it is proposing to finance the 16 new positions from the General Fund, the bureau applied for a series of federal grants which would cover the costs of this project. Table 6 shows the bureau's projected workload, cost and staffing data.

Table 6
Criminal Statistics Component, Workload, Cost and Staffing Data

	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Percent increase from current year</i>
Special studies and reports.....	42	52	57	9.6
Reference tables	5	5	6	20.0
Midyear summaries	2	2	2	—
Annual report, digest, trends.....	4	4	4	—
Expenditures	\$1,027,306	\$1,214,553	\$1,224,283	0.8
Man-years	93.3	94	80 ¹	-15

¹ Excludes man-years funded by federal CCCJ grants.

Identification

The Bureau of Identification through its three sections (fingerprints, records, and special services), is responsible for processing and storing fingerprints; maintaining histories of criminals; providing aid to local, state and federal police officers; and locating and identifying missing and wanted persons and stolen property.

The fingerprint section is responsible for processing the fingerprints and making tentative identification through fingerprint comparisons in criminal cases. It also processes noncriminal fingerprints for law enforcement, licensing and regulatory agencies. Nineteen new positions, 13 of which have been established in the current year, are requested for this section for handling additional workload and processing noncriminal fin-

gerprints. This program is totally reimbursed by fingerprint fees, which are estimated at \$1,400,000 in the budget year.

The records section maintains a central records system by which law enforcement and other governmental agencies may verify the identity of individuals and whether they have criminal records. The records consist of a file of 4.6 million individual record folders, a file containing 8.5 million fingerprints and a soundex file containing 8.5 million names. In responding to requests by law enforcement agencies, these records are searched for information to identify an individual or to learn if he has a past criminal record. Twenty-five new positions, 21 of which have been administratively established in the current year, are proposed to handle increased workload in this bureau, 12 of which will be reimbursed from fingerprint processing fees.

The special services section assists law enforcement officers in locating stolen property and missing or wanted persons who have committed crimes or who have failed to provide for their families. Through screening crime reports, it provides information for the automated wanted persons, property and firearms systems and maintains a communications center for receiving requests for information contained in the bureau's vast files and for transmitting information to law enforcement agencies in the state.

The special services section maintains "mug files" on all convicted felons and well known criminals and information on persons convicted of arson, narcotics violations, sex crimes and child abuse. It also serves as a coordinating agency between dealers in weapons and law enforcement agencies and processes applications for permits to carry concealable weapons. A total of 42 new positions are requested to handle workload in this section, including the previously mentioned 39 which were administratively established in the current year following their transfer from the California Highway Patrol to implement the stolen vehicle file (Auto-STATUS) pursuant to Chapter 98, Statutes of 1972. The costs of this system estimated at \$499,665, are paid from the Motor Vehicle Fund. (Five positions for this purpose are also included in the Bureau of Program Planning discussed below.) The remaining positions are proposed to meet additional workload in the command center and property identification and office service unit. Workload, cost and staff data are shown in Table 7.

Program Planning

The program planning office administers three primary programs (a) local agency liaison, (b) automated information services, and (c) record analysis and coding, all of which relate to implementation of the California Criminal Justice Information System (CJIS).

The local agency liaison section assists local agencies in their dealings with the division, particularly with regard to implementation of effective and compatible automated information systems. The automated information services section manages the department's data processing program including policy, planning, systems analysis, programming, and the department's two large computer centers. It also manages the California Law Enforcement Telecommunications System (CLETS), which was established pursuant to Chapter 2.5 of the Government Code, to provide law

DEPARTMENT OF JUSTICE—Continued

Table 7
Bureau of Identification
Selected Workload, Cost and Staff Data

Item	Actual 1971-72	Estimated 1972-1973	Proposed 1973-74	Increase over current year	
				Amount	Percent
Fingerprint and records:					
Criminal fingerprints processed	911,949	931,678	952,516	20,838	2.2
Noncriminal finger- prints processed	406,622	415,107	422,094	6,987	1.7
Name searches	968,040	1,015,088	1,057,258	42,170	4.2
Special services:					
Teletype messages	1,121,368	1,177,428	1,236,299	58,871	5.0
Child abuse cases	6,003	6,093	6,184	91	1.5
Missing person cases ..	15,575	15,730	15,887	157	1.0
Dealers records of sales (firearms)	190,131	199,600	209,580	9,980	5.0
Concealed weapon li- censes	41,661	43,368	45,102	1,734	4.0
Crime reports filed	2,149,000	2,256,450	2,369,272	112,822	5.0
Total expenditures	\$12,839,686	\$16,958,541	\$17,614,334	\$655,793	3.9
Total man-years	889.2	1,007	1,011	4	—

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

CLETS became operational on April 1, 1970, and is now directly connected to more than 120 computers and 880 teletype terminals in city, county, state and federal law enforcement agencies. The department has been actively engaged in working with the local users to achieve maximum benefit from the system. CLETS also provides all agencies with direct access to computerized information files, such as wanted persons, firearms, and property files, which are maintained by the Department of Justice, the Department of Motor Vehicles, the Highway Patrol, and the FBI National Crime Information Center.

The Records Analysis and Coding Section's main function is to convert records maintained by the bureau into an automated criminal history system. This program resulted from 1966 legislation which authorized the State Criminal Justice Information (CJIS) study to be funded jointly by the state and federal government under the Omnibus Crime Control and Safe Streets Act. The department has successfully implemented a wanted persons, firearms, stolen property, and an Automated Statewide Auto Theft Inquiry System (Auto-Statix) and has begun the conversion of the criminal history records to an automated file. The latter subsystem is designed to provide a central statewide criminal history file with telecommunication links through CLETS to all law enforcement agencies in the state. Its objectives are: (1) to provide needed criminal history and information to all criminal justice decisionmakers when it is needed, and (2) to protect the rights of privacy of individuals by placing strict security and confiden-

tiality controls on criminal justice information. To date, the section has converted a total of 257,000 criminal history records of the approximately 1.2 million records of serious offenders which it has identified for conversion. However, 151,500 of these records are on new offenders.

The bureau proposes an expenditure of \$10,289,455, which is \$223,333, or 2.2 percent, over the estimated expenditures for the current year. State costs increased by \$1,641,961 for CJIS in the budget year as a consequence of the loss of federal funds for this program.

New Positions. The Bureau of Program Planning proposes an increase of 72.5 positions, seven of which were administratively established in the current year. Five of these positions are proposed to establish the stolen bicycle file which was mandated by Chapter 885, Statutes of 1972, and an additional five are proposed to maintain the stolen vehicle file (Auto-Statist). The latter five positions are proposed to be paid from the Motor Vehicle Fund. A total of 56 positions are requested to maintain the criminal histories that have already been automated and are online. A total of 6.5 positions are requested to maintain the increasing workload. (This position breakdown differs with the Governor's Budget which we understand from the Department of Justice is incorrect.) Bureau of Program Planning workload, staff and cost data are shown in Table 8.

Table 8
Program Planning, Selected Workload, Staffing and Cost Data

Item	Actual 1971-72	Estimated 1972-73	Proposed 1973-74	Increase over current year	
				Amount	Percent
Office of Program Planning					
Automated information services					
Directed messages	18,521,800	33,250,000	35,000,000	1,750,000	5.3
Bulletins.....	377,944	420,000	460,000	40,000	9.5
Criminal Justice					
Information Systems					
Online systems					
Inquiries	535,984	10,898,852	16,668,893	5,770,041	52.9
Inquiries to National Crime Informa- tion Center	471,069	1,671,499	2,543,920	872,421	52.2
Records Analysis and Coding					
Selection and control of conversion					
records	166,960	150,700	194,320	43,620	28.9
Data base entries—coding new arrests	92,610	127,450	130,030	2,580	2.0
Data base entries—coding new arrests					
with prior records	73,080	23,250	64,290	41,040	176.5
Data base updates.....	30,760	525,250	584,600	59,350	11.3
Expenditures	\$6,966,007	\$10,066,122	\$10,289,455	\$223,333	2.2
Man-years	299.4	329	349	20	6.1

Investigative Services

The Investigative Services Element provides expert, criminalistic, court testimony, and other technical services to criminal justice agencies in the state. It maintains a laboratory for analyzing evidence and provides latent fingerprint, handwriting analysis, identification of spurious document, polygraph and photographic services to support the divisions investigative functions.

DEPARTMENT OF JUSTICE—Continued

The department plans to expand its criminalistics laboratory mainly because a 1971 CCCJ study demonstrated that almost half of the 420 local police and sheriff's departments and 45 of 58 district attorneys do not have adequate access to criminalistics laboratory services. Through a 42-month \$8,221,000 CCCJ grant, the department plans to expand the facility at Sacramento and establish full-service laboratories in Redding and Fresno by 1973; in Santa Barbara, Riverside and Salinas by 1974, and in Santa Rosa and Modesto in 1975. In addition, the department is planning to develop supplemental service regional laboratories in the state's highly urbanized areas. Using a federal three-year Office of Traffic Safety grant amounting to \$1,755,000, the department is establishing a network of special satellite laboratories to provide blood alcohol testing for drunken driving arrests. The state will assume full costs of the criminalistics laboratory program in the 1977-78 fiscal year at an estimated annual cost of \$3,377,000.

The Investigative Services Element is proposing a total expenditure of \$3,081,964, up \$516,956, or 20.2 percent, overestimated expenditures of \$2,565,008 for the current year. Two federal grants are included in this amount: (1) \$1,750,000 from the California Council on Criminal Justice for the criminalistics laboratory system and (2) \$510,415 from the Office of Traffic Safety for the uniform blood-alcohol program. The element proposes one new polygraph examiner and two new photographers to strengthen the division's investigative functions. These three positions would be financed from the General Fund.

Organized Crime. The Organized Crime and Criminal Intelligence Branch is charged with the responsibility of suppressing organized crime in California. It operates with two bureaus: (1) the Field Operations Bureau and (2) the Criminal Intelligence Bureau.

The Field Intelligence Bureau provides field intelligence using 11 field agents who gather criminal information from a wide variety of sources for analysis and evaluation by the Criminal Intelligence Bureau. The bureau maintains a pool of specialized surveillance personnel and equipment for temporary loan to law enforcement officers throughout the state. It also provides law enforcement officers training in the use of this equipment and methods and techniques for recognizing and combating organized crime.

The Criminal Intelligence Bureau compiles, evaluates, disseminates and stores criminal intelligence information for three areas: (1) rackets, (2) civil disorders, and (3) bomb data analysis. Its major objectives are to develop indications of the presence of organized crime and to act as a clearinghouse for organized crime information. It also conducts research to address specific organized crime problems and performs crime pattern analysis in studying methods and operations as a means of identifying criminal organizations.

The element proposes a total expenditure of \$2,127,947, which is a reduction of \$208,498 or 8.9 percent from the current year's estimated expenditures of \$2,336,445. This reduction is primarily due to a substantial reduction in the federal funding which was used to establish this program. The element is proposing to transfer to the General Fund at a cost

of \$741,775 a total of 48 positions which previously have been financed by the federal government. Total proposed expenditures for the budget year include \$469,540 in CCCJ grant funds for a local law enforcement training program and a \$150,000 federal grant for the organized crime central resource pool.

We recommend that the Organized Crime Branch focus its attention on those elements of organized crime which constitute the greatest threat to society. In our 1971-72 Analysis we noted that the Organized Crime program was concentrating most of its attention on dissident militant groups, motorcycle gangs, bombing of public buildings and investigation of campus uprisings. According to the element's first annual report, the focus of this program has not changed. While we acknowledged that these kinds of activities needed monitoring, they do not constitute the kind of "organized crime" activity for which the program was established. It is our understanding that both federal and state enabling legislation for this program intended that it concentrate on the more complex and well-organized crime operations which have great financial resources such as, for example, those which infiltrate legitimate business firms.

Department of Justice

LAW ENFORCEMENT CONSOLIDATED DATA CENTER

Item 41 transfers from other
items and reimbursements
from various funds.

Budget p. 22 Program p. I-77

Transfers and reimbursements

Requested 1973-74	\$3,547,203
Estimated 1972-73.....	1,660,000
Requested increase \$1,887,203	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Law Enforcement Consolidated Data Center is one of four consolidated data centers established by Chapter 787, Statutes of 1972, and prescribed by the Implementation Plan for the Consolidation of Electronic Data Processing in the State of California approved by the administration in April 1972. This legislation also provides that this center shall be directed by a data center director appointed by the Director of the Department of Justice (DOJ).

The primary objective of this center is to provide centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement entities.

From a practical standpoint, this center is now in operation because the existing data processing center within the Department of Justice now provides these services using UNIVAC Series 70 computers.

LAW ENFORCEMENT CONSOLIDATED DATA CENTER—Continued

An upgrade of this equipment in December 1971, has provided sufficient capacity to permit the efficient operation of the California Law Enforcement Telecommunications System, the Criminal Justice Information System and the Stolen Vehicle File (the CHP Auto-Status System converted to the Department of Justice computer in October 1972).

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

There is no direct appropriation to support the Law Enforcement Consolidated Data Center. The Governor's Budget proposes an expenditure program for this data center totaling \$1,660,000 in the current year and \$3,547,203 in the budget year with funds to be transferred from participating departments. The difference in expenditures reflects a proposed establishment of the data center on January 1, 1973. Current year expenditures are therefore for six months only while the budget year amount represents a possible full year of center operation.

A total of 62 positions related to computer operations are identified for transfer to the data center. One new position (the consolidated data center director) is proposed in the budget year.

COMMISSION ON PEACE OFFICERS STANDARDS AND TRAINING

Item 42 from the Peace Officers' Training Fund

Budget p. 23 Program p. I-78

Requested 1973-74	\$1,924,630
Estimated 1972-73	1,426,516
Actual 1971-72	734,036
Requested increase \$498,114 (34.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Program Budget Structure.* Recommend the commission establish a program budget structure which identifies training priorities and provides a means of evaluating the effectiveness of the peace officers' training program. 72
2. *Minority Recruitment.* Recommend that the law enforcement consultant II for the minority recruitment program be limited to July 1, 1975. 74
3. *P.C. 832 Training Program.* Recommend the 10 positions requested for the program be limited to July 1, 1974. 75
4. *Organizational Change.* Recommend transfer of the Minority Recruiting and STAR projects from the Administrative Division to the Technical Services Division. 76
5. *Center for Police Management.* Recommend approval of six positions for the Center of Police Management contingent upon receipt of a CCCJ grant. 76

GENERAL PROGRAM STATEMENT

The Commission on Peace Officers' Standards and Training (POST), nine-member body appointed by the Governor, is responsible for establishing minimum standards of physical, mental and moral fitness for the recruitment and training of city and county peace officers. These standards apply to those jurisdictions which receive state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Jurisdictions participating in this program are reimbursed by the commission from the Peace Officers' Training Fund for the costs of the training. Such reimbursements, presently consisting of 100 percent of salary plus living costs, may be made for not more than 400 hours of training for the basic course, 100 hours for supervisory courses, and 40 hours for advanced officer training courses. Additional courses, including a 120-hour middle management and executive development course, are also reimbursed. The sum of \$12,650,000 is proposed for this local assistance program in the budget year (Item 43).

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

The commission's activities are grouped into five programs: (1) Administration and Special Projects, (2) Peace Officer Education and Training, (3) Personnel Standards, (4) Technical Services, and (5) Administrative Counseling Services. These programs are summarized under separate headings below.

ANALYSIS AND RECOMMENDATION

The \$1,924,630 in requested state funds for support of the commission's activities in the budget year is \$498,114 or 34.9 percent above estimated current-year state costs of \$1,426,516. This increase is composed of \$284,164 for personal services, \$145,511 for operating expenses and equipment, and \$68,439 to fund the net decrease in reimbursements and federal funds. The increase in personal services reflects the full-year cost of 20 positions which were administratively added in the current year plus an additional 12 new positions requested for the budget year. The higher expenditures in operating expenses and equipment reflects increases in the cost of travel and contract services.

Federal Funds and Reimbursements

In addition to the state support, the commission expects to receive \$250,000 in federal funds and \$195,000 in reimbursements for a total expenditure program of \$2,369,630, which is \$429,675 or 22.2 percent higher than estimated expenditures of \$1,939,955 for the current year. The anticipated federal funding level is \$203,439 under current year federal grants totaling \$453,439. All of the federal funds are allocated to Project STAR (systems and training analysis of requirements for criminal justice programs). The STAR project is a four-year multistate research effort to

COMMISSION ON PEACE OFFICERS STANDARDS—Continued

define the roles, functions, objectives, and skill requirements for six major classes of criminal justice personnel. The \$195,000 in reimbursements, which represents an increase of \$135,000 over the current year estimate, consists of grants from the California Council on Criminal Justice (CCCJ) for various projects, including a Police Management Center and Project STAR.

Recent Legislation and Current-Year Adjustments

Estimated state expenditures in the current year have increased by \$491,921 over the amount originally budgeted largely due to (1) one-time moving expenses incurred when the commission staff was moved into new quarters and (2) two legislative measures which increased the staffing requirements of the commission. The first, Chapter 1504, Statutes of 1971, requires all peace officers (including auxiliary reserve forces and special purpose officers) to take POST-certified training in the exercise of powers of arrest and the use of firearms by July 1, 1974, or within 12 months of employment. An estimated \$130,000 will be expended in the current year to certify 4,000 of the 40,000 reserve officers who previously were not required to receive such training. This training program is referred to as the P.C. 832 program. The second, Resolution Chapter 257, statutes of 1971 (ACR 158), provided for the establishment of a Minority Recruitment Project to assist local law enforcement agencies in the recruitment of police candidates from minority groups. This project has a current-year cost of \$85,000.

Need to Define Objectives

We recommend that the commission develop a program budget structure which (1) identifies training priorities, (2) provides a means of evaluating the effectiveness of police officers, and (3) can be used to determine the optimum level of training which should be provided by the peace officers training program.

The commission's present program budget offers very little guidance for evaluating the effectiveness of POST programs. It fails to identify priorities, specific goals, or objectives and provides no objective basis for determining an appropriate funding level for commission programs. While it may be granted that the optimum level of police training is difficult to determine, an attempt should be made to ascertain the practical limits of this program to assure that the substantial revenues dedicated to police training activities are being well spent.

In order to provide the Legislature with better information on the accomplishments and field impact of such training, we believe that the commission staff, in cooperation with the Department of Finance, should revise its program structure to incorporate goals and objectives which can be related to the field effectiveness of police officers in such routine matters as proper arrest procedures, handling and use of firearms, and criminal prosecution proceedings.

The commission's growth pattern since 1967-68 has been rapid as indicated by Table 1. The total proposed budget-year expenditure of \$2,369,630 is approximately 17 times greater than the \$140,627 actually spent in

Table 1
Peace Officers' Standards and Training Program Growth

	<i>1967-68</i>	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>
<i>ADMINISTRATION</i>							
Expenditures (State and Federal)	\$140,000	\$212,653	\$455,659	\$661,372	\$1,447,226	\$1,939,955	\$2,369,630
Percent increase over previous year	—	51.2%	114.3%	46.2%	118.8%	34.1%	22.2%
Man-years	8.5	11.9	23.3	29.7	44.8	74	86
Percent increase over previous year	—	3.4%	11.4%	6.4%	15.1%	29.2%	12%
<i>LOCAL ASSISTANCE</i>							
Assistance to cities and counties	1,596,062	2,717,266	3,700,000	5,170,369	7,813,342	12,170,000	12,650,000
Percent increase over previous year	—	70.3%	36.2%	39.7%	51.1%	55.8%	3.9%

COMMISSION ON PEACE OFFICERS STANDARDS—Continued

1967-68. The staff is expected to increase tenfold over this same period. The program budget should provide performance data which would enable the Legislature to assess the value of the commission's activities.

Administration and Special Projects Program

Of the total proposed expenditures (excluding local assistance of \$12,650,000), the sum of \$1,109,594 or 46.8 percent is budgeted for the commission's Administration and Special Projects program. This program maintains records on reimbursements to local agencies and the educational attainments and POST-certification levels of local law enforcement personnel; provides clerical, research, and general management services to other POST programs; and administers special projects. The latter include federally assisted programs, such as Project STAR, and special studies and programs requested by the Legislature, such as the study of minority recruitment problems encountered by local agencies (authorized by ACR 158 of the 1971 session).

Table 2 shows selected workload data for this program.

Table 2
Administration and Special Projects Program
Claims for Reimbursement and Professional Certification

<i>Item</i>	<i>1968-1969</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>
Certificates of completion processed	6,700	12,500	14,500	12,003	19,200	20,000
Professional certificates processed	—	—	—	12,000	13,200	13,200
P.C. 832 certificates processed	—	—	—	—	4,000	20,000
Claims for reimbursements processed	6,500	11,000	12,000	21,341	22,500	23,000

Current-Year Adjustments

Six positions, which were administratively established during the current year with increased current year salary costs of \$55,829, are requested for continuation in the budget year. Three of these positions were assigned to the Minority Recruitment program mentioned previously and the other three positions were utilized in Project STAR.

Minority Recruitment

We recommend that the new law enforcement consultant II position requested for the Minority Recruitment program be limited to July 1, 1975.

For fiscal year 1973-74, the commission's Administration and Special Projects program is proposing an expenditure of \$1,109,594, an increase of \$146,182 or 15.2 percent over estimated expenditures in the current year. This increase includes the above six positions plus four additional positions requested in the budget year for workload. Three of these four positions (two professional and one clerical) are requested to coordinate claims reimbursement and certificate issuance functions. The remaining posi-

tion, a law enforcement consultant II, is requested for the minority recruiting project to participate with local jurisdictions in an initial two-year study of this problem, at the end of which time the project will be merged into the Peace Officer Selection and Standards program. One recommendation is that the position be limited to July 1, 1975, which would allow the Legislature to review the staffing needs of this activity before it is merged into an ongoing program.

Peace Officer Education and Training

This program monitors the quality of course teaching and content at some 125 educational institutions which provide training under the POST program, formulates and helps implement improved instructional techniques, and seeks to upgrade the level of teaching by introducing experimental techniques and methods which have been found successful elsewhere. Additional duties include the development of new courses, particularly in advanced and specialized fields, so that the amount of training available to law enforcement personnel in the state continues to increase.

A support level of \$465,961 is proposed for this program in the budget year. The request is \$130,100 or 38.7 percent above estimated current-year expenditures and includes 12 new positions as summarized below.

P.C. 832 Training Program

We recommend that the 10 positions requested for the P.C. 832 training program be limited to July 1, 1974.

Requested in the budget year are 10 positions which were administratively established during the current year with added salary costs of \$81,208 to implement Chapter 1504, the P.C. 832 program discussed earlier in this analysis. An additional two positions are requested for other workload growth in this division.

Because Chapter 1504 places a one-time certification workload on the commission by requiring some 40,000 auxiliary policemen to receive training before July 1, 1974, we suggest that the 10 positions for the P.C. 832 training program be limited to that date. At that time, a more accurate evaluation of long-term staffing needs for this program can be made.

The workload of the Peace Officer Education and Training program is summarized in Table 3.

Table 3
Education and Training Program

<i>Item</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>
Officers trained	22,314	34,200 ¹	45,000 ²
Courses examined for certification	125	200	250
Onsite course inspections	300	500	650
Expenditures	\$128,778	\$335,861	\$465,961
Man-years	6.8	19	21.5

¹ Includes 10,000 for the P.C. 832 program.

² Includes 20,000 for P.C. 832 program.

COMMISSION ON PEACE OFFICERS STANDARDS—Continued**Personnel Standards Program**

We recommend the transfer of the Minority Recruiting and STAR projects from the Administration Division to the Technical Services Division.

Inspections are made of the approximately 500 local and state agencies which participate in the POST program to ascertain compliance with personnel and operating standards. During the course of these investigations, POST consultants also inform local departments of new training programs, impart new ideas in recruitment and retention techniques, and gain firsthand information on local law enforcement problems which may benefit other POST programs. The division's budget-year workload of 300 compliance inspections is at the same level as the current year, and the requested expenditure of \$84,433 for the budget year reflects only a 4.2 percent increase.

The Technical Services Division was established in the current year by transferring existing personnel from other divisions to this unit to engage in management research and development directed towards improving organization, administration, operations and personnel practices of local law enforcement agencies. The Administration Division is currently coordinating Project STAR and studying the Minority Recruitment project. Because the Technical Services Division is responsible for these types of projects, we recommend that the administration of these projects be transferred to it. Table 4 shows workload data for the Technical Services program.

Table 4
Technical Services Program

<i>Item</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>
Technical publications	3	5	10
Technical research projects.....	6	10	22
General research projects	30	30	60
Expenditures	—	\$124,996	\$238,081
Man-years	3.7	6.5	12.5

Center for Police Management

We recommend approval of six positions requested for the Police Management Center, contingent upon approval of a project grant by the California Council on Criminal Justice.

The funds proposed to support the Technical Services Division in the budget year total \$238,081, which is \$113,085 or 90.5 percent higher than estimated expenditures in the current year. This increase is primarily to fund six positions (four professional and two clerical) to create a "center for police management" to disseminate research information gathered by individual police agencies to all local law enforcement agencies. The commission plans to finance the center by a grant from the California Council on Criminal Justice (CCCJ). We are, therefore, recommending approval of these six positions contingent upon receipt of CCCJ funding.

ADMINISTRATIVE COUNSELING PROGRAM

The Administrative Counseling program, on request of local law enforcement agencies, reviews administrative procedures and organizational patterns to secure better utilization of police personnel. Organizational and management problems studied include allocation of personnel to various assignments and shifts; utilization of office space and departmental equipment; establishment of manuals of rules and regulations; organization of records and filing systems; prison booking procedures; and preparation of crime reports, arrest reports, traffic accident reports, and other types of records.

Continuation of CCCJ Grant Positions

The funds proposed to support the counseling services program in the budget year total \$471,561, which is \$36,916 or 8.5 percent greater than estimated expenditures in the current year. The budget-year request includes four positions (three professional and one clerical) which were added in the current year upon receipt of a CCCJ grant to supplement management audits of local law enforcement agencies carried out by POST. These four positions were originally scheduled to be added in the budget year, but a backlog developed in this program and additional manpower was provided by a CCCJ grant. These positions will be continued in the budget year with POST funds. Table 5 shows workload and cost data for this program.

Table 5
Administrative Counseling Program

<i>Item</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>
Surveys prepared	16	18	25
Special studies	4	8	10
Implementation assistance	10	26	30
Expenditures	\$229,271	\$434,648	\$471,561
Man-year	12.1	21	22

ASSISTANCE TO CITIES AND COUNTIES FOR PEACE OFFICERS' STANDARDS AND TRAINING

Item 43 from the Peace Officers' Training Fund

Budget p. L-8 Program p. I-82

Requested 1973-74	\$12,650,000
Estimated 1972-73.....	12,170,000
Actual 1971-72	7,813,342
Requested increase \$480,000 (3.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item provides assistance to cities and counties that qualify for state aid for peace officer training pursuant to the provisions of Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reim-

OFFICERS' STANDARDS AND TRAINING—Continued

bursed from the Peace Officers' Training Fund for up to 100 percent of the salaries and expenses of officers who are selected to participate in training programs. The Commission on Peace Officers' Standards and Training approves the training programs and administers the reimbursements. Pursuant to Chapter 1640, Statutes of 1967, the commission also has responsibility for providing counseling services to local police agencies for the purpose of improving their administrative and operating procedures. The commission is supported by a separate appropriation from this fund (Budget Item 42).

Revenues accruing to the Peace Officers' Training Fund are derived from a penalty assessment of \$5 for every \$20 of criminal fines and \$1 for every \$20 of traffic fines. Revenues for the budget year are estimated at \$10,746,000.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The sum of \$12,650,000 is requested for the budget year from the Peace Officers' Training Fund for allocation to local government. This amount, which represents the maximum foreseeable level of funding to participating law enforcement agencies in the budget year, is an increase of \$480,000 or 3.9 percent above estimated local assistance expenditures of \$12,170,000 for the current year.

Disbursements to local agencies approximately doubled between fiscal years 1970-71 and 1971-72 as a result of a decision by the commission to reimburse up to 100 percent rather than 50 percent of the salaries and expenses of officers selected to participate in training programs. The higher rate, which was precipitated by the increasing level of fund surpluses, is subject to reduction in future years, depending on revenue trends and the funding needs of participating law enforcement agencies. As indicated in our analysis of Item 42, we believe that better program information is needed to evaluate the benefits derived from these expenditures.

Revenues to the Peace Officers' Training Fund during fiscal year 1972-73 are estimated at \$10,746,000. These revenues, together with an estimated fund surplus of \$6,802,700 as of July 1, 1973, will provide more than sufficient funding for the commission's proposed expenditure program. A fund surplus of \$2,974,070 is anticipated at the end of the budget year.

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE

Items 44 and 45 from the General Fund

Budget p. 24 Program p. I-86

Requested 1973-74	\$4,962,513
Estimated 1972-73.....	1,737,691
Actual 1971-72	143,086
Requested increase \$3,224,822 (185.6 percent)	
Total recommended reduction	\$4,238

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Restructuring the Council. Recommend legislation to provide for:
 - a. Appointment and supervision of the executive director by the Governor;
 - b. Reduction of the current membership of the council;
 - c. Removal of nonparticipating members;
 - d. Limiting the powers of the council;
 - e. Delineation of powers of the executive director;83
2. Simplification of Regional Planning Process. Recommend elimination of the requirement that regions submit five-year plans on an annual basis. 85
3. Updating Planning Cycle. Recommend council establish project priorities and fund allocations for regions before the regions begin a planning cycle. 86
4. Regional Functions. Recommend council develop a workable plan for streamlining its planning process and for the division of responsibilities and functions between the state and regions and report thereon to the Legislature by December 1, 1973. 86
5. Report on Contract Approval Delays. Recommend approval of the staff counsel position on condition that the executive director report to the Legislature on the causes of contract delay and progress in expediting contracts by December 1, 1973. 87
6. Task Forces. Recommend all task forces and plan revenue committees be abolished and their functions of project review be delegated to the executive director and his staff. 87
7. *New Positions. Reduce \$4,238.* Recommend deletion of one proposed new clerical position in the Planning Division, two criminal justice specialists in the Program Services Division and one clerical position in the Administrative Division. 88
8. Program Development. Recommend planning aspects of the program development function now conducted in the Program Services Division be transferred to the Planning Division. 89
9. Personnel Procedures. Recommend State Personnel 90

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

Board reassess its job specifications and procedures regarding council staff positions to determine if they are stringent enough to assure that the council is recruiting the best available talent.

GENERAL PROGRAM STATEMENT

The 30-member California Council on Criminal Justice was created by Chapter 1661, Statutes of 1967. Council membership consists of the Attorney General, 17 members appointed by the Governor and 12 persons appointed by the Legislature. Its objectives are (1) to develop plans for the prevention, detection, and control of crime; (2) to encourage coordination, planning and research by law enforcement and criminal justice agencies throughout the state; (3) to disseminate information on proposed, existing and completed projects in the criminal justice field, and (4) to advise the Governor, Legislature, and state law enforcement agencies on criminal justice matters.

In early 1969, the Governor designated the council as the state planning and coordinating agency responsible for administering the federal block grant programs authorized under the Federal Omnibus Crime Control and Safe Streets Act of 1968. In fulfilling this role, the council, through a comprehensive planning program, allocates federal action grant money on a project-by-project basis to state and local governmental agencies to improve existing law enforcement and crime control programs. Ninety percent of its operating and planning expenses are paid by a federal planning grant. This grant also covers 90 percent of the operating costs of 21 regional criminal justice planning boards and their staffs which serve as extensions of the council in planning, developing and administering criminal justice improvement programs within their respective regional boundaries.

Additional block grants are provided by the federal government to pay up to 75 percent of the costs of projects which are approved by the council and awarded to state and local governmental (and sometimes private) agencies in two categories: Part C action funds, which are used to improve law enforcement and court programs, and Part E action funds, which are used for correctional and rehabilitation programs.

The Omnibus Crime Control and Safe Streets Act expires June 30, 1973, and must be renewed by Congress next year if the program is to continue in future years. Major revisions in this program are possible due to recent criticism aimed at it from several quarters, including the Legal and Monetary Affairs Subcommittee of the House of Representatives Committee on Government Operations (referred to as the Monagan Committee).

ANALYSIS AND RECOMMENDATIONS

The budget proposes two General Fund appropriations—\$4,748,933 as cash match for the federal funds which are awarded to the council for local and state projects and \$213,580 for council planning and operating expenses. The first is to match an estimated \$51,965,000 in action grant moneys which the federal government is expected to allocate to the council later this year. The sum of \$4,500,000 was also appropriated last year for

cash match for this same federal grant, of which \$1,560,000 is estimated to be spent in the current fiscal year. The balance, \$2,940,000, plus the \$4,748,933 proposed for appropriation for the 1973-74 fiscal year will be spent over a three-year period to match the three-year life of the federal grant. This match was made necessary by 1970 amendments to the Federal Omnibus Crime Control and Safe Streets Act of 1968, which required the states, beginning in 1973, to provide (1) one-fourth of the nonfederal match (called state buy-in) of all action grants, and (2) a cash appropriation of at least 40 percent of the nonfederal match for grants made to state agencies. All projects are funded with the federal government paying up to 75 percent of the costs with the state and localities furnishing the remaining expenses.

The second proposed General Fund expenditure of \$213,580 represents an increase of \$35,889 or 20.2 percent over estimated General Fund expenditures of \$177,691 for this purpose in the current year. Because a federal planning grant is used to pay 90 percent of the council's operating expenses, the \$213,580 will be matched by approximately \$1,922,220 in federal funds, giving the council a total support budget of \$2,135,800 for its three programs: (1) criminal justice planning (2) criminal justice implementation and (3) administration, grant awards and project allocation. Included in this request are 14 new positions for a General Fund increase of \$14,242 (10 percent of the estimated total cost of \$142,424 of which 90 percent is paid by the federal grant). Table 1 shows a history of planning grants and Parts C and E action grants made available in California, the life of action grants, the number of projects funded and the amounts of money spent and available for projects.

ADMINISTRATION, GRANT AWARDS AND PROJECT ALLOCATION PROGRAM

The Administration, Grant Awards and Project Allocation program contains seven functional elements: overall administration; research development and evaluation; fiscal, accounting, grant management, grant contract services and audits; criminal justice system liaison; training; and management analysis. The Division of Administration provides fiscal and accounting services, disbursement of funds to grant recipients, business services, grant contract services and auditing of all regional planning operations and action grant recipients. An administrative support budget of \$1,233,906 is proposed for the budget year. This is an increase of \$233,906 or 22.1 percent from estimated current-year expenditures of \$1,010,250.

The program workload is increasing due to the large and ever-growing number of projects now administered by the council. As of December 31, 1972, 986 projects had been funded in the four-year existence of this program, and in excess of 200 more are in various stages of review at this time. In addition, the hard-match and state-buy-in requirements of federal law are placing additional accounting and fiscal administrative burdens not only upon this division but also upon grant recipients as well.

Table 1
Omnibus Crime Control and Safe Streets Act Moneys Made Available in California
(History of Parts B, C, and E)

Grant Year (fiscal year)	Amount of planning grant Part B	Amount of action grant			Percentage increase over previous year's action grant	Life of actions grants available for expenditure in California	Number of projects awarded	Funds remaining for projects now being processed	Amount of grant expended	Amount not expended by grantees
		Part C general	Part E correctional	Total Part C and Part E						
1968-69	\$1,387,900	\$2,351,610	—	\$2,351,610	—	6/30/69 to 6/30/71	71	—	\$2,009,372	\$342,238 14.6%
1969-70	1,566,000	17,287,000	—	17,287,000	635.1	4/27/70 to 6/30/72	328	—	16,863,377	423,663 2.5%
1970-71	2,900,000	32,999,000	\$2,421,000	35,420,000	107.8	8/20/70 and 5/28/71 to 6/30/73 ¹	391	\$17,191,504	18,228,496	—
1971-72	2,957,000	40,060,000	4,721,000	44,781,000	24.7	1/3/72 and 4/11/72 to 6/30/74 ¹	189	42,199,968	2,581,032	—
1972-73 ² ..	3,975,000	46,495,000	5,470,000	51,965,000	16.0	_____ to 6/30/75	—	—	—	—

¹ In 1970-71 and 1971-72 advances were awarded to the council pending final approval of the state plan. The second date represents receipt of the total award based upon final plan approval.

² 1972-73 moneys are not yet awarded.

New Positions

The budget-year request is for 10 new positions (six technical and four clerical) as discussed below. One criminal justice specialist is to meet recent federal requirements that program evaluations be performed for at least 15 percent of the total dollar value of all action grant projects. Most projects funded by the council are experimental or innovative. Very little effort has been made to evaluate the effectiveness of the 986 funded projects or to distinguish between projects which should be continued and those which should not. We, therefore, support the addition of this position.

Three accounting positions and one clerical position are requested to handle increased workload arising from the growing number of projects and the federal cash-match requirements. Two additional positions are proposed to meet federal regulations which require a final audit of all grant recipients to insure fiscal integrity and to reclaim any funds unused or misspent. Three clerical positions—one for the unit which reclaims property used by grant recipients and purchased with CCCJ funds, and two for the typing pool and central files unit—are requested on a workload basis. Table 2 shows the projected workload for this program.

Table 2
Division of Administration Workload and Staffing Data

	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Proposed</i> 1973-74	<i>Percent</i> <i>increase</i> <i>over current</i> <i>year</i>
Proposal reviews	1,315	1,375	1,420	3.3
Field audits	260	375	450	20.0
Invoices processed.....	6,500	8,900	16,532	85.6
Grant dollars accounted for	\$97,000,000	\$154,000,000	\$210,000,000	37.0
Projects accounted for	845	1,060	1,498	41.0
Grant contracts processed.....	525	723	900	25.0
Expenditures.....	\$777,232	\$1,010,250	\$1,233,906	22.1
Man-years	42.2	56	63.9	14.0

Present Council Structure Needs Reform

We recommend legislation providing:

- a. *Appointment and supervision of the executive director by the Governor;*
- b. *Reduction of council membership to a manageable number;*
- c. *Removal of nonparticipating members;*
- d. *Limiting powers of the council to providing overall policy direction for the program and establishing a unified set of priorities for reducing crime and improving the criminal justice system;*
- e. *Placing authority in the executive director to administer the program on a day-to-day basis within the broad framework established by the council and to establish procedures and processes for planning, grant application, contract administration, auditing and other routine administrative matters.*

Last year we recommended legislation to replace the council by a five-member, full-time council because the three-year history of the council

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

had demonstrated that a 30-member, part-time council is not capable of administering a program of the magnitude and complexity of that arising from the Omnibus Crime Control and Safe Streets Act of 1968. We noted that:

1. A disproportionate amount of council time was devoted to the mechanics of council operation, debatable aspects of individual grant applications and other technical and operational questions.

2. Broad policy questions and progress toward development of a unified, ordered set of priorities describing ways of reducing crime and improving the efficiency of criminal justice in California had been badly neglected.

3. A lack of time, the press of other responsibilities and irregular participation on the part of some council members prevented the council from becoming fully familiar with basic issues and staff recommendations.

4. Far too much council time was wasted on administrative matters which could better be performed by the staff director.

Moreover, we observed that an enormous amount of staff time is wasted in attempting to identify and sharpen administrative issues for council deliberation. Based on our recommendation, legislation (AB 375) was passed by the Legislature. Because of vigorous opposition to AB 375 by the federal Law Enforcement Assistance Administration (LEAA) on the grounds that a five-man board would be inadequately representative of the various components of the criminal justice system as described in the federal guidelines, the bill was vetoed by the Governor.

In our opinion, most of the basic operating problems of the council as outlined above remain unresolved. Therefore, we recommend legislation restructuring the council so as to vest administrative authority in an executive director appointed by the Governor and limiting the role of the council to making broad, overall policy and establishing project priorities. The administrative director and his staff should be responsible for establishing procedures for regional action programs and approving project proposals within the policy framework established by the council. The executive director, as an appointee of the Governor, should report directly to an agency secretary. Besides freeing the council from routine administrative matters and permitting it to concentrate on neglected policy issues, this recommendation would establish a degree of accountability in the system that thus far has been lacking under the present organizational structure. Program accountability is virtually nonexistent because decisionmaking is fragmented among the 30 members of the council, a 7-member executive committee of the council, the executive director, the staff, 10 task forces, the state planning committee and 5 plan review committees.

We believe this recommendation does not conflict with federal law or guidelines concerning the structure of state planning agencies because other states' criminal justice planning agencies are organized in this manner. Moreover, LEAA guidelines specify that the state Legislatures may prescribe the size, composition or other characteristics of the state planning agency, provided that the Governor's jurisdiction over it is clear and

the agency's board meets the representative character requirements. (We would seriously question whether the Governor has the requisite "jurisdiction" over the CCCJ as it is presently organized.) The federal guidelines also provide that the state planning agency may be a division or a component of an existing state crime commission, planning agency or other appropriate unit of state government. The guidelines state, "details of organization and structure are matters of state discretion."

CRIMINAL JUSTICE PLANNING PROGRAM

The Criminal Justice Planning Division is responsible for developing a statewide annual comprehensive plan for submission to the federal Law Enforcement Assistance Administration. This plan, which contains a detailed description of the state's program for reducing the incidence of crime and strengthening the state's criminal justice system, is required as the basis for receiving federal Safe Streets Act funds. The division also coordinates planning between the council and other state, federal and private agencies; supervises regional criminal justice planning; and directs the development of the 21 annual regional plans.

The division proposes an expenditure of \$418,294, which is a decrease of \$87,011 or 17 percent under the current-year estimated expenditure of \$505,305. One new clerical position is requested to assist staff planners in coordinating planning among state agencies.

Five-Year Plans

We recommend simplification of the planning process by eliminating the requirement that regions submit five-year plans on an annual basis.

Each of the 21 regions is required to submit annually a voluminous, detailed five-year plan as a basis for funding local projects—private or governmental. Each plan contains an analysis of the region's crime and population characteristics, its criminal justice resources and deficiencies, a list of goals and objectives, an analysis of the impact which the plan is expected to have upon crime and the criminal justice system, and an annual budget. The plan also lists projects which have been submitted by local and private agencies and approved by the regional board.

The plans are submitted first to staff of the Criminal Justice Planning Division about mid-September for a review to identify deficiencies and, if necessary, are resubmitted to ensure that corrections have been made. The regional plans are then submitted with staff recommendations to one of the five plan review committees which, after examination, makes a recommendation to the council for approval or disapproval. Upon approval or certification of the plan by the council, all projects listed therein receive tentative approval subject to further refinement. No project may be funded unless it is listed in a certified plan.

These plans are voluminous and involve a great deal of paperwork. They needlessly repeat information from year to year and consume an enormous amount of regional resources. Printing costs alone amount to about \$5,000 for each plan or \$105,000 annually for all 21 plans. One region reports expending 15,000 man-hours in preparing its most recent plan.

These plans should be simplified. One approach would be to require regions to submit, not less than once each five years, plans describing

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

general population characteristics and crime patterns, criminal justice resources and deficiencies and long-range goals, objectives and strategies for reducing crime and improving the regional criminal justice system. An annual action document of not more than 50 pages could then be used to describe the regions' annual strategy for meeting long-range objectives as a basis for funding projects.

The council has recently adopted a policy to require the biennial submission of regional plans. While this is a step in the right direction, it does not go far enough to reduce the onerous paperwork burden placed on regions in reviewing these plans.

Report to Legislature

We recommend that the council develop a workable plan for dividing responsibilities and functions between the state and for streamlining its planning process and report thereon to the Legislature by December 1, 1973.

Last year, tentative project priorities, planning guidelines and instructions were sent to the regional planning agencies in March, with September 1 established as the due date for the submission of regional plans. However, the council did not finalize its project priorities until late in July and its allocation of funds among regions until September. This placed an almost impossible workload burden on regions in making last-minute adjustments to accommodate to changes in council priorities and funding levels.

The federal government requires that 40 percent of all planning grants be spent at the local level and encourages, but does not require, the establishment of regional boards. It provides no guidance for the functions or operations of these boards, but it clearly places responsibility for the program at the state level. In attempting to comply with federal desires for local participation, the council has ended up neither delegating meaningful planning responsibility to the regions nor maintaining control of the program. It has given regions freedom to use planning grants with little interference, controlling only the total dollar amounts. For example, the council presently does not know the number of staff employed at the regional level, and it has retained so little control over such things as regional staff salaries that it has permitted one regional board to pay its staff director a salary exceeding that of the council's executive director. On the other hand, it so often overturns regional board decisions on projects and plans as to make the local role almost meaningless. A study to provide definite roles for regions is urgently needed.

CRIMINAL JUSTICE PROGRAM IMPLEMENTATION

The Program Services Division provides staff support for the council's 10 task forces, each of which consists of a member of the council as chairman and others (appointed by the council chairman) who usually are experts in some criminal justice field but need not be council members. Each task force is responsible for one of the following functional areas: (1) law enforcement training, (2) prevention of crime, (3) juvenile delinquency, (4) detention and apprehension of criminals, (5) prosecution,

courts and law reform, (6) correction and rehabilitation, (7) organized crime, (8) riots and disorders, (9) community relations, and (10) research and development.

In addition to reviewing regional plans to determine conformity to task force goals, the staff of this division, once regional plans are certified, assists applicants in the development and refinement of projects. It reviews projects and submits them with recommendations to the appropriate task force for approval. Thereafter, it assists in developing projects into contracts which authorize project implementation and the release of funds. Through onsite monitoring of projects, this division attempts to see that task force and council objectives are met.

This division proposes a total expenditure of \$976,475, which represents an increase of \$216,345 or 28.5 percent over the current level of \$760,130. As discussed below, three new positions are proposed for this element: a staff counsel to process contracts and two criminal justice specialists to provide additional technical assistance to grant recipients.

Delays in Contract Approval

We recommend approval of the counsel position provided the executive director reports on the causes of contract delay and progress toward resolving this problem by December 1, 1973.

The council cannot release any planning or action grant money without first having concluded a contract with the grant recipient which, in the case of planning grants, includes regional boards. Delays in the approval of these contracts have caused fund flow problems for several regional boards because their contracts were not concluded until several months into the fiscal year, thus forcing them to borrow from other units of local government. Because much of the delay occurred in the Department of General Services, whose legal staff presently reviews the contracts, the council proposes one additional staff counsel to enable it to assume the function of reviewing all contracts for legal sufficiency. We recommend approval of the position subject to a requirement that the council's executive director report on the causes of contract delay and report to the Legislature on improvement in this area.

Abolishment of Task Forces

We recommend that all task forces and the plan review committees be abolished, and that the project review functions be transferred to the executive director and his staff.

Under current council arrangements, the five plan review committees (a sixth, the state planning committee, coordinates planning among state agencies) and the 10 task forces perform important roles in the council's decisionmaking process. Recommendations of the plan review committees and task forces are rarely overturned by the council and the task forces adopt program statements which serve as council priorities. After receiving task force approval, as many as 35 unrelated project proposals are presented to the council in package form. These are invariably approved by the council with very little discussion.

The task force and plan review committees tend to fragment rather than unify the planning process. There simply is no way to coordinate the

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued

efforts of so many committees and task forces, yet coordination of the various functional criminal justice areas is vital for providing a unified and consistent set of priorities.

As noted above, the council in reality has delegated decisionmaking power to plan review committees and task forces which make all decisions by majority vote. In essence, it has delegated this authority to individuals who are not really in a position to understand the full implications of the federal safe streets program because so many task force members are not members of the council. Only the chairmen of the task forces and chairmen and vice chairmen of the plan review committees are required to be council members. Non-council members who comprise a majority of each task force and who are specialists in some criminal justice field, generally lack a broad overview of the council's mission and approach their assignments within the framework of their special interests.

Task forces and plan review committees tend to delay the process of approving plans and projects because they constitute one additional step in the process. There is no reason why a competent staff cannot provide better review of regional action plans and projects if the council will formulate adequate policy and priority guidelines for staff to follow. Currently, the council processes every project as though it were a unique entity and not subject to policy standardization and classification.

Advisory subcommittees or task forces might be useful for sharpening issues before the council, but they should not assume decisionmaking authority or have formal or significant staff support. The council has adopted plans to reduce the number of task forces from ten to three. However, it plans to use task force subcommittees and anticipates no real reductions in the number of meetings. This promises little in the way of reform.

Reduction of Staff Support for Task Forces and Plan Review Committees

We recommend deletion of one proposed new clerical position for the Planning Division, two criminal justice specialists for the Program Services Division and one clerical position for the Administrative Division for a General Fund savings of \$4,238.

All of these positions are related to support for the task forces, plan review committees or the state plan committee which coordinates planning among state agencies. The council presently does not have data regarding the cost of the 60 task force and more than 20 plan review committee meetings which are held annually in various places throughout the state. Nor does it have detailed workload data for staff support of these groups. While we acknowledge that additional staff may be needed for monitoring and evaluating projects and providing technical assistance to grant recipients, an enormous amount of staff time is wasted in providing administrative backup and in communicating routine matters to task forces.

Council data reveal that 255 man-days in clerical time are required to prepare for and provide secretarial support for task force meetings. At least one additional clerical man-year is involved in reviewing the voluminous regional plans and in providing support to plan review committees.

While the two criminal justice specialists are requested to provide technical assistance, existing staff in the Program Services Division is wasted in providing staff support for task forces. Council data indicate that 2,048 man-days are expended in program development, which is defined by council staff as "development and refinement of council programs." Part, but not all, of this function involves task force support, and it does not include project application review, monitoring, or technical assistance. We estimate that at least two man-years do involve task force support. Consequently, we do not recommend approval of the two criminal justice specialists. As the council staff develops additional workload information, more staff adjustments will be necessary to cut staff or to shift positions to evaluation, monitoring or technical assistance which heretofore have been neglected. Table 3 shows projected workload for the Program Services Division.

Table 3
Program Services Division, Comparative Workload Data

	<i>Actual</i>				<i>Estimated</i>		<i>Percent increase over current year</i>
	<i>1968-69</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>	
Project Proposals							
First year.....	63	202	349	497	280	160	-43
Second year	—	25	53	124	209	300	44
Third year.....	—	—	1	41	161	266	70
Total projects.....	63	227	403	662	650	726 ¹	12
Projects monitored..	—	55	50	390	500	550	10
Task force meetings	—	—	90	60	60	60	—
Expenditures	—	—	\$564,194	\$625,030	\$760,130	\$976,475	28.5
Man-years	—	—	22.7	27.6	32.6	32.6	—

¹ The number of project proposals is based on the latest available data which differ from the Governor's Budget figures.

Transfer of Program Development Function

We recommend that the planning aspects of the program development function in the Program Services Division be transferred to the Planning Division.

Program development is defined by the Program Services Division as the development and refining of council programs. It involves identifying major criminal justice issues and developing project priorities for council approval. This function is the core of the planning process and, therefore, should be transferred to the Planning Division. The council should maintain a cadre of highly competent criminal justice specialists for identifying and sharpening policy issues for the council. Under present arrangements, the staff of the Program Services Division, through relationships with the task forces, often duplicates the efforts of personnel in the Planning Division in communicating council policy to the regions. This results in confusion, conflicting instructions and statements. To avoid this type of duplication, this function should be in the Planning Division.

CALIFORNIA COUNCIL ON CRIMINAL JUSTICE—Continued**Reexamination of Council Personnel Policies and Procedures**

We recommend that the State Personnel Board reassess its job specifications and procedures regarding council staffing to determine if they are stringent enough to assure that the council is recruiting the best available talent.

Council task forces were created to provide expertise in the development stages of this program when persons with extensive backgrounds in criminal justice planning were not readily available. In the intervening four years, universities and federal, state and local Safe Street Act programs have developed highly qualified personnel in this field. A study should be conducted by the State Personnel Board to determine whether the council's position specifications are sufficient to recruit the best available skills.

FAILURE OF FEDERAL GUIDANCE

It should point out that many of the council's problems are traceable to inadequate guidance from the federal government. For example, the Law Enforcement Assistance Administration (LEAA) guidelines require a representative supervisory board "... which has responsibility for reviewing, approving and maintaining general oversight over the state plan and its implementation" However, LEAA has not issued guidelines advising states how such a body should operate. We understand that some such guidelines may now be in preparation.

As we noted above, the federal government encourages but does not require the creation of regional planning boards. However, it offers no guidance as to how program responsibility should be divided between the state and local jurisdictions. Thus, it appears to have aided in the creation of a very unsatisfactory arrangement in which the state exercises strong central control and at the same time attempts to delegate responsibility to the localities.

In November 1970, when California first began auditing subgrantees, CCCJ staff was informed that LEAA had no auditing guidelines. Not only did CCCJ adopt its own guidelines, but its staff is now participating in the training of LEAA and other state staff in auditing procedures. Currently, LEAA offers no guidance for California in the very difficult task of evaluating the numerous projects which are currently being funded. Yet LEAA has requirements that 15 percent of all such projects (measured by total dollar value) be so evaluated.

CALIFORNIA CRIME TECHNOLOGICAL RESEARCH FOUNDATION

Item 46 from the General Fund

Budget p. 26 Program p. I-97

Requested 1973-74	\$107,670
Estimated 1972-73.....	80,395
Actual 1971-72	74,933
Requested increase \$27,275 (33.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The foundation proposes a General Fund budget of \$107,670, which is an increase of \$27,275 or 33.9 percent over estimated General Fund expenditures for the current year. The foundation also anticipates \$2,699,753 in federal funds and \$450,000 in reimbursements for services to other state agencies, which produces a total expenditure program of \$3,257,423, an increase of \$1,442,812 or 79.5 percent over the current level. As discussed under the Research and Development program below, the increased level of federal funding reflects additional grants for Project SEARCH activities which have necessitated current-year staffing adjustments and result in a budget-year request for a total of 19.2 new positions, two of which are proposed to be financed from the General Fund.

ADMINISTRATION PROGRAM

The State General Fund supports only the costs of the Administration program, which is staffed with an executive officer and secretary, and such overhead costs as travel for board members. Two new General Fund positions, one professional and one clerical, are proposed to formulate new research proposals and develop grant applications for submission to the federal government, private foundations and corporations. All moneys received from private sources are deposited in a "special deposits account" and are used for special research projects which require matching

CALIFORNIA CRIME TECHNOLOGICAL RESEARCH—Continued

funds, such as those authorized by the California Council on Criminal Justice.

CRIMINAL JUSTICE RESEARCH AND DEVELOPMENT PROGRAM

The foundation's Research and Development program, which is funded entirely by the federal government, anticipates \$2,699,753 in federal funds, an increase of \$1,091,835 or 67.9 percent over the current federal funding level. These funds, which involve no matching requirements, support Project SEARCH, a project composed of representatives from each of the 50 states whose objectives are to establish national standards and goals for a criminal justice information and statistics system and to develop prototype systems for the application of advanced technology to the administration of criminal justice. Budget-year activities include (1) an evaluation of mobile digital communication terminals, (2) development of a prisoner accounting information system, (3) support for the federal Law Enforcement Assistance Administration's (LEAA) equipment requirements analysis program, (4) development of information systems relating to criminalistics laboratories, the management of grants, statewide court administration (including juvenile courts), and (5) a prototype for monitoring the utilization of jurors.

Current-Year Adjustments

A total of five positions have been administratively established in the research program in the current fiscal year to handle workload arising from a higher level of federal funding for Project SEARCH than was originally contemplated (the revised estimate of federal grants for the current year reflects an increase of \$479,438). In addition, a total of 2.2 new positions are being requested for fiscal year 1973-74 to handle the additional workload generated by these projects.

LABORATORY RESEARCH AND DEVELOPMENT PROGRAM

The foundation has recently established a laboratory, with most of the equipment being contributed by private agencies and corporations at very little cost to the state, to test equipment and techniques for developing ways and means of reducing crime and preventing criminal acts. One such project involves developing methods of identifying explosives by type, manufacturer and lot number. An additional project is developing a laser fence to prevent thefts of explosives from storage facilities. Other projects involve the development of laser fences for the state's correctional institutions and to protect property of the Department of Water Resources. Ten additional positions are requested for this program, six of which have been administratively established during the current year. As previously indicated, these positions are fully covered by federal grants.

Public Defenders
ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS

Item 47 from the General Fund

Budget p. L-8 Program p. I-102

Requested 1973-74	\$775,000
Estimated 1972-73.....	775,000
Actual 1971-72	775,000
Requested increase—None	
Total recommended augmentation	\$1,653,955

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *Cost Sharing. Augment \$1,653,955.* Recommend increase 93
to reflect original cost-sharing ratio.

GENERAL PROGRAM STATEMENT

This item reimburses counties for a portion of their expenditures in providing state-mandated (Penal Code Section 987.2) legal assistance to indigents who are charged with violations of state criminal law in superior, municipal or justice courts or involuntarily detained under the Lanterman-Petris-Short Act. The reimbursement, authorized in 1965 by Section 987.6 of the Penal Code, may not exceed 10 percent of the counties' expenditures for such purposes.

ANALYSIS AND RECOMMENDATIONS

We recommend an augmentation of \$1,653,955, for a total appropriation of \$2,428,955.

The \$775,000 requested for the budget year is identical to the amounts authorized for the past five fiscal years, during which time county expenditures have increased from \$14,442,835 in 1968-69 to an estimated \$34,699,352 in 1972-73. For the current year, the appropriation represents only 2.2 percent of the amount budgeted by the counties for this purpose. As reflected in Table 1, the state has never contributed the 10 percent maximum permitted.

Table 1
State Assistance to Counties for Public Defenders

<i>Fiscal year</i>	<i>Budgeted county expenditures</i>	<i>State contribution</i>	<i>Percent of county expenditure</i>
1968-69.....	\$14,422,835	\$775,000	5.4
1969-70.....	19,732,974	775,000	3.9
1970-71.....	23,983,100	775,000	3.2
1971-72.....	29,004,324	775,000	2.7
1972-73.....	34,699,352	775,000	2.2

Payments to the counties are made quarterly, in arrears, on the basis of 10 percent of actual expenditures. If there is insufficient money to pay the full 10 percent for a particular quarter, the remaining funds are prorated among all claims filed for that quarter. Claims filed for the first quarter of 1972-73 represent county expenditures of \$7,164,710 and a state contri-

ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS—Continued

bution of \$716,471. Thus, with less than \$58,529 of the current-year appropriation remaining, funds for this program undoubtedly will be exhausted in the second quarter.

When this program was enacted in 1965, it carried a first-year appropriation of \$500,000, which was approximately 7 percent of the counties' 1965-66 budgeted expenditures. While the law does not specify the level of state support, it does manifest the state's interest in defraying a portion of the costs which counties are required to incur in protecting the constitutional rights of needy persons accused of violating state criminal statutes or detained under the Lanterman-Petris-Short Act. Moreover, the 7 percent support level represented by the \$500,000 appropriation for 1965 is indicative of legislative intent that the state contribution should approach or at least approximate the statutory 10 percent maximum rather than stabilize at a dollar amount which covers an increasingly smaller percentage of county costs. The fiscal constraints placed on the counties by Chapter 1406, Statutes of 1972 (SB 90) provide added reason for the state to assume a more reasonable percentage, within the statutory limit, of the legal aid costs which the counties are required to pay.

In order to conform to the original cost-sharing ratio established in 1965, we are recommending that this item be increased by \$1,653,955 to provide an amount equivalent to 7 percent of the county expenditures budgeted for the current fiscal year. We have used the current-year figure because the 1973-74 county expenditure estimate has not been formulated. Consequently, our recommended state contribution probably will represent somewhat less than 7 percent of the budget-year expenditures which, based on the pattern of the past five years, could approximate \$40 million.

**ADMINISTRATION AND PAYMENT OF
TORT LIABILITY CLAIMS**

Items 48 and 49 from the General Fund

Budget p. 27 Program p. I-104

Requested 1973-74	\$1,201,500
Estimated 1972-73	1,000,000
Actual 1971-72	1,033,371
Requested increase \$201,500 (20.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 1681, Statutes of 1963, defines the liability of public entities and public employees for tortious acts. In 1970 the state negotiated a three-year insurance policy which protects it against claims between \$2 million and \$50 million at a cost of \$198,000 annually. (A second premium of \$5,937 covers the state's liability for accidents involving state-owned and state-hired aircraft.) The state assumes direct liability for payment of claims of less than \$2 million and more than \$50 million, because insurance against

the smaller claims has proved too costly and insurance to protect against those exceeding \$50 million (natural catastrophes) is not generally available.

The item provides for administration of the tort liability program, payment of the insurance premiums, and payment of claims against all General Fund agencies except the University of California and a small number of agencies with unique liability problems which are covered by special insurance. Special fund agencies, with the exception of the Department of Public Works which investigates, litigates and pays its own claims, reimburse the General Fund for payments made under the program on their behalf.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

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

Staffing and Workload

The Department of Justice has assigned to this function a staff of 25, consisting of 8 attorneys, 7 investigators, 1 claims supervisor and 9 clerical positions. The workload is reflected in Table 1, which shows a continuing increase in the number of claims filed with the Board of Control from 472 in fiscal year 1969-70 to an estimated 800 in 1972-73. Not included are 300 claims relating to the levee failure and flooding of Andrus Island in 1972.

Table 1
Department of Justice Tort Section Workload

	1968-69	1969-70	1970-71	1971-72	Estimated 1972-73
Number of claims received by Board of Control	895	472	480	578	800
Dollar amount of claims received	\$2,197,196,909	\$119,653,827	\$279,607,282	\$188,041,768	\$400,000,000
Number of claims paid by Board of Control	71	70	30	43	100
Total amount paid by Board of Control	\$45,467	\$15,722	\$6,500	\$47,904	\$80,000
Lawsuits filed	172	150	149	264	368
Amounts paid on lawsuits, settlements and judgments	\$1,024,000	\$509,276	\$426,431	\$462,737	\$1,000,000

TORT LIABILITY CLAIMS—Continued

These claims, which total \$126,323,000, have been crossfiled both as tort claims and as inverse condemnation claims and were not included pending determination of which legal doctrine will be pursued or, if both, which legal section would handle the workload involved.

Item 48 is a \$1 million appropriation request which includes payment of claims, related investigative and administrative costs of the Department of Justice, administrative costs of the Board of Control, and the cost of insurance premiums for the budget year. This follows the practice of prior years.

Item 49 constitutes a deficiency appropriation of \$201,500 to pay the tort liability judgment awarded to Paul Quensada Jr. by the trial court. The actual expenditures for this program in 1971-72 exceed those budgeted for the current year and, except for the Quensada claim, also exceed the \$1 million requested for this program in Item 48 of the Budget Bill.

Estimates of expenditures from special funds are not included for the current and budget years due to the difficulty of projecting the nature of claims and may be filed and the special funds involved. Special fund expenditures totaled \$35,187 in fiscal year 1971-72.

INDEMNIFICATION OF PRIVATE CITIZENS

Items 50 and 51 from the General Fund

Budget p. 28 Program p. I-105

Requested 1973-74	\$1,252,000
Estimated 1972-73.....	903,414
Actual 1971-72	575,050
Requested increase \$348,586 (38.6 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

These funds provide compensation to needy residents of California who are victims of crimes of violence. Total recovery which may be claimed by the person physically injured or by a third party who is financially dependent upon the victim is limited to \$5,000. From 1965 to 1967, this program was administered by the Department of Social Welfare, but since 1967 it has been the responsibility of the Board of Control. Claims filed with the board within one year of the injury or loss are investigated by the Attorney General and, upon completion of the investigation, a hearing is conducted before the board. If the claim is approved, an award not exceeding the cost of the treatment, loss of wages or support, or other directly related expenses, will be paid, along with attorney fees which may be up to 10 percent of the award. Of this budget request, \$150,000 is for support of the Attorney General's investigation.

Although the General Fund is responsible for the support of this program, the annual appropriation is partially offset by fines which are levied on the perpetrators of the crimes. Receipts from these fines are deposited in the Indemnity Fund. Table 1 summarizing the history of program expenditures shows that Emergency Fund allocations were required in fiscal years 1968-69 through 1971-72.

The proposed General Fund appropriation of \$1,250,000 for fiscal year 1973-74 includes \$50,000 for the funding of claims filed under the "Good Samaritan Act." Such claims were previously funded through the legislative claims process, but pursuant to legislation enacted in 1971 (Chapter 1269) they are now funded in this item.

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

Category	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Aid to victims of crimes of violence	\$22,411	\$79,783	\$171,645	\$385,814	\$525,050	\$803,414	\$1,052,000
Citizens benefiting the public	—	—	—	—	—	50,000	50,000
Attorney General-Investigations ¹	—	—	25,000	35,360	50,000	50,000	150,000
Funding							
General Fund	15,414	25,000	125,000	125,000	325,000	900,000	1,250,000
Indemnity Fund	6,997	5,728	5,080	1,414	50	3,414	2,000
Emergency Fund	—	49,055	66,565	294,760	250,000	—	—
Total.....	\$22,411	\$79,783	\$196,645	\$421,174	\$575,050	\$903,414	\$1,252,000

¹ Attorney General expenses were not reported separately from total program costs for fiscal years 1967-68 and 1968-69.

Table 1, showing total expenditures increasing from \$22,411 in 1967-68 to an estimated \$1,252,000 in 1973-74, reflects the growing number and value of claims filed. The table also shows that investigative and processing costs of the Attorney General have increased from \$50,000 in 1971-72 to a proposed \$150,000 in the budget year due to workload growth as reflected in Table 2.

Table 2
Attorney General Investigations and
Board of Control Actions

Workload	1971-72	1972-73 ¹	1973-74 ¹
Cases investigated	533	600	2,100
Claims denied	266	275	1,000
Claims approved	267	325	1,100
Investigation backlog	422	1,050	1,950

¹ Estimated by Department of Justice.

The Department of Justice anticipates a substantial increase in the case backlog even with the more than threefold increase in the number of investigations conducted (averaging 183 cases per month) as claims are now being filed at a rate of approximately 288 per month due to greater public awareness of the program.

STATE CONTROLLER

Item 52 from the General Fund
Budget p. 29
Program p. I-106

Requested 1973-74	\$7,676,138
Estimated 1972-73.....	7,381,616
Actual 1971-72	5,981,031
Requested increase \$294,522 (4.0 percent)	
Total recommended reduction	\$19,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. Medi-Cal Warrants. Withhold recommendation on 19 positions and related expenses for Medi-Cal claims program until a final decision is made on statewide implementation of the Medi-Cal Management System.	100
2. <i>Inheritance Tax. Reduce \$19,500.</i> Recommend temporary help reduction in proportion to workload decrease.	102

GENERAL PROGRAM STATEMENT

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

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

Estimated program expenditures for 1972-73, the proposed expenditures for 1973-74 and the budget increase over the current year are also shown in Table 1.

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

By program and element	Estimated 1972-73	Proposed 1973-74	Change
I. Fiscal control			
Control accounting.....	\$693	\$728	\$35
Financial analysis	217	233	16
Unclaimed property	232	238	6
Claim audit.....	473	486	13
Field audit	1,265	1,321	56
General disbursement	1,524	2,955	1,431
Payroll	1,468	1,486	18
Data processing.....	(233)	(245)	(12)
Subtotal	\$5,874	\$7,447	\$1,575
II. Tax administration			
Inheritance tax.....	\$1,980	\$2,042	\$62
Gift tax	294	291	-3
Tax collection	112	101	-11
Gas tax refund	672	690	18
Subtotal	\$3,058	\$3,124	\$66

III. Local government fiscal affairs

Financial reporting	\$294	\$303	\$9
Streets and roads	362	375	13
Uniform accounting.....	65	70	5
Tax-deeded land.....	137	141	4
Subtotal.....	\$858	\$889	\$31

IV. Undistributed administration	\$229	\$236	\$7
Total program costs.....	\$10,018	\$11,695	\$1,677
Reimbursements	-1,294	-2,633	-1,339
Net totals	\$8,724	\$9,062	\$338

By funds

General Fund.....	\$7,382	\$7,676	\$294
Motor Vehicle Transportation Tax	99	89	-10
Motor Vehicle Fuel.....	986	1,022	36
State School Building Aid	176	197	21
Aeronautics	81	78	-3

ANALYSIS AND RECOMMENDATIONS

The increase in proposed total program expenditures of \$1,677,000, before reimbursements, all funds, for 1973-74 includes \$1,508,012 for processing and issuing warrants for the Medi-Cal Management System. This system is currently operating in two counties on a six month pilot basis. The Controller requests 19 new positions (\$121,000), \$861,000 for postage, \$204,000 for printing, and \$322,000 for equipment, office space and computer rental, on the assumption that the system will be implemented on a statewide basis in 1973-74. The Controller would be reimbursed for these costs by the Health Care Depository Fund, Department of Health.

I. FISCAL CONTROL

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

Table 2
Fiscal Control Program Staff

Program elements	Estimated 1972-73	Proposed 1973-74	Man-years		
			Total	Change Authorized positions	Salary savings
Control accounting	40.4	41.3	.9		.9
Financial analysis	8.5	9.3	.8	.4	.4
Unclaimed property	13.4	13.5	.1		.1
Claim audit	39.2	39.5	.3		.3
Field audit	63.3	67	3.7		3.7
General disbursement.....	37.4	59	21.6	20.3	1.3
Payroll.....	115.1	120.2	5.1	.9	4.2
Data processing	14.5	14.8	.3		.3
Total	331.8	364.6	32.8	21.6	11.2

STATE CONTROLLER—Continued**Field Audit**

This element will make over 1,400 field examinations of the records of various local agencies. The 1972 Budget Act provided that the Department of Social Welfare contract with the Controller for fiscal audits of county welfare departments. Twenty-seven positions were deleted from the welfare budget and established in the Controller's office July 1, 1972. Because of recruitment problems, four of these positions were not filled and this contributed the major portion of the total salary savings of five positions in this element. The Controller intends to fill the remaining positions during 1973-74.

We recommend approval of one new position for the field audit element. One clerk-typist II position is requested for a workload increase in processing duplicate warrants to replace those lost or destroyed.

General Disbursements

The Franchise Tax Board began withholding state personal income tax on January 1, 1972. This will result in approximately 5.4 million disbursements for income tax refunds in 1973, and 5.7 million in 1974. As shown in Table 3, the tax refunds will greatly increase the Controller's warrant volume. To meet this increase, 16 positions were added to the disbursement division in 1972.

In August 1972, the Department of Health Care Services implemented a prototype of the Medi-Cal Management System (MMS) in two counties. Under this system, the Controller makes direct disbursements to claimants entitled to payments for providing services to Medi-Cal patients. If this system is implemented on a statewide basis, the Controller's MMS warrant volume will increase to about 11.8 million in 1973-74, and 16 million in 1974-75. To meet this potential workload increase, the Controller is requesting 19 new positions (16 clerical and three senior computer operators), and \$1.4 million to meet postage, printing, equipment and other operating costs for 1973-74. The total warrant volume and personnel man-years for disbursements are also shown in Table 3.

Table 3
Warrants Issued and Staff Requirements

<i>Warrants</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Regular warrants	3,838,000	3,663,000
Personal income tax refunds.....	5,425,000	5,678,000
Total	9,263,000	9,341,000
Staff	37.4	40.0
Medi-Cal payments	1,047,600	11,821,000
Total warrants.....	10,310,600	21,162,000
Total staff requirement	37.4	59.0

We withhold recommendation on the proposed 19 positions for MMS until a final decision is made on the system and an operative date has been established.

In December 1972, HR 129 was passed by the Assembly requesting the Secretary of Health and Welfare to form a task force to prepare a comparative evaluation of the Medi-Cal Management System (MMS) and the current fiscal intermediaries, Medi-Cal Intermediary Operations (MIO). MIO is an organization recently formed by Blue Cross North, Blue Cross South, and Blue Shield. The MIO system receives and verifies claims, and then issues payments to claimants in 56 counties. Health Care Systems Administrators (HCSA), which is implementing MMS on a pilot basis, submits verified claims to the Controller who then issues warrants to claimants in San Diego and Santa Clara Counties.

HR 129 requests the task force to submit its finding by April 1, 1973. After the report is submitted a decision will be made with respect to implementation of MMS on a statewide basis. Until this decision is made, we recommend the Legislature withhold approval of the Controller's requested positions and related operating costs for MMS.

Consolidated Data Center. Currently the Controller's office uses its own computers to perform fiscal and personnel functions in the accounting, disbursing, and payroll elements. The Consolidated Data Center No. 1 is scheduled to perform these computer functions for the Controller sometime before July 1, 1974. For record keeping purposes the Controller has designated 17 authorized computer related positions for transfer to the Consolidated Data Center. The salaries and related expenses of these positions are shown under the budget item "Consolidated Data Center." Once the center is in operation, the Controller's computers will be sold, and the 17 positions will be located at the center.

Payroll

Salaries and wage payments for approximately 164,000 state employees will require the issuance of approximately 2.5 million warrants for 1973-74. Individual payroll deductions such as group insurance, federal and state income tax, and charity contributions will amount to over 14.5 million for the budget year.

We recommend approval of five new positions. Payroll has requested three key data operators for the three disbursing offices in order to meet a much larger than anticipated workload increase in documents processed (new hires, transfers, reclassifications, deduction changes, etc.) that began in July 1972. As shown in Table 4, this document processing which is the most time consuming and complex function of this element, has had a significant increase in volume since 1971-72. Much of this increase is attributed to processing overtime and shift differential authorizations. The 4 percent staff increase in 1972-73 which included one key data operator position and one key data operator trainee has not been able to adequately absorb the increase in transaction workload for the same period. Therefore, to meet its program objective of immediate issuance of payroll warrants, we believe that three new key data operators are needed for payroll. In order to meet this element's normal increase in output, we also recom-

STATE CONTROLLER—Continued

mend approval of two man-year temporary help positions for clerical assistance.

Table 4
Payroll Workload and Staff Increases

<i>Workload</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Percent change since</i>	
				<i>1972-73</i>	<i>1971-72</i>
Withholding tax statements	\$210,000	\$216,000	\$222,000	3%	6%
U.S. savings bonds issued.....	261,000	265,000	265,000	—	2
Payroll warrants issued	2,415,000	2,512,000	2,562,000	2	6
Payroll deductions.....	12,623,000	14,140,000	14,567,000	3	15
Documents processed.....	2,176,000	2,477,000	2,584,000	4	18
Personnel man-years.....	112.3	115.1	120.2	4	7

II. TAX ADMINISTRATION

The function of this program is to administer the inheritance and gift tax laws, gasoline tax refunds, delinquent motor vehicle fuel license taxes, motor vehicle transportation tax, and insurance premium tax. The allocation of personnel to the program elements and the budget changes from the current year are shown in Table 5.

Table 5
Staff of Tax Administration Program

<i>Program element</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Man-years</i>		
			<i>Total</i>	<i>Change</i>	
				<i>Authorized positions</i>	<i>Salary savings</i>
Inheritance tax	124.5	125	.5	—	.5
Gift tax.....	18.5	17.5	-1.0	—	-1.0
Tax collection.....	7.3	7.3	—	—	—
Gas tax refund	43.9	43.4	-.5	—	-.5
Total	194.2	193.2	-1.0	0.0	-1.0

Inheritance Tax

State inheritance tax payment dates were made to conform with federal dates in December 1971. The delinquency period for payment of inheritance taxes was shortened from two years to nine months. Because of this requirement, the division projected a 1972-73 workload increase of approximately 12 percent over the normal increase in the number of reports examined. To meet this added workload, 13.2 new positions (12 percent staff increase) were added in 1972. Five of these were temporary positions that were to be eliminated in early 1973 when the workload returned to normal. However, the workload increase did not materialize until approximately six months after the original estimate. Therefore, the workload is not anticipated to return to normal until late 1973.

We recommend elimination of 3.0 man-year temporary help positions by December 1, 1973, and the remaining two positions by June 30, 1974, for a General Fund savings of \$19,500 in 1973-74.

Because of the lag in the temporary workload increase, the Controller

is requesting continuation of the five temporary positions for 1973-74. However, the workload should be declining by late 1973 and will have returned to expected levels by the end of the fiscal year. Therefore, we believe that three of the five positions can be eliminated by December 1, 1973, and the remaining two by June 30, 1974.

Inheritance Tax Property Appraisals

In our 1972-73 Analysis, we recommended a two-year pilot program of contracting for civil service property tax appraisers to review estate values submitted by inheritance tax referees. The Controller implemented our recommendation in December 1972 by contracting with the Division of Highways, Department of Public Works, for two professionally qualified appraisers. One appraiser is currently working in a designated area of Los Angeles County and the other one is working in San Francisco. The cost for this program is estimated at \$30,500 for 1973-74. It is too early to determine what effect this program has had because of the limited time it has been in operation.

III. LOCAL GOVERNMENT FISCAL AFFAIRS

This program is responsible for prescribing uniform accounting systems for cities, counties and special districts, and for issuing consolidated reports of financial transactions for several classifications of local governmental agencies. There has been a minor increase in the division's workload. However, as shown in Table 6, there has been no change in total personnel for this program.

Table 6
Staff of Local Government Fiscal Affairs Program

<i>Program element</i>	<i>Man-years</i>	
	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Financial reporting and budgeting	13.3	13.3
Street and road reports	17.6	17.6
Uniform accounting.....	3.3	3.3
Tax-deeded lands	9.9	9.9
Total.....	44.1	44.1

IV. ADMINISTRATION

The executive office of this division provides general supervision for the six operating divisions and also assists the Controller in his duties as a member of various boards and commissions. The administrative service staff provides auxiliary services for the entire agency including accounting, personnel and mail services. About two-thirds of the division's costs are allocated to the three programs of this agency. The direct cost of the Controller, his personal staff, plus secretarial support, are not allocated. The basis for allocation is the personnel costs, by fund, of each of the programs elements.

We recommend approval of a personnel officer. The Controller believes there is a need for a full-time personnel officer due to the size of the staff and the lag in departmental training. An accounting officer III position has been abolished and the total administrative staff, including the proposed

STATE CONTROLLER—Continued

new personnel position, will still be below the total positions authorized for this division.

Measurement of Effectiveness

This program has included in its budget a measure of effectiveness outline for each program element. The format and content for each element are essentially the same. Therefore, our comments will be limited to the inheritance tax element because it is the largest element, and its outline is typical of the other element outlines.

The overall objective of the inheritance tax element is to assure that all inheritance tax revenues due the state are collected in an equitable and effective manner. According to the program statement, this is accomplished by effecting timely taxpayer compliance with the inheritance tax law, detecting and correcting errors in tax computations, and prompt collection of taxes due the state. Detailed data with respect to the percent of on-time and late payments, percent of reports with errors detected and corrected, and collection of delinquent accounts forms the basis for the measure of effectiveness of the inheritance tax element. In our opinion these statistics should be useful to the Controller, the Department of Finance and our office in analyzing performance of the inheritance tax administration activity, and in identifying problem areas which may be hampering the program in the accomplishment of its goals. The measures are limited in their usefulness, however, because there are no quantitative goals established, nor is there any overall index of effectiveness or performance. Experience with the use of the data may suggest means by which these limitations can be overcome.

STATE CONTROLLER

Item 53 from the Motor Vehicle

Transportation Tax Account

in the Transportation Tax

Fund

Budget p. 29 Program p. I-106

Requested 1973-74	\$89,272
Estimated 1972-73.....	99,354
Actual 1971-72	96,246
Requested decrease \$10,082 (10.1 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation is for the cost of collecting the motor vehicle transportation (truck) tax, which will be repealed July 1, 1973. As a result of this, two positions which have not been filled during 1972-73 will be abolished in 1973-74. Collection of delinquent taxes will require continuation of this function through 1975.

STATE CONTROLLER

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

Budget p. 29 Program p. I-106

Requested 1973-74	\$1,021,614
Estimated 1972-73.....	985,687
Actual 1971-72	911,231
Requested increase \$35,927 (3.6 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation is for administration of the gasoline tax audits and gasoline tax refund functions, the details of which are included under Item 52.

STATE CONTROLLER

Item 55 from the State School
Building Aid Fund

Budget p. 29 Program p. I-106

Requested 1973-74	\$197,198
Estimated 1972-73.....	176,162
Actual 1971-72	141,566
Requested increase \$21,036 (11.9 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation covers the auditing and accounting of the expenditures of school districts for property financed by state loans under the State School Building Aid program. School field audits are expected to increase 60 percent for 1973-74. Therefore, costs for this program will be up almost 12 percent in order to meet the workload increase in this area. No additional audit positions are needed because audit requirements in other areas have declined sufficiently to offset the workload increase in school district audits.

STATE CONTROLLER—Continued

STATE CONTROLLER

Item 56 from the Aeronautics
Account in the State Transportation Fund

Budget p. 29 Program p. I-106

Requested 1973-74	\$77,549
Estimated 1972-73.....	80,972
Actual 1971-72	68,566
Requested decrease \$3,423 (4.2 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation covers the auditing and accounting activities for the Airport Assistance program.

STATE BOARD OF EQUALIZATION

Item 57 from the General Fund

Budget p. 31 Program p. I-124

Requested 1973-74	\$28,401,621
Estimated 1972-73.....	27,656,019
Actual 1971-72	25,000,913
Requested increase \$745,602 (2.7 percent)	
Increase to improve level of service \$224,378	
Total recommended reduction	\$25,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Sales Tax Auditors. Recommend approval of 24 field audit positions and one headquarters audit position. Of these 25 positions, eight are based on workload increases and 17 are intended to improve the level of audit coverage. 112
2. Sample Audit Study. Recommend the board present to the Legislature a plan for a study of the sales tax audit program by means of a sample audit study. 118
3. *Off-highway Vehicles. Reduce \$25,000.* Recommend reduction in amount budgeted to reimburse the Department of Motor Vehicles for collecting the use tax on off-highway vehicles. 120

GENERAL PROGRAM STATEMENT

The State Board of Equalization consists of five members, four of whom are elected from districts. The fifth is the State Controller, who is elected by the people as a whole. The four Board of Equalization districts were

reapportioned in 1971 and are now approximately equal in population. The members of the board serve a four-year term of office and are elected at each gubernatorial election.

The Constitution requires the board to "equalize the valuation of the taxable property in the several counties of the state for the purposes of taxation," and the courts have held that this provision authorizes the board to raise or lower the assessment roll of an entire county, but does not authorize the board to change individual assessments.

Other provisions of the Constitution require the board (1) to assess utility property and to apportion this value to local taxing jurisdictions, (2) to assess the insurance company tax, and (3) to assess and collect excise taxes on alcoholic beverages.

In addition to these constitutional requirements, the Legislature has assigned other responsibilities to the board. These have been organized into the following 12 programs to be administered in 1973-74 by a staff of 2,425¹ at a total cost, from all sources, of \$38 million.

Table 1
State Board of Equalization Programs and Percent of Staff, 1973-74

<i>Program</i>	<i>Man-years</i>	<i>Percent</i>
1. Local property tax equalization	146.0	6.2
2. State-assessed property tax	81.2	3.4
3. County appeals of intercounty appraisals	9.4	0.4
4. Sales and use tax	1,843.1	78.2
5. Alcoholic beverage tax	28.4	1.2
6. Cigarette tax	19.0	0.8
7. Motor vehicle fuel license tax (gasoline tax)	15.5	0.7
8. Use fuel tax (diesel tax)	96.0	4.1
9. Motor vehicle transportation license tax	50.0	2.1
10. Insurance tax	1.7	0.1
11. Appeals from other government programs	9.0	0.4
12 (a) Administration and support—distributed to other programs	(165.8)	(7.0)
(b) Undistributed administration and support	57.2	2.4
Total	2,356.5 ¹	100.0

¹ Total positions authorized is 2,425. After deducting estimated salary savings, man-years total 2,356.5.

Description of Board Programs

1. *Local Property Tax Equalization Program.* This program will require 6.2 percent of the board's staff in 1973-74. In this program, the board investigates the operations of county assessors' offices, issues rules governing assessment practice and procedure, and trains property tax appraisers. A major element of this program is annually to determine for each county the ratio of assessed value to full value of property subject to local assessment. These ratios are used each year in the control of over \$800 million in state and local government payments. The cost of this program in 1973-74 will be \$3,005,110, of which the General Fund pays \$2,913,110 and reimbursements pay \$92,000.

2. *State-Assessed Property Tax Program.* This program will require 3.4 percent of the board's staff in 1973-74. In this program, the board assesses public utilities and allocates the values to each taxing jurisdiction in which utility property is located. Another element of this program is to assess and collect the state tax on privately owned railroad cars. The cost of this

STATE BOARD OF EQUALIZATION—Continued

program in 1973-74 will be \$1,431,032, all of which is paid by the General Fund.

3. *County Appeals of Intercounty Equalization Appraisals Program.* This program will require 0.4 percent of the board's staff in 1973-74. The program consists of operating the Office of Appraisal Appeals, whose duty is to mediate disputes between county assessors and board appraisers. These disputes arise when the board appraises a sample of properties in a county to estimate the ratio of assessed value to full value. Assessors have an important stake in these appraisals as they control, among other things, adjustments in school apportionments, and they reflect on the way the assessor is performing his job. The cost of this program in 1973-74 will be \$217,822, all of which is paid by the General Fund.

4. *Sales and Use Tax Program.* This program will require 78.2 percent of the board's staff in 1973-74. The purpose of the program is to collect state and local sales and use taxes. The \$3 billion in state revenue to be produced by this program in 1973-74 is approximately 40 percent of General Fund revenues. Local sales taxes are estimated at close to \$800 million in 1973-74. The program consists of registration of taxpayers, maintenance of accounts, processing tax returns, auditing accounts, and collection of taxes receivable. Details on these elements of the program and an analysis of the auditing element will be found below. The cost of this program in 1973-74 will be \$29,084,117, of which the General Fund pays \$22,309,157 and reimbursements pay \$6,774,960.

5. *Alcoholic Beverage Tax Program.* This program will require 1.2 percent of the board's staff in 1973-74. The purpose of this program is to collect the state's alcoholic beverage taxes. The \$121 million in state revenue to be produced by this program is approximately 2 percent of 1973-74 General Fund revenue. The cost of this program in 1973-74 will be \$365,100, all of which is paid by the General Fund.

6. *Cigarette Tax Program.* This program will require 0.8 percent of the board's staff in 1973-74. The purpose of the program is to collect the cigarette tax, which will provide in 1973-74 \$182 million of General Fund revenue, approximately 3 percent of the total. Additional revenue of \$78 million from the cigarette tax is distributed to cities and counties. The cost of this program in 1973-74 will be \$943,823, all of which is paid by the General Fund.

7. *Motor Vehicle Fuel License Tax Program.* This program will require 0.7 percent of the board's staff in 1973-74. The purpose of the program is to collect the 7-cents-per-gallon tax on motor vehicle fuel and the 2-cents-per-gallon tax on aircraft jet fuel. This program will produce approximately \$715 million in 1973-74 for the following funds: Highway Users Tax Fund, Aeronautics Fund, Harbor and Watercraft Revolving Fund, and the Agriculture Fund. The cost of this program in 1973-74 will be \$247,013, all of which is paid by the Transportation Fund.

8. *Use Fuel Tax Program.* This program will require 4.1 percent of the board's staff in 1973-74. The purpose of the program is to collect the use fuel tax, which is imposed on diesel fuel at the rate of 7 cents per gallon, on liquified petroleum gas at the rate of 6 cents per gallon, and on compressed natural gas at the rate of 7 cents per 100 cubic feet. This program will produce \$49.5 million of revenue in 1973-74 for the Highway Users'

Tax Fund. The cost of this program in 1973-74 will be \$1,367,424, all of which is paid by the Transportation Fund.

9. *Motor Vehicle Transportation License Tax Program.* This program will require 2.1 percent of the board's staff in 1973-74. The purpose of the program is to collect the transportation tax, a tax of 1.5 percent of the gross receipts of persons engaged in the business of carrying persons or property for hire on the highways of the state. Chapter 563, Statutes of 1972 (AB 705), repeals this tax as of June 30, 1973. On an accrual basis, estimated revenue from the tax will decline from \$31 million in 1972-73 to \$750,000 in 1973-74. Details of the phase out of this program are given below. The cost of this program in 1973-74 will be \$818,279, all of which is paid by the Transportation Fund.

10. *Insurance Tax Program.* This program will require 0.1 percent of the board's staff in 1973-74. The purpose of the program is to collect the tax on gross premiums of insurance companies. The program will produce \$200 million in revenue for the General Fund in 1973-74, approximately 3.2 percent of the total. The cost of this program in 1973-74 will be \$33,689, all of which is paid by the General Fund.

11. *Appeals From Other Governmental Programs.* This program will require 0.4 percent of the board's staff in 1973-74. The program arises from the responsibility of the board to hear taxpayers' appeals from decisions of the Franchise Tax Board. These appeals arise under the franchise tax, the income tax, and the senior citizens' property tax appeals law. Additionally, the program requires the board to hear appeals by a city or a county which disagrees with the value attributed to property it owns in another city or county. The cost of this program in 1973-74 will be \$187,888, all of which is paid by the General Fund.

12. *Administration and Support Program.* This program will require 9.4 percent of the board's staff in 1973-74, but three-quarters of this program is allocated to other programs. Thus, the unallocated percent of staff time in this program is 2.4 percent of the board's staff. The purpose of the program is to manage other board programs. The total cost of the program in 1973-74 will be \$3,511,141, of which \$2,822,567 is allocated to other programs, leaving a balance of \$688,574, all of which is paid by reimbursements.

General Review of 1973-74 Budget

Table 2 shows that proposed board expenditures will increase by \$930,053 or 2.5 percent in 1973-74. Because of the repeal of the truck tax on June 30, 1973, the contribution of the Motor Vehicle Transportation Account to the support of the board will decline by \$384,297.

Table 2
Change in Expenditures by Source of Funds: Board of Equalization

	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Change</i>	<i>Percent</i>
General Fund	\$27,656,019	\$28,401,621	\$745,602	+2.7
State Transportation Fund				
Motor Vehicle Transportation Tax				
Account	1,202,576	818,279	-384,297	-32.0
Motor Vehicle Fuel Account.....	1,436,781	1,614,437	177,656	+12.4
Reimbursement	7,164,442	7,555,534	391,092	+5.5
Total expenditures	\$37,459,818	\$38,389,871	\$930,053	+2.5

STATE BOARD OF EQUALIZATION—Continued

Board expenditures, as indicated by Table 3, will increase by \$580,404 for personal services, a 1.9 percent increase, and by \$33,823 for operating expenses and equipment, a 0.5 percent increase. The board's contribution to Consolidated Data Center number 2 will be \$315,826 in 1973-74.

Table 3
Change in Personal Services, Operating Expenses and Equipment, and Consolidated Data Center, Board of Equalization, 1973-74

<i>Expenditure category</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Change</i>	<i>Percent</i>
Personal services				
Authorized positions	\$27,993,302	\$28,256,832	\$263,530	+0.9%
Merit salary adjustments	(354,916)	(423,723)	(68,807)	+19.4
Changes (see Table 4)	-33,071	127,687	160,758	
Salaries and wages, total	27,960,231	28,384,519	424,288	+1.5
Salary savings	-807,248	-851,536	44,288	+5.5
Net total, salaries and wages	27,152,983	27,532,983	380,000	+1.4
Staff benefits	2,919,856	3,120,260	200,404	+6.9
Total, personal services	\$30,072,839	\$30,653,243	\$580,404	+1.9
Operating expenses				
General expense	\$2,534,594	\$2,586,230	\$51,636	+2.0
Printing	373,417	389,399	15,982	+4.3
Communications	739,776	762,132	22,356	+3.0
Travel—in-state	968,032	999,715	31,683	+3.3
Travel—out-of-state	319,120	347,230	28,110	+8.8
Data processing	333,928	81,080	-252,848	-75.7
Facilities operation	1,682,249	1,821,271	139,022	+8.3
Equipment	115,700	127,845	12,145	+10.5
Prorated charges	52,977	38,714	-14,263	-26.9
Totals, operating expense	\$7,119,793	\$7,153,616	\$33,823	+0.5
Consolidated Data Center	\$267,186	\$583,012	\$315,826	+118.2
Total expenditures	\$37,459,818	\$38,389,871	\$930,053	+2.5

Table 4 gives details of changes in authorized positions. Authorized positions decline by 1, from 2,426 to 2,425. Within those totals, there are 34 deleted positions and 33 new positions.

Two positions are being deleted because they were continuously vacant between October 1, 1971, and July 1, 1972. Eleven positions authorized in 1972-73 to get underway the administration of Chapter 1400, Statutes of 1971 (SB 325) (re: sales tax on gasoline), are being deleted. One position will be reclassified from personal services to operating expense and equipment. Finally, 20 positions are being eliminated because of the repeal of the transportation tax.

Proposed new positions, listed in the second part of Table 4, total 33. One position is authorized under the Career Opportunity Development program. Other new positions are discussed in the analysis and recommendations section.

Table 4
Changes in Authorized Positions, Board of Equalization, 1973-74

<i>I. Positions deleted</i>	<i>Title</i>	<i>Number</i>	<i>Salary</i>
A. Vacancies			
	Clerk-typist	-0.5	-\$3,103
	Clerk-typist II	-1	-6,175
	Clerk II	-0.5	-3,103
B. Positions authorized to start SB 325 administration			
	Programmer II	-1	-11,124
	Key data operator	-3	-15,885
	Tax representative	-2	-18,372
	Senior account clerk	-1	-6,726
	Calculating machine operator	-1	-5,870
	Clerk-typist I/II	-3	-17,232
C. Reclassification to operating expense and equipment			
	Assistant DP systems analyst	-0.5	-5,562
	Clerk II	-0.5	-3,030
D. Transportation tax phase out			
	Computer operator	-1	-4,584
	Key data operator	-1	-5,295
	Intermittent help	-3	-12,644
	Clerk-typist	-3	-14,456
	Senior account clerk	-1	-6,726
	Calculating machine operator	-1	-5,870
	Clerk-typist I/II	-1	-5,112
	Senior tax representative	-4	-47,904
	Clerk II	-5	-33,360
	Total, deleted positions	-34	-\$232,133
II. Proposed new positions			
A. Sales tax auditors, workload adjustment			
	Tax auditor II	8	\$88,992
B. Sales tax auditors, program improvement			
	Tax auditor II	17	189,108
C. Sales tax on hot-prepared (takeout) food: Chapter 1741/1971 (AB 2109)			
	Tax representative	2	20,302
	Clerk-typist II	2	11,522
D. Senior citizens' tax relief appeals			
	Staff counsel I	1	16,860
	Steno II	1	6,516
E. Tax manual			
	Senior clerk	1	7,008
F. Personnel training: career opportunity development, Senior petroleum and mining engineer			
	engineer	1	19,512
	Total, proposed new positions	33	\$359,820
	Total, changes in authorized positions	-1	\$127,687

ANALYSIS AND RECOMMENDATIONS

SALES AND USE TAX PROGRAM

In 1973-74, the board will collect more than \$3 billion in sales and use taxes for the state, \$760 million for cities and counties, and \$33 million for the San Francisco Bay Area Rapid Transit District. The state receives \$6.8 million in reimbursements from local government for collecting the tax. Table 5 shows the distribution of manpower among the four main activities of this program.

STATE BOARD OF EQUALIZATION—Continued

Table 5
Staff of Sales Tax Program

Program element	Man-years			1973-74 Percent
	1971-72	1972-73	1973-74	
I. Registration of taxpayers and maintenance of accounts	398.8	416.4	415.7	22.6
II. Processing tax returns	299.1	309.7	306.7	16.6
III. Auditing accounts	799	837.5	865.1	46.9
IV. Collecting taxes receivable	246.3	255.8	255.6	13.9
Total	1,743.2	1,819.4	1,843.1	100.0

Sales Tax Auditors

The largest single activity of the State Board of Equalization is the auditing of sales tax accounts. The 837.5 man-years and \$13.5 million devoted to this activity in 1972-73 constitutes almost one-half of the cost of the sales tax program and more than one-third of the cost of the board's total programs.

Table 6 shows a budget request for an increase of 25 sales tax auditing positions, an increase of 3.3 percent in man-years of auditing time and an increase of 5.5 percent in salary cost.

Table 6
Sales Tax Auditors Requested for 1973-74

<i>Tax auditor II positions requested</i>	<i>Class</i>	<i>Purpose</i>	<i>Salary cost</i>
4	Field	Program maintenance (Chapter 1400, Stats. 1971)	\$44,496
4	Field	Program maintenance (workload)	44,496
16	Field	Program improvement	177,984
1	Headquarters	Program improvement	11,124
Totals 25			\$278,100

Table 6 further shows that eight of the requested positions are intended to maintain the present level of auditing and that 17 positions are intended to increase the present level of auditing. This analysis considers these requests separately.

1. Auditor Positions Requested Because of Workload Increases

A. Workload increases caused by Chapter 1400, Statutes 1971

We recommend approval of four field audit positions to provide manpower to cover the workload increase caused by Chapter 1400, Statutes of 1971 (SB 325).

Chapter 1400, Statutes of 1971 (SB 325), applies the sales tax to sales of gasoline. To audit additional accounts resulting from this statute, the Legislature approved five field audit positions, one headquarters audit position, and one clerk position for the 1972-73 fiscal year. In 1973-74, the board estimates that 136 additional closeout accounts and 222 additional regular accounts will become eligible for audit as a consequence of Chapter 1400. The board is

requesting four field audit positions to audit these accounts, at a salary cost of \$44,496 and a total cost, including operating expenses and staff benefits, of \$54,200.

B. Workload increases caused by new sales tax accounts

We recommend approval of four field audit positions to provide manpower to cover the workload increase caused by growth in the number of sales tax accounts.

The number of sales tax accounts eligible for audit increases by approximately 4,600 per year. To maintain the estimated 1972-73 level of audit coverage of 16.2 percent over a three-year audit cycle, it will be necessary to audit 248 new accounts in 1973-74. This requires an additional 4.2 man-years of personnel at a salary cost of \$44,496, and a total cost, including operating expenses and staff benefits, of \$54,200.

2. Auditor Positions Requested to Increase the Level of Audit Coverage.

We recommend that 17 audit positions be approved to increase the level of audit coverage in moderately productive accounts.

Sales tax accounts are classified according to the likelihood that an audit will result in a large or a moderate amount of tax due. The purpose of doing this is twofold: (1) to make audits as productive as possible, and (2) to permit some auditing of all types of accounts—even those of modest productivity—so that no particular taxpayer will feel that he is in a category that is immune from audit. Given these two goals, if the number of auditors is too small, the manager of the audit program is placed in a dilemma. If he concentrates on auditing highly productive accounts, he must forgo auditing moderately productive accounts. This will lead in the long run, tax managers believe, to laxness in taxpayer self-assessment. That, in turn, decreases the productivity of the tax and creates an inequitable situation for honest taxpayers.

The board believes it is caught in this dilemma. Because manpower has been maintained at a fairly constant level in highly productive accounts while the overall level of auditing coverage has fallen, the board argues that the level of auditing coverage in moderately productive accounts has fallen too low.

Accounts eligible for audit fall into two major categories, according to productivity. In 1971-72, 5 percent (14,687 accounts) of the 301,814 accounts eligible for audit over a three-year cycle were highly productive. Ninety-five percent (287,127 accounts) are referred to in this analysis as moderately productive accounts.

Describing an account as "moderately productive" does not necessarily mean that the taxpayer is a small businessman. Some large taxpayers fall into this category. Examples exist in such business fields as women's apparel stores and chain restaurants.

The board's request of 17 positions to increase the level of audit coverage in moderately productive accounts raises the question, "How large should an auditing program be?" For more than two decades this office and the board have been concerned with this question.

Because the question of the optimum size of an audit staff is fundamen-

STATE BOARD OF EQUALIZATION—Continued

tal to consideration of this request, as well as all future requests for audit personnel, we will attempt in the following paragraphs to set forth the basic concepts involved, and to develop guidelines and make recommendations for additional studies which will provide a basis upon which decisions can be made.

Choice of Auditing Level. The sales tax law requires retailers to determine the tax due from a buyer, to collect the tax, to file a return, and to pay the tax to the state. If all retailers were perfectly honest and perfectly competent in interpreting and applying the law, there would be no reason for a sales tax auditing program. Even in the absence of those ideal conditions, it might be possible for the state to impose a sales tax and yet to have no auditing program. To do so, however, would jeopardize the effectiveness of the tax. Many taxpayers would fail to pay what was owed.

On the other hand, it is possible to audit all sales tax accounts, but such a program would be wasteful. Many taxpayers are honest and competent and pay the correct amount of tax. Auditing them would serve no purpose and would be very costly.

Given these considerations, we have advocated an auditing program which will maximize state revenue from the sales tax. We have argued that the rate of audit coverage should be such that when an addition to the program costs the same as the additional revenue to be derived from that increment, the program is at the point of maximum return, and should not be increased any further.

As a standard for determining the size of the audit program, the concept behind this statement has not been challenged. There has been continuing debate, however, about the interpretation of the standard in quantitative terms.

Measuring Benefits. How should the benefits of auditing be measured? Our position on this question is that benefits should be measured by the net revenue that the state receives as a result of the auditing program. This measure requires the exclusion of refunds resulting from auditing and requires the deduction of (a) cancellations of deficiencies and (b) bad debts.

The board's position is that benefits should be measured by *adding* refunds to gross deficiencies. The board's reasoning is that the policy behind refund audits is a good one, supported by three reasons: (a) Fair dealing with the taxpayer requires calling overpayments to his attention, (b) auditing should include all kinds of taxpayers so that no taxpayer will feel immune from audit, and (c) the practice of making refund audits is a matter of necessity, because managers cannot in all cases select audits that will result in a deficiency.

We think that the board's position confuses program management with the economic consequences of program management. It is possible to agree completely with the board that refund audits are both wise and necessary and nevertheless to insist that the cost of that policy (refunds) be treated as a cost and not as a benefit. Good management may require that cost be increased, and that fact should be recognized. To take a further step, however, and to convert cost into benefit is a serious distortion.

Measuring Cost. How should the cost of auditing be measured? Our position is that overhead and the cost of collecting audit deficiencies should be added to the cost of auditing. The board believes that some of those costs should be excluded and some charged to other programs.

Conclusion Regarding Standard. Despite our differences with the board regarding the measurement of costs and benefits, it is possible to proceed with the analysis of the board's request for additional auditors. The facts can be examined in the light of the standard as we define it.

Finding the Point of Maximum Return. If it were possible, by examining statistics regarding audit operations, to determine the point of maximum return, the problem of determining the optimum size of a program would be easily solved. Unfortunately, it is impossible by such means to determine the point of maximum return. This is because, to determine the point of maximum return, one needs to know the amount of revenue that would result from a number of different program levels in a given year. In fact, statistics reveal the amount of revenue from only two program levels in a given year, (a) the zero level, and (b) the level of the actual program.

Two ways out of this difficulty have been suggested. One of them is expensive and the other is of doubtful validity.

The first method—the expensive one—is to conduct audits of a random sample of all sales tax accounts. This sample can be expanded mathematically to reflect what the results would be of a 100 percent audit program. With this information, it is possible to approximate the point of maximum return. This solution is expensive because it diverts manpower from more productive to less productive audits to obtain the sample.

The second method is to increase the audit program and try to ascertain its effect by examining revenue and cost data in subsequent years. Any attempt to do this is subject to error because there are so many causes of change from one year to the next in audit revenue. Among them are: tax rate changes, changes in the tax base, changes in audit personnel, changes in prices and income, and changes in taxpayers. Trying to measure these changes is virtually impossible. No one could be confident of the results of an analysis based on this suggestion.

The Present Situation. Despite lack of knowledge about where the present program is with respect to the point of maximum return, the board argues that evidence exists leading to the conclusion that the present program is below optimum and should be increased. This evidence consists, first, of a decline in the level of audit coverage in recent years; second, in the growth of sales tax revenues; and third, in a cost-benefit analysis of adding 17 auditors to the program.

Decline of Audit Coverage. That the audit program has decreased in recent years is apparent from Table 7, which shows that the percent of coverage of moderately productive accounts has declined from 25 percent to 13.8 percent, a 45 percent decrease in the last four years.

There are two causes for this decline in audit coverage. First, the number of authorized audit positions has declined rather steadily for many years. In 1967–68, for example, the number of positions was cut by 40.

Second, the number of hours required for an audit has been increasing.

STATE BOARD OF EQUALIZATION—Continued

Table 7
Sales Tax Field Audit Coverage Over a Three-Year Auditing Cycle¹

<i>Year</i>	<i>Highly productive accounts audited</i>	<i>Moderately productive accounts audited</i>	<i>Total accounts audited</i>
1967-68.....	72.6%	25.0%	27.5%
1968-69.....	81.3	20.6	23.4
1969-70.....	79.3	17.9	20.8
1970-71.....	81.8	16.6	19.7
1971-72.....	77.0	13.8	16.9
4-year change.....	+6.1%	-44.8%	-38.5%

¹ The percentages in this table were calculated as follows: (annual number of audits × 3) ÷ (three-year eligible list).

Table 8
Increase in Hours Required Per Audit

<i>Year</i>	<i>Hours required per audit</i>	<i>Annual percent increase</i>
1967-68.....	25.3	—
1968-69.....	30.1	19.0%
1969-70.....	32.8	9.0
1970-71.....	34.0	3.7
1971-72.....	36.0	5.9
Four-year percentage increase.....	—	42.3%

Table 8 shows that the average hours required per audit has increased from 25 to 36 in four years, a 42 percent increase. We are not sure of the reasons for this increase in the number of hours required per audit, but the board argues that the increase is attributable to the higher tax rate enacted in 1967 and to the decline in the number of auditors. First, it is argued, because the tax rate is higher, auditors have more incentive to delve into complex areas of taxation, and taxpayers have more incentive to treat doubtful transactions as nontaxable and to look for what they hope will be loopholes. Second, because the number of auditors is fewer, a larger proportion of them work on highly productive accounts, which are often more complex than moderately productive accounts. The net result of these factors, according to the board, is to require more time per audit. We think that these considerations explain some but probably not all of the increase in the number of hours required per audit.

Based on these data, the board's argument in favor of increasing the rate of coverage is this: If the program was at or near the point of maximum return in former years, then the program is below the point of maximum return now that the rate of coverage has significantly declined. If the program is below the point of maximum return, it is advisable to increase the percentage of accounts audited.

Growth of Sales Tax Revenue. The sales tax rate increase from 3 percent to 4 percent in 1967, as well as increases in income and prices, have caused sales tax revenue to grow. Table 9 shows that state sales tax revenue

grew by 69 percent from 1966-67 through 1971-72. The state sales tax rate will increase from 3.75 percent to 4.75 percent on June 1, 1973. That increase, plus economic growth, will increase revenue from this tax to \$3 billion in 1973-74.

Table 9
State Sales Tax Revenues, 1966-67 to 1971-72
(in thousands)

<i>Year</i>	<i>Amount</i>	<i>Annual increase</i>	<i>Percent growth</i>
1966-67.....	\$1,190,750	—	—
1967-68.....	1,464,927	\$274,177	23.0%
1968-69.....	1,652,979	188,052	12.8
1969-70.....	1,753,611	100,632	6.1
1970-71.....	1,808,052	54,441	3.1
1971-72.....	2,015,993	207,941	11.5
1972-73 (est.).....	2,262,000	246,007	12.2
1973-74 (est.).....	3,000,000	738,000	32.6

Based on these data, the argument in favor of increasing the number of auditors is that recovery from auditing increases as the yield of the tax increases. If recovery from auditing increases at a faster rate than the cost of auditing increases, then a larger auditing program is justified as tax revenue increases.

Cost-Benefit Analysis of Adding 17 New Auditors. A cost-benefit analysis of adding 17 new auditors to the program is not conclusive evidence that the program is below the level of maximum return, even if the results of the analysis show that benefits exceed costs. This is because the analysis requires a prediction of how much revenue the additional audits will produce, and the prediction contains a degree of uncertainty.

Nevertheless, the analysis is useful for illustrating the potential results under various assumptions. We believe the analysis demonstrates that with fairly conservative assumptions the addition of 17 auditors will produce more revenue than the cost that would be incurred.

The board has estimated that the revenue generating productivity of the additional auditors will be only 10 percent less than the average level experienced per audit hour for the moderately productive accounts for 1971-72.

With respect to the additional cost, the budget request includes only the direct costs of the salaries, employee benefits, travel and other direct operating expenses of the proposed staff increase.

On the basis of this budget increase and the assumed productivity, the anticipated net revenue per dollar of incremental cost would amount to \$2.93. We have extended the analysis to reflect alternative assumptions, first that productivity will be 20 percent lower than the 1971-72 average, and secondly that costs used for purposes of this analysis should include the average amount of field overhead costs per hour (supervision, rent, etc.) currently experienced. With these more conservative assumptions regarding costs and revenues, the result is a net return of \$1.69 per dollar of cost. Details of the calculations are shown in Table 10.

Column 1 of Table 10 shows that, based on actual 1971-72 data, revenue per \$1 of cost from audits of moderately productive in-state accounts was \$1.69. Costs in this column include an allocation of all agency overhead up

STATE BOARD OF EQUALIZATION—Continued

to and including board members' expenses and management salaries.

Columns 2 and 3 assume that additional auditors will audit accounts having an average productivity 10 percent less than average productivity of accounts audited at the present program level. Columns 4 and 5 assume that accounts audited will have an average productivity 20 percent less than average productivity of accounts audited at the present program level.

Columns 2 and 4 include in cost the direct costs of additional manpower, including salary, staff benefits, and operating expenses and equipment. Columns 3 and 5 include in costs direct costs plus overhead from field office operations.

Table 10
Derivation of Revenue—Cost Ratios in Sales Tax Auditing Program,
Moderately Productive In-State Accounts

	Actual 1971-72	Additional 17 auditors— productivity 10% below average		Additional 17 auditors— productivity 20% below average	
		Field office		Field office	
		Direct costs only	costs included	Direct costs only	costs included
1. Deficiencies	\$10,950,279	\$819,457	\$819,457	\$728,407	\$728,407
2. Refunds	\$684,872	\$57,906	\$57,906	\$51,472	\$51,472
3. Cancellations	\$837,731	\$63,170	\$63,170	\$56,151	\$56,151
4. Uncollectibles	\$324,613	\$24,277	\$24,277	\$21,579	\$21,579
5. Collection costs	¹	\$15,774	\$15,774	\$14,021	\$14,021
6. Total, lines 2-5	\$1,847,216	\$161,127	\$161,127	\$143,223	\$143,223
7. Revenue (line 1 minus line 6)	\$9,103,063	\$658,330	\$658,330	\$585,184	\$585,184
8. Cost per hour	\$16.59	\$8.25	\$12.72	\$8.25	\$12.72
9. Audit hours	324,652	27,200	27,200	27,200	27,200
10. Cost	\$5,385,977	\$224,400	\$345,984	\$224,400	\$345,984
11. Net revenue	\$3,717,086	\$433,930	\$312,346	\$360,784	\$239,200
12. Revenue per \$1 cost....	\$1.69	\$2.93	\$1.90	\$2.61	\$1.69

¹ Included in cost-per-hour calculation, line 8.

Evaluation of the Three Arguments. Taken separately, perhaps none of these arguments would be persuasive. The rate-of-coverage argument and the revenue-increase argument each start from the speculative assumption that the auditing program was at or below the point of maximum return at some time in the past. The cost-benefit analysis assumes that dropoff of productivity in moderately productive accounts will not be more than 20 percent.

Taken together, however, the arguments add up to a reasonably strong case for increasing audit coverage. Not only is audit coverage declining; revenue from the sales tax is increasing at the same time. The coincidence of these changes increases the possibility that the program is funded below the point of maximum return.

Further Study Needed. We recommend that the board present to the Legislature a plan for a study of the audit program by means of a sample audit program.

Although we think a reasonably strong case has been made for 17 addi-

tional auditors, there are other points to consider. First, uncertainty still exists as to whether the program is below the point of maximum return. Second, the addition of auditors to the program will not yield data to resolve that question. There are so many causes for increases in auditing revenue (rate increase, price change, income growth, taxpayer attitudes, audit personnel, and possibly others) that no one can isolate, with any confidence, the contribution of a given increment in audit staff. Third, the board has indicated its intention to request still more auditors in subsequent budget years.

The only way to obtain relatively good information about the optimum size of the audit program is to undertake a study of sales tax accounts by means of a sample audit program. A sample audit program selects for audit a random sample of all sales tax accounts. The resulting data can be used (1) to estimate the optimum size of the auditing program and (2) to guide the board in the selection of accounts for audit.

This second purpose of the study is important for good administration regardless of the value of the study in determining the optimum size of the program. Almost 20 years ago, the board conducted a sample audit study which is still the basis for grouping sales tax accounts so that the most productive accounts can be given priority for audit. Since that time, however, the accounts in each group have been shifted, based on experience gained from actual audits, and many changes have occurred in business practices, in the sales tax law, in sales tax rates, and in consumption patterns, all of which may affect sales tax collection patterns. Consequently, the present grouping of accounts may no longer accurately reflect how productive the accounts in each group are.

It is therefore possible that a sample audit program will be worth its cost. We recommend that the board plan such a study and present the plan to the Legislature for its review at the earliest possible time. To avoid the distortions of statewide averages, the sample audit program should include analysis of sales tax accounts by administrative district. Moreover, the program should include an effort to establish standards for the number of hours required per audit for different kinds of accounts.

We also believe that data on the assessment of penalties for audit deficiencies would provide useful information for the evaluation of the audit program. This point is discussed in detail below at page 123.

Continuation of Positions Authorized by AB 2109 (1971)

We recommend that two tax representative positions and two clerk-typist positions authorized because of workload increases resulting from Chapter 1741, Statutes of 1971 (AB 2109), be approved.

Chapter 1741, Statutes of 1971 (AB 2109), subjected hot prepared food products, sold on a "to go" basis, to the sales tax and exempted candy, confectionary, and nonmedicated chewing gum from the sales tax.

According to the board, 3,500 new accounts have been registered because of this legislation. Workload standards applied to these new accounts show the need for two additional tax representatives and two clerk-typists.

These positions were authorized by Chapter 1741 when it became effective on January 1, 1972. The present request is to continue these positions

STATE BOARD OF EQUALIZATION—Continued

on a permanent basis.

Department of Motor Vehicle Charges

We recommend approval of \$55,900 in operating expenses to pay additional costs incurred by the Department of Motor Vehicles in collecting the sales tax on occasional sales of motor vehicles.

The sales tax law makes occasional sales of motor vehicles taxable and establishes a formula to determine fair market value when evidence to determine sales price is inadequate.

Chapter 1741, Statutes of 1971 (AB 2109) revised the formula. As a result, the time required for Department of Motor Vehicle personnel to assess the proper amount of tax has increased.

The board calculates that additional charges by the Department of Motor Vehicles for this purpose will be \$55,900 in 1973-74.

We recommend that operating expenses proposed for 1973-74 to reimburse the Department of Motor Vehicles to collect the use tax on off-highway vehicles be reduced by \$25,000.

Chapter 1816, Statutes of 1971 (AB 2342), makes the use tax applicable to off-highway vehicles. The Department of Motor Vehicles collects this tax when such vehicles are transferred from one owner to another.

In the budget for 1973-74, the board requests \$55,137 to reimburse the Department of Motor Vehicles for expected workload increases resulting from Chapter 1816. It now appears that the workload will not be as large as anticipated and that the operating expense budget can be cut by \$25,000.

MOTOR VEHICLE TRANSPORTATION TAX PROGRAM**Program to Be Phased Out Over Three Years**

We recommend that the board's plan for phasing out the transportation tax and reallocating overhead and shared expenses be approved.

Chapter 563, Statutes of 1972 (AB 705), repeals the Motor Vehicle Transportation License Tax on June 30, 1973. This tax, enacted in 1941, imposed a tax of 1.5 percent on gross receipts of persons in the business of transporting on the public highways of the state persons or property for hire.

The board plans to wind up the administration of this tax by closing out 30,000 active accounts and auditing 3 percent of them. Closing out accounts requires processing final returns, issuing tax clearances on licensed vehicles, clearing delinquent accounts, releasing security deposits, and terminating or adjusting surety bonds.

This phase out will take place in 1973-74 and 1974-75. Man-years allocated to the program will be reduced by 32.5 in 1973-74, a reduction from 82.5 to 50.0 man-years. In 1974-75, man-years again will be cut by 32.5, leaving 17.5 man-years for the final year of the program's existence.

A program budget is composed of direct costs, overhead, and shared expenses. When a program is eliminated, direct costs can be cut entirely. Overhead can be cut only if the elimination of the program in fact allows a reduction of overhead. Shared expenses arise from activities necessary for the operation of two or more programs. When one of the programs is

eliminated, that activity must nevertheless be carried on as part of the continuing program.

The board's analysis of transportation tax program expenditures in 1972-73 is that 61 percent of the program is direct cost and 39 percent is overhead and shared expenses which cannot be relinquished without cutting other board programs. Direct costs are shown in the phase out plan in Table 11 as relinquished positions. Overhead and shared expenses are shown as positions reallocated to other programs.

The six positions reallocated to the use fuel tax program are attributable to expenses presently shared by that program and the transportation tax program. Registration of taxpayers, for example, is presently accomplished for both taxes at the same time. This activity will continue after the transportation tax is eliminated but will be a cost of the use fuel tax program alone.

The board analyzes the remaining 19.5 positions as follows:

- (1) 5.5 positions are attributable to central management operations of the board: board members, executive officer, legal staff, fiscal office, internal auditor, personnel officer, research and statistics, general services, and data center management.
- (2) 2.1 positions are attributable to the management of the business tax division.
- (3) 7.2 positions are attributable to direct supervision in field offices.
- (4) 4.7 positions are attributable to training and indirect support. Training consists of board-operated sessions (a) to inform the staff of new developments in the law and accounting practices and (b) to instruct newly employed auditors in conducting business tax audits. Indirect support refers to housekeeping functions such as telephone, mail, personnel files, payroll, and parking.

APPEALS FROM OTHER GOVERNMENT PROGRAMS

Senior Citizens' Tax Relief Appeals

We recommend approval of one staff counsel position and one stenographer position to meet workload increases in the number of appeals under the senior citizens' tax appeals program.

Chapter 1, Statutes of 1971, 1st Extraordinary Session (AB 1), increased the benefits available under the Senior Citizens' Property Tax Assistance Law. As a result of this legislation, the number of claims filed with the Franchise Tax Board will more than triple, and a corresponding increase can be expected in the number of appeals filed with the Board of Equalization. The number of claims is expected to increase from 56,000 in 1971-72 to 293,000 in 1972-73. The number of appeals is estimated at 400 in 1973-74.

Table 11
Phase Out of Transportation Tax Program and Reallocation of
Overhead and Shared Expenses

	<i>Personnel man-years</i>				<i>Expenditures</i>			
	1972-73	1973-74	1974-75	1975-76	1972-73	1973-74	1974-75	1975-76
<i>Existing program</i>								
Overhead and shared expenses	25.5	13.0	4.0	—	\$470,359	\$251,077	\$84,584	—
Direct costs	57.0	37.0	13.5	—	739,968	567,202	225,323	—
Subtotals	82.5	50.0	17.5	—	\$1,210,327	\$818,279	\$309,907	—
<i>Phase out plan</i>								
Relinquished positions.....	—	20.0	43.5	57.0	—	172,766	514,645	\$739,968
Positions reallocated to use fuel tax program.....	—	6.0	6.0	6.0	—	92,384	92,384	92,384
Positions reallocated to other board programs	—	6.5	15.5	19.5	—	126,898	293,391	377,975
Totals	82.5	82.5	82.5	82.5	\$1,210,327	\$1,210,327	\$1,210,327	\$1,210,327

ADMINISTRATION AND SUPPORT PROGRAM

Board Reorganization

The four equalization districts from which board members are elected were reapportioned by legislation enacted in 1971. The board approved a plan, effective July 1, 1972, to reorganize the field activities of the Department of Business Taxes to make administrative district boundary lines coterminous with equalization district boundaries.

The change in facilities, personnel, and records necessitated by this reorganization was accomplished without request for additional funds. There were of necessity costs incurred in the move, and these were paid from presently authorized funds.

Penalties

We recommend that the board keep records on the imposition and disposition of penalties imposed in the administration of business taxes.

The business tax laws provide for five different types of penalties, as follows:

- | | |
|--------------------------------------------------------------|-----|
| (1) Failure to file a timely return | 10% |
| (2) Failure to pay tax within the time required by law | 10% |
| (3) Negligence or intent to disregard the law | 10% |
| (4) Fraud or intent to evade the law | 25% |
| (5) Failure to make required prepayments | 6% |

The board is empowered to relieve taxpayers of penalties for failure to file a timely return or payment if the board determines that the taxpayer's failure was due to a "reasonable cause and circumstances beyond the person's control and occurred notwithstanding the exercise of ordinary care."

By board order, "fraud" and "intent to evade" penalties, once imposed, cannot be changed except by the board. The district office may recommend and the headquarters office can approve cancellation of the "negligence" or "intentional disregard" penalty.

The board does not keep records on the number of penalties ordered and of their disposition. Without such records it is impossible to find out how the board's policies regarding penalties are being carried out. Failure to use the penalty sanction in proper cases might encourage taxpayer laxness, increase the cost of collecting the sales tax, and decrease net revenue. We believe these data are particularly important for evaluation of the sales tax audit program.

Tax Manual

We recommend approval of one senior clerk position to continue publishing the tax manual.

The tax manual is a looseleaf publication used to keep auditors and other personnel informed of legislative changes, legal opinions, decisions, and regulatory changes affecting the sales tax and highway tax laws. The manual contains nearly 900 pages and has a yearly workload of about 1,000 pages of revisions, which are reprinted and sent to approximately 1,400 board employees.

For many years the manual has been published under contract with the board by an individual doing business as California Tax Service. California Tax Service is discontinuing its operations, and the final contract with the

STATE BOARD OF EQUALIZATION—Continued

board will expire on August 31, 1973.

The board proposes to print and distribute the manual with its own staff and is requesting that a senior clerk position be authorized for this purpose. The salary for this position is \$7,008, and the total cost of the position, including staff benefits and operating expenses, is \$8,500. The cost of the contract with California Tax Service is \$16,000. The difference, \$7,500, will be used to print the manual.

Report on Utilities Audits

We recommend that the Board of Equalization report to the Legislature by the end of 1973 on the effectiveness of the auditing of financial records of public utilities.

The 1972-73 budget of the Public Utilities Commission was augmented to provide five financial examiner positions to conduct field audits of utilities' financial records. These records are used by the PUC in performing its regulatory functions and by the Board of Equalization in the determination of assessed value of utilities.

In the 1973-74 PUC budget, two more financial examiner positions are requested to conduct these audits.

There are a number of companies assessed by the board which are not within the jurisdiction of the PUC. These include certain pipeline companies, telephone and telegraph companies, and portions of the facilities of mobile radio telephone companies.

The Legislature should be kept informed of the effect of these audits on property tax administration, and the board should consider what to do about auditing companies not within PUC jurisdiction.

Measures of Effectiveness and Size Indicators

In the sales and use tax program, we recommend that out-of-state audits be distinguished from in-state audits.

Out-of-state accounts audited are more productive of revenue than in-state accounts. This is because of the size and characteristics of out-of-state businesses, and not because of wrongdoing on the part of out-of-state taxpayers.

Including the results of out-of-state audits with the results of in-state audits gives a high bias to some of the measures. For example, net revenue per dollar of cost of in-state accounts probably will be smaller if out-of-state accounts are treated separately.

STATE BOARD OF EQUALIZATION

Item 58 from the Transportation

Tax Fund (Motor Vehicle

Transportation Tax Account)

Budget p. 31 Program p. I-124

Requested 1973-74	\$818,279
Estimated 1972-73.....	1,202,576
Actual 1971-72	1,130,386
Requested decrease \$384,297 (32 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Board of Equalization assesses and the State Controller collects the tax of 1.5 percent of gross receipts on for-hire truck operations. This tax will be repealed on June 30, 1973. This appropriation is to cover the board's cost of administering the first year of a two-year phase out of the tax, the details of which are included under Item 57.

STATE BOARD OF EQUALIZATION

Item 59 from the Transportation

Tax Fund (Motor Vehicle

Fuel Account)

Budget p. 31 Program p. I-124

Requested 1973-74	\$1,614,437
Estimated 1972-73.....	1,436,781
Actual 1971-72	1,352,553
Requested increase \$177,656 (12.4 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Board of Equalization assesses and the State Controller collects the motor vehicle fuel (gasoline) tax. The board assesses and collects the use fuel (diesel) tax. This appropriation is to cover the board's cost of administering these two taxes, the details of which are included under Item 57.

SECRETARY OF STATE

Items 60-61 from the General

Fund

Budget p. 33 Program p. I-154

Requested 1973-74	\$2,747,978
Estimated 1972-73	2,712,851
Actual 1971-72	2,238,355
Requested increase \$35,127 (1.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Response to Report. Recommend Secretary of State respond in budget hearings to the recommendations contained in our cost-effectiveness study issued in December 1972.

129

GENERAL PROGRAM STATEMENT

The Secretary of State is a constitutional officer responsible for carrying out various duties prescribed in the Constitution and in the Elections, Business and Professions, Corporations, Public Utilities, and Government Codes. He is custodian of the enrolled copy of the Constitution, all acts passed by the Legislature, journals of the Legislature, and the Great Seal. He has specific responsibilities in each of the following program categories.

CORPORATE FILINGS

Attorneys on the staff of the Secretary of State examine all articles of incorporation and related documents which revise or dissolve corporate entities and attest to their compliance with the appropriate statutes before accepting them for formal filing. In addition, all applications for trademarks, corporate and fraternal names, and other documents required by law are reviewed and registered. Pursuant to legislation enacted during the 1969 Regular Session, information regarding corporate officers and corporate addresses is also maintained.

ELECTIONS

By virtue of the many statutory responsibilities vested in him the Secretary of State can be considered the chief elections officer in the state. Responsibilities in this area include the overseeing and coordination of all state elections, the production of various statistical reports required by the Elections Code, the preparation of ballot argument pamphlets, the compilation of a semiofficial and official canvass of election results, and membership on the State Commission on Voting Machines and Vote Tabulating Devices.

FINANCING STATEMENTS

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financing statements which perfect security interests in personal property. Notices of state tax liens are also filed. Legislation adopted during the 1972 Regular Session (Chapter 550, Statutes of 1972) requires that the Secretary of State also begin filing writs of attachment.

NOTARY PUBLIC

The Office of the Secretary of State has responsibility for the appointment of notaries public, including the issuance of original certificates and renewals. The Secretary of State also provides verification of the authenticity of notary signatures upon request from the public.

ARCHIVES

The Chief of Archives and his staff collect, catalog, index and preserve historic and otherwise valuable papers and artifacts. These documents by law are received from both state and local government. Documents requiring repair are restored by a document restoration technician and laminated for permanent preservation. Reference services are provided for the public. Some advice and direction is received from the Heritage Preservation Commission of which the Secretary of State is secretary.

ADMINISTRATION

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The proposed budget of \$2,747,978 for the Secretary of State for the 1973-74 fiscal year represents an increase of \$35,127 or approximately 1.3 percent over the current year estimated expenditures. Because the current budget includes one-time expenditures associated with EDP program conversion and relocation of the Los Angeles office, the effective increase is approximately 5.6 percent. The budget includes \$282,500 in Item 61 for the printing of ballot pamphlets.

It is estimated that the Secretary of State will remit to the General Fund revenues of \$5,055,570 during the 1973-74 fiscal year, an increase of 10.9 percent over this year's estimated revenues.

These revenues are derived from statutorily prescribed fees charged for specified filings certifications, and other services. It is estimated that revenues remitted to the General Fund during the 1973-74 fiscal year will exceed program expenditures by nearly 84 percent.

SECRETARY OF STATE—Continued**ARCHIVES PROGRAM**

The current year budget provides for the development of a historical document display facility in the State Archives Building. Progress to date includes the hiring of an exhibit technician and the preparation of plans and cost estimates. We understand that the effort has been delayed due in part to the occupancy by another state agency of the area to be used for this facility which has been of a duration longer than originally intended.

The funds provided in the current year for the development of this facility include \$25,000 for minor capital outlay associated with the first phase of facility preparation, which is to establish an exhibit hall, exhibit workshop and a visitor lobby. Of this amount, \$3,000 is for new shelving. We have been informed that recent estimates by the Office of Architecture and Construction indicate that the probable cost of necessary remodeling to implement this first phase will exceed the original rough estimates by approximately \$19,000. The Governor's Budget includes \$25,000 for the budget year for the second phase which includes the construction of a service elevator. It is anticipated that approximately \$20,000 will be required in the 1974-75 fiscal year for the final phase which includes office relocation and the preparation of an archival search room.

Although this has resulted in an apparent deficiency in funds available for the specific purpose of minor capital outlay, we note that savings in rental have accrued because the Secretary of State has not yet assumed the lease of the space intended for the facility. We are informed that the Department of Finance has suggested that \$5,000 of these savings be used to defray the cost of preparing an additional required report on voter registration for which no funds are provided in the Secretary of State's budget, and that the secretary will request the Department of Finance approve the use of some of the remaining savings for the preparation of the display facility.

COST EFFECTIVENESS STUDY

The Supplemental Report of the Committee on Conference (Budget Bill of 1972) recommended that the Legislative Analyst conduct a cost-effectiveness study of the operations of the Secretary of State and report the findings to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1972.

The following is a partial summary of findings based upon that study.

Workload

1. The Secretary of State has made excessive use of overtime in order to accommodate an increased workload. The need for this accommodation has, in part, resulted from a significant amount of employee turnover. We note that the activities of the office's relatively new personnel section have been directed toward a resolution of this problem.

2. Workload data indicate that additional personnel may be required in order to enable the office to fulfill adequately its filing and certifying obligations.

3. The consolidation of office personnel in Sacramento into one location would provide greater flexibility for personnel resource allocation.

4. Representatives of businesses that rely on the timely processing of the filing and certification of financing statements have indicated that the backlog situation has imposed an impossible condition on the various elements of California's business structure.

Policy

5. The Secretary of State has initiated and sustained an active enforcement program regarding provisions of the Elections Code.

6. The office continues to be customer oriented in fulfilling its statutory requirements to provide a variety of specified services to the public.

Fees

7. The collection of statutorily prescribed qualification fees from foreign (out-of-state) corporations which transact intrastate business in California is not being pursued by the office. We understand that approximately \$100,000 in such fees was collected during the one-year fee collection was pursued.

8. Because of the statutorily prescribed fees charged for specified services, the office generates on an annual basis revenue in excess of total program expenditures.

Electronic Data Processing (EDP)

9. Attempts to automate the corporate officer and corporate address filing and information retrieval function have not produced intended results and must be considered unsuccessful.

10. In addition to having an EDP operation in need of technical and managerial improvement, the office does not have staff capable of providing the technical expertise which is needed by the office. The release of the office's present computer by February 1, 1973 in accordance with the current state EDP consolidation plan will eliminate the need for a resident data-processing manager and offers an opportunity for the office to acquire a position to provide technical liaison with the new consolidated data center.

Other Findings

11. The office of the Secretary of State is one of several state departments dealing with corporate information.

12. The archives operation is in the process of developing a means to provide greater access by the public to archival material.

13. For several years the office has not presented to the Governor a biannual report required by Section 12170 of the Government Code regarding official actions of the Secretary of State and the expenditure of appropriations.

Summary of Recommendations

We recommend that the Secretary of State review each recommendation contained in our cost-effectiveness report and make a response to the fiscal committees during review of his budget.

A partial summary of the recommendations contained in our cost-effec-

SECRETARY OF STATE—Continued

tiveness study follows.

Workload

1. In order to eliminate the backlog of work and use of excessive overtime, the Secretary of State should consider reducing the existing level of service to a minimum consistent with statutory requirements. This would enable the office to redirect its personnel resources.

2. The process of manually comparing computer-produced certifications and listings in the financing statements activity is time consuming. An investigation of alternatives should be made for the purpose of determining a less time-consuming method. Personnel time gained as the result of implementation of a more effective alternative will be of benefit in efforts to reduce backlogs.

Fees

3. The current fee structure should be reviewed in order to determine the adequacy and equitability of all fees charged for service.

4. Because of the voluminous nature of certain documents submitted for filing, the feasibility of charging for all document processing on a cost-per-page basis should be determined.

5. The Secretary of State should determine the desirability and practicality of charging a nonrefundable "application for filing" fee in order to recover the costs associated with the processing of documents which are subsequently rejected, which in many cases equal the cost of a successful filing.

6. The Secretary of State and other departments in state government concerned with corporations should form a task force to determine the feasibility of implementing the concept of a corporate information clearinghouse or central file of corporate data.

7. Efforts should be renewed to collect fees and penalties from all foreign (out-of-state) corporations transacting intrastate business in California in violation of the statutory requirement for the payment of a qualifying fee to the Secretary of State.

Electronic Data Processing (EDP)

8. Any analysis of alternatives for improvement of the automated corporate officer program should include the alternative of contracting with the Franchise Tax Board for the development and operation of automated processes associated with this program.

9. Steps should be taken to develop within the office sufficient EDP expertise to provide: (1) liaison with the new consolidated data center, and (2) technical assistance to the office to ensure the proper use of EDP.

10. The office should develop appropriate EDP procedures in order to assure thoroughness and consistency in the design, development, and operation of automated processes.

11. The transfer of all EDP programming positions to the Department of General Services should be considered.

CALIFORNIA HERITAGE PRESERVATION COMMISSION

Item 62 from the General Fund

Budget p. 34 Program p. I-162

Requested 1973-74	\$800
Estimated 1972-73.....	800
Actual 1971-72	127
Requested increases—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The purpose of the commission is to advise the Secretary of State, whose duty it is to preserve historical and otherwise valuable documents, on matters regarding the identification, restoration and preservation of such documents.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The commission has requested \$800 to provide for travel and general administrative expenses during the 1973-74 fiscal year.

Primary Responsibility Fulfilled

By statutory provision, the Secretary of State receives and maintains archival material. Some of these materials, such as the Spanish Census of 1798, the Constitution of 1849, an Abraham Lincoln letter, and many others are of significant historical value. The legislation establishing the California Heritage Preservation Commission specified the development of a plan for the restoration, preservation, and display in the State Capitol and elsewhere within the state of such documents. The commission was also required to present its plan in a report to the Legislature, which it did during the 1971 session. We discussed the major elements of that plan in last year's analysis. The plan is now in process of implementation.

Presentation by the commission of this plan has fulfilled the primary responsibility provided by statute. However, the commission continues to advise the Secretary of State and the Legislature regarding the acquisition, display, and maintenance of historical documents. Reports issued by the commission have been instrumental in improving the Secretary of State's archival program. The commission intends to present a report of its activities to the Legislature during the 1973 session.

STATE TREASURER

Item 63 from the General Fund

Budget p. 35 Program p. I-163

Requested 1973-74	\$1,322,432
Estimated 1972-73.....	1,075,551
Actual 1971-72	849,281
Requested increase \$246,881 (22.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Change in Funding.* Recommend approval of change in funding of District Securities Division from reimbursement basis to General Fund support. 139

GENERAL PROGRAM STATEMENT

The State Treasurer is charged with the following responsibilities:

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

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

Table 1
Program Requirements of the State Treasurer's Office

Program elements	Man-years			Expenditures		
	Actual 1971-1972	Estimated 1972-73	Proposed 1973-74	Actual 1971-72	Estimated 1972-73	Proposed 1973-74
1. Bond sales and services.....	10.4	11.5	11.5	\$320,238	\$334,744	\$351,216
2. Investment services.....	4.3	5	5	124,263	152,785	159,445
3. Paying and receiving	18.8	31.8	32.8	433,226	527,068	546,492
4. Trust services	12.5	15.1	16.1	208,431	266,172	285,763
5. District securities division	7.7	8.1	8.1	171,871	191,248	193,758
6. Administration (cost distributed to other elements)	13.6	14.3	14.3	(275,874)	(315,030)	(326,560)
Totals	67.3	85.8	87.8	\$1,258,029	\$1,472,017	\$1,536,674
Reimbursements				-408,748	-396,466	-214,242
General Fund costs				\$849,281	\$1,075,551	\$1,322,432

Seventy-eight percent (\$193,758) of the \$246,881 requested increase in General Fund support for fiscal year 1973-74 is attributed to a change in the funding method for the district securities division program element.

For the current year, this element is budgeted on a reimbursement basis, i.e., the division's expenditures are limited by the amount of fees it collects. Fees are treated as reimbursements and in the budget are deducted in arriving at net program costs. For the budget year, however, it is proposed that this element be supported by the General Fund with the proceeds from fees to be treated as General Fund revenues. Under this funding method, the division's expenditures will not be limited to the amount of fees it collects. This change in funding will be analyzed in detail in our discussion of the district securities division below. Higher operating expenses and the proposed net increase of two staff positions account for the balance of the increase in total expenditures for the budget year.

ANALYSIS AND RECOMMENDATIONS

BOND SALES AND SERVICES

Issuing, selling, servicing and redeeming of all general obligation bonds, state buildings certificates and California State College revenue bonds are the responsibilities of this program element. The projected budget year cost of bond sales service, as well as bond and coupon servicing, totaling about \$65,000, will be reimbursed from the individual bond funds.

Bond Interest Rates Expected to Increase

The Treasurer's bond marketing activity in recent years is shown in Table 2.

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

	<i>Actual</i> <i>1971-72</i>		<i>Estimated</i> <i>1972-73</i>		<i>Estimated</i> <i>1973-74</i>	
	<i>Amount</i>	<i>Average int. rate</i>	<i>Amount</i>	<i>Average int. rate</i>	<i>Amount</i>	<i>Average int. rate</i>
General obligation bond	\$485	4.50%	\$300	4.75%	\$425	4.85%
Revenue bonds	50.3	5.60	120	5.75	140	5.80
Bond and revenue anticipation notes	510 ¹	2.90	—	—	—	—

¹ This represents revenue anticipation notes issued during calendar year 1971. The authority to issue these notes expired at the end of the 1971-72 fiscal year.

Long-term interest rates were generally lower during fiscal year 1971-72 than in the previous year, resulting in lower interest obligations on state bonds issued during that period. During 1973, however, the rate of growth in the money supply is expected to decline, accompanied by an upward trend in long-term interest rates.

California's Credit Rating Rises

As a result of the state's sound financial position, California's bond credit rating by Moody's was recently raised from double A to triple A. Bond market experts indicate that this improved rating should save $\frac{1}{8}$ to $\frac{1}{4}$ percent in interest cost on bonds issued by the state.

STATE TREASURER—Continued

INVESTMENT SERVICES

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

The investment program provides services for the Pooled Money Investment Account (composed of temporarily unused balances from the General Fund and other state funds which joined the pool) and several other independent state funds, which utilize the Treasurer's services for their investment program. These independent funds include the State Highway Fund, the Condemnation Deposit Fund (money held in trust as a result of condemnation proceedings) and the Unemployment Compensation Disability Fund. During the past fiscal year, some 4,500 investment transactions, totaling over \$78.9 billion were completed. Table 3 compares interest earnings from the Treasurer's investment service during 1970-71 and 1971-72 fiscal years.

The decline in earnings for 1971-72 is attributable to generally lower prevailing short-term interest rates.

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

	1970-71			1971-72		
	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent yield</i>	<i>Average daily amount invested</i>	<i>Earnings</i>	<i>Percent yield</i>
Pooled Money.....	\$1,236.9	\$75.9	6.14%	\$1,377.3	\$67.3	4.88%
Condemnation	28.0	1.6	5.75	20.2	1.1	5.43
Totals	\$1,264.9	\$77.5		\$1,397.5	\$68.4	

A portion of the temporarily idle state funds is not invested. It is left in noninterest-bearing bank accounts (called "compensating balances") with nine banks to compensate them for warrant and deposit handling services. The size of the compensating balances, determined on a formula basis, is governed by the prevailing interest rates. Table 4 shows that distribution of investments, including the compensating balances during 1971-72.

The investment program also includes deposit of state moneys in bank time (savings) accounts. The total amount to be deposited is determined by the Pooled Money Investment Board, but the allocation of the designated amount among the 111 currently participating banks is determined by the State Treasurer. These state savings deposits must be collateralized with securities by the depository banks. the minimum legal requirement for each collateral is 110 percent of the time deposit. The Treasurer is charged with the responsibility to review periodically the portfolios used by the banks as collateral to insure that changing market conditions have not eroded the value of the securities in the portfolios below the required minimum.

Table 4
Distribution of the Average Daily Amounts of Temporarily Idle Funds
in the Pooled Money Investment Account During 1971-72
(millions)

<i>Distribution</i>	<i>Average daily balances</i>	<i>Interest earnings</i>	<i>Percentage yield</i>
Investment in securities	\$804.9	\$36.4	4.53%
Investment in time (savings) deposits	494.8	26.7	5.39
Loans to General Fund	77.6	4.2	5.33
Total investments	\$1,377.3	\$67.3	4.88%
Compensating balances	46.2	—	—
Total	\$1,423.5	\$67.3	—

PAYING AND RECEIVING

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

Processing Workload to Increase

Table 5 indicates that during 1971-72, the Treasurer's office processed 10.2 million warrants, or an average of about 40,000 per working day. Last year we called attention to the potential increase in the Treasurer's warrant workload from the adoption of income tax withholding (with its 5.2 million refund warrants), and the pilot program of the Controller making direct payments of Medi-Cal warrants. Withholding became effective on January 1, 1972, and the refunds will be paid during the first half of calendar year 1973. The pilot Medi-Cal program started in two counties in August 1972 and will be implemented statewide during the budget year if approved and funded by the Legislature. Table 5 summarizes the Treasurer's current and projected warrant processing workload.

Table 5
Projected Workload of the Treasurer's Paying and Receiving Program
(thousands)

<i>Fiscal year</i>	<i>Agency trust warrants</i>		<i>Controller warrants</i>			<i>Total</i>	<i>Percent increase</i>
	<i>Regular</i>	<i>Disability insurance</i>	<i>Regular</i>	<i>Medi-Cal</i>	<i>Withholding</i>		
1969-70	1,322	1,255	6,208			8,785	
1970-71	1,462	2,649	5,909			10,020	14.03%
1971-72	1,582	2,577	6,077			10,236	2.16
1972-73 (est.)	1,688	3,204	7,150	4,000 ¹	5,220	21,262	107.72
1973-74 (est.)	1,856	3,524	7,865	11,221	5,537	30,003	43.93
1974-75 (est.)	2,041	3,876	8,652	15,912	5,814	36,295	18.60

¹ Projected workload based on the premise that the Medi-Cal program will be implemented statewide during the budget year.

STATE TREASURER—Continued

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

Progress in Resolving Data-Processing Problems

In our previous Analysis we outlined the problems the Treasurer has had in processing the increasing daily warrant workload in time for the 4 p.m. deadline. Meeting this deadline is important, if the state is to maximize its investment income. We also indicated that the Treasurer was exploring the possible use of magnetic ink character recognition (MICR) equipment, a system used by most banks for check processing, as the answer to its warrant-processing problem. In its subsequent feasibility study of this system, the Treasurer proposed a three-step conversion of its warrant-processing system to a MICR "stand-alone" system with its own dedicated computer. The EDP control and development division of the Department of Finance approved a revised version of this proposal, when assured that the system would meet the requirements of the entire warrant processing cycle and would be compatible with the state's consolidated data processing approach. However, due to technical problems involving the standard state EDP contract language, signing of the first contract with the vendor for the selected MICR equipment was delayed until mid-December. The first phase of the system was expected to be operational by the end of December and test runs were to be made early in 1973. Due to this same contract language problem, however, the contract for the key-disk equipment (to be used in later stages of warrant processing) was not signed until early January 1973, so testing of the entire system will not commence until February 1973.

These delays may cause initial problems in meeting the Treasurer's projected warrant processing workload increase during the early part of 1973. Their full impact, however, will depend on the rate at which withholding refund checks are issued and cashed, as well as on the timing of the statewide implementation of the Medi-Cal payment program.

Proposed Staff Increase

We recommend approval of one additional computer operator position.

In view of the anticipated workload increase due to the withholding and Medi-Cal programs, the Treasurer proposes the addition of a computer operator to its warrant-processing staff.

TRUST SERVICES

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

The total value of securities held at the end of fiscal 1971-72 was \$9.2 billion. The Treasurer's use of a TWX communication system for the settlement of securities traded results in considerable savings in transpor-

tation and insurance costs, in addition to savings accruing from prompt settlements.

Other trust activities include the preparation and keeping of agreements on the state's time deposits, the control and maintenance of the required collaterals on these time deposits, as well as clipping and processing of coupons for the collection of interest on bonds held. The Treasurer expects to receive approximately \$148,000 in the budget year, as reimbursements for collection and transfer-agent costs from the various state agencies for handling of their securities.

Staff Increase Proposed

We recommend approval of one additional clerical position.

The Treasurer proposes the addition of one clerk to its trust services staff to handle the increased stock transactions for the retirement systems, as well as the increased escrow workload.

Table 6 displays current and projected workload data for this activity.

Table 6
State Treasurer
Trust Division Workload

	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Estimated</i> 1973-74
Number of securities processed (thousands)	302	400	500
Value of securities processed (billions)	\$88.2	\$125	\$160
Total documentation released and processed	13,267	16,000	20,000

DISTRICT SECURITIES DIVISION

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

From 1931 to 1969, this function was performed by the District Securities Commission, operating as a separate agency. The 1969 Legislature terminated the commission as a separate entity and transferred the function to the State Treasurer. The authorized staff of 8.1 man-years, located in San Francisco, consists of an executive secretary, assistant executive secretary, three engineers, an auditor and clerical support.

The division is required by law to evaluate all bond-issuing public water districts, formed under the Irrigation Districts Act, the Water Storage Act or under the California Water District Act. Bond-financed projects of other water-type districts (e.g., water conservation and other districts furnishing domestic water) are also subject to the division's review, whenever the total proposed bond-indebtedness of the district exceeds its assessed valuation by more than 200 percent. Of the total number of districts in the above categories, currently estimated at about 800, only some 260 districts are subject to the division's review. The rest may issue bonds without being reviewed by the division for technical and fiscal feasibility. The various fees charged by the division for its services are computed according to a statutorily established formula.

In addition, the law requires all bond-issuing special districts governed

STATE TREASURER—Continued

by an independent board of directors to submit bond proposals to a review by the district securities division, in order to determine whether or not these proposals are subject to the division's technical and fiscal feasibility review.

Funding for the District Securities Division is shown in Table 7.

Table 7
Budget Support for the District Securities Division

	<i>Actual</i> <i>1971-72</i>	<i>Estimated</i> <i>1972-73</i>	<i>Estimated</i> <i>1973-74</i>
Program cost.....	\$171,871	\$191,248	\$193,758
Reimbursements	171,924	180,000	—

Past and Current Budgeting Methods

Up to 1971-72, the division was supported from the General Fund, with its inspection revenues being treated as General Fund revenues. If revenues from fees failed to cover costs, the difference became an added General Fund cost.

In our 1970-71 Analysis, we recommended that the division be entirely funded by fees charged to the local water districts which use its services. These fees would be treated as reimbursements, and the expenditures of the division would be limited by the amount of fees collected. If actual receipts fell below estimates, the division would have to reduce its expenditures or receive an allocation from the Emergency Fund.

The Governor's 1971-72 Budget followed our recommendation by placing the division on a reimbursement basis, and this budgeting method was continued for the current fiscal year.

Prior to 1971-72, fee collections had been consistently below budget estimates. In 1970-71, for instance, the division's expenditures exceeded fee revenues by \$74,169. The division attributes this problem of fee collection to the unique nature of its work, in that its activities on a particular project extend over several years, and the resulting fee revenues usually are received near the end of the project. This problem had been compounded by tight money markets and lack of federal funds, which resulted in slowdowns in construction activity and payment of inspection fees during past years.

Division Fees Cover Expenditures for 1971-72

As a result of general improvement in economic conditions, an increase in federal funds and an improved bond market, fee revenues collected by the division covered the revised program costs for 1971-72. To accomplish this, however, it was necessary to leave one engineer's position unfilled for part of the year. The division reports favorable fee collections for the first quarter of the current fiscal year and expects this trend to continue for the rest of the year, although recent delays in release of federal funds may postpone fee collections from some projects.

The division currently estimates that fee collections will amount to \$180,000 in 1972-73, most of which will come from projects started in the first half of the fiscal year. Although estimates contained in the budget

indicate expenditures of \$191,248 for 1972-73, the division anticipates reducing program costs below \$180,000 in order to hold expenditures within the limitation imposed by the amount of fee collections. The reduction in expenditures will be accomplished by continuing to leave the engineer position vacant.

Return to General Fund Support Proposed

We recommend approval of the proposed change in the method of funding the District Securities Commission from a reimbursement basis to General Fund support, on the condition that the division continue its efforts to be self-supporting.

In our previous Analysis we supported the idea of reimbursement budgeting for the division, because we felt that this measure would encourage the division to improve its fee collection procedures and, if necessary, adjust fees upward to meet expenses. At the time, we recognized the problems that would be involved with reimbursement budgeting because of the timing of receipts and the normal year-to-year fluctuations in fee revenues. We now find that the division's fee billing and collection procedure have been improved and that fees have been increased by 15 percent. Accordingly, we believe that the change back to the previous method of funding is acceptable, providing the division continues to take necessary actions to be self-supporting on a long-term basis.

DEPARTMENT OF FINANCE

Item 64 from the General Fund

Budget p. 36 Program p. I-168

Requested 1973-74	\$5,175,016
Estimated 1972-73.....	4,868,846
Actual 1971-72	4,110,042
Requested increase \$306,170 (6.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Measures of Program Effectiveness Pilot Project.* Recommend issuance of comprehensive progress report of implementation by October 1, 1973. 143
2. *Development Budget Data System.* Withhold recommendation on \$410,000 requested for the budget data system until a detailed evaluation of the system is completed by April 2, 1973. 146

GENERAL PROGRAM STATEMENT

The Department of Finance is responsible for advising the Governor regarding the fiscal condition of the state and assisting in the preparation and enactment of the Governor's budgetary and legislative programs. In

DEPARTMENT OF FINANCE—Continued

addition, it evaluates state-administered programs for efficiency and effectiveness, as well as provides economic and demographic information. Table 1 summarizes the allocation of staff and expenditures by division within the department.

The \$306,170 (6.3 percent) increase in total spending for the budget year includes \$120,549 for salary and staff benefits, \$63,208 for operating expenses, \$92,783 for the consolidated EDP center and \$29,630 in reduced reimbursements. The growth in operating expenses and expenses for the consolidated EDP center is the result of proposed implementation of the budget data system during 1973-74. Reduction in estimated reimbursements is due to the anticipated termination of the Federal Occupational Safety and Health Act which is providing reimbursements for the service of specific employees during the current year.

Recent Changes in the Department's Budget-Making Role

In 1971-72 we described the department's changing role in the budget process, with responsibility for budget preparation shifting to agency secretaries. This shift in responsibility created technical and communication problems between the department and the state agencies which left the department without a clear definition of its role in the budget development process.

To remedy this situation, new procedures were adopted during 1971 which were designed to clarify the department's role in the budgetary process, expedite the mechanics of budget assembly and improve the information flow among all parties involved in the budgetary process. As delineated by these procedures, the basic responsibilities of the Department of Finance are (1) to prepare the initial review estimates and furnish demographic data, (2) to develop the budget-planning estimates, (3) to assist, in an advisory capacity, state departments and agencies in preparation of program maintenance and program change proposals and to evaluate such proposals, and (4) to evaluate program efficiency with a view toward independently initiating program change proposals. Actual utilization of the budgetary assistance role of the department varies widely among the state agencies. The department continues to encourage maximum utilization of its advisory services, so that differences can be resolved in the early stages of budget development.

Program Budget Structure

In our 1972-73 Analysis we criticized the department's own program budget for failing to provide a standard which other state agencies could follow. We observed that program elements were not clearly defined, and recommended that the department redefine its program budget categories in order to make them more readily identifiable and more useful as a management tool. As a result, the department recently revised its program structure by establishing the four major programs shown in Table 2.

Table 1
Department of Finance
Personnel and Expenditure Summary

<i>Division</i>	<i>Personnel man-years</i>			<i>Expenditures</i>		
	<i>1971-72 Actual</i>	<i>1972-73 Estimated</i>	<i>1973-74 Proposed</i>	<i>1971-72 Actual</i>	<i>1972-73 Estimated</i>	<i>1973-74 Proposed</i>
Executive.....	13.4	13.8	13.8	\$348,024	\$403,364	\$409,113
Audits division	77.3	87.5	87.5	1,351,738	1,648,871	1,682,381
Budget division	117.4	125.3	125.7	2,117,334	2,390,578	2,505,015
EDP review unit	13.2	14.0	15.0	275,713	354,423	384,484
Totals	221.3	240.6	242.0	\$4,092,809	\$4,797,236	\$4,980,993
Reimbursements.....				-163,795	-170,180	-140,550
Consolidated data centers				181,028	241,790	334,573
Net totals, budget				\$4,110,042	\$4,868,846	\$5,175,016

DEPARTMENT OF FINANCE—Continued

Table 2
Department of Finance New Program Budget
Adopted in 1973-74

<i>Program</i>	<i>Personnel man-years</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
I Preparation and enactment of the annual financial plan.....	59.7	63.4	62.6
II Support and direction of the annual financial plan.....	18.4	21.1	22.2
III Assessment and optimization of state-administered programs	114.7	128.0	130.0
IV Development of supportive data	28.5	28.1	27.2
Total	221.3	240.6	242.0

In contrast to its predecessor, the revised program structure outlines with more clarity and in greater detail the department's functions, without the apparent duplications and overlapping activities that made the old structure difficult to evaluate. We believe, however, that some of the terminology used to describe certain programs and elements (e.g. "optimization of state-administered and state-financed programs") could be further improved without altering the basic structure. These programs are analyzed briefly below.

FINANCIAL PLAN PREPARATION AND ENACTMENT

This program is implemented by the Budget Division. Activities include preparation of the baseline expenditure-planning estimates and the review and coordination of individual agency budget submissions. In addition, the division compiles and publishes the Governor's Budget and the Budget Bill, provides revised revenue and expenditure estimates, assists the Legislature during its review of the Budget Bill and compiles a summary of the enacted budget. This program also has the responsibility of analyzing all legislative proposals for fiscal and program implications, both at the time when they are considered, as well as when presented to the Governor for approval.

Table 3 summarizes the personnel requirements of this program.

Table 3
Requirements of the Financial Plan Preparation
and Enactment Program

<i>Program elements</i>	<i>Personnel man-years</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
1. Allocation plan.....	1.6	1.6	1.6
2. Plan preparation	21.3	26.3	25.5
3. Legislative process	36.8	35.5	35.5
Totals	59.7	63.4	62.6

SUPPORT AND DIRECTION OF FINANCIAL PLAN

The department exercises administrative control of the budget after it is enacted by insuring that expenditures are maintained within approved levels and that programs are implemented consistent with legislation and

executive intent. Cash management and review of revenue and expenditure patterns are also responsibilities of this program.

Table 4 outlines the personnel requirements of this program.

Table 4
Requirements for Support and Direction of
Financial Plan

<i>Program elements</i>	<i>Personnel man-years</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
1. Program maintenance and fiscal affairs	16.1	19.6	20.7
2. Cash management.....	2.3	1.5	1.5
Totals	18.4	21.1	22.2

ASSESSMENT OF STATE PROGRAMS

This program is envisioned as a systematic, ongoing review of state-administered programs to insure their maximum efficiency and effectiveness. This effort is jointly performed by the department's budget and audits divisions, with input from the EDP review unit. Table 5 summarized the personnel requirements of this program.

Table 5
Requirements of the Assessment Program

<i>Program elements</i>	<i>Personnel man-years</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
1. Overall program evaluation	71.8	71.6	72.4
2. Financial audits	28.8	41.5	41.7
3. Development of statewide EDP centers	14.1	14.9	15.9
Totals	114.7	128.0	130.0

Comprehensive Program Evaluation Proposed

In the 1972-73 Analysis we noted that the department intended to conduct program evaluation studies on a regularly scheduled basis, providing for a comprehensive review of all existing state programs on a four-year cycle. In creating this new assessment program, the department intends to establish an ongoing, comprehensive review of all state-authorized and financed programs. The emphasis attached to this effort is underscored by the personnel assigned to it.

Specifically, state programs are to be thoroughly evaluated in terms of efficiency and effectiveness to determine if their continuation is justified. Programs considered marginal will be studied in depth and findings with recommendations will be published in comprehensive reports available to both executive and legislative branches. Also, special studies examining critical budgetary, policy, and organizational problems with options for their possible solution will be prepared.

Slow Progress in Measurement of Program Effectiveness

We recommend that the Department of Finance submit a report to the Joint Legislative Budget Committee by October 1, 1973, on the progress of the effectiveness measurement pilot project. The report should include (1) plans for further implementation, in the 1974-75 budget, of the meas-

DEPARTMENT OF FINANCE—Continued

ures of effectiveness for the initial seven agencies and (2) the progress made in the development of measures for the remaining five agencies in the project.

In response to legislative direction the department established a task force in 1971 to develop measures of program effectiveness which eventually would be incorporated into the budget data system. The task force organized a pilot project, involving 12 state agencies for the initial implementation of the project. Participants were to develop definitions of program objectives which would be used to provide measures of program effectiveness in the 1973-74 departmental budgets. The task force has completed the definition of objectives and the development of measures of effectiveness for seven of the initial participants, but only limited measurement data has been included in the 1973-74 budget proposals.

Emphasis on Financial Audits Restored

Last year we called attention to the fact that staff reductions and a shift in emphasis from financial to management audits by the audits division during the 1969-70 period had resulted in a reduction in financial audit activity below an acceptable minimum. Recognizing the seriousness of this situation, the department restored emphasis on financial auditing in 1972-73 by creating a new financial audits section within its audits division. With an assigned staff of 36 auditors, this section established a schedule of regular fiscal audits, providing coverage of all state agencies within the statutorily required four-year cycle. The more critical agencies will be covered within a two- or three-year cycle. These financial audits are to be the traditional type which entail detailed examination of all pertinent financial documents of the various state agencies for compliance, reliability and integrity. Examination of recently published status reports indicates that the work of this section is proceeding on schedule.

DEVELOPMENT OF SUPPORTIVE DATA

This program is responsible for economic, fiscal and demographic research, and provides information requested by the administration, the Legislature, state agencies and other governmental or private entities. When the requested information is required by statutes, or has general, statewide relevance and a wide variety of users, it is provided free of charge. In some cases, however, when it is provided upon special request or is of limited use and value, the department charges for its research services. Table 6 summarizes the personnel requirements of this program.

Table 6
Requirements of the Supportive Data Program

<i>Program elements</i>	<i>Man-years</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Economic research	1.4	1.4	1.4
Revenue estimating and tax research	9.9	10.5	10.6
Demographic research	12.8	12.7	12.7
Budget data system	4.4	3.5	2.5
Totals	28.5	28.1	27.2

THE BUDGET DATA SYSTEM

The Department of Finance was authorized by the Legislature in 1969 to develop and install a budget data system (BDS). The primary objective of the system is to provide a computer-based budgetary and fiscal management information system which is intended to improve significantly the quality of information for decision making.

The department is currently engaged in the design and development of BDS for the executive branch and it states that it will make the data base constructed for the system available to the Legislature.

Project History

We have made numerous recommendations regarding the BDS in the Analysis for the past four years and in a statement prepared for a Joint Legislative Budget Committee hearing on this subject in May 1970. In last year's Analysis, we reported that the Department of Finance had experienced considerable difficulty in bringing the BDS to a stage of development where a complete parallel test with the manual budget processes could be conducted. We expressed concern whether the problems encountered in programming the system were so severe as to make the basic systems design specifications unworkable. We also indicated that the only way to resolve this particular concern would be through an adequate systems test using "live data."

We noted also that of even greater concern to us was a continued reluctance on the part of the administration to release fiscal and program information to the Legislature on a timely basis. Given these circumstances, we recommended a delay in budget approval for the BDS pending a response from the Department of Finance on the issues which were raised in the Analysis.

These recommendations were not acted on during the budget hearings and funds were granted to continue development of the system.

BDS Report Received in December 1972

The Budget Division of the Department of Finance released a document in December 1972 entitled *Budget Data System—A Report of Current Status and Future Plans*. This report was distributed to the Joint Legislative Budget Committee and the fiscal committees of the Legislature.

Based on several meetings with Department of Finance personnel on this subject prior to the release of the report and a cursory examination of the report content, it appears that certain major changes have occurred in the design, development and implementation of the project. These include: (1) a replacement of most of the original project staff, (2) the significant involvement of various key personnel within the Budget Division in specifying system requirements, (3) the emphasis on using BDS to improve the existing budget process with special emphasis on fiscal control and cash management, (4) the emergence of a "management information group" within the Budget Division, and (5) the use of a formal system analysis and development process to thoroughly review all applications. The report also indicates that the BDS may provide the most economical and practical method of responding to Chapter 988, Statutes of

DEPARTMENT OF FINANCE—Continued

1972 (AB 13), which requires quarterly reporting by the Controller comparing General Fund revenues and expenditures with the Budget Act as well as other expenditures authorized by statutes.

The costs incurred for the design, development and limited operation of the budget data system as reported by the Department of Finance are displayed in Table 7 together with proposed budget-year costs.

Table 7
Budget Data System Costs

Category	Actual 1970-71	Actual 1971-72	Estimated 1972-73	Proposed 1973-74
Personnel costs	\$28,050	\$61,701	\$60,891	\$41,787
Outside contractor costs	— ²	41,849	22,000	55,600
EDP services costs ¹	106,783	159,650 ³	223,740	302,613
Total of all other	18,333	13,745	7,868	12,000
	\$153,333	\$276,945	\$314,499	\$410,000

¹ Services received through the Department of General Services.

² Contract costs for services of a private consultant total \$202,500 and were encumbered during fiscal years 1968-69 and 1969-70 with disbursements made in payments through December 1971.

³ Includes \$85,000 recorded as 1970-71 expenditures, for EDP services actually received during 1971-72.

Recommend Delay in Approval

We recommend that the Legislature withhold approval of funds to support the budget data system until April 2, 1973. By that date our office will complete a review of the system and report the results of this review to the fiscal committees.

There was not sufficient time for us to review adequately the contents of the December 22, 1972, report on the BDS before the publication of the Analysis. We believe such a review is required and anticipate that it can be completed by April 2, 1973.

The following are illustrative of the questions we will attempt to answer relative to the budget data system.

1. What is the exact nature of the budgetary information contained in the system data base?
2. Do the computer programs designed to develop reports and budget schedules produce the intended results and what is the nature and value of the reports which are generated by the system?
3. What will be the specific benefits to the Department of Finance in budget preparation, fiscal control and cash management?
4. What are the potential benefits to the administration and the Legislature in the area of improved financial management and do these benefits (including the benefits in "3" above) justify the costs?
5. Can the system provide the methodology to meet the requirements of Chapter 988 in a cost-effective manner?
6. Will the interactive features (the ability to access the data base via a remote terminal and display selected information) provide any real benefit to Department of Finance analysts, members of our staff and members and staff of the various legislative committees dealing with fiscal affairs?
7. What are the exact functions of the various subsystems and will they

provide the intended benefits to principal users?

8. Will there be valid budget information in both program and organizational format, and will this information be available to the Legislature on a timely basis?

The question raised in "8" should also be explored in broader terms relative to the progress and validity of the entire program budgeting effort. It is important to note in this regard that the program budget system was formally introduced in May 1966. Seven budgets have been developed and considered by the Legislature since the system was initiated. Given this extended period of time, we believe that it is necessary to assess the impact of this approach to budgeting and the information now available for legislative decision making in addition to determining the potential of the budget data system as a mechanism to enhance the budget and fiscal management process.

DEPARTMENT OF FINANCE—Continued

STATEWIDE ELECTRONIC DATA PROCESSING**Background**

The Department of Finance is responsible for statewide coordination and control of electronic data processing (EDP) for all agencies in California state government except the University of California, the state Compensation Insurance Fund, agencies provided for by Article VI of the Constitution, and the Legislature.

The provisions of Chapter 1237, Statutes of 1971 (AB 1663), Section 4 of the Budget Act of 1972 and Chapter 787, Statutes of 1972 (SB 1503), delegate various specific responsibilities to the Department of Finance. These responsibilities include: (1) the certification that expenditures for EDP meet certain criteria and procedures which have been established by the Legislature and which are included in the Supplemental Report of the Committee on Conference (Budget Bill of 1972), (2) the certification that all EDP activities contain adequate safeguards to insure the confidentiality of data (criteria for the safeguards are also contained in the conference committee report), and (3) the determination of the number and classification of personnel necessary to assist departments in carrying out data processing programs.

The Department of Finance assumed control over the state's EDP activities on July 1, 1971, after the Legislature removed funding support for the Office of Management Services. Following establishment of the EDP control and development unit (EDPCDU) as the group in Finance to carry out this responsibility, the Governor appointed a state data processing officer as provided for in Chapter 1237. The civil service position of chief of EDPCDU was also established. Authorized positions for this unit consist primarily of senior and supervising level systems analysts (a total of 15). The expenditure level for the 1973-74 fiscal year has been budgeted at \$415,158.

Because of substantial interest on the part of both the Legislature and the administration in controlling the proliferation of departmental computers and establishing a more efficient and effective statewide EDP program, the Department of Finance has taken an active role.

1972—A Year of Significant Accomplishment

Calendar year 1972 and the 1972 Regular Session of the Legislature were both characterized by numerous significant activities and accomplishments which will facilitate major changes in the organization and operation of the EDP program within state agencies.

These activities and accomplishments include the following:

1. The development of a plan by the Department of Finance EDPCDU entitled *Implementation Plan for the Consolidation of Electronic Data*

Processing in the State of California. This plan projected savings of \$185 million in direct cost reduction and cost avoidance over the next five years.

2. The approval of this plan by the Governor and his cabinet in April 1972.

3. The endorsement of the administration plan by the California Information Systems Implementation Committee (a joint legislative/executive committee established by Chapter 1237, Statutes of 1971, to resolve various EDP policy and organizational issues).

4. The inclusion of funds in the Budget Act of 1972 to begin implementation of the administration's consolidation plan subject to the enactment of legislation expressly authorizing consolidated data centers at the 1972 Regular Session.

5. The enactment of Chapter 787 which established the Business and Services, Revenue, Health and Welfare and Law Enforcement consolidated data centers. The administration plan proposed these four centers and the State Colleges consolidated data center. However, the latter did not require statutory authorization.

6. The development of specific requirements in both the Budget Act of 1972 and Chapter 787 relative to: (a) the use of competitive bidding for procurement of EDP equipment, personnel, facilities or supplies, (b) the required use of model contracts, (c) the security and confidentiality of data, and (d) the responsibilities of the various agencies participating in the program.

7. The enactment of Chapter 1254 which appropriated \$1 million for support and preparation of premises of the first new data center (Business and Services), designated the Stephen P. Teale Consolidated Data Center.

8. Initial steps in November 1972 for procurement of equipment and related services for the first consolidated data center.

In January 1967 we prepared a comprehensive report on EDP pursuant to SCR 34 (1966 First Extraordinary Session). This report identified: (1) the large and rapidly growing cost associated with EDP in the absence of any adequate state policy or planning, (2) the lack of standards, (3) a growing proliferation of departmental computers, (4) a scarcity of trained personnel, and (5) the installation of numerous independent information systems.

The period from 1966 to 1972 has been marked by a running controversy over how best to plan for and organize the state's EDP resources. Each edition of our Analysis in these years has contained a detailed presentation of the issues and numerous recommendations for legislative action. In addition, a number of reports were produced by both the legislative and executive branches expressing serious concern over the effective and efficient use of EDP.

Because many of the activities of the past six years surrounding the state's attempts to coordinate, control and utilize EDP effectively have

DEPARTMENT OF FINANCE—Continued

met with failure, we believe that it is essential to review the reasons for the failures and certain inadequacies in the existing state EDP program and suggest remedies which can be acted on concurrent with implementation of the existing consolidation plan.

Administration Plan Incomplete

We acknowledge the considerable progress which has been accomplished in a relatively short time by the Department of Finance and other administrative agencies associated with the consolidation effort. This effort has served to bring the state to a point where modern computer technology can now be applied to meet the information processing requirements of all state departments at reasonable costs.

However, because of: (1) the incompleteness of certain aspects of the administration's plan, (2) the many issues which have not been resolved during the period since our 1967 report, and (3) the continuing controversy over certain aspects of the current consolidation plan and effort, we have prepared for release in early February 1973 an updated version of our 1967 report. This report will provide a current assessment of the state's use of EDP and include various recommendations which in our judgment are essential for the successful implementation of the administration plan and the provisions of Chapter 787.

Summary of Findings

A partial summary of our findings follows:

1. There continues to be minimal involvement on the part of many state managers regarding EDP. In some instances this is caused by a lack of understanding of the technology and in other cases it is due to the abdication of responsibility to data processing management.

2. Most attempts by the administration to exact meaningful coordination or control over EDP have resulted in failure.

3. In the period from 1967 to 1972 the state has expended large sums of money to retain private consultants and develop sophisticated information systems. Many of these efforts have been characterized by cost and schedule overruns, user dissatisfaction, and major operational problems.

4. The development by the Department of Finance in a relatively short time of a plan to consolidate computer resources and its subsequent approval by the administration and the Legislature represents a major commitment to provide more cost-effective EDP services.

5. Throughout this plan the primary emphasis is on the consolidation of EDP hardware and hardware operations.

6. The plan as it exists in written form does not contain sufficient detail to permit adequate deployment of personnel resources, accurate budgeting, the ability to measure costs and benefits, or sufficient guidelines on the actual operation of consolidated data centers.

7. There was a definite lack of user participation in formulating the original plan. This situation has continued and we now find little communication with department directors concerning ramifications of the plan.

8. Numerous deficiencies regarding the state's use of EDP are not ade-

quately addressed in the administration plan.

Summary of Recommendations

Following is a partial summary of our recommendations :

1. The Department of Finance should develop a methodology for monitoring costs and savings related to current consolidation plans.
2. Immediate action should be taken to ensure that meetings of the advisory committee (made up of using departments) for the first data center are held on a regular basis.
3. The Department of Finance should incorporate into its consolidation plan a program for acquainting users of consolidated data centers with their roles, responsibilities and means for acquiring EDP services.
4. A plan should be developed to accommodate excess EDP personnel.
5. A comprehensive training program which provides a curriculum of both technical and nontechnical courses must be developed.
6. The Department of Finance and the agency secretaries responsible for operation of the consolidated data centers should initiate a joint effort immediately to implement the computer utility rate board concepts embodied in the EDP master plan.
7. The Department of Finance should provide the Legislature with a multiyear plan showing funds required for the major categories of expenses associated with the various consolidated data centers.
8. The appropriate committees of the Legislature should review state policies relative to the confidentiality of data and the rights of individuals to privacy.
9. The Department of General Services should take steps to organize an Information Management Services Division to provide comprehensive analytical and system design services to departments which require but do not possess sufficient expertise to adequately plan, design and implement information systems. We discuss this concept further in our analysis of the Department of General Services.

Governor's Budget Presentation of EDP Program

The Governor's Budget contains four items which provide a spending authorization for each of the four consolidated data centers: Stephen P. Teale, Revenue, Health and Welfare, and Law Enforcement.

These items actually show a zero appropriation because funds to support the data centers are derived from either transfers from other items or reimbursements for service. Funds are reappropriated in one instance only, and that is discussed in our analysis of the Health and Welfare Consolidated data center. Each departmental budget item where computer services are anticipated will contain a separate schedule entitled *Consolidated Data Center* which identifies funds available for transfer to the data center items on authorization by the Director of Finance. These funds include personal services related to computer operations, operating expenses and equipment or expenditures anticipated to purchase EDP services (in the case of departments not operating their own dedicated computers).

We discuss each of the proposed centers in the Analysis under its respective budget item.

DEPARTMENT OF FINANCE—Continued

Lack of Coordination Evident

The funding requests in the Governor's Budget relative to consolidated data centers illustrate to some degree the lack of overall coordination which we believe exists among the various units within the administration which are responsible for implementing the EDP consolidation plan.

For example, in our analysis of the Stephen P. Teale Consolidated Data Center, we note that although this center is developing a site and will select equipment in April 1973 for installation in May 1973, no permanent consolidated data center director has been appointed. We further observe that the entire effort for this center has been completed with no new positions. Instead, the Department of Finance EDP CDU, which organized and managed the entire process through a consolidation project office (CPO), has relied on over 50 technical personnel made available by the participating departments.

By contrast, the Health and Welfare Agency has appointed a permanent data center director and is requesting 21 new positions in the Governor's Budget even though a plan submitted to the Legislature on December 1, 1972, reflects a schedule calling for detailed planning and installations of equipment in a new data center in July 1975.

In our judgment, these two approaches represent opposite extremes and demonstrate the need for a practical and realistic administrative program to implement the consolidated data center concept.

Complete Planning Required

1. *We recommend that the Director of the Department of Finance, with assistance from the agency secretaries, respond at the time the budget is heard, to the findings and recommendations summarized above. To the extent that all recommendations cannot be examined adequately, a timely plan for resolution of the issues should be included in the response.*

2. *We recommend that the Legislature withhold approval of any requested funds for the conversion of departmental computer programs to the new EDP equipment scheduled for installation in the Stephen P. Teale Consolidated Data Center until the recommended Department of Finance response is received and reviewed.*

The review here of statewide EDP issues represents a partial summary of the findings, recommendations, and content of the report which we intend to release in early February 1973. When this document is transmitted to the Legislature and the administration we believe it can serve as a basis for completing the remaining essential elements of planning required to implement successfully the consolidated data center approach.

Because it is important for the legislative committees considering appropriations for consolidated data centers and also the committees reviewing such issues as confidentiality of data and individual privacy to receive assurance that adequate planning has been completed. To the extent that these issues and recommendations cannot be resolved at the time the budget is heard, the administration should formulate plans to assure that the issues are acknowledged and will be resolved in a timely manner.

Funds for conversion of departmental computer programs to the new EDP equipment scheduled for installation in the Teale Consolidated Data Center should not be authorized by the fiscal committees until the recommended report is received and determined to be an adequate response to the issues which we have raised.

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

Item 65 from the General Fund

Budget p. 37 Program p. I-181

Requested 1973-74	\$110,192
Estimated 1972-73	57,810
Actual 1971-72	48,200
Requested increase \$52,382 (90.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Reimbursements to Agencies. Recommend conditional approval of commission's \$50,000 request for reimbursements to state agencies for temporary transfers of personnel.

153

GENERAL PROGRAM STATEMENT

The Commission on California State Government Organization and Economy was created by the 1961 Legislature to review state organization and administrative procedures, and to promote economy and efficiency in state government. The commission makes its recommendations to the Governor and to the Legislature. The commission is composed of five citizens appointed by the Governor, four citizens appointed by the Legislature, and two legislative members from each house, with no more than 7 of the 13 members from one political party. Commission members are reimbursed for necessary expenses incurred in the performance of their duties, but receive no salary.

ANALYSIS AND RECOMMENDATION

The permanent staff of the the commission consists of an executive secretary and a senior stenographer. Additional support for the conduct of studies and investigations is obtained on an as-needed basis from other agencies or by contract with outside consultants. Consulting fees have been held to minimal amounts during the last four years by extensive use of personnel from other agencies temporarily assigned to the commission. In general, the salaries, staff benefits, and other expenses of agency personnel have not been charged to the commission's operations.

Agencies to Be Reimbursed

We recommend approval of \$50,000 requested for consultant and professional services, providing this amount is used solely for reimbursing other state agencies for temporary transfers of personnel, and that intera-

GOVERNMENT ORGANIZATION AND ECONOMY—Continued

agency service agreements are entered into by the commission and the agencies providing the personnel. We further recommend that the commission specify in future budget requests the projects it expects to undertake for the budget year, the agencies that will provide the staff, and the approximate reimbursements that will be made to each agency.

In our 1972-73 Budget Analysis, we recommend that interdepartmental transfers of positions be identified in the budgets of both the lending and receiving agencies. As a result, the commission is requesting \$50,000 in fiscal year 1973-74 for reimbursements to other agencies for the use of personnel. This amount is included in the budget as "consultant and professional services." The commission has not specified, however, the number of man-years it will require nor the agencies from which it expects to obtain personnel. Accordingly, there are no offsetting reductions in budgets of other agencies for anticipated reimbursements.

Commission Projects for 1973-74

During 1972 the commission completed its study on the procedures for the state's disposal of excess lands acquired for highway rights-of-way. The commission also completed its review of district and county fair subventions from the state. For 1973-74, the commission will continue its study of school construction and land utilization. This project, which was started in 1972, has disclosed that many school districts have land which has not been used for as long as 10 years. The commission has recommended liquidation of much of this excess land. Another major undertaking for 1973-74 will be a study of the feasibility of federal collection of state income taxes under the provisions of the Federal Revenue Sharing Act.

COMMISSION ON INTERSTATE COOPERATION

Item 66 from the General Fund Budget p. 37 Program p. I-183

Requested 1973-74	\$110,730
Estimated 1972-73.....	110,730
Actual 1971-72	110,730
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Commission on Interstate Cooperation is the vehicle through which the state participates in the Council of State Governments. The commission is composed of seven Senators, seven Assemblymen, and five state officials. The Governor appoints the chairman of the commission and the five state officials. Staff services are provided to the commission by the Council on Intergovernmental Relations under an agreement between the commission and the Governor.

The goal of the Council of State Governments is to strengthen state governments by assisting states in improving their legislative, administra-

tive, and judicial practices; by promoting state, local, and interstate cooperation; and by facilitating federal-state relations. To accomplish this goal the council publishes reports on current state problems, represents the states in Washington, D.C., and provides staff support to nine affiliated organizations. The National Governors' Conference, the National Legislative Conference and the National Association of Attorneys General are examples of organizations receiving support from the council.

Each state is also served by a regional office of the council. California is a member of the council's Western Conference whose offices are located in San Francisco.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

State support for the council during the 1972-73 fiscal year is estimated to be \$110,730. The proposed budget is also \$110,730. This is the amount requested by the council and is based on a formula reflecting the state's population.

At its annual meeting in Tucson, Arizona, on November 22, 1972, the Western Conference of the Council of State Governments adopted a resolution requesting each state to prepare, analyze and recommend an improved structure for the operation and organization of the Western Conference. It is our recommendation that this report address itself to two specific areas: (1) the size of the conference and (2) the functions of the staff of the Western Conference.

MILITARY DEPARTMENT

Item 67 from the General Fund

Budget p. 38 Program p. I-183

Requested 1973-74	\$5,258,640
Estimated 1972-73.....	4,623,445
Actual 1971-72	4,014,713
Requested increase \$635,195 (13.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The Military Department consists of three major units: the Army National Guard, Air National Guard, and administration (office of the commanding general, state military forces). The total proposed budget for the Military Department is nearly \$79 million. Of this amount, approximately 94 percent is federally funded with the remaining 6 percent from the

MILITARY DEPARTMENT—Continued

General Fund. It should be pointed out that due to the fire in the department's headquarters space in Sacramento there may be several changes requested in this proposal. The nature and extent of probable changes cannot be determined at this time. The affected personnel are temporarily located in several armories in the Sacramento area. The additional costs for this dispersed operation as well as all costs related to the fire should be available during budget hearings.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Army National Guard

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

The department requests \$3,840,581 for state support of this program. This represents an increase of \$612,330 (19 percent) over the \$3,228,251 estimated for the current year. A large portion of this increase was the anticipated increase in rental of office space in the Department of Motor Vehicles building. This increase was to bring the rate into agreement with rates charged for General Fund buildings. The recent fire will undoubtedly necessitate a modification. Also contributing to the requested increase is the need to modify arms and ammunition vaults, supply rooms, windows, security lighting and security fencing. In the last 12 months, the guard has suffered major losses of weapons and ammunition. The department expects its personnel level for the budget year to remain the same as the current year.

Air National Guard

The Air National Guard as an integral part of the state's military force consists of air force type units allocated to the state by the Department of the Air Force with concurrence of the Governor. The current staffing of officers and men is limited to 4,936 representing 89 percent of the authorized 5,530. There are 57 units at four flying bases and three nonflying installations throughout the state.

The department requests \$497,464 for this program representing an increase of \$34,633 (7.5 percent) over the \$462,831 estimated for the current year. This increase is due, in most part, to the increase in security personnel at Hayward and Van Nuys California Air National Guard Bases. Both bases are located on municipal airports and are highly subject to sabotage. Increased personnel will provide a security patrol of four positions at each location which places one person on duty when the base is not covered by the normal work force or being used for training purposes.

Office of the Commanding General

The office of the commanding general is composed of state active duty personnel and state and federal civil service personnel responsible for the management and administration of the Military Department. The department is requesting \$920,595 for support of this program. This represents a decrease of \$11,768 (1.3 percent) which is attributable to increased federal funding. The total proposed cost for this office is \$1,963,547, an increase of \$37,003. Federal funding has increased by \$44,222 and reimbursements by \$4,549 over the estimated current year funds. This program has two elements: command management and emergency plans and operations. Under the second element data are collected and plans, procedures and orders are prepared for employment of California National Guard personnel and resources to assist state and local authority in event of need for natural or man-caused emergencies. This element was housed in the Department of Motor Vehicles building and the extent of loss of the above data and plans is unknown at this time. Operations for such emergencies were normally conducted from the emergency operation center which was also located in the building. This operation center was completely destroyed by the fire.

Minor Capital Outlay

The department is requesting \$57,900 for minor capital outlay construction in the budget year. This is for minor improvement projects at various armories throughout the state.

Military Department
MILITARY RETIREMENT

Item 68 from the General Fund

Budget p. 38 Program p. I-190

Requested 1973-74	\$503,181
Estimated 1972-73.....	448,506
Actual 1971-72	342,188
Requested increase \$54,675 (12.2 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

This program applies only to military personnel ordered to state active duty prior to October 1, 1961. Chapter 2174, Statutes of 1961, provided that commencing October 1, 1961, military personnel ordered to active duty after October 1, 1961, would become members of the Public Employees' Retirement System and military personnel activated prior to that date would have the option of joining the state retirement system or remaining under the Military Retirement System.

There are now 44 people retired under this program and still living. They account for the current year's cost. Five additional eligible people are expected to retire during the budget year. They account for the added

MILITARY RETIREMENT—Continued

cost. Thereafter, only eight additional people will remain eligible for this program.

Military Department
CADET CORPS

Item 69 from the General Fund Budget p. 38 Program p. I-190

Requested 1973-74	\$110,762
Estimated 1972-73.....	101,749
Actual 1971-72	96,803
Requested increase \$9,013 (8.9 percent)	
Total recommended reduction	\$110,762

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. <i>State Support. Reduce \$110,762. Recommend state support for California Cadet Corps program be eliminated.</i>	158

ANALYSIS AND RECOMMENDATIONS

The California Cadet Corps is authorized by Sections 500 through 530 of the California Military and Veterans Code. Section 500.1 mandates that “. . . each college, community college, high school and senior high school in this state having 100 or more male students at 14 years of age or older and in which there is not maintained an ROTC unit shall establish a cadet company . . .”. The section provides that a cadet company is not required unless a number of qualified male students sufficient to constitute a company voluntarily enroll. Schools with less than 100 male students may establish a cadet company. Participation in the Cadet Corps has declined from 3,823 at 76 schools in 1971, to 3,236 students in 73 schools in 1972. It should be pointed out that 224 of these students are enrolled in the program in four private military academies. It is also interesting to note that 46 percent of student participation in public schools is located in three school districts in the state.

State Support

We recommend deletion of state support for the California Cadet Corps.

The Military Department provides coordination and educational program direction for participating schools. The educational program materials have been developed and the completion of the program is such that those with responsibility in the participating schools should be able to meet student needs using the available materials. Coordination and/or program review could be done by personnel presently in the State Department of Education who provide this type of service for other educational programs. The total cost for the Cadet Corps program in fiscal year 1972-73 is estimated to be \$312,679, of which \$101,749 is state cost, \$196,508

public school cost and \$14,350 private school cost. If state support in the Military Department is deleted, the school districts would need to absorb only approximately \$30,000 or one-third of the state expense. The remaining state funds are directly related to support of California military personnel. We want to stress that, in our opinion, the Cadet Corps program can continue to operate under our recommendation.

PUBLIC UTILITIES COMMISSION

Items 70-71 from the General

Fund and the Transportation

Rate Fund

Budget p. 40 Program p. I-200

Requested 1973-74	\$14,116,384
Estimated 1972-73.....	13,623,603
Actual 1971-72	12,175,109
Requested increase \$492,781 (3.6 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
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| 1. Staffing. Recommend addition of one senior supervising transportation engineer for rapid transit safety analysis, funding to be secured by transferring \$21,603 of consultant funds to the personal services category of the budget. | 164 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

GENERAL PROGRAM STATEMENT

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

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

Commission Organization

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

The commission's staff of 789 authorized positions is organized into six

PUBLIC UTILITIES COMMISSION—Continued

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

Programs

The commission's two major programs are (1) regulation of transportation companies and (2) regulation of utilities. These programs are administered by the Division of Transportation and the Division of Utilities, each of which receives supportive services from the other four divisions. Approximately 63 percent of the commission's staffing and expenditures are allocated to regulation of transportation, while the remaining 37 percent relate to regulation of utilities.

Operating Procedures

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

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

Support of the Commission

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

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

ANALYSIS AND RECOMMENDATIONS

The commission's budget-year request of \$14,116,384 is \$492,781 or 3.6 percent over estimated expenditures for the current year. However, the department anticipates \$111,000 in federal funds for gas pipeline safety analysis and grade crossing safety studies plus other reimbursements totaling \$140,000 (sale of transcripts and payments from the Controller's office for expenses incurred in collecting the Uniform Business License Tax) resulting in a total proposed expenditure program of \$14,367,384. Compared to the current year, this represents a total program expenditure increase of \$496,281 consisting of (1) \$230,925 for personal services (mostly attributable to 16 proposed new positions discussed later in this analysis), (2) \$130,356 for operating expenses and equipment (including \$21,603 for a consultant to assist the commission in evaluating safety aspects of the Bay Area Rapid Transit District's operations), and (3) \$135,000 for funding the new consolidated data center.

The budget indicates that \$7,622,847 or 54 percent of the net program expenditure (excluding reimbursements) is to be paid from the General Fund (an increase of \$391,374 or 5.4 percent over the current year) with the remaining \$6,493,537 or 46 percent to come from the Transportation Rate Fund (an increase of \$101,407 or 1.6 percent over the current year).

We have been advised by the commission that the Governor's Budget erroneously identifies man-year allocations to the Utilities and Transportation programs for the budget year. The total man-year increase is 14.4 (not the 15.3 shown in the budget) comprised of 7.3 man-years for the Utilities program and 7.1 man-years for the Transportation program (instead of the 8.3 and 7 man-year figures shown). All discussion of staffing in this analysis will use the corrected figures given to us by the PUC.

Table 1 shows on a program basis the commission's staffing and expenditure data for the past, current and budget years.

Table 1
Public Utilities Commission
Program Expenditures

<i>Program</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Requested Increase over 1972-73 Amount Percent</i>	
Regulation of utilities					
Man-years	238	250.7	258	7.3	2.9
Expenditures	\$4,694,903	\$5,176,620	\$5,447,966	\$271,346	5.24
Regulation of transportation					
Man-years	423.1	424.5	431.6	7.1	1.7
Expenditures	\$7,709,602	\$8,694,483	\$8,919,418	\$224,935	2.6
Administration distributed to other programs					
Man-years	89.7	96.7	96.7	—	—
Expenditures	(\$1,525,730)	(\$1,563,257)	(\$1,620,150)	\$56,893	3.6
Program totals					
Man-years	750.8	771.9	786.3	14.4	1.9
Expenditures	\$12,404,505	\$13,871,103	\$14,367,384	\$496,281	3.6
Less Reimbursements	(229,396)	(247,500)	(251,000)	3,500	1.4
Net program totals	\$12,175,109	\$13,623,603	\$14,116,384	\$492,781	3.6
General Fund	6,031,011	7,231,473	7,622,847	391,374	5.4
Transportation Rate Fund	5,874,098	6,392,130	6,493,537	101,407	1.6

PUBLIC UTILITIES COMMISSION—Continued

After deducting the equivalent of 20.8 positions for salary savings, the commission anticipates utilizing 786.3 man-years in the budget year, an increase of 14.4 (rather than 15.3 as shown in the budget) over the current level.

Staff Increases

The commission is requesting a total of 16 new state-funded positions for a state cost of \$250,738 (allocated \$220,223 to the General Fund and \$30,517 to the Transportation Rate Fund), plus an additional 4 positions which will be financed by the federal government. Administrative adjustments reflect the deletion of a transportation analyst III, thus resulting in a net increase of 19 positions.

Table 2 identifies the proposed 16 new state-funded positions by title and division. The four federally funded positions (three assistant transportation engineers and one transportation rate analyst III) are developing grade crossing protection guidelines under a project which is scheduled to terminate on June 30, 1974.

Table 2
Public Utilities Commission
Proposed New Positions

<i>Division</i>	<i>Position</i>	<i>Number</i>	<i>Total cost</i>
Administrative	Clerk-typist II	1	\$8,845
Utilities	Associate utilities engineer	3	56,976
	Assistant utilities engineer	3	48,093
	Stenographer II	1	8,845
Finance and Accounts	Public utilities fin. exam. III	1	18,590
	Public utilities fin. exam. II	1	15,720
Transportation	Senior supervising trans. engineer	1	21,603
	Associate trans. engineer	1	18,992
	Associate trans. rate expert	1	18,589
	Trans. analyst III	1	15,720
	Clerk-typist II	1	8,299
Legal	Senior legal steno.	1	10,468
Totals.....		16	\$250,740

REGULATION OF UTILITIES PROGRAM

The Regulation of Utilities Program is composed of four elements: (1) regulation of rates, which conducts the basic financial analysis of rate adjustment proposals; (2) service and facilities, which is concerned with the adequacy of utility service and facilities; (3) certification, which acts on applications filed by utility companies desiring to construct or extend facilities to areas not previously served; and (4) safety, whose two units, gas safety and electric safety, are responsible for ensuring adherence to minimum standards in the construction, operation and maintenance of utility plants.

The commission proposes to utilize 7.3 man-years of the positions shown

in Table 2 for the Regulation of Utilities program. Most of this increase (5.4 man-years comprised of 4.7 engineering and 0.7 clerical) will be used to meet workload requirements in the regulation of rates element associated with rate increase proposals by utility companies. The commission reports that as of June 30, 1972, major rate increase applications were pending in the amount of \$416,617,100 (erroneously shown as \$146,617,100 in the budget) and that a total of \$467,000,000 in rate increase applications is expected to be filed during the current year. This workload is expected to remain at a high level in the budget year.

Other man-year additions to the utilities program include (1) 0.9 man-year for the service and facilities element to study the adequacy of utility company service and facilities, (2) 0.6 man-year for the certification element to act on applications by utility companies to construct new facilities or extend existing ones, and (3) 0.4 clerical man-year for the safety element to perform clerical activity related to utility plant safety inspections.

Table 3 shows basic workload indicators pertaining to the regulation of utility rates.

Table 3
Public Utilities Commission
Regulation of Utilities Program Workload Data

<i>Item</i>	<i>Actual 1969-70</i>	<i>Actual 1970-71</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Estimated 1973-74</i>	<i>Percentage change since 1969-70</i>
Amount of utility charges to consumers (billions)	\$4.53	\$5.14	\$5.98	\$6.58	\$7.18	59
Amount of rate increase applications (millions)	\$432	\$278	\$234	\$467	\$400	-7
Number of rate decisions	121	80	150	140	150	24
Commission resolutions	300	380	448	470	490	63
Advice letters	1,050	1,320	1,067	1,320	1,350	29
Public inquiries	8,850	9,590	15,595	13,000	13,300	50
Informal complaints	2,340	2,500	3,699	3,400	3,600	54
Expenditures (millions)	\$3.24	\$3.44	\$3.21	\$3.72	\$3.99	23
Personnel man-years.....	177	175	161.7	180.7	189	7

REGULATION OF TRANSPORTATION PROGRAM

The Regulation of Transportation program is composed of four elements: (1) regulation of rates, which conducts the basic financial analysis of rate adjustment proposals for transportation and warehouse services; (2) services and facilities, which is concerned with the adequacy of service of all classes of transportation companies, (3) licensing, which acts on applications filed by for-hire carriers or warehousemen desiring to operate in California and (4) safety whose two units, railroad safety and grade crossing safety are responsible for ensuring adherence to minimum standards in the operation of railroads, rapid transit systems, and railroad highway grade crossing facilities.

The PUC plans to use 7.1 additional man-years in the regulation of transportation program. The increase consists of: (1) 2.9 man-years for the rate element to meet a workload backlog in inter-state surface and air travel regulation, (2) 1.1 clerical man-years for the licensing element to

PUBLIC UTILITIES COMMISSION—Continued

handle workload associated with aircraft and boat insurance certification, (3) 1.1 man-years for the service and facilities element to work on air travel problems concerning the relatively high turnover of operators, and (4) 2 man-years (consisting mainly of a senior supervising transportation engineer and a transportation analyst III) for the safety element.

The transportation analyst will work on airline safety problems involving hijacking, and the engineer will be used to monitor the Bay Area Rapid Transit District (BART). The commission proposes to employ an additional safety engineer on a consulting basis to assist the staff engineer, and has budgeted \$21,603 for this purpose under the operating expenses category. Although not reflected in the Governor's Budget, the proposed staff engineer has been added administratively in the current year as a consequence of the unfavorable reports on the safety of the BART system. In our judgment, however this staffing proposal falls short of responding adequately to the critical nature of BART's safety problems, and we therefore recommend an additional staff position, in lieu of a consultant, as discussed below.

We recommend the addition of one senior supervising transportation engineer for rapid transit safety analysis, costs for this function to be derived by transferring \$21,603 in consultant funds earmarked for this purpose to the personal services category of the commission's budget.

The Transportation Division of the Public Utilities Commission has been delegated the responsibilities outlined in Section 29047 of the Public Utilities Code, which states that BART shall be subject to the PUC's safety regulations. In keeping with the responsibilities of this legislative directive, the PUC adopted general order No. 127 on August 15, 1967, which set forth regulations governing the construction, maintenance and operation of the BART automatic train control system. (In a report prepared by this office last November, we discussed the major problems affecting the reliability of this system.) Full implementation and enforcement of the regulations contained in PUC general order No. 127 is essential to the safe operation of BART, and in order to meet this obligation the commission has indicated a need for two full-time positions. The proposed contractual services approach to meeting half of this staffing requirement is inconsistent with the long-term needs for safety expertise on the PUC staff, consultants' services being normally limited to short-term projects or situations in which state salary structures are inadequate to attract the specialized or highly skilled talent required. The PUC advises us, however, that its present salary schedule is adequate to recruit an additional senior supervising engineer (\$1,337 to \$1,626 per month), and the funds proposed for consulting services would cover this cost. Accordingly, we recommend that the consultant funds be transferred to the personal services category to finance the engineering position.

Estimates of Salary Savings Appear High

The department is estimating budget-year salary savings of \$271,284 representing 20.8 man-years. This estimate appears to be excessive. Salary savings represent money saved through personnel turnover (which re-

sults in lower beginning salaries), retirements and temporary vacancies in authorized positions. A large savings estimate may represent a "freeze" on filling positions rather than a realistic projection of normal turnover in vacancy factors. Positions not required should be deleted from the budget. However, if these positions are needed, as all workload indicators of the commission reflect, every attempt should be made to fill them.

COMMISSION ON THE STATUS OF WOMEN

Item 72 from the General Fund

Budget p. 41 Program p. I-210

Requested 1973-74	\$52,940
Estimated 1972-73.....	63,388
Actual 1971-72	33,749
Requested decrease \$10,448 (16.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Advisory Commission on the Status of Women was established by Chapter 1378, Statutes of 1965, and was to terminate on June 30, 1967. However, the existence of the commission has been extended by subsequent legislation enacted in 1967 (Chapter 854), 1969 (Chapter 721) and 1971 (Chapter 541). The most recent legislation deleted the word "advisory" from the commission's title, continued the commission without a termination date, broadened its functions and appropriated \$45,500 from the General Fund for its support. The law requires that the commission report to the Legislature "from time to time, but not less often than every odd-numbered year."

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

The commission is directed by statute to study:

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

The commission also acts as an information center, project coordinator and adviser to organizations concerned with women's needs and problems. The 1969 legislation mentioned above authorized the commission to

COMMISSION ON THE STATUS OF WOMEN—Continued

encourage women's organizations and other groups to promote implementation of its recommendations and gather information concerning women's educational, employment and related needs at the local level.

ANALYSIS AND RECOMMENDATION*We recommend approval.*

During the 1972-73 fiscal year, the commission has scheduled several public hearings throughout the state to update its information on problems affecting women and progress toward their solution. The hearings will focus on conditions, practices or laws which impose special hardships on women and factors which would increase the ability, motivation or opportunity of women to contribute fully in and to society.

In the budget year, the commission plans to initiate new research programs based on input from these hearings. It also plans to expand its regular functions of (1) acting as an information center, (2) giving technical and consultive advice, and (3) developing material and projects for local self-help groups.

The commission's requested expenditure of \$52,940 is \$10,448 or 16.5 percent below estimated expenditures for the current year. The current year budget reflects a carryover surplus of \$11,751 derived from Chapter 541, mentioned above, which the commission is using to finance current year costs attributable to the public hearings and preparation of its 1973 report to the Legislature.

INTERGOVERNMENTAL BOARD ON ELECTRONIC DATA PROCESSING

Item 73 from the General Fund

Budget p. 42 Program p. I-211

Requested 1973-74	\$54,756
Estimated 1972-73.....	32,500
Actual 1971-72	5,000
Requested increase \$22,256 (68.5 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Definition of Goals. Recommend annual report to Governor and Legislature identify specific goals to be achieved by the Intergovernmental Board on Electronic Data Processing.

168

GENERAL PROGRAM STATEMENT

The Intergovernmental Board on Electronic Data Processing (IBEDP) was established by Chapter 1327, Statutes of 1968, and continued by Chapter 1193, Statutes of 1970. Principal responsibilities of the board are to establish policies, goals and objectives relative to intergovernmental infor-

mation systems, determine priorities, provide for methods of coordination and review, set systems standards, and provide advice to the Legislature and the Governor on policies, plans and programs involving the use of electronic data processing (EDP) in systems of an intergovernmental nature. The board may also recommend any legislation necessary to ensure the protection of individual privacy and the confidentiality of information becoming a part of an intergovernmental information system.

The board, which consists of 14 members appointed by the Governor, elects its own chairman. Members serve without compensation except that the chairman is reimbursed for actual expenses incurred in the performance of his duties.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The 1970 Legislature reduced the board's budget for the 1970-71 fiscal year by \$37,455 due to fiscal constraints and a lack of accomplishment. The board was directed to reevaluate its purpose and set a limited number of specific objectives which could be accomplished during 1970-71. With limited staff support obtained by contract from the Council on Intergovernmental Relations (the executive secretary was not retained because of insufficient funds), the board attempted to implement the legislative mandate.

The board continued to function largely through a technical advisory committee comprised of state and local EDP personnel who provide their services on a voluntary basis.

During this period a revision to the intergovernmental system evaluation criteria and an updating of the *Manual of Guidelines* for implementing intergovernmental systems were published. Both of these efforts had been recommended by the Supplementary Report of the Committee on Conference (Budget Bill of 1971). The board also recommended legislation regarding the security and privacy of computerized information and continued to review, on a contractual basis, all proposed information systems for which federal funds are requested through the California Council on Criminal Justice (CCCJ).

More Critical Role Assumed

In December 1971, the board began a review of the Expanded Data Reporting System (EDRS), an automated welfare information system of an intergovernmental nature which was proposed by the State Department of Social Welfare. In addition to the board's normal statutory responsibility, the Intergovernmental Welfare Management and Information Systems Act of 1969 (Welfare & Institutions Code, Article 1.5, Statutes of 1969) requires that the Department of Social Welfare submit its plan for an integrated welfare information system to the IBEDP for adoption by the board.

The technical advisory committee to the board reviewed and commented upon EDRS and a users group has been formed by the board to ensure that: (1) the proposed system meets intergovernmental information systems criteria as defined by the IBEDP, and (2) the provisions of the Intergovernmental Welfare Management and Information Systems Act of

**INTERGOVERNMENTAL BOARD ON
ELECTRONIC DATA PROCESSING—Continued**

1969 relating to the board's involvement with the proposed system are complied with.

Because of numerous significant problems regarding EDRS and the apparent inability of the administration's EDP control agency and the Department of Social Welfare to resolve these problems, as discussed in our analysis of that agency, we believe that the board can play a vital role in focusing attention on problems with the proposed system to ensure the development of an efficient and effective intergovernmental welfare system.

Current Year Budget Augmentation

Recognizing the constraints imposed by the limited budget and the board's recent attempts to comply with legislative intent and redirect its efforts in a more effective manner, we recommended in our Analysis of the Budget Bill for the 1971-72 fiscal year that the board make provision for full fiscal and operational autonomy in 1972-73.

Accordingly, we recommended a \$10,000 augmentation to enable the board to once again acquire the services of a full-time executive secretary and a half-time clerical position. The augmentation amount was based on anticipated federal funds which would have provided sufficient overall funding. When it was determined that the federal funds were not available the Legislature granted the board another \$15,000 in addition to the \$10,000.

In providing the \$25,000 in additional funding, the Legislature also required through Budget Act language that "... in addition to the basic responsibilities assigned the board by law, the funds available to the board shall be used to the fullest extent possible to develop the best possible communications between state and local governmental units in the development and implementation of coordinated data processing systems to achieve the maximum amount of interchangeability between the various levels of government."

Expanded Current Year Program

With increased funding for the 1972-73 fiscal year, the board acquired the full-time services of both an executive secretary and a clerical position. We have noted increased activity on the part of the board which includes the formation of the EDRS users group, the review of proposed systems for the CCCJ, a determination of the statewide applicability of the California Education Information System (CEIS), and the distribution of the revised *Manual of Guidelines*. There are indications also that the board will broaden its activities in the areas of security and privacy and expand the review of existing intergovernmental systems.

Specific Goals Needed

We recommend that the Intergovernmental Board on Electronic Data Processing (IBEDP) indicate to the Legislature specific goals that the IBEDP intends to accomplish in the 1973-74 fiscal year. We understand that because the board was without staff for a protracted period, it will be making a belated annual report to the Governor and the Legislature (as

required by statute) in the Spring of 1973. We recommend that the goals be identified in that report.

In the 1970-71 analysis we recommended that the board limit its specific objectives. We believe that this continues to be a valid recommendation. The board should concentrate on a few select areas and gradually build upon a base of proven success. The problems associated with EDRS have not been resolved and the board's effectiveness in other areas such as security and privacy has yet to be demonstrated.

CALIFORNIA ARTS COMMISSION

Item 74 from the General Fund

Budget p. 44 Program p. I-215

Requested 1973-74	\$247,181
Estimated 1972-73.....	209,818
Actual 1971-72	167,987
Requested increase \$37,363 (17.8 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Funding Art Programs. Recommend budgeting of state funds for art programs through the Arts Commission to maximize federal matching funds. 170

GENERAL PROGRAM STATEMENT

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

The commission, which is composed of 15 members appointed by the Governor plus two Assemblymen and two Senators appointed by their respective houses, is representative of all fields of the performing and visual arts. The commission and its presently authorized staff of 20 positions have assisted communities in establishing 163 local art councils and developing cultural programs by providing technical advice and support when requested.

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

During the current year, the commission plans to sponsor 28 projects involving the performing arts (music, dance, theater), the visual arts (exhibitions and touring museum programs), film (educational TV, documentaries, school films), literature, and provide such services as consultation and technical assistance for special projects to community art councils. A similar program level will be maintained in the budget year.

CALIFORNIA ARTS COMMISSION—Continued**ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

The commission's requested General Fund expenditure of \$247,181 is \$37,363 or 17.8 percent above estimated General Fund expenditures for the current year. However, the commission anticipates a total budget year expenditure program of \$447,181, which includes federal funds plus \$25,000 in private donations to the California Arts Commission Fund.

Current and budget year revenue projections for the California Arts Commission Fund reflect a substantial reduction (down \$355,000) from the \$380,000 amount originally projected for the current fiscal year in the 1972-73 budget document. The commission advises that, based on past experience, the \$25,000 figure represents a more realistic estimate of cash donations to the fund. However, the commission does coordinate the donation, from private sources, of a substantial amount of materials and services (a combined average of approximately \$2 million annually) which are not reported through the fund. The commission is instructed by the Department of Finance to report only donations of cash which it specifically controls through the California Arts Commission Fund.

The 1973-74 budget also projects federal grants to the commission totaling \$175,000. The commission plans to use \$25,000 of the budget year General Fund increase to secure \$25,000 of these federal funds. The remainder of the General Fund increase is primarily attributable to increases in operating expenses and staff benefits.

Positions Deleted

During the current year, eight positions (3 associate arts advisers, 3 assistant arts advisers, and 2 stenographer II's) were deleted from the commission's budget in accordance with Section 20, Budget Act of 1972. This section provides for the deletion of positions which were continually vacant between October 1, 1971, and July 1, 1972. The commission advises that it can adequately handle its workload at the reduced staffing level.

Consolidation of State Art Expenditures

We recommend that a Department of Finance task force be established for the purpose of ascertaining the annual amount of state funds being spent on art programs in California, that this information be supplied to the California Arts Commission by August 15 of each year and that efforts be taken to maximize federal matching funds by budgeting, when possible, all state expenditures for arts activities under the Arts Commission.

Federal grants for art purposes are apportioned to the state by the National Endowment of the Arts on the basis of state population and the amount of state matching funds available for art projects. The practice of treating only the state's direct appropriation to the California Arts Commission as the level of support for arts programs places California in a disadvantageous position in relation to other states for the purpose of obtaining matching federal funds. The commission advises that California is ranked 45th among the states on the basis of its current year Arts Commission appropriation, which represents \$0.0084 per capita.

However, California does expend other funds on art projects through direct appropriation to other state agencies, such as the Department of Parks and Recreation. If such expenditures were reflected in the commission's budget, California might be able to obtain additional federal funds, assuming that the state agencies whose budgets would be affected would be able to develop arts programs that qualify for federal matching grants and would be willing to transfer funds to the Arts Commission for matching purposes. Other states, such as New York, give their arts commissions control over all state funds spent on art projects, which makes these states appear to be spending a larger total amount for art projects than California, even though this may not be the case. Therefore, establishment of a Department of Finance task force for the purpose of identifying the annual amount of state funds being spent on art programs in California might enable the Arts Commission to secure a larger annual grant from the National Endowment of the Arts. The commission advises that, if such action were taken early in 1973, it might be possible to qualify for a larger federal allocation in the budget year. In that event, the 1973 Budget Bill would need to be amended to reflect the transfer of funds from the affected state agencies to the Arts Commission.

HORSE RACING BOARD

Item 75 from the Fair and Ex-
position Fund

Budget p. 45 Program p. I-218

Requested 1973-74	\$470,638
Estimated 1972-73.....	446,045
Actual 1971-72	366,350
Requested increase \$24,593 (5.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Horse Racing Board, which consists of three members appointed by the Governor for four-year terms, supervises all race meetings in the state where parimutuel wagering is conducted. The board has a staff of 28.2 authorized positions and its main office is in Los Angeles. It maintains mobile offices which are moved from track to track as the racing season progresses throughout the state. These offices are staffed by license clerks and track investigators. The stated purposes of the board are (1) the protection of the betting public, (2) the sanctioning of every person who participates in any phase of horseracing, (3) acting as a quasi-judicial body in matters pertaining to horseracing meets, and (4) collecting the state's share of revenue derived from horseracing meets.

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

HORSE RACING BOARD—Continued**ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

Number of Racing Weeks Increased in 1972 and for 1973

State law limits the number of weeks of horseracing each year exclusive of state and county fair racing. In 1971 a total of 122 weeks of racing was allowed. Chapter 1759, Statutes of 1971, (AB 205) authorized an additional 18 weeks of racing per year beginning in 1972. In order to meet the increased workload in licensing and enforcement, the board was granted a budget augmentation for an additional five positions (three for licensing, and two for enforcement) in 1972. This represents a 20 percent increase in staff, and brings the board's total to 28 employees.

LICENSING

The board licenses all persons who are participants in activities connected with horseracing. These occupational licenses encompass 37 different job classifications including trainers, jockeys, parimutuel clerks, stable employees, owners, and officials. Licensing offices are in operation at each racetrack during the time a meet is in progress.

In our 1972-73 Budget Analysis we recommended legislation to eliminate the requirement that all occupational licenses be renewed annually. Chapter 303, Statutes of 1972, (AB 497) permits the Horse Racing Board to issue licenses for periods of up to three years starting in early 1973. Implementation of this change will reduce the licensing workload and should minimize future requirements for staff increases in this activity.

Table 1
Number and Revenues from Horseracing Occupational Licenses

	<i>Actual</i> 1970-71	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Estimated</i> 1973-74
Number issued	15,421	17,271	19,000	20,900
Fees	\$266,895	\$304,735	\$335,000	\$368,000
Board's licensing personnel.....	6.4	7.0	10.2	10.2

ENFORCEMENT

Supervision of racing activities and of all individuals within the race-track grounds is the responsibility of the board's bureau of investigation. The racing associations across the U.S. maintain active files on persons inimical to horseracing and circulate this information to California. Racing stewards appointed by the board have the power to suspend occupational licenses for violation of the board's rules. The licensee can appeal the steward's decision to the board. If the board denies the appeal, the licensee may take his appeal to the civil courts.

Table 2 shows the number of racing days and number of disciplinary hearings, which are indicative of the enforcement workload.

Table 2
**Number of Horseracing Days, Disciplinary Hearings,
and Horse Racing Board Enforcement Personnel**

	<i>Actual</i> 1970-71	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Estimated</i> 1973-74
Number of racing days	740	816	888	910
Number of disciplinary hearings by board..	126	127	140	154
Number of enforcement personnel	8.7	9.1	11	11

ADMINISTRATION

The board's administrative and business service activities contain the functions that are essential to the operation of all other programs. Staffing requirements are based upon the number of days and length of racing weeks, geographical location and number of racing meetings which may be in progress at any given time. The board currently licenses 23 race meetings. Seven man-years are allocated to this program element at a cost of \$126,451 for the 1973-74 budget year.

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

Item 76 from the Board of Pilot
Commissioners' Special Fund

Budget p. 46 Program p. I-222

Requested 1973-74	\$38,904
Estimated 1972-73	44,253
Actual 1971-72	33,224
Requested decrease \$5,349 (12.1 percent)	
Total recommended augmentation	\$5,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *General Expense. Augment \$5,000.* Recommend reflection of full increase in Department of General Services assessments.

174

GENERAL PROGRAM STATEMENT

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun consists of three members, appointed by the Governor, who receive part-time salaries of \$300 per month. The board maintains an office in San Francisco and has an authorized staff of one full-time secretary.

The board is responsible for supplying qualified pilots for vessels entering or leaving the Bays of San Francisco, San Pablo and Suisun. Bar pilots were the first occupational group to be licensed (since 1850) by the State of California. The law limits the number of licensees to 30 and the minimum is set at 24. Presently, 25 pilots are licensed by the board.

The board administers a single program of licensing and regulating bar pilots. It conducts pilot examinations and acts on disciplinary complaints. It also provides staff services to the Pilotage Rate Committee, a body established in 1961 to prepare recommendations on pilotage rates for submission to the Legislature. This committee is composed of five mem-

SAN FRANCISCO, SAN PABLO AND SUISUN—Continued

bers appointed by the Governor to four-year terms, two representing the pilots, two the shipping industry, and one representing the public. The public member draws a \$50 per diem when meeting and also receives travel expenses.

ANALYSIS AND RECOMMENDATIONS

We recommend that the "general expense" category of the board's 1973-74 budget be increased by \$5,000 to reflect probable budget year costs. This will result in a board support level of \$43,904, which is \$349 less than the current-year support level.

In fiscal year 1973-74 the board proposes to expend \$38,904, which is \$5,349 or 12.1 percent less than estimated expenditures for the current year. This decrease reflects a reduction in the category of "general expense," which includes expenditures for the board's office operations as well as assessments by the Department of General Services for such things as printing, procurement, messenger service and pro rata expenses for various control agencies such as the Department of Finance and the State Controller. The board was granted a deficiency authorization of \$7,223 in the current year to cover increases in these various assessments by the Department of General Services.

By all indications, the board's general expense category will remain at least at the 1972-73 level, and it appears that this expenditure category was reduced primarily to avoid showing a year-end deficit in the Pilot Commissioner's Special Fund. As discussed below, however, this fund will have sufficient revenue available in the 1973-74 year to finance the board's normal expenses.

Support Funds

The board and the Pilotage Rate Committee are supported by the Pilot Commissioner's Special Fund, revenue for which is derived from a percentage assessment on pilot fees collected directly by the pilots from ships which they pilot. Every vessel passing in or out of the Golden Gate is subject to payment of such fees. The law provides for a maximum assessment of 5 percent on pilotage fees to be paid to the Pilot Commissioner's Special Fund. Until recently, the assessment on such fees was set at 2 percent; however, the board increased this assessment to 3 percent (effective January 1, 1973) in order to provide for the operating costs of the board and to provide a more adequate surplus in the Pilot Commissioner's Special Fund. The budget document shows an estimated surplus of \$1,417 in the fund at the end of 1973-74. However, based on the 3-percent assessment, the surplus should approximate \$28,418. Our recommended increase in the board's general expense category reduces this surplus to \$23,418.

Chapter 1708, Statutes of 1972, increased the bar pilotage rate from five mills (\$.0005) to seven and seven-tenths mills (\$.00077) per high gross registered ton of a vessel. Among other things, the statute (1) excludes the amounts received from the increased pilotage rate from the percentage assessment for the Board of Pilot Commissioner's Special Fund, and (2) provides that sufficient money from the pilotage rate increase shall be

deposited in a boat building and equipment replacement trust fund to provide \$86,000 annually for boat building and equipment replacement purposes.

HEALTH BENEFITS FOR ANNUITANTS

Item 77 from the General Fund

Budget p. 48 Program p. I-231

Requested 1973-74	\$5,157,933
Estimated 1972-73.....	4,317,946
Actual 1971-72	3,111,093
Requested increase \$839,987 (19.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The objective of this program is to provide a degree of postretirement security for employees and their dependents by defraying up to \$16 per month of the premium of a state-approved health insurance plan. Chapter 907, Statutes of 1972, increased this contribution from \$14 to \$16 effective August 1, 1972, instead of the originally scheduled date of July 1, 1973 (the date set by Chapter 212, Statutes of 1970).

This budget item includes an amount equivalent to 2 percent of the total premiums paid which is deposited in the State Employees' Contingency Reserve Fund for administrative and contingent expenses. The annual support for the Health Benefits Division of the Public Employees' Retirement System (which administers the program) is derived from this fund.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The \$5,157,933 requested for the budget year is to provide payment for part or all (depending on the plan) of the health plan premiums for an estimated 27,726 annuitants of the state's retirement systems. In the current year, an estimated 24,539 annuitants, an increase of 13 percent, will be covered by this program.

This program is similar to one covering active employees as described on analysis page 319. The difference, however, is in the manner of funding. The state's contribution for the active employee appears in the staff benefits portion of the personal services category of individual agency budgets and is paid by the fund from which the employing agency is supported. However, this program for the retired employee is financed entirely from the General Fund.

REFUND OF TAXES, LICENSES AND OTHER FEES

Item 78 from the General Fund Budget p. 48 Program p. I-232

Requested 1973-74	\$30,000
Estimated 1972-73.....	30,000
Actual 1971-72	14,664
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides a source of funds from which expeditious refunds can be made for erroneous payments or overpayment of taxes, licenses, and other fees which are noncontroversial, thereby avoiding the necessity of filing claims with the Board of Control and inserting items in the Claims Bill.

Business and Transportation Agency

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 79 transfers from other
 items and reimbursements
 from various funds.

Budget p. 49 Program p. I-236

Transfers and reimbursements	
Requested 1973-74	\$12,775,648
Estimated 1972-73.....	3,617,392
Requested increase \$9,158,256	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Computer Program Conversion. Withhold recommendation pending receipt of augmentation letter from the Department of Finance requesting funds for conversion. 177

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four consolidated data centers authorized by the 1972 Legislature. This center, which is a part of the Business and Transportation Agency, will provide electronic data-processing (EDP) services to 34 units of state government including the Departments of Public Works, Motor Vehicles, Water Resources, General Services, Education, and Finance. Also served will be the State Controller, State Treasurer, Secretary of State, and the Legislature.

The center was originally referred to as the Business and Services Consolidated Data Center in the *Implementation Plan for the Consolidation of Electronic Data Processing in the State of California* which was approved by the administration in April 1972. The name of this center was changed to the Stephen P. Teale Consolidated Data Center by the enactment of Chapter 1254, Statutes of 1972, which also appropriated \$1 million which will be used for support and preparation of premises for this new data center.

This center will be the largest and most complex of the proposed data centers because of the number and size of the departments scheduled to receive EDP services. The center will reduce the cost of state data processing by eliminating excess EDP equipment, reducing personnel required for operating computers, and providing for the optimum utilization of the installed equipment (by operating on a three-shift and seven-day-a-week schedule).

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending the receipt of an augmentation letter from the Department of Finance requesting funds for computer program conversion.

The Governor's Budget proposes an expenditure program for this data center totaling \$3,617,392 in the current year and \$12,775,648 in the budget year. The increase in proposed expenditures reflects the continuing development of this center. Expenditures proposed for the budget year represent the total amount of EDP computer operations funds budgeted by each of the departments designated to receive services from the data center. These funds will be gradually transferred to the data center on authority of the Director of Finance as actual consolidation takes place. Funds requested for computer program conversion have not been requested in the Governor's Budget because the amount required will depend on the specific contractor selected by competitive bid (selection is scheduled for April 1, 1973). We understand that conversion costs could exceed \$3 million if all programs are converted as currently planned. The Governor's Budget states that once a contractor has been selected, an augmentation letter to provide for computer program conversion will be submitted. Because the budget as presented is not complete, we cannot make a realistic analysis of the spending program at this time.

Funds to begin the development of the center were appropriated in Item 61.1 of the Budget Act of 1972. A total of \$400,000 was allocated for this center and the Revenue Consolidated Data Center. Because the Business and Services Center (now the Teale Center) is scheduled to be the first of the four centers to acquire new equipment and become fully operational, \$375,000 of the funds in Item 61.1 and the \$1 million appropriated in Chapter 1254 in augmentation of this item were allocated during the current year for support and preparation of premises for it.

Legislature Authorizes Consolidation

All provisions in the Budget Act of 1972 relating to consolidated data centers required the enactment of legislation at the 1972 Regular Session expressly authorizing such centers. Chapter 787 provides this authoriza-

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

tion.

A total of 310 positions related to computer operations, supervision and software maintenance were identified in the Budget Act of 1972 in various departmental budgets. The same number are identified for the budget year plus a new position, consolidated data center director (salary range \$2,026–\$2,463), which was also authorized by Chapter 787. All 310 identified positions were transferred (on paper) to the Teale data center on December 1, 1972. However, because some departmental computers will not be phased out until July 1974, many EDP personnel assignments will remain unchanged during this interim period.

Interim Data Center Installed

Item 61.3 of the Budget Act of 1972 appropriated \$100,000 for shipping and installation costs related to the rental of a computer in the Department of Public Works. Also authorized were reimbursements totaling \$92,000. This appropriation was made exempt from Section 4 of the Budget Act and therefore competitive bidding was not required.

The administration interpreted Item 61.3 as authorization to proceed with plans to replace an existing IBM 360/65 computer at the Department of Public Works with a more powerful IBM 370/165. The new computer was installed in July 1972 to enable the Public Works' facility to provide service on an interim basis to the various departments which ultimately would become customers of the Teale Center.

The interim facility has assumed the workload performed by the Department of General Services EDP Center II and is scheduled to accommodate all of the EDP workload of the Secretary of State and the administrative EDP workload of the California Highway Patrol. Savings are projected as a result of this interim consolidation. An IBM 360/50 from the Department of General Services and an IBM 360/65 from the Department of Public Works have been released. IBM 360/30's are scheduled for release in February and May 1973 from the Secretary of State and the California Highway Patrol.

Operational management of the interim facility is assigned to the Department of Public Works, and the Assistant Secretary for the Business and Transportation Agency has been appointed acting center director.

Site Selected

The Department of Motor Vehicles headquarters building has been selected as the permanent site for the Teale Consolidated Data Center. The most recent estimates for preparing this site total \$1,246,000. In addition to the site funds discussed above, Item 302(d) of the Budget Act of 1972 appropriated \$254,300 for alterations to the DMV EDP site. These moneys were used to begin site development because DMV will now obtain its EDP services from the consolidated data center.

Consolidation Project Office

In accordance with the administration plan, a Consolidation Project Office (CPO) has been formed which reports to the Secretary for Business and Transportation. The CPO consists of representatives of the Depart-

ment of Finance and key departments involved in the implementation of the Teale Center.

The CPO has responsibility for major components of the implementation effort including site preparation, procurement of equipment and conversion. This group, through its technical subcommittees, has developed the Request for Proposal (RFP), an equipment evaluation and selection plan, and a benchmark plan to test vendors' proposed equipment.

The CPO effort has relied on over 50 existing personnel made available by the Department of Finance and participating departments. Although we commend this volunteer effort, we believe that the early appointment of a permanent center director and sufficient permanent staff is mandatory in view of the May 1, 1973, installation date for equipment.

We also contrast this effort with the Health and Welfare Consolidated Data Center, which is requesting 21 new positions for a center that is embarking on a very slow and deliberate implementation plan. As we indicate in our discussion of statewide EDP issues in the analysis of the Department of Finance budget, a position somewhere between these two extremes appears more logical to us.

Agriculture and Services Agency REVENUE CONSOLIDATED DATA CENTER

Item 80 (Transfers from other
items and reimbursements
from various funds)

Budget p. 50 Program p. I-239

Transfers and reimbursements	
Requested 1973-74	\$3,756,698
Estimated 1972-73	1,649,525
Requested increase \$2,107,173	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Revenue Consolidated Data Center is one of four consolidated data centers established by the 1972 Legislature and prescribed by the administration's electronic data processing (EDP) consolidation plan. The principal objective of this center is to provide centralized management of data processing equipment and services to its client departments. The center, which is in the very early stages of implementation, will have as its principal users the Board of Equalization and the Franchise Tax Board.

Implementation of this center is intended to contribute to an improvement in the state's use of EDP and generate savings which will result from a reduction in the number of EDP operations personnel and the unit cost of processing data.

REVENUE CONSOLIDATED DATA CENTER—Continued**ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

Legislature Authorizes Consolidation

The Budget Act of 1972 provided a funding mechanism for the Revenue Consolidated Data Center. Actual authority for the center is provided by Chapter 787, Statutes of 1972. This legislation also provides that the center be directed by a data center director appointed by the Secretary of the Agriculture and Services Agency.

Budget Provides Funding Mechanism

There is no direct appropriation to support the Revenue Consolidated Data Center. The Governor's Budget essentially establishes a funding mechanism for the center and proposes an expenditure program for this data center totaling \$1,649,525 in the current year and \$3,756,698 in the budget year. The increase in proposed expenditures reflects the continuing development of this data center, which is scheduled for initial implementation in January 1973.

Expenditures proposed for the budget year represent the total amount of EDP computer operation funds budgeted by each of the departments designated to receive services from the data center. These funds will be available for transfer to the data center as actual consolidation takes place. Because all departments may not be consolidated on July 1, 1973, the actual amount of expenditures for the budget year might be less than what is indicated. It is therefore not possible to present an accurate or realistic spending program at this time.

Implementation of this center represents the consolidation of EDP operations within some units of the Agriculture and Services Agency (69 positions have been identified in various budgets for potential transfer to the Revenue Consolidated Data Center).

Consolidation Project Office Formed

As prescribed in the *Implementation Plan for the Consolidation of Electronic Data Processing in the State of California* approved by the administration in April 1972, a Consolidation Project Office (CPO) has been formed for the purpose of planning, coordinating, and directing the implementation of the Revenue Consolidated Data Center. The CPO is comprised of representatives of the Franchise Tax Board, the Board of Equalization, and the EDP Control and Development Unit of the Department of Finance. Supported this current year by \$25,000 provided by Item 61.1 of the Budget Act of 1972, the CPO is in the process of identifying implementation tasks and developing a schedule for the implementation of this center. No new funding for CPO activities for the budget year has been requested. These activities will apparently be supported with personnel resources borrowed from the departments involved. The data center director will supervise this effort once that position is filled.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 81 from the General Fund Budget p. L-11 Program p. I-241

Requested 1973-74	\$62,000,000
Estimated 1972-73.....	60,000,000
Actual 1971-72	8,301,884
Requested increase \$2,000,000 (3.3 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The 1972 Budget Act appropriated \$56 million to fund Chapter 1, Statutes of 1971, First Extraordinary Session (AB 1) which increased significantly the level of assistance to be provided homeowners under this program. The household income limitation was increased from \$3,350 to \$10,000 per year, and the level of assessed valuation upon which assistance is to be computed was increased from \$5,000 to \$7,500. The age of eligibility was decreased from 65 to 62. Chapter 917, Statutes of 1972, revised the reimbursement schedule to provide increased assistance to persons with less than \$5,800 in household income and Chapter 1230, Statutes of 1972 appropriated \$6 million to fund this increase. Table 1 provides a history of this program for the prior three years and shows the 1972-73 affect of AB 1. The number of claimants under the new program increased from 56,000 to 275,000, estimated for the current year, and the average assistance per claimant increased from \$148 to \$203.

Table 1
Senior Citizens' Assistance by
Year of Reimbursement
(averages)

	1970-71	1971-72	1972-73 ^a
Assessed valuation per claimant	\$3,443	\$3,563	\$4,237
Property tax rate	10.31	11.28	11.87
Gross property tax	\$355	\$402	\$503
Homeowners' exemption ^b	-73 ^b	-80 ^b	-85 ^b
Net property tax	282	322	418
Assistance per claimant.....	137	148	203
Assistance as percent of tax	84.6%	45.8%	48.6%
Number of claimants	62,400	56,165	275,000
Total state cost (000)	\$8,548	\$8,290	\$60,000

^a Preliminary estimate.

^b Assumes that 95 percent of eligible senior citizens filed for the homeowners' \$750 property tax exemption.

The \$2 million increase requested in 1973-74 is composed of:

- (1) A 2.5 percent increase in the number of claimants due to the population growth of persons over age 62, and
- (2) A nominal increase in claimants as more eligible persons become aware of the program.

TAX ASSISTANCE—Continued

Property tax rates used in computing senior citizens assistance will increase from \$11.87 in 1972-73 to \$11.96 in 1973-74, which will also result in a nominal increase in program costs. The \$1,750 homeowners' exemption provided by Chapter 1406, Statutes of 1972 (SB 90) will not have an impact on this program until 1974-75 because claims are based upon prior year taxes paid.

PERSONAL PROPERTY TAX RELIEF

Item 82 from the General Fund

Budget p. L-11 Program p. I-242

Requested 1973-74	\$208,000,000
Estimated 1972-73	133,000,000
Actual 1971-72	121,741,522
Requested increase \$75,000,000 (56.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item reimburses local government for property tax losses resulting from the partial exemption of business inventories and the special reimbursements for motion picture films, livestock, and wine and brandy.

Prior to the enactment of Chapter 1, Statutes of 1971, First Extraordinary Session, there was a temporary exemption amounting to 30 percent of the assessed value of inventories. Chapter 1 permanently established this exemption at the 30 percent level, and by abolishing the Personal Property Tax Relief Fund discontinued the formula procedure which tied the availability of reimbursements to bank and corporation tax revenues.

Chapter 1406, Statutes of 1972 (SB 90), increases the inventory tax exemption from the current rate of 30 percent to 45 percent for 1973-74 and to 50 percent for 1974-75 and thereafter.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 summarizes the past, current and proposed amounts required for inventory tax exemption reimbursements.

Table 1
Personal Property Tax Relief

<i>Fund</i>	<i>1971-72 Actual</i>	<i>1972-73 Estimated</i>	<i>1973-74 Proposed</i>
Personal Property Tax Relief Fund	\$36.8	—	—
General Fund	84.9	\$133	\$208
Total	\$121.7	\$133	\$208

The budget request of \$208 million is composed of \$138 million which will be required for the 30 percent exemption and \$70 million to reimburse the additional tax losses resulting from increasing the exemption from 30 percent to 45 percent.

The \$11.41 inventory property tax rate used by the Department of

Finance to estimate the 1973-74 reimbursements is a composite of the 1972-73 rate (applicable to unsecured inventories) and the 1973-74 rate (applicable to secured inventories). The 1973-74 tax rate component reflects the maximum tax rates allowed by Chapter 1406. The actual 1973-74 tax rate may be lower than the budget estimate for two reasons:

1. While the maximum rate is equal to or below current rates for cities, schools and special districts, it assumes a county tax rate which is 19 cents higher than 1972-73 levels.
2. This rate does not take into account possible rate reductions resulting from the \$900 million in revenue-sharing proceeds expected to be received by cities and counties through June 30, 1974.

Lower 1973-74 county tax rates which reflect the effect of these two factors would reduce the tax loss on secured inventories and would consequently reduce state reimbursements by an unknown amount.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 83 from the General Fund

Budget p. L-12 Program p. I-243

Requested 1973-74	\$22,000,000
Estimated 1972-73.....	13,000,000
Actual 1971-72	0
Requested increase \$9,000,000 (69.2 percent)	
Increase to improve level of service \$9,000,000	
Total recommended reduction	Deferred

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Defer recommendation until 1972-73 school district allocations are determined.

184

GENERAL PROGRAM STATEMENT

The open-space subvention program provides funds to cities, counties and school districts to encourage the preservation of prime agricultural and open-space land.

Article XXVIII of the Constitution authorizes local government to assess land that is under enforceable restrictions at less than market value based on the restricted use. Chapters 1 and 2, Statutes of 1971, First Extraordinary Session, authorize the allocation of state funds to cities, counties and school districts for property tax losses caused by the reduction in assessed valuation of lands placed under open-space restrictions. The Secretary of the Resources Agency administers subventions to cities and counties. He has, in turn, delegated responsibility to the Division of Resource Conservation to review the open-space plans of local agencies and certify applications for subventions. The Superintendent of Public Instruction administers the subventions to school districts.

The Budget Act of 1972 appropriated \$13 million for 1972-73 for eligible cities, counties and school districts. Chapter 1, Statutes of 1971, appropriated \$15 million for 1973-74 and Chapter 1406, Statutes of 1972, (SB 90)

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

increased the total amount appropriated to \$22 million for 1973–74. Item 83 is a reappropriation of the same \$22 million by the Budget Bill.

Chapter 1237, Statutes of 1972, (AB 724) makes changes in the open-space program as follows:

1. Excludes the change in value of oil and gas resources (primarily losses due to depletion of oil and gas) from the base used in computing school district reimbursements.
2. Imposes a maximum amount any school district can receive as reimbursement for each acre assessed as open-space land.
3. Conforms the timing of county payments to that for school district payments.

ANALYSIS AND RECOMMENDATION

We defer recommendation until such time as the school district apportionment for 1972–73 has been determined so that the total state payment for 1972–73 is known and a reliable base established to estimate needs for 1973–74.

The changes made in December by Chapter 1237, Statutes of 1972, concerning open-space allocation for school districts have required the Superintendent of Public Instruction to recompute the amounts to be allocated to school districts in 1972–73. That computation has not been completed and probably will not be completed until March or April 1973. The allocation of 1972–73 funds to school districts, cities and counties will therefore be made as part of the state's second principal apportionment to schools, which will be made on June 25, 1973.

The Division of Resource Conservation has preliminary data on city and county entitlements for 1972–73. The data indicate the maximum allowable county entitlement is \$8,770,254 for 43 counties and \$21,612 for six cities. The division indicates that in 1973–74 there will probably be substantial increases in the requests from counties that are already in the program and that a few additional counties may apply for subventions. According to the division a reliable estimate cannot be made at this time of the program needs for cities and counties in the budget year until the school district allocations are computed for 1972–73 and the amount remaining for counties and cities is known.

The reason for the increase from \$15 million to \$22 million in the 1973–74 appropriation provided by Chapter 1406 is not documented and it is not clear what it was intended to finance.

For these reasons we defer a recommendation on the amount of the appropriation request for 1973–74 until more reliable data are available on 1972–73 requirements.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 84 from the General Fund

Budget p. L-12 Program p. I-243

Requested 1973-74	\$647,250,000
Estimated 1972-73	242,800,000
Actual 1971-72	231,599,716
Requested increase \$404,450,000 (167 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The assessed value of owner occupied homes which is exempt from property taxation was increased from \$750 to \$1,750 by Chapter 1406, Statutes of 1972 (SB 90) effective for taxes paid in fiscal year 1973-74. This item reimburses local government for the resulting loss in property tax revenues. Table 1 shows the Department of Finance estimates of the number of homeowners entitled to the exemption under former law, the composition of new claimants authorized by Chapter 1406, and the total General Fund cost for reimbursements to local governments for 1973-74.

Table 1
Homeowners' Exemption
Composition of Claimants
1973-74

<i>Ownership classification</i>	<i>Number of claimants (thousands)</i>	<i>Average property tax reduction per claimant (\$1,750 exemption)</i>	<i>General Fund reimbursements (millions)</i>
1. <i>Former law.</i> Single-family dwellings, duplexes, condominiums, and cooperatives.	2,804	\$205	\$574.8
2. <i>Chapter 1406.</i> Owner occupied portion of multiple units.	97	205	19.9
3. <i>Chapter 1406.</i> Veterans shifting from \$1,000 veteran exemption to \$1,750 homeowners' exemption	257	205	52.6
Total	3,158		\$647.3

A property tax rate of \$11.71 was used by the Department of Finance to estimate the 1973-74 cost of the homeowners' exemption and reflects the maximum tax rates allowed by Chapter 1406, Statutes of 1972 (SB 90). It is our belief that the actual 1973-74 rate will probably be lower than the budget estimate for two reasons:

1. While the maximum rate is equal to or below current rates for cities, schools and special districts, it assumes a county tax rate which is 19 cents higher than 1972-73 levels. A county tax rate increase of 19 cents would generate new property tax revenues of \$120 million.
2. This rate does not take into account possible rate reductions resulting from the \$900 million in revenue sharing proceeds expected to be received by cities and counties through June 30, 1974.

TAX RELIEF—Continued

Table 2 illustrates the tax rates which would be applicable and the state cost of funding the homeowners' exemption which would result if alternative amounts of revenue sharing proceeds are used to reduce property taxes.

Table 2
Impact on Homeowners' Exemption
if Revenue Sharing is Used to
Reduce Property Taxes

<i>Amount of revenue sharing used to replace property tax revenues (in millions)</i>	<i>Percent of total revenue sharing proceeds</i>	<i>Property tax rate</i>	<i>1973-74 cost of homeowner exemption (millions)</i>	<i>Change from budgeted amount (millions)</i>
\$0	0	\$11.71	\$647	—
90	10%	11.57	639	\$-8
225	25	11.35	627	-20
300	33	11.23	621	-26

The actual amount of revenue sharing funds which will be allocated to reduce property tax rates and the subsequent effect on the cost of funding the homeowners' exemption will not be known until mid-1973 when local budget decisions are completed.

RENTERS' TAX RELIEF

Item 85 from the General Fund

Budget p. L-13 Program p. I-244

Requested 1973-74	\$40,000,000
Recommend item for special consideration	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Potential Deficit. Recommend special consideration to plan for possible deficit of as much as \$26 million in renters' tax relief.

187

ANALYSIS AND RECOMMENDATIONS

Chapter 1406, Statutes of 1972 (SB 90) initiates a program of renter property tax assistance with payments ranging from \$25 to \$45 depending upon income. Assistance is granted in the form of an income tax credit with the unapplied balance refunded from amounts appropriated by this item. The credit portion, which is estimated to be \$70 million in the budget year, will be paid out of the Personal Income Tax Fund and will be treated as a reduction in General Fund revenue.

Table 1 shows the distribution of potentially eligible renter claimants according to 1970 census data, the schedule of assistance provided by Chapter 1406 and the maximum possible state cost projected to 1973.

Table 1
Renters' Tax Relief
Distribution of State Costs With 100 Percent Participation

<i>Adjusted gross income</i>	<i>Number of claimants (1970 census— in thousands)</i>	<i>Amount per claimant</i>	<i>Amount of credits (in millions)</i>	<i>Amount of refunds (in millions)</i>
\$0-5,000	2,113	\$25	\$6.5	\$51.1
5-6,000	302	30	6.7	3.2
6-7,000	295	35	7.0	4.4
7-8,000	260	40	7.2	4.4
8,000 and up.....	1,186	45	55.6	2.8
Total.....	4,156		\$83.0	\$66.3
Amount budgeted				40.0
Maximum potential claims not budgeted				\$26.3

Potential Deficit

We recommend special consideration recognizing that claims may exceed the budgeted amount by as much as \$26 million.

As shown in Table 1 the \$40 million budget request is based upon a refund level which is \$26 million less than the estimated maximum amount eligible, assuming many potential claimants will not be aware that they are eligible for this new program or that the assistance level is not worth the trouble of submitting a claim form. While we agree with the concept of these assumptions, we do not believe that the participation rate will be as low as the budget estimates. Participation rates in this program should be high because claims submittal is integrated with the filing of personal income tax returns. The withholding of taxes will generate a tax return from almost all persons who have any income from wages and salaries regardless of tax liability. Presumably all renters who file an income tax return for a withholding refund will provide the additional information required to claim the renter assistance refund.

It is estimated that the majority of nonparticipants will be from the \$0-\$5,000 income range, primarily those persons who will not have income subject to withholding. The \$26 million shown in Table 1 as not budgeted represents a participation rate of 50 percent within the \$0-\$5,000 income group. Even though the number of persons who will claim the renter property tax refund is unknown, we believe the estimated participation rate is low and that the budget may need to be augmented by as much as \$26 million to avoid a possible deficit in this program. While this could be accomplished by legislation in the last six months of the 1973-74 fiscal year, we believe that such an eventuality should be included in financial planning.

PROVISION FOR SALARY INCREASES

Civil Service, Statutory and Exempt Employees

Items 86, 87 and 88 from the
General Fund

Budget p. 54 Program p. I-255

Requested 1973-74	\$188,914,000
Estimated 1972-73.....	54,276,182
Total recommended augmentation (General Fund)	\$191,700
(Special funds)	29,700
(Other funds)	23,760
Total	\$245,160

Higher Education Employees

Items 317 and 324 from the
General Fund

Budget p. 54 Program p. I-255

Requested 1973-74	\$64,950,000
Estimated 1972-73.....	54,626,000
Total recommended reduction (General Fund)	\$4,600,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Statutory Salaries.*
 - (a) *Augment \$191,700 General Fund, \$29,700 special funds and \$23,760 other funds.* Recommend augmentation to provide a 15.4 general salary increase for statutory officers. 190
 - (b) Recommend State Personnel Board and Department of Finance jointly prepare a schedule of salary rates for all levels of state employees up to and including statutory and constitutional officers to eliminate salary compaction. The schedule should be submitted for consideration by the committees hearing the salary increase budget items. 190
2. *Higher Education. Reduce \$4,600,000 General Fund.* Recommend proposed academic salary increases for the California State University and Colleges system be reduced from 7.5 percent to 5.5 percent for a 1973-74 savings of \$4,600,000. 192

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a total of \$253,864,000 for state employee salary increases. Table 1 presents for each employee group the salary increase percentage proposed and the associated cost by fund.

Table 1
Allocation of Salary Increase Funds—1973-74 Budget

<i>Employee group</i>	<i>General Fund</i>	<i>Special funds</i>	<i>Other funds</i>	<i>Total</i>	<i>Percent increase</i>
Civil service and exempt.....	\$99,796,000	\$60,287,000	\$28,377,000	\$188,460,000	12.9
Statutory officers	355,000	55,000	44,000	454,000	10.0
University faculty and related	10,979,000	—	—	10,979,000	5.4
University nonfaculty	19,711,000	—	—	19,711,000	12.1
California State University and Colleges instructional and related	18,950,000	—	—	18,950,000	7.5
California State University and Colleges noninstructional	15,310,000	—	—	15,310,000	12.1
Totals.....	\$165,101,000	\$60,342,000	\$28,421,000	\$253,864,000	

CIVIL SERVICE, STATUTORY AND EXEMPT SALARIES

A total of \$188,914,000 is provided for civil service and exempt, and statutory employees. Of this amount, \$188,460,000 will permit an average increase of 12.9 percent for civil service and exempt employees to be allocated to the various employee classes giving due weight to the recommendations of the State Personnel Board. State officers whose salaries are specified by statute are proposed to receive an increase of 10 percent or \$454,000. Table 2 presents the allocation by fund for civil service and exempt employees and for statutory officers.

Table 2
Allocation of Salary Increase Funds for Civil Service, Exempt and Statutory Employees—1973-74 Budget

	<i>General Fund (Item 86)</i>	<i>Special funds (Item 87)</i>	<i>Other funds (Item 88)</i>	<i>Total</i>	<i>Percent increase</i>
Civil service and exempt ..	\$99,796,000	\$60,287,000	\$28,377,000	\$188,460,000	12.9
Statutory	355,000	55,000	44,000	454,000	10.0
Totals	\$100,151,000	\$60,342,000	\$28,421,000	\$188,914,000	

Table 3 shows the percentages appropriated for salary increases for civil service and exempt employees since the 1962-63 fiscal year.

Table 3
Salary Increases for Civil Service and Exempt Employees 1962-63 through 1973-74

<i>Fiscal year</i>	<i>Percent increase</i>	<i>Fiscal year</i>	<i>Percent increase</i>	<i>Fiscal year</i>	<i>Percent increase</i>
1962-63.....	1.2	1966-67	4.5	1970-71	5.2
1963-64.....	6.1	1967-68	5.1	1971-72	—
1964-65.....	0.8	1968-69	5.7	1972-73	7.5
1965-66.....	4.4	1969-70	5.6	1973-74	12.9 (proposed)

Civil Service, Statutory and Exempt Salaries—Continued**State Personnel Board Recommendations**

We recommend approval, as budgeted, of the State Personnel Board recommendation for a 12.9 percent general salary increase for all state civil service employees and a related 12.1 percent increase for nonfaculty employees of the University of California and the California State University and Colleges with the exception of the salary compaction problem discussed below.

The 1972 Annual Report of the State Personnel Board concludes that \$185.1 million (\$96.9 million General Fund and \$88.2 million special and other funds) would be required to bring salaries of state civil service employees into alignment with salaries paid by other government jurisdictions and private enterprise. This amount represents a 12.9 percent increase in salaries for civil service employees, arrived at by the State Personnel Board annual survey procedures. It should be noted that the board has calculated the civil service salary level as of March 1973 rather than July 1973, the effective date of the increase, when the lag will probably be even greater.

Because sufficient moneys are available for salary adjustments to be made in the manner prescribed by law and consistent with state salary policy, we recommend that the funds requested be made available to enable the State Personnel Board to make appropriate class-by-class adjustments.

Salary Compaction

We recommend a budget augmentation of \$245,160 (\$191,700 General Fund) to provide for a 15.4 percent general salary increase for state officers whose salaries are specified by statute. We repeat the recommendation contained in our analysis of the State Personnel Board (Item 156) that the board and Department of Finance jointly prepare a schedule of proposed salary rates for all levels of state employees up to and including statutory and constitutional officers to eliminate salary compaction. We recommend further that the cost schedule be submitted for consideration by the committees hearing the salary increase budget item.

An initial survey by our office indicates that salaries of statutory officers in state government are substantially below those of their counterparts in major local governments in California. As a result a significant number of exempt and higher level civil service state employees are not compensated equitably for their greater responsibilities because their salaries are "compacted" beneath those of their immediate supervisors. It is our understanding that approximately 1,000 state civil service employees did not receive a full pay increase July 1, 1972, because of compaction. The problem is particularly severe in the Departments of Public Works, Mental Hygiene and Public Health where salary compaction extends downward through the top five or more levels of employees.

Legislature Reduced Compaction Previously

In 1969 the Legislature reduced compaction substantially through its actions (Chapters 1581 and 1599, Statutes of 1969) which increased salaries of statutory officers and brought them closer to alignment with other state salaries. The Legislature also added a 7.5 percent increase for statutory salaries to the Budget Bill of 1972 but the increase was reduced by the Governor to 5 percent.

Table 4 shows that statutory salaries will increase 5.4 percent less than civil service salaries as a result of current-year and proposed budget-year salary adjustments. To correct this situation and prevent the compaction problem from compounding, we recommend, therefore, an additional augmentation of \$245,160 to provide a 15.4 percent across-the-board increase for all statutory officers in order for statutory salaries to maintain strict parity with civil service salaries during the current and budget years. This does not solve the compaction problem, but it prevents it from getting worse for the two-year period.

Table 4**Salary Increase Percentages of Statutory Officers and Civil Service Employees in the Current and Budget Years**

	<i>Statutory salaries</i>	<i>Civil service salaries</i>	<i>Difference</i>
1972-73	5.0%	7.5%	2.5%
1973-74 (proposed)	10.0%	12.9%	2.9%
Total	15.0%	20.4%	5.4%

In order to provide the data required to develop a more permanent solution to the continuing problem of salary compaction, we suggest that the State Personnel Board and Department of Finance jointly submit a schedule showing the extent of compaction and the salary rates for all levels of state employees (including statutory and constitutional officers) which would be required to correct this problem. We believe the Legislature should examine the rates required to bring salaries of statutory and constitutional officers to levels which will eliminate salary compaction and that the Committee on Executive Salaries, a joint legislative/executive committee authorized by Chapter 1599, Statutes of 1969 (Government Code Sections 11675-11679) be activated for the purpose of submitting its recommendation. This committee is given the continuing responsibility for investigation and study of all pertinent data regarding executive-level salaries in order to assist the Governor and the Legislature in maintaining equitable salary relations internally among the various executives.

HIGHER EDUCATION SALARIES

University of California salaries are proposed to be increased an average of 5.4 percent for faculty and related employees and 12.1 percent for nonfaculty employees as displayed in Table 5. Salaries of employees of the California State University and Colleges are proposed to be increased 7.5 percent for instructional and related personnel and 12.1 percent for noninstructional personnel as shown in Table 6.

Higher Education Salaries—Continued

Table 5
Allocation of Salary Increase Funds for University of California Employees
General Fund (Item 317)—1973-74 Budget

	<i>Cost</i>	<i>Percent increase</i>
Faculty and related	\$10,979,000	5.4
Nonfaculty	19,711,000	12.1
Total	\$30,690,000	

Table 6
Allocation of Salary Increase Funds for California State University
and Colleges Employees
General Fund (Item 324)—1973-74 Budget

	<i>Cost</i>	<i>Percent increase</i>
Instructional and related	\$18,950,000	7.5
Noninstructional	15,310,000	12.1
Total	\$34,260,000	

Academic Salary Increases

We recommend that proposed academic salary increases for the California State University and Colleges system be reduced from 7.5 percent to 5.5 percent for a 1973-74 savings of \$4,600,000. We recommend approval of the proposed University of California academic salary increase of 5.4 percent.

The 1973-74 Governor's Budget for academic salary increases proposes an average increase of 5.4 percent at the University of California (Item 317) and 7.5 percent at the California State University and Colleges (Item 324) budgeted at \$10,979,000 and \$18,950,000 respectively. This recommendation corresponds with the request of the governing boards of the two segments acting independently.

University of California Method

The University of California request of 5.4 percent is based on the concept of achieving parity with the projected average salaries by rank paid at eight comparison institutions (Harvard, Yale, Stanford, Cornell, Illinois, Michigan, Wisconsin—Madison, and SUNY—Buffalo). A method which uses a five-year compound rate of increase in average salaries is utilized to project the 1973-74 average salary by rank paid by the eight institutions which are then used as the target for adjusting University of California salaries as shown in Table 7 to obtain equal average salaries by rank.

California State University and Colleges (CSUC) Method

The CSUC request of 7.5 percent is based on the concept of achieving parity with the projected average salaries by rank paid at 20 institutions which represent a "class of institutions with which that segment competes for faculty" (USC, Oregon, Hawaii, University of Nevada, Portland State, University of Colorado, University of Wisconsin—Milwaukee, Iowa State—Science and Technology, Illinois State, Northern and Southern Illinois, Indiana State, Bowling Green, Miami University, Wayne State, SUNY—Albany and Buffalo Arts and Sciences, Syracuse and Virginia Polytechnic

Table 7
University of California
Percentage Increase in UC 1972-73 All Ranks Average Salary Required to
Obtain Parity in 1973-74 With Comparison Group (1973-74 Comparison
Group Projected Salaries Based Upon Compound Rate of Increase
in Average Salaries)

<i>Academic rank</i> <i>(1)</i>	<i>UC average salary^a</i> <i>1972-73</i> <i>(2)</i>	<i>Average salary required to attain parity^b</i> <i>1973-74</i> <i>(3)</i>	<i>Percentage increase in 1972-73 salary required to attain parity in 1973-74</i> <i>(4)</i>
Professor.....	\$22,960	\$24,333	5.98%
Associate professor.....	15,586	16,945	8.72
Assistant professor.....	12,791	13,660	6.79
Instructor.....	8,304	10,612	27.79
All ranks.....	18,092	19,339	6.89
Less adjustment for merit and promotion.....			-1.5
			5.39%

^a As budgeted.

^b "All ranks" salary computed by use of the full-time staffing pattern for nine-month faculty at the university for 1972-73 (professor, 2002; associate professor, 1087; assistant professor, 1195; instructor 70).

Institute). These universities are primarily doctorate degree level institutions with research commitments as opposed to the CSUC teaching through the master's degree mission. A method which uses a four-year compound rate of increase in real income and consumer price index is utilized to project the 1973-74 average salary by rank paid by the 20 institutions which are then used as the target for adjusting CSUC salaries as shown in Table 8. In addition to the index increase the method includes a factor for the colleges to catch up to equal average salary levels of the 20 institutions.

Table 8
California State University and Colleges
Percentage Increase in CSUC 1972-73 All Ranks Average Salary
Required to Obtain Parity in 1973-74 With Comparison Group
(1973-74 Comparison Group Projected Salaries Based
Upon Compound Rate of Increase in Real Income and
in Consumer Price Index)

<i>Academic rank</i> <i>(1)</i>	<i>CSUC average salary</i> <i>1972-73</i> <i>(2)</i>	<i>Average salary required to attain parity^a</i> <i>1973-74</i> <i>(3)</i>	<i>Percentage increase in 1972-73 salary required to attain parity in 1973-74</i> <i>(4)</i>
Professor.....	\$19,770	\$21,067	6.56%
Associate professor.....	14,800	16,125	10.99
Assistant professor.....	12,197	13,231	8.74
Instructor.....	10,484	10,029	(4.54)
All ranks.....	15,287	16,446	7.58

^a "All ranks" salary computed by use of the full-time staffing pattern at CSUC for 1971-72 (professor, 3593; associate professor, 3103; assistant professor, 4278; instructor, 287).

Higher Education Salaries—Continued**Analytic Problems**

In reviewing the data used to generate the Governor's academic salary increases (UC = 5.4%, CSUC = 7.5%) we have analytical problems involving:

- A. The method requires that the CSUC system be given equal average rank standings with major universities (Buffalo, USC, Albany, and Oregon) whose average salaries by rank is necessarily higher than those of the CSUC in order for them to obtain Ph.D.-research-oriented faculty of quality. The effect of adjusting the CSUC salaries to achieve equality with such a group is to inflate the increase in salaries requested over the increase needed to maintain parity with their compound average rate of salary increases. Thus, if the college's salaries in 1972-73 are 2 percent behind the listed group, and the group is projected to grant salary increases of 5 percent in 1973-74, the method utilized by the Governor's Budget calls for the CSUC to receive a 7 percent, not 5 percent, increase in 1973-74.
- B. The Governor's Budget recognizes a price index method for CSUC computations and a compound rate of increase in average salary method for UC.

If we use the compound rate of increase in average salary method for both systems then the CSUC faculty would receive an increase to 9.93 percent; conversely, if we use the price index method for both systems, the UC figure would decrease to 3.76 percent as shown below.

	<i>Segment</i>	<i>Index method</i>	<i>Average salary method</i>	<i>Governor's Budget</i>
UC.....		3.76%	5.39%	5.39%
CSUC.....		7.4	9.93	7.4

Either system generates additional CSUC funds to "catch up" to the noncomparative group. Actual compound rate of increase without the "catch up" factor would be 5.5 percent.

Basic Policy Issue

The use of differing methodologies to achieve a proposed faculty salary increase of 5.4 percent at UC and 7.5 percent at CSUC creates a basic policy issue of whether the State of California should be granting higher average salary increases to one system of higher education over the other. This problem is intensified by the situation wherein the CSUC figure was derived by a group of institutions which are not in fact comparable in function or type of faculty recruited. Seventeen of the CSUC comparison group are Ph.D.-research institutions. The reality of the academic marketplace causes these institutions to hire research-oriented faculty who usually command higher salaries particularly at the rank of professor. It similarly justifies for these types of faculty at UC a higher salary than for faculty at CSUC. However, we do not believe that giving a 2 percent greater average salary increase (7.5 percent) to the CSUC academic group will change matters. We believe that the CSUC salary increase should

equal the actual compound rate of increase in average salaries without an attempt to gain equal salary parity with the type of institutions listed previously. We recommend the 5.5 percent level at \$14,300,000 which produces a 1973-74 General Fund savings of \$4,650,000. This method is consistent with that used for UC in determining the rate of increase with the exception of removing the CSUC catchup factor.

The relationship of average salary by rank between the two California systems of higher education contained in the Governor's Budget and in our proposal is shown in Table 9.

Table 9
Proposed 1973-74 Average Salary by Rank

	<i>Governor's Budget</i>		<i>CSUC as a percent of UC</i>	<i>Legislative Analyst</i>		<i>CSUC as a percent of UC</i>
	<i>UC (5.4%)</i>	<i>CSUC (7.5%)</i>		<i>UC (5.4%)</i>	<i>CSUC (5.5%)</i>	
Professor	\$24,333	\$21,067	86.8%	\$24,333	\$20,857	86.0%
Associate professor	16,945	16,125	94.7	16,945	15,614	92.1
Assistant professor	13,660	13,231	97.8	13,660	12,868	94.2
Instructor	10,612	10,029	94.3	10,612	11,060	104.3
All ranks	\$19,339	\$16,446	85.1%	\$19,339	\$16,128	83.4%

Table 10 shows the percentages appropriated for academic salary increases since 1969-70 for the university and state colleges.

Table 10
Faculty Salary Increases 1969-70 Through 1973-74

	<i>University of California</i>	<i>California State Colleges</i>	<i>Effective date</i>
1969-70	5.0	5.0	7/1/69
1970-71	—	—	—
1971-72	—	—	—
1972-73			
General increase	7.5	7.5	7/1/72
Inequity increase	1.5	1.4	
1973-74 (proposed)	5.4	7.5	7/1/73
(Legislative Analyst's recommendation)	5.4	5.5	7/1/73

PROVISION FOR SALARY INCREASES

Item 89 from the General Fund Budget p. 54 Program p. I-255

Requested 1973-74	\$600,000
Estimated 1972-73.....	688,000
Actual 1971-72	718,009
Requested decrease \$88,000 (-12.8 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Funds to provide a judicial salary increase in fiscal year 1973-74 are budgeted at \$600,000. This amount is based on the requirements of Chapter 144, Statutes of 1964, as amended by Chapter 1507, Statutes of 1969, which provide that judges are entitled to an annual salary adjustment, effective September 1, based on the prior calendar year's increase in the California Consumer Price Index as compiled and reported by the California Department of Industrial Relations.

Pursuant to this provision, judicial salaries were increased by 5.0427 percent in 1971 and by 3.7424 percent in 1972. The funds appropriated by this item provide for an estimated increase of 3.5265 percent effective September 1, 1973.

Reserve for Contingencies**EMERGENCY FUND**

Item 90 from the General Fund Budget p. 56 Program p. I-259

Requested 1973-74	\$1,500,000
Appropriated by the 1972-73 Budget Act	1,000,000
Requested increase \$500,000 (50 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

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

This budget item also is the mechanism which provides the details of the allocation of the general salary increase approved in the 1972-73 Budget Act, in the amount of \$106 million.

Although this request has been increased by 50 percent for 1973-74, it is substantially less than the amount actually needed in every year since 1959-60. To meet the actual requirements a deficiency appropriation has been necessary toward the end of each fiscal year. For 1972-73 the department anticipates a deficiency of \$4,200,000. Table 1 lists the estimated 1972-73 budgeted allocations of more than \$100,000 each.

Table 1
Emergencies of More Than \$100,000
1972-73

Department of Food and Agriculture, meat inspection	\$528,949
Franchise Tax Board, HRD costs in withholding program	302,086
Workmen's compensation	270,000
Department of Conservation, emergency fire suppression	2,242,253
Department of Corrections	
Returning fugitives from justice	204,173
Court costs and county charges	622,064
Payments to counties for homicide trials	200,000
	<u>\$4,369,525</u>
All other allocations under \$100,000	324,369
Total estimated allocations	<u>\$4,693,894</u>

Emergency Fund expenditures in 1972-73 have not yet been subjected to legislative review. Where appropriate, we comment on such expenditures in the analysis of the individual agency budgets.

Table 2 details the amounts budgeted and allocated along with the deficiency appropriations for years since 1964-65.

Table 2
Emergency Fund, Appropriations and Allocations
1964-65 to 1973-74

<i>Fiscal year</i>	<i>Appropriated</i>	<i>Allocated to agencies</i>	<i>Deficiency appropriation</i>
1964-65.....	1,000,000	5,106,500	4,436,500
1965-66.....	1,000,000	5,148,643	5,400,000
1966-67.....	1,000,000	9,321,117	8,341,951
1967-68.....	1,000,000	4,238,515	3,908,000
1968-69.....	1,000,000	4,954,513	5,086,631
1969-70.....	1,000,000	4,259,585	4,000,000
1970-71.....	1,000,000	4,919,594	4,375,000
1971-72.....	1,000,000	4,993,871	4,918,009
1972-73.....	1,000,000	4,693,894	4,200,000 (est.)
1973-74 (proposed)	1,500,000	—	—

LOANS TO COUNTY AND DISTRICT FAIRS

Item 91 from the Fair and Exposition Fund

Requested 1973-74	\$1,000,000
Estimated 1972-73.....	0
Actual 1971-72	0
Total recommended reduction	\$1,000,000

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of Item 91 in the amount of \$1 million.

This item provides that the sum of \$1 million be made available from the Fair and Exposition Fund for loans for capital outlay purposes to local fairs. These funds would be available for such loans only on the written authorization of and under the terms of repayment prescribed by the Department of Finance. This item is technically an authorization for loans. Presumably some amounts loaned would be repaid at some as yet undetermined reasonable period of time after the budget year. There is no program for the item and considerable uncertainty about its intended use. Until the purpose is clear and appropriate limiting language is included, we recommend disapproval.

LEGISLATIVE CLAIMS

Items 92-109 from several funds

Budget p. 56 Program p. I-265

Requested 1973-74	\$103,549
Estimated 1972-73.....	134,031
Actual 1971-72	395,924
Total recommended reduction	Pending

ANALYSIS AND RECOMMENDATIONS

This item includes all the general claims against the state which are approved by the Board of Control and referred to the Legislature for review and payment in a consolidated fiscal package called the "omnibus claims bill." This 1973-74 budget request now includes only the claims granted by the board between March 1972 and November 1972, although all claims approved through March 1973 will be included in the 1973-74 budget. At the time this item is set for hearing in the Legislature, the Department of Finance will request that the 1973-74 budget figure be augmented to include claims approved by the board between November 1972 and March 1973. Because the amount originally requested in each budget reflects only eight months of claims it always appears lower than the amount which is actually expended in the previous year.

Good Samaritan Claims No Longer Subject to Legislative Review

As a result of the enactment of Chapter 1269, Statutes of 1971, Good Samaritan claims up to the statutory 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 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 1973-74 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>Requested^a</i>	<i>Actual^b</i>
1973-74	103,549	—
1972-73	114,855	134,031
1971-72	95,617	395,924
1970-71	166,921	232,785

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

^b Includes all claims approved by the Board of Control over a 12-month period (March to March) and granted by the Legislature.

Budget Bill items 92 through 109 separate the 1973-74 total request into the General Fund and the 17 special funds from which approved claims will be paid.

ALLOCATIONS FOR TAX RELIEF ADMINISTRATION

Item 110 from the General
Fund

Budget p. 57 Program p. I-266

Requested 1973-74	\$105,000
Estimated 1972-73	379,000
Actual 1971-72	—
Requested decrease \$274,000	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

Withhold recommendation pending submission of specific expenditure proposals.

200

ADMINISTRATION—Continued

ANALYSIS AND RECOMMENDATIONS

This item continues into the budget year 1972-73 support appropriations to state agencies contained in Chapter 1406, Statutes of 1972 (SB 90). The Chapter 1406 appropriations and the respective item numbers under which these programs should be considered are as follows:

Program	Chapter 1406/1972 (SB 90) 1972-73 appropriation
1. <i>Secretary of the Resources Agency</i> for administration of the Open Space program. (Item 32)	\$30,000
2. <i>Department of Finance</i> for estimating the cost of new programs mandated upon local governments and for estimating the local revenue loss for state enacted sales tax exemptions (Item 64)	\$25,000
3. <i>Board of Equalization</i> for administration of the sales tax increase and the \$1,750 homeowners' exemption (Item 57).	\$50,000
Total	\$105,000

We withhold recommendation on this item pending submission of specific expenditure proposals by each affected agency. The amounts indicated above are not supported by detailed expenditure proposals. An evaluation of this request will require that each agency involved submit an itemization of the amount requested by object of expenditure, together with a more detailed description of the function to be performed.

Local Administrative Costs Discontinued

The Chapter 1406 appropriation to counties for administration of the \$1,750 homeowners' exemption, estimated to be \$274,000 in the current year, is not continued in the budget year. The act appropriated 10 cents per homeowners' exemption to cover the local administrative cost of increasing the exemption from \$750 to \$1,750.