

each county veteran service officer. The annual subvention totaled approximately \$500,000. Chapter 1431, Statutes of 1974, removed this monthly limit and increased the total annual subvention to \$1,000,000. This increased subvention level will allow counties to implement a program to obtain federal veterans benefits for veterans who are on welfare. Such veterans could then be taken off welfare with estimated state and local savings of \$3 million annually.

VETERANS' HOME AND HOSPITAL

The state-owned facility at Yountville has a capacity of 1,489 domiciliary beds and 854 beds for general medical, surgical and chronic purposes plus all of the necessary supporting facilities such as dining rooms, nurses' and employees' quarters, recreational facilities, etc. In the past there has been a steady downward trend in the domiciliary population at the home while there has been a continuing waiting list for the hospital facilities. Of the eight domiciliary buildings on the premises, only four are partially occupied by veteran members. However, in the past three years this domiciliary population has remained fairly constant at about 500. A slight increase in domiciliary membership is expected in the budget year. Table 2 summarizes the workload statistic over a four-year period.

**Table 2
Veterans' Home and Hospital
Selected Workload Data**

Category	1972-73	1973-74	1974-75	1975-76
Domiciliary membership	485	485	510	550
Hospital patient-days	148,861	146,000	148,000	149,500
Annex-patient-days	138,585	136,869	140,000	140,000
Domiciliary outpatient visits	13,842	13,772	14,000	14,000

Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 178 from the General

Fund

Budget p. 351

Requested 1975-76	\$8,663,849
Estimated 1974-75	8,436,476
Actual 1973-74	7,531,101
Requested increase \$227,373 (2.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

Fee Structure. Recommend department review fee structure so General Fund revenues from this source can be increased to cover departmental support.

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DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises nine northern district offices and a southern division office in Pasadena, which supervises 10 southern district offices. Departmental staff is presently authorized at 455.3 positions.

The State Constitution gives the department exclusive power in accordance with laws enacted by the Legislature to license the manufacture, importation and sale of alcoholic beverages in California, and to collect license fees on account thereof. The department is given discretionary power to deny, suspend or revoke licenses for good cause.

Responsibilities of the agency are discharged under a single program entitled, "Administration of the Alcoholic Beverage Control Act" which consists of three elements: (1) licensing, (2) compliance, and (3) administration. Table 1 shows budget data for each of the elements.

Table 1
Budget Summary

	1975-76	Change From 1974-75	
		Amount	Percent
Licensing.....	\$3,547,015	\$92,869	2.7
Man-years	202.9	2.2	1.1
Compliance.....	\$3,067,808	\$83,253	2.8
Man-years	142	0.8	0.6
Administration.....	\$2,049,026	\$51,251	2.6
Man-years	108.4	1.0	0.9
Total	\$8,663,849	\$227,373	2.7
	453.3	4	0.9

Licensing Element

The objective of licensing premises wherein alcoholic beverages are produced, sold, or consumed is to prevent unqualified persons from engaging in the sale, manufacture or importation of such beverages and to prevent such operations in locations where the peace and quiet of the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be less likely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 52 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the department's decision. Departmental decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals Board (a separate state agency) and the courts.

Compliance Element

The objective of the compliance or "enforcement" element is to prevent the operation of premises dealing in alcoholic beverages from becoming police problems; to prevent practices jeopardizing public safety and welfare; to prevent sales to minors and intoxicated persons and to restrict activities detrimental to public morals. Enforcement comprises investigation of complaints, imposition of disciplinary action and suppression of various trade or business practices prescribed by law. The department shares law enforcement responsibilities with local police and other law enforcement agencies.

Administration Element

The administration element includes the department's executive staff and personnel responsible for licensing, accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public.

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue-producing agency. It collects and distributes fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, 90 percent of the money on deposit in this fund is divided among the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund.

The department estimates that General Fund revenue for the budget year will amount to \$8,325,000, which is approximately \$339,000 below its expected cost of operation for the same period. Table 2 details these revenue sources.

Table 2
License Fee and Miscellaneous Revenue
Department of Alcoholic Beverage Control
(General Fund)

	<i>1973-74</i>	<i>Estimated 1974-75</i>	<i>Estimated 1975-76</i>
Miscellaneous	\$1,974	—	—
Original license fees	2,093,750	\$2,100,000	\$2,110,000
Transfer fees	4,069,714	4,165,000	4,200,000
Special fees	302,916	305,000	310,000
Service charges	97,575	100,000	100,000
Penalties	27,550	30,000	30,000
General Fund portion of annual fees and offers in compromise	<u>1,456,048</u>	<u>1,550,000</u>	<u>1,575,000</u>
Totals, revenues (General Fund)	\$8,049,527	\$8,250,000	\$8,325,000

For the budget year, it is estimated that the Alcoholic Beverage Control Fund will make local allocations totaling \$14,175,000. Of this amount, cities

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

will receive \$11,481,750 and counties will receive \$2,693,250 based on the allocation formula.

ANALYSIS AND RECOMMENDATIONS

The department proposes General Fund expenditures of \$8,663,849, which is \$227,373 or 2.7 percent above the current-year estimate. The department also anticipates budget-year reimbursements of \$131,182, representing fees it charges for (1) fingerprinting applicants (2) transcripts of hearings and (3) copies of the Alcoholic Beverage Control Act.

The General Fund increase consists of \$74,721 for operating expenses and equipment (primarily reflecting price increases) and \$152,652 for salaries and staff benefit adjustments, including four man-years of temporary clerical help to provide back-up for the department's field offices in cases of unexpected clerical absences or vacancies. The current practice of temporarily filling vacancies with investigative staff is both costly and inefficient.

Fee Structure Needs Adjustment

We recommend that the department review its fee structure and advise the Legislature of adjustments which should be implemented statutorily so that sufficient General Fund revenue is generated to cover the department's costs.

As shown in Table 2, the department collects a number of statutorily prescribed license fees and other charges which historically have produced enough General Fund revenue to cover the department's support costs. Some of these fees and charges have not been revised in 40 years. For example, a beer and wine wholesaler's license has cost \$56 since 1930.

The budget year marks the first time that General Fund deposits from fees and charges (\$8,325,000) will not cover the cost of departmental operations (\$8,663,849) and this revenue gap will widen if the proposed 8.5 percent salary increase is approved. We therefore believe the department should review its fee structure and seek legislation for such increases as needed to cover its support costs.

Legislative Action on Price-Posting Law

As recommended in previous analyses, repeal of the price maintenance and price-posting requirements in the Alcoholic Beverage Control Act would produce savings in the department's support budget in addition to reductions in consumer prices.

**Business and Transportation Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**

Item 179 from the General
Fund

Budget p. 355

Requested 1975-76	\$173,447
Estimated 1974-75.....	168,332
Actual 1973-74	147,504
Requested increase \$5,115 (3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members are salaried and meet regularly in Los Angeles, San Francisco and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not subject to departmental control.

The board's single program consists of providing an intermediate appeals forum between the department and the state's district courts of appeal to which an appellant has access upon a petition to review any board decision. During 1973-74, 120 appeals were filed and 121 decisions issued. The appeals board reversed 21 departmental decisions. As of June 30, 1974, it has processed 4,214 cases since its creation in 1954.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget-year expenditure of \$173,447, which is \$5,115 or 3 percent above the current-year estimate. This increase consists of \$2,187 for merit salary increases and \$2,928 for higher operating costs.

As mentioned in the analysis of the previous item, should the Legislature repeal or modify the price-posting program there would be savings in this item because a high proportion of the board's workload involves price-posting violations.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Item 180 from the General
Fund and Items 181-182 from
the State Banking Fund

Budget p. 356

Requested 1975-76	\$2,656,750
Estimated 1974-75.....	2,473,712
Actual 1973-74	1,996,473
Requested increase \$183,038 (7.4 percent)	
Total recommended reduction	None

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
180	Local Agency Security Program	General	-0-	274
181	State Banking Department	State Banking	\$2,629,250	272
182	Local Agency Security Program	State Banking	27,500	27A
			<u>\$2,656,750</u>	

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from economic loss resulting from bank and trust company failures. Not all banks in California are regulated by this department because some choose to operate under federal authority.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Headquarters is in San Francisco and the department's single branch office is in Los Angeles. Current authorized staff is 120 positions.

The department is supported by the State Banking Fund, which receives assessments on banks and trust companies, license and application fees and service charges. At the end of the budget year the fund will have an estimated surplus of \$973,183.

Table 1 shows man-years and costs devoted to the department's five programs and supporting elements.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department proposes an expenditure of \$2,656,750 which is a net increase of \$183,038 or 7.4 percent above estimated current-year expenditures. The requested budget year augmentation of \$183,038 consists primarily of (1) \$41,916 for increased operating expenses, (2) \$36,216 for two bank examiner positions and one clerk-typist position to examine existing banks and process required examination reports (the department advises that 1975 will be the first year since 1970 that it will be able to examine all banks once each year as required by law), (3) \$28,980 for one counsel position and one legal typist position for the legal and legislative services element and one clerical position for the executive and administrative

TABLE 1
Cost and Staffing Data for Departmental Programs

<i>Program</i>	<i>Element</i>	<i>Actual 1973-74</i>		<i>Estimated 1974-75</i>		<i>Proposed 1975-76</i>	
		<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>
1. Licensing and supervision of banks and trust companies	Investigation of applications for new facilities	7.1	\$118,353	6.8	\$119,450	6.4	\$116,350
	Continuing supervision of existing banks	78.7	1,678,934	95.2	2,070,322	100.6	2,255,290
	Continuing supervision of existing trust companies	7.1	161,485	10	213,540	11	224,210
2. Regulation of transmitters of money abroad		0.7	13,000	1.7	28,500	1.7	29,900
3. Certification of securities		0.3	3,250	0.3	34,000	0.3	3,500
4. Administration of local agency security (Items 180 and 182)		1	21,451	1	38,500	1	27,500
5. Departmental administration (prorated to other departmental programs)	Executive and administrative services	(8.4)	(188,347)	(8.4)	(211,489)	(9.4)	(225,918)
	Legal and legislative services	(4)	(91,711)	(5)	(108,740)	(7)	(139,390)
	Information services	(2)	(53,476)	(3)	(64,570)	(3)	(67,870)
TOTAL NET PROGRAMS		94.9	\$1,996,473	115	\$2,473,712	121	\$2,656,750

STATE BANKING DEPARTMENT—Continued

services element. The counsel and legal typist positions are needed to meet an increasing legal workload generated by branch applications and the drafting of departmental regulations. The clerical position is needed to absorb increased workload in the department's central files.

Departmental Regulations

The Supplementary Report of the Committee on Conference (Budget Bill of 1974) recommended that “. . . the department's rulings be reviewed and incorporated into regulations. Such regulations are to define authorized banking functions and be promulgated by November 1, 1974.”

The first installment of regulations was filed with the Secretary of State on November 19, 1974 to become effective on January 1, 1975. These regulations affect banking terms, procedures for filing documents with the superintendent, application procedures for organizing new banks and trust companies, hearings by the superintendent, reserve requirements and procedures and policies regarding foreign banks. The department advises that from six to 10 additional installments will be produced in order to complete its regulations. These future installments will cover the sale of securities and other corporate matters, the operation of banks and procedures for expanding banks.

Local Agency Security Program

Chapter 1483, Statutes of 1969, established a “local agency security” program under which the Superintendent of Banks is designated as the “Administrator of Local Agency Security” with the responsibility of supervising the handling of county, city and district funds by depository banks, both state and national.

Although the program is technically financed by the General Fund, there is no General Fund cost because the program is fully reimbursed by a loan from the State Banking Fund which is in turn reimbursed by fees assessed to participating banks.

**Business and Transportation Agency
CALIFORNIA JOB CREATION PROGRAM**

Item 183 from the General
Fund

Budget p. 361

Requested 1975-76	\$2,892,065
Estimated 1974-75.....	2,876,187
Actual 1973-74	874,660
Requested increase \$15,878 (0.5 percent)	
Total recommended reduction	\$2,256,735

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>Loan Guarantee Fund. Reduce \$2,256,735.</i> Recommend reduction because additional loan funds will not be required in budget year.	276
2. <i>Loan Guarantee Fund.</i> Recommend no further transfers of 1974-75 monies to fund to prevent accumulation of greater surpluses.	277
3. <i>Loan Default Rate.</i> Recommend staff attempt to reduce loan default rate and report to the Joint Legislative Budget Committee by December 1, 1975.	277
4. <i>Employment Data.</i> Recommend more information be included in budget document and Cal-Job annual report.	278
5. <i>Small Business Assistance Program.</i> Recommend staff attempt to determine effectiveness levels of program.	279

GENERAL PROGRAM STATEMENT

The California Job Creation Program was established to promote employment by assisting small businesses in disadvantaged areas. Through regional job development corporations comprised of financial institutions, the program uses state funds to guarantee loans to small businesses which would otherwise not qualify for financial assistance. In addition, the Small Business Assistance Program element engages contractors who provide consulting services to small business at a minimal charge. Also within the program is the Office of Minority Business Enterprise (OMBE) which is federally funded. This office assists minority businesses to obtain procurement contracts and provides other services.

Initially established in 1968, the Cal Jobs Loan program and small business assistance programs were combined in 1973. Effective September 26, 1974, the new program was transferred from the Employment Development Department to the Business and Transportation Agency by Chapter 1326, Statutes of 1974 (SB 997). The program is directed by the California Job Creation Program Board, composed of 19 members representing state government, financial institutions, business, labor, the regional job corporations, persons in disadvantaged areas, and the Legislature.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of \$2,892,065, which is 0.5 percent above the current year authorization. A total of \$771,330 is budgeted for operations and personal services and the remainder will be available for transfer to the State Loan Guarantee Fund as described below. Table 1 shows staffing and cost data by program element.

Table 1
Positions and Budget Authorizations
1974-75 and 1975-76

	<i>Man-years</i> 1974-75	<i>Man-years</i> 1975-76	<i>Estimated Expenditures</i> 1974-75	<i>Estimated Expenditures</i> 1975-76
Cal-Jobs				
Staff and operations.....	9	9	\$590,380	\$635,330
Loan guarantee funds.....			2,285,807	2,256,735
OMBE.....	6	6	120,000	136,000
Less federal reimbursement			(120,000)	(136,000)
Total			\$2,876,187	\$2,892,065

CALIFORNIA JOB CREATION PROGRAM—Continued

A. CAL-JOBS LOAN PROGRAM

Regional job creation corporations have been established in the Los Angeles, San Diego, and San Francisco areas. These corporations guarantee loans made by their member banks to qualifying small businesses. General Fund appropriations to the Cal-Jobs program are transferred to the State Loan Guarantee Fund, from which they may be transferred to the regional corporations' guarantee funds without regard to fiscal years. Table 2 summarizes information about firms which have received loan guarantees from the regional corporations. Table 3 displays the dollar values of the loans guaranteed and those which have defaulted.

Table 2
Number of Firms Assisted and Total Employment

	1972	1973	1974
Firms Assisted	8	13	16
Total firms (accumulative from 1969)	95	108	124
Firms in Default	12	13	12
Total firms in default (accumulative from 1969)	23	36	48
Employees (accumulative from 1969)	1,568	611.4	N/A

Table 3
Guaranteed Loans and Loan Defaults

	1972	1973	1974
Loans by Year	\$717,890	\$225,548	\$275,217
Loans Accumulative	3,799,588	4,025,194	4,300,412
Losses by Year	264,328	566,446	485,062
Losses Accumulative	519,093	1,085,538	1,570,600

State Loan Guarantee Fund

We recommend the reduction of \$2,256,735 from the Cal-Job Creation program because additional loan guarantee funds will not be required in the budget year due to uncommitted surpluses available to regional corporations.

The budget includes \$2,256,735 for fiscal year 1975-76 as "available for transfer to Loan Guarantee Fund". Because of recent changes in the program's loan operations and substantial surpluses in the regional loan guarantee funds, no additional funds will be required to support the program's loan guarantees in 1975-76.

In 1973 the program began a cooperative loan guarantee activity with the federal Small Business Administration. Whereas formerly the program guaranteed up to 90 percent of each loan, it now guarantees only the equity portion of Small Business Administration loans which average 20 percent and can be no more than 50 percent of the total loan. Cal-Jobs participated in loans totalling \$1,047,617 in 1974, but guaranteed only \$275,217, or an average of 26.2 percent of each loan. As a result of this

cooperative program, the program will be able to guarantee a larger number of loans with a much smaller fund requirement.

The loan guarantee funds of the regional corporations have large surpluses which should make unnecessary further appropriations in 1975-76. The entire outstanding loan portfolios of the three regional corporations totalled only \$882,002 as of November 1974, while their available loan guarantee funds exceeded \$1,940,000. Although the Cal-Job board has a general policy of maintaining the regional loan guarantee funds at 15 percent of the total loan portfolios, the funds equaled 220 percent of the loans outstanding as of November 1974. With over \$1,058,000 in uncommitted funds available to regional corporations for new loan guarantees, we believe no further allocations are necessary for 1975-76. This surplus is adequate to maintain a loan guarantee program several times larger than the current level.

Funds Should Not Be Transferred

We recommend that the Cal-Job Creation program not transfer any of its currently available funds from the General Fund into the State Loan Guarantee Fund for use in 1975-76 or beyond to prevent accumulation of greater surpluses.

As indicated in the previous section, the program has adequate resources to meet its loan guarantee requirements through 1975-76. The present status of the current year appropriation available for transfer to the Loan Guarantee Fund, is as follows:

Available for transfer to Loan Fund in 1974-75		\$2,285,807
Less disbursements to regional job creation corporations:		
Los Angeles.....	\$700,000	
San Diego	200,000	
San Francisco	600,000	
		<u>1,500,000</u>
Funds remaining		\$785,807

It is possible that a portion of the remaining funds (less than 25 percent) may be encumbered for a component of the Small Business Assistance Program. The remainder should be allowed to revert to the General Fund at the end of the 1974-75 fiscal year. Any further transfers to the State Loan Guarantee Fund in the current year would result in a commitment of funds far in excess of probable expenditures in the current year and 1975-76 combined.

It should be noted that, in addition to the above funds, the program has an unexpended balance of \$279,023 from Chapter 1211, Statutes of 1973 which was allocated without regard to fiscal years and may be expended for any program purpose.

High Loan Default Rate

We recommend that the Cal-Job staff attempt to reduce the loan default rate and report to the Joint Legislative Budget Committee by December 1, 1975.

According to Table 2, 48 of 124 firms, or 38 percent of those receiving loan guarantees, have defaulted on their loans, usually through bank-

CALIFORNIA JOB CREATION PROGRAM—Continued

ruptcy. At least nine other firms have ceased operation without defaulting. Of \$4.3 million in loans from 1969 through 1974, over \$1.5 million has been lost through default. Table 4 compares this dollar loss rate with other lenders' experience.

Table 4
Monetary Loan Losses of Selected Lenders

<i>Lender</i>	<i>Loss Rate</i>
Commercial Banks	¼ of 1 percent
Small Business Administration	7.1 percent
Cal-Jobs.....	36.5 percent

This illustrates that over 36 cents of each dollar committed to the loan guarantee program has had little or no permanent effect on employment or small business development because of business failure. Every effort should be made to reduce the large number of defaults, either through greater selectivity in making loan guarantees or by additional post-loan consulting by the program's Small Business Assistance element.

Little Evidence of Employment Increases

We recommend that the budget document and Cal-Jobs annual report contain more information on the employment generated by loan guarantees.

Sufficient data are not available on which to judge the effectiveness of Cal-Job guarantees as a means of generating employment. The fact that the program's report for calendar 1973 was only recently published indicates the lag between the program's operation and any measurement of its effectiveness. As of now, no data are available as to the number of persons employed in 1974 because of the loan guarantee program. Such information could be obtained quarterly from the Employment Development Department and we recommend that this be done. In addition, no data are kept on the number of minority, handicapped, and disadvantaged persons employed, although these are the groups the program is primarily supposed to assist.

As of December 13, 1973 a net of 611.4 man-years were employed by firms which had received Cal-Jobs loans between 1969 and 1973. This represents a major decline from the 1972 total of 1,568 man-years. Cal-Jobs staff are unable to explain this decrease except to say they believe the 1972 figure is unreliable.

The program's record-keeping is still questionable because the positions employed by the firms before seeking loan assistance are not deducted from the "net employment" figure. Therefore, the number of jobs actually created through Cal-Jobs is substantially lower than suggested by the figures cited. Although we cannot determine the exact number of new jobs created, it has probably declined further in 1974 because the number of firms defaulting exceeded those receiving loans. On the basis of available data, it would appear that the Cal-Job loan guarantee program's effect on employment has been almost negligible.

B. SMALL BUSINESS ASSISTANCE PROGRAM

We recommend that the staff attempt to determine effectiveness levels of the Small Business Assistance Program.

The Small Business Assistance Program element provides low cost consulting services to small business. The Cal-Job Board contracts with consulting agencies around the state which provide small businesses with loan packaging assistance and general consulting services. In the period February through November 1974, over 700 businesses were involved in the program. The budget requests \$383,915 for small business contract services.

Few direct benefits from the Small Business Assistance Program element have been demonstrated. Program staff should (1) draft criteria to evaluate the program's success, and (2) develop measurement techniques to ascertain the degree to which the program is meeting its goals. Employment generated by this program should be reported.

Office of Minority Business Enterprise (OMBE)

State OMBE is a federally funded program operating under the Cal-Jobs Board. The primary focus of OMBE is to assist minority businesses in three major areas: (1) obtaining an equitable amount of state procurement contracts, (2) developing educational and training opportunities for minority entrepreneurship, and (3) assisting state agencies to redirect existing programs and develop new programs to increase opportunities for minority-owned businesses. In the area of procurement, OMBE works closely with the Office of Small Business Procurement established in the Department of General Services during the 1973 legislative session (Chapter 1198, Statutes of 1973).

The budget proposes a continuation of this program at the 1974-75 staffing level of six positions. The \$136,000 OMBE budget for 1975-76 will be fully reimbursed by the federal government.

**Business and Transportation Agency
DEPARTMENT OF CORPORATIONS**

Item 184 from the General Fund

Budget p. 363

Requested 1975-76	\$4,601,480
Estimated 1974-75	4,454,963
Actual 1973-74	3,906,706
Requested increase \$146,517 (3.2 percent)	
Total recommended reduction	\$35,551

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Qualifications Element. Reduce \$16,551.* Recommend deletion of unidentified additional position for qualifications element.

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DEPARTMENT OF CORPORATIONS—Continued

2. *Training Officer Position. Reduce \$19,000. Recommend 282*
deletion of training officer position established March 1974.

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, the fraudulent sale of securities and franchises, and improper business practices by certain entities which lend money or hold money in a fiduciary capacity. The department carries out this mission through two programs: (1) investment and (2) lender-fiduciary. The cost of the department's administrative program is prorated to these two programs.

Under the Investment Program the department approves securities and franchises offered for sale and conducts investigations to enforce the provisions of all the laws administered by the department. The Lender-Fiduciary Program carries out the licensing of securities agents (salesmen and solicitors) and the licensing and examining of broker-dealers and lender-fiduciary institutions regulated by the department.

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles and San Diego. Authorized staff currently consists of 296. Cost and staffing data for the department's programs and supporting elements are depicted in Table 1.

Departmental Operations

The Department of Corporations is supported by the General Fund. However, the revenue which it produces for the fund through license fees and related charges (exclusive of reimbursements for examinations) exceeds the annual cost of departmental operations as shown in Table 2.

Table 2
Departmental Revenue and Expenditures

<i>Fiscal Year</i>	<i>Revenue</i>	<i>Expenditures (net)</i>	<i>Net General Fund Revenue</i>
1969-70.....	\$7,224,378	\$2,940,061	\$4,294,317
1970-71.....	5,900,944	3,076,217	2,824,727
1971-72.....	6,285,214	3,053,616	3,231,598
1972-73.....	6,030,529	3,399,063	2,631,466
1973-74.....	6,363,337	3,906,706	2,456,631
1974-75 (estimated).....	3,006,386	4,454,963	-1,448,577
1975-76 (proposed).....	6,466,090	4,601,480	1,864,610

ANALYSIS AND RECOMMENDATIONS

The department's request of \$4,601,480 is \$146,517 or 3.2 percent above estimated expenditures for the current year. The department anticipates that budget-year reimbursements of \$1,361,458, primarily fees for examining the financial records of licensees, will produce a total expenditure program of \$5,962,938.

Table 1
Cost and Staffing Data for Departmental Programs

Program	Element	Actual 1973-74		Estimated 1974-75		Proposed 1975-76	
		Man-years	Cost	Man-years	Cost	Man-years	Cost
Investment	Qualifications.....	124.5	\$2,215,099	125.7	\$2,400,157	126.7	\$2,475,761
	Franchises.....	3.8	63,414	3.7	71,682	3.7	73,940
	Regulation and enforcement.....	56.2	955,125	59.3	1,082,751	59.3	1,116,858
	Commodities	8.3	170,482	9	193,080	9	199,162
Lender-Fiduciary	Check Sellers and Cashers Law	1.3	34,259	1.5	38,731	1.5	39,951
	Credit Union Law	27.8	508,098	35.3	686,812	35.3	708,447
	Escrow Law	16	283,018	16.7	320,837	16.7	330,943
	Industrial Loan Law	15.2	308,376	16.1	349,163	16.1	360,161
	Personal Property Brokers Law and California Small Loan Law	24.6	487,885	26	552,648	26	570,057
	Retirement Systems Disclosure Law	2.2	65,781	2.4	74,573	2.4	76,922
	Trading Stamp Law	0.3	7,021	0.3	10,406	0.3	10,736
Departmental Ad- ministration (costs prorated to other pro- grams)	General office	(9)	(132,252)	(9)	(173,076)	(9)	(181,680)
	Accounting and personnel office	(7)	(68,371)	(7)	(71,448)	(7)	(75,020)
Total Programs		280.2	\$5,098,558	296	\$5,780,840	297	\$5,962,938
Reimbursements			-1,191,852		-1,325,877		-1,361,458
Net Total Programs			\$3,906,706		\$4,454,963		\$4,601,480

DEPARTMENT OF CORPORATIONS—Continued

New Position (Qualifications Element)

We recommend deletion of an unidentified additional position for the qualifications element for a savings of \$16,551.

The department's budget request for the qualifications element reflects the addition of one unidentified position even though the qualifications workload has declined from last year. This position, we believe, is actually a public information officer position which was established administratively in September 1974. The department originally entered into a contract with the Departments of Savings and Loan, State Banking and Insurance, whereby each department paid one-fourth of the cost of a public information officer position. We are recommending that the position (which is now full time at the department) be deleted because of insufficient workload. The Department of Corporations has sufficient staff to prepare and issue press releases and we are advised by the other contracting departments that they do not require the services of a public information officer.

Training Officer Position (Administrative Element)

We recommend deletion of a training officer position established March 1974 for a savings of \$19,000.

The department established a training officer position in March 1974 (by upgrading an auditor I position) in order to develop continuing education programs for the department's legal and investigative staff. We are recommending deletion of the training officer because of the size of the department and the low turnover of staff. Also, a large portion of the staff (60 percent) is engaged in specialized activities such as legal actions, investigations, and audits. Individuals engaged in such activities are considered for employment on the basis of education and training. In our judgment, if the department needs to provide certain training for its personnel, it should use training officers from the State Personnel Board.

**Business and Transportation Agency
DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT**

Item 185 from the General
Fund

Budget p. 369

Requested 1975-76	\$2,433,253
Estimated 1974-75.....	2,435,001
Actual 1973-74	1,682,094
Requested decrease \$1,748	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

- | | |
|---|-----|
| 1. Inspection Program. Recommend department monitor inspection programs and report to Legislature by December 15, 1975 on progress toward achievement of compliance goals. | 285 |
| 2. Research and Assistance. Recommend department seek federal funds available under provisions of the Housing and Community Development Act of 1974 to undertake housing and community development research, study or demonstration projects. | 289 |

GENERAL PROGRAM STATEMENT

The responsibilities of the Department of Housing and Community Development are divided between two divisions:

1. The Division of Codes and Standards administers the codes and standards program which establishes, enforces and interprets uniform health and safety standards designed to insure a proper housing and living environment for Californians at all socioeconomic levels.

2. The Division of Research and Assistance administers the department's program to provide technical assistance in seeking solutions to California's housing problems.

Rules and regulations of the department are promulgated by a nine-member Commission of Housing and Community Development. Members of the commission are appointed by the Governor from among leaders in the building and housing field.

ANALYSIS AND RECOMMENDATIONS**CODES AND STANDARDS PROGRAM**

The Codes and Standards Program provides for the development, interpretation and enforcement of regulations for structures and vehicles used for human habitation. This program, composed of six elements, includes both direct inspection and "general assistance" activities.

General assistance includes such activities as: (1) preparation and dissemination of housing standards information to local officials, (2) direct assistance to local governments in the interpretation of housing standards, and (3) special projects which have statewide implications. These activities receive General Fund rather than fee support.

A total of 161.8 man-years is budgeted for this program in 1975-76, slightly below the 162.5 estimated for the current year. Table 1 shows proposed expenditures and staff levels for the budget year in each of the six program elements. Of the total man-years budgeted, 78.5 are codes and standards inspectors whose time is divided among the six program elements.

Estimates of revenues from fees and projected costs for each element for the current and budget year are shown in Table 2. Revenues are projected to increase significantly in the Employee Housing and Mobile-home Park programs in the budget year. Pursuant to our recommendation

Table 1
Staff and Expenditures of Codes and Standards Program

Program Elements	Man-Years			Expenditures		
	Actual 1973-74	Estimated 1974-75	Proposed 1975-76	Actual 1973-74	Estimated 1974-75	Proposed 1975-76
1. State Housing Law and Earthquake Protection						
Law	6.7	5.6	5.5	\$165,165	\$229,631	\$127,227
2. Employee Housing Act.....	11.1	12.1	12.3	182,644	235,259	256,880
3. Mobilehome Parks and Accessory Structures..	42.5	70.9	69.7	773,853	1,367,910	1,430,384
4. Mobilehomes	63.6	63.7	64.1	1,154,229	1,251,214	1,286,237
5. Factory-Built Housing Law	4.6	7.1	7.1	98,953	158,438	174,493
6. Special Projects.....	1.5	3.1	3.1	36,833	70,541	77,371
Totals	130.0	162.5	161.8	\$2,411,677	\$3,312,993	\$3,352,592
<i>Reimbursements:</i>						
Mobilehome Revolving Fund				\$566,639 ^a	\$1,251,214	\$1,286,237
Reimbursements				439,119 ^b	—	—
General Fund Cost.....				1,405,919	2,061,779	2,066,355

^a Mobilehome Revolving Fund established January 1, 1974. This figure represents mobilehome program reimbursements from January 1, 1974 to June 30, 1974, including \$107,169 deficit carried over to 1974-75.

^b Mobilehome reimbursements from June 30, 1973 to December 31, 1973.

in the 1974-75 Budget Analysis, the department has made fee adjustments which are projected to increase revenues sufficient to fund direct inspection activities in all but the Factory Built Housing inspection program.

Table 2
Comparison of Estimated Revenues and Expenditures
1974-75 and 1975-76

Program	1974-75		1975-76	
	Total Expenditures	Fee Revenues	Total Expenditures	Fee Revenues
State Housing Law				
State Earthquake Protection Law				
Inspection	\$21,000	\$21,000	\$22,050	\$21,500
General Assistance	208,631		105,177	
Total	229,631		127,227	
Employee Housing Act				
Inspection	210,226	80,000	227,455	230,000
General Assistance	25,033		29,425	
Total	235,259		256,880	
Mobilehome Parks and Accessory Structures				
Inspection	842,046	720,000	871,781	870,000
General Assistance	525,864		558,603	
Total	1,367,910		1,430,384	
Mobilehome Manufacturers'				
Inspection	1,251,214	1,251,214	1,286,237	1,286,237
General Assistance	—		—	
Total	1,251,214		1,286,237	
Factory Built Housing Law				
Inspection	158,438	39,000	174,493	18,500
General Assistance	—		—	
Total	158,438		174,493	
Special Projects				
Inspection	—	—	—	—
General Assistance	70,541		77,371	
Total	70,541		77,371	
Totals	\$3,312,993	\$2,111,214	\$3,352,592	\$2,426,237

Target Compliance Levels Established

We recommend that the division continue to monitor its inspection programs and report to the Legislature by December 15, 1975 on its progress in meeting target compliance goals in all inspection programs.

In the 1974-75 Budget Analysis, we reported that significant inspection deficiencies existed in several programs in the Codes and Standards Division. We recommend that the department develop a plan for correcting its inspection deficiencies, which would include reasonable compliance goals in each inspection program, and man-years and expenditures required to achieve and maintain these goals.

In response to our recommendation, the division developed a plan and set a target compliance level of 85 percent to be achieved in all programs in 1974-75 and a level of 95 percent to be achieved in 1975-76. In addition, the department requested and obtained approval for 16 additional posi-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

tions which it estimated were necessary to achieve these goals.

Progress Toward Achieving Compliance Goals

The division now reports that compliance has been improved in all programs, and that target compliance levels should be reached for the current and budget years in all programs except the Mobilehome Park inspection program. An analysis of the status of compliance in each of the programs is included in the program discussions following.

Other Divisional Problems Corrected

In the 1973-74 fiscal year, the department administration allowed the division's staff to fall significantly below the authorized level. In January 1974 there were 19.5 vacant positions of an authorized total of 138.5. Failure to fill positions affected the division's ability to meet inspection responsibilities. Since the beginning of the current year, the division has made progress toward filling the vacant positions, and as of December 1, 1974 there are 11 positions vacant.

In addition, following our recommendation, the division has developed an inspection time reporting system which compiles and summarizes the daily reports of inspection man-hours by region and program. This reporting system enables divisional management to continuously assess the status of inspection programs and to systematically allocate available manpower to priority areas.

State Housing Law and Earthquake Protection Law

The objective of this element is to establish, interpret and enforce statewide minimum building, housing and earthquake protection standards. Enforcement of this law has been assumed by local building departments throughout the state except for Mariposa County. The department remains the primary inspection authority in this county.

Employee Housing Act

The objective of this element is to protect the health and safety of labor camp residents and other employee housing residents in the state. The department has inspection responsibility for this function unless it is voluntarily assumed by the local jurisdiction. The department now has enforcement responsibility in all but nine counties.

Current law requires an annual permit to operate, an annual inspection and any reinspection necessary to assure compliance with provisions of the Employee Housing Act for all active labor camps with five or more occupants. Chapter 1344, Statutes of 1974, (AB 221) allowed the Commission of Housing and Community Development to establish a schedule of fees to pay for administration and enforcement of the Employee Housing Act. These fees were previously limited by statute. The commission is currently revising the fee schedule to increase revenue and make the program self-supporting.

Table 3 shows the results of the inspection and enforcement activities in this program for January 1, 1974 through November 30, 1974 compared to the same 11-month period in 1973.

Table 3
Status of Employee Housing Program

	<i>Jan.-Nov. 1973</i>		<i>Jan.-Nov. 1974</i>	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Number of labor camps registered.....	1,140	100%	810	100%
Number of camps inspected.....	671	59	756	93
Number of camps in compliance	236	21	618	76

As shown in Table 3 the percentage of camps inspected and the percentage in compliance have increased significantly in the current year. This increase is due primarily to increased inspection personnel and reallocation of manpower from other program elements. The department estimates that 95 percent compliance can be attained in this program at the end of the budget year.

Mobilehome Parks and Accessory Structures

The department has the responsibility to provide and enforce uniform health and safety regulations for construction and operation of mobilehome parks and accessory structures. These regulations insure statewide standardized construction, utility hookup, and sanitation rules for the parks and allow manufacturers of accessory structures to receive a single state approval, acceptable to all enforcement agencies. Unless voluntarily assumed by the local jurisdiction, the state has primary inspection responsibility for mobilehome parks. The department currently has enforcement responsibility for 1,731 mobilehome parks, comprising 30 percent of the total parks in the state.

Effective July 1, 1974, Chapter 640, Statutes of 1973, (SB 261) changed mobilehome park inspection procedures to eliminate the biennial inspections and require that an inspection be performed each time a mobilehome is installed in a mobilehome park. However, the department will continue to perform biennial inspections on all parks which were due for inspection or were not in compliance as of June 30, 1974. As we reported in our 1974-75 Budget Analysis, the number of parks in compliance at the end of October 1973 was 37 percent of the total parks under state jurisdiction. In November 1974, the compliance level had increased to 50 percent.

The department reports that this increase has not been as significant as in some programs (i.e., Employee Housing) because of the change in inspection procedures which the division has been implementing since July. The division now projects that 85 percent compliance will not be reached until 1975-76 and a 95 percent level will be reached in the following year. The department's budget for this program is proposed to remain virtually unchanged in the budget year.

Mobilehome Manufacturers

The mobilehome manufacturers element is responsible for enforcing construction and inspection standards prescribed by the Health and Safety Code. All mobilehome^a units used in California must be approved by the department to insure compliance with safety regulations which cover electrical, gas, plumbing and structural standards. Inspections are made in

^aThe department used the term mobilehome to designate the semipermanent type of mobilehome as well as recreational vehicles used for human habitation (travel trailer and motorhomes) and commercial coaches.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

manufacturing plants, dealer lots, and for private individuals upon request. This inspection function is supported by inspection fees deposited in the Mobilehome Revolving Fund.

In July 1972 a survey indicated that only 6 percent of the mobilehome units inspected were in compliance with state safety regulations. Since that time the department has changed its inspection procedures and increased its inspection staff. Follow-up surveys showed that compliance had improved to 66 percent in January 1973 and had reached 74 percent by December 1974. The department estimates that compliance will increase to 85 percent by the end of the current year and reach 95 percent in the budget year.

The number of mobilehome complaints received by the department as a percentage of the number of units manufactured has increased in the last few years. The department believes this increase is due largely to the publicity efforts of consumer protection groups. Table 4 shows the number of mobilehomes manufactured, the number of mobilehome complaints received and closed during the prior two fiscal years and July to November of the current year.

Table 4
Status of Mobilehome Manufacturing and Complaints

Year	Number of Mobilehomes Manufactured	Complaints Received		Complaints Closed	
		Number	Percent of Total Manufactured	Number	Percent of Total Received
1972-73.....	40,966	1,759	4.3%	1,701	96.7%
1973-74.....	29,338	1,685	5.7	1,654	98.2
1974-75 (July-Nov.)	8,646	505	5.8	499	98.8

The expenditure and man-year levels for this inspection program are to increase slightly in the budget year.

Factory-Built Housing

The objective of this element is to encourage and regulate the manufacture and construction of factory-built housing. In 1969, the Legislature passed the Factory-Built Housing Law which authorized the department to approve plans, make in-plant inspections and issue insignia showing compliance with established regulations. There are currently 28 manufacturers with approved plans who are eligible to produce units under this program, a drop from 39 manufacturers at this time last year.

Although a decrease in workload has occurred as a result of manufacturers leaving the industry, the department foresees an offsetting workload increase as a result of provisions of Chapter 129, Statutes of 1974 (AB 1859). This legislation changes the scope of the Factory Built Housing Law and will result in an increase in departmental inspection responsibility. Additional staffing requirements, however, cannot be accurately estimated at this time. Therefore, it is proposed that the 7.1 man-years for this element remain unchanged for the budget year.

The Factory Built Housing Element is the only program which is not

projected to be fee-supported by the end of the budget year. The department reports that this is due to the currently depressed state of the industry.

Special Projects

Activities in this element are generally short-term projects which may include providing technical assistance to local governments, interpretation of housing standards, assistance to local building inspection agencies in times of natural disaster, and legislative liaison work concerning issues which relate to the Division of Codes and Standards. It is proposed the 3.1 man-years for this element remain unchanged for the budget year.

RESEARCH AND ASSISTANCE PROGRAM

The objective of the Research and Assistance Division is to improve the quality and quantity of housing in California through technical assistance, advice, research and dissemination of information to local governments, industry and the general public. Statutes also require the division to provide assistance regarding the nature and availability of federal aid for housing and community development programs.

Table 5 shows the proposed staff and expenditures of the Research and Assistance elements.

Table 5
Personnel and Expenditures of the Research and Assistance Division

Program Elements	Man-Years			Expenditures		
	Actual 1973-74	Estimated 1974-75	Proposed 1975-76	Actual 1973-74	Estimated 1974-75	Proposed 1975-76
Research	7.1	6.7	7	\$257,773	\$163,793	\$182,012
Assistance	11.2	10.8	10.2	302,730	304,429	293,653
Totals	18.3	17.5	17.2	560,503	468,222	475,665
Reimbursements						
Federal				202,880		
Other				81,448	95,000	95,000
General Fund Cost				\$276,175	\$373,222	\$380,665

Research

We recommend that the department seek federal funds available under provisions of the Housing and Community Development Act of 1974 to undertake housing and community development research, study or demonstration projects.

This program element includes various statewide housing research activities. Projects in the current year are:

1. Completion and updating of the Statewide Housing Element, Phase III.

2. Research on state and local building codes.

3. A report on local redevelopment agencies and housing authorities in the state which will be published in the current year.

Research activities designated for the budget year include:

1. Updating of Statewide Housing Element.

2. Development of information to define and identify housing needs throughout the state which could be used to provide a basis for allocating

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

funds under a state housing finance program.

3. Development of a state housing information system which would include housing market information and building industry conditions.

The federal Department of Housing and Urban Development advises that federal funds are available under provisions of the recently passed federal act to undertake a wide range of housing or community development related studies, such as the housing information activities listed above. The department should seek any such funds available for projects already underway or for the development of new research projects of statewide significance.

A total of seven man-years are proposed for the research element in the budget year, increased slightly from 6.7 man-years in the current year.

Assistance

The department engages in housing-related technical assistance activities. Ongoing activities include:

1. Relocation assistance to families forced to move because of governmental action such as highway construction or urban renewal.

2. Assistance to several Indian Housing Authorities in the state. The department provides technical assistance to establish and operate these authorities as well as to obtain public housing funds.

In the budget year the division's primary assistance activity will be to assist local governments to obtain funds under the federal Housing and Community Development Act of 1974. Under provisions of the federal act, all communities must formulate comprehensive housing assistance plans as part of their application for funding. The division should play an important role in assisting communities to prepare the required plans in order to assure maximum federal funding.

A total of 10.2 man-years is proposed to provide statewide housing assistance in the budget year, reduced from a level of 10.8 man-years in the current year.

ADMINISTRATION

The administrative staff consists of the director, the deputy director, the chief of administrative services and the accounting officer, supported by clerical help. Policy and operating guidance are provided by the Commission of Housing and Community Development.

**Business and Transportation Agency
DEPARTMENT OF INSURANCE**

Item 186 from the General
Fund

Budget p. 374

Requested 1975-76	\$5,475,938
Estimated 1974-75.....	5,062,178
Actual 1973-74	4,313,454
Requested increase \$413,760 (8.1 percent)	
Total recommended reduction	\$30,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. *Management Study. Reduce \$30,000.* Recommend deletion for management study of department's automated files. 294

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business which is wholly regulated by the states rather than by the federal government. As a California industry its worth is estimated at over \$9 billion.

The Department of Insurance is responsible for regulating the activities of insurance and underwritten title companies and insurance agents, and brokers in order to protect insurance policyholders.

The department is administered by the Insurance Commissioner, who is appointed by the Governor. Headquarters is in San Francisco with branch facilities located in Los Angeles, San Diego and Sacramento. In performing its mission, the department utilizes two regulatory programs. The Regulation of Insurance Companies program includes the company consumer services element which processes general inquiries and complaints from the public regarding the actions of insurance companies, the tax collection element which collects premium, retaliatory, and surplus line broker taxes from insurance companies, and the general regulation element which conducts field examinations of insurers every three years and rating examinations every five years.

The Regulation of Insurance Producers program includes the producer licensing element which prepares, schedules, administers, and grades license examinations and issues and renews licenses, as well as the producer compliance element which investigates complaints from the general public concerning agents and brokers. Table 1 depicts man-years and cost devoted to each operating program and supporting elements. The costs of the department's administrative program are prorated to the two operating programs.

ANALYSIS AND RECOMMENDATIONS

The department's budget request of \$5,475,938 is \$413,760 or 8.1 percent above estimated expenditures for the current year. However, the department anticipates that budget-year reimbursements of \$2,520,138, primar-

Table 1
Cost and Staffing Data for Departmental Programs

<i>Program</i>	<i>Element</i>	<i>Actual 1973-74</i>		<i>Estimated 1974-75</i>		<i>Proposed 1975-76</i>	
		<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>
Regulation of	company consumer services	53.4	\$1,081,880	58.5	\$1,289,312	66.5	\$1,514,345
Insurance	tax collection	12.9	261,145	14.1	311,213	14.1	322,312
Companies.....	general regulation	118.1	2,387,466	129.3	2,845,377	143.3	3,219,742
Regulation of							
Insurance	producer licensing	57.5	1,161,230	62.8	1,383,876	67.8	1,670,775
Producers.....	producer compliance	50.9	1,029,770	55.8	1,227,209	55.8	1,268,902
Administration (costs prorated to other programs)		(40.1)	(863,851)	(43.1)	(969,816)	(48.1)	(1,046,362)
Total Programs		292.8	\$5,921,491	320.5	\$7,056,987	347.5	\$7,996,076
Reimbursements			-1,608,037		-1,994,809		-2,520,138
Net Total Programs			\$4,313,454		\$5,062,178		\$5,475,938

ily representing fees for examining insurance companies, will result in a total proposed expenditure program of \$7,996,076.

New Positions (Company Consumer Services Element)

The department requests the addition of eight insurance officer III positions to examine the sales and claims practices of insurance companies. This program is the result of new procedures adopted by the National Association of Insurance Commissioners after the Equity Funding scandal. The insurance companies examined will reimburse the department for the cost of the new positions, which is estimated at \$111,552.

New Positions (General Regulation Element)

The department requests the addition of three rate analyst II positions and 11 insurance examiner II positions. The three requested rate analyst positions are to assist in the examination of rating organizations (at least once every five years by law). Total cost to the department for the three requested positions is \$56,100. However, \$37,775 will be recovered through examination fees collected from rating organizations which are examined.

The 11 requested insurance examiner II positions are needed to maintain examination schedules of domestic and out-of-state insurers. The cost for the positions is \$193,050. However, the department will be totally reimbursed through examination fees collected from insurance companies.

The department requests the addition of four clerical positions and one administrative analyst position. The four clerical positions are needed to establish a cashiering and information program in the department's Sacramento office. The department is in the process of moving the license division from San Francisco to Sacramento and it is anticipated that new quarters will be occupied by February 1975.

The administrative analyst position is needed to provide management assistance, establish procedures and conduct work measurement studies.

Automation of Licensing Functions

The Governor's Budget provides for a budget year expenditure of \$603,343 for the continued automation and operation of the department's agent and broker licensee file. According to the budget, it is estimated that current year expenditures for this purpose will be \$588,598. However, because about \$80,000 of this amount is associated with the relocation of the licensing division, the actual current year cost of the automation project will approximate \$508,598.

The automated system is replacing the outmoded manual system which the department has considered improving since 1947. The new system is based on the use of microfilm cards (microfiche) produced as a result of computer programs processed at the Stephen P. Teale Consolidated Data Center.

Project Problems

The department has experienced significant problems in its effort to automate the licensing function. Not only has the project incurred a substantial cost overrun (see Table 2), but the cost to operate the system has

DEPARTMENT OF INSURANCE—Continued

turned out to be so high as to preclude operation of the system as originally intended. As a result, cost savings and revenue projections have not been realized.

In addition, actual implementation of programmed modules of the system have not produced intended results. For example, the automated issuance in early 1974 of fire and casualty license renewals may be summarized as a disaster.

Table 2 displays original estimated project costs versus actual costs and current estimates. The original costs are based on the feasibility study prepared by the Department of General Services and represent the net cost to develop and operate the system. Estimated savings of a cost avoidance nature are not included in these amounts because these represent "soft" savings. Their inclusion would make the overrun even greater.

Table 2
Net Cost to Automate and Operate the Licensing Function

<i>Fiscal Year</i>	<i>Feasibility Study Estimate</i>	<i>Actual</i>	<i>Overrun</i>
1972-73	\$50,500	\$50,847	\$347
1973-74	358,721	514,978	156,257
1974-75	116,834	508,598	391,764 ^a
1975-76	103,304	603,343	500,039 ^a
Totals.....	\$629,359	\$1,677,766	\$1,048,407

^a Estimated

Problems are Symptomatic

In many regards, the problems associated with the department's effort to automate its licensing function are symptomatic of the large void between electronic data processing (EDP) technology and the ability to use that technology effectively, as documented in our February 1, 1973 report "Electronic Data Processing in California State Government".

In this particular case, we believe that responsibility for the failures associated with this effort must be shared among the Departments of Insurance, General Services and Finance. Insurance must accept responsibility for not exercising appropriate management of the project from a user perspective. However, it was relying upon General Services to perform in accordance with its feasibility study and provide adequate technical and project management expertise.

The Department of Finance must share responsibility because the project has been conducted with the approval of its EDP unit and, supposedly, under its monitoring. Further, the Finance EDP unit has a staff of high level systems analysts who can provide technical assistance to departments. We discuss this problem in our analysis of the Department of Finance budget (Item 61).

In-House Study Preferred

We recommend that \$30,000 budgeted for a management study of automated files be deleted.

The Department of Insurance, with the assistance of General Services,

is in the process of attempting to resolve the numerous technical and operational problems which have plagued the automation project. The major effort now, however, is to achieve successful implementation of the pending automated life and disability license renewal process.

Once this process has been implemented, we understand that the department intends to address other major problems with the system which are yet unresolved. These include the timely processing of information and the producing of additional revenue through the sale of name lists to insurance companies.

In this regard, the Governor's Budget contains \$30,000 for the department to contract for a management study which will be concerned primarily with the department's automated files. We believe that a preferable alternative would be for the department to use its own personnel for this purpose. The department has a data processing specialist who was acquired to improve the department's auditing of automated insurance systems, and he has been involved in the department's effort to manage the automation project. Further, we understand that the new chief of the license division is experienced with regard to EDP systems.

In our judgment, the department should use this in-house expertise to develop a plan to resolve problems which have already been identified. Accordingly, we recommend that \$30,000 budgeted for outside assistance be deleted.

Because major problems associated with the licensing automation project need to be resolved, we suggest that the department be prepared to report on progress toward resolution of these problems at the time the budget is heard before the fiscal committees.

The report should address known deficiencies of the new system and the department's plan to address and resolve these deficiencies. Additional plans such as the consideration of a mini-computer to provide possible relief to some of the current problems should also be reported to the committees. We are not prepared to withhold recommendations for funding because the project must go forward. However, our office and the fiscal committees must have assurance that the problems are recognized and solutions are planned because the inadequate performance of the system has already caused considerable inconvenience to the industry.

**Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE**

Item 187 from the General
Fund

Budget p. 378

Requested 1975-76	\$200,000
Estimated 1974-75.....	200,000
Actual 1973-74	200,000
Requested increase None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

In response to the 1967 riots and civil disturbances in various American cities, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program to make reinsurance available from the Department of Housing and Urban Development to companies operating in states where reinsurance had been difficult or impossible to obtain from the private sector because of potential riot losses, provided that the states agreed to share a portion of the losses. As a condition of eligibility for reinsurance, the companies agreed to establish and maintain membership in a state program.

California's Participation

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970), established California's program. This legislation (1) created the California Riot and Civil Disorders Association, a self-supporting agency, in which membership is required of all companies writing lines of insurance reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association assuring the state's potential liability under the program. The state's premium for this insurance protection in the budget year is the amount requested in this item.

Table 1 shows earned annual property insurance premiums in California, the state's potential liability for riot losses, and the premium for insurance to cover that liability.

**Table 1
Components of State Liability for Riot Losses**

<i>Fiscal Year</i>	<i>Earned annual property insurance premiums</i>	<i>Maximum state liability for loss (5% of earned premiums)</i>	<i>State premium cost</i>
1969-70	\$578,252,000	\$30,000,000	\$1,500,000
1970-71	635,000,000	32,000,000	1,600,000
1971-72	732,820,000	36,640,000	1,750,000
1972-73	840,000,000	42,000,000	993,144
1973-74	1,000,000,000	50,000,000	200,000
1974-75	1,080,000,000	54,000,000	200,000
1975-76 (est)	1,188,000,000	59,400,000	200,000

Refund Provisions

The state's insurance contract provides that the association shall retain 25 percent of the total premiums paid by the state. However, based on riot loss experience, the contract also provides, beginning January 1, 1975, for annual partial refunds to the state of the remaining 75 percent of its premiums.

Each annual refund will be 20 percent of the 75 percent portion of total cumulative premiums. For example, between 1969-70 and 1973-74, the state paid a total of \$6,043,144 in premiums. Seventy-five percent of this total is \$4,532,358, and the 20 percent *annual* refund was \$906,472, which was paid on January 1, 1975. This refund was deposited in the General Fund and it is not shown as an offset to the \$200,000 appropriation in the current year. Table 2 illustrates how the refund provision operates.

Table 2
Illustration of Refund Provisions

<i>Fiscal Year</i>	<i>State Premium</i>	<i>Cumulative Total</i>	<i>Retained by Insurers (25% of state premium)</i>	<i>Refund to State (20% of remaining 75% of state premium)</i>	<i>Cumulative Refund</i>
1969-70.....	\$1,500,000	\$1,500,000	\$375,000	—	—
1970-71.....	1,600,000	3,100,000	400,000	—	—
1971-72.....	1,750,000	4,850,000	437,500	—	—
1972-73.....	993,144	5,843,144	248,286	—	—
1973-74.....	200,000	6,043,144	50,000	—	—
1974-75.....	200,000	6,243,144	50,000	\$906,472 (1/1/75)	\$906,472
1975-76.....	200,000	6,443,144	50,000	936,422 (1/1/76)	1,842,894

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation provides authority to spend \$200,000 from the General Fund for the state's insurance premium for fiscal year 1975-76. Also, the appropriation will generate \$4,700 in revenue to the General Fund from premium taxes paid by insurers who are members of the association. The premium tax is 2.35 percent of earned premiums.

Table 3 illustrates how the riot insurance program would operate in the event of losses based on the data shown in Table 1 for fiscal year 1975-76.

Table 3
Illustration of Operation of Riot and Civil Disorders Insurance Program

Assume net insured loss from a riot	\$75,000,000
Apply participating companies retention at 1.5 percent of earned premiums (1.5 percent of \$1.2 billion)	14,256,000
Loss balance	60,744,000
Apply reinsurance premium deposits held by HUD	6,000,000
Loss balance representing the state's liability which is covered by insurance	54,744,000

The state's \$59.4 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$4,656,000. Losses exceeding the state's \$59.4 million liability limit would be covered by loans from the U. S. Treasury to the Secretary

RIOT AND CIVIL DISORDERS INSURANCE—Continued

of Housing and Urban Development (HUD), to be repaid out of future reinsurance premiums received.

**Business and Transportation Agency
DEPARTMENT OF REAL ESTATE**

Item 188 from the Real Estate
Fund and Item 189 from the
Real Estate Education, Re-
search and Recovery Fund

Budget p. 378

Requested 1975-76	\$6,044,647
Estimated 1974-75.....	8,069,557
Actual 1973-74	5,878,481
Requested decrease \$2,024,910 (25 percent)	
Total recommended reduction	\$111,884

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
188	Departmental Operations	Real Estate	\$5,508,647	298
189	Recovery and Education	Real Estate Education, Research and Recovery	536,000	298
			\$6,044,647	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *New Positions. Reduce Item 188 by \$111,884.* Recommend deletion of requested positions because required personnel can be obtained by transfer from other departmental operations. 300

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for the protection of the public in the sale of subdivided property, real property securities, and in real estate transactions handled by agents. The department permits only trained persons to act as real estate salesmen and brokers and sets minimum standards for real estate offerings.

The department is administered by the Real Estate Commissioner, who is assisted by a currently authorized staff of 265 positions. Headquartered in Sacramento, the department maintains offices in San Francisco, Fresno, Los Angeles and San Diego.

Fund Support

Departmental operations are supported by the Real Estate Fund, which is composed of revenues from licenses and other fees. Real estate education and research and a recovery program through which aggrieved parties may obtain claim payments due from licensees are supported by the Real Estate Education, Research, and Recovery Fund. This fund receives

25 percent of the fees for real estate license issuances and renewals. Eighty percent of the fund is used for real estate education and research programs, while the remainder is used in the recovery program as described in a subsequent section of this analysis.

ANALYSIS AND RECOMMENDATIONS

The requested budget year expenditures from both funds total \$6,044,647, or 25 percent below estimated expenditures in the current year. However, special appropriations to state educational institutions from the real estate funds' surplus have been made in recent years which have caused fluctuations in the department's budget unrelated to its regular operations, as shown in Table 1.

Table 1
Basic Support Budgets 1973-74 to 1975-76

	<i>Actual</i> 1973-74	<i>Estimated</i> 1974-75	<i>Proposed</i> 1975-76
Total expenditures to support Department of Real Estate	\$5,878,481	\$8,069,557	\$6,044,647
Less Special Endowments			
California State University and Colleges	1,000,000	450,000	—
California Community Colleges.....	—	1,900,000	—
Basic Support Budget.....	\$4,878,481	\$5,719,557	\$6,044,647

The table shows that the current year budget actually increased 17.2 percent over the 1973-74 budget and that the proposed budget for 1975-76 represents a 5.6 percent increase over the current year budget level. This reflects some justifiable increases in the cost of the department's operations but also includes seven new positions. As discussed below, we do not believe that the declining level of real estate activities in California justifies an expansion of the department's staff this year.

The following are the department's four operating programs:

I. TRANSACTION ACTIVITIES PROGRAM

The objective of this program is to protect the public in dealings with real estate brokers or salesmen. The program contains two elements: (1) licensing, and (2) regulatory and recovery.

The licensing element prepares, administers and scores examinations for brokers and salesmen; maintains license records; and responds to inquiries from licensees and the public.

The regulatory and recovery element disciplines licensees and facilitates the recovery of money for complainants if an investigation reveals that a violation of real estate law has occurred. Formal action against a licensee may be taken by the department and may result in suspension or revocation of the license or placing restrictions upon it.

If a complainant sustains a financial loss and obtains a fraud judgment against a licensee who is unable to pay the judgment amount, the injured party may then file a claim against the Real Estate Education, Research and Recovery Fund. If the department finds the claim valid, it is paid out of the Recovery Fund and the department then takes action against the licensee to recover the funds expended. Chapter 1097, Statutes of 1974,

DEPARTMENT OF REAL ESTATE—Continued

(AB 3691) increased the amount that could be paid out of the fund to claimants against any one licensee from \$20,000 to \$40,000.

Personnel and cost data for the program are shown in Table 2.

Table 2
Transaction Activities Program, Staffing and Cost Data

	<i>Actual</i> 1973-74	<i>Estimated</i> 1974-75	<i>Proposed</i> 1975-76
Cost.....	\$3,436,553	\$4,120,415	\$4,393,962
Man-years	175	189	194.7

New Positions (Regulatory)

We recommend that seven positions requested for this element be deleted and that any required positions be transferred from other departmental programs for a savings of \$111,884 in Item 188.

On the basis of projected workload increases in the regulatory element, the department has requested eight new positions for the budget year. It has proposed to transfer one position from the subdivisions element and requests authorization for seven additional positions. Several problems within the real estate industry, particularly illegal land subdivisions and mortgage home loan brokers regulation, have substantially increased the department's workload and we concur with the need for additional positions in this element.

At the same time workload in other Department of Real Estate programs has been steadily declining on account of general economic conditions and particularly because of difficulties in real estate financing and construction. As a result there are surplus positions within the department, especially within the subdivisions element of the Offerings and Securities Program, as discussed in the following section. We believe that the positions needed within the regulatory element can be obtained by transfer within the department, and that no new positions need be created.

II. OFFERINGS AND SECURITIES PROGRAM

The Offerings and Securities Program provides protection to the public in the sales of in-state subdivided land and sales of real estate securities such as notes, sales contracts, real estate syndicate securities, and sales of out-of-state subdivisions. The program contains three regulatory elements: (1) in-state subdivisions, (2) real property securities and (3) real estate syndicates.

The in-state subdivisions element regulates California subdivisions and drafts reports on each subdivision. These must be shown to buyers. The real property securities element investigates out-of-state subdivisions to be offered in California to insure that such offerings are fair, just and equitable. The real estate syndicates element regulates all such syndicates, aside from corporations, when they are formed for the sole purpose of acquiring interest in real property.

Table 3 shows staffing and cost data for the program.

Table 3
Offerings and Securities Program, Staffing and Cost Data

	<i>Actual</i> 1973-74	<i>Estimated</i> 1974-75	<i>Proposed</i> 1975-76
Cost.....	\$1,180,850	\$1,307,307	\$1,355,417
Man-years	71.1	72.1	70.3

Decrease in Workload—Subdivision Element

As noted previously, the department proposes to transfer one position from the subdivisions element to the regulatory element of the previous program. We have indicated that additional positions can also be transferred from this element. According to department figures, overall subdivision filings are expected to decline by about five percent in 1975-76, while common facility subdivisions, which take the department longer to process, will increase 20 percent in the budget year. On this basis, the department has calculated it can spare only one position from the subdivision element.

The trend in recent months suggests that subdivision activity is declining more than projected by the department. Rather than increasing, common facility subdivision filings have sharply decreased. Table 4 indicates a major decline in workload based upon actual figures for the first six months of fiscal year 1974-75, compared with the similar period in 1973-74.

Table 4
July-December Workload Indicators for Years Shown

	1973-74	1974-75	Percent Decline
Subdivision filings—all	1,470	973	33.8
Common facility subdivisions	826	464	43.8
Others	644	509	20.9
Final reports issued—all.....	1,427	1,142	19.9
Common facility subdivisions	722	613	15.0
Others	765	529	24.9

With present workload the department can justify 15-20 percent fewer positions in this element than its presently authorized 58. In addition, major leading indicators in the real estate industry suggest that the real estate turndown will continue into the budget year. Consequently, we believe that the department's existing personnel resources are more than adequate to provide the needed positions in its regulatory activities. Positions needed by the regulatory element should be transferred from this program.

III. EDUCATION AND RESEARCH PROGRAM

The purpose of the department's education and research program is to improve the level of competence of license applicants and licensees, all of whom are encouraged to take professional real estate courses. The program sponsors research in all phases of real estate activity, including real estate education, marketing, financing, land use, urban problems and other facets of real estate economics. These activities are supported by the Real Estate Education, Research and Recovery Fund and are conducted by public and private universities and colleges throughout the state. As a

DEPARTMENT OF REAL ESTATE—Continued

result of Chapter 1098, Statutes of 1974, (AB 3692) a one-time appropriation of \$1,900,000 has been made to the community colleges to endow real estate educational programs and appears under 1974-75 in Table 5.

Table 5
Education and Research Program, Staffing and Cost Data

	<i>Actual</i> 1973-74	<i>Estimated</i> 1974-75	<i>Proposed</i> 1975-76
Cost.....	\$1,420,635	\$2,812,835	\$490,268
Man-years	3.9	3.9	4

IV. ADMINISTRATION PROGRAM

The administration program includes the management and policy formulation activities of the commissioner's office, central services for such functions as personnel and accounting, and the publication of real estate manuals, bulletins and reference books. Table 6 shows the program costs which include departmental overhead expenditures and are distributed to the three operating programs.

Table 6
Administration Program

<i>Detail</i>	<i>Actual</i> 1973-74	<i>Estimated</i> 1974-75	<i>Proposed</i> 1975-76
Cost.....	\$683,908	\$759,137	\$842,642
Man-years	30	30	30

Real Estate Fund Condition

Previously, we have expressed concern at the large surplus within the Real Estate Fund. As of June 30, 1974, the surplus was \$7.2 million. This surplus will be reduced by the legislation discussed above, which makes endowments to state higher educational institutions and increases the liability of the Recovery Fund. In addition, the Real Estate Commissioner reduced real estate salesmen's annual license fees \$5 on January 1, which will further decrease the fund by approximately \$100,000 in 1974-75 and \$250,000 in 1975-76.

The June 30, 1976 Real Estate Fund balance is estimated to be approximately \$4.6 million. In our opinion this represents an appropriate reduction in the fund level. However, the department's revenues reflect the fluctuating nature of the real estate industry. Further reductions in the fund surplus will have to be carefully weighed to ensure that a stable balance is maintained to offset any future major reductions in the department's revenues.

**Business and Transportation Agency
DEPARTMENT OF SAVINGS AND LOAN**

Item 190 from the Savings and
Loan Inspection Fund

Budget p. 385

Requested 1975-76	\$3,878,301
Estimated 1974-75.....	3,666,720
Actual 1973-74	3,210,138
Requested increase \$211,581 (5.77 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Departmental Budget. Withhold approval of departmental budget pending review of departmental operations prior to legislative budget hearings. 304

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for protecting the public by preventing conditions and practices which could jeopardize the safety and solvency of state-regulated savings and loan associations.

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Headquarters is in Los Angeles with a branch office in San Francisco. The department is currently authorized 160 positions.

The department is supported from the Savings and Loan Inspection Fund which derives its revenues from an annual assessment of all state-regulated associations. The assessment is proportional to association assets and is set at a level to cover the department's annual operating costs. At the end of the budget year the fund will have an estimated surplus of \$1,169,498.

The size of the state-regulated industry is indicated in Table 1. Currently, there are approximately 5.5 million savings accounts in 98 state-chartered associations. There has been a 7.2 percent increase in the number of these holdings over the prior year with amounts in individual accounts averaging about \$4,172.

**Table 1
State Regulated Savings and Loan Industry in California**

<i>Detail</i>	<i>Actual 1972-73</i>	<i>Actual 1973-74</i>	<i>Estimated 1974-75</i>	<i>Proposed 1975-76</i>
Number of associations	105	95	98	106
Assets of associations (billions)	\$29.1	\$33.2	\$36.5	\$42.0
Assets examined (billions)	\$28.0	\$28.3	\$34.6	\$35.3
Number of savings accounts (millions)..	5.1	5.2	5.5	5.9

The department performs its responsibilities under one operating program entitled "supervision and regulation", which is divided into five

DEPARTMENT OF SAVINGS AND LOAN—Continued

elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, and (5) administration. The examination element is by law responsible for examining associations at least once every two years to determine the quality of assets, compliance with state laws and regulations and utilization of sound management and accounting practices. The appraisal element makes field appraisals of real property upon which loans have been made by associations in order to determine lending and appraisal policies. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and mergers. The economic and financial information element provides the department with information which assists the other program elements.

Table 2 shows man-years and costs devoted to the department's supervision and regulation program and supporting elements.

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of \$3,878,301, which is a net increase of \$211,581 or 5.77 percent above estimated current year expenditures. However, reimbursements from certain out-of-state associations estimated at \$25,000 in the budget year (representing travel expenses for appraising out-of-state loans) will produce a total expenditure program of \$3,903,301.

The department's budget request includes the addition of two examiner III positions to examine the assets of associations, one counsel position to assist in facilities licensing hearings and one data processing technician position to transmit appraisal data associated with the department's computer program.

We withhold recommendation on the department's budget pending a review of departmental operations prior to legislative budget hearings.

The number of state-chartered savings and loan associations has decreased from 198 in fiscal year 1967-68 to 98 in fiscal year 1974-75, while the number of departmental examiners continues to increase. Again this year, the department is requesting two additional examiner III positions in the budget year. However, the department estimates that assets examined will increase only two percent from 1974-75 to 1975-76. In fiscal year 1973-74 the department developed a computer-based information system to store financial data. This system was designed to reduce examiner time spent in gathering routine data from association records and also time required in the preparation of working papers. Therefore, the current examiner staff should be more efficient with the aid of the computer system.

Based on these developments we withhold recommendation on approval of the department's budget pending a review by our office of departmental workload figures, personnel productivity, examination procedures, the utilization of electronic data processing as a method of increasing productivity and methods of projecting industry growth (the department projects eight new associations in the budget year). This

Table 2
Cost and Staffing Data for Departmental Program and Elements

<i>Program</i>	<i>Element</i>	<i>Actual 1973-74</i>		<i>Estimated 1974-75</i>		<i>Proposed 1975-76</i>	
		<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>	<i>Man-years</i>	<i>Cost</i>
Supervision and Regulation	Examination.....	85	\$1,731,272	87.5	\$1,926,158	89.5	\$2,043,587
	Appraisal.....	44	908,324	44.5	1,058,476	44.5	1,116,362
	Facilities Licensing and Legal Assistance	9	203,368	9	240,322	10	269,827
	Economic and Financial Information	16	370,927	17	441,764	18	473,525
Administration	(38) ^a	(570,036) ^a	(39) ^a	(657,497) ^a	(39) ^a	(682,632) ^a	
Net Total	154	\$3,210,138	158	\$3,666,720	162	\$3,878,301	

^a Prorated to elements in supervision and regulation program.

DEPARTMENT OF SAVINGS AND LOAN—Continued

review will be completed before hearings are held on the department's budget.

**Business and Transportation Agency
STATE TRANSPORTATION BOARD**

Item 191 from the Transportation Planning and Research Account Fund

Budget p. 388

Requested 1975-76	\$251,794
Estimated 1974-75.....	197,463
Actual 1973-74	142,080
Requested increase \$54,331 (27.5 percent)	
Total recommended augmentation	\$93,993

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Fulfill Statutory Duties, Augment by \$93,993.* Recommend increase in staff by four positions to enable board to effectively administer its statutory duties. 307
2. *Legislation Needed.* Recommend the California Highway Commission, Toll Bridge Authority and Aeronautics Board should be abolished and duties transferred to the State Transportation Board. 308

GENERAL PROGRAM STATEMENT

The State Transportation Board was established by Chapter 1404, Statutes of 1969. Membership consists of seven members appointed by the Governor to serve staggered four-year terms. One member of the Senate appointed by the Senate Rules Committee and one member of the Assembly appointed by the Speaker serve as ex-officio members of the board.

The initial legislation and Chapter 1253, Statutes of 1972, gave the board broad responsibility to advise and assist the Secretary of Business and Transportation and the Legislature in formulating and evaluating state policy and plans for transportation programs within the state. Specific responsibilities of the board include: (1) reviewing and adopting a California Transportation Plan by January 1, 1976, (2) resolving inconsistencies, conflicts or disagreements between regional transportation plans and the state transportation inputs, (3) reviewing annual budgets of the Department of Transportation, and (4) allocating funds appropriated by the Legislature from the Transportation Planning and Research Account to local planning entities.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$251,794 which is \$54,331 or 27.5 percent above the estimated current year expenditure of \$197,463.

This includes an increase in funding of \$22,120 to defray the cost of mandated statewide public hearings relative to the proposed California Transportation Plan. Such hearings will be conducted by the board during the first half of the 1975-76 fiscal year.

An increase of \$20,932 is also included for legal assistance which has been provided without cost to the board in previous fiscal years by the Business and Transportation Agency. The proposed budget provides funding for the seven positions (4 professional and 3 clerical) authorized in the current year.

In past budget acts financial support has been provided through Motor Vehicle Account funds and, to a lesser extent, from the General Fund. The proposed budget eliminates funding from the Motor Vehicle Account and the General Fund and substitutes revenue from the Transportation Planning and Research Account. The latter account was created by Chapter 1253, Statutes of 1972 and receives funds under specified conditions for public transportation purposes from retail sales and use taxes.

Lack of Ability to Fulfill Statutory Duties

We recommend that the budget be augmented by \$93,993 for 4 additional positions (3 analysts positions and 1 clerical position).

The board was created in 1969 largely because of recognition that future transportation facilities must be multimodal rather than highways only. The board therefore was charged with the responsibility of providing objective advice to the Secretary of Business and Transportation and the Legislature by formulating and evaluating alternative solutions to transportation problems. Chapter 1253, Statutes of 1972, increased the responsibility of the board by requiring it to evaluate (and ultimately approve) a State Transportation Plan incorporating planning inputs from the Department of Transportation and 41 regional transportation plans. In the evaluation process the board must hold public hearings and mediate differences between regional transportation plans and the department's inputs. Subsequent to approval and submission of a plan to the Legislature, the board must update the plan and review the annual budgets of the Department of Transportation to assure compliance with the adopted State Transportation Plan. When submitted to the Legislature in January 1976, the transportation plan will represent an expenditure in excess of \$40 million in budget act appropriations. Presently, the board lacks the ability to adequately and independently analyze the plan, make the required judgments and finally approve a plan with its existing staff of four professional positions. Failure to make informed judgments will not only result in questions relative to the cost-benefit relationships of spending in excess of \$40 million over a three-year period to produce the plan but also will result in a marginal product which may never be implemented and further delay solutions to pressing transportation problems.

STATE TRANSPORTATION BOARD—Continued**Question of Objectivity**

One of the major functions of the board will be to mediate differences between regional plans and the goals of the Department of Transportation. With the existing limited staff, the required analysis will, for the most part, have to be derived from resources within the Department of Transportation. Although the board is statutorily required to mediate differences, it will be unable to do so objectively because of its dependence upon the staff services of one of the parties involved in the dispute. We therefore recommend an augmentation of \$93,993 for three analyst positions (one each for environmental planning, community planning and economic planning) and one clerical position.

Legislation Needed to Unify Authority and Responsibility

We recommend legislation to abolish the California Highway Commission, Toll Bridge Authority and Aeronautics Board and transfer the duties to the State Transportation Board.

Currently, four major bodies in the state are responsible for various aspects of the state transportation program. The State Transportation Board, the California Highway Commission, the Toll Bridge Authority and the Aeronautics Board all propose solutions to transportation problems. However, with the exception of the State Transportation Board, the other three bodies approach transportation problems on the basis of a single mode of transportation. The Legislature has required the State Transportation Board to adopt a multimodal state transportation plan and subsequently assure that state expenditures comply with the plan. However, while the State Transportation Board has the primary responsibility for providing solutions to transportation problems, it does not, with minor exceptions, have control over the resources that must be utilized to finance solutions.

Control over by far the greater portion of the financial resources is vested in the other three bodies and each proposes expenditures for transportation on a piecemeal and uncoordinated basis.

The optimum mix of transportation facilities will not be achieved unless determination of state transportation policy is directly related to the ability to control financial resources. The continued existence of the California Highway Commission, the Toll Bridge Authority, and the Aeronautics Board is contrary to the manner in which multimodal solutions should be planned, multimodal governmental entities organized and the required sources of capital identified and used to provide an optimum public service.

Separate boards and commissions cannot assure that solutions to transportation problems will be achieved. We believe that the California Highway Commission, California Toll Bridge Authority and the Aeronautics Board should be abolished and that the collective authorities and duties of the bodies should be transferred to the State Transportation Board. Abolishing the three existing bodies would represent a savings of approximately \$200,000 per year. Increased staffing of the State Transportation Board, as previously recommended, would provide adequate staff capabil-

ity to assume the functions of the three separate bodies and result in a net annual savings in state expenditures.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION**

Items 192-199 from various funds Budget p. 390

Requested 1975-76	\$23,069,416
Estimated 1974-75	28,332,675
Actual 1973-74	17,383,690
Requested decrease \$5,263,259 (18.6 percent)	
Total recommended reduction	\$239,425

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>Delete Staffing. Reduce Item 197 by \$50,000.</i> Recommend reduction in staffing for Mass Transportation Program by two positions.	312
2. <i>Fund Substitution. Reduce Item 196 by \$189,425.</i> Recommend funds from the Transportation Planning and Research Account not be utilized for car pool program in lieu of funding program from the State Highway Account.	313
3. <i>Special Review.</i> Recommend special review of necessity to purchase new aircraft at a cost of \$58,000.	314

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created in the Business and Transportation Agency the Department of Transportation consisting of what had been the Department of Public Works and the Department of Aeronautics. The department is responsible for administering the ongoing programs of two divisions, Highways and Aeronautics. Chapter 1253 also required the formation of the Division of Mass Transportation and the Division of Transportation Planning. The planning entity is charged with the responsibility of establishing a comprehensive multimodal transportation planning process and preparing a subsequent State Transportation Plan by 1976. Regional transportation entities and councils of governments are also required to develop separate regional transportation plans by April 1975. The regional plans will be combined in the State Transportation Plan after adjustments are made by the department to reflect system changes which have a statewide interest.

Although the total departmental budget is approximately \$1 billion, the legislative appropriation for support of the department and subventions to local planning entities is \$19,684,371 of that amount. However, the program budget also contains prior legislative appropriations, federal funds, continuously appropriated funds and reimbursements. Thus, on an expenditure basis the proposed budget contains \$23,069,416 which is sub-

DEPARTMENT OF TRANSPORTATION—Continued

ject to review and approval by the Legislature.

Table 1 displays the Department of Transportation appropriations and carry-over funds.

Table 1
Department of Transportation Appropriations and Carry-Over Funds

<i>Item No.</i>	<i>Description</i>	<i>Amount</i>	<i>Fund</i>
192	Support of Department of Transportation	\$388,353	Aeronautics
193	Transfer Funds to Transportation Planning and Research Account	(95,424)	Aeronautics
194	Schedule of Expenditures	—	State Highway Account
195	Transfer Funds to Transportation Planning and Research Account	(11,617,012)	State Highway
	(a) State Funds \$8,617,012		
	(b) Federal Funds \$3,000,000		
196	Support of Department of Transportation	8,793,529	Transportation Planning and Research
197	Local Assistance—Department of Transportation.....	6,950,564	Transportation Planning and Research
198	Local Assistance—Department of Transportation.....	3,000,000	Federal
199	Local Assistance—Department of Transportation.....	551,925	Aeronautics
	Total Appropriation.....	\$19,684,371	
Add:	Federal Funds.....	\$146,664	
	Reimbursements.....	129,900	
	Aeronautics Account Continuous Appropriation	2,600,000	
	Chapter 142B, Statutes of 1974	230,375	
	State Highway Account	25,000	
	Section 13, Budget Act of 1974.....	253,106	
	Total Funds Available.....	\$23,069,416	

The proposed appropriation, together with the other available funding, will provide support for the Division of Mass Transportation, Division of Transportation Planning, Division of Aeronautics, subventions for local transportation planning entities, and a portion of the general cost of department administration. The proposed appropriations are derived from five sources as reflected in Table 2.

Because of (a) provisions in Chapter 1253, Statutes of 1972, which created the Transportation Planning and Research Account and provided for specified transfer to the account from various sources and (b) the administrative practice of separating support funds from local assistance funds, eight items are required in the Budget Bill to accomplish the transfers, appropriations, and separation of support funds from local assistance funds.

ANALYSIS AND RECOMMENDATIONS

The proposed expenditure of \$23,069,416 is \$5,263,259 or 18.6 percent less than the estimated current year expenditure of \$28,332,675. The proposed budget provides funding for 519.2 positions which is 143.2 positions less than the staffing level authorized in the current year.

Table 2
Funding by Program and Source

<i>Program</i>	<i>Amount</i>
Transportation Planning	\$16,966,740
Mass Transportation	1,655,328
Aeronautics	3,522,189
Highways	189,425
General Support	695,734
Total Program	<u>\$23,069,416</u>
<i>Total Resources</i>	
State Highway Account	\$8,642,012
Aeronautics Account	3,635,702
Federal Funds	3,146,664
Transportation Planning and Research Account	7,515,138
Reimbursements	129,900
Total Resources	<u>\$23,069,416</u>

TRANSPORTATION PLANNING

The transportation systems planning program is accomplished through the following program elements: transportation plan development, technical studies, regional plan development, and administration.

The proposed expenditures (Items 196 and 197 plus federal funds) for the budget year are \$16,966,740 or 23.2 percent less than the estimated current year expenditures of \$22,094,559. The proposed budget provides funding for 436 positions which is 146 positions less than the current year staffing level of 582 positions.

Major Reduction in Systems Planning

Since the passage of Chapter 1253, Statutes of 1972, the major emphasis within the transportation planning program has been the preparation of a State Transportation Plan as mandated by the legislation. The state plan must be submitted to the Legislature by January 1976. The plan will consist of 41 separate regional transportation plans prepared by either the department or regional transportation planning entities plus inputs by the department to reflect statewide transportation interests. The regional plans must be submitted to the department by April 1975, a proposed draft plan prepared by the department, public hearings held, a final draft submitted to the State Transportation Board for approval, and subsequently submitted to the Legislature by January 1976. The plan, which will represent an expenditure of approximately \$40 million, hopefully will provide rational solutions to pressing transportation problems within the state.

The proposed expenditures related to the preparation of the plan, including local subventions to regional planning entities, have been reduced by the new administration to reflect the midyear submission of the transportation plan to the Legislature. Thus, the proposed expenditures for the plan preparation represent a decrease of \$5,655,580 from the current year level. However, the actual reduction in expenditures will probably be

DEPARTMENT OF TRANSPORTATION—Continued

substantially less than is reflected in the budget. In the Budget Act of 1973, the Legislature placed certain restrictions (Item 217) on the expenditure of \$3 million in local planning subventions. Because the local plans are to be submitted to the department by April 1975 and currently the \$3 million remains unexpended, the net reduction in program expenditures may approximate only \$2.6 million instead of the \$5.6 million.

We concur with the administration in the proposed reduction in the planning program and recommend approval as budgeted.

MASS TRANSPORTATION

We recommend that the requested increase of two positions be deleted and Item 197 be reduced in the amount of \$50,000.

Public transportation at the state level has been provided an advocate in the creation of the Division of Mass Transportation. The need for a state role in public transportation is evident in view of the many social and environmental problems created by (a) the lack of adequate transportation facilities in the state, and (b) historical restraints which have imposed limitations on how transportation problems are solved, particularly in urban areas.

While the present resources within the department are largely oriented toward the highway program, recent changes in federal policy have shown a distinct trend toward (1) reducing highway outlays, (2) increasing funds for public transportation, and (3) allowing more local control of transportation investment decisions. New freeway projects in urban areas are experiencing substantial public opposition for two reasons: air pollution and failure to meet the mobility requirements of the population. In addition, our limited domestic petroleum resources and uncertain relations with foreign petroleum suppliers make necessary a reexamination of alternatives for providing transportation services in the future.

The budget proposes an expenditure for this program of \$1,655,328 which is \$1,232,441 below the estimated current year expenditure of \$2,887,769. However, in actual terms, the proposed budget represents an increase in expenditures because included in the estimated current year total is \$1,345,000 in federal grant monies that will be applied for and directly expended by local transportation entities. This does not represent a state expenditure, but the funds must be used for public transportation facilities which assist the elderly and handicapped. On a program basis, therefore, the proposed budget contains funding for 49.7 positions which is an increase of 2 positions from the 47.7 positions authorized in the current year.

Lack of a Defined State Role

The stated purpose of the Mass Transportation Program is to increase the use of public transportation facilities. The department seeks to accomplish its stated purpose through programs described as (a) market development and operations, (b) local assistance, (c) program administration and (4) research and development. However, because the state has not defined its role in providing public transportation services, the programs administered by the department are vague and do not represent, in most

cases, endeavors which reflect any real degree of measurable benefit in promoting the use of public transportation services. The total program represents a conglomeration of numerous activities which do not have a central focus.

Material submitted by the department reflects a rather arbitrary assignment of manpower to individual programs. For example, the department's response to legislation directing it to monitor an activity, administer a demonstration project, or perform a minor administrative task is typically responded to in an identical manner, i.e., apply one position to the task. The assignment of manpower in most instances is not related to an actual assessment of manpower required to accomplish the task. Rather, such assignments suggest that the prime motivation of the department is to continuously increase its size without regard to what is ultimately accomplished. We recommend that the department restructure its manpower activity in a manner which will result in a staffing level no greater than provided in the current year. This will result in the elimination of two additional man-years proposed in the budget for a savings of \$50,000 in the Transportation Planning and Research Account.

Proposed Substitution of Funds

We recommend the deletion of \$189,425 from the Transportation Planning and Research Account proposed for car pool programs.

The Division of Highways is conducting a program within the department to encourage the use of car pools. The division is also "coordinating" car pool efforts in other areas of the state. The car pool program has stated goals such as "improve highway service" and "reduce transportation costs for California motorists." The program has been supported in the past from the State Highway Account. The budget (Item 196) proposes to support the program in 1975-76 from the Transportation Planning and Research Account rather than the State Highway Account. We question not only this proposed shift in funding but also the value of the program itself.

In essence, the car pool program represents a marginal internal activity in promoting car pools within the department and an effort to "coordinate" other car pool programs that have previously been initiated as projects between local government and the federal government.

The department's supporting documents (a) reflect a lack of quantifiable data by which to measure the benefits of the program and (b) indicate that the continued car pool program, in other areas of the state in many cases, will be dependent upon future federal legislation. The department's own data indicates that if funds from the Transportation Planning and Research Account are not appropriated to support the program in lieu of funds from the State Highway Account, the program will be eliminated.

The funds available in the Transportation Planning and Research Account are minimal for improving public transportation services. They should not be drained away for programs that have questionable value. We therefore recommend deletion of \$189,425 contained in Item 196.

DEPARTMENT OF TRANSPORTATION—Continued

AERONAUTICS

The activities of the Division of Aeronautics include: fostering air safety, assisting in the development of a statewide system of airports through financial aid, and providing for cooperative efforts with federal authorities in the development of a national system of civil aviation. The programs administered by the division to accomplish its stated purposes include: safety and operational services, local assistance, planning and research, and administration.

Support of the division is derived from the Aeronautics Account, which receives revenues generated from a 2-cents-per-gallon jet aircraft fuel tax, net revenues of 2-cents-per-gallon attributable to aviation gasoline and unrefunded aviation gasoline excise tax revenues. Any revenue in the account in excess of the amount required for support of the division is allocated to eligible airports for capital improvement projects. After a mandatory allocation of \$5,000 per eligible airport, the remaining balance is allocated at the discretion of the Aeronautics Board on a project by project basis for airport development. During the budget year the Aeronautics Board will allocate approximately \$2.6 million from the Aeronautics Account to assist local airport entities in developing and improving local airport facilities. The \$2.6 million for capital improvements is continuously appropriated from the Aeronautics account and therefore is not subject to the Budget Bill.

Proposed Appropriation for Support of the Division

The budget proposes \$922,189 from the Aeronautics Account for support of the Division of Aeronautics (Items 192 and 199). The proposed increase is \$148,382 or 19.2 percent more than the estimated current year expenditure of \$773,807. The budget contains funding for 33.5 positions compared to 32.9 positions in the current year. The minor increase in staffing relates to workload associated with hearings and environmental law suits.

Major Changes in Program Expenditures

While the budget represents a minor increase in staffing, substantial increases are proposed in operating expenses. Of the \$148,382 increase in proposed expenditures, \$127,800 represents operating expense which is to some extent attributable to increased public hearing costs and outside legal services.

Proposed Purchase of Replacement Aircraft

We recommend special review of the department's request for \$58,000 to defray the cost of purchasing a new aircraft.

Currently, the department utilizes two aircraft that were purchased in 1965 and 1969. The department is requesting that the aircraft purchased in 1965 be replaced.

It is our position that more information is required in order to determine the need to purchase a new aircraft. The required information relates to not only the mechanical condition of the plane proposed to be replaced but also an analysis of the need to own and operate two aircraft.

For example, the department is in the process of transferring two positions from Sacramento to Los Angeles. Thus, a question would exist relative to how this action would affect aircraft usage, i.e., access to air facilities in Los Angeles area could be accomplished without a state-owned aircraft. We believe that a review of aircraft utilization must be accomplished before the merits of purchasing a new aircraft can be objectively determined. We therefore recommend special review.

**Business and Transportation Agency
DEPARTMENT OF TRANSPORTATION**

Item 200 from Federal Funds
deposited in State Highway
Account

Budget p. 399

Requested 1975-76	\$107,392,432
Estimated 1974-75.....	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1470, Statutes of 1974, requires that beginning in the 1975-76 fiscal year specified federal funds received pursuant to the federal Highway Act of 1973 by the Department of Transportation and deposited in the State Highway Account must be appropriated by the Legislature. This item would appropriate \$107,392,432 in federal funds for the following purposes:

<i>Program</i>	<i>Amount</i>
Federal Urban Systems	\$90,000,000
Highway Safety Improvements	
(a) Local roads and Highways (\$16,170,131)	
(b) Grade Crossing Improvements	
(1,222,301)	17,392,432
Total appropriation	\$107,392,432

The Federal Urban System Program in the amount of \$90 million represents approximately 20 percent of the total funds received by the state from the federal government for road improvements. The funds are apportioned on a population basis within the state to "urban areas" of 5,000 to 50,000 population and to "urbanized areas" with a population of 50,000 or more. The funds may be expended for roads and highway projects on both the state road system or local road systems.

The Federal Highway Act of 1973 also provided a local option relative to the use of the Urban System funds. At the option of local government, the funds may be expended for public transportation projects, i.e., rail transit and bus transit in lieu of highway and road improvements.

**Public Utilities Commission
GRADE CROSSING PROTECTION WORK**

Item 201 from the State Highway Account, State Transportation Fund

Budget p. 400

Requested 1975-76	\$500,000
Estimated 1974-75.....	1,000,000
Actual 1973-74	1,200,000
Requested decrease \$500,000 (50 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1302, Statutes of 1961, requires the Public Utilities Commission to allocate to cities and counties funds appropriated by the Legislature to assist local jurisdictions in financing the installation of railroad grade-crossing protection devices. The state contributes 25 percent of the cost of installing each crossing device, local government matches the 25 percent and the railroad pays the balance.

Based on projected demand for the budget year, the commission estimates a need of \$500,000 as the state's contribution for grade crossing protection devices.

**Business and Transportation Agency
CALIFORNIA HIGHWAY PATROL**

Item 202 from the Motor Vehicle Account, State Transportation Fund

Budget p. 475

Requested 1975-76	\$167,189,512
Estimated 1974-75.....	165,826,863
Actual 1973-74	150,764,336
Requested increase \$1,362,649 (0.8 percent)	
Total recommended reduction	\$1,921,957

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	<i>Analysis page</i>
1. <i>Overtime Costs. Reduce \$431,650.</i> Provisions of Fair Labor Standards Act will not affect department's overtime.	318
2. <i>Court Appearance Overtime.</i> Recommend special review of department's request for \$443,664 in additional overtime for officers' court appearances because request is not supported by available data.	319
3. <i>Fire Extinguishers. Reduce \$19,800.</i> Recommend reduc-	320

- tion. Department will receive this sum in resale of fire extinguishers to be replaced.
4. *Passenger Vehicle Inspection. Reduce \$944,672.* Recommend termination of inspection because it has not proven effective in reducing accidents. 320
 5. *Motor Carrier Operations. Reduce \$433,404.* Recommend deletion of 19 positions in motor carrier safety operations element because they are not justified by available data. 321
 6. *Color Television. Reduce \$23,100.* Recommend reduction of 18 color televisions and 1 color television camera because this equipment is not essential to training operations. 323
 7. *New Academy Staff. Reduce \$11,904.* Positions not needed in budget year. 323
 8. *Materials Management. Reduce \$7,427.* Recommend department study all functions of the Logistics Bureau. Also recommend deletion of proposed stock clerk. 323
 9. *Minor Construction. Reduce \$50,000.* Recommend deletion of certain projects not required. 324

GENERAL PROGRAM STATEMENT

The California Highway Patrol in the Business and Transportation Agency has primary responsibility for the safe and expeditious movement of people and goods on the California roadways. Highway Patrol traffic officers patrol the entire state freeway system and roads in unincorporated areas, and have the authority to act on streets in incorporated areas when the occasion requires. To help assure the safety of motor vehicles, both uniformed and nonuniformed members of the department inspect various classes of vehicles and equipment.

Program Organization

The Highway Patrol is organized to implement two broad missions. The first is the control of vehicles occupying legal roadways, which is accomplished by patrolling the highways and enforcing the Vehicle Code, aiding distressed motorists, clearing roadway obstructions, investigating accidents and rendering first aid. Patrolmen also assist other law enforcement agencies on many occasions.

The enforcement of regulations concerning vehicle characteristics and equipment is the department's second broad mission. It is accomplished by inspection of vehicles, commercial terminals, and businesses selling certain automobile equipment. This mission is carried out by both officers and nonuniformed specialists.

Other patrol activities include abandoned vehicle abatement, vehicle theft investigation, certification of automotive equipment for use in the state, and statewide traffic recordkeeping.

The department's Sacramento headquarters is linked to eight zone commands and 91 area offices by a sophisticated radio system. New cadets receive training at the Highway Patrol Academy in Sacramento, which will move to new quarters in Bryte in 1976.

CALIFORNIA HIGHWAY PATROL—Continued**ANALYSIS AND RECOMMENDATIONS**

The budget proposes an 0.8 percent increase, or \$1.36 million, over the current year. General increases in departmental costs were offset by the reduction of \$8.5 million from the passenger vehicle inspection element, as discussed in a subsequent section of this analysis.

In the budget year, as in recent years, there will be no increase in road patrol. All of the 81 uniformed and nonuniformed positions requested would be deployed in administrative, maintenance, or other support activities. Also included in the budget are major equipment purchases, particularly patrol car radios and fire extinguishers, totaling over \$1 million.

The department's program budget is divided into four programs: Traffic Management, Regulation and Inspection, Vehicle Ownership Security (vehicle theft), and Administration. Administrative costs are prorated over the other three programs.

I. TRAFFIC MANAGEMENT

Traffic management is the largest Highway Patrol program, requesting \$153,552,657 from the Motor Vehicle Account for 1975-76. Nearly 88 percent of the uniformed personnel (proposed 4,845 positions) and 41 percent of nonuniformed personnel (proposed 922.8 positions) are deployed in this program.

The patrol divides this program into three elements (1) traffic collision prevention, (2) optimizing safe traffic flow, and (3) protection and assistance to highway users. These classifications are useful but it should be remembered that one traffic officer on the beat can accomplish all three of these elements almost simultaneously. The traffic collision prevention element covers the officer's time while on patrol and the time spent taking enforcement actions (warning, citation, arrest). The control of drinking drivers comes under this category, and the patrol is making a major effort in this area. Drunk driving arrests increased 5.8 percent in 1974 to 126,784. Speeding citations have also increased dramatically since the introduction of the 55 m.p.h. speed limit on January 1, 1974.

The department estimates that over 90 percent of the uniformed manpower in this program is used regularly on patrol duty, and that about 88 percent of an officer's time is spent in "on-sight" patrol with the balance consumed in report writing and court appearances.

Overtime Costs

We recommend the reduction of \$431,650 because the Fair Labor Standards Act will have little or no impact on the department's overtime costs.

The department has requested \$431,650 to defray additional overtime costs resulting from the Fair Labor Standards Act (FLSA). Presently uniformed personnel receive overtime at time-and-one-half up to a maximum of \$9.75 per hour. Generally, the FLSA requires time and a half pay for overtime without any maximum. Assuming that the FLSA invalidated the \$9.75 maximum, the department calculated its average overtime would increase from a present average of \$9.70 per hour to \$10.67 per hour, or 93 cents additional for each of the 445,000 hours of overtime worked

annually.

Under new regulations (published December 20, 1974) the FLSA would eliminate the department's \$9.75 maximum only in the case of an individual who has worked over 240 hours (80 hours overtime) within a 28 day period. Because department personnel virtually never put in this amount of overtime, the FLSA will have no fiscal effect and the \$431,650 should be reduced accordingly.

Drunken-driving Related Overtime

We recommend special review of the department's request for \$443,664 for the increased cost of officers' court appearances in drunk driving cases because the request is not supported by available data.

The department is making a major effort in the reduction of drunken drivers on the highways. Drunk driving arrests subsequently require an officer to appear in court, generally on his overtime. These arrests totaled 106,559 in 1972-73, and increased 16.5 percent in 1973-74 to 124,146. In the same time periods overtime increased from 412,409 hours to 435,973 hours, an increase of 5.7 percent. These data demonstrate that there is no direct equivalent relationship between drunk driving arrests and overtime hours.

Despite this, the department forecasts a further 10 percent increase in drunk driving arrests and requests funds to support a 10 percent increase in overtime hours. In 1975-76, overtime hours are projected to increase from the present 445,000 hours to 489,500 hours, costing \$443,664. This corresponds to 21.8 man-years. While the importance of an effective campaign against drunken driving is evident, the department has not provided sufficient information to support a projected overtime cost increase of this magnitude. We therefore recommend that this request receive special review from the fiscal committees during budget hearings.

New Support Positions

The total number of uniformed personnel in the Traffic Management program will be 4,823.2 in 1975-76, excluding the requested 21.8 non-manned positions for uniformed overtime. This represents a decline of 42.4 positions from the high of 4,865.3 in 1972-73. In the same three-year period, nonuniformed support positions have increased by over 10 percent from 838.5 in 1972-73 to a proposed 922.8 positions in the budget year.

The budget proposes the addition of 3.5 automotive specialists (mechanics), 4.3 janitors, and six radio dispatchers in the traffic collision element at a total cost of \$144,633.

Five service desk operators (\$42,607) are requested for the Los Angeles Communications Center to man consoles serving freeway telephones in the Los Angeles area. In a cooperative agreement with Los Angeles County, the Highway Patrol provides personnel to receive calls from freeway telephones, while the county pays the installation and maintenance cost of the telephone units.

CALIFORNIA HIGHWAY PATROL—Continued**Equipment Replacement**

We recommend deletion of \$19,800 because the department will receive this sum in resale of fire extinguishers to be replaced.

The budget proposes \$123,000 to replace approximately 1,980 fire extinguishers in patrol vehicles with a larger and more effective model. The existing units have proven inadequate in over 60 percent of the incidents where required. We support this change, but the budget does not reflect the revenue from the old extinguishers to be sold. It is estimated that these units will bring \$10 each, or \$419,800, and this income would be deducted from the new extinguishers cost.

Also included in the budget is \$994,400 to replace 904 mobile radios. The units to be replaced are over 10 years old and their replacement has been recommended by the communications division of the Department of General Services.

II. REGULATION AND INSPECTION

The regulation and inspection program includes 10 different elements with a net total cost in 1975-76 of \$12,250,404. In 1975-76, 923.3 man-years, consisting of 643.1 nonuniformed personnel and 280.2 uniformed officers, are budgeted, a 26.5 percent reduction from the 1,257.9 authorized in the current year.

Passenger Vehicle Inspection

We recommend the termination of the department's passenger vehicle inspection program for a reduction of \$944,672. The department should cooperate with the Department of Motor Vehicles and other involved agencies in a study of more effective inspection programs. This recommendation is discussed below and on page 339 of this Analysis.

The budget proposes to reduce the passenger vehicle inspection element by \$8,502,042 and 369.5 man-years. This would reduce the number of vehicles in the state inspected annually from 10 percent to one percent. Program man-years would decline from 412.9 to 41.1.

The highway patrol has made an outstanding effort to implement random roadside inspection in California since it was established in 1966. However, the program has never been demonstrated to be cost effective nor has the rate of accidents due to mechanical failure declined. This is primarily due to two features of the program, (a) only a small percentage of the state's vehicles are inspected annually, and (b) the kind of vehicle inspection possible at the roadside cannot detect many of the mechanical faults which cause accidents.

The National Highway Transportation Safety Administration (NHTSA) estimates that an annual inspection rate of over 20 percent of a state's vehicles is necessary to achieve a decline in the rate of accidents attributable to mechanical failure. The 10 percent inspection has achieved no such decline and it is apparent that the impact of the proposed one percent inspection level would be negligible.

Even if a much higher percentage of the state's vehicles were inspected, the numerous deficiencies in roadside inspection would greatly limit the

effectiveness of the program. Within the time allowed at a roadside inspection point many serious faults in brakes and steering cannot be detected, and many other areas of hazard (identified in 1970 by the department's study of mechanical failure accidents) go completely uninspected. The cost of roadside inspection is high, not only because uniformed officers are a part of the inspection team but also because much time is lost each day by teams moving to and from inspection sites and setting up and taking down equipment. Consequently, the cost of California's inspection program is about \$5.20 per car, compared to \$3 per car in some states with more extensive inspections.

We recommend the termination of this program for two reasons. First, the one percent inspection level proposed for 1975-76 would have little if any effect on mechanical failure accidents. Second, the passenger vehicle inspection element has never demonstrated its effectiveness even at 10-12 percent inspection levels despite the best efforts of the California Highway Patrol. The experiences of many other states suggest that vehicle inspection would be better accomplished through the Department of Motor Vehicles (DMV) at fixed locations. These subjects are discussed in this Analysis on pages 339 to 344. We recommend that the California Highway Patrol cooperate with DMV in a study of more effective vehicle inspection programs.

With the reduction and/or termination of this program, uniformed officers will be reassigned to other duties filling positions vacated through attrition. Consequently, fewer cadets may be expected at the Highway Patrol Academy in 1975-76.

Possible Need for Additional Funds

The California Highway Patrol has indicated that the reduction of the passenger vehicle inspection program will also affect its administrative budget, because administrative costs are prorated to all operating program elements. The administrative overhead contained in the passenger vehicle inspection element represents \$1,284,648 in funds budgeted for the program. The department has indicated that it may be unable to reduce administrative personnel by this amount despite the reduction in workload resulting from the reduction of passenger vehicle inspection. In that event, an augmentation of the administrative budget could be required.

Motor Carrier Operations

We recommend the reduction of \$433,404 for 19 proposed additional positions in the motor carrier safety operations element because the positions are not justified by available data.

The motor carrier safety element carries on an on-terminal inspection program which covers commercial vehicles, maintenance records and procedures, and records of drivers hours, to ensure that proper maintenance is being performed and drivers are abiding by regulations relative to the number of hours they may work. The budget proposes 19 new positions for this element, or an increase in total staffing of over 35 percent. The budget, however, does not reflect any increase in productivity from the element, and in fact Table 1 shows a decline in the number of terminals and vehicles to be inspected in 1975-76.

CALIFORNIA HIGHWAY PATROL—Continued

Table 1
Motor Carrier Inspection Workload and Effectiveness

	<i>Estimated</i>		
	1973-74	1974-75	1975-76
Number of public, private, and for-hire carrier terminals:			
a. Subject to inspection	25,500	27,000	28,500
b. Inspected	13,200	24,000	15,000
Number of motor carrier vehicles:			
a. Subject to inspection	275,000	290,000	300,000
b. Inspected	61,350	82,500	62,500
Number of drivers' hours-of-service records:			
a. Subject to inspection	130,000	135,000	150,000
b. Inspected	32,250	46,000	36,000
Number of injury and fatal accidents:			
a. Truck/trailer combination accidents	3,250	3,200	3,000
b. Bus accidents	920	900	875

In view of this inconsistency and a lack of information justifying such an exceptionally large increase in the program in one year, we recommend the deletion of the 19 proposed positions for a savings of \$433,404.

Chapter 1447, Statutes of 1974, requires the department annually to inspect all farm labor vehicles. Six additional positions are proposed for this activity and are justified by the increased workload mandated by the legislation.

Other Elements

Commercial vehicle inspection will require 312.4 man-years in 1975-76. Personnel are deployed at the commercial vehicle inspection facilities along major state highways, at platform scales, and with portable trailer-carried scales. Additional elements in this program include vehicle noise-reduction teams, abandoned vehicle abatement, the regulation of special purpose vehicles, and other special inspection activities.

The activity in this program which uses the most manpower is "school pupil safety," employing over 400 nonuniformed school crossing guards.

III. VEHICLE OWNERSHIP SECURITY

The Vehicle Ownership Security program includes the department's vehicle theft element, which assists in the apprehension of auto thieves and the recovery of stolen vehicles, and the vehicle identification number element, which attempts to identify vehicles whose identification numbers have been removed. The total proposed budget for the program calls for an expenditure of \$2,303,211 from the Motor Vehicle Account. The Highway Patrol is the coordinating agency for the Vehicle Theft Control Program, which aims to reduce vehicle theft statewide through cooperation between state and local agencies.

The budget requests 2.5 positions for the Vehicle Theft Information System, a part of the Vehicle Theft Control Program. Workload increases support this augmentation and the item is federally funded, resulting in no increased cost to the state.

IV. ADMINISTRATION

The department requests an administrative support budget of \$21,180,674, an increase over 1974-75 of 3.9 percent, representing primarily the increased cost of supplies, equipment, and charges from other state agencies. Administrative costs are prorated over the department's three operating programs. The program contains six elements: management and command, budget and fiscal management, operational planning and analysis, training, administrative services, and the Statewide Integrated Traffic Records System.

Training

We recommend the reduction of 18 color television monitors (\$8,100) and one color television camera (\$15,000) for a savings of \$23,100 because this equipment is not essential to the department's training operations.

Television equipment is used for training purposes at the Highway Patrol Academy. The budget requests \$23,100 for color equipment to replace the existing black-and-white equipment, although the program's need for color television has not been established. After the new Academy is occupied in the 1976-77 fiscal year the department will have more adequate television facilities and will be better able to assess its needs.

New Academy Staff

We recommend deletion of the proposed stationary engineer II, plumber I, stock clerk, and electrician I for salary savings of \$11,904.

An engineer, plumber, stock clerk and electrician are proposed for assignment at the new Highway Patrol Academy which is scheduled to open in July 1976. For familiarization purposes the personnel would be added during the last quarter of 1975-76. Allowing for normal construction delays, we believe the new academy will not open before August 1976 and that the request for maintenance and upkeep staff is premature and need not be considered until the 1976-77 budget is prepared.

Recommend Materials Management Study

We recommend the department study the materials management operation, including all functions of the Logistics Bureau. A report should be made to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1975. Also, the proposed stock clerk I should be deleted for a savings of \$7,427.

After a review of the California Highway Patrol's stores operation and related functions, the Department of General Services concluded in November 1974 that major cost savings could be achieved through modernizing the department's materials management operation. Both internal streamlining and partial consolidation of operations with General Services were found worthy of further study.

We recommend that a joint study be undertaken by the patrol and the Department of General Services to review in depth the methods of reducing cost and increasing efficiency of the Logistics Bureau. All aspects of the department's materials management operation should be studied. Related purchasing and accounting practices should also be reviewed. A report should be made to the Joint Legislative Budget Committee and the fiscal

CALIFORNIA HIGHWAY PATROL—Continued

committees by December 1, 1975. No further positions should be added to the stores operation before the conclusion of this review and therefore recommend deletion of the proposed stock clerk for a savings of \$7,427.

Other Positions

Additional new positions budgeted in the administration program include seven clerks and one key data operator. These positions appear to be justified due to workload increases. Six of the clerks would be added to the Statewide Integrated Traffic Records System (SWITRS). The apparent decline in positions within this element was due to a budgetary error in which certain SWITRS personnel were accounted for in the administrative services element.

MINOR CAPITAL OUTLAY

The budget requests \$292,500 for 16 gasoline storage and dispensing facilities at selected area offices. Pumps and storage tanks would be installed on existing CHP property. At an average cost of \$19,500, these facilities will pay for themselves in under two years through lower fuel prices available by bulk purchase of gasoline. The department is assured of fuel allocation by the Federal Energy Office. In the event of a future gas shortage, the facilities would save many hours of patrol time that would be otherwise lost while waiting in lines for gasoline.

Also requested is \$20,000 for unforeseen minor repairs to state-owned or leased facilities.

Other Minor Construction

We recommend deletion of the garage office heating and cooling system (\$25,000), the motor transport canopy (\$15,000) and the personnel bureau conversion (\$10,000) for a total savings of \$50,000.

These projects were omitted from the department's minor capital outlay request but are included under "Repairs and Alterations" in its line item budget.

The department requests \$25,000 to connect office space in a converted garage to a hot and cold water air conditioning system in an adjoining building. Roof mounted air conditioning units are already in place and have served the converted garage space in the past. In our opinion, they are adequate to provide heating and cooling and a more sophisticated system is unnecessary.

A 50' by 90' canopy for vehicle receiving and delivery at the department's Sacramento motor transport shop is proposed at a cost of \$15,000. Vehicle receiving and delivery has been accomplished without cover for many years. The shop's major functions, including patrol vehicle make-ready and preparation of used vehicles for sale, are all now accomplished within enclosed buildings, and there appears to be little need for the proposed canopy.

The budget includes \$10,000 to convert the headquarters Personnel Bureau to an open space office floor plan with carpeting and mobile panels. This proposal is based on insufficient planning and it is unlikely that the alterations could be made at the budgeted amount. An over-

crowding condition exists which would limit the number of acoustic panels which could be employed.

**Department of the California Highway Patrol
DEFICIENCY PAYMENT**

Item 203 from the Motor Vehicle Account in the State Transportation Fund

Budget p. 487

Requested 1975-76	\$1,000,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department and it cannot obtain aid from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, provided, beginning with the Budget Act of 1957, an annual amount to fund unanticipated contingencies involving purchase and operation of patrol vehicles.

In the Budget Act of 1972, the language restricting the authorization to vehicles only was removed. The appropriation may now be used for any approved deficiency.

**Department of the California Highway Patrol
ADVANCE PURCHASE AUTHORIZATION**

Item 204 from the Motor Vehicle Account, State Transportation Fund

Budget p. 487

Requested 1975-76	\$2,500,000
Authorized 1974-75.....	1,500,000
Authorized 1973-74.....	1,500,000
Requested increase \$1,000,000 (66.6 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order vehicles in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to \$2,500,000 during the 1975-76 fiscal year for vehicles to be delivered in fiscal year 1976-77. The authorization has been increased by \$1 million

ADVANCE PURCHASE AUTHORIZATION—Continued

because of the declining resale value of used highway patrol cars and a substantial cost increase for new vehicles. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budgets in the years affected.

In prior years this authorization was contained in Control Section 21.3 of the Budget Act. It appears as a budget item for the first time this year.

**Transportation Agency
DEPARTMENT OF MOTOR VEHICLES**

Items 205-210 from various
funds

Budget p. 491

Requested 1975-76	\$110,921,668
Estimated 1974-75	101,595,915
Actual 1973-74	83,477,396
Requested increase \$9,325,753 (9.18 percent)	
Total recommended reduction	\$626,571

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis Page
205	Vehicle Registration and Driver Licensing	State Transportation Fund, Motor Vehicle Account	\$95,734,375	332 and 344
206	For Payment of Deficiencies in Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)	356
207	Collection of Vehicle In-lieu taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	\$13,488,569	332
208	Issuance of Environ- mental License Plates	California Environ- mental Protection Program Fund	725,152	351
209	Issuance of Bicycle License Tags	State Bicycle Fund	50,000	351
210	Registration of undocumented Vessels	Harbors and Water Craft Revolving Fund	923,572	351
			\$110,921,668	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS		<i>Analysis page</i>
1. <i>Program Planning Unit. Augment Item 205 by \$92,624.</i>		331
Recommend department be authorized 5 additional planning positions to establish a full-time program planning unit comprised of 13 staff members.		
2. <i>Program Planning, Budgeting and Control.</i>	Recommend department submit a study of alternatives for achieving increased effectiveness of its program planning, budgeting and control functions.	331
3. <i>Computer Issuance.</i>	Recommend department submit study and preliminary plan for implementation of computer issuance of vehicle registrations and driver's licenses.	333
4. <i>Lien Sale of Vehicles. Reduce Item 205 by \$274,495.</i>	Recommend reduction in requested budget for administration of vehicle lien sale laws.	335
5. <i>Certification of Smog Devices. Reduce Item 205 by \$352,700.</i>	Recommend reduction in requested budget for verifying certification of smog devices on 1966-1970 vehicles in the South Coast Air Basin.	336
6. <i>Mandatory Vehicle Emission Inspection and Testing Program.</i>	Recommend legislation assigning responsibility to department for implementation of the Mandatory Vehicle Emission Inspection and Testing Program in the South Coast Air Basin. Legislature should also make the \$10,787,839 requested under Item 223 Air Resources Board (ARB) available to the department for implementation of this program.	337
7. <i>Motor Vehicle Inspection Program.</i>	Recommend department submit a feasibility study for implementation of a Motor Vehicle Inspection Program to the Legislature and the Governor by April 1, 1976. This study should be made in coordination with the California Highway Patrol (CHP), ARB and the Department of Consumer Affairs (DCA) and include an evaluation of all principal modes of inspection.	339
8. <i>Selective Testing of Drivers.</i>	Recommend approval of department request for selective testing of drivers be withheld until additional supporting data are available.	344
9. <i>Administrative Adjudication of Traffic Cases.</i>	Recommend adoption of concurrent resolution requiring the department in coordination with the Judicial Council to submit feasibility study of administrative adjudication of traffic cases to the Legislature and Governor by March 1, 1976.	345
10. <i>Postlicensing Control Reporting and Evaluation System.</i>	Recommend department submit status report on the implementation of postlicensing control reporting and evaluation system.	348

DEPARTMENT OF MOTOR VEHICLES—Continued

Analysis
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| 11. Court Schools. Recommend legislation requiring courts to utilize commercial driving schools in their postlicensing control programs which are certified by the department and conform with standards set by department in coordination with Judicial Council. | 349 |
| 12. Compulsory Insurance Law. Recommend approval of department's proposed budget for administration of the Compulsory Insurance Law be withheld until department provides supporting information. | 350 |
| 13. Off Highway Vehicle (OHV) Program. Recommend legislation assigning responsibility for OHV program management to the department and program support responsibility to CHP and the Department of Parks and Recreation, respectively, for enforcement and development of OHV use areas. | 352 |
| 14. Conversion to Key-entry System. Recommend approval of the department's budget request for conversion to a key-entry data system be withheld until department provides analysis of its needs. | 354 |
| 15. Computer Replacement Plan. Recommend department submit plan for replacement of its interim computer system. | 354 |
| 16. <i>Minor Capital Outlay. Reduce Item 205 by \$92,000.</i> Recommend deletion of two minor capital improvement projects requested for its Oakland and Whittier field offices. | 355 |

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles program objectives have been organized into five major programs, plus Administration.

1. Vehicle Licensing and Titling—to protect the public's interest by identifying ownership through the process of vehicle registration.

2. Driver Licensing and Control—to promote safety on highways by licensing and controlling drivers.

3. Occupational Licensing and Regulation—to provide public protection by licensing and regulating occupations and business related to manufacture, transporting, sale, and disposal of vehicles, and the instruction of drivers in safe operation on the highways.

4. Compulsory Financial Responsibility—to provide a source of compensation to those damaged and/or injured in automobile accidents through the Compulsory Financial Responsibility Law.

5. Associated Services—to provide services, not directly related to motor vehicles or drivers' licensing, to the public and to other state agencies as required by statute.

In order to implement the above programs and support activities, the department proposes the operation of 147 field offices in 14 districts and the central headquarters complex in Sacramento with 7,840 staff members during the budget year.

It is estimated that the department will process approximately 17,142,000 vehicle registrations during the budget year. In addition, the department will maintain records on 13,960,000 outstanding driver's licenses including the issuance of approximately 4,533,500 original and renewal driver's licenses.

These major workload indicators reflect an estimated 5 percent increase in vehicle registration and less than a 1 percent increase in drivers licenses issued in the budget year over the current year. In addition, the total undocumented vessel registrations are estimated to be 547,700 in the budget year, an increase over the current year of 4 percent.

ANALYSIS AND RECOMMENDATIONS

The total proposed departmental expenditure for the budget year is \$117,924,804. This represents an increase of \$9,225,180 or 8.49 percent over the amount estimated for the current fiscal year. These amounts differ from the requested appropriation of \$110,921,668 in the Budget Bill because the department estimates that it will be reimbursed approximately \$7,003,136 for services provided to other agencies.

For purposes of our analysis, total proposed expenditures will be considered as shown in Table 1 which summarizes actual, estimated and proposed expenditures by program for a three-year period. Table 2 gives an explanation of the differences between the proposed budget and the revised budget for the current year. The revised budget for the current year contains an augmentation of \$392,747 which is being requested by the department through special legislation to cover the anticipated costs of implementing the Compulsory Insurance Law.

Table 1
Summary of Program Expenditures

	Actual 1973-74	Estimated 1974-75	Proposed 1975-76	Increase over 1974-75	Percent increase
I. Vehicle Licensing and Titling	\$42,474,840	\$52,101,602	\$58,777,044	\$6,675,442	12.8 %
II. Driver Licensing and Control	37,257,966	42,854,212	44,124,930	1,270,718	2.96
III. Occupational Licens- ing and Regula- tions	4,471,215	6,092,995	6,715,974	622,979	10.22
IV. Compulsory Financial Responsibility Law	2,072,234	2,590,750	3,173,014	582,264	22.47
V. Department of Motor Vehicles Associat- ed Services	3,901,838	4,826,165	5,133,842	307,677	6.37
VI. Administration—distrib- uted to programs Chapter 53, Statutes of 1973, fire damage repair—undistrib- uted	(6,495,403)	(7,258,275)	(7,488,673)	(230,398)	3.17
	-233,900	233,900	—	-233,900	—
Total Programs	\$89,944,193	\$108,699,624	\$117,924,804	\$9,225,180	8.49%
Reimbursements	-6,466,797	-7,103,709	-7,003,136	100,573	-1.41%
Net Totals, Programs	\$83,477,396	\$101,595,915	\$110,921,668	\$9,325,753	9.18%

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 2
Explanation of Budget Year Differences From
Current Year Program

	<i>Budget over Current Year</i>		
	<i>Man-years</i>	<i>Amount</i>	<i>Percent</i>
1. Workload adjustment			
personnel requirements	272.2	\$2,818,455	2.59%
operating expenses		412,676	0.38
equipment		97,856	0.09
2. 1974 Statutes			
a. Chapter 1330/1974 (SB 2140) Year-round Registra- tion Program	118.8	1,136,587	1.05
b. Chapter 1262/1974 (SB 2293) Revision to Vehicle Lien Sale Procedures	30.4	285,476	0.26
c. Chapter 670/1974 (SB 2471) Certification of Smog Devices for All 1966-70 Vehicles in South Coast Air Basin	37.7	352,790	0.33
d. Chapter 575/1974 (AB 2722) Issuance of Registra- tion Decals to Oversized Trailers	0.1	101,469	0.09
e. Chapter 687/1974 (AB 2706) Licensing of Boat Trailer Dealers	1.8	17,013	0.02
f. Chapter 1089/1974 (AB 3645) Provide Price Infor- mation on New Motorcycles	1.8	28,989	0.03
g. Chapter 1409/1974 (SB 1471) Compulsory Finan- cial Responsibility Law	43.2	328,153	0.30
h. Chapter 625/1974 (AB 2740) Vehicle Weight Fee Reduction	-2.8	-25,737	-0.02
i. Chapter 428/1974 (SB 1643) Driver's License class changes and Early Renewal	-2.0	-17,490	-0.02
j. Chapter 339/1974 (SB 129) Reimbursement of Moving Expenses		214,900	0.20
k. Chapter 234/1974 (AB 2379) Disabled Persons	-1.1	-13,495	-0.01
3. Merit salary adjustment		1,352,763	1.25
4. Fully reimbursed research projects	-5.8	-128,000	-0.12
5. Programs financed by federal funds	-16.7	-507,500	-0.47
6. Auto theft program (fully reimbursed)		3,621	
7. Reclassification of Motor Vehicle Assistants		126,391	0.12
8. Implementation of EDP Video Replacement Program		185,000	0.17
9. Minor Capital Outlay		105,300	0.10
10. Repairs and alterations		145,200	0.13
11. Price Increase		1,781,065	1.64
12. Fire Damage—DMV South expenses		-210,698	-0.19
13. Pro rata General Administrative Charge		515,817	0.48
14. Office landscaping		200,000	0.18
15. Upgrade computer—personnel	-10.0	-160,162	-0.15
16. Data processing support—site preparation		-300,000	-0.28
17. Data processing rental, supplies and maintenance		482,034	0.44
18. Selective testing program	7.9	85,215	0.28
19. Chapter 53/1973 Headquarters fire damage		-233,900	-0.22
20. Budget change proposals			
a. Research and Statistics	5.0	118,678	0.11
21. Rate change—salary savings and staff benefits		-73,280	-0.07
Gross Expenditures	480.5	\$9,225,180	8.49%

Program Planning, Budgeting and Control

We recommend an increase of \$92,624 (5 man-years) in Item 205 to permit the department to form a Program Planning Unit. These positions are in addition to 8 previously authorized positions.

We recommend that the department be required to study all alternatives for achieving improved program alignment of its organization and increased effectiveness of its program planning, budgeting, and control functions and report to the Joint Legislative Budget Committee by December 1, 1975.

In preparing its annual budget request, DMV projects its expenditure needs by program. Use of a program budget format gives the appearance that the department is organized by program and that program planning, budgeting, and operational controls are in effect. In reality, the department is organized into operating divisions and planning, budgeting, and operational control, for the most part, are oriented to organizational requirements and line items rather than to program requirements.

For example, the Vehicle Licensing and Titling program is split between the (1) Division of Registration, (2) Division of Field Office Operations, and (3) Division of EDP Services. Each of these divisions has its own separate planning, budgeting and control functions. Ultimate coordination of these functions is accomplished by the Director's Office with assistance from the Division of Administration in drafting the annual budget request. In utilizing this approach for management of registration functions, total responsibility and authority for program planning, budgeting and operational control is not assigned to a program manager, but to three division managers. Such fragmentation of program management also exists in the Driver Licensing and Control Program. Smaller programs such as the Occupational Licensing and Regulation Program are more program management oriented because they are contained within one division.

The department has not changed from a division to a program organization because the Program Planning and Budgeting System (PPBS) has not been effectuated. PPBS has encountered many problems and delays in implementation and its future development is uncertain. As a consequence, most state agencies are lacking effective program management capabilities and must now proceed on an individual basis in order to achieve improved management of programs and increased effectiveness, efficiencies and economies.

Master Planning Effort

Recognizing that it operates in a complex and rapidly changing environment, the department embarked upon the development of a long-range master plan in June 1974. The first draft of this plan, which is to be published early in 1975, is the result of an effort of 9 teams of personnel from all levels of the department. Certain major planning issues such as the role of the department in vehicle operator safety, management philosophy, facilities planning, and program planning are being addressed by individual teams. Initial attention is being given to development of mission and goal statements, planning methodology, and preliminary short term (2-5 years), intermediate term (5-10 years), and long term (10-20 years) plans.

DEPARTMENT OF MOTOR VEHICLES—Continued

Although we believe the department's development of a comprehensive long-range plan is essential, we do not feel that the department is aggressive enough in formulating issue-oriented plans and translating them into detailed program plans.

In order to provide improved program planning and budgeting within the department, we recommend that the department's budget be augmented by \$92,624 to provide for 5 new planning positions. These positions should be combined with the existing 8 planning positions, which were previously recommended by our office and authorized in the Budget Act of 1973, to permit formation of a program planning unit of 13 positions. Such a unit should be staffed with personnel trained and experienced in advanced program management. Techniques such as Management by Objectives and Results (MBOR), Organizational Development (OD), Management Information Systems (MIS), and Program Planning and Budgeting Systems (PPBS) should be considered by the unit. The resources of this unit should be made available to program managers throughout the department on an assignment basis, and to the director's office for continued development of the Comprehensive Long Range Plan.

As a further step towards assuring more effective program management within DMV, we recommend that the Legislature require the department to study all practicable alternatives for achieving improved program alignment of its organization and strengthening of its program planning, budgeting and operational control functions. A report on this effort should be made available to the Joint Legislative Budget Committee by December 1, 1975.

I. VEHICLE LICENSING AND TITLING

The purpose of this program is to (1) register vehicles and establish ownership, (2) collect registration fees, weight fees and in-lieu taxes, and (3) provide vehicle registration information.

This program is expected to process 2,026,000 original and 15,116,000 renewal registrations and produce revenues of approximately \$674 million during the budget year. The department's request for this program for the budget year totals \$58,777,044, an increase of \$6,675,442 (12.81 percent) over the current year. (Items 205 and 207)

Table 3 presents program element inputs and Table 4 presents program element outputs.

Table 3
Vehicle Licensing, Program Element Inputs

<i>Program elements</i>	<i>Man-years</i>		<i>Program Costs</i>	
	<i>1974-75</i>	<i>1975-76</i>	<i>1974-75</i>	<i>1975-76</i>
Vehicle licensing	1,892.1	2,097.8	\$26,954,843	\$30,994,161
Vehicle fee collections	927.0	1,031.1	15,247,532	16,911,820
Vehicle record maintenance	356.8	379.2	4,279,697	4,778,640
Vehicle information	162.3	176.5	2,043,924	2,372,414
Administration distribution	202.8	220.8	3,575,586	3,720,019

Table 4
Vehicle Licensing, Volume of Activity

	1974-75	1975-76
Vehicle registration	16,587,000	17,3988,000
Fees, Motor Vehicle Account.....	\$344,400,000	\$350,300,000
Fees, Motor Vehicle License Fee Account	\$297,500,000	\$324,000,000
Records processed.....	19,811,000	20,405,000
Information requests	11,699,000	13,014,000
Fees, information requests	\$834,600	\$877,350

Year-Round Registration

Chapter 889, Statutes of 1973 (SB 1356) required the Department of Motor Vehicles to implement a year-round system of registration for the state's 16 million vehicles starting with the 1975 registration year. However, because the state would not have sufficient computer capability prior to December 1, 1974 to implement the system, the Governor delayed the implementation of the year-round registration system until the 1976 registration year.

Accordingly, the Legislature enacted Chapter 1330, Statutes of 1974, (SB 2140) to provide for continued operation of the existing annual registration system during the 1975 registration year and implementation of the year-round system in advance of the 1976 registration year.

Acquisition of sufficient computer capability is now scheduled in January 1975 with conversion of all systems and data files scheduled for July 1, 1975. If these schedule dates are met, the department will start issuing registration renewal potentials in October 1975, permitting the start of year-round registration on December 1, 1975 for original and nonresident vehicle registration.

To implement the year-round registration system the department is requesting 131.8 man years representing an estimated \$1,806,542 during the budget year. We recommend approval. However, in the following year we would expect increased efficiencies and economies in keeping with conversion to a more effective system of registration. This should result in a reduction of work force.

Computer Issuance of Vehicle Registration and Driver's Licenses

We recommend that the Legislature require the department to submit a study and preliminary plan for implementation of computer issuance of vehicle registrations and driver's licenses to the Joint Legislative Budget Committee by April 1, 1976 and an interim status report by December 1, 1975.

The Department of Motor Vehicles budget has increased over the past five years from \$74 million to \$117 million or 58 percent. This is attributed to inflationary cost increases, increased workload in vehicle registration and driver licensing, and increased statutory requirements for additional services to the public. In experiencing this steady incremental growth, the department has demonstrated that it is reasonably effective in performing its assigned functions. However, with the exception of the current conversion to year-round registration of vehicles and increased use of large computers, there is only moderate evidence of increased productivity within the department in the last five years.

DEPARTMENT OF MOTOR VEHICLES—Continued

Despite the greatly expanded use of advanced information processing methods by private and governmental organizations in recent years, DMV is still primarily dependent upon manual processing methods. Large computers are being employed primarily in the "batch processing" mode rather than in the more productive "on-line/real time" mode, the exception being the provision of on-line telecommunication data to law enforcement agencies.

Long-Term Goal of the Legislature. As discussed in our 1974-75 Analysis, use of computer terminals in the department's 147 field offices to provide immediate issuance to the public of vehicle registration ownership certificates and driver's licenses has been a long-term goal of the Legislature since it authorized the development of the original, Automated Management Information System (AMIS) in the department in 1965.

Advantages of Computer Issuance. There is little disagreement that conversion to computer issuance would permit a major overhaul and streamlining of the vehicle registration and driver's licensing programs. Computer issuance would offer the public the advantages of being able to go to a field office, apply for vehicle registration or a driver's license and receive the finished product while there. Should conditions preclude such service, the applicant would be advised and told what action would be necessary. Additionally, the computerized files in the Sacramento headquarters complex would be immediately updated with current information for law enforcement purposes instead of several weeks later as is now done with the batch oriented system. A substantial reduction in paper flow from the field to headquarters and return would also result from using an electronic telecommunications system. As an added benefit, registration renewal applications could also be mailed to the field offices rather than to the headquarters for complete processing, reducing further the headquarters' workload.

New York Uses Computer Issuance. Computer issuance of vehicle registrations and driver's licenses has been satisfactorily performed by New York since 1968 for approximately 8 million vehicles and approximately 9.5 million drivers. Using 600 computer terminals throughout the state to provide one-stop service to the public and internal departmental communications, the average registration or licensing transaction time within the field offices is approximately 2 minutes. This is comparable to the service achieved in recent years by the airlines in their reservation and ticketing offices.

After seven years of computer issuance, New York has confirmed the increased productivity of the computer. A savings of \$3.2 million was realized in the first year through reassignment of clerical personnel to other departments. These savings almost totally offset the first year equipment and conversion costs alone. Additional significant but undetermined savings have been realized annually through a reduction in staffing and headquarters floor space requirements.

Further evidence of the increased productivity and economies obtainable through computer issuance is demonstrated by New York's ability to register one-half the number of vehicles and three quarters the number

of driver's licenses each year as California at less than one-third of California's cost.

The New York Department of Motor Vehicles has indicated a readiness to assist California in planning for conversion to computer issuance. In addition, New York has suggested that its computer system designs and on-line/real-time computer programs could be made available to California on a no-cost basis.

Department Studies. In response to requests from the Legislature, the department has performed several studies of computer issuance. The most recent was in response to our recommendation adopted in the Supplementary Report to the Committee on Conference (Budget Act of 1970, Item 23). In its report, which was forwarded to the Legislature on February 24, 1972, the department stated that existing computer limitations would not be resolved until at least 1975 and that a new study would then be necessary in order to determine when computer issuance could be implemented.

In the period since this report, a computer upgrade has been started and conversion to year-round registration is now scheduled prior to the 1976 registration year. Year-round registration will serve to spread the flow of registration renewals evenly over the entire year providing increased convenience to the public and improved use of large computers. The present computer upgrade represents an interim step in support of year-round registration. However, the interim computer system is not fully configured for conversion to computer issuance. Changeover of the interim computer system to an on-line/real-time system capable of supporting computer issuance is not now considered possible until the 1977-78 fiscal year.

Preliminary Study and Plan Needed. In order to provide the public with the most efficient and economical registration and driver's licensing services as soon as possible, we recommend that the Legislature require the department to submit a study and preliminary plan for implementation of computer issuance to the Joint Legislative Budget Committee by April 1, 1976 and an interim status report by December 1, 1975. This report should include a study of alternative approaches, a conceptual system design, preliminary organizational plan, implementation schedules and an analysis of potential problems, benefits and cost factors. Additionally, existing and planned field office facilities should also be reviewed to provide for future use of computer terminals. Further discussion of facility design considerations if presented in our Analysis of Department of Motor Vehicles, Capital Outlay (Item 362).

If this recommendation is adopted, our office will monitor the progress of the study group and submit a parallel analysis of the required study to the fiscal committees when the report is completed.

Lien Sale of Vehicles

We recommend a reduction of \$274,495 in Item 205 for administration of possessory vehicle lien sale laws.

Chapter 1262, Statutes of 1974 (SB 2293) revises the procedures for the sale of vehicles by possessory lien holders to satisfy liens against such

DEPARTMENT OF MOTOR VEHICLES—Continued

vehicles. Under this new procedure, lien holders must apply to DMV for authorization to sell such a vehicle, the department must notify the legal owner and give him opportunity to declare a defense against the claim, and the department must issue an "authorization for lien sale" before the lien holder can dispose of the vehicle.

In addition, provision is made for public agencies to remove, dismantle and salvage abandoned vehicles appraised at values not to exceed \$200 under the Abandoned Vehicle Program if authorization to conduct a lien sale has been issued by the department, or a judgment has been made in favor of the lien holder, or the legal owner has signed a release of any future interest.

Need to Control Expenditures. Prior to enactment of Chapter 1262 the department estimated that 400,000 applications for lien sales would be processed annually at a cost of \$1,127,000. The department planned to charge an application fee of \$3 in order to generate revenues of approximately \$1,200,000 annually to cover its costs and reimburse an appropriation of \$1,127,000 from the Motor Vehicle Account in 1974-75 for program start up. On a basis of this financial analysis the measure was enacted by the Legislature. However, in its budget request for 1975-76, the department shows a projected expenditure of \$1,401,495 for an increase of \$274,495.

The department attributes this increase to a need to accelerate the disposition of vehicles under the Abandoned Vehicle Program. However, the department has not submitted data to justify this need. Therefore, we recommend that a reduction of \$274,495 be made to the department's request for administration of this law. If additional funding can be justified during the budget year, it can be requested by the department.

Certification of Smog Devices on 1966-70 Vehicles

We recommend a reduction of \$352,700 (37.7 man years) in Item 205 for certification of smog (NOx) device installation on 1966-1970 vehicles in the South Coast Air Basin.

Chapter 670, Statutes of 1974, (SB 2471) provides that all vehicles weighing less than 6,001 pounds within the South Coast Air Basin shall be equipped with approved NOx smog control devices in accordance with a schedule established by the Air Resources Board (ARB). Certification of compliance shall be required upon registration renewal of approximately 2 million such vehicles starting with the 1976 registration year. The Department of Motor Vehicles is requesting \$352,700 (37.7 man years) to cover increased costs associated with the verification and handling of such certificates in the registration process. Even though the department employed engineered work standards (MARC System) to establish its cost estimate, we believe that increased funding for this purpose is not warranted. The handling of the certificate of compliance with each registration application will add another detail to the processing of each application received. However, it appears that only a minimal increase in workload will result which can be absorbed by the existing field office and headquarters work force.

Mandatory Vehicle Emission Inspection and Testing Program

We recommend that legislation be enacted on an urgency basis which assigns responsibility to the Department of Motor Vehicles for implementation of the Mandatory Vehicle Emission Inspection and Testing Program in the South Coast Air Basin. The Legislature should also make the \$10,787,839 requested under Item 223 (Air Resources Board) available to DMV to permit the start of program implementation by DMV on or before July 1, 1975.

Chapter 1154, Statutes of 1973, (SB 479) established a pilot program in the six counties of the South Coast Air Basin (Los Angeles, Orange, Riverside, San Bernardino, Santa Barbara, and Ventura) for exhaust emission inspection of approximately 6 million light duty vehicles registered in this area.

This program is to be implemented by the Department of Consumer Affairs (DCA) in accordance with exhaust emission standards set by the Air Resources Board (ARB). Vehicle inspections are to be performed with dynamometers for purposes of checking HC, CO, and NO_x emissions which contribute substantially to air pollution in the South Coast Air Basin and other urban areas throughout the state.

Initial implementation of the program was to have been started by July 1974 with the activation of six inspection lanes in Riverside County for preliminary testing of equipment and procedures. Following the completion of a comprehensive plan in December 1974, the acquisition of sites and construction of 48 inspection lanes costing approximately \$7.5 million was to have started in order to provide for inspection of approximately 1.5 million vehicles which undergo change of ownership annually. Such inspections are to start with the 1975 registration year. Continued expansion of facilities to provide up to 200 inspection lanes capable of inspecting 7 million vehicles (50 percent of state total) are to be completed by January 1977 at an approximate capital cost of \$32 million. The operating staff for such facilities has been estimated to be 800 to 1,000 positions requiring an annual operations budget of approximately \$15 to \$20 million.

Expansion of this program to other urban areas throughout the state is not anticipated until the program is proven effective in the South Coast Air Basin.

Despite the appropriation of \$400,000 to DCA and \$100,000 to ARB in 1973-74 for planning, and \$2.6 million to DCA in 1974-75 for initial implementation, the schedule has not been adhered to and the program has suffered a delay of almost one year. Continued delays are inevitable unless firm direction is established and aggressive implementation started.

In an effort to accelerate program activation, the proposed budget for ARB contains an appropriation of \$10,787,839, under Item 223, from the Motor Vehicle Account of the State Transportation Fund. It is intended to be a loan to DCA, and repayment from inspection fees is required.

Need for Transfer of Program. As discussed on pages 462-465 of our 1974-75 Analysis, we believe that the responsibility for implementation of this program should not be placed with the Department of Consumer Affairs. It does not have an organization capable of supporting such a program, and vehicle emission inspection is not directly related to DCA's

DEPARTMENT OF MOTOR VEHICLES—Continued

mission of providing for consumer protection.

Of the four departments now involved in vehicle registration and inspection, the Department of Motor Vehicles appears to us to be the best qualified to assume responsibility for management of this program because of its close functional relationship, its network of 50 field offices in the six counties of the South Coast Air Basin, its advanced computer capability, and its ability to offer one-stop vehicle "registration/inspection" service to the public. Very clearly, an organizational realignment for this important inspection program is urgently needed. Assignment of the program and its personnel to DMV would provide the overall administrative and operational support which the program needs to achieve its goals in the most effective manner while affording maximum convenience and service to the public.

Conceptually, the pilot inspection facilities could be quickly placed in the parking lots of many of the existing DMV field offices in this area. This would afford substantial savings in time and costs related to site acquisition. Conversion to year-round registration will result in excess parking lot capacity for many DMV field offices. In addition, adjacent field offices would provide necessary support facilities, communication systems, and clerical assistance at minimal incremental costs. If conditions are such that some inspection facilities cannot be placed on existing field office sites, the inspection facilities could be located nearby, possibly under elevated freeways to reduce costs and offer convenient access for the public.

As an added advantage, the DMV computer system could be utilized to schedule vehicles for inspection in coordination with the year-round registration program which will be activated in 1975. This will serve to even out the workload, giving better use of facilities, minimum wait for the public, and increased economy of operation.

Recommended Action. In the interests of expediting the implementation of this program, we recommend urgency legislation transferring statutory responsibility to the Department of Motor Vehicles from the Department of Consumer Affairs. In addition, the Legislature should make the \$10,787,839 proposed under Item 223 (ARB) available to DMV for program implementation on or before July 1, 1975.

In order to accomplish a smooth transition of responsibility from DCA to DMV for management of the emission inspection program, the Legislature should encourage the transfer of DCA personnel involved in the program to DMV as a unit as soon as possible. Further consideration should be given to reassignment of as many motor vehicle inspection specialists as possible from CHP to the exhaust emission inspection program if the CHP random inspection program is terminated. To provide for the transition of personnel, appropriate training programs should be established.

Additional discussion of the need for assignment of responsibility to DMV for implementation of this program is presented under Item 223 (ARB) and Item 141 (DCA).

Motor Vehicle Inspection Program

We recommend that the Legislature require the Department of Motor Vehicles, in coordination with the California Highway Patrol, the Air Resources Board, and the Department of Consumer Affairs to submit a feasibility study for implementation of a Motor Vehicle Inspection Program to the Legislature and the Governor by April 1, 1976. The study should provide for an evaluation of the three principal modes of inspection for all classes of vehicles: state operated facilities, state appointed stations, and random spot check.

In addition, we recommend that the Legislature request the Governor to form a Vehicle Inspection Coordinating Committee to assure that the recommended study meets the needs of the Legislature and the Governor.

Shortcomings of Random Vehicle Inspection Program. In an effort to comply with the Highway Safety Act of 1966 which requires that all states have federally approved highway safety programs in order to qualify for federal highway and highway safety program funds, California initiated a comprehensive highway safety program to include a random vehicle inspection program.

The random vehicle inspection program which was established in 1966 under the jurisdiction of the California Highway Patrol (CHP) provides for the roadside inspection of approximately 10 percent of the state's 14 million light duty vehicles by approximately 420 vehicle inspectors assigned to 71 teams. Inspections are limited to minimal safety checks of easily checked items such as lights, horn, tires and windshield wipers. In recent years the inspection has been extended to verification of smog device installation and idle exhaust emission testing for HC and CO.

As discussed on pages 462 to 465 of our 1974-75 Analysis, this program has proven to be only a token effort in providing for safety inspection of the state's passenger cars and light trucks. Despite the best efforts of the CHP to encourage individual responsibility for vehicle maintenance through random spot checks, the rejection rate of inspected vehicles for mechanical discrepancies remains above 50 percent, indicating that random spot checking has not appreciably influenced motorists to keep their vehicles in good condition. This is further substantiated by studies conducted by the U.S. Department of Transportation (DOT) which show that vehicles in states having effective inspection programs are in better condition than California's vehicles.

This program expends approximately \$9 million annually of Motor Vehicle Account funds and cannot be considered cost effective at the current unit cost of \$5.20 per vehicle inspected. As an added concern, California has been notified that it must have a minimal federally approved vehicle inspection program by June 30, 1975 which conforms with Periodic Motor Vehicle Inspection Safety Standards established by the National Highway Transportation Safety Administration (NHTSA) and must be in substantial compliance with all standards in 1978. It is obvious that California's random vehicle inspection program will not meet this requirement, and that major changes are required if the state is to continue to qualify for its full allotment of federal highway funds.

DEPARTMENT OF MOTOR VEHICLES—Continued

Program Termination. Recognizing that the random inspection program is not cost effective, the Governor has proposed that the program be reduced to a 1 percent inspection sample rather than the existing level of 10 to 12 percent. This would result in a substantial reduction in budget requirements.

The Governor's proposal appears to be justified. However, we believe that a further step should be taken for complete termination of the program as soon as possible. Further discussion of this program to include our recommendation for program termination is presented in this analysis under the California Highway Patrol (Item 202).

Rather than continuing with a 1 percent inspection, we feel that the state should employ its available resources to study, design, and implement a vehicle safety inspection program which will conform with federal inspection standards and provide for increased highway safety in a cost effective manner. If, in performing such a study, it is determined that federal inspection standards may impose additional cost on California with little or no effect on highway safety, a program must be defined and an effort made to have the federal standards modified in order to assure that California will qualify for its full allotment of federal highway and highway safety program funds.

Federal Inspection Standards. The purpose of the National Highway Safety Act of 1966 is to provide a coordinated national highway safety program through financial assistance to the states. A major condition for receiving federal monies is "substantial compliance" with mandated highway safety standards and implementation of state safety programs designed to reduce highway deaths, injuries, and property damage.

Failure to comply with federal standards may result in sanctions. In California this could mean withdrawal of federal highway safety grants of \$10.6 million annually and up to 10 percent of federal highway funds. Although sanctions have been threatened, only recently has DOT moved to enforce its standards and reduce safety and highway funds to Maryland and Puerto Rico for noncompliance with "blood alcohol" test requirements. However, DOT has indicated that it may impose sanctions against California if it does not establish substantial compliance with Motorcycle Safety Standards and Periodic Motor Vehicle Inspection Standards (PMVI).

Because the CHP's random inspection program does not meet PMVI safety standards for inspections of brakes, steering and suspension, it is imperative that California take steps to achieve "substantial compliance" as soon as possible. Such actions should be taken not only to avoid possible federal sanctions and reductions in federal funding but also to improve the safety condition of the state's vehicles to reduce accidents resulting from mechanical failures. It is impossible to have a minimal approved safety inspection program by June 30, 1975 as required by DOT. However, a determined approach to program planning and implementation could result in substantial compliance with all federal inspection standards by June 30, 1978 when required.

Relationship between vehicle defects and accidents. Because federal

mandated standards may impose additional cost on states, with possibly little or no effectiveness as highway safety measures, NHTSA has sponsored several studies to determine the relationship between vehicular factors and accidents. According to preliminary information received from NHTSA, vehicular factors were identified as accident causal less frequently than either human or environmental factors. However, vehicular factors have been found to be very real and significant problems in accident causation. In depth accident investigations by specialists indicate that vehicular factors were the definite cause of a minimum of 4.1 percent of the accidents investigated and were probable causes of an additional 8.5 percent of these accidents. Much controversy exists as to the validity of these preliminary statistics but the researchers for NHTSA have expressed the opinion that these statistics are possibly conservative and are in fact representative of those for the nation as a whole.

The results of these studies also indicate that accidents caused by manufacturing defects and catastrophic mechanical failures have been found to occur infrequently. However, maintenance deficiencies in brake systems, tires, wheels, and steering were the vehicular factors most frequently implicated as causing accidents.

Societal Costs of Vehicular Caused Accidents. The societal costs of vehicular caused accidents and the potential benefits to be gained from a reduction in such accidents are major.

In an attempt to quantify such societal costs in California we applied the preliminary statistical data provided by NHTSA for those accidents directly (4.1 percent) and probably (an additional 8.5 percent) caused by vehicular factors to the 3,300 accidents involving fatalities, 149,385 accidents involving injuries, and 152,685 accidents involving property damage which are anticipated to occur in California during the 1974-75 fiscal year. To obtain an estimate of total California societal costs from the derived number of accidents in this range of 4.1 percent to 12.6 percent, we utilized the following estimates of societal costs for single vehicle accidents published by NHTSA in a report entitled "Societal Costs of Motor Vehicle Accidents" dated April 1972:

Cost per fatality.....	\$200,000
Cost per injury.....	7,200
Cost per accident for property damage	300

The resulting estimates of total California societal costs resulting from accidents directly and probably caused by vehicular factors are within a range of \$73,036,477 to \$224,460,565 for the 1974-75 fiscal year.

Although these estimates are debatable, they indicate that the costs of implementing an improved vehicle inspection program in California may be justified if it can be established that such a program will appreciably reduce the number of accidents attributable to vehicular factors.

Basic Systems of Inspection. There are three basic systems of vehicle inspection operation. They are state operated (New Jersey, Delaware, and Washington, D.C.); state appointed (Pennsylvania, Nebraska, and New York); and random or spot check (California, Washington, and Michigan). Each system has its advantages and disadvantages and its cost implications. State operated stations are best suited to large urban areas (Los Angeles,

DEPARTMENT OF MOTOR VEHICLES—Continued

San Francisco Bay area) where vehicles can be inspected using production line testing procedures. State appointed facilities (new car dealers and garages) are best suited for inspection of new vehicles and inspection of vehicles in areas of low population. Random or spot check is best suited for inspection of commercial vehicles operating on the highways.

Effectiveness of Vehicle Safety Inspection Programs. Based upon a study made by Ultrasystems, Inc. for DOT in 1971, it appears that vehicles in Pennsylvania, New Jersey, and Washington, D.C. are in significantly better condition than those in California. Pennsylvania, New Jersey and Washington, D.C. have periodic motor vehicle inspections and California has random inspections. Using Pennsylvania and California for comparison, vehicles in California have almost twice as many safety defects (10.7 percent) as vehicles in Pennsylvania (5.9 percent).

Although no definitive study has been made to determine the effectiveness of motor vehicle inspection, some states have data on the reduction of defect related accidents since their programs began. For example, Nebraska claims in a report published in 1974 that accidents attributed to vehicle failures have been reduced from 10 percent to 5.6 percent as a result of implementation of an effective periodic vehicle inspection program.

One Organization Can Perform Inspection Functions. Four state organizations are now involved in vehicle inspection and registration: the Department of Motor Vehicles, the Department of the California Highway Patrol, the Air Resources Board, and the Department of Consumer Affairs. The consequences of fragmented responsibilities have been uncoordinated efforts and lack of clear direction at a time when pressures are building for improved controls over vehicle safety defects, fuel consumption, and exhaust emissions.

If it is the intent of the Legislature to terminate the random vehicle inspection program and develop a more effective program of vehicle inspection, we propose that all inspection planning and operational management activities be placed in one agency. Such a consolidation should be consistent with the state's commitment to develop a total systems approach to management of the state's highway transportation system. The highway transportation system consists of four components: driver, vehicle, road, and environment. Logically, jurisdictional responsibility for management of this system should be placed primarily within the Business and Transportation Agency. Within this agency the responsibility for management and control of the driver and vehicle components of the system should be assigned to the Department of Motor Vehicles. This department can also perform a vital supporting role in management of the environment component through performance of vehicle exhaust emission inspections as previously discussed.

In order to establish effective operational management control over the driver and vehicle components of this system, to include vehicle safety and exhaust emission inspection functions, DMV can call upon the following resources:

1. Statewide organization and headquarters staff specializing in the

area of motor vehicles.

2. 147 field offices throughout the state which can be modified to include vehicle inspection facilities.

3. Advanced computer capability which can be expanded to provide "on-line" terminals in each field office for input and output of vehicle registration and inspection transactions.

4. Potential for integrating the vehicle registration and inspection functions into a quick one-stop service for the public.

5. Potential for developing a balanced driver and vehicle control program.

Study of Vehicle Inspection Needed. In view of the need to provide for public safety on the highways and substantial compliance with federal vehicle inspection and clean air standards, we recommend that the Legislature require DMV to submit to the Legislature and the Governor by April 1, 1976, a study of available alternatives for implementation of an integrated vehicle registration and inspection system. In performing such a study, the department should work in coordination with the California Highway Patrol, Air Resources Board, and Department of Consumer Affairs.

Such a study should provide for a comprehensive approach to vehicle inspection on a statewide basis to include inspection of private, public and commercial vehicles. Complete evaluation of the three principal systems of inspection for all classes of vehicles: state operated facilities, state appointed stations and random spot-check should also be provided for.

The report should include a conceptual system plan for integration of vehicle registration and inspection functions (a) in the South Coast Air Basin and (b) on a statewide basis. Included within the report should be a suggested organization plan, EDP systems plan, implementation schedule and estimated operational costs. As an added requirement, a survey should be made of all DMV field office facilities to determine the extent of modifications required to provide for vehicle inspection. Alternative designs for new field offices and estimates of capital costs should be included. The department should also perform a survey of vehicle inspection programs and facilities in other states.

Additionally, the report should include a coordinated plan for the setting and control of exhaust emission standards by the Air Resources Board, and safety standards by the California Highway Patrol. The Department of Consumer Affairs should also participate in developing a plan for control of licensed vehicle inspection stations.

Vehicle Inspection Coordinating Committee. In order to assure that the recommended vehicle inspection study is the result of a cooperative effort between DMV, CHP, DCA, and ARB, and satisfies the needs of the Legislature and the Governor, we recommend that the Legislature request the Governor to form a Vehicle Inspection Coordinating Committee.

This committee should, as a minimum, consist of the following: the Director of the Department of Motor Vehicles, Commissioner of the California Highway Patrol, Director of the Department of Consumer Affairs, and representatives of the Governor's office, Business and Transportation

DEPARTMENT OF MOTOR VEHICLES—Continued

Agency, and Air Resources Board.

If our recommendations are adopted, we will monitor the progress of the vehicle inspection study group and provide a parallel analysis to the fiscal committees of the recommended report.

II. DRIVER LICENSING AND CONTROL

The primary objectives of this program are to license drivers, promote safe driving practices, and exercise control over those drivers who have mental or physical impairments, or have been judged to be unsafe.

During the budget year, this program is expected to maintain records on 13,960,000 outstanding driver's licenses, including the processing of 4,533,500 original and renewal licenses. The department's request for this program for 1975-76 totals \$44,124,930, an increase of \$1,270,718 (2.96 percent) over the current year. This allows for a net increase of 41 man-years. (Item 205)

Table 5 presents program element inputs and Table 6 presents program element outputs.

Table 5
Driver Licensing, Program Element Inputs

Program elements	Man-Years		Program Costs	
	1974-75	1975-76	1974-75	1975-76
Driver's License Issuance	1,535.6	1,553.2	\$23,838,764	\$24,450,180
Post Licensing Control	999.6	1,015.7	14,059,765	14,576,359
Certificate Issuance	10.4	12.9	163,122	205,059
Information Services	153.1	157.9	2,064,809	2,211,544
Administration Distribution	170	169.9	2,727,752	2,681,738

Table 6
Driver Licensing, Volume of Activity

	1974-75	1975-76
Driver's Licenses Issued	4,524,000	4,533,500
Driver's License Fees	\$14,670,000	\$14,761,400
Post Licensing Control		
Warning letters mailed	148,000	153,000
Persons called to group meetings	53,300	55,800
Hearings and reexaminations	89,300	93,300
Licenses suspended or revoked	195,370	202,720
Licenses reinstated	124,000	130,000
Special certificates issued	15,140	15,160
Information requests	10,112,000	10,857,000
Information Fees	\$4,008,500	\$4,141,400

Selective Testing of Drivers

We recommend that approval of the department's proposed budget for selective testing of drivers be withheld until it provides additional supporting information of its planned expenditures and potential savings.

Chapter 891, Statutes of 1973, (SB 1301) authorizes the department to make major modifications in the procedure for administering written examinations to drivers for the purpose of license renewal. These modifications provide for the use of testing procedures which are appropriate to

the licensee's record of convictions and accidents or physical ability to operate a vehicle safely, rather than requiring the same test for all drivers. Drivers having good driving records will be allowed to skip the written examination entirely or take a self-test at home. On the other hand, drivers with poor records will be subject to more stringent examinations than are presently administered. The object of selective testing is to influence the attitude and performance of drivers with different methods of treatment.

In implementing these changes which represent the first "major overhaul" of licensing procedures since driver testing began in 1927, the department will start with a pilot project. Initially, 100,000 of California's 13 million licensed drivers will be brought under selective testing procedures starting in January 1975. Controlled expansion of the program to include a substantial number of drivers is planned during the budget year.

In sponsoring the original legislation and aggressively implementing the selective testing program, the department has taken a positive step towards the elimination of arbitrary testing procedures, and the development of a more effective driver licensing and control program.

To continue implementation of the selective testing program in the budget year the department is requesting \$401,870 (25.4 man years). It is understandable that program development costs will be incurred during the initial implementation period. However, this program was established on the basis of obtaining savings in driver licensing rather than substantially increased costs. The department's original estimates showed that net savings would quickly develop from a reduction in testing of good drivers. No such savings to offset start-up expenditures are shown in the department's current analysis. For this reason, we recommend that approval of the department's budget for this program be withheld until additional supporting information is made available.

Administrative Adjudication of Traffic Cases

We recommend that the Legislature adopt a concurrent resolution requiring the department, working in coordination with the Judicial Council, to submit a feasibility study for implementation of administrative adjudication of traffic cases to the Legislature and the Governor by March 1, 1976.

Flood of Traffic Cases. Because of an overwhelming flood of minor traffic cases in its courts, California's judicial system is faced with the difficult problem of speeding up the disposition of such cases. Of a total of 5,807,570 nonparking criminal filings in the municipal and justice courts during 1972-73, some 4,463,456 filings or 77 percent were traffic cases subject to criminal procedures.

This means that in many courts the same judges responsible for the hearing of serious criminal matters involving possible imprisonment of the defendant are also assigned the essentially administrative task of handling large volumes of less serious traffic violations. This imposes a difficult burden on the judges and hampers the prompt consideration of criminal cases which often require time-consuming deliberation by juries. Equally important, this procedure has an adverse effect on judicial efforts to expedite the disposition of traffic cases as needed to encourage responsible driving.

DEPARTMENT OF MOTOR VEHICLES—Continued

In bringing attention to this matter our purpose is not to minimize the seriousness of traffic violations in relation to other crimes but to stress the need for study of available alternatives to speed the timely disposition of traffic cases. We can ill afford to give inadequate attention to the enforcement of traffic laws because of the resulting debilitating effects on traffic safety. Maximization of the safe use of motor vehicles on our roads and highways is one of the most serious problems facing us today. More Californians are killed each year in motor vehicle collisions than die from all other forms of homicide. In addition, the number of personal injuries and amount of property damage resulting from motor vehicle accidents exceed the injuries and loss of property from all other causes.

In addition, lack of proper attention to the adjudication of traffic cases leads to extensive delays before negligent drivers are subjected to appropriate rehabilitative or disciplinary measures. As a consequence, the overall effectiveness of California's system of traffic enforcement and driver control is reduced substantially by the bottle-necks which exist in the municipal and justice courts.

Recognizing the need for reform in the handling of traffic cases, the Legislature has statutorily reclassified many minor traffic violations from misdemeanors to infractions. Infractions which rank third below felonies and misdemeanors are not punishable by incarceration. On the other hand, there is no right to a jury trial, nor is there a right to court appointed counsel.

In addition, the Legislature and the courts have undertaken special studies to identify current problems affecting the adjudication of traffic cases and to evaluate possible alternative actions which may be taken to streamline court procedures and reduce delays and backlogs. Two of the major studies in this area are:

1. California Department of Motor Vehicles, *An Optimum System for Traffic Enforcement/Driver Control*, (SR 160/1968) Sylvania, Inc., October 1971.
2. Superior Court, Los Angeles County, *Report of the Special Judicial Reform Committee*, February 1971.

New York's Solution. Faced with similar problems in expediting traffic cases through its courts, New York in 1970 adopted an Administrative Adjudication (AA) program. This program permits the criminal courts of New York City, Rochester, and Buffalo, to retain their jurisdiction over serious traffic offenses (vehicular homicide, drunk driving, reckless driving, etc.) while providing for the transfer of traffic infractions (speeding, improper lane change, running red lights, etc.) to Department of Motor Vehicles hearing officers for administrative adjudication.

This program has removed a large volume of traffic cases from the courts in these three municipalities and is reported to be successfully meeting its two major objectives (1) better control of unsafe drivers through expeditious hearings which protect their legal rights and (2) encouragement of traffic safety through the prompt application of administrative remedies to convicted motorists. The advantages of the AA

program are as follows:

Prompt Hearings of Traffic Cases. Every summons issued for a moving traffic infraction specifies the motorist's date of appearance for contested hearings when a nonguilty plea is entered eliminating the need for any preliminary arraignment appearance. That date is approximately three to six weeks after the issuance of the summons.

Professional, Individual Treatment. Experienced attorneys serve as full-time hearing officers in cases involving pleas.

Right to Representation. The motorist retains the right to be represented by legal counsel at any hearing.

Prompt and Inexpensive Appeals. Any motorist dissatisfied with the hearing officer's decision may make a prompt and inexpensive appeal to a special hearing appeals board within the Department of Motor Vehicles, while retaining the right to further judicial appeal in the courts.

Availability of Motorist's Current Driving Record. Through the utilization of computer terminals, the motorist's complete driving record is made available for review and determination of appropriate penalty or remedial action to be taken.

Immediate Updating of Departmental Records. When the hearing officer enters a conviction, penalty, or remedial action on the computer terminal, the motorist's record, stored in the Department of Motor Vehicles computer is automatically updated.

Police Officer Time Saved. At the time of summons issuance, the hearing date is established by the police officer at a time when he is available and on duty. This insures the motorist that his hearing will be reviewed in the presence of the issuing officer.

A Savings for Taxpayers. The program is designed to be self-sustaining through the fines collected from convicted violators, and thus relieves taxpayers of the administrative expense of traffic cases.

Following four years of program operation, the New York Department of Motor Vehicles reports that its Administrative Adjudication Bureau is handling in excess of one million traffic cases annually with a staff of 32 hearing officers and supervisors in the three cities. Based upon an annual expenditure of \$5 million, the cost per case is approximately \$5. As a result of transferring this workload from the courts to DMV, the courts have been able to eliminate most of their backlog and are now current in their processing of serious criminal cases. As an added advantage, substantial cost savings have been achieved through the discontinuance of 18 courts in New York City and the reassignment of 20 judges to other matters. Revenues collected by the AA program are estimated to be \$10 million with approximately \$5 million being earmarked for appropriation to the cities.

Although New York is proud of its AA program and has no reservations in recommending it to other states, we recognize that this particular system may not necessarily be directly adaptable to California. However, because of the continuing crisis in our courts and the apparent success achieved by New York in resolving similar problems, we recommend that the Legislature adopt a concurrent resolution which requires DMV to perform a feasibility study of implementing administrative adjudication.

DEPARTMENT OF MOTOR VEHICLES—Continued

This work should be done in cooperation with the California Judicial Council. A report of this study should be made available to the Legislature and the governor by March 1, 1976.

This resolution should also request the Governor to form an Administrative Adjudication Advisory Committee comprised of distinguished experts from the fields of law and government, and the private sector to work with DMV and the Judicial Council in establishing guidelines for the study. Upon completion of the study, the committee should critique the department's report and prepare recommendations for the Governor and the Legislature.

If this recommendation is adopted we will monitor the progress of the study group and provide a parallel analysis to the fiscal committees of the report when it is completed.

Postlicensing Control Reporting and Evaluation System

We recommend that the Department of Motor Vehicles submit a status report on the implementation of its reporting and evaluation system for postlicensing control of drivers to the Joint Legislative Budget Committee by December 1, 1975.

The purpose of the postlicensing control program is to promote highway safety through identification of drivers whose qualifications for retention of their drivers license are questionable and determination of the extent of the potential hazard associated with allowing the driver to retain the driving privilege. The program also effects corrective actions to alleviate the condition which creates the hazard such as limiting the driving privilege, or eliminating the hazard by removing the "problem" driver from the road.

In recognition of the substantial efforts devoted by the department to the post-licensing control program (1,015 man-hours and \$14,576,359 in 1975-76) our office and the department have agreed that development of a system for reporting and evaluating the effectiveness of the program is essential in order to establish cost/benefit factors.

To this end, the department has conducted a series of related studies and has been engaged in the design of an automated reporting system during the last two years. This effort has been funded with \$94,530 obtained under a provision of the Highway Safety Act of 1966.

Acquisition of data for evaluation is to start in February 1975 and the first program effectiveness report is to be made available to the Joint Legislative Budget Committee prior to May 30, 1976. This report will be based upon data acquired by the system during the period of February 1975, to February 1976.

In order to monitor the department's progress in development of this essential reporting system, we recommend that the department be required to submit an implementation status report to the committee by December 1, 1975.

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Court Schools

We recommend that legislation be enacted which requires the courts to utilize in their post-licensing control programs commercial driving schools which are certified by the Department of Motor Vehicles and conform with driver instruction standards established and maintained by the department.

Post-licensing control of drivers is an essential part of California's traffic safety program. This vital program encompasses the department, law enforcement agencies, and the courts. If one of the entities is weak, the effectiveness of the overall program is reduced.

Both the department and the courts are involved in post-licensing control activities which are directed at improving the performance of drivers having adverse accident and traffic violation records. The department conducts Group Education Meetings (GEM's) and individual hearings for such drivers and the courts assign drivers to commercially operated driving schools for instructional purposes.

During the budget year, DMV will process approximately 150,000 negligent drivers through its post-licensing control meetings and hearings. These meetings and hearings incorporate instructional techniques which are specifically designed to correct the drivers' adverse characteristics or practices. Studies have indicated that the techniques employed in the meetings are cost-effective. Further verification of instructional effectiveness is planned through the use of a semi-automated reporting and evaluation system.

However, the courts, in addressing the same category of drivers, may utilize commercially operated driving schools which are not required to conform to any generally established standards as to course content or instructional techniques employed.

In order to improve the effectiveness of the post-licensing control programs conducted in parallel by the department and the courts, we recommend that legislation be enacted requiring the courts to employ commercially operated driving schools which are certified by DMV.

III. OCCUPATIONAL LICENSING AND REGULATION

The purpose of this program is to provide public protection by licensing and regulating occupations and businesses related to manufacture, transporting, sale, and disposal of vehicles and to the instruction of drivers in safe operation on the highways.

The department's request for this program for 1975-76 totals \$6,715,974, an increase of \$622,979 (10.22 percent) over the current year. This allows a net increase of 31.5 man years.

Table 7 presents program element inputs and Table 8 presents program outputs.

Table 7

Program Elements	Man-years		Program Costs	
	1974-75	1975-76	1974-75	1975-76
Occupational licensing	111.2	122.7	\$1,760,065	\$2,006,736
Occupational regulation	206	220.7	3,809,353	4,101,133
Administration distribution.....	31.3	36.6	523,577	608,105

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Licensing*

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 8

	1974-75	1975-76
Occupational licenses issued.....	30,260	31,323
Special license plate fees.....	\$1,420,305	\$1,491,300
Investigation fees.....	\$166,500	\$151,900
Salesmen licenses issued.....	78,300	81,100
Salesmen license fees.....	\$626,100	\$648,300
Driving school licenses issued.....	35	45
Driving instructor licenses issued.....	420	440
Driving school and instruction fees.....	\$31,300	\$36,700
Complaints against licensees.....	13,300	15,200
Dealer and dismantler reviews.....	1,660	2,000
Actions against licensees.....	2,360	2,690
Administrative fees.....	\$1,455,200	\$2,110,500
Reviews of driving schools.....	800	900

IV. COMPULSORY FINANCIAL RESPONSIBILITY LAW

The purpose of this program is to provide a source of compensation to those damaged and/or injured in accidents through enforcement of the Compulsory Financial Responsibility Law.

The budget request for this program is \$3,173,014, representing an increase of \$582,264 (22.47 percent) over the current year. This allows for a net increase of 51.7 man years.

Table 9 presents program element inputs and Table 10 presents program element outputs.

Table 9
Compulsory Financial Responsibility Law,
Program Element Inputs

Program elements	Man-years		Program Costs	
	1974-75	1975-76	1974-75	1975-76
Driving privilege control.....	171.7	213.5	\$2,132,063	\$2,578,378
Information services.....	24.8	33.9	290,216	382,091
Administration distribution.....	10.9	11.7	168,471	212,545

Table 10
Compulsory Financial Responsibility Law,
Volume of Activity

	1974-75	1975-76
Accident reports processed.....	548,000	643,500
Orders of suspension issued.....	163,600	282,500
Reinstatement of driving privilege.....	89,900	120,000
Reinstatement fees.....	\$449,500	\$724,800
Information requests.....	43,500	45,600
Information request fees.....	\$43,500	\$45,600

Compulsory Insurance Law

We recommend that approval of the department's proposed budget for administration of the Compulsory Insurance Law be withheld until the department provides additional supporting information on its planned

expenditures and revenues.

Chapter 1409, Statutes of 1974, (SB 1471) provides that, effective January 1, 1975, every driver and owner of a motor vehicle will be required at all times to maintain in force automobile liability insurance, self-insurance, or bond as specified. Drivers of vehicles under the control of governmental entities are exempt from such insurance requirements.

If insurance is the chosen form of financial responsibility, minimum coverage of \$15,000 for each person injured or killed, \$30,000 for two or more persons injured or killed, and \$5,000 for property damage is required. Any person convicted of driving without having such specified insurance in full force shall be guilty of an infraction and subject to a fine of up to \$100 for each offense.

Whenever a driver is involved in an accident resulting in injury, death, or property damage in excess of \$250, he must establish proof of insurance with the Department of Motor Vehicles within 60 days of the accident. If such a driver fails to establish proof of insurance, the Department of Motor Vehicles is required to suspend the driver's driving privilege for three years or until proof of insurance is established. The law also provides for hearings relative to such suspensions. Proof of insurance is not required when registering a vehicle.

As discussed on pages 472-73 of our 1974-75 Analysis, enactment of a compulsory insurance law was necessary to provide just compensation to innocent victims of automobile accidents in California which were the responsibility of a growing number of uninsured drivers.

To administer the compulsory insurance law during the budget year the department requests a budget of \$720,900 (78.4 man years) for an increase of \$328,153 (43.2 man years) over the revised 1974-75 budget. Because no appropriation was provided by Chapter 1409, the department intends to sponsor a special appropriation bill for \$392,747 (35.2 man years) to cover its estimated costs during 1974-75.

Our comparative analysis of the department's budget request for 1975-76 and augmentation request for 1974-75 and the department's estimates which were made prior to enactment of Chapter 1409 indicates that the department is now requesting an additional \$102,400 in the budget year and \$86,747 in the current year. We recommend that approval of this request be withheld until the department provides additional information on its projected costs and revenues under this program.

V. DEPARTMENT OF MOTOR VEHICLES, ASSOCIATED SERVICES

The purpose of this program is to provide services not directly related to street licensed motor vehicles or drivers licensing to the public or other state agencies as required by statute.

The total budget requests for this program is \$5,133,842, representing an increase of \$307,677 (6.37 percent) over the current year. This provides a net increase of 8.3 man years. (Items 208, 209, and 210)

Table 11 presents program element inputs and Table 12 presents volume of activity.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 11
Associated Services, Program Element Inputs

Program Element	Man years		Program Costs	
	1974-75	1975-76	1974-75	1975-76
Identification card issuance	22.9	23.9	\$386,541	\$420,910
Undocumented vessel registration	70.2	72.6	899,027	961,785
Environmental license plate issuance	48.2	49.8	542,402	586,600
Use tax collection	147.2	150.7	1,610,703	1,672,654
OHV registration	79.9	80.1	1,074,603	1,175,617
Bicycle licensing	—	—	50,000	50,000
Administration distribution	6.9	6.8	262,889	266,266

Table 12
Associated Services, Volume of Activity

	1974-75	1975-76
Identification cards issued	139,000	180,000
Identification card fees	\$462,900	\$599,400
Vessel registrations	527,800	547,700
Vessel registration revenue	\$1,694,900	\$1,771,200
Use tax collections	\$58,213,000	\$60,006,000
OHV registrations	177,000	127,000
OHV service fees	\$987,000	\$785,000
OHV recreational fees	\$1,062,000	\$762,000
OHV in-lieu taxes	\$708,000	\$503,000
Bicycle license tags issued	n.a. ^a	n.a. ^a

^a Not available.

Off-Highway Vehicle Program

We recommend that legislation be enacted assigning responsibility for OHV program management to DMV and program support responsibility to CHP for coordination of enforcement, and DPR for development of OHV recreational use areas. This legislation should also provide for conversion of OHV identification to the department's year-round registration system and revision of the OHV registration fee and in-lieu tax structure as proposed by the Legislative Analyst in his report of January 30, 1975 on the OHV program.

Chapter 1816, Statutes of 1971, requires that off-highway vehicles (mini-bikes, trail bikes, dune buggies, and snowmobiles) used exclusively off the road and not otherwise registered shall be identified (registered) and bear special identification tags. Vehicles used on private property and in competitive racing events are exempt from such requirements.

When enacted, the Off-Highway Vehicle (OHV) Law had the strong support of conservationists and OHV organizations because it represented a compromise position between OHV users and nonusers for controlled use of an estimated 1.2 million such vehicles which exist in the state. The law was seen to be a positive first step towards resolution of intergroup conflicts, improved environmental protection and increased enforcement control over OHV's.

In addition, the OHV law established legislative intent that funds provided through the collection of OHV identification fees and in-lieu taxes be used by the state and local governmental agencies to plan, develop and maintain special recreational areas and trails for OHV's on a statewide

basis. Development of special parks for OHV use was seen as a means of reducing the damage being done to public lands and wild life.

Analysis of OHV Fees and In-Lieu Taxes. Pursuant with a requirement established by the original OHV law, our office has recently submitted a report to the Legislature entitled *Analysis of Identification Fees and In-Lieu Taxes for Off-Highway Vehicles Pursuant to Chapter 1816, Statutes of 1971*, dated January 30, 1975.

Poor Program Results. Our analysis of estimated versus actual OHV identification and transfer volumes and associated revenues reveals that in the first three years of operation, only 339,163 (11 percent) of an estimated 2,986,574 original and renewal identifications will have been processed. This will produce only \$6,442,356 in total revenues rather than an expected \$52,008,010. Insufficient funds are being generated by the program to finance the development of special OHV recreation areas and the enforcement of the OHV law as originally proposed. As a result, large numbers of OHV users have become critical of the program and are ignoring requirements for original identification of specified vehicles and renewals are running at only 50 percent of expected volume.

It is obvious that the OHV program is substantially short of meeting its original goals after almost three years of program operation. Overall program performance is extremely disappointing and the prospects for significant improvements are very low unless major revisions of the OHV law and associated changes in the OHV program are mandated by the Legislature.

Recommended Corrective Action. Because of concerns expressed by conservationists, OHV enthusiasts and governmental agencies that the original goals and objectives of the OHV law are still viable and the establishment of an effective OHV program is of continuing vital importance, We recommend that the Legislature enact legislation assigning program management responsibility to the Department of Motor Vehicles. This legislation should also assign program support responsibility to the California Highway Patrol for coordinating enforcement, and to the Department of Parks and Recreation for development of OHV use areas. Such an assignment of responsibilities would provide for improved program planning, control and enforcement.

We also recommend that OHV registration be placed on an annual rather than biennial basis and that OHV registration be integrated with the year-round registration system which is being implemented for street-licensed vehicles. Annual registration requirements would serve to provide clarification of the mandatory nature of the OHV law and stress legislative intent that the OHV laws will be enforced in the same manner as the laws pertaining to street-licensed vehicles. Conversion to the year-round registration system would offer the OHV program the increased efficiencies, economies of scale, and workload leveling advantages which are expected from the large volume DMV systems.

In addition, the recommended amending legislation should also provide needed revisions in the OHV fee and in-lieu tax structure which are discussed in the report referenced above.

DEPARTMENT OF MOTOR VEHICLES—Continued

VI. DEPARTMENTAL ADMINISTRATION

The purpose of the department's administration program is to provide executive direction in administering and enforcing provisions of the Vehicle Code, formulate departmental policy and provide management support services (to include EDP services) to all department programs.

The budget request for this program is \$7,488,673 (3.17 percent) over the current year. This allows for a net increase of 7.5 man years. (The costs of this program are distributed to the department's other operational programs).

Table 13 represents program element inputs.

Table 13
Department Administration, Program Element Inputs

Program Element	Man-years		Program Costs	
	1974-75	1975-76	1974-75	1975-76
Executive.....	25	24.7	\$527,423	\$530,090
Program administration.....	119.2	125.8	2,216,315	2,380,314
Legal.....	19.5	20.4	384,675	412,130
Fiscal and business management	86.9	93.3	1,052,908	1,160,279
Personnel and training.....	55.6	60.4	732,546	834,187
Operations and management analysis	54.8	67.0	853,674	1,059,968
Research and statistics	13.5	18.6	236,560	339,825
Public information	5.2	5.2	84,437	85,993
EDP administrative services	60.2	32.0	1,169,737	685,887

Conversion to Key-Entry System

We recommend that approval of the department's budget request for conversion to a key-entry data input system be withheld until the department provides a supporting analysis of its needs.

During the budget year the department proposes to start a conversion from its existing data input system using video terminals to a more advanced key-entry data input system. Such a conversion should provide for replacement of the existing manual data verification method with a semi-automated method.

We endorse the department's planned conversion to a more efficient data input and verification system. However, no information has been made available to us to support the \$185,000 requested for this effort. Therefore, we recommend that approval of the department's request be withheld until necessary information is provided.

Division of EDP Service

We recommend that the Legislature direct the department to prepare a plan for the replacement of its interim computing system and submit it to the Joint Legislative Budget Committee by November 1, 1975.

Data processing support for departmental programs is provided by the Division of EDP Service. The budget includes \$13,621,848 for this purpose in 1975-76. Current year expenditures are estimated at \$12,643,328. An increase in data processing equipment costs and the allocation of vehicle registration postage to the division's budget account for the major portion of the increase.

DMV Retains Computers. The administration's electronic data processing (EDP) consolidation plan was developed by the Department of Finance in 1972. This plan called for the conversion of DMV computer programs to the Stephen P. Teale Consolidated Data Center. The conversion was begun in 1973 by the IBM corporation under contract to the state. When it became apparent that the conversion would not be completed on time, thereby impacting the implementation of year-round vehicle registration, the Legislature removed funding from the Budget Act of 1974 for the conversion of DMV programs to the Teale Data Center. A discussion of the problems associated with the Teale Data Center and the DMV conversion are included in our Analysis of the Teale Data Center (Item 211).

The termination of the DMV conversion enabled the department to initiate an upgrade of its computer system to meet current and anticipated information processing requirements. This was a necessary action in lieu of receiving services from the Teale Data Center. The Budget Act of 1974 provided an augmentation to the DMV budget of \$2,016,228 for data processing support. Approximately \$1.5 million of this augmentation will be expended in the current year to complete an upgrade of the DMV computing facility. The remainder of the augmentation will not be expended.

Temporary Upgrade. Language in Item 225 of the Budget Act of 1974 enabled the department to upgrade its UNIVAC computers but stipulated that such authority was intended for a temporary upgrade of equipment. The department is currently in the process of installing improved UNIVAC equipment and expects to have the equipment upgrade completed prior to July 1, 1975, and the vehicle registration system operational in time for the 1976 renewal cycle.

The newer UNIVAC computers are being acquired under a 38-month lease. In view of the language in Item 225 regarding the temporary upgrade, and recognizing that up to three years is needed to plan and accomplish a change in computing capability, we believe that DMV should begin working now on such a plan. We recommend that this plan be submitted to the Joint Legislative Budget Committee by November 1, 1975.

System Development. Conversion of existing computer programs to the newer equipment is progressing on schedule and no serious problems have been encountered to date. One major application, the Automated Name Index File, has been converted and is undergoing system test. The Division of EDP Service is developing a number of new applications which include seven-character license plates, compulsory financial responsibility and selective driver testing.

Minor Capital Improvements

We recommend a reduction of \$92,000 in Item 205 for minor capital improvement projects.

The department is requesting \$204,900 for six minor capital improvement projects in its Sacramento headquarters complex and four of its field offices. We recommend approval of the proposed budgets for these projects with exception of the construction of a carport for the Oakland field office (\$45,000) and construction of additional parking spaces for the

DEPARTMENT OF MOTOR VEHICLES—Continued

Whittier field office (\$47,000). The carport is not essential to operations at the Oakland office. Acquisition of the additional property for the subject parking spaces at the Whittier office is not recommended in our analysis of the department's proposed capital outlay budget (Item 362).

Item 206, For Payment of Deficiencies in Appropriations

Existing statutes forbid the creation of a deficiency in appropriations from the Motor Vehicle Account, State Transportation Fund. This means that the Department of Motor Vehicles cannot borrow from the regular Emergency Fund to meet unforeseen and anticipated financial needs. In recognition of this, the Legislature for many years has provided a special contingency authorization for the department to protect the Department of Motor Vehicles.

Requested 1975-76	\$500,000
Estimated 1974-75.....	500,000
Actual 1973-74	500,000

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 211, transfers from other items and reimbursements from various funds

Budget p. 511

Requested 1975-76	\$10,432,308 ^a
Estimated 1974-75.....	14,249,134
Actual 1973-74	11,587,785
Requested decrease \$3,816,826 (27 percent)	
Total recommended reduction	\$192,271

^a Reimbursements and transfers from other items.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

- | | |
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| 1. Computer Purchase. Recommend fiscal committees withhold approval pending decision on computer purchase. | 359 |
| 2. Equipment Replacement. Recommend completion of disk drive replacement as soon as possible. Recommend Legislature mandate replacement if effort terminated without cause. | 360 |
| 3. <i>Personnel Reduction. Reduce \$132,271.</i> Recommend specified reduction in center staff. | 360 |
| 4. <i>Security Cost. Reduce \$60,000.</i> Recommend cost of security be shared with Department of Motor Vehicles. | 361 |
| 5. Physical Security. Recommend immediate correction of security deficiencies. | 361 |
| 6. Budget Practices. Recommend Department of Finance reflect realistic data center allocations in annual budget. | 362 |

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four consolidated data centers authorized by the 1972 Legislature. It has been in process of implementation since that time. The center will provide computer services to 32 departments during the 1975-76 fiscal year. Most of these departments are being served by the center in the current year.

This center, which is a part of the Business and Transportation Agency, was established to provide a modern computing capability to its users while at the same time minimizing the total cost of data processing to these departments. This objective will be accomplished by the replacement of separate electronic data processing (EDP) installations with a consolidated computing facility.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an expenditure program for the data center totaling \$10,432,308 in the budget year as compared with estimated expenditures of \$14,249,134 in the current year. The decrease in expenditures reflects the completed conversion of user computer programs to Teale Data Center equipment in the current year and the release of a considerable amount of EDP equipment which had been acquired for one potential customer (Department of Motor Vehicles). The appropriation amount in the budget is zero because all funds are derived from user departments as reimbursement for services provided by the Teale Data Center.

Including the funds appropriated for the current year, the state has invested approximately \$9 million and a substantial amount of personnel resources to implement the Teale Data Center. This amount includes preparation of the computer site and departmental program conversion.

Implementation Problems

The implementation of the Teale Data Center has been marred by a continuing controversy which began when the administration attempted unsuccessfully to acquire EDP equipment and services for the center on a sole-source basis in early 1972. Subsequent questionable actions by both the Business and Transportation Agency and the Department of Finance continued the controversy and appeared to support the view that the administration, and particularly the Department of Finance EDP unit, was intent on acquiring all EDP equipment and services for the Teale Data Center from one vendor.

The controversy, which we discussed in detail in the 1974-75 Analysis, two supplemental analyses (April 29 and May 21, 1974) and a number of letters and statements, finally was resolved when the Budget Bill of 1974 was amended by the Legislature to reflect a reduction in the center's 1974-75 budget from \$23,562,489 to \$11,810,564. The primary factor in this decision was the failure of the prime vendor for the implementation effort, the IBM Corporation, to convert the Department of Motor Vehicles (DMV) computer programs to the Teale Data Center in accordance with contractual provisions. This conversion was important to the state because it affected DMV's ability to implement staggered vehicle registration.

A successful conversion was critical because IBM had been selected by

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

the administration in this controversial procurement on the grounds that it was the only vendor capable of meeting this key conversion requirement. In reducing the Teale Data Center budget, the Legislature added language which precluded the inclusion of DMV as a customer of the Teale Data Center, and terminated future funding of the state's contract with IBM.

Subsequent legislation to reverse the reductions and language contained in the Budget Act was not successful, and the Teale Data Center reduced its equipment configuration. A new contract with IBM reflects the removal of equipment which was to have supported DMV. Negotiations with IBM are still in progress with regard to the settlement of claims arising from the termination of the initial contract.

Current Year Augmentation Required

At the time the center's 1974-75 budget was reduced, the actual amount of DMV-related equipment which could be removed had not been determined, although it was generally assumed that one of the center's two new IBM 370/168 computers could be released. Also, a number of departmental conversions were underway and the actual cost of these conversions was unknown.

The Teale Data Center subsequently determined that with one computing system it could not meet the growing requirements of its customers and the anticipated demands of new systems already in development. As a result, the center decided to retain both IBM 370/168 computers. However, the computers were scaled down by the removal of DMV-related equipment which had an annual rental value of \$1.4 million.

This determination of need for a dual IBM 370/168 facility to serve all departments except DMV supports a concern which our office had expressed on a number of occasions. This concern was that the center could not provide adequate service to its customers and DMV on the two 370/168 computers as planned originally because of the size and complexity of the combined workload. It appeared to us that additional IBM equipment would be required. This decision to retain a dual computer system has contributed to a deficit in the Teale Data Center budget. Other factors contributing to the deficit are the actual costs of conversion, personnel adjustments due to the removal of DMV, and the fact that a number of current users have not been billed for actual cost because they are on a flat-rate system.

The amount of the deficiency is estimated to be approximately \$2.6 million. Assembly Bill 355 has been introduced to provide the funds necessary to augment the center's current year budget and this augmentation is reflected in the Governor's Budget. We have reviewed the center's "Rationale for Selection of EDP Equipment to be Retained by the Teale Data Center and Budget Augmentation" dated November 29, 1974 and agree that an augmentation is required in the current year. However, we believe the actual amount required could be less than the projected \$2.6 million. This issue will be discussed in our analysis of AB 355.

Proposed Computer Purchase

We recommend that the fiscal committees hearing the budget withhold approval of the Teale Data Center budget pending an expression of the Legislature regarding the center's proposal to purchase the two computer mainframes now on lease.

The center's November 29 report offered in support of the \$2.6 million augmentation proposes the purchase of the two IBM 370/168 mainframes which are currently on lease. The center estimates that purchasing these mainframes on an installment plan will save the state approximately \$1.6 million over a period of five fiscal years, as compared to leasing the equipment. The center estimates that the market value of this equipment at the end of purchase would approximate \$2 million. Peripheral equipment such as disk and tape drives are not included in the purchase plan because, unlike the mainframes, these can be replaced by less costly equipment manufactured by other vendors.

The state has already made a substantial investment in the Teale Data Center. The equipment installed now at the center can be considered modern in terms of computer technology and it should have a useful life of at least five years. The state has realized satisfactory service in excess of seven years from a number of UNIVAC computers which have been obtained on a lease/purchase basis, and the State Controller has operated a purchased IBM 7074 computer since 1960. Based on the foregoing, we believe that a purchase of this type of equipment can be cost-effective if made early in the equipment life cycle. This is the case with regard to the IBM 370/168 computer.

Computer Capacity Requirements

However, there is a question concerning whether other alternatives are more cost-effective than purchasing the two 370/168 machines. The center's November 29 report addresses a number of alternatives and concludes that the proposed purchase is the most cost-effective. We have discussed this question with center staff and are tending toward support of this conclusion. But we are concerned that the center has not developed a reasonably accurate forecast of center workload over the proposed five-year period. Further, although the center now shows a high peak period utilization of available computing resources, this could be alleviated by a shift in some of the workload to nonpeak periods.

These factors indicate that the center's evaluation process may not have given sufficient consideration to a less costly configuration of less capacity, such as a combination of an IBM 370/168 and 370/158 computer. The center maintains that this is not a practical alternative but we believe that it is essential that data be developed to demonstrate clearly that the proposed purchase is in fact the most cost-effective alternative available.

The legislative decision to approve an augmentation for the center in the current year by passing AB 355 will undoubtedly be based in part on the reactions of the fiscal committees toward the intended purchase of the 370/168 mainframes in the current year. We suggest that the center provide the required data as soon as possible. This will enable us to complete our analysis of the proposed purchase and report to the fiscal committees

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

in this regard in conjunction with our analysis of AB 355. This item is also of importance because the center's 1975-76 budget is based on the assumption that the purchase will be made in the current year and AB 355 will offer the earliest test of that assumption. We therefore recommend approval of the center's budget be withheld pending resolution of the funding and purchase issues.

Disk Drive Replacement

We recommend that the Teale Data Center complete, as soon as possible, its efforts to acquire less costly disk drives.

We recommend that the Legislature mandate replacement should this effort be terminated on grounds other than failure to negotiate a contract.

The Budget Act of 1974, in Items 230 and 231, provides the Teale Data Center authority to acquire EDP equipment without competitive bid. Acting under this authority, the center has negotiated a new contract with IBM to retain the IBM 370/168 computers. The data center has also sought to reduce its equipment cost by acquiring less costly peripheral equipment through negotiation with interested vendors. After a lengthy process the center selected a vendor to replace the current IBM disk drives and a tentative order was placed on December 18, 1974 with the Control Data Corporation. The state will realize annual savings of approximately \$200,000 if this replacement is implemented.

Recently, however, the Department of Finance EDP Unit questioned the appropriateness and legality of this acquisition although it had been aware of the center's efforts to replace the disk drives since the beginning of the consideration. This action by the Department of Finance came during contract negotiations for the new disk drives. On January 10, 1975 we provided the Teale Data Center with Legislative Counsel Opinion #1642 which affirmed the authority of the center to replace the equipment as planned.

This action by the Department of Finance is another example of the tendency to concentrate on one vendor and symptomatic of that unit's general difficulty in assuming an appropriate role. We discuss this issue in our analysis of the Department of Finance under Item 61.

If the Teale Data Center is not allowed to complete its effort to negotiate a contract for the disk drive replacement, we recommend that the Legislature require the center to complete a cost-effective replacement of disk drives as soon as possible.

Reduce Staffing

We recommend that seven positions be deleted and the budget reduced \$132,271 to eliminate excessive Teale Data Center overhead.

When the center began operation, it was without support staff and was forced to borrow personnel from the user departments. Since that time the center has established its own administrative structure. We believe that the center has overcompensated for the initial absence of adequate staff by carrying more positions than are necessary to meet operating requirements. Although the center's customers pay for all center costs, nonessential positions should be eliminated to reduce overall state costs of EDP.

The positions which we recommend deleting are displayed in Table 1. The organizational unit name and job titles are derived from the center's December 30, 1974 proposed organization chart. The savings indicated reflect an average cost including staff benefits. Deletion of these positions may necessitate some shifting of workload and organizational reporting. However, we believe that this can be done and that it will eliminate nonessential functions and not impair the center's ability to meet user requirements.

Table 1
Recommended Position Deletions

<i>Position</i>	<i>Unit</i>	<i>Function</i>	<i>Savings</i>
Associate data processing systems analyst	Systems support.	Security support	\$21,628
Management analyst	Planning and project control	Management analysis and special projects	20,598
Clerk-typist II	Planning and project control	Clerical	9,261
Data processing manager II	Planning and project control	Manager	26,293
Staff services manager I	Program development	Manager	22,609
Associate data processing systems analyst	Publications	Supervisor	21,628
Senior clerk	Publications	Clerical	10,254
Total Savings			<u>\$132,271</u>

Share Security Cost

We recommend that the amount budgeted for operating expenses and equipment be reduced \$60,000 to reflect an appropriate cost for security guards.

The proposed budget includes \$120,000 in operating expenses and equipment for security guards at the Teale Data Center, which is located in the newer Department of Motor Vehicles building. These guards man a sophisticated security system intended to prevent unauthorized entry to the computer area. The system includes a guard-controlled "man trap" and numerous television monitors.

This system was installed at a time when the Department of Motor Vehicles computer programs were scheduled for conversion to the Teale Data Center, and its services are beneficial to both the center and DMV because their computer operations are adjacent. We understand that the center has requested that DMV share this cost on an equal basis. We concur. This will result in a \$60,000 reduction in the center's budget requirement in this area.

Physical Security

We recommend that the Teale Data Center take immediate steps to correct deficiencies in its security system.

Although a sophisticated security system has been installed at the center, we have observed that substantial breaches in the system are possible.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

These include potential points of unauthorized entry and inadequate identification badge procedures. Damage by vandalism to the sophisticated equipment at the Teale Center would severely hamper the ability of many state department to carry out their program functions. Therefore, we support the need for tight security at the center and suggest that deficiencies in the security system be corrected at once.

Service to Users

A sampling of the Teale Data Center customers indicates that a number of users are not satisfied with the level of service provided by the center. Complaints of excessive computer downtime, an inability to gain access to the system by remote terminal and poor response time once access has been obtained are not uncommon. The center and its users meet on a regular basis to discuss problems, and there is a general agreement that center personnel desire to resolve these problems. Some users, however, believe that the center must be more diligent in identifying deficiencies and taking the initiative to correct them.

Many of the problems which have been experienced have been attributed by the center to the unstable environment in which the center has been implemented, and this is true to a degree. There is little doubt that numerous equipment and software changes, combined with the process of developing a proficient staff and proper operational methods, have contributed to the difficulty in attaining a stable system. However, barring any further major changes in direction, the center is now in a position to settle down and focus on improving service to users.

Planned changes to the system such as the implementation of a new operating system and the installation of dual-density disk drives (regardless of the vendor selected) can disrupt service to users if not done properly. We are informed that the center intends to proceed cautiously with regard to future changes such as these.

Budgeting Practices

We recommend that in preparing the annual budget the Department of Finance reflect realistic consolidated data center allocations.

Approximately one-half of the departments which receive services from the Teale Data Center have a subitem in their Budget Bill item which reflects an allocation to the center. The amount in these subitems is supposed to reflect the amount which will be expended for services received from the center.

In a number of cases, however, the amount bears no resemblance to what a department actually intends to expend at the center. Some of the differences are substantial. The result is a distorted budget with regard to funds allocated in support of the data center, a practice which should be corrected.