

GOVERNOR'S OFFICE

Items 26-30 from the General
Fund

Budget p. LJE 18

Requested 1980-81	\$4,061,494
Estimated 1979-80.....	3,796,944
Actual 1978-79	3,101,406
Requested increase (excluding amount for salary increases) \$264,550 (+7.0 percent)	
Total recommended reduction	None

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
26	Governor's Office—Support	General	\$3,597,254
27	Residence—Support	General	17,400
28	Contingency Expenses	General	15,000
29	Workers' Compensation Appeals Award	General	6,840
30	Governor's Budget (printing)	General	425,000
Total			\$4,061,494

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Use of Highway Patrol. Recommend office comment on use of California Highway Patrol as personal drivers. 18

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$4,061,494 for support of the Governor's Office in 1980-81. This is an increase of \$264,550, or 7 percent, over the estimated expenditure in the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Four additional positions are requested for the budget year, bringing the 1980-81 staffing level to 86.6.

The total operating expenses of the office are budgeted at \$1,074,585 in 1980-81. This is an increase of \$62,835, or 6.2 percent, over current-year estimated expenditures. Within operating expenses, travel is budgeted at \$85,000, an increase of \$20,000 (30.8 percent).

The budget includes a separate appropriation (Item 29) to pay a Workers' Compensation Appeals Board award made in 1976. Payments will continue through July 1981. Prior to the current year, these payments were made from the Governor's Office support item.

The Governor's Budget printing costs are budgeted at \$425,000 in 1980-81, an increase of \$45,000 (11.8 percent). The budget shows that current-year printing costs, initially budgeted at \$250,000, are to be augmented by \$130,000 from the Contingency or Emergency Fund. Expenditures for residence support (\$17,400) and contingency expenses (\$15,000) are unchanged from current-year levels.

The budget reflects a current-year transfer of \$135,000 from the Office of Emergency Services (OES). In a letter dated December 4, 1979, the

GOVERNOR'S OFFICE—Continued

Director of Finance notified the Joint Legislative Budget Committee of her intent to approve this transfer for activities related to the impact of a major natural disaster on existing and proposed nuclear power plant sites. The notification was required by control language in the OES budget (Item 42, Budget Act of 1979).

According to the Governor's Legal Affairs advisor, \$75,000 of the \$135,000 was to be used to contract for legal representation before the federal Atomic Safety and Licensing Board. The board is currently addressing the issue of off-site emergency planning. We were advised that the Attorney General is unwilling to represent the Governor's Office on the issue. At the time of the notification, no plans for expending the remaining \$60,000 had been made.

The Chairman of the Joint Legislative Budget Committee recommended that the director postpone the transfer of the funds until the fiscal committees had an opportunity to review this matter.

Use of Highway Patrol officers

We recommend that the Governor's Office be prepared to comment on its use of Highway Patrol officers as personal drivers.

The California State Police Division in the Department of General Services provides continuous protective services to the Governor. At the same time, the California Highway Patrol (CHP) assigns a traffic officer and a traffic sergeant to the Governor's Office to serve as drivers for the Governor. (A similar service is provided to the Lieutenant Governor's Office.) The CHP is reimbursed for all expenses except the salary and benefits of the traffic officer.

We have two concerns with this arrangement. First, the CHP has no statutory authority to provide drivers to the Governor. In contrast, the Government Code authorizes the State Police to "provide for the physical security of constitutional officers of the state." Therefore, it appears that under existing law, the State Police should be providing the drivers, not the CHP.

Second, use of personnel for this purpose reduces the number of officers available to enforce the Vehicle Code. This is of particular concern because the department recently has reduced road patrol services as a result of personnel reductions. The primary responsibility of the CHP should be to enforce the Vehicle Code, and all available personnel should be used to fulfill that responsibility.

We recommend that the Governor's Office be prepared to comment during budget hearings on its use of CHP officers so the Legislature can determine whether CHP officers are being used appropriately.

Governor's Office

SECRETARY OF STATE AND CONSUMER SERVICES

Item 31 from the General Fund

Budget p. LJE 19

Requested 1980-81	\$742,685
Estimated 1979-80.....	424,553
Actual 1978-79	365,528
Requested increase (excluding amount for salary increases) \$318,132 (+74.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of State and Consumer Services provides administrative and policy direction to the following state entities:

- Department of Consumer Affairs
- Department of Veterans Affairs
- Department of General Services
- Office of the State Fire Marshal
- Franchise Tax Board
- State Personnel Board
- Public Employees' Retirement System
- State Teachers' Retirement System
- Museum of Science and Industry
- Public Broadcasting Commission
- Building Standards Commission
- Department of Fair Employment and Housing

The Department of Fair Employment and Housing was created pursuant to the Governor's Reorganization Plan No. 1 of 1979, which became effective in mid-January 1980. The secretary is also responsible for administering the state's federally funded program for improving personnel management in state and local government through education and training under the federal Intergovernmental Personnel Act.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes \$742,685 from the General Fund for support of the State and Consumer Services Agency in 1980-81. This is \$318,132, or 74.9 percent, more than estimated General Fund expenditures for the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 indicates total agency expenditures including reimbursements for the past, current, and budget years. The reimbursements of \$140,176 shown for 1979-80 are from a federal Title II grant. This grant is funding six positions, which were added administratively, effective January 1980 to comply with Chapter 1152, Statutes of 1979 (SB 331). These positions are discussed below.

Table 2 summarizes the proposed 1980-81 General Fund budget changes. It shows that \$239,402, or 75.3 percent, of the \$318,132 General Fund increase is for support of the six positions added during the current

SECRETARY OF STATE AND CONSUMER SERVICES—Continued

year. It also shows that two new positions are proposed: (1) an administrative assistant to provide staff support for senior-level agency staff and (2) an analyst intended for coordinating energy-related projects.

Table 1
Secretary of State and Consumer Services
Budget Summary

	<i>Actual</i> 1978-79	<i>Estimated</i> 1979-80	<i>Proposed</i> 1980-81	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Personnel services	\$265,302	\$416,586	\$580,194	\$163,608	+39.3%
Operating expenses and equipment.....	137,476	148,143	162,491	14,348	+9.7
Total expenses	\$402,778	\$564,729	\$742,685	\$177,956	+31.5%
Less reimbursements.....	-37,250	-140,176	—	140,176	-100.0
Net General Fund expenses	\$365,528	\$424,553	\$742,685	\$318,132	+74.9%
Personnel-years	10.3	16.2	18.7	2.5	+15.4

Table 2
Secretary of State and Consumer Services
Proposed 1980-81 General Fund Budget Changes

1. Continuation of six positions (four professional and two clerical) added administratively to comply with Chapter 1152, Statutes of 1979.....	\$239,402
2. One new administrative assistant proposed for supporting senior-level agency staff	24,846
3. One new associate government program analyst proposed for energy-related projects	29,223
4. Elimination of salary savings from one-time reduction of 0.5 position in 1979-80 per Section 27.2 of the 1979 Budget Act	9,759
5. Miscellaneous minor adjustments.....	14,902
Total	\$318,132

Building Standards Commission

Chapter 1152 revised and strengthened the powers of the State Building Standards Commission. The commission is to be the central state agency responsible for approving and publishing all building standards (except those relating to mobilehomes) proposed by state agencies. Its purpose is to (1) codify all building standards into a central State Building Standards Code, (2) eliminate conflicts and duplication in the standards, (3) ensure consistency in the code and (4) hear appeals regarding the building standards. The Governor is to appoint 10 members to the commission in accordance with specified criteria and subject to confirmation by the Senate. The Secretary of the State and Consumer Services Agency or his designee is to serve as ex officio chairman of the commission. Chapter 1152 also authorized the secretary to hire an additional exempt assistant. The commission is to appoint an executive secretary who is to appoint staff to carry out the intent of Chapter 1152. The executive secretary is also to be assisted by a coordinating council consisting of representatives of various specified state agencies.

The budget proposes the continuation of six positions (four professional and two clerical) added administratively, effective January 1, 1980, to comply with the provisions of Chapter 1152. We believe the six positions

are justified. Our analysis indicates that further staff augmentations will probably not be necessary for carrying out the provisions of this act.

Governor's Office
SECRETARY OF BUSINESS AND TRANSPORTATION

Items 32 and 34 from the General Fund and Item 33 from the State Transportation Fund Budget p. LJE 20

Requested 1980-81	\$1,562,774
Estimated 1979-80.....	1,775,315
Actual 1978-79	1,231,457
Requested decrease (excluding amount for salary increases) \$212,541 (- 11.9 percent)	
Total recommended reduction	\$610,000

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
32	Support	General	\$188,173
33	Support	Motor Vehicle Account,	426,947
—	Chapter 1120, Statutes of 1979	State Transportation	
	Support	Transportation Planning and Development Account, State Transportation	85,000
34	Support	State Energy Resources Conservation and Development Special Account General	250,000
—	Support	Federal	100,000
33	Support	Reimbursements	512,654
	Total		\$1,562,774

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|---|----------------------|
| | <i>Analysis page</i> |
| 1. Alternative Fuels Research. Recommend Budget Bill language requiring that annual fuels research progress report be submitted by December 1 of each year. Also recommend future budget presentations include expenditures for alternative fuels. | 24 |
| 2. Discretionary Transportation Funds. Recommend agency budget presentation include expenditures for discretionary transportation program. Also recommend Budget Bill language prohibiting expenditure of excess discretionary funds for Department of Transportation support activities. | 25 |
| 3. State Transportation Assistance (STA) Funds. Recommend STA funds allocated to local agencies be displayed in special section of Governor's Budget. | 26 |

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued

4. *SolarCal Council. Reduce by \$325,000.* Recommend deletion of funding and termination of council on June 30, 1980. 27
5. *Solar Business Office. Reduce by \$250,000.* Recommend deletion of funding and termination of office on June 30, 1980. 28
6. *Consultant and Professional Services. Reduce by \$35,000.* Recommend reduction in expenditures for private legal assistance. 29

GENERAL PROGRAM STATEMENT

The Secretary of Business and Transportation is one of four agency secretaries in the Governor's Cabinet and administers the Office of the Business and Transportation Agency. The departments and administrative entities under the agency's jurisdiction can be separated into three general groupings: (1) those related to business and regulatory functions; (2) those oriented towards transportation services; and (3) those oriented toward solar energy activities. The agency consists of the following:

Business and Regulatory

- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Banking
- Department of Corporations
- Department of Economic and Business Development
- Department of Housing and Community Development
- Department of Insurance
- Department of Real Estate
- Department of Savings and Loan
- California Housing Finance Agency
- Stephen P. Teale Consolidated Data Center

Transportation

- California Highway Patrol
- Department of Motor Vehicles
- Department of Transportation
- Office of Traffic Safety

Solar

- SolarCal Council
- Solar Business Office

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$1,562,774 in 1980-81 for support of the office of the Secretary of Business and Transportation. This is \$212,541, or 11.9 percent, less than estimated current year expenditures. This reduction in proposed expenditures results primarily from decreases in reimbursable services performed by the SolarCal Council and Solar Business Office for other agencies. The final expenditure amount, however, will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes to support the agency's expenditures from the

following sources: (1) Budget Bill appropriations of \$865,120 from the General Fund, Motor Vehicle Account, and Energy Resources Conservation and Development Special Account; (2) \$85,000 from the Transportation Planning and Development Account appropriated by Chapter 1120, Statutes of 1979; (3) reimbursements of \$512,654; and (4) federal funds of \$100,000. These sources are displayed in Table 1 along with the changes from the current year.

The agency's proposed changes in program activities and associated funding levels are displayed in Table 2.

Table 1
Secretary of Business and Transportation
Summary of Proposed Funding Source Changes
1980-81 over 1979-80

<i>Funding Source</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
1. General Fund	\$87,081	\$188,173	\$101,092	116.1%
2. Motor Vehicle Account, State Transportation Fund	520,419	426,947	-93,472	-17.9
3. Transportation Planning and Development Account, State Transportation Fund.....	95,000	85,000	-10,000	-10.5
4. State Energy Resources Conservation and Development Special Account, General Fund	150,000	250,000	100,000	66.7
5. Federal funds.....	207,000	100,000	-107,000	-51.7
6. Reimbursements	715,815	512,654	-203,161	-28.4
Totals.....	\$1,775,315	\$1,562,774	-212,541	-11.9%

Table 2
Secretary of Business and Transportation
Changes in Activities and Funding Levels
1980-81 over 1979-80

<i>Activity</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Change</i>
1. Administrative costs.....	\$835,935	\$902,774	\$+66,839
2. Office of Fair Lending	116,323	—	-116,323
3. SolarCal Council	402,057	325,000	-77,057
4. Solar Business Office	326,000	250,000	-76,000
5. Social Service Transportation Improvement Program.....	95,000	85,000	-10,000
Totals	\$1,775,315	\$1,562,774	\$-212,541

The 1979 Budget Act authorized 23.5 positions to carry out agency operations. The secretary administratively established two additional positions in the current year and proposes to continue them in the 1980-81 fiscal year. Two other existing positions, however, are proposed to be deleted in 1980-81. Thus, the total number of authorized positions will remain unchanged.

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued

CHAPTER 161, STATUTES OF 1979, (SB 620) PROGRAM

Chapter 161, Statutes of 1979 (SB 620), enacted major changes in state support for rail and related transit programs, including the management of funds deposited in the Transportation Planning and Development (TP and D) Account. It appropriated \$10 million in discretionary funds to the Secretary of Business and Transportation to be allocated for special public transportation needs which would not be otherwise met. Another \$10 million was appropriated to the secretary for a program to investigate the practicality and cost-effectiveness of alternative motor vehicle fuels. The secretary was also given responsibility for allocating funds under a local transit assistance program. Approximately \$53 million in TP and D funds are expected to be allocated in 1980-81. Finally, the legislation allocated other transit funds and program responsibilities to the Department of Transportation and the California Transportation Commission.

Alternative Fuels Research

We recommend supplemental language requiring that the agency's annual fuels research progress report be submitted to the Legislature by December 1 of each year. We also recommend that such reports include a discussion of the agency's administration of the program in addition to information pertaining to fuels research projects.

We also recommend that the agency budget properly reflect agency expenditures for the alternative fuels research program administered by the agency. Such expenditures should be removed from the Department of Transportation's budget where they are currently shown.

The agency reports that \$7 million of the \$10 million appropriated for fuels research will be expended in the current year. It reports that the remaining \$3 million is to be expended in 1980-81. The agency's present plan is to direct these expenditures toward the commercial development of new fuels rather than toward long-term or more open-ended research activities. Approximately 12 state agencies have been requested to assist the secretary in the development of these plans. Specific agencies will be given management responsibility for the various projects.

Proposed Plan. The present agency plan for fuels program expenditures in 1979-80 and 1980-81 consists of the following:

- \$200,000 to the Department of General Services for an expansion of its gasohol testing program.
- \$2,000,000 to the California Energy Commission for comparative testing of ethanol and methanol fuels in state vehicles.
- \$3,000,000 to the Energy Commission for loans to private firms to build medium or large size ethanol production plants.
- \$2,000,000 to the Food and Agriculture Agency for loans to farmers in cooperatives to build small-scale distillation facilities.
- \$1,000,000 to \$1,500,000 to the Department of Transportation for use in promoting innovative mass transit technologies.

The remaining \$1,300,000 to \$1,800,000 will be held in reserve for later allocation.

Report to the Legislature. Chapter 161 requires the secretary to sub-

mit an annual fuels program progress report to the Legislature. The legislation, however, does not specify when this report should be submitted. We recommend that the annual report be submitted to the Legislature by December 1 of each year so that it may be available in advance of the budget process. We further recommend that each annual report discuss the agency's administration of the program as well as provide specific information pertaining to fuel research projects.

Display of expenditures. The agency's budget should accurately exhibit the total fuels program expenditure amounts for each fiscal year. The \$7 million and \$3 million to be expended in 1979-80 and 1980-81 should have been included in the agency's 1980-81 budget. Instead, they were displayed in the budget of the Department of Transportation. We therefore recommend that all future presentations of the agency budget display expenditures for the alternative fuels program.

\$10 Million Discretionary Fund

We recommend that the agency budget presentation reflect the expenditure of discretionary transportation funds. We also recommend Budget Bill language prohibiting any discretionary funds which remain after the secretary's allocation from being spent by the Department of Transportation for miscellaneous support activities.

Chapter 161 provided \$10 million as a one-time appropriation to the secretary for allocation in support of public transportation, at his discretion. The agency has solicited project and program proposals from local agencies and related transit entities and expects to make allocations for approved projects by the end of the 1979-80 fiscal year. As with the fuels program, the discretionary funds are not included in the agency's budget, but rather are inappropriately displayed in the Department of Transportation's budget. This implies that the department has management responsibility for the funds. Agency staff have assured us, however, that this is not the case, and that the agency is in fact, managing the program in the current year. Therefore, these funds should be included in the agency's budget.

Use of unallocated funds. Allocation data provided by the department indicates that only \$8.9 million of the \$10 million will be disbursed in 1979-80. Although agency staff expect that the entire amount will be allocated, Department of Transportation personnel have suggested that a portion of the remaining \$1.1 million might be expended on department support activities.

The use of any unallocated discretionary funds for department support operations would violate the restrictions placed on such funds by Chapter 161. The act requires that these funds be allocated for public transportation purposes to those areas with special public transportation needs which cannot be met otherwise. To assure that these funds are not used for purposes other than those intended by the Legislature, we recommend adoption of the following language: "Provided, that any discretionary funds which remain after the secretary's allocation shall revert to the Transportation Planning and Development Account and shall not be expended by the Department of Transportation for miscellaneous support activities."

State Transportation Assistance Funds

We recommend that State Transportation Assistance funds appropriated to the secretary for annual allocation to local agencies be displayed in a separate section of the Governor's Budget.

In the current year, the secretary is responsible for allocating an estimated \$53 million in State Transportation Assistance (STA) funds to local planning and transportation agencies. These funds are annually appropriated to the secretary by Chapter 161, but they appear in the budget of the Department of Transportation.

Unlike other transportation funds which are also allocated to local agencies on a formula basis—for example, Transportation Development Act (TDA) funds—STA funds are state monies specifically appropriated to the secretary for disbursement. These funds require a special display in the Governor's Budget and should not be included in the department's budget.

A model for displaying special funds which are subvended to local agencies can be found in the resources section of the 1980-81 Governor's Budget. Under the heading *Special Resources Programs*, pages R1 and R2 of the budget, various programs are presented with their statutory authority. This is an appropriate way to exhibit the STA funds and explain the activities which they support without distorting the Business and Transportation Agency's budget. Therefore, we recommend that the Legislature require that the expenditure of STA funds be displayed as "Special Transportation Programs" in the Governor's Budget in a format similar to that used for resources.

Institute of Transportation Studies

Section 36 of Chapter 161 gives the secretary the authority to allocate specified TP and D Account appropriations for support of (1) the University of California's Institute of Transportation Studies (ITS), (2) specified Department of Transportation activities, and (3) California Transportation Commission activities. The proposed budget allocates TP and D Account funds to the department and the commission but not to ITS.

State support for ITS is proposed from the Driver Training Penalty Assessment Fund within the budget of the University of California. This would continue the current funding arrangement established in 1979-80 when resources in the previous Transportation Planning and Research (TP and R) Account (now TP and D) were not sufficient to support ITS. Because the TP and D Account revenue is now adequate for this purpose, we recommend that ITS funding come from account funds as permitted under Chapter 161. Adoption of this recommendation would make the ITS funding consistent with funding of the other transportation activities identified in the legislation.

Our recommendation to change the funding source for ITS is presented in our analysis of the university budget.

SOLAR PROGRAMS

The budget proposes continued funding for the SolarCal Council and Solar Business Office. These agencies were originally established as a single administrative entity by executive order in May 1978. During the current year, however, their functions were separated and each now operates independently. Both the council and the office continue to report to the agency secretary, although the council is physically located in the California Energy Commission's offices. The Solar Business Office occupies space provided by the Department of Housing and Community Development.

SolarCal Council

We recommend that the \$325,000 proposed for support of the SolarCal Council in Items 33 and 34 be deleted and the council's operations terminated on June 30, 1980.

The council budget proposes \$325,000 in expenditures during 1980-81, a decrease of \$77,057, or 19.1 percent, from the current year. This decline results from a reduction in reimbursements. The budget supports an authorized council staff effort of 2 personnel-years, which is the same as the current year. Actual expenditures and staffing levels may be considerably higher than those shown in the budget, if the council receives additional unbudgeted reimbursements from the federal government or other state agencies, as it did in the current year.

The council's proposed activities and associated expenditures are as follows:

1. Continuation of the "solar hot line" (telephone information service) operated for the Energy Commission (\$100,000);
2. Continuation of its policy advisory role to the Energy Commission (\$25,000);
3. Management of an energy extension service to assist local agencies in developing solar energy applications (\$100,000);
4. Promotion of public information programs on solar energy and continuation of its solar advisory role to the administration (\$100,000).

Duplication of Effort. Our analysis of the council's proposed program indicates that it will substantially duplicate current operations of the Energy Commission. The commission was assigned basic responsibility for solar policy and technical development by Chapter 276, Statutes of 1974, as amended. Commission activities which the council duplicates include:

1. Local Government Assistance. The Energy Commission has published a *Solar Handbook for Local Government Officials* in cooperation with the League of California Cities. This book serves as a seminar and workshop resource document and provides a basic "how-to" approach for local officials developing solar applications. The council's extension service, operated under a contract with the Office of Appropriate Technology, duplicates these activities.

2. Information Dissemination. The commission has collected and disseminated solar information guides. These publications include compilations of information services, consumer tips, procedures for obtaining government grants, and basic solar design and construction principles.

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued

The council's information and extension programs overlap these commission operations and the ongoing business and local government information services provided by the Office of Appropriate Technology.

3. Governmental Advisory Role. The commission's full-time solar staff of 21.9 personnel years and its budget of \$2.3 million for solar programs provides a significant state resource for policy formation and program advice. The commission is in a position to act as advisors on a full range of solar programs and issues. The council's advisory role to the commission and the Business and Transportation Agency secretary is simply an appendage to existing commission resources and expertise.

4. Solar Hot Line. This information service represents a commission program which is sub-contracted to the council. The program actually operates within the commission's offices. There is no reason why the hot line cannot be operated by the commission.

Termination recommended. The council's proposed program represents a small-scale parallel operation of existing Energy Commission activities. It is difficult to find differences between the two operations. Our analysis indicates that the existence of a second solar agency may actually confuse state efforts to efficiently manage solar development and disseminate materials.

The council's original plan was to act as a facilitator in the early stages of solar activities and then turn over ongoing responsibilities to other state agencies. It has repeatedly stated it intends to disband and terminate activities at the close of the current fiscal year. It now appears that the council has abandoned its original plan.

We can find no justification for continuing this duplicative program, and we recommend termination of the Solar Council at the end of the fiscal year, for a savings of \$325,000. Adoption of this recommendation would result in changes in the schedule of Item 33 as follows: (1) reduce support by \$325,000; (2) reduce federal funds by \$100,000; (3) reduce reimbursements by \$125,000; and (4) reduce the transfer from Item 34 by \$100,000. Also, Item 34 would be reduced by \$100,000.

Solar Business Office

We recommend that the \$250,000 budgeted for the support of the Solar Business Office in Items 33 and 34 be deleted and the office's operations terminated on June 30, 1980.

The budget proposes expenditures of \$250,000 to support the Solar Business Office in 1980-81. This is a decrease of \$76,000, or 23.3 percent, from the revised 1979-80 expenditure level. The staffing level proposed for the budget year is 4.5 personnel-years which is an increase of 1.5 personnel-years over the current year.

During the budget year, the office proposes to:

1. administer an interagency agreement for the testing and certification of solar equipment produced by private manufacturers;
2. provide solar policy consultation to the agency secretary and advise the Energy Commission on solar energy activities,
3. promote the use of solar energy in California businesses,

4. sponsor meetings and conferences of potential solar users and financial institutions, and
5. monitor solar demonstration programs, including the solar retrofit of low income housing.

Our review of the Solar Business Office indicates that most of its activities are already the responsibilities of other departments of state government or are performed by the private sector. Examples of this overlap include:

1. *Energy Commission.* The commission's solar development program promotes the implementation and commercialization of solar resources and technology in California and serves as the basis for policy advice to the commission, the Governor, and the Legislature. The Solar Business Office's advisory role simply overlaps commission activities.

2. *Public Utilities Commission.* The commission has inaugurated a program which will require major utility companies to install solar heating units on 150,000 California homes to test the financial feasibility of retrofitting homes for solar. This program will also serve as a large-scale solar information dissemination program. Solar Business Office efforts to provide oversight of solar water heater demonstration programs is a duplication of the Public Utility Commission's activities.

3. *Private Sector Activities.* Private firms are now entering the solar market on their own initiative. Standard Oil of California, for example, has announced plans to build prototypes of a new solar water heater system for homes and test them throughout the country. Also, the private sector has formed solar business associations to certify solar systems and disseminate solar information to consumers. The office's testing and information programs overlap these activities as well as the solar equipment testing program operated by the Energy Commission.

4. *Department of Economic and Business Development.* The department has authority for economic and small business development, international trade, and the administration of business loan and grant programs. There is no reason why promotion and assistance to the solar industry cannot be considered as another activity of the department. Moreover, both the department and the office are part of the Business and Transportation Agency.

We recommend termination. There is no analytical justification for numerous state entities promoting solar business development in the state. Two such functions exist within the Business and Transportation agency. In addition, the office clearly duplicates activities of the Energy and Public Utilities Commissions as well as the private sector.

Testimony presented last year to the fiscal subcommittees described the Solar Business office as an interim agency designed to stimulate solar development. Once again, its life span was to be limited to two years. Now, the budget is proposing to continue the office for a third year.

We recommend termination of the Solar Business Office, for a savings of \$250,000. Adoption of our recommendation would result in changes in the schedule of Item 33 as follows: (1) reduce support by \$250,000, (2) reduce reimbursements by \$100,000, and (3) reduce the transfer from Item 34 by \$150,000. Also, Item 34 would be reduced by \$150,000.

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued**Consultant and Professional Services**

We recommend a reduction of \$35,000 in proposed expenditures for consultant and professional services, for a savings to the Motor Vehicle Account, State Transportation Fund (Item 33).

The proposed budget includes expenditures of \$115,620 for legal services. Of this amount, \$30,620 is proposed for legal services to be provided by the Attorney General. The remaining \$85,000 is proposed for payment of services to be provided by private legal counsel. The agency reports that the latter expenditure is required to secure expert legal services the Attorney General is unable to provide.

In 1976 the agency decided to initiate litigation challenging the federal government's pre-emption of state consumer protection laws. The agency felt that the three cases involved would set important legal precedents in state and federal consumer law. Therefore, the Department of Justice enlisted the aid of private legal experts to assist in the agency's litigation. Subsequent staffing difficulties and turnover in the department resulted in an expanded role for the private legal consultants. This expanded role has continued as the cases have been tried and appealed to the higher courts.

The agency is requesting \$85,000 in the budget year, the same amount budgeted in 1979-80. This amount is based on the assumption that the need for outside legal services will be the same as required in the current year. Our review of the agency request and discussion with legal staff associated with the state's cases indicate that a lower level of outside effort will be required in the budget year.

The major research, evidentiary, and legal proceedings of the state's cases are now concluded. The state has appealed the lower courts' decisions and is waiting to hear whether the U.S. Supreme Court and federal appeals courts will agree to hear the cases. Even if the cases proceed, the need for private legal assistance in 1980-81 will be substantially less than in 1979-80.

We recommend, therefore, that the agency's request for \$85,000 in private legal services be reduced to \$50,000. Our analysis indicates that the reduced amount will provide sufficient resources for continued private assistance and result in savings to the State Transportation Fund (Item 33) of \$35,000.

Governor's Office
SECRETARY OF HEALTH AND WELFARE

Item 35 from the General Fund

Budget p. LJE 23

Requested 1980-81	\$2,178,567
Estimated 1979-80.....	1,653,727
Actual 1978-79	1,173,953
Requested increase (excluding amount for salary increases) \$524,840 (+31.7 percent)	
Total recommended reduction	\$64,805

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
35	Secretary of Health and Welfare Chapter 800, Statutes of 1978 (Transfer from Item 241.3, Budget Act of 1977, pur- suant to Chapter 1199, Statutes of 1977)	General	\$1,543,481 635,086
Total			\$2,178,567

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|--|----|
| 1. Violations of Legislative Fiscal Controls. Recommend that the Department of Finance and the Secretary of Health and Welfare report to the fiscal subcommittees on actions taken to insure that further violations do not occur. | 34 |
| 2. <i>Liaison Team. Reduce by \$64,805.</i> Recommend deletion of two positions proposed for liaison team. | 35 |
| 3. Multipurpose Senior Services Project. Recommend: | 40 |
| a. Notification of Legislature regarding the degree of federal financial participation in the project's evaluation component. | |
| b. Department of Finance prepare comparative analysis of case management costs for programs administered by Health and Welfare Agency by December 15, 1980. | 42 |
| c. Quarterly reports to Legislature on project status and specified components. | 44 |
| d. New consolidated budget display for the project beginning in the 1981-82 budget. | 44 |

GENERAL PROGRAM STATEMENT

The Secretary of Health and Welfare provides the administrative and policy direction for state departments and offices responsible for health, welfare, employment, and social services. The Governor's reorganization plan, dated December 20, 1979, proposes to transfer administrative oversight responsibility for the Departments of Corrections and the Youth Authority from the Health and Welfare Agency to a new Youth and Adult Corrections Agency during the current year. If the Legislature does not

SECRETARY OF HEALTH AND WELFARE—Continued

disapprove the reorganization plan as transmitted, this transfer will occur in March 1980.

The departments that will remain in the Health and Welfare Agency are:

- Aging
- Alcohol and Drug Programs
- Developmental Services
- Health Services
- Mental Health
- Rehabilitation
- Social Services
- Employment Development
- Office of Statewide Health Planning and Development

The Secretary is assisted in his administrative and policy development responsibilities by five liaison positions. Four of these positions are assigned to various departments within the agency, and the fifth coordinates the agency's legislative affairs.

The secretary's office also contains five program units: the Multipurpose Senior Services Project, systems review, civil rights, rural and migrant affairs, and services coordination for children and youth.

Multipurpose Senior Services Project

The Multipurpose Senior Services Project (MSSP), created in response to Chapter 1199, Statutes of 1977 (AB 998), is designed to demonstrate the effectiveness of a case management approach to delivering services for the elderly. MSSP implementation is scheduled to begin April 1, 1980, in eight sites throughout the state.

Systems Review

This unit reviews the efficiency and effectiveness of the departmental programs overseen by the agency, and tries to identify overlaps in service delivery, funding sources, or clients.

Civil Rights

Chapter 972, Statutes of 1977 (AB 803), prohibits discrimination in the distribution of benefits from state-funded programs. This unit is responsible for estimating the state and local costs of implementing the act, and providing technical assistance to state departments as they draft the required regulations.

Rural and Migrant Affairs

Executive Order B-17-76 (dated May 4, 1976) directed the Health and Welfare Agency to establish a rural and migrant affairs coordinator. The coordinator's duties are to (1) assure that the state departments carry out the Governor's rural and migrant affairs policy, (2) act as an arbiter when disputes over implementation arise between departments, and (3) serve as an exchange point for information on rural and migrant programs in various departments.

Coordination of Services for Children and Youth

Chapter 1252, Statutes of 1977 (SB 363), required the agency to assign a deputy secretary the specific responsibility for assisting state departments and counties to coordinate children and youth programs. The coordinator chairs the Interagency Council for Children and Youth, which is preparing the state master plan for services to children and youth. The master plan, which was required by SB 363, is to be submitted to the Legislature by July 1, 1980.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$2,178,567 from the General Fund for support of the agency in 1980-81. This is an increase of \$524,840, or 31.7 percent, above the estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Total program expenditures, including reimbursements, are projected at \$5,294,849, an increase of \$2,345,589, or 79.5 percent over estimated current year expenditures.

The additional funds are requested for (1) increased state support of the Multipurpose Senior Services Project (\$342,928 of existing funds originally appropriated in Chapter 1199, Statutes of 1977), (2) support of the systems review unit in the agency budget, which is currently supported by reimbursements from the departments (\$157,499), (3) increased personnel costs (\$42,777), (4) increased prices for operating expenses and equipment (\$33,468), and (5) program change proposals (\$-51,832). These adjustments are detailed in Table 1.

Table 1
Health and Welfare Agency
Proposed 1980-81 Budget Changes
All Funds

<i>A. Secretary's Office (Excludes MSSP)</i>	<i>General Fund</i>	<i>Reimburse- ments</i>	<i>Total</i>
1979-80 Current Year Revised	\$1,361,569	\$251,410	\$1,612,979
1. Baseline Adjustments			
A. Increase in existing personnel costs	42,777		
1. Salary adjustments	(12,881)		
2. Salary savings adjustment	(27,580)		
3. OASDI	(2,316)		
B. Price increase	33,468		
C. Reimbursement adjustments	157,499	-157,499	
Total Baseline Adjustments	\$233,744	\$-157,499	\$76,245
2. Program Change Proposals			
A. Liaison team	(64,805)		
B. Transfer to Department of Mental Health	(-40,701)		
C. Transfer to Youth and Adult Corrections Agency	(-75,936)		
Total, Program Change Proposals	\$-51,832		\$-51,832
Total Secretary's Office Support Budget Changes	\$181,912	\$-157,499	\$24,413
Total Secretary's Office 1980-81 Support Budget	<u>\$1,543,481</u>	<u>\$93,911</u>	<u>\$1,637,392</u>

SECRETARY OF HEALTH AND WELFARE—Continued*B. Multipurpose Senior Services Project (MSSP)*

1979-80 Current Year Revised	\$292,158	\$1,044,123	\$1,336,281
1. Baseline Adjustments			
A. Increase in existing personnel		25,389	25,389
1. Salary adjustments		(4,752)	
2. Salary savings adjustments		(20,137)	
3. OASDI		(500)	
B. Price increase		48,632	48,632
C. Funding source adjustments due to project im- plementation	342,928	1,904,227	2,247,155
Total MSSP Support Budget Changes	\$342,928	\$1,978,248	\$2,321,176
Total MSSP 1980-81 Support Budget	<u>\$635,086</u>	<u>\$3,022,371</u>	<u>\$3,657,457</u>
Total Secretary's Office and MSSP 1980-81 Support Budget	\$2,178,567	\$3,116,282	\$5,294,849

The 1979 Budget Act authorized 47.6 positions in the Health and Welfare Agency Secretary's Office, including eight positions for the Multipurpose Senior Services Project. During the current year, one position was transferred out of the systems review unit to the Department of Mental Health, and two positions will be transferred to the Youth and Adult Corrections Agency. The agency is requesting two new positions for its liaison function in 1980-81. Thus, a total of 46.6 positions are proposed for the budget year.

SECRETARY'S OFFICE SUPPORT**Repeated Violations of the Legislature's Fiscal Controls**

We recommend that the agency and the Department of Finance report to the fiscal subcommittees, prior to budget hearings, on the actions taken to insure that further violations of the Legislature's fiscal controls do not occur.

In recent years, the Legislature has given the Department of Finance considerable flexibility to authorize expenditures that were not anticipated in the Budget Act. This authority is granted by Control Section 28. In addition, Section 28 requires the department to notify the Legislature, through the Joint Legislative Budget Committee, of any such expenditure authorization at least 30 days before the authorization is given. The purpose of this requirement is to assure that the Legislature has an opportunity to consider any proposed new program or an increased level of service and advise the administration of any conflict with legislative policy.

During the past two years, constituent Health and Welfare Agency departments have failed to comply with the fiscal reporting requirements of Section 28 on at least five occasions. These violations have involved the obligation and/or expenditure of funds by departments without the prior approval of the Department of Finance or prior notification to the Legislature that an augmentation to the budget expenditure program was contemplated. With the exception of those in the Health and Welfare Agency, violations of Section 28 are extremely rare.

The five violations of Section 28 committed by constituent departments of the Health and Welfare Agency were as follows:

1. *Office of Alcoholism.* The Office of Alcoholism began allocating \$427,055 in new federal funds during October 1977, six months before the Director of Finance notified the Chairman of the Joint Legislative Budget

Committee of the expenditure. (The director's letter was dated April 27, 1978.)

2. *Department of Social Services.* During 1978, the Department of Social Services began encumbering \$5.1 million in federal Title XX training funds prior to the Director of Finance's notifying the committee of his intention to approve the expenditure (November 5, 1978).

3. *Department of Alcohol and Drug Abuse.* During 1979, the Department of Alcohol and Drug Abuse spent \$350,000 in federal funds to expand drug abuse programs prior to the required Section 28 notification (March 21, 1979).

4. *Department of Mental Health.* On April 27, 1979, the Department of Mental Health granted counties a one-time waiver from the requirement to reimburse the state for overutilization of county patient-day allocations in the state hospitals. The waiver increased state costs by over \$4.1 million. One month later (June 1, 1979), the Director of Finance notified the Legislature that the waiver would not be granted until June 30, 1979. Not only was this a violation of Section 28, but it also was contrary to specific language in Item 262, Budget Act of 1978.

5. *Department of Developmental Services.* In a letter to the regional centers, dated August 7, 1979, the Director of the Department of Developmental Services granted operators of 24-hour residential care facilities serving the developmentally disabled a two-percent provider rate increase. This proposal would increase the rate from 6 to 8 percent during the current year. Subsequently, on September 18, 1979, the Director of Finance notified the Legislature of her intention to authorize this waiver.

Repeated violations of provisions in the Budget Act by departments within the Health and Welfare Agency raise serious questions regarding management and fiscal controls within the agency. As noted earlier, violations of this type are almost unique to the Health and Welfare Agency. We recommend that both the agency and the Department of Finance report to the fiscal subcommittees, prior to budget hearings, on the actions taken to insure that further violations do not occur.

Increased Liaison Service Level

We recommend deletion of two proposed positions for the liaison function, for a General Fund savings of \$64,805.

The agency proposes to add two new positions, a career executive appointment (CEA) II and an executive secretary I, to increase its liaison service to departments within the Health and Welfare Agency. The new positions are proposed to support the Employment Development Department and the Department of Rehabilitation. Currently, the agency has four liaison positions, supported by four clerical positions, performing oversight of departmental program and policy development, evaluation, budget preparation, planning, operations, and legislative coordination. Table 2 summarizes the existing liaison staffing pattern, including departmental assignments.

SECRETARY OF HEALTH AND WELFARE—Continued

Table 2
Health and Welfare Agency
Departmental Liaisons
1979-80 Staffing Pattern

<i>Departmental Assignments</i>	<i>Incumbent's Classification</i>	<i>Clerical Assistance</i>	<i>Total Salaries (Estimated)</i>
1. Health Services	CEA III	1 Exec. Sec. I	\$59,182
Office of Statewide Health Planning and Development.....			
Aging			
Mental Health			
Developmental Services			
Developmental Disability Council			
Alcohol and Drug Programs.....			
2. Employment Development	Exempt	1 Secretary	43,464
Rehabilitation			
3. Social Services *.....	Exempt	1 Off. Tech.	52,819
4. Corrections	CEA II	1 Off. Tech.	52,860
Youth Authority.....			
Total Salaries (Estimated)			\$208,325

* This liaison position is also the deputy secretary appointed by the Governor to serve as children and youth program coordinator, per Chapter 1252, Statutes of 1977, (SB 363).

Our analysis indicates that the proposed new positions are not needed, for several reasons.

First, recent staffing augmentations provided by the Legislature appear to have reduced liaison staff workload. In the 1979 Budget Act, the Legislature approved eight new professional positions for a systems review unit (the budget proposes to eliminate one of these positions). These positions also work in a liaison capacity with the constituent departments of the agency. Specifically, the agency advised the Legislature that the goal of this unit is "to reduce program and administrative costs and maximize the delivery of benefits on a timely basis with effective cost control." The systems review team is composed of senior-level analytical staff. Our analysis indicates that the addition of these professional positions in the current year has reduced liaison staff workload in areas of evaluation, budget preparation, and operations oversight.

Second, the agency has administratively established a departmental liaison position in the current year for the Employment Development Department and the Department of Rehabilitation assignment by redirecting an exempt position previously budgeted for budget liaison. Based on our analysis and discussions with agency staff, we conclude that this redirection did not hinder the agency's preparation of the 1980-81 budget. Moreover, agency staff have advised us that they intend to utilize a similar staffing pattern for preparation of the 1981-82 budget.

Third, the agency is proposing a new secretary in the budget year, even though a clerical position already supports the administratively established liaison position. Moreover, the liaison team's professional/clerical ratio of 1:1 is substantially higher than the systems review unit's ratio of 7:1.

Because (1) the workload of the liaison positions has been reduced by the systems review unit, (2) the liaison function has been performed

during the current year without an increase in staffing with minimal negative impact on the performance of other duties, and (3) secretarial support already is available for the administratively established position, we have no basis on which to recommend approval of the two proposed new positions. We therefore recommend deletion of the new positions for a General Fund savings of \$64,805 (\$52,645 in personal services and \$12,160 in operating expense and equipment).

MULTIPURPOSE SENIOR SERVICES PROJECT

Chapter 1199, Statutes of 1977 (AB 998), required the Health and Welfare Agency to administer a pilot project which would develop information about effective methods to:

1. Prevent the premature institutionalization of older persons;
2. Assist older persons to live independently by assuring optimum accessibility to social and health resources available in the community; and
3. Assure the most efficient and effective use of public funds in providing such services.

The Multipurpose Senior Services Project (MSSP) has been designed to achieve the goals of the legislation. It will test the effectiveness of applying the case management approach to delivering services to the elderly. Through MSSP, case management will be integrated into the community's network of existing programs serving older persons in each of the eight MSSP sites. In order to obtain federal financial participation (FFP) in the MSSP, the agency requested that the U.S. Department of Health, Education and Welfare (HEW) waive five restrictions on the use of Title XIX (Medicaid) funds so that a major portion of the program support could come from the Medi-Cal program.

Status of Waivers

In our analysis last year, we recommended that the agency not proceed with MSSP implementation until HEW had approved the project for FFP. In the 1979 Budget Act, the Legislature included control language in Item 35 requiring the agency to advise it within 30 days of any modifications made to the original MSSP operational plan.

On October 9, 1979, the agency received notice from HEW that the MSSP application had been approved, subject to nine special terms and conditions. The letter also granted three of the five requested waivers. The letter is "silent" on the other two requested waivers.

In January 1980, three months after these notices were received, the agency reported to the Legislature on the project's waiver status.

It is our understanding that the three waivers granted by HEW are normally granted for any demonstration project. These waivers allow the agency to (1) limit the operation of the MSSP to eight specific locations, (2) authorize the provision of waived services without preauthorization review, and (3) establish reasonable, cost-related rates for waived services.

The waivers yet to be approved are the agency's requests to expand the project's "scope of services" and "eligibility for services." In its January 1980 report to the Legislature, the agency summarized the status of these two requests as follows:

SECRETARY OF HEALTH AND WELFARE—Continued

“Scope of Service. The agency requested authority to utilize Title XIX funding for 12 services currently not covered by Title XIX.”

Status: HEW representatives “indicate a ‘conceptual’ agreement with the requested services. However, [the agency is] still negotiating the allowable definitions of the services.”

“Eligibility. The agency requested that the MSSP be allowed to provide Title XIX-funded services to low income, elderly people who are not presently eligible because of financial reserves or income but whose resources or income would be depleted within six months of institutionalization. This group would have been limited to a maximum of 30 percent of the total MSSP caseload. In addition, the agency requested permission to require the determination of Medi-Cal eligibility for MSSP clients at the point of in-take and not thereafter during the term of the project.”

Status: “The request to serve currently ineligible, low-income elderly was denied, but can be reconsidered after one year of operation. One-time eligibility determination is still being discussed.”

Approval of the “scope of service” request is pivotal to project implementation because MSSP has been designed to test the effectiveness of expanding the availability, and broadening the range, of lower-cost services as alternatives to the premature institutionalization of older persons in nursing homes. Without that waiver, the MSSP concept would be restricted to including only the range of services now accepted by HEW as Title XIX-reimbursable.

Special Terms and Conditions

In the October 9 letter, HEW advised the agency that the project was approved for federal funding, subject to nine special terms and conditions. The agency was required to:

1. Submit a revised budget by November 15, 1979 (HEW indicated that the total budget should not exceed \$40 million).
2. Submit a project implementation schedule.
3. Submit a clear definition of “case management” and a method for calculating its average cost per participant.
4. “Explore the possibility” of selecting one site in which to test the effectiveness of the case management approach in reducing administrative duplication and costs of service in the existing service delivery system.
5. Provide the data HEW will need to conduct an independent evaluation.
6. Submit detailed information regarding the management information system MSSP will use to collect and process the data required to administer as well as evaluate the project.
7. Submit a plan for selecting the control group.
8. Submit quarterly progress reports which describe achievements at the sites, identify problems and their proposed solutions, and include the monthly census by site.
9. Submit the Protection of Human Subjects form (#HEW-596).

The agency met the deadline for submitting the revised budget, and submitted the project implementation schedule at the same time. On

December 31, 1979, the agency sent HEW a package of materials intended to satisfy the remaining conditions.

Revisions in Project Cost and Size

We reported in last year's analysis that the agency would develop MSSP in five sites and serve a total of 4,000 clients. This project design included a control group, also composed of 4,000 subjects, primarily to compare rates of institutional admission. The estimated total cost of the project at that time was \$112.5 million over three project years.

After negotiations with HEW last spring, the agency revised the proposal and recommended, as of May 31, 1979, a maximum caseload (and control group) of 2,300 and an estimated total cost of \$58.8 million. As noted earlier, one of the nine conditions which the agency must satisfy before the MSSP project will be eligible for federal funding is that the total project budget should not exceed \$40 million. In order to satisfy this condition, the agency reduced the maximum client caseload to 1,900 but retained 2,300 subjects in the control group (1,900 MSSP eligibles, plus 400 Medi-Cal eligibles 65 years of age or older).

In its May 31 proposal, the agency indicated that all eight sites would become operational January 1, 1980. A new schedule has been prepared to comply with HEW's request that implementation be phased in and that operations begin no earlier than April 1, 1980.

The agency does not expect all eight sites to be ready to begin operations on April 1. In addition, caseload acquisition and full staffing will occur gradually at all sites, with the expectation that the full caseload will be achieved by December 1980. The eight sites, caseloads, 1980-81 levels of funding, and anticipated operational dates are shown in Table 3.

Table 3
Multipurpose Senior Services Project
Site Implementation Schedule
1980-81

<i>Sites</i>	<i>Caseload</i>		<i>Funding Level</i> <i>7/1/80-6/30/81</i>	<i>Date Operations</i> <i>to Begin</i>
	<i>Original</i>	<i>Current</i>		
Mount Zion Hospital and Medical Center, San Francisco.....	500	350	\$2,188,112	April 1, 1980
Senior Care Action Network (SCAN), Long Beach Area of Geriatric Health Care Council, Incorporated	500	350	2,188,112	April 1, 1980
Jewish Family Service of Los Angeles, Freda Mohr Multiservice Center	300	300	1,908,642	April 1, 1980
San Diego County, Area Agency on Aging City of Oakland, Social Services Depart- ment	300	300	1,908,642	July 1, 1980
East Los Angeles Health Task Force, Incor- porated	200	200	1,441,633	May 15, 1980
County of Santa Cruz, Department of Social Services	200	200	1,441,633	April 1, 1980
Greater Ukiah Senior Citizens Center, In- corporated (Mendocino County)	150	100	770,561	May 15, 1980
Total	150	100	770,561	April 1, 1980
			\$12,617,896	

As Table 3 shows, the agency plans to maintain four distinct levels of

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service. These levels reflect differences in the sites' capacities, based on the following criteria:

1. Potential number of clients;
2. Availability of existing community services and other resources; and
3. History and stability of the "host" program, including such factors as how long the organization has been in existence and the degree to which it has established rapport with potential clients and other existing service agencies.

Evaluation Funding in Question

We recommend that the agency notify the Legislature, in writing, once a final decision has been reached with regard to the degree of federal financial participation in the project's evaluation component.

HEW's \$40 million budget total is substantially lower than the \$58.8 million total the agency submitted in its revised proposal. Furthermore, it precludes federal funding for the evaluation components of the project as presently designed. The four evaluation components are:

1. Formation and monitoring of the control, or comparison, group;
2. Operations research and statistical analysis;
3. Computer equipment for the automated management information system; and
4. Special analyses, such as determining the costs per unit of service and developing methods for measuring the qualitative aspects of care.

HEW has agreed to participate in the cost of the computer equipment required for the management information system (\$456,825), but the status of FFP for the other three components (\$4,057,550) is uncertain. The agency stated in its January 1980 report to the Legislature that it believes HEW intended to assume responsibility for the evaluation function and related costs. Accordingly, the agency has proposed that the \$40 million ceiling be increased by \$4 million to replace money for the agency's evaluation plan. If HEW denies FFP for the agency's evaluation plan, the General Fund portion of the total project cost will increase by \$2,028,775 (one-half the total cost of evaluation), from \$20,436,149, or 46.7 percent, to \$22,464,924, or 51.3 percent.

If HEW has not committed itself to sharing in the cost of MSSP's evaluation components by the time of the budget hearings, we recommend that language be added to the Budget Bill requiring the agency to notify the Legislature immediately whenever a final decision is made. If HEW denies FFP for evaluation, the agency should report to the Legislature on alternatives for cutting costs, for funding the evaluation from other sources, or both.

Budget Projections

A significant budgetary component of the MSSP is the amount of "existing" funds which will be drawn into the project as an offset to total program costs. Because of the case management focus of the project, clients generally will be directed to a package of *existing* community services supported by *existing* federal, state, or local funds. For example, an elderly individual currently eligible for the Medi-Cal program support-

ed by federal Title XIX funds becomes a MSSP participant and remains Medi-Cal eligible. Medical services received by this participant would be reflected in the project budget and considered payable from existing funds.

Originally, HEW and the agency projected that these existing funds, which include the Title III of the Older Americans Act and General Fund support already appropriated to the project, would total approximately \$10 million. Thus, HEW's approved budget total of \$40 million consisted of \$10 million in existing funds, \$15 million in federal funds for Title XIX, and \$15 million in state-match for Title XIX.

In November, when responding to the first two funding conditions, the agency advised HEW that the reduction in caseload to meet the funding ceiling necessitated a revised projection of the amount of existing funds that could be used for the project. The agency now estimates that this amount is only \$8.4 million. It has advised HEW that the remaining \$1.6 million will be an additional General Fund cost to California.

As Table 4 shows, there are three major funding sources for MSSP: (1) General Fund, (2) Title III of the Older Americans Act, and (3) Titles XIX and XX of the Social Security Act. The amounts each funding source will contribute to the project total are shown in Table 5. The amounts shown for General Fund participation include the 50-percent match required for Title XIX.

Table 4
Multipurpose Senior Services Project
Proposed Multiyear Budget
(State Fiscal Years)

<i>Program Components</i>	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>Totals</i>
State Administration	\$384,669	\$399,082	\$408,725	\$418,947	\$89,538	\$1,700,961
Site Planning	310,485					310,485
Site Administration	1,201,822	3,638,996	4,044,588	2,740,422		11,625,828
Purchase of Services	318,150	8,978,900	11,514,000	4,797,500		25,608,550
Computer System	138,174	165,910	77,446	75,295		456,825
Evaluation	439,745	1,395,845	1,326,940	895,020		4,057,550
Totals	\$2,793,045	\$14,578,733	\$17,371,699	\$8,927,184	\$89,538	\$43,760,199
<i>Funding Sources</i>						
<i>Existing:</i>	<i>\$1,654,469</i>	<i>\$4,545,410</i>	<i>\$5,312,400</i>	<i>\$2,213,500</i>		<i>\$13,725,779</i>
<i>Title XIX/XX</i>	<i>(80,010)</i>	<i>(2,258,060)</i>	<i>(2,895,600)</i>	<i>(1,206,500)</i>		<i>(6,440,170)</i>
<i>Title III</i>	<i>(1,275,941)</i>	<i>(590,730)</i>				<i>(1,866,671)</i>
<i>General Fund</i>	<i>(298,518)</i>	<i>(1,696,620)</i>	<i>(2,416,800)</i>	<i>(1,007,000)</i>		<i>(5,418,938)</i>
<i>New:</i>	<i>1,138,576</i>	<i>10,033,323</i>	<i>12,059,299</i>	<i>6,713,684</i>	<i>\$89,538</i>	<i>30,034,420</i>
<i>State</i>	<i>(569,288)</i>	<i>(5,016,662)</i>	<i>(6,029,650)</i>	<i>(3,356,842)</i>	<i>(44,769)</i>	<i>(15,017,211)</i>
<i>Federal</i>	<i>(569,288)</i>	<i>(5,016,661)</i>	<i>(6,029,649)</i>	<i>(3,356,842)</i>	<i>(44,769)</i>	<i>(15,017,209)</i>
Totals	\$2,793,045	\$14,578,733	\$17,371,699	\$8,927,184	\$89,538	\$43,760,199

The administration will be requesting additional General Fund appropriations for the 1981-82 and 1982-83 fiscal years, either through the budget process or in special legislation. As Table 5 indicates, \$2,991,694 in additional General Fund support will be needed to complete the Multipurpose Senior Services Project. If HEW denies FFP for evaluation, the additional General Fund support needed will be \$5,020,469.

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Table 5
Multipurpose Senior Services Project
Funding Sources
1979-80 to 1983-84

General Fund		\$20,436,149
Existing	2,427,244	
New (Title XIX Match)	15,017,211	
To be requested for 1981-82 and 1982-83	2,991,694	
Title III, Older Americans Act		1,866,671
Titles XIX and XX, Social Security Act		21,457,379
Existing	6,440,170	
New (Title XIX)	15,017,209	
Total		<u>\$43,760,199</u>

The \$43.8 million total cost for MSSP overstates the actual cost of the project by approximately \$20.1 million. This is the amount the state and federal governments would spend during the project period to provide services to eligible clients through existing programs (assuming the same service utilization rate, with or without MSSP). Of the \$43.8 million, approximately \$23,737,849 (or 54 percent) is "new" money. This amount represents the following component costs:

1. \$5,586,200 for purchase of services which would not be available to the target group of clients without the Title XIX "scope of service" waiver;
2. \$8,674,420 for case management (maximum);
3. \$4,057,550 for evaluation;
4. \$456,825 for the computerized management information system;
5. \$310,485 for site planning;
6. \$1,700,961 for state administration; and
7. \$2,951,408 for site administration (excluding the cost of case management).

The state's share of the "new" cost of MSSP is approximately 50 percent, or \$11,868,925.

Cost Impact of Case Management

We recommend that the Department of Finance conduct a comparative analysis of case management costs for programs administered by the Health and Welfare Agency, and report its findings to the Legislature by December 15, 1980.

The MSSP was designed to explore ways of preventing the premature institutionalization of older persons. MSSP aims to achieve this goal by packaging existing health and social services so as to supply the elderly with alternatives to premature institutionalization. Thus, the service that MSSP will contribute to the state's overall effort to maintain independent life styles for older persons is "case management"—matching identified client needs with available services.

Adult Day Health Care. One of the existing services that makes independent living possible for people who suffer some physical or mental impairment is adult day health care. Adult day health care (ADHC) refers to a day-only outpatient program of therapeutic, social, and health services provided primarily to persons 55 years of age or older. It is organized for the purpose of restoring or maintaining optimal capacity for self care. Chapter 1066, Statutes of 1977, established ADHC as a Medi-Cal benefit

administered by the Department of Health Services.

The Department of Health Services estimated that the total cost of ADHC for 2,500 participants at 50 sites in the budget year, will be \$5,712,900 (\$2,940,900 General Fund), or an average annual cost of \$2,285 per participant. For those participants who are directed to ADHC by their MSSP case manager, this average cost will be increased by the cost of the case management activities involved in matching the client with this specific service.

HEW required the agency to submit a "clear definition of case management" and a method for calculating the average cost per client. The agency, in response, has broken down case management into three parts and estimated the respective proportions of time required for each: assessment (29 percent), care planning (19 percent), and service delivery (52 percent). ("Service delivery" refers to client and family counseling and post-referral contact with both providers and clients—not to the actual provision of services.) These estimates are based on the second project year of operation, the only year of operation that will involve a full case-load throughout the state fiscal year.

The three components of case management are performed by more than one staff person per client. Thus, the agency has applied the percentages against the various salaries and benefits of members of the case management team. Adding the corresponding costs for operating expenses, equipment, and administrative and support staff, the agency estimates that the maximum case management cost per client will be \$1,975. Table 6 shows the estimated case management costs per client.

Table 6
Case Management
Costs Per Client

	<i>Annual</i>	<i>Monthly</i>
Assessment	\$405	\$33.75
Care planning	495	41.25
Service delivery	<u>1,075</u>	<u>89.60</u>
Totals	\$1,975	\$164.60

Thus, the potential total cost of case management for 1,900 clients in the second project year is \$3,752,500.

We have two concerns about case management—or what the agency is calling "senior services counseling." First, high projected costs may contribute significantly to the costs of providing existing services without substantially increasing the level of services available to elderly persons. Second, the Legislature may not be adequately advised of the cost of case management as a component of MSSP expenditures. Various departments within the agency, including Rehabilitation, Mental Health, and Developmental Services, also administer programs involving case management services. In order that the Legislature can evaluate the case management costs of MSSP, comparative data are needed. We therefore recommend that the Department of Finance conduct a comparative analysis of case management costs for programs administered by the Health and Welfare Agency, and report its findings to the Legislature by December 15, 1980.

SECRETARY OF HEALTH AND WELFARE—Continued**Need for Periodic Reporting**

We recommend that the agency report quarterly to the Legislature on (1) the status of funding agreements between the agency and the federal government, (2) the progress made in project implementation, including the status of each site's participation and spending, and (3) any modifications in the project design, cost, and size resulting either from negotiations with the federal government or from resolutions of implementation problems which forced a change in the original plans.

Final decisions on each of the two remaining unresolved waiver requests may have an effect on the portion of project costs the state will have to assume in order to complete the demonstration. Our review of the negotiations on the waivers indicates that these decisions involve reaching agreement on a significant number of details—particularly with respect to defining the services HEW will accept as Title XIX-reimbursable—and that these decisions could come one at a time, rather than all at the same time.

Also, as we have noted, several revisions have been made in the project design, cost, and size since the budget hearings last year. We expect further revisions to be made during the budget year as actual project implementation leads to unanticipated problems which must then be resolved. We think it is important that information on changes in MSSP be provided to the Legislature on a periodic basis.

Therefore, we recommend that supplemental report language be adopted requesting the agency to report to the Legislature quarterly. These reports should include: (1) the status of all funding agreements between the agency and the federal government, (2) the progress made on project implementation, including the status of each site's participation and spending, and (3) any modifications in the project design, cost, and size resulting from negotiations with the federal government or from resolutions of implementation problems which forced a change in the original plans.

Need for Consolidated Budget Format

We recommend that the Department of Finance summarize all elements of the Multipurpose Senior Services Project in a single consolidated format beginning in 1980-81.

The cost for MSSP in the 1980-81 fiscal year will be funded from four separate budgets, and will total approximately \$14.5 million. Yet, the Governor's Budget does not identify these major expenditures in a single display. Moreover, the actual amounts allocated to MSSP from three of the four budgets are not identified. The budgets are:

1. Health and Welfare Agency;
2. Department of Social Services;
3. Department of Health Services; and
4. Department of Aging.

There are three reasons why the Legislature should have full information on the costs of the Multipurpose Senior Services Project and how these costs are being funded.

First, the Legislature needs to know which funding sources are being utilized now in order to make a decision regarding the future increases in General Fund participation that will be required to complete the project as designed.

Second, the combined information from the existing budget displays does not identify what portions of the total MSSP budget are intended for state administration, site administration, and purchase of services. Because one of the goals of Chapter 1199 was to "develop information about effective methods . . . to provide the most efficient and effective use of public funds in the delivery of these social and health services," the Legislature should be informed on an ongoing basis of the cost relationships in this demonstration project.

Third, the Legislature will need annual budget information for MSSP in a single display in order to make a thorough analysis of the program when the demonstration period for MSSP ends.

Therefore, we recommend that the Department of Finance summarize in a single consolidated format in the Governor's Budget all elements of the Multipurpose Senior Services Project beginning in the 1981-82 fiscal year. Such a consolidation would enable the Legislature to see which departments' funds support MSSP without having to assemble cost and workload data from four principal sources.

Governor's Office SECRETARY OF RESOURCES

Item 36 from the General Fund

Budget p. LJE 24

Requested 1980-81	\$1,011,859
Estimated 1979-80	964,960
Actual 1978-79	859,096
Requested increase (excluding amount for salary increases) \$46,899 (+4.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of Resources, as the administrative head of the Resources Agency, is responsible directly to the Governor for the state's activities relating to the management, preservation and enhancement of California's air, water and land; its natural, wildlife, and recreational resources; and general coordination of environmental programs. The Secretary is a member of the Governor's Cabinet.

The Resources Agency is composed of the following units:

Department of Conservation

Energy Resources Conservation and Development Commission

Department of Fish and Game

Department of Forestry

Department of Boating and Waterways

Department of Parks and Recreation

SECRETARY OF RESOURCES —Continued

Department of Water Resources
Air Resources Board
California Coastal Commission
Colorado River Board
State Coastal Conservancy
State Lands Division
State Water Resources Control Board and nine regional water quality control boards
Solid Waste Management Board
California Conservation Corps

In addition, the Secretary's office is the liaison point in the administration for the San Francisco Bay Conservation and Development Commission. By statute the Secretary is also responsible for allocating open-space subventions among cities and counties on the basis of those prime and nonprime lands which are found eligible for subventions.

The Secretary issues the state guidelines for preparation of environmental impact reports and designates the classes of activities which receive blanket exemption from the preparation of environmental impact reports. The Waterways Management Planning program and several miscellaneous programs including certain activities in the Lake Tahoe basin are budgeted to the Secretary's office.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Governor's Budget proposes a 1980-81 General Fund expenditure of \$1,011,859 to support the Secretary's office, an increase of \$46,899 (4.9 percent) above the current year level. Budgeted total expenditures (including reimbursements) are proposed to decrease by \$14,278 (1.3 percent) to \$1,112,153 due to the termination of 1.3 positions which were administratively established in the 1979-80 fiscal year. These positions were funded through a federal Comprehensive Employment Training Act grant (CETA) to coordinate federal, state and Indian efforts in the establishment of a Salmon rearing and watershed rehabilitation program in the Klamath-Trinity River area.

The 1979-80 Governor's Budget emphasized that, in order to reduce costs, one staff position in the Secretary's office would be eliminated in 1979-80, resulting in a total staff of 24.5 personnel-years. While one position was eliminated, an additional 2.3 positions (1.3 for the Klamath-Trinity coordinator and 1.0 for the affirmative action program) were added. These positions were funded through a \$96,471 increase in reimbursements above the budgeted level of \$65,000.

Staffing in the Secretary of Resources Office is proposed at 25.5 personnel-years for the budget year. This includes continuation of one of the 2.3 positions which were administratively added in the current year. This position, financed by contract with the State Personnel Board, was established to manage an affirmative action program.

Governor's Office
SECRETARY OF YOUTH AND ADULT
CORRECTIONAL AGENCY

Item 37 from the General Fund

Budget p. LJE 26

Requested 1980-81	\$238,512
Estimated 1979-80.....	0
Requested increase (excluding amount for salary increases) \$238,512	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Reorganization Plan No. 3 (December 20, 1979) authorized the establishment of the Youth and Adult Correctional Agency. The secretary of the new agency, one of five agency secretaries in the Governor's Cabinet, is responsible for providing leadership and policy guidance to the following boards, commissions, and departments:

- Department of Corrections
- Department of the Youth Authority
- Board of Prison Terms
- Youthful Offender Parole Board
- Board of Corrections
- Correctional Industries Commission
- Institutional Review Board
- Narcotic Addict Evaluation Authority

If the plan is not disapproved by the Legislature, the agency could begin operation on March 26, 1980.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget requests \$238,512 for the Secretary of Youth and Adult Correctional Agency in the budget year. This consists of \$188,347 for personal services and \$50,165 for operating expense and equipment. The budget reflects no expenditures for the agency in 1979-80, but indicates that, if the reorganization plan is not disapproved, the new agency may begin operations in the current year.

Six positions and related resources will be transferred to the new agency from the Health and Welfare Agency (2 positions), the Department of Corrections (3 positions), and Department of the Youth Authority (1 position). In our judgment, the proposed staffing level is reasonable in the absence of any actual operating experience.

Governor's Office
OFFICE FOR CITIZEN INITIATIVE AND
VOLUNTARY ACTION

Item 38 from the General Fund

Budget p. LJE 27

Requested 1980-81	\$178,930
Estimated 1979-80	171,864
Actual 1978-79	0
Requested increase (excluding amount for salary increases) \$7,066 (+4.1 percent)	
Total recommended reduction	None

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
38	Support	General	\$153,930
		Federal	25,000
	Total		\$178,930

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Maximize Federal Funds. Recommend office apply for maximum federal funding. Further recommend that control language be added to capture any state savings resulting from additional federal support.

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GENERAL PROGRAM STATEMENT

Chapter 1195, Statutes of 1978, known as the California State Government Volunteers Act, requires state agencies to maximize the involvement of volunteers in state government. It created an Office for Citizen Initiative and Voluntary Action to succeed the Governor's Office of Volunteerism, which was established administratively in August 1977. The office terminates on December 31, 1981. It is funded by the General Fund and a grant from ACTION, the federal agency that provides financial assistance to state volunteerism offices.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$178,930 for the Office for Citizen Initiative and Voluntary Action (OCIVA) in 1980-81, consisting of \$153,930 from the General Fund and \$25,000 in federal ACTION monies. This is \$7,066, or 4.1 percent, more than the estimated current-year expenditure. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes funding for a staff of five persons, which is the same number as in the current year. The proposed increases are \$5,747 for personal services (3.6 percent) and \$1,319 for operating expenses (3.6 percent).

During the budget year, the office intends to implement a loaned corporate executive program for short-term placements of private sector

managers with selected state programs or task forces. This program will be in addition to the office's ongoing efforts to expand voluntary participation in state, local, and private organizations. The office will also increase the amount of technical assistance provided to local voluntary efforts attempting to meet the needs of the Indochinese refugees in California.

Maximize Federal Funds

We recommend that OCIVA request the maximum amount of grant support that ACTION could allow. We further recommend that control language be added to Item 38 to reduce General Fund support if additional federal funds are received.

The budget shows reimbursements from ACTION amounting to \$25,000 in 1980-81.

ACTION has recently adopted regulations extending the period during which a state volunteerism office can receive ACTION funds from three to five years. The regulations also require current grant recipients to be given funding preference next year. Each state is eligible for a maximum ACTION grant of \$100,000. States are required to provide matching funds of 25 percent in the third year (1979-80 for OCIVA), 40 percent in the fourth year, and 50 percent in the fifth year.

The office has applied for a grant of \$53,600 in the current year, although only \$25,000 is shown in the Governor's Budget. While the grant application has not been formally approved, OCIVA recently received a quarterly allocation of \$15,000 from ACTION. Based on this allocation, we believe that the office can reasonably expect to receive \$60,000 in the budget year.

Because OCIVA's budget shows only \$25,000 in federal funds for 1979-80 and 1980-81, the state General Fund may be incurring an unnecessary expenditure of \$28,600 in the current year, and \$75,000 in the budget year.

Our analysis indicates that the total amount requested in the Governor's Budget is appropriate. At the same time, we believe that state costs can and should be reduced by maximizing the amount of federal funding. In fact, Control Section 8.5, Budget Act of 1979, requires state agencies to request the maximum allowable amount when applying for federal funds. (A similar section is contained in the 1980 Budget Bill.)

Table 1 shows that California would still be providing enough state funds to match the federal grant at any level within the likely funding range.

Table 1
Office for Citizen Initiative and Voluntary Action
Federal Matching Requirements

	<i>Target Program</i>	<i>ACTION Grant</i>	<i>State Funds Required</i>	<i>Required Match</i>	<i>Over Match</i>
1979-80					
Governor's Budget	\$171,864	\$25,000	\$146,864	\$8,333	\$138,531
Current estimate.....	171,864	53,600	118,264	17,867	99,397
Potential General Fund Savings			\$28,600		
1980-81					
Governor's Budget	\$178,930	\$25,000	\$153,930	\$16,667	\$137,263
Current estimate.....	178,930	60,000	118,930	40,000	78,930
Maximum allowable grant	178,930	100,000	78,930	66,667	12,263
Potential General Fund Savings			\$75,000		

**OFFICE FOR CITIZEN INITIATIVE AND
VOLUNTARY ACTION—Continued**

Therefore, we recommend that control language be included in Item 38 to require that the office's General Fund appropriation be reduced by the amount of federal money received in excess of the \$25,000 budgeted. This would allow OCIVA to be funded at its proposed budget level, but would insure that potential General Fund savings are realized.

SOUTHWEST BORDER REGIONAL COMMISSION

Item 39 from the General Fund
and Item 40 from federal
funds

Budget p. LJE 28

Requested 1980-81	\$236,321
Estimated 1979-80.....	269,823
Actual 1978-79	187,935
Requested decrease (excluding amount for salary increases) \$33,502 (-12.4 percent)	
Total recommended reduction	None

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
39	State Participation Fee	General	\$50,000
40	California Office Support	Federal	178,679
—	Reimbursements		7,642
	Total		\$236,321

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. State Funding. We recommend that the appropriation of \$50,000 for the state participation fee be (1) made contingent on the enactment of enabling legislation and (2) funded by reimbursements from the Department of Economic and Business Development rather than the General Fund.

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GENERAL PROGRAM STATEMENT

The Southwest Border Regional Commission (SWBRC) is a regional economic development commission established by Congress under Title V of the Public Works and Economic Development Act of 1965. Consisting of the Mexico border counties of California, New Mexico, Arizona and Texas, the SWBRC is attempting to develop a regional economic development plan for the border region. It will have the capacity to support regional development projects in such areas as transportation, health care and health delivery systems, vocational education, energy development and arts and cultural development, using federal funds. These funds would

not cover the total costs of development projects but would serve as "seed money."

Executive Order B34-77 established a California office of the SWBRC (the CASWBRC) in September 1977, and assigned the responsibility for administering the activities of the office to the Lieutenant Governor. The program was transferred to the Governor's Office, in 1978, by Executive Order D 4-78.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$236,321, which is a \$33,502, or 12.4 percent, decrease from estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. As shown in Table 1, commission expenditures would be funded from three sources: the General Fund (\$50,000), federal funds (\$178,679), and reimbursements (\$7,642). The General Fund amount of \$50,000 is the state's fee for participation in the SWBRC, and is paid by each participating state to offset the costs of the regional office in Tucson, Arizona. The \$178,679 in federal funds is the proposed cost of operating the California office. The \$7,642 in reimbursements will be provided by the Department of Social Services, and will finance the last three months of a special project in the area of economic impact reports.

Table 1
Southwest Border Regional Commission
Budget Summary

	<i>Actual</i> 1978-79	<i>Estimated</i> 1979-80	<i>Proposed</i> 1980-81	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Expenditures:					
Personnel Services	\$130,567	\$133,870	\$137,427	\$3,557	+2.6%
Operating expense and equipment.....	57,368	135,953	98,894	-37,059	-27.3
Totals	\$187,935	\$269,823	\$236,321	\$-33,502	-12.4
Funding:					
General Fund	—	—	\$50,000	\$50,000	
Federal funds	\$171,369	\$162,435	178,679	16,244	
Reimbursements:					
Department of Economic and Business Development	—	50,000	—	-50,000	
Governor's office	—	35,000	—	-35,000	
Department of Social Services	16,566	22,388	7,642	-14,746	
Totals	\$187,935	\$269,823	\$236,321	\$-33,502	-12.4%

California Office of the SWBRC (CASWBRC)

The California office of the SWBRC was established by the Governor on September 8, 1977 (Executive Order B-34-77). The Lieutenant Governor was delegated the responsibility for administering the office, and the Secretary of the Business and Transportation Agency was directed to coordinate the activities of the commission with the Lieutenant Governor.

On September 21, 1977, the Director of Finance requested that the Joint Legislative Budget Committee (JLBC) waive the 30-day waiting period

SOUTHWEST BORDER REGIONAL COMMISSION—Continued

required by Section 28 of the Budget Act of 1977 so that the Lieutenant Governor's office could encumber \$33,500 in federal funds provided to establish the California office of the SWBRC (CASWBRC). The request was approved by letter dated October 11, 1977, based on the following understandings and conditions:

"This initial allocation is expected to be followed by a second allocation to continue operation of this office through the remainder of 1977-78, at which time the program and any administratively established positions will be subject to the normal budget review process. It is also understood that further functioning of this liaison office will be contingent upon legislative review and appropriation of state funds beginning with the state's 1979-80 fiscal year and that state funds will be not required before October 1979."

A second allocation of federal funds for 1977-78 (\$69,313) was reported to the Legislature under the provisions of Section 28, on June 5, 1978. The JLBC approved the request for a waiver of the 30-day waiting period under conditions similar to those established on October 11, 1977.

The Governor's Budget for 1978-79 projected federal funding of \$100,000 for the office, and requested the establishment of 3.7 permanent positions for continuation of the CASWBRC. This request was reviewed and approved by the Legislature in Item 39 of the 1978 Budget Act. The Lieutenant Governor subsequently assigned additional staff to the CASWBRC. Thus, when the administrative responsibility of the CASWBRC was transferred from the Lieutenant Governor's Office to the Governor's Office in January 1979, a total of five positions were reassigned.

Legislative Action on CASWBRC 1979-80 Budget

In our Analysis of the 1979 Budget Bill we noted that full federal funding of administrative costs of the SWBRC would end in October 1979, and that the state would then be required to match federal funds or withdraw from the program. We pointed out that this issue had not been addressed in the Governor's Budget, that no state matching funds were requested from the Legislature, and that only \$145,180 in federal funds were proposed for continuation of the CASWBRC.

We have consistently taken the position that, before state funds are provided for a program established by executive order, the Legislature should first authorize the functions, responsibilities, and duties of the program through appropriate legislation. Accordingly, in the absence of statutory authorization for the commission, we recommended that state funds not be used to support the commission during fiscal year 1979-80.

During subcommittee hearings on the budget item for the SWBRC, spokesmen for the administration acknowledged that (1) state funds in the amount of \$50,000 would be required for support of the Tucson office during 1979-80, (2) the administration would provide these funds from some source which could not be identified at that time, and (3) any reallocation of funds to the commission would be reported to the Legislature under the provisions of Section 28. The Supplemental Report of the Conference Committee on the 1979 Budget Bill directed the CASWBRC

and the Governor's Office to propose legislation by January 1980 to statutorily establish the California office, to detail the specific objectives and responsibilities of the office, and to provide for periodic reporting of activities.

On August 7, 1979, the Director of Finance requested a waiver of the 30-day waiting period established by Section 28 of the 1979 Budget Act so that the CASWBRC could spend a one-time grant of \$85,000 from the Department of Economic and Business Development. Of the \$85,000, \$50,000 was to provide the state's share of support for the SWBRC office in Tucson. The remaining \$35,000 was proposed to cover a projected expenditure deficiency in the federal fiscal year 1979 budget (October 1, 1978-September 30, 1979) for the California office of the SWBRC.

This request was the subject of two public hearings conducted by the Joint Legislative Budget Committee on August 22 and 29 of 1979. At the conclusion of these hearings, the committee took the following actions:

1. It approved the 30-day waiver with respect to \$50,000 of the \$85,000 with the understanding that (1) these funds be used to provide the state's share of support for the Tucson office, and (2) "future state appropriations be subject to passage of legislation authorizing the commission."
2. It denied the requested 30-day waiver with respect to the \$35,000 which the administration planned to use to cover the projected deficiency in the California office budget. In addition, the committee urged the Director of Finance *not* to authorize this expenditure after the 30-day waiting period expired.
3. It waived the requirement for further reporting under Section 28 if the Governor funded the proposed deficiency of \$35,000 from funds available to the Governor's Office in Items 26-30 and 40-43 of the 1979 Budget Act. (The Governor subsequently approved the transfer of the \$35,000 under these conditions.)

1980-81 Participation Fee (Item 39)

We recommend that the appropriation of \$50,000 for the state participation fee be made contingent on the enactment of legislation authorizing the commission. We further recommend that the \$50,000 be funded by contract reimbursements from the Department of Economic and Business Development rather than from the General Fund.

Item 39 proposes a \$50,000 appropriation from the General Fund for the state's contribution toward the cost of maintaining the SWBRC's office in Tucson. This request raises two issues:

1. Should state funds be used to support the commission in the absence of authorizing legislation?
2. Is the General Fund the appropriate source of support?

When this analysis was written, no enabling legislation had been enacted authorizing the commission. We have consistently taken the position that no state funds should be provided for a program established by executive order until the Legislature has established its functions, responsibilities, and duties through legislation. This position is consistent with prior legislative action on the commission's budget. Accordingly, we recom-

SOUTHWEST BORDER REGIONAL COMMISSION—Continued

mend that control language be added to Item 39 prohibiting the expenditure of any state funds for the commission prior to enactment of enabling legislation.

Our analysis indicates that if the Legislature wishes to appropriate \$50,000 to the commission, these funds need not come from the General Fund. The \$50,000 fee for 1979–80 was provided by the Department of Economic and Business Development from a special account within the Economic Development Grant and Loan Fund. This fund was established by Chapter 1229, Statutes of 1977, and receives all repayments of economic development loans made under Public Law 89-136. All money in the fund is continuously appropriated without regard to fiscal year, and these amounts may be used for any economic development purpose approved by the Legislature. Thus, these funds could be appropriated by the Legislature to replace existing General Fund revenues used to support economic development activities, or to expand the state's economic development effort.

Neither the balances in the Economic Development Grant and Loan Fund nor the expenditures from the fund have been reported in the Governor's Budget. As a result, the Legislature has not had an opportunity to participate in the specific determination of how these funds are to be used.

Our review of the 1979–80 contract between the department and the commission indicates that use of these funds is consistent with both federal and state law. If the legislation desires to provide state funds to the commission, we recommend that the money come from this fund in order to minimize demands on the General Fund.

Governor's Office**OFFICE OF EMPLOYEE RELATIONS**

Item 41 from the General Fund

Budget p. LJE 29

Requested 1980–81	\$709,341
Estimated 1979–80.....	668,639
Actual 1978–79	355,640
Requested increase (excluding amount for salary increases) \$40,702 (+6.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Office of Employee Relations (OER) has been designated by the Governor to represent the administration in all matters concerning state employee relations.

Chapter 1159, Statutes of 1977 (SB 839), which became operative July 1, 1978, provides for a formal, bilateral employee relations system for most state civil service employees. Under the provisions of Chapter 1159, the Governor or his designee is required to "meet and confer in good faith"

with employee organizations which have been selected by a majority of employees within individual bargaining units in an effort to reach agreement relative to "wages, hours and other terms and conditions of employment." Such agreements are to be formalized in memorandums of understanding. Any provision in such a memorandum requiring the expenditure of funds (for example, negotiated salary or benefit increases) is subject to approval by the Legislature. Mediation is required if the parties are unable to reach agreement.

The Public Employment Relations Board (PERB) is responsible for (1) determining appropriate bargaining units (that is, designating the specific civil service classifications which are to be combined in separate units for representation by individual employee organizations) and (2) conducting elections to determine which, if any, of the competing employee organizations will serve as the exclusive bargaining agent for each such unit.

The PERB completed the civil service unit determination process in November 1979 and designated a total of 20 separate bargaining units. The next major step toward implementing collective negotiations will be the conducting of elections to determine which employee organization, if any, will be the exclusive representative of each individual unit. According to PERB staff, it is possible that employee organizations will be certified as exclusive representatives for at least some of the bargaining units prior to July 1, 1980. However, because pending legal action challenges the constitutionality of Chapter 1159, it is uncertain at this time whether or when good faith collective negotiations will take place with respect to state civil service employees. (This legal action and the status of collective negotiations regarding civil service employees are discussed in more detail in our analysis of employee compensation, under Items 488-490.)

Traditionally, state civil service salaries and benefits have been adjusted on the basis of (1) State Personnel Board (SPB) surveys of salaries and benefits received in nonstate employment, (2) salary and benefit increase recommendations contained in the board's annual report to the Governor and Legislature, (3) budget action by the Governor and Legislature, and (4) allocation of funds appropriated for salary increases by the board on a class-by-class basis.

The SPB is to continue to adjust salaries of state civil service employees who (1) are designated as "management," "supervisory," or "confidential" employees or (2) are not in bargaining units represented by exclusive bargaining agents.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes an appropriation of \$709,341 from the General Fund to support the OER in 1980-81. This is \$40,702, or 6.1 percent, more than estimated General Fund expenditures for the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 shows total office expenditures including reimbursements for the past, current, and budget years. The table shows total office expenditures as decreasing by \$94,236 (or 11.7 percent) in the budget year, and

OFFICE OF EMPLOYEE RELATIONS—Continued

personnel-years as increasing by 0.8 positions. The decrease in expenditures results from the discontinuation of reimbursements, which is discussed below. The personnel increase would restore a fractional position lost as a result of a one-time reduction made in the current year pursuant to Control Section 27.2 of the 1979 Budget Act.

Reimbursements in Prior Fiscal Years

Table 1 shows that the office received reimbursements of \$500,113 in 1978-79 and \$134,938 in 1979-80. Of these reimbursements totaling \$635,051, \$46,000 was provided through a federal grant for a study of management compensation practices which might be feasible in California state service. The remaining \$589,051 was provided through a federal Title II grant which the office used for (1) augmenting its own staff and (2) subcontracting with other state agencies to accomplish special tasks to prepare the executive branch for conducting collective negotiations and administering agreements reached under the provisions of Chapter 1159.

Table 1
Office of Employee Relations
Budget Summary

	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Personal services.....	\$385,871	\$549,279	\$578,589	\$29,310	5.3%
Operating expenses and equipment.....	469,882	254,298	130,752	-123,546	-48.6
Total expenses.....	\$855,753	\$803,577	\$709,341	\$-94,236	-11.7%
Less reimbursements.....	-500,113	-134,938	-	+134,938	-100.0
Net General Fund expenses.....	\$355,640	\$668,639	\$709,341	\$40,702	6.1
Personnel-years.....	13.5	15.7	16.5	0.8	5.1

Increase in General Fund Support

The proposed \$40,702 increase in General Fund support would fund positions supported during the current year with a federal grant. Our analysis indicates a continued need for these positions.

Office Organization

For the 1980-81 fiscal year, the budget proposes that the OER continue to have 16.5 positions (13.5 professional and 3 clerical). The office consists of:

1. An executive management unit having 2 professional positions.
2. An operations unit having 4 professional positions responsible for working directly with the individual line agencies on employee relations matters such as employee grievances, work stoppages, and interpretation of policy.
3. A legal counsel and assistant legal counsel.
4. A research and administrative unit having 5.5 professional positions. This unit is also responsible for developing and coordinating legislation and training in employee relations.

Employees from each of these OER units and management representa-

tives from the individual state line agencies will represent the executive branch in its collective negotiations with employee organizations under the provisions of Chapter 1159.

Governor Proposes New Office of Personnel Administration

In December 1979, the Governor's Office submitted "Reorganization Plan No. 2" for review by the Commission on California State Government Organization and Economy. The plan would establish an Office of Personnel Administration reporting to the Governor to "manage non-merit aspects of the state's personnel system." The office is to be responsible for:

1. All functions performed currently by the Governor's Office of Employee Relations.
2. The following functions performed currently by the State Personnel Board (SPB):
 - A. Salary administration.
 - B. Administration of working hours and related matters.
 - C. Training.
 - D. Performance evaluation.
 - E. Layoff and grievance administration.
3. Administering the state employee health benefits program, which is administered currently by the Public Employees' Retirement System.
4. Salary administration with respect to employees exempt from civil service. This function is administered now by the Department of Finance.
5. Administering the deferred compensation plan, now administered by the Department of General Services.
6. Administering employee reimbursement and related functions performed currently by the State Board of Control.

We discuss the reorganization plan in more detail in our analysis of the SPB (Item 140), where we recommend that control language be added to the board's General Fund support item prohibiting transfer of funds supporting the SPB salary survey function.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 42 from the General Fund

Budget p. LJE 30

Requested 1980-81	\$2,975,537
Estimated 1979-80	2,603,814
Actual 1978-79	2,184,023
Requested increase (excluding amount for salary increases) \$371,723 (+14.3 percent)	
Total recommended reduction	\$160,000
Recommended transfer to Item 205	\$242,725

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|--|----|
| 1. State Planning and Policy Development. Recommend OPR be directed to evaluate the impact of urban development on fire protection as part of the Sierra Foothills study. | 60 |
| 2. <i>Office of Appropriate Technology (OAT). Transfer reimbursement of \$242,725 for a study of toxic combustion processes from OAT (Item 42) to Solid Waste Management Board (Item 205), and delete reimbursement of \$160,000 for an affordable housing design competition.</i> | 62 |

GENERAL PROGRAM STATEMENT

The Office of Planning and Research (OPR) is responsible for developing recommendations to the Governor on statewide policies relating to land use, development, environmental protection, and planning. It is also responsible for reviewing and coordinating a variety of state and local agency activities for consistency with state policies. Related responsibilities include (1) serving as research staff to the Governor on a wide range of subjects, (2) administering federal financial assistance programs directed toward improving local planning, (3) acting as a clearinghouse for environmental impact reports and federal grant applications, (4) assisting in improving California Environmental Quality Act procedures, and (5) coordinating state permit granting processes.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$2,975,537 from the General Fund for support of the Office of Planning and Research in 1980-81. This is an increase of \$371,723, or 14.3 percent, above estimated current year expenditures. The budget proposes total expenditures from all funding sources of \$6,335,056, which is an increase of \$280,825, or 4.6 percent, above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1 provides a breakdown of changes by program and funding source.

Table 1
Office of Planning and Research
Proposed 1980-81 General Fund Budget Changes

<i>Programs</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>General Fund</i>	<i>Changes Federal funds</i>	<i>Reimburse- ments</i>	<i>Total Changes from 1979-80</i>
1. State Planning and Policy						
Development	\$852,095	\$665,193	\$+50,510	\$-197,773	\$-39,639	\$-186,902
2. Local Government Affairs	1,196,832 ^a	1,187,967 ^a	+62,590	-44,274	-27,181	-8,865
3. Project Review and Coordination	892,939	991,044	+129,822	-66,717	+35,000	+98,105
4. Appropriate Technology	2,618,580 ^b	3,020,613 ^b	+104,081	+162,317	+135,635 ^c	+402,033
5. American Indian Coordinator	182,363	160,945	+34,648	-56,066	—	-21,418
6. Executive and administration	311,422	309,294	-9,928	—	+7,800	-2,128
Totals	\$6,054,231 ^d	\$6,335,056 ^d	\$+371,723	\$-202,513	\$-111,615	\$+280,825

^a Includes local assistance pass-through grants in Item 43.

^b Includes Energy Extension Service grants and contracts.

^c Change due to proposed reimbursements for toxic disposal and affordable housing design programs.

^d Includes all pass-through grants, energy grants and contracts.

OFFICE OF PLANNING AND RESEARCH—Continued**Federal HUD 701 Funds Decline**

OPR has received annual comprehensive planning assistance grants (HUD 701) from the U.S. Department of Housing and Urban Development (HUD) for nine years. Federal funds for this program are declining nationwide. As a result, in 1980–81, the office expects to receive only \$600,000 from the HUD 701 program, a decrease of \$150,000 from the amount received for the current year.

In order to prevent a reduction in ongoing program activities, the budget proposes to offset the anticipated decrease in HUD 701 funds by: (a) increasing General Fund support by \$125,000, and (b) using federal grants received in the current year to continue projects into the budget year. In this way, OPR planning activities would not be reduced in 1980–81 despite a decrease in the basic federal planning grant.

Federal Funds and Position Count Underestimated Last Year

In the 1979 *Analysis*, we noted that a budgeted reduction of \$727,732 for support of OPR probably would not occur because the office had historically underestimated the amount of federal funds available. The budget for 1980–81 indicates that anticipated expenditure reductions have not occurred. In fact, OPR now estimates that it will receive approximately \$1,824,812 in unbudgeted federal funds in 1979–80. This amount includes:

(a) A \$192,000 “incentive” grant from HUD to study urban problems related to public services and development. OPR has begun to expend these funds even though the Department of Finance has failed to notify the Legislature in accordance with provisions of Section 28 of the Budget Act of 1979.

(b) A \$52,812 grant from the Administration for Native Americans which has been approved but not yet received by OPR.

(c) A \$1,580,000 grant to the Office of Appropriate Technology (OAT) from the U.S. Department of Energy to conduct an energy conservation program for individual energy consumers. In accordance with provisions of Section 28, OAT notified the Legislature of its intent to expend these funds in the current year. The 1980–81 budget appropriately schedules these funds for the budget year and proposes continuation of 7.8 positions administratively established in the current year, as well as 3 new positions, for a total of 11 positions.

State Planning and Policy Development

We recommend that the Legislature direct OPR to study fire suppression problems as a part of its Sierra Foothills study.

OPR prepared an Urban Strategy during 1977–78 which updated the previous *Environmental Goals and Policy Report*. OPR has devoted the last two fiscal years to implementing the strategy. More recently, OPR has shifted its emphasis to preparing a rural strategy report on development and resource issues in the Sierra Foothills. In order to undertake this effort, OPR is using \$60,000 and one position from a two-year HUD “incentive” grant which became available in the current year.

Although the specific objectives of the report are not known, it could

lead to new state policies on rural development and resource protection. Fire protection in rural areas is an important policy problem with both statewide and local significance and should be addressed as part of this effort. In particular, there is a need to differentiate the Department of Forestry's responsibilities for fire suppression from those of local agencies. This problem is discussed in greater detail in our analysis of the Department of Forestry, Item 224.

We recommend that the Legislature adopt the following Supplemental Report Language for Item 42: "The Office of Planning and Research shall include in the Sierra Foothills study an evaluation of the effect of population growth, increased densities, and structural values on state and local fire suppression responsibilities."

OFFICE OF APPROPRIATE TECHNOLOGY

Executive Order B-18-76, dated May 1976, established the Office of Appropriate Technology (OAT). The office was charged with assisting and advising state agencies in developing and implementing less costly and less energy-intensive technologies for recycling, waste disposal, transportation, agriculture, energy uses and building design. OAT also provides advisory and technical services to local agencies and community groups, and performs educational and coordinating roles related to "appropriate technology."

Since it was established, OAT's basic role and function has been unclear. In the 1979 *Analysis*, we recommended that the Legislature establish OAT by statute and specifically define its responsibilities. The Supplemental Report of the 1979 Budget Act directed OAT to prepare such legislation by January 1, 1980. As of February 1, 1980 we had not received a draft of the legislation. Consequently, we have no basis for assessing the appropriateness of OAT's proposed and ongoing activities.

During the current year, OAT has attempted to more clearly focus its efforts on identifying energy-saving improvements in capital outlay projects, and on assisting the Department of General Services in designing air conditioning, solar, and cogeneration systems in state facilities.

The 1980-81 budget for OAT proposes three significant new programs which are discussed below.

California Energy Extension Service Plan

The National Energy Extension Service Act of 1977 authorized federal grants for state programs that encourage energy conservation. As a result of this act, the Governor's Office formed an Energy Extension Services Task Force in 1978 which designated OAT as the lead agency in preparing and implementing a California Energy Extension Service Plan (CEESP). The purpose of the plan is to encourage energy conservation by providing demonstration project funds, technical assistance, grants and information services to consumers, small businesses, and local governments.

During the current year, OAT received \$1,580,000 from the U.S. Department of Energy to implement its plan, and the Legislature was notified that the funds would be expended. The budget estimates that OAT will expend \$1,395,495 of these funds during 1979-80. It also proposes an additional \$1,557,812 in the budget year from a second federal grant.

OFFICE OF PLANNING AND RESEARCH—Continued

OAT will use the funds to provide energy conservation grants to community-based groups and to finance demonstration projects for state and local agencies. OAT is proposing to continue projects begun in the current year which will demonstrate such techniques as (a) energy savings from alternative agricultural operations including crop drying and greenhouses, and (b) better fuel efficiency from improved driving habits. It is also providing technical assistance and information services to local governments interested in adopting energy conservation measures.

Toxic Disposal Study

We recommend that the Legislature delete a reimbursement of \$242,725 in Item 42 for assessing technological alternatives to land disposal of toxic wastes, and transfer funding for the study to Item 205 for the Solid Waste Management Board.

Currently, most toxic waste materials or chemicals are disposed of at dump sites on land. This can lead to groundwater and soil contamination, which endangers public health. Last year the Legislature designated the Department of Health Services as the agency responsible for overall program management and coordination of hazardous wastes. However, Health Services is not proposing to do the feasibility study of landfill alternatives. Instead, OAT's budget includes \$242,725 in reimbursements from the Department of Health Services that would be used to investigate alternatives to landfill operations which have the potential to reduce the toxicity and volume of hazardous materials.

OAT proposes to study: (a) a molten salt combustor which could trap most of the toxic emissions from the combustion process using a bed of molten salt, (b) a portable combustor which could burn and detoxify specific toxic wastes on-site, and (c) the feasibility of converting waste by-products and chemicals into safe, recyclable materials or reusing waste chemicals.

Efforts to reduce toxic waste disposal warrant state support. We do not believe, however, that OAT is the proper agency to undertake the work for the following reasons. First, undertaking a study of capital intensive, high technology projects is a major departure from OAT's past and current endeavors. Second, OAT does not have the organization, the skills, or the mission to work with high technology projects such as a molten salt combustor. OAT proposes to establish five, limited-term, high-skill positions to conduct the study in one year. We doubt that such skills can be secured for limited term employment.

Our analysis indicates that the State Solid Waste Management Board is the most appropriate agency to perform this study as part of its ongoing responsibility to research and develop new technologies related to solid waste disposal. The Solid Waste Management Board has the continuing responsibility to work with other combustion processes to eliminate solid wastes. The molten salt combustor is an advanced form of such combustion processes. Furthermore, such a study such as the molten salt combustor should provide for long-term monitoring of a developing technology rather than a short-term study as proposed by OAT.

We recognize that the board has had problems in handling its present assignments. In order to overcome these problems we have recommended that the Legislature reorganize the Solid Waste Management Board. After being reorganized, the board should be able to undertake both the molten salt combustor project and its other assigned functions more effectively. (A more complete discussion of the board's problems and our recommendations is found in Item 205, Solid Waste Management Board.)

We therefore recommend that responsibility for assessing alternatives to land disposal be transferred from OAT to the board and that reimbursements in Item 42 be reduced by \$242,725. Because the \$242,725 is not proposed in the Department of Health Services budget for transfer to OAT as a result of a budgeting error, it will be necessary for the Legislature to provide funding in Item 205 for the board to conduct the study.

Affordable Housing Design Competition

We recommend deletion of \$160,000 in reimbursements from the Department of Housing and Community Development (Item 163) for an affordable housing design competition.

Chapter 1367, Statutes of 1978, established a passive solar design competition to demonstrate the technical and economic feasibility of designing solar features for residential construction. Chapter 1367 imposed limits on housing construction costs ranging from \$50,000 to \$85,000. These limits were established to promote the development of advanced solar design in housing intended for moderate income families. The limit turned out to be so low that few firms were able to submit designs within the allowable cost range. As a result, the competition encountered problems in encouraging the design of low or moderate cost homes. Data on the winning designs is currently being published.

The budget proposes \$500,000 in Item 163, Department of Housing and Community Development (HCD), for another design competition to focus primarily on "affordable" housing. Included in the \$500,000 is \$160,000 for transfer from Item 163 to Item 42 for OAT to assist in administering the competition and in publishing the award-winning designs.

In our discussion of Item 163, we recommend that the \$500,000 be deleted for the following reasons: (1) there is no assurance that the state effort will be any more successful than ongoing federal efforts to promote energy efficient low cost housing, (2) the competition may be duplicative of previous efforts, (3) we have no basis for determining if the award amounts encourage participation, and (4) there is no clear definition of the vague concept of "affordable" housing. As a result, we recommend that Item 43 be reduced by \$160,000 in reimbursements from HCD for the design competition. In the event the Legislature approves the \$500,000 appropriation, OAT should clearly identify its involvement in the design competition and its criteria for defining "affordable" housing.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 43 from federal funds

Budget p. LJE 36

Requested 1980-81	\$500,000
Estimated 1979-80	494,000
Actual 1978-79	3,371,655
Requested decrease \$6,000 (+1.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Office of Planning and Research (OPR) is the state recipient of HUD 701 Comprehensive Planning Assistance grants. These grants assist individual localities and nonmetropolitan Councils of Government (COGs) to improve their planning and management capabilities. Responsibility for administration of these grants is being transferred from OPR to the State Housing and Community Development Department (HCD). However, OPR's Planning Advisory and Assistance Council will continue to advise HCD on the allocation of these grants.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes expenditure of \$500,000 for planning assistance grants to localities with populations under 50,000, and to approximately six nonmetropolitan COGs. This is a \$2.0 million reduction from the amount in the 1979-80 Governor's Budget. The estimated current year expenditure of \$494,000 was also reduced by \$2.0 million. These reductions are the result of a change in HUD budgeting procedures. Prior to 1979-80, planning grants to metropolitan COGs were passed through this item. In the current and budget years, these grants are being provided by HUD directly to metropolitan COGs.

Governor's Office
OFFICE OF EMERGENCY SERVICES

Item 44 from the General Fund
 and Item 45 from federal
 funds

Budget p. LJE 37

Requested 1980-81	\$61,539,404
Estimated 1979-80	61,643,745
Actual 1978-79	47,772,538
Requested decrease (excluding amount for salary increases) \$104,341 (-0.2 percent)	
Total recommended reduction	\$239,610

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
44	Support	General	\$3,322,270
—	Support	Reimbursements	3,000
—	Support	Nuclear Planning	
—		Assessment	
—		Special Account	200,830
—	Support	Federal	1,853,391
45	Local Assistance	Federal	52,909,913 ^a
—	Local Assistance	Nuclear Planning	
		Assessment	
		Special Account	500,000
—	Local Assistance	Public Facilities	
		Account	1,250,000
—	Local Assistance	Street and Highway	
		Account	1,500,000
	Total		\$61,539,404

^aReflected in Budget Bill for information purposes only.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Federal Matching Funds. Recommend that the Department of Finance report to the fiscal committees on procedures for projecting federal funds. 67
2. *Toxic Materials. Reduce Item 44 by \$239,610.* Recommend reduced support for the toxic material program. 69
3. Crisis Relocation Planning. Recommend that the office report to the fiscal committees regarding the status of the Crisis Relocation Plan. 71

GENERAL PROGRAM STATEMENT

The Office of Emergency Services coordinates emergency activities necessary to save lives and reduce property losses arising from natural or other disasters in the state. In addition to its administrative component, the office carries out its mission through two programs—emergency mutual aid services, and fixed nuclear powerplant planning. It also provides aid to local governments through the Natural Disaster Assistance Fund.

Emergency Mutual Aid

This program has four elements:

(1) *Provision and Coordination of Mutual Aid.* This element encourages and coordinates mutual aid agreements among various state and local agencies having fire, rescue, law enforcement and communications capabilities and equipment. It also distributes federal surplus equipment and federal and state disaster aid funding.

(2) *Development and Utilization of Emergency Communications Systems.* This element maintains a statewide disaster warning system on a 24-hour basis. It assists in the development of local communication networks to permit interconnections among state and local fire, law enforcement, and civil defense agencies.

(3) *Development and Implementation of Emergency Plans.* This element maintains a statewide emergency plan, and assists other agencies

OFFICE OF EMERGENCY SERVICES—Continued

and local jurisdictions in the development and periodic updating of compatible local plans. It also administers the dam safety program established by Chapter 780, Statutes of 1972, which required owners of certain dams throughout the state to file maps of the downstream areas showing various levels of possible inundation in the event of a dam failure.

(4) *Management and Maintenance of State Resources.* Finally, the state owns a substantial inventory of fire pumper trucks and equipment; communications trucks, vans and portable equipment; and medical, radiation detection and training equipment, most of which is deployed to local governmental jurisdictions and other state agencies.

Fixed Nuclear Powerplant Planning

This program, was established in the current year by Chapter 956, Statutes of 1978, and is responsible for state and local planning for emergencies resulting from a nuclear powerplant accident.

Natural Disaster Assistance Fund

State aid to local governments for replacing or repairing public real property damaged by a natural disaster is provided from the Natural Disaster Assistance Fund established by the Natural Disaster Assistance Act (Chapter 290, Statutes of 1974). The fund consists of two accounts: (1) the Street and Highway Account, which derived its funding from a special one-cent tax per gallon of gasoline imposed for one year only in 1969 under the Highway Users' Tax program, and (2) the Public Facilities Account, which in past years derived its funding from special General Fund appropriations.

ANALYSIS AND RECOMMENDATIONS

As shown in Table 1, the office is proposing a total expenditure program of \$61,539,404 in the budget year, financed by the General Fund, special funds, federal funds, and reimbursements. The total includes expenditures from the Nuclear Planning Assessment Special Account (NPASA) and the Natural Disaster Assistance Fund. Total expenditures budgeted for 1980-81 are \$104,341 (0.2 percent) less than estimated current-year expenditures.

Funding for OES Operations

The budget proposes \$5,379,491 for direct support of the office, an increase of \$183,610 (3.5 percent). This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The budgeted increase reflects a \$629,309 (23.4 percent) increase in General Fund support, partially offset by a decrease in federal funds of \$327,559 (-15 percent) and in the NPASA funds of \$188,140 (-37 percent).

Federal Matching Funds

We recommend that the Department of Finance report to the fiscal committees on procedures for projecting federal funds for OES.

The OES receives federal matching funds for most of its emergency planning activities. These funds, which are referred to as "Personnel and

Table 1
Office of Emergency Services
Source of Funding Summary

<i>Support</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
General Fund	\$2,692,961	\$3,322,270	\$629,309	23.4%
Federal funds	2,180,950	1,853,391	-327,559	-15.0
Reimbursements	3,000	3,000	-	-
Nuclear planning assessment	318,970	200,830	-118,140	-37.0
Subtotals	\$5,195,881	\$5,379,491	\$183,610	3.5%
<i>Local Assistance</i>				
Disaster Relief ^a	\$50,000,000	\$50,000,000	-	-
Match ^a	2,697,864	2,909,913	\$212,049	7.9%
Nuclear planning assessment	-	500,000	500,000	-
Public facilities account	^b 2,500,000	1,250,000	-1,250,000	50.0
Street and Highway Account ^b	1,250,000	1,500,000	250,000	20.0
Subtotals	\$-56,447,864	\$56,159,913	\$-287,951	-0.5%
Totals	\$61,643,745	\$61,539,404	\$-104,341	-0.2%

Program Summary

Administration				
Distributed	(\$759,207)	(\$909,565)	(\$150,358)	(19.8%)
Personnel-years	23.0	24.7	1.7	7.4
Mutual aid	53,829,330	54,122,937	293,607	0.6
Personnel-years	23.1	24.3	1.2	5.2
Emergency communications systems	1,349,735	1,415,036	65,301	4.8
Personnel-years	14.7	14.7	-	-
Emergency plans	1,643,785	1,653,569	9,784	0.6
Personnel-years	29.5	33.5	4	13.6
State mutual aid resources	751,925	897,032	145,107	19.3
Personnel-years	11.7	11.8	.1	0.9
Nuclear planning assessment	318,970	700,830	381,860	119.7
Personnel-years	3	4	1	33.3
Subtotals	\$57,893,745	\$58,789,404	\$895,659	1.6%
	105	113	8	7.6
Natural Disaster Assistance Public Facilities	2,500,000	1,250,000	-1,250,000	-50.0%
Street and highways	1,250,000	1,500,000	250,000	20.0
Subtotals	\$3,750,000	\$2,750,000	\$-1,000,000	-26.7%
Totals	\$61,643,745	\$61,539,404	\$-104,341	-0.2%

^a Federal funds.

^b Pursuant to Government Code Section 8690.4.

Administration" allocations, pay for one-half of the costs of certain personnel, equipment, and maintenance. Both the office's total budget and its General Fund component are based on estimates of federal funds to be received.

In fiscal year 1978-79, OES received \$159,000 less in federal funds than the budget program anticipated. To offset the resulting deficit, the office had to reduce operating expenses. The Governor's Budget for 1979-80 also overestimated the amount of federal funds. The office, however, will not be able to absorb this deficit without reducing its programs below the budgeted level. In order to meet existing program requirements, the office is requesting an allocation from the Emergency or Contingency

OFFICE OF EMERGENCY SERVICES—Continued

Fund of \$183,000.

The shortfall in federal revenues during 1979-80 will also increase state costs in the budget year. During the first quarter of the budget year (July through September 1980), OES will not have any federal matching money available because its allocation for the current federal fiscal year (October 1, 1979 to September 30, 1980) will have been exhausted. Accordingly, it is requesting an additional \$311,000 from the General Fund to support those activities that otherwise would have been financed with federal funds.

In the interest of preventing a significant disruption in the office's programs, we recommend approval of the proposed increase in the General Fund contribution to OES. It is important, however, that both OES and the Department of Finance act to prevent deficits in the office's program budget from arising in the future. Because OES has repeatedly overestimated federal funds, we recommend that the Department of Finance be asked to report to the fiscal committees on the efforts being made to improve these estimates. At the same time, the department should be asked to identify alternatives for limiting expenditures to federal fund availability.

Federal Funds for Local Disaster Assistance and Emergency Planning Programs

Table 1 shows that \$50,000,000 in federal disaster assistance will be distributed to local governments in both the current and budget years. This amount is merely an estimate; the actual amount of federal assistance provided will depend on the cost of repairing damage caused by natural disasters. Approximately \$39.4 million was distributed in 1978-79.

Federal funds totaling \$2,909,913 also will be distributed in the budget year to match local civil defense and emergency planning, administration, equipment, and training costs. This is \$212,049 (7.9 percent) more than will be distributed in the current year.

Fixed Nuclear Powerplant Planning

Chapter 956, Statutes of 1979 (SB 1183), authorized the OES, in consultation with the Department of Health Services and affected counties, to investigate the consequences of a serious nuclear powerplant accident for each of the four nuclear powerplants in California with a generating capacity of 50 or more megawatts. Operators of these plants collectively will be assessed a sum not to exceed \$2,000,000 to cover the costs of this investigation. Assessments will be deposited in the Nuclear Planning Assessment Special Account before they are spent.

Chapter 956 also requires OES to revise its July 1975 "State of California Nuclear Powerplant Emergency Response Plan," and to work with appropriate state agencies in developing standard response procedures. In addition, it will assist local authorities in preparing or upgrading their emergency response plans to reflect new guidelines and parameters. These activities will also be funded by the Special Account.

The budget indicates that OES will spend \$318,970 from the special account in 1979-80 to initiate the planning process. In the budget year,

expenditures from the special account for state support and local assistance will total \$700,830, of which \$500,000 will be used by local governments to modify their emergency plans. Three positions were administratively established for this program in the current year. These positions will be continued and one clerical position will be added in the budget year.

Toxic Materials Program

We recommend that the General Fund appropriation be reduced by \$239,610 to reflect reductions in staff (\$39,840) and equipment (\$199,770) for the Toxic Materials Program (Item 44).

The budget requests \$294,932 to implement a two-part program to increase the office's capacity for dealing with crises related to toxic substances and hazardous wastes.

Emergency Response. OES proposes to add three positions at a cost of \$95,162 to:

1. Develop a program to alert responsible agencies whenever an emergency involving toxic substances or hazardous wastes occurs, using the office's existing 24-hour warning center. Currently, the office employs five warning officers, at a cost of \$127,000 per year, to receive calls reporting emergencies, and to notify the appropriate response agencies;
2. Develop a control reporting system to receive reports on all toxic spills occurring within the state;
3. Analyze reports to determine necessary changes in the current response program; and
4. Develop a statewide Emergency Response Plan in consultation with the California Highway Patrol, the Resources Agency, and Toxic Substances Control Council. (The council does not currently exist in law.) The office would provide expertise and guidance to local and state emergency service administrators, planners, and field personnel in developing emergency response procedures for incidents involving hazardous/toxic materials.

Our analysis indicates that an increase in calls due to centralized notification of toxic substance crises (point 1) can be absorbed by existing OES staff, as proposed by the office.

The increase in staff (1.5 positions) requested to develop a reporting system and analyze reports (points 2 and 3 above) has not been justified on a workload basis. There is no basis for projecting the number of hazardous incident reports that would be submitted. Accordingly, we have no basis on which to support the requested increase, and we recommend the deletion of 1.5 positions and related costs, for a savings of \$39,840.

Our analysis indicates that the state needs an Emergency Response Plan on this basis, we recommend that the 1.5 positions and \$55,322 for work on the Emergency Response Plan (point 4) be approved.

Personal Protective Equipment. OES proposes spending \$199,770 to acquire and deploy among various public agencies, 30 kits containing specialized equipment necessary for safeguarding emergency services personnel entering potentially hazardous areas. These kits will include such items as chemical protective suits, protective headgear, flashlights,

OFFICE OF EMERGENCY SERVICES—Continued

and books (Handbook on Industrial Solvents, Hazardous Material Handbook, Guide to Chemical Hazards).

Our analysis indicates that until the proposed Emergency Response Plan is available, there is no basis for determining the number of kits needed, their contents, or recipient agencies. In addition, prior to the purchase of these kits, the state should (a) identify the training requirements which would permit effective use of these kits by state and local employees and (b) establish a training delivery mechanism. For these reasons, we believe that the purchase of the kits is premature and should be deferred until such time as the office has completed its response plan. We therefore recommend a reduction of \$199,770 for equipment.

Disaster Planning, Preparedness and Response

The budget shows that \$135,000 will be transferred from OES to the Governor's Office during 1979-80. Previously, on December 4, 1979, the Director of Finance notified the Chairman of the Joint Legislative Budget Committee that she intended to approve this transfer so that the funds could be used to support activities related to the impact of a major natural disaster on existing and proposed nuclear powerplant sites. This notification was required by control language in Item 42, Budget Act of 1979.

According to the Governor's Legal Affairs advisor, \$75,000 of the \$135,000 was to be used to contract for legal representation before the federal Atomic Safety and Licensing Board. The board is currently addressing the issue of off-site emergency planning. We were advised that the Attorney General is unwilling to represent the Governor's Office on the issue. At the time of the notification, no plans for expending the remaining \$60,000 had been made.

The Chairman, on behalf of the Joint Legislative Budget Committee, recommended that the director postpone the transfer of funds until the fiscal committees had an opportunity to review this matter.

Support of the Civil Air Patrol

Chapter 369, Statutes of 1979 (SB 359), provided \$100,000 from the General Fund for maintenance (repair, and parts) of aircraft owned and operated by the California Wing of the Civil Air Patrol. The Governor's Budget does not reflect continued state support for the Civil Air Patrol in 1980-81.

FIRESCOPE

FIRESCOPE is a federally developed project in southern California designed to improve the management of resources in areas susceptible to large, multijurisdictional wildland fires.

The federal government has paid for the acquisition of equipment and, on a matching basis, a significant portion of the personnel costs associated with the project's research and development. As the project is implemented, the state will become responsible for an increasingly larger percentage of the costs. In the budget year, the state General Fund contribution will be 75 percent (\$91,747) of total *operational* costs. The federal government

will provide the remaining 25 percent (\$30,582) and an additional \$2.1 million for continued *development* of the FIREScope system in 1980-81.

Crisis Relocation Planning

We recommend that OES report to the fiscal committees regarding the status of Crisis Relocation Planning.

Under authority provided by Section 28, Budget Act of 1978, the Director of Finance authorized OES to expand its 100 percent federally funded nuclear civil protection (NCP) program to include crisis relocation planning (CRP). Such planning provides for the relocation of large numbers of persons during war-caused or natural emergencies. Prior to this expansion, most of the NCP effort was devoted to in-place shelters designed to protect the population from the effects of nuclear war.

Status. OES proposed development of crisis relocation plans for all counties in California, as well as statewide plans for the reallocation of food and other essential supplies, over a six-year period. The office projected that at least two county plans would be completed by the end of 1979.

The office has not finished the two county plans (Riverside and Merced) scheduled for completion by the end of 1979. In addition, OES indicates that the amount of federal funds initially anticipated for crisis relocation planning may be reduced as federal funds are redirected to planning efforts relating to nuclear powerplant accidents. Should this occur, either state funds or a longer time period would be required to complete the planning effort.

Given the uncertainty surrounding time schedules and funding levels, we recommend that OES report to the fiscal committees regarding the status of the crisis relocation planning effort.

LIEUTENANT GOVERNOR'S OFFICE

Item 46 from the General Fund

Budget p. LJE 44

Requested 1980-81	\$921,833
Estimated 1979-80	920,536
Actual 1978-79	754,802
Requested increase (excluding amount for salary increases) \$1,297 (0.1 percent)	
Total recommended reduction	\$49,750

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Travel. Reduce in-state travel by \$14,000.* Recommend deleting funding for increased number of trips. 73
2. *Highway Patrol Officer.* Recommend Lieutenant Governor's office comment on the need for a CHP driver. 73
3. *Highway Patrol Sergeant. Reduce by \$27,000.* Recommend contract with CHP for public information services be terminated. 73
4. *Funding of Two Commissions Not Authorized by Statute.* 75

LIEUTENANT GOVERNOR'S OFFICE—Continued

Reduce by \$8,750. Recommend support for the Commission on Food and Nutrition and the Commission on Agriculture be deleted.

GENERAL PROGRAM STATEMENT

The Lieutenant Governor is elected pursuant to the California Constitution and serves concurrently with the Governor. He assumes the responsibilities of chief executive in the absence of the Governor and serves as the presiding officer of the Senate, voting only in the case of a tie. The Lieutenant Governor also serves on numerous commissions and boards. His other duties include such special tasks as may be assigned by the Governor.

In addition to the Lieutenant Governor, the office currently is authorized 35 staff and clerical positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$921,833 from the General Fund for 1980-81. This is \$1,297, or 0.1 percent, more than estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The size of the proposed increase is misleading. General Fund expenditures for support of the Lieutenant Governor's Office are proposed to increase by \$85,359 (10.2 percent), but this increase is nearly offset by General Fund savings of \$84,062 resulting from termination of direct funding for the California Advisory Commission on Youth.

Table 1 summarizes the budget for the Lieutenant Governor's Office.

Table 1
Lieutenant Governor
Program Budgets

Program	Actual 1978-79	Estimated 1979-80	Proposed 1980-81	Change	
				Amount	Percent
Support of the Lieutenant Governor's Office	\$733,185	\$836,474	\$921,833	\$85,359	10.2%
California Advisory Commission on Youth	33,131	84,062	—	-84,062	-100.0
Youth training feasibility study	10,214	—	—	—	—
Rural youth employment	190,989	105,356	—	-105,356	-100.0
Totals	\$967,519	\$1,025,892	\$921,833	\$104,059	-10.1%
General Fund	\$754,802	\$920,536	\$921,833	\$1,297	0.1%
Federal funds	201,203	105,356	—	-105,356	-100.0
Reimbursements	11,514	—	—	—	—

Support of the Lieutenant Governor's Office

As shown in Table 1, proposed expenditures for the general activities of the Lieutenant Governor's Office are \$921,833 from the General Fund. This is \$85,359, or 10.2 percent, greater than estimated expenditures in 1979-80. The increase consists of \$12,720 for merit increases, \$19,603 in Section 27.2, Budget Act of 1979, salary savings not carried forward into 1980-81, and \$55,642 for increased operating expense and equipment.

Excessive In-state Travel

We recommend that in-state travel be reduced for a savings of \$14,000 from the General Fund.

The budget proposes \$46,870 for in-state travel in 1980-81. This is an increase of \$20,370 or 76.9 percent over estimated 1979-80 expenditures. Materials submitted in support of this increase show that the additional funds would allow the Lieutenant Governor to meet the unprecedented demand "to appear at public events and functions, on top of those presented by the boards and commissions and related duties in which the Lieutenant Governor represents the state." These materials further state that "the Lieutenant Governor feels obligated to fulfill these requests in every possible instance, and in many of those cases where he is unable to attend, he will send a representative from the office."

Our analysis indicates that the travel budget for the current year includes funds for the type of meetings mentioned in the supporting material provided by the Lieutenant Governor's Office. In the absence of legislative policy that constitutional officers should be able to accept all speaking invitations, including those not directly connected to the officer's duties, we recommend that the increased travel not be funded. If the current year travel budget is adjusted for price increases \$32,870 would be sufficient to meet office needs resulting in a savings of \$14,000.

Questionable Use of Highway Patrol Officers

We recommend that the Lieutenant Governor's Office be prepared to comment on its use of a Highway Patrol officer as a personal driver.

The Lieutenant Governor's Office contracts with the California Highway Patrol (CHP) for the services of a traffic officer who serves full time as a personal driver for the Lieutenant Governor. The CHP is fully reimbursed for this service, which is estimated to cost \$46,000 in 1979-80.

We have two concerns with this arrangement. First, the CHP has no statutory authority to provide drivers to the Lieutenant Governor. In contrast, the Government Code authorizes the State Police to "provide for the physical security of constitutional officers of the state." Therefore, it appears that the State Police should be providing the driver, not the CHP.

Second, it appears inappropriate for the CHP to provide personnel for this function when the department recently has reduced road patrol services as a result of personnel reductions. The primary responsibility of the CHP should be to enforce the Vehicle Code, and all available personnel should be used to fulfill that responsibility.

We recommend that the Lieutenant Governor's Office be prepared to comment during budget hearings on its use of CHP officers so the Legislature can determine whether CHP officers are being used appropriately.

We recommend that \$27,000 to reimburse the California Highway Patrol for public information services be deleted from the budget.

A second full time CHP position (sergeant) has been assigned to the Lieutenant Governor's Office in the current year to perform public information duties. The CHP costs for this position are estimated to be \$46,000 in 1979-80, but CHP will be reimbursed only for the salary of the position (\$27,000). The remaining \$19,000 for staff benefits, overtime and travel

LIEUTENANT GOVERNOR'S OFFICE—Continued

will not be reimbursed.

As far as we can determine, no funds are budgeted for reimbursing this cost in either 1979-80 or 1980-81. Apparently, the \$27,000 will be paid from anticipated savings.

We believe this arrangement is inappropriate for several reasons. First, as noted previously, all available personnel of the CHP should be used to fulfill the CHP's primary responsibility of enforcing the Vehicle Code.

Second, the funding arrangement distorts the true cost of the Lieutenant Governor's Office by excluding up to \$19,000 that is subsidized by the CHP.

Third, the subsidy is paid by a special fund (Motor Vehicle Account, State Transportation Fund) when the costs of the Lieutenant Governor's Office are more properly charged to the General Fund.

Finally, this arrangement bypasses normal compensation policy by allowing a highway patrol sergeant to perform out-of-class duties while maintaining the more generous highway patrol retirement benefits.

For these reasons we recommend this agreement be terminated. If the Lieutenant Governor's Office can justify the need for additional public information services, it should secure these services directly by requesting authority for a new position.

California Advisory Commission on Youth

The California Advisory Commission on Youth (CACY) was created by Executive Order D-1-77 in September 1977 and subsequently established by Chapter 557, Statutes of 1978, effective January 1, 1979. The CACY consists of 21 members between the ages of 18 and 25 appointed by the Lieutenant Governor for staggered terms. The commission must meet at least once every three months and commissioners are reimbursed for their expenses. The purposes of the commission include (1) coordinating information, (2) encouraging formation of local youth groups, (3) assisting existing commissions and councils, (4) conducting forums and studies, and (5) advising the Legislature and the executive branch.

Initial funding (\$62,280) was provided in the 1978 Budget Act contingent upon enabling legislation. General Fund support (\$84,062) was provided in the 1979 Budget Act to continue the commission, and its two employees. For 1980-81 the budget proposes that direct General Fund support for the commission be eliminated in anticipation of private financing. However, the state will continue to pay "overhead costs" from the Lieutenant Governor's support budget. Although no specific expenditure estimate of these costs is available, the Lieutenant Governor's Office indicates that up to 30 percent of the time of two positions (one professional and one clerk) may be devoted to activities of this commission in 1980-81.

Rural Youth Employment Program

During the current year the Lieutenant Governor's Office cooperated with Madera County in sponsoring the Rural Youth Employment Program. The program was federally funded for a limited term which was to end September 30, 1979, but was extended to December 31, 1979. This activity has now been transferred to a private nonprofit corporation which

is administering the federal funds.

Commissions Not Authorized by Statute

We recommend that \$8,750 for assistance to the California Commission on Food and Nutrition and the California Commission on Agriculture be deleted from the budget. We further recommend that \$1,750 for assistance to the California Commission on Agriculture be deleted from the budget of the Economic Development Commission (Item 438).

The budget includes funding for two commissions established by executive order but not authorized by statute. The first is the California Commission on Food and Nutrition, which was established by Executive Order (D-2-78) on August 27, 1978. An advisory group was formed and a state-wide conference conducted in November 1978. Private contributions of \$6,050 were placed in a special account authorized by the Department of Finance from which conference expenses were paid. In last year's analysis we reported that the work of the commission was to terminate in 1978-79, and no funds were provided to continue it in what is now the current year. However, a consultant will be hired in 1979-80 to assist the commission until December 1980. The 1980-81 cost for this consultant is estimated to be \$6,000 to be paid from the budget of the Lieutenant Governor's Office.

The second commission is the California Commission on Agriculture established by Executive Order C-1-79 on February 26, 1979. The purpose of the commission is to improve the relationship and communication between California agriculture and state government. During the current year about \$1,750 of support is to be redirected from within the Lieutenant Governor's Office to support this commission. Another \$1,750 is to be redirected from the budget of the Economic Development Commission. These expenditures are expected to continue in 1980-81.

We have consistently recommended that, before state funds are provided for a program established by executive order, the Legislature should first authorize the functions, responsibilities, and duties of the program through appropriate legislative action. Accordingly, in the absence of statutory authorization for these commissions, we recommend that state funds not be used for their support.

COMMISSION OF THE CALIFORNIAS

Item 47 from the General Fund

Budget p. LJE 48

Requested 1980-81	\$84,366
Estimated 1979-80.....	81,014
Actual 1978-79	79,737
Requested increase (excluding amount for salary increases)	\$3,352
	(4.1 percent)
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Commission of the Californias was established in 1964 to promote favorable economic and cultural relations with the States of Baja California and Baja California Sur of the Republic of Mexico. Chapter 965, Statutes of 1975, (1) expanded this mission to include education relations, (2) increased the size of the commission to 18 members by adding the Lieutenant Governor to the seven public members and 10 legislative members, and (3) authorized the commission to accept grants from private foundations or individuals in support of its duties and functions.

The commission has an authorized staff of two, the executive director and a stenographer.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation for \$84,366 from the General Fund in 1980-81. This is an increase of \$3,352, or 4.1 percent, over 1979-80 General Fund expenditures. The total program expenditures for 1980-81 are estimated to decrease by \$43,360, or 33.9 percent. The decrease results primarily from the termination of a marine resources training project which is federally funded under the Intergovernmental Personnel Act through the current year only. Termination of this project will reduce reimbursements by \$46,712 in the budget year. The proposed General Fund increase would be used for minor adjustments in salary savings, staff benefits, and facility operations. The budget is summarized in Table 1.

Table 1
Commission of the Californias
Budget Summary

	Actual 1978-79	Estimated 1979-80	Proposed 1980-81	Change	
				Amount	Percent
Personnel services	\$52,130	\$60,204	\$62,195	\$1,991	3.3%
Operating expenses and equipment..	60,925	67,522	22,171	-45,351	-67.2
Total Expenditures	\$113,055	\$127,726	\$84,366	\$-43,360	-33.9%
General Fund	79,737	81,014	84,366	3,352	4.1%
Reimbursements	33,318	46,712	—	46,712	100.0
Personnel-years	1.8	1.9	2.0		

DEPARTMENT OF JUSTICE

Items 48-50 and 52 from the
General Fund and Item 51
from the Motor Vehicle Ac-
count, State Transportation
Fund

Budget p. LJE 49

Requested 1980-81	\$107,013,598
Estimated 1979-80.....	102,289,671
Actual 1978-79	86,117,036
Requested increase (excluding amount for salary increases) \$4,723,927 (+4.6 percent)	
Total recommended reduction	\$1,350,908
Total recommended transfer from Item 268.....	1,000,000

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
48	Department Support	General	\$74,632,905
	Department Support	Reimbursements	15,943,968
	Department Support	Political Reform Act	211,343
	Department Support	Federal	3,842,685
49	Fingerprint Fees	Fingerprint Fees, General	2,928,986
50	Antitrust	Attorney General's Antitrust Account, General	829,161
51	Data Center Support	Motor Vehicle Account, State Transportation Fund	8,489,550
52	Legislative Mandates	General	135,000
	Total		\$107,013,598

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

- ✓ 1. *Reimbursements Underestimated. Reduce Item 48 by \$110,688.* Recommend reduction of General Fund support because the department did not include parking reimbursements in its budget. 86
- lost 2. *Agent Overtime Overbudgeted. Reduce Item 48 by \$149,979.* Recommend deletion of \$149,979 because the department consistently overbudgets for agent overtime. 86
- supp 3. *Overhead Funds. Reduce Item 48 by \$956,592.* Recommend overhead portion of grant funds received be used to offset the costs of administering grant programs. 87
- 6/20/83 4. *Unneeded Equipment. Reduce Item 48 by \$84,250.* Recommend deletion of unjustified equipment purchases. 88
- ✓ 5. *Unidentified Savings. Transfer \$1,000,000 from Item 268 to Item 48.* Recommend transfer of \$1,000,000 from the Department of Water Resources to the Civil Law Division. 90
- lost 6. *Paralegal Program. Reduce Item 48 by \$79,602.* Recommend deletion of 15 attorney and 4.4 clerical positions, and 91

DEPARTMENT OF JUSTICE—Continued

an increase of 15 legal assistants to allow Civil Law Division to meet increased workload more efficiently with an expanded paralegal program.

- ✓ 7. **Special Prosecutions Unit.** Recommend the department report to Legislature by November 15, 1980 on case selection criteria, goals, objectives, and accomplishments of the Special Prosecutions Unit. 92
- ✓ 8. *Rent Overbudgeted. Reduce Item 48 by \$59,774.* Recommend deletion because department is overbudgeted for rent. 93
(1/2) lost
more 1/2
of
9. **Rent Schedule Problems.** Withhold recommendation on \$581,226 of proposed expenditures for building maintenance and repairs, lease management fees, and utilities pending department justification. 94
won
supp.
10. **Security Guards.** Augment Item 48 by \$89,977. Recommend deletion of 9.6 proposed security guards for Phase I occupancy of Division of Law Enforcement's new building. Further recommend transfer of \$169,319 from personal services to operating expenses, and augmentation of \$89,977 so that department can contract for state police services. 94
lost
11. **Fingerprint Fees.** Recommend department increase fingerprint revenues by charging fees for peace officer applicants. Further recommend the department adjust fees to compensate for additional revenue. 95
won

GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General as the chief law officer of the state, provides legal and law enforcement services to state and local agencies. Departmental functions are carried out through five programs—Executive/Special Programs, Civil Law, Criminal Law, Law Enforcement and Administration.

Executive/Special Programs

This program, which includes the Attorney General's executive office, is composed of: (1) the Legislative Unit, (2) the Opinion Unit, (3) the Crime Prevention Center, (4) the Special Prosecutions Unit, (5) the Public Inquiry Unit, and (6) the Affirmative Action Office.

Civil Law

The Civil Law Division (1) provides legal representation for most state agencies, boards and commissions, (2) prosecutes administrative trials, (3) drafts or approves proposed regulations and legislation for client agencies, (4) investigates the financial practices of charitable trusts to ensure compliance with state law, (5) provides all legal services relating to the administration of state-owned lands, (6) represents the state and its employees in tort liability cases, and (7) handles condemnation proceedings and the defense of inverse condemnation actions against the state.

The department receives reimbursements for legal services provided to

those state agencies which are supported by special funds and significant amounts of federal funds.

Criminal Law

The Criminal Law Division (1) represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts, (2) assists the Governor's Office in extradition matters, (3) serves as prosecutor in criminal trials when a district attorney is disqualified or otherwise unable to handle the proceedings, (4) prosecutes crimes committed by prisoners in the state prisons whenever district attorneys elect not to perform this function, (5) investigates misconduct by judges, and (6) enforces antitrust laws. It also investigates and prosecutes cases of consumer fraud, and fraud committed by providers of Medi-Cal services.

Law Enforcement

The Division of Law Enforcement is the largest of the department's programs. It provides a variety of law enforcement services through a training center, two branches, and a computer center.

Advanced Training Center. This center provides training for department employees and local law enforcement personnel.

Investigations and Enforcement. Through a program of field investigative services, the Investigations and Enforcement Branch (1) aids local enforcement agencies in the solution and prosecution of significant crimes, particularly those which affect more than one county or area, (2) provides investigative services to the department's civil law programs such as the tort liability, subsequent injury, antitrust and charitable trust programs, (3) develops intelligence and gathers evidence to apprehend major narcotics violators, (4) administers a triplicate prescription system to prevent diversion of legal supplies of narcotics into illegal channels, and (5) trains local and state enforcement personnel in techniques of narcotic enforcement.

In addition, this branch maintains a system of 13 laboratories throughout the state which provide analyses of criminal evidence, blood-alcohol samples and controlled substances. Trained criminalists interpret the significance of scientific findings to law enforcement agencies and the courts.

Finally, this branch gathers, evaluates, disseminates and stores criminal intelligence information which may indicate the presence of organized crime. It also furnishes administrative support for the nationwide Law Enforcement Intelligence Unit and the California Narcotics Information Network.

Criminal Identification and Information. This branch operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The branch (1) maintains central records (now being automated) of approximately 3.9 million criminal history files and 6.6 million fingerprint cards, (2) processes fingerprints and makes tentative identification through fingerprint comparisons in criminal cases, (3) processes non-criminal fingerprints for law enforcement, licensing and regulatory agencies (the cost of which is reimbursed by fees), (4) assists law enforcement

DEPARTMENT OF JUSTICE—Continued

officers in locating stolen property and missing or wanted persons, (5) processes applications for permits to carry concealable weapons, and (6) assists local jurisdictions to enforce child support obligations by maintaining a Parent Locator Service.

A criminal statistics program collects data from state and local criminal justice agencies, and prepares statistical reports on crime and delinquency and the operations of criminal justice agencies in California.

Consolidated Data Center. The Consolidated Data Center, one of four such centers established by 1972 legislation, provides centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing), Department of Motor Vehicles (vehicle registration and driver's license information), and local law enforcement agencies. The center's automated communications systems in Sacramento and Los Angeles link California and Nevada criminal justice agencies to computerized files in Sacramento, Los Angeles, Washington, D.C. and other states.

Administration

Administration is responsible for the fiscal, personnel, and office management of the entire department. In addition, it provides office support such as stenographic and typing services to the legal divisions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$87,015,602 from the General Fund and State Transportation Fund for support of the Department of Justice in 1980-81. This is an increase of \$2,580,464 or 3.1 percent, over the estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. This increase is largely attributable to (1) the Phase I occupancy of a new General Services building by the Law Enforcement Consolidated Data Center and related security staff increases, (2) the consolidation of the Department of Motor Vehicles and Department of Justice telecommunications system, and (3) staff proposed to meet the Attorney General's responsibility to prosecute prison crimes, as a result of Chapter 1359, Statutes of 1978. These and other proposed 1980-81 budget changes are detailed in Table 1.

Total program expenditures, including federal funds and reimbursements, are budgeted at \$107,013,598. This is \$4,723,927, or 4.6 percent, more than total expenditures in the current year. Table 2 summarizes the department's budgeted expenditure by program.

Table 1
Department of Justice
Proposed 1980-81 Budget Changes
(in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Federal Funds</i>	<i>Reim- bursements</i>	<i>Total^a</i>
1979-80 Current Year Revised	\$76,718.2	\$7,782.9	\$3,019.7	\$14,768.9	\$102,289.7
1. Workload Changes					
a. Tort and Condemnation	—	—	—	299.1	299.1
b. Environment	—	—	—	122.8	122.8
c. Licensing	—	—	—	299.1	299.1
d. Appeals and Writs	—	—	—	—	—
e. Grants	—	—	-475.2	525.7	50.4
f. Blood Alcohol	—	—	—	98.3	98.3
g. Financial Legislation	-446.4	—	—	—	-446.4
h. Reimbursed Contracts/IA	—	—	—	-1,028.6	-1,028.6
2. Cost Changes					
a. Merit Salary	648.5	38.8	—	88.4	775.7
b. Price Increase	1,122.4	284.5	—	154.6	1,561.5
c. OASDI	300.4	18.0	—	41.0	359.3
d. Section 27.2	600.0	—	—	—	600.0
3. Program Change Proposals					
a. Prison Crimes	398.8	—	—	—	398.8
b. Hardware Conversion	126.3	154.4	—	—	280.7
c. DOJ/DMV Consolidation	172.7	211.1	—	—	383.8
d. New Building	461.6	—	—	—	461.6
e. Client Fund Shift	-382.5	—	—	382.5	—
f. Child Support	-126.8	—	—	192.3	65.5
g. Medi-Cal Fraud Unit	144.2	—	1,298.2	—	1,442.4
h. Civil Law Savings	-1,000.0	—	—	—	1,000.0
Totals, Proposed Budget Changes	\$2,019.2	\$706.7	\$822.9	\$1,175.1	\$4,723.9
1980-81 Proposed Expenditures ^a	\$78,737.4	\$8,489.6	\$3,842.7	\$15,944.0	\$107,013.6

^a Due to rounding, the details may not add to total.

Table 2
Department of Justice
Budget Summary

<i>Programs</i>	<i>Estimated^a 1979-80</i>	<i>Proposed^a 1980-81</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Executive/Special Programs</i>				
1. Executive office	\$783,810	\$807,306	\$23,496	3.0%
Personnel-years	19.1	19.1	—	—
2. Legislative unit	353,729	362,383	8,654	2.5
Personnel-years	9.3	9.3	—	—
3. Opinion unit	713,411	730,806	17,395	2.4
Personnel-years	16.3	16.4	.1	.6
4. Crime prevention center	526,575	522,756	-3,819	-7
Personnel-years	14.1	14.3	2	1.4
5. Special prosecutions unit	1,116,819	1,282,942	166,123	14.9
Personnel-years	30.1	29.8	-3	-1.0
6. Public inquiry unit	136,274	140,245	3,971	2.9
Personnel-years	6.8	6.8	—	—
7. Affirmative action office	72,245	75,968	3,723	5.2
Personnel-years	2.9	2.9	—	—

DEPARTMENT OF JUSTICE—Continued

Civil Law

1. Licensing	2,980,730	3,196,516	215,786	7.2
Personnel-years	71.6	79.3	7.7	9.0
2. State government	3,557,058	3,630,761	73,703	2.0
Personnel-years	88.5	87.8	-0.7	-0.8
3. Business and tax	2,464,619	2,524,158	59,539	2.4
Personnel-years	56.0	55.8	-0.2	-0.3
4. Health, education and welfare	2,446,612	2,511,049	64,437	2.6
Personnel-years	61.7	58.1	-3.6	-5.8
5. Environment	2,373,422	2,426,459	53,037	2.2
Personnel-years	56.4	52.7	-3.7	-6.6
6. Land	2,434,518	2,439,395	4,877	0.2
Personnel-years	52.7	52.4	-3	-0.6
7. Tort and condemnation	3,572,553	3,772,212	199,659	5.6
Personnel-years	66.6	80.3	13.7	20.1
8. Unidentified savings	—	-1,000,000	-1,000,000	—
Personnel-years	—	—	—	—

Criminal Law

1. Appeals, writs, trials, and other constitutional duties	11,174,068	12,082,211	908,143	8.1
Personnel-years	282.4	303.1	20.7	7.3
2. Antitrust	1,638,516	1,633,467	-5,049	-0.3
Personnel-years	35.3	35.1	-2	-0.6
3. Consumer law	1,033,348	1,070,350	37,002	3.5
Personnel-years	25.9	25.7	-2	-0.8
4. Grant projects	2,725,328	4,136,393	1,411,065	51.8
Personnel-years	69	100	31	45.0

Law Enforcement

1. Executive	(2,888,426)	(2,946,374)	(57,948)	(2.0)
Personnel-years	(4)	(4)	—	—
2. Training center	1,224,047	1,144,571	-77,476	-6.3
Personnel-years	27.2	25	-2.2	-8.1
3. Investigation and enforcement	18,290,296	19,062,721	772,425	4.2
Personnel-years	475.5	489.9	14.4	3.0
4. Criminal identification and enforcement	22,004,100	22,608,320	604,220	2.7
Personnel-years	1,053.1	1,060.7	7.6	0.7
5. Consolidated data center	14,725,932	15,767,195	1,041,263	7.0
Personnel-years	294.8	291.3	-3.5	-1.2
6. Grant projects	1,716,736	1,798,508	81,772	4.8
Personnel-years	53.9	57.3	3.4	6.3

Administration

1. Distributed	(11,043,016)	(11,723,582)	(680,566)	(6.2)
2. Undistributed	4,086,894	4,151,906	65,012	1.6
Personnel-years	150.9	151.1	.2	.1

Legislative Mandate^b

Program Totals	\$102,289,671	\$107,013,598	\$4,723,927	4.6%
Personnel-years	3,020.1	3,104.2	84.1	2.9%

^a Amounts in parentheses are distributed among other items and are so shown to avoid double-counting.

^b Funds to pay costs incurred by cities and counties for legislatively mandated record destruction of possession of marijuana files and submission of dental records of missing persons.

Table 3, presents a summary of the department's proposed funding sources and highlights several major changes in the budget year. Federal funding will increase by \$822,941 (27.3 percent) largely due to a proposed expansion of the Medi-Cal Fraud Unit. In addition, reimbursements will increase by \$1,175,098 (8.0 percent). Workload increases requiring additional staffing for the Civil Law Division, and changes in the billing status of several client agencies will result in the higher level of reimbursements for the budget year.

The legislative mandate amounts are appropriated to pay the costs incurred by cities and counties for destroying or obliterating records of courts and public agencies concerning arrests and convictions for possession of marijuana.

An appropriation to the Department of Justice for services it provides under the Political Reform Act is shown as a separate item.

Table 3
Department of Justice
Funding Source Summary

	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
1. General Fund	\$72,728,316	\$74,632,905	\$1,904,589	2.7%
2. Fingerprint fees (General Fund)	2,835,889	2,928,986	93,097	3.2
3. Attorney General's Anti-Trust Account (General Fund)	808,016	829,161	21,145	2.6
4. Motor Vehicle Account (State Transportation Fund)	7,782,855	8,489,550	706,695	9.1
5. Legislative Mandates (General Fund)	140,031	135,000	-5,031	-3.6
Total State Funding	\$84,295,107	\$87,015,602	\$2,720,495	3.2%
6. Reimbursements	14,768,870	15,943,968	1,175,098	8.0
7. Federal Funds	3,019,744	3,842,685	822,941	27.3
8. Political Reform Act	205,950	211,343	5,393	2.6
Total Funding	\$102,289,671	\$107,013,598	\$4,723,927	4.6%

New Positions

The department proposes a total of 111 new positions, as summarized in Table 4. Nearly one-third of these new positions (20 professional and 15.4 legal support staff) are requested because of increased workload in the Civil and Criminal Law Divisions. The department proposes 10 attorney and eight legal support positions to handle prison crimes prosecution, a new responsibility of the Attorney General resulting from Chapter 1359, Statutes of 1978. These positions will be phased in throughout the budget year to meet anticipated workload growth. The Medi-Cal Fraud Unit is scheduled to receive an additional 29 attorney and investigator positions and five clerical staff.

The Division of Law Enforcement has proposed 9.6 limited term security officer positions for the Phase I occupancy of the department's new building. The Consolidated Data Center is requesting three positions to handle workload transferred from the Department of Motor Vehicles (DMV) to the Department of Justice in connection with the consolidation of the two department's telecommunications systems. Other positions requested by the Consolidated Data Center include the continuation of 10 limited term positions, initially authorized in the Budget Act of 1978, to assist with the third year of the department's hardware conversion project.

The administration program requests one vehicle coordinator, to be supported from funds currently budgeted for other departmental functions.

DEPARTMENT OF JUSTICE—Continued

Table 4
Department of Justice
Proposed New Positions

	<i>Professional and Technical Positions</i>	<i>Clerical Positions</i>	<i>Personal Services Cost</i>	<i>Source of Funds</i>
<i>Civil Law</i>				
1. General workload	15	—	\$415,260	Redirection ^a & reimbursement
<i>Criminal Law</i>				
1. General workload	5	—	83,052	Redirection ^a
2. Prison Crimes Prosecution	10	—	306,840	General Fund
3. Medi-Cal Fraud ^b	29	5	798,336	General Fund, Federal funds
<i>Law Enforcement</i>				
1. New Building Security ^b	9.6	—	135,878	General Fund
2. DMV/DOJ consolidation	3	—	72,780	General Fund & Motor Vehicle Account
3. Hardware conversion ^c	10	—	(203,028)	Redirection ^a
<i>Administration</i>				
1. Vehicle coordination	1	—	13,836	Redirection ^a
2. Legal Support Services	—	23.4	288,909	General Funds, redirection, ^a & reimbursement
Totals	82.6	28.4	\$2,114,891	
Total Proposed New Positions		111		

^a These positions are fully or partially funded by redirection of funds budgeted for other departmental functions.

^b Limited term to 6/30/82.

^c Limited term due to terminate at specified dates during 1980-81. Continuation of limited term positions due to terminate 6/30/80.

Grant Projects

Information on the Department of Justice's budget-year grants—fund sources, amounts, and number of positions—is shown in Table 5. The first three grants are funded directly from the federal government (with a state dollar match required for the Medi-Cal Fraud grant). Four other grants are funded by the Office of Criminal Justice Planning (OCJP) and the Office of Traffic Safety (OTS). These grants are shown as reimbursements in the department's budget to avoid double counting of federal support first received by another state agency.

Medi-Cal Fraud Unit Expansion

In 1978, the Medi-Cal Fraud Unit was established in the department's Criminal Law Division with 90 percent federal and 10 percent state funding. Prior to then, the Department of Health Services operated the Medi-Cal anti-fraud program. The program was transferred to the Department of Justice and reorganized in order to more efficiently prosecute cases of fraud committed by providers of Medi-Cal services. Problems with the Department of Health Services program included a low output of convictions and light sentences received by convicted providers.

The unit is currently staffed with 56 attorney, investigator, auditor and clerical positions. Results from the first 18 months of operations and the expenditure of approximately \$2,863,132 of state and federal funds are shown in Table 6.

Table 5
Department of Justice
Grant Projects

<i>Grant</i>	<i>Funding Source</i>	<i>Amount</i>	<i>Department Match</i>	<i>Positions</i>
Medi-Cal Fraud Unit.....	U.S. Department of Health, Education and Welfare	\$3,521,350	\$391,261	90.0
Computerized Litigation Support	Anti-Trust Division, U.S. Department of Justice	223,782	—	10.0
Property Recovery Project	Law Enforcement Assistance Administration	97,553	—	2.5
Automated Fingerprint Project ^a	OCJP	445,000	—	10.0
Witness Protection Program ^a	OCJP	165,799	—	0.8
Automated Name Index ^a	OCJP	806,031	—	40.0
Forensic Procedure ^a	OTS	284,125	—	4.0
Totals.....		\$5,543,640	\$391,261	157.3

^a Shown in Governor's Budget as reimbursements.

Table 6
Department of Justice
Medi-Cal Fraud Unit Output

<i>Criminal Cases</i>	<i>Number</i>
Completed Cases	
1. Fines or restitution imposed.....	10
2. Prison-terms	1
3. Cases dismissed	1
4. Sentence pending	4
5. Prison term and fine.....	2
6. Acquitted	1
Total.....	19
Total Fines and Restitutions	\$164,891
Cases in trial stage	10
Cases to be filed by January 15, 1980	6
Major Investigations	
1. Rubin-Spectro case	1
<i>Civil and Administrative Cases</i>	
Cases in trial stage	5

The department proposes 34 additional two-year limited term positions and a total expenditure of \$3,912,611 (90 percent federal funds and 10 percent General Fund) for the budget year. It is difficult to project results for the budget year because a major case, such as the Rubin-Spectro case, could involve many personnel-years of effort and reduce the unit's output of other cases. (The department is unable to predict when the Rubin-Spectro case will be completed.) The Governor's Budget indicates quarterly reports will be submitted to the Governor and Legislature on the number of prosecutions, convictions, and dollars recovered for purposes of evaluating the unit's accomplishments.

Federal funding of the program will continue at the 90 percent level through October 1980. Pending federal legislation would maintain the

DEPARTMENT OF JUSTICE—Continued

federal share at 90 percent (as the budget assumes) through June 30, 1981. Other pending federal legislation, however, would provide for permanent federal funding at a 75 percent level beginning in 1981-82.

Prison Crimes Prosecution

Currently district attorneys may prosecute crimes committed by inmates of state prisons located within their jurisdictions. The county is reimbursed for the costs of prosecution by the Department of Corrections.

Chapter 1359, Statutes of 1978, provides that district attorneys may transfer the responsibility for prosecuting these crimes to the Attorney General. By July 1979, seven district attorneys had elected to do so. The department's Criminal Law Division will assume responsibility for prosecuting crimes committed after July 1, 1980 in these seven counties.

The department's prison crimes prosecution workload may fluctuate in future years because the law allows district attorneys to terminate the transfer of responsibility to the Attorney General. Also, additional district attorneys of counties in which state prisons are located may elect to transfer this workload to the department in the future.

The department proposes that 10 additional attorney positions be phased-in during 1980-81 as the anticipated workload develops. Once the department gains experience in prosecuting these cases, staffing levels should be evaluated and adjusted.

Reimbursements Underestimated

We recommend a reduction of \$110,688 in General Fund support (Item 48) because the department did not include the amount of reimbursements it will receive from employee parking fees in its budget.

The department collects fees from its employees for the use of parking spaces which the department maintains adjacent to its leased facilities. It estimates that these fees will total \$110,688 in 1980-81. The department, however, has not included these payments in the budget as reimbursements, thus requiring a larger General Fund appropriation to cover the cost of maintaining the parking spaces. When these reimbursements are added to the amounts in the budget, the department's General Fund requirements decrease. Therefore, we recommend that the department's General Fund support budget be reduced by \$110,688.

Agent Overtime Overbudgeted

We recommend deletion of \$149,979 (Item 48) requested for agent overtime because the department consistently overbudgets for this purpose.

The department has utilized special agents in its Advanced Training Center, and Bureaus of Narcotics Enforcement, Investigations and Field Operations for many years. The agents are expected to work a substantial amount of overtime for which they are compensated. The department proposes expenditures for agent overtime totaling \$749,891 in the budget year.

Our analysis of the department's budgets from 1974-75 to 1978-79 reveals consistent overbudgeting of agent overtime. Table 7 demonstrates

that the amount of overtime funds actually expended ranges from 67 percent of the total amount available in 1977-78 to 78 percent in 1976-77. The data shows that, on average, the department utilized 73.4 percent of the funds budgeted for agent overtime.

Table 7
Department of Justice
Agent Overtime

	<i>Budgeted</i>	<i>Change to Budget*</i>	<i>Total Available</i>	<i>Expended</i>	<i>Percent Spent of Total Available</i>
1974-75.....	\$623,232	+\$31,152	\$654,384	\$491,309	75%
1975-76.....	654,384	+52,094	706,478	537,035	76
1976-77.....	683,410	+41,910	725,320	564,522	78
1977-78.....	745,715	+32,014	777,729	522,804	67
1978-79.....	777,729	-100,682	677,047	483,282	71
1979-80.....	770,891	-21,000	749,892	N/A	N/A
1980-81.....	749,891	N/A	N/A	N/A	N/A

* These changes result mainly from salary increases. However, \$101,344 was deducted to meet reductions imposed by Section 27.2, Budget Acts of 1978 and 1979.

Based on the department's experience during the past five years, overtime requirements are overstated by at least \$149,979, and we recommend that this amount be deleted from Item 48. This will leave \$599,912 available for overtime, or 80 percent of the \$749,891 budgeted.

Overhead Funds Received Should be Used to Offset General Fund Support

We recommend that the portion of grant funds received by the department which is intended to offset the costs of administering grant programs be used for that purpose, for a General Fund savings of \$956,592 (Item 48).

The department is budgeted to receive grant awards totaling \$5,543,640 in 1980-81. A percentage of each grant is intended to cover a portion of the "indirect cost" of administering the grant. These "indirect costs" include accounting, payroll, personnel, and related activities. To the extent a department is able to use federal funds to support these activities, the amount of state funds required is correspondingly less.

The department will receive \$956,592 in indirect cost funds during the budget year, yet the budget provides no detail on the proposed use. The funds have not been budgeted so as to reduce General Fund support. Instead, the department indicates that it intends to use the funds to establish administratively certain positions and to pay for unspecified operating expenses. The department maintains that any unused funds will revert to the General Fund.

Our analysis indicates that the proposed treatment of indirect cost funds is inappropriate for two reasons:

- It increases the amount of state funds necessary to operate the department.
- It allows the department, rather than the Legislature, to determine how funds are used.

In order to insure that General Fund savings are realized, as intended by the allowances for indirect costs, and to ensure legislative control of proposed expenditures, we recommend deletion of \$956,592 of General Fund support.

DEPARTMENT OF JUSTICE—Continued

Additional Equipment Not Needed

We recommend a deletion of \$84,250 (Item 48) proposed primarily for the purchase of additional equipment.

Analysis of the department's baseline Supplementary Schedule of Equipment (Schedule 9) reveals that 31 percent of proposed expenditures are for additional, rather than replacement, equipment. Further examination of the justification for these purchases reveals an apparent overbudgeting of equipment items for nonessential purposes.

Table 8 summarizes our recommended reductions to the department's equipment budget, by requesting organization. A discussion of each unit's request follows.

Table 8
Department of Justice
Equipment Reductions Recommended by Analyst

<i>Program</i>	<i>Amount</i>
1. Advanced Training Center	\$31,500
2. Civil Law Division and Bureau of Narcotics Enforcement	7,555
3. Forensic Services Bureau	37,750
4. Bureau of Organized Crime and Criminal Intelligence	1,445
5. Special Prosecutions Unit	6,000
Total	\$84,250

Advanced Training Center. The training center has requested three additional vehicles and a VHF Mobile Transceiver for each vehicle, at a total cost of \$31,500. The training center states that the vehicles will be assigned to special agent personnel.

The department's vehicle usage policy indicates that only special agents at specified classification levels and in specified programs are assigned vehicles. Agents at the training center are not included in this group. Furthermore, no justification for the need and use of the automobiles was provided. Thus, we recommend a reduction of \$31,500 from the department's equipment budget.

Civil Law Division and Bureau of Narcotics Enforcement. These elements have requested various pieces of office furniture. Department records indicate that replacement pieces are currently available in a department warehouse. The office furniture which is available has been restored through a Furniture Re-Utilization Program. This program provides "like new" office furniture at a substantially lower cost than the purchase of new furniture.

We recommend deletion of \$7,555 from the department's equipment budget because the requested items are already available.

Forensic Services Bureau. The Forensic Services Bureau operates a system of thirteen criminalistics laboratories throughout the state. Eight laboratories, designated as regional labs, offer a full range of criminalistic services. The remaining five laboratories, known as satellite labs, are designed to provide limited services, primarily restricted to blood-alcohol analyses. These laboratories were developed, according to a master plan, with federal support provided by the Office of Criminal Justice Planning

and the Office of Traffic Safety. These laboratories were converted to state support in 1977-78.

The bureau proposes to purchase \$22,050 of additional equipment for development of two satellite laboratories into "mini-regional" laboratory status. The department states that this development has been instituted for a number of reasons, including training existing satellite staff to fill possible vacancies in the regional laboratories.

We believe development of the "mini-regional" concept is contrary to legislative intent. The Legislature was advised of the regional and satellite laboratory concept at the time the laboratory system was converted to state support, and accepted the program on that basis. The proposed additional equipment is in excess of satellite laboratory requirements, as specified in the master plan. We therefore recommend deletion of \$22,050 intended for this purpose.

The bureau also proposes an expenditure of \$15,700 for four additional intoxilyzers (equipment which is used to analyze breath alcohol content). The department proposes to distribute these to a law enforcement agencies in three cities in Humboldt County and one in an undetermined location.

The department advises us that it intends to open a new satellite laboratory in Humboldt County and supply intoxilyzers to clients that will be serviced by the new laboratory. The department states that it will close an existing satellite laboratory in Stockton and relocate it in Humboldt County. The workload of the Stockton lab will be transferred to the Modesto regional lab. Because clients of the Stockton laboratory will continue to utilize the department's intoxilyzers, the instruments cannot be transferred to new Humboldt County clients.

Opening a laboratory in Humboldt County would represent an expansion of the criminalistics laboratory program, and should be done only after a thorough review of the proposal. A program expansion proposal should detail the full costs, the justification, and alternatives. The department has not yet provided such information. In fact, none of the other budget documents which we have received mention such a change in the laboratory system nor detail the costs of the relocation.

Until the larger issue of the Humboldt County laboratory is resolved, the request for additional equipment for new clients in Humboldt County is premature. We therefore recommend deletion of \$15,700 requested for the purchase of additional intoxilyzers.

Organized Crime Bureau. The bureau has requested audio-visual equipment totaling \$1,445 for the purpose of producing slide presentations and films on organized crime problems. Our analysis indicates that similar equipment is already available at the department's training center and can be loaned to the organized crime bureau for this purpose.

Special Prosecutions Unit. The unit proposes an expenditure of \$6,000 for various pieces of equipment which are not identified. We have received no information which justifies a contingency amount for this purpose. Therefore, we recommend the \$6,000 be deleted.

DEPARTMENT OF JUSTICE—Continued**Unidentified Savings in the Civil Law Division**

We recommend a General Fund transfer of \$1,000,000 from the Department of Water Resources (Item 268) to the Civil Law Division's support budget (Item 48).

Traditionally, legal services for most state General Fund agencies are provided by the Department of Justice at no cost to the requesting agency. In contrast, most special fund agencies are billed for legal services to insure that the special fund bears the full cost of administering its program.

The Governor's Budget proposes a reduction of \$1,000,000 for unidentified savings in the civil law program. No related position reductions are identified. The budget proposes a corresponding General Fund increase of \$1,000,000 in the Department of Water Resources budget to allow the department to contract for environment-related legal services. The Governor's Budget indicates that this transfer of funds from the Department of Justice to the Department of Water Resources is justified by the inability of some departments to obtain on a timely basis the legal services necessary to enforce laws protecting the environment.

It is not clear that the Department of Water Resources is able to utilize funds for purposes of litigation without the written permission of the Attorney General. For this reason we have requested an opinion from Legislative Counsel regarding the ability of the department to utilize the \$1,000,000 to contract for legal services. The opinion had not been received when this analysis was written.

We also requested information from the Department of Finance to support the magnitude of the budget reduction. The department responded that the amount is not based on caseload or attorney hours.

Our analysis indicates that the proposed transfer amounts to a significant departure from the usual method of providing legal services to state agencies, for two reasons.

First, it departs from the practice of providing legal services on a centralized basis through the Department of Justice, where economies of scale can be achieved. Second, it gives the Department of Water Resources (but not other General Fund agencies) the authority to decide what legal work to pursue without consultation or coordination with the Attorney General. This could result in the state taking different positions on similar issues.

Because the proposal represents a departure from the traditional way of providing legal services to state agencies, and would establish a precedent for other state agencies, we recommend that it not be approved in the Budget Bill. To the extent the Legislature believes that individual departments and agencies should have the authority and responsibility for pursuing legal action independent of the Department of Justice, legislation should be enacted clearly specifying what these authorities and responsibilities are, and how they relate to the Attorney General's duties. Such legislation could be financed by a reappropriation of funds budgeted to the Department of Justice.

Furthermore, because we have not received adequate information to support the amount proposed for transfer from the Department of Justice to the Department of Water Resources, we recommend a transfer of \$1,000,000 from the Department of Water Resources (Item 268) to the Department of Justice's budget (Item 48) to maintain the Civil Law program at its existing level.

Expansion of Paralegal Program

We recommend that the department meet increased workload demands in the Civil Law Division with an expanded paralegal program rather than with additional attorney positions. Specifically, we recommend an augmentation of 15 legal assistant positions, and a reduction of 15 proposed attorney positions, 2.5 senior legal stenographers, and 1.9 office assistants II, for a net General Fund savings of \$79,602 (Item 48) and a reduction in reimbursements of \$318,410.

The Civil Law Division is experiencing increasing workload in its Tort and Condemnation, Licensing and Land sections. The department budget requests an additional 15 attorney positions and related support staff in order to meet these needs. Our analysis indicates there may be a less costly, yet equally effective alternative.

The State Personnel Board (SPB) established a legal assistant classification in 1975. The SPB guidelines indicate that legal assistants perform duties which are more difficult and technical, and which involve more responsibility than those assigned to clerical staff. Such paraprofessional duties must be performed under the direction, control, and responsibility of an attorney.

The Civil Law Division, which employs 243 attorneys, has a paralegal program consisting of three legal assistants. The department utilizes them to (1) process incoming cases, (2) draft administrative pleadings, (3) perform historical research, (4) arrange discovery matters, and (5) interview possible witnesses in certain cases. The department suggests that they could also develop case files received from clients, prepare correspondence, and preliminary communications, and draft simple civil court collection pleadings and motions. The department indicates that successful results have been obtained from the use of its three legal assistants.

The Auditor General recently reviewed paralegal usage in both the federal and state governments, as well as in the private sector. The report, dated September 1979, indicates that the use of paralegals by the federal government, including the United States Department of Justice, has increased significantly since the positions were introduced in 1971. The report notes that the nation's largest private law firms are employing paralegals in increasing numbers. It states that 94 of the nation's 100 largest firms (ranging in size from 87 to 434 attorneys) employed between 4 and 136 paralegals.

The Auditor General's study found that some of the work now performed by attorneys at the Department of Justice could be delegated to lower paid paralegal personnel. The report concludes that expanding the use of well-qualified paralegals in the Department of Justice could relieve attorneys of many tasks and enable the department to economically re-

DEPARTMENT OF JUSTICE—Continued

spond to an increasing workload.

A legal assistant position costs approximately one-half as much as an attorney position. Table 9 compares the costs of establishing an attorney and a legal assistant position, and shows the hourly billing rate for each position.

Table 9
Department of Justice
Legal Staff Cost Comparison

<i>Cost of One Position</i>	<i>Attorney^a</i>	<i>Legal Assistant</i>
Net personal services	\$34,497	\$18,691
Operating expenses and equipment.....	10,830	5,145
Totals.....	\$45,327	\$23,836
Hourly billing rate.....	\$46.95	\$22.95

^a Deputy Attorney General I, a position requiring one year of experience.

In response to the Auditor General's report the department states that it concurs with the recommendation that more paralegals be employed. In addition, the response states that the Attorney General has recently adopted a policy to increase the utilization of paralegals.

We believe that the department should meet increased workload in the Civil Law Division by expanding its use of paralegals. We recommend an augmentation of 15 legal assistant positions and a reduction of 15 additional attorney and 4.4 additional clerical positions which were proposed for the budget year, for a net General Fund savings of \$79,602 and a reduction in reimbursements of \$318,410.

Special Prosecutions Unit

We recommend the department report to the Legislature by November 15, 1980, on the case selection criteria, goals, objectives, and accomplishments of the Special Prosecutions Unit.

Under authority granted by the Director of Finance, pursuant to Section 28, Budget Act of 1979, the Department of Justice established a Special Prosecutions Unit in September 1979. The purpose of this unit is to investigate and prosecute individuals involved in multi-jurisdictional organized crime.

The department is mandated to initiate and participate in the prosecution of organized crime activities by Chapter 1795, Statutes of 1971. Since 1973, the department's primary role has been to assist county district attorney's in organized crime prosecutions. Prosecution by the department itself is a significant shift in policy.

The unit will spend \$1,116,819 for personal services, operating expenses, and equipment during 1979-80. The department redirected funds budgeted for other activities to support the new unit. Specifically, it reduced lower priority activities in the Criminal Law Division, the Advanced Training Center, and the Bureau of Investigations. The 1980-81 budget for the new unit is \$1,282,942.

Because the Special Prosecutions Unit is a new program, there is no way of knowing what affect it will have on the organized crime problem. So

that the Legislature will be able to monitor the effectiveness of this new program, we recommend that the department report to the Legislature by November 15, 1980, on the case selection criteria, goals, objectives, and accomplishments of the unit. We recommend adoption of the following supplemental report language:

"The Department of Justice shall advise the Joint Legislative Budget Committee and the appropriate policy and fiscal committees by November 15, 1980, of the case selection criteria, goals, objectives, and accomplishments of the Special Prosecutions Unit."

Rent Overbudgeted

We recommend that funding for rental expenditures be reduced by \$59,774 (Item 48) because of overbudgeting.

Analysis of the department's budgeted rent expenditures reveals two instances of overbudgeting.

First, the department has improperly budgeted for its participation in a Department of General Services' project in San Francisco which is relocating several state agencies in order to meet their expanded space requirements. According to the plan, in March 1981 the Department of Justice will expand into newly renovated space on the seventh floor of a state building at 455 Golden Gate and vacate a leased facility at 1390 Market Street. General Services indicates that the project is on schedule. The department, however, has budgeted enough funds for both facilities to be occupied for a full year. This represents overbudgeting of \$39,835 because:

(1) The Department of General Services only requires rent to be paid on the new space during the period of occupancy, beginning March 1981, and not during the period of renovation preceding that date, and (2) the department's plan indicates that rental savings due to the relocation of department activities from the Market Street to the Golden Gate facility will begin March 1981; the plan was approved by the Legislature on this basis. We recommend deletion of \$39,835 of proposed rent expenditures because of this double-budgeting.

Second, review of the department's proposed rent expenditures reveals contingency budgeting of \$19,939 for proposed narcotics task forces offices.

Task forces are teams comprised of a departmental narcotics agent and enforcement personnel supplied by local police departments and sheriffs offices. The department is currently participating in six task forces. The department has assumed different levels of responsibility in the various task forces, ranging from providing facilities in one case, to providing three task forces with "buy-money" for narcotic purchases if the local agencies are unable to do so. In two cases, the department provides no financial support whatsoever.

The 1980-81 budget includes rental expenses for four new task forces, located in Merced, Kern County, Humboldt County, and Auburn.

Discussions with the department revealed that cooperation of local law enforcement agencies is assured in only one case. Two of the task forces were described as tenuous and the last, which had been federally funded,

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was recently disbanded. Thus, it is uncertain whether three of the task forces will ever be formed. In addition to the problem of enlisting local cooperation, problems of acquiring operating funds and staffing must be resolved.

Because of the tentative nature of three proposed task forces and the fact that the department provides facilities for only one of the six existing task forces, we recommend the deletion of \$19,939 budgeted for three of the four new task force sites.

Rent Schedule Problems

We withhold recommendation on proposed expenditures totaling \$581,226 (Item 48) for building maintenance and repair, lease management fees, and utilities, pending receipt of adequate justification for the department's request.

The State Administrative Manual requires departments to prepare a Schedule of Rent Building Space. The schedule details the justification for the department's proposed expenditures for facilities operations.

The Department of Justice requests \$5,029,523 for facilities operations in the budget year. In December 1979, when we requested the schedule which explains the proposed expenditures, we found that no supporting documentation had been prepared. Subsequently, the department produced three different versions of the schedule. Proposed expenditures on building maintenance and repair, for example, ranged from \$72,000 and \$184,000 in the various schedules. At the time this was written, the department is revising its explanation of the third schedule.

Because of the difficulty of evaluating the department's request for building maintenance and repair, lease management fees and utilities we withhold recommendation on the \$581,226 proposed for these purposes.

Security Guards

We recommend deletion of 9.6 security positions, a transfer of \$169,319 from personal services to operating expenses, and an augmentation of \$89,977 (Item 48) to operating expenses to allow the department to contract for security services with the State Police, for a net General Fund cost of \$89,977.

The department proposes to spend \$169,319 for security guards for the anticipated Phase I occupancy of the new Department of Justice building in July 1980. The department's Law Enforcement Consolidated Data Center will be occupying the building during Phase I; the remaining branches of the Division of Law Enforcement will move into the facility during Phase II.

The department proposes to establish 9.6 limited-term security officer positions for the Phase I occupancy of the new building. The department has employed its own security personnel for the Division of Law Enforcement since 1975 because of its belief that such personnel are more cost-effective and responsive to the department.

Establishment of the positions is contrary to state policy. Government Code Section 14613 and Section 1403.9 of the State Administrative Manual charge the California State Police Division with the responsibility to pro-

tect and provide police services for state-owned and state-leased facilities. The State Police provide security for both the Teale Consolidated Data Center and the Department of Motor Vehicles computer facility.

Moreover, establishment of the positions is not the least costly alternative to the state government, according to a Department of Finance report dated March 1979. The report states that, although State Police charges appear to be greater than the cost of using department security personnel, use of state police is less costly. This is because the State Police charges include overhead costs while an individual department's proposed expenditures do not. The Department of Finance report concludes that when state expenditures as a whole, rather than just client agency expenditures, are considered, centralized security services are less costly because of the opportunities for realizing economies of scale.

Thus, the department's request for \$169,319 for its own security guards substantially understates the net costs of the state of providing security services because this amount does not include overhead expenses. The State Police would charge \$259,296, including overhead, for security services for the new building.

In order to comply with state law which directs the State Police to provide security for state-owned facilities, and to reduce state costs over time, we recommend deletion of 9.6 security positions, a transfer of \$69,319 from personal services to operating expenses, and augmentation of \$89,977 to operating expenses to allow the department to contract for security services with State Police.

Increased usage of the State Police will allow it to spread its present overhead costs over more clients, thereby reducing the rate charged to all clients.

Fingerprint Fees Should be Charged for Peace Officer Applicants

We recommend the department increase fingerprint revenues by charging fingerprint fees for peace officer applicants. This will eliminate the General Fund subsidy now provided for such applicants by nonpeace officer applicants and the agencies which employ them. We further recommend that the department adjust the level of fees charged for all applicants to reflect this additional revenue.

The department's Criminal Identification and Information Branch administers a noncriminal identification program. Many law enforcement, licensing, and regulatory agencies submit fingerprint cards of employee applicants to the branch for verification and a search for possible criminal records.

The department may recover its processing costs by charging a fee to the agency requesting the information, in accordance with Section 11105 of the Penal Code. It currently charges a fee of \$6.10 to agencies for all applicants except child-care applicants (which are statutorily exempt) and peace officer candidates. According to an Auditor General's August 1979 report, the fee exemption for peace officers appears to be a tradition dating from the time when law enforcement agencies were statutorily exempt from paying the fee. In 1975 this exemption was deleted by the Legislature.

DEPARTMENT OF JUSTICE—Continued

Section 11105 allows agencies that pay fees to the department to collect reimbursements from applicants. Ninety percent of the agencies responding to a survey by the Auditor General indicated that they charge applicants to recoup the fee.

The department's policy of exempting peace officers from the fee requirement requires nonpeace officer applicants and the agencies which employ them to pay higher fees in order to cover the department's processing costs. Thus, peace officer applicants are being subsidized.

If the department charged fees for peace officer applicants, it would generate additional revenues of \$70,272 in the budget year. The Auditor General recommends that the department charge agencies for all applicants not statutorily exempt. We endorse this recommendation and further recommend that the department adjust the fingerprint fee to compensate for this additional revenue.

STATE CONTROLLER

Items 53 from the General

Fund and Items 54-58 from
various funds

Budget p. LJE 72

Requested 1980-81	\$38,836,492
Estimated 1979-80.....	34,751,674
Actual 1978-79	27,836,046
Requested increase (excluding amount for salary increase) \$4,084,818 (+11.8 percent)	
Total recommended reduction	\$622,168

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
53	State Controller	General	\$35,833,349
54	State Controller	Motor Vehicle Fuel Account, Transportation Tax	1,611,305
55	State Controller	State School Building Fund	242,286
56	State Controller	Aeronautics Account, State Trans- portation	151,700
57	State Controller	Unclaimed Property	91,552
58	State Controller	Retail Sales Tax	126,835
—	State Controller	Federal funds	779,465
Total			\$38,836,492

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Mandated Cost Audits. Augment Item 53 by \$97,837.* 100
Recommend three positions for increased field audits of mandated cost claims.
2. *Program Budgeting for Medi-Cal. Reduce Item 53 by \$362,495.* 101
Recommend reduction of Item 53 and equiva-

- lent augmentation of Item 284 to assure appropriate budgeting for Medi-Cal warrant-writing costs.
3. **Inheritance Tax Positions.** Recommend that seven positions in the Inheritance Tax Division be limited to three-year terms. 103
 4. **Consulting and Professional Services.** Recommend control language to restrict the use of \$750,000 solely for the use of a particular inheritance tax case. 104
 5. **Gas Tax Refunds.** Reduce Item 54 by \$35,756 and Item 56 by \$17,878. Recommend three positions and a total of \$53,634 be deleted due to workload reduction. 104
 6. **Senior Citizens' Property Tax Postponement Program.** Reduce Item 53 by \$27,420. Recommend one position be deleted from the Senior Citizens' Property Tax Postponement program due to a workload decrease. 107
 7. **County Cost Plans.** Reduce Item 53 by \$210,456. Recommend that all positions in the Bureau of County Cost Plans be funded through reimbursements. 107
 8. **Locator Unit.** Recommend legislation to require the Controller to charge a service fee on all accounts returned by the Locator Unit. 110
 9. **Consolidated Data Center.** Reduce Item 53 by \$66,000. Recommend that Teale Data Center charges be reduced by \$66,000. 111

GENERAL PROGRAM STATEMENT

The State Controller is the elected constitutional fiscal officer of the state. His responsibilities include those expressed in the Constitution, those implied by the nature of his office and those assigned to him by statute. Specifically, the State Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting the financial condition of the state and local governments, (3) administration of certain tax laws including the inheritance and gift tax, and collection of amounts due the state, and (4) enforcement of the unclaimed property laws. The Controller also is a member of various boards and commissions including the Board of Equalization, Franchise Tax Board, Board of Control, State Lands Commission, Pooled Money Investment Board, and assorted bond finance committees.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure level of \$38,836,492 in 1980-81 from various funds, which is an increase of \$4,084,818, or 11.8 percent, over the current year estimated expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The General Fund provides 82 percent of the funding for the State Controller, with the balance coming from other state funds, reimbursements and federal funds.

Table 1 identifies three major categories of budget changes: (1) baseline adjustments, (2) workload changes and (3) program changes. The most significant baseline change results from the scheduled expiration of 93.5

STATE CONTROLLER—Continued

positions on June 30, 1980. In addition, \$474,119, representing the increased salary savings required by Section 27.2 in the current year, is being restored. Due to workload increases, the Controller is requesting approximately \$4.3 million and 153.1 positions. Implementation of new programs will increase expenditures by about \$1.3 million and add 73.4 positions. The largest new program is the OASDI sick leave exclusion authorized in Chapters 1202 and 491, Statutes of 1979, which will account for \$1.2 million in additional General Fund expenditures.

Table 1
State Controller's Office
Proposed 1980-81 Budget Changes

	<i>Personal Services</i>	<i>OE&E and Returns of Taxes^a</i>	<i>Reimburse- ments</i>	<i>Total</i>	<i>Funding Source</i>		
					<i>General</i>	<i>Other State</i>	<i>Federal</i>
1979-80 Revised Budget	\$26,109,230	\$12,734,102	\$-4,091,658	\$34,751,674	\$31,983,601	\$2,077,198	\$690,875
<i>Baseline Adjustments</i>							
1. Expiring positions..	\$-3,402,557	\$-621,932	\$941,438	\$-3,083,051	\$-2,982,832	\$-29,430	\$-70,789
2. Restoration of Sec- tion 27.2 cuts.....	474,119	—	—	474,119	474,119	—	—
3. Merit salary adjust- ment	369,605	—	-39,527	330,078	305,697	24,381	—
4. Other adjustments (benefits, price increase, etc.)	282,172	685,875	-231,621	736,426	618,127	98,372	19,927
Subtotals.....	\$-2,276,661	\$63,943	\$670,290	\$-1,542,428	\$-1,584,889	\$93,323	\$-50,862
<i>Workload Changes</i>							
1. Fiscal control	\$1,375,913	\$208,547	\$-172,451	\$1,412,009	\$1,272,557	—	\$139,452
2. Tax administration	298,665	872,326	—	1,170,991	1,170,991	—	—
3. Local government fiscal affairs	610,817	171,406	-368,860	413,363	487,041	\$-73,678	—
4. Systems develop- ment	673,843	411,214	—	1,085,057	1,085,057	—	—
5. Unclaimed prop- erty	60,666	15,424	—	76,090	76,090	—	—
6. Administration	95,906	25,372	—	121,278	121,278	—	—
Subtotals.....	\$3,115,810	\$1,704,289	\$-541,311	\$4,278,788	\$4,213,014	\$-73,678	\$139,452
<i>Program Changes</i>							
1. Local government financial report- ing (Chapter 161, Statutes of 1979)	\$104,210	\$22,625	—	\$126,835	—	\$126,835	—
2. OASDI sick leave exclusion (Chap- ter 1202, Statutes of 1979)	995,729	225,894	—	1,221,623	\$1,221,623	—	—
3. CFTS support	326,443	539,550	\$-865,993	—	—	—	—
Subtotals.....	\$1,426,382	\$788,069	\$-865,993	\$1,348,458	\$1,221,623	\$126,835	—
Total 1980-81 Proposed Budget	\$28,374,761	\$15,290,403	\$-4,828,672	\$38,836,492	\$35,833,349	\$2,223,678	\$779,465

^a Operating Expenses and Equipment (OE&E).

The Governor's Budget proposes to add 226.5 positions (215.1 personnel-years) to the Controller's staff. Of these, 71 are reestablishments of expiring limited term positions, 104 are for continuation of positions administratively established in the current year and 51.5 are new positions. In addition, four audit positions are being upgraded in the Fiscal Control program. Table 2 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's Office.

Table 2
State Controller's Office
Program Summary

Program	Personnel-Years				Expenditures		
	Actual 1978-79	Estimated 1979-80	Proposed 1980-81	New Positions Requested	Actual 1978-79	Estimated 1979-80	Proposed 1980-81
Fiscal control	600.0	724.1	731.9	(120.1)	\$16,845,555	\$21,538,095	\$23,687,080
Tax administration	194.9	202.3	207.8	(17.1)	5,341,616	6,163,087	6,953,389
Local government fiscal affairs	79.6	91.5	90.2	(27.0)	2,597,987	3,172,490	3,266,455
Systems development.....	85.5	85.1	93.0	(30.9)	2,897,789	3,369,221	4,148,864
Unclaimed property	75.6	88.5	95.4	(4.8)	2,747,686	3,363,895	3,656,626
Refunds of taxes, licenses and other fees	N.A.	N.A.	N.A.	—	19,149	30,000	30,000
Administration:							
Distributed to other programs....	(33.9)	(33.7)	(31.4)	—	(949,959)	(1,134,457)	(1,134,457)
Undistributed	18.0	25.9	33.2	(15.2)	597,959	1,206,544	1,922,750
Totals	1,053.6	1,217.4	1,251.5	(215.1)	\$31,047,741	\$38,843,332	\$43,665,164
Reimbursements					-3,211,695	-4,091,658	-4,828,672
Net Program Totals	1,053.6	1,217.4	1,251.5	(215.1)	\$27,836,046	\$34,751,674	\$38,836,492

FISCAL CONTROL

The Fiscal Control program seeks to assure the fiscal integrity of the state through a system of controls over the state's financial transactions and periodic reports on the state's financial condition and operations. As shown in Table 3, the program is carried out through four divisions: Accounting, Audits, Disbursements, and Payroll and Personnel Services.

Controller's Role in SB 90 Claims

Chapter 1406, Statutes of 1972 (SB 90), authorized the reimbursement of local governments for state mandated costs and lost sales and property tax revenues. Under Chapter 1406, local governments could submit claims for reimbursement only in cases where the mandating statute acknowledged an obligation on the state's part to cover the increased costs (or revenue loss) resulting from the mandate. Chapter 1135, Statutes of 1977, significantly broadened the reimbursement program authorized by Chapter 1406. It allows local governments to appeal to the Board of Control for reimbursement where (1) legislation contains a section disclaiming any state obligation to reimburse mandated costs, and (2) legislation does not disclaim the state's obligation to reimburse local governments, but provides no appropriation.

Local reimbursements for state mandated costs are budgeted at more than \$100 million in 1980-81. This amount, however, does not include \$64

STATE CONTROLLER—Continued

Table 3
Fiscal Control Program
Summary by Element

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual</i> <i>1978-79</i>	<i>Estimated</i> <i>1979-80</i>	<i>Proposed</i> <i>1980-81</i>	<i>Actual</i> <i>1978-79</i>	<i>Estimated</i> <i>1979-80</i>	<i>Proposed</i> <i>1980-81</i>
1. Accounting Division						
a. Control accounting	46.7	50.3	49.6	\$1,361,516	\$1,599,997	\$1,682,641
b. Financial analysis	15.4	14.8	17.1	549,116	616,309	702,524
2. Audits Division						
a. Claim audits	41.2	44.5	46.0	821,925	995,028	1,101,833
b. Field audits	97.5	117.6	120.7	3,214,686	4,063,836	4,308,979
3. Disbursements Division						
a. Disbursements services	88.0	99.4	101.4	4,515,264	5,104,778	6,091,631
b. Technical services	64.9	81.4	83.8	1,584,155	1,821,004	1,929,036
c. Less amounts distributed to other programs	—	—	—	-1,530,158	-1,789,547	-1,841,016
4. Payroll and Personnel Services						
a. Personnel services	113.7	115.1	112.3	3,671,054	4,442,973	4,476,981
b. Payroll services	132.6	201.0	201.0	2,657,997	4,683,717	5,234,471
Totals	600.0	724.1	731.9	\$16,845,555	\$21,538,095	\$23,687,080

million in nonrecurring costs related to prior years' funding for Board of Control awards, and does not reflect the potential cost of additional claims which will be approved for payment in the budget year.

The Controller's Office has two functions with respect to payment of mandated cost claims. First, the Financial Analysis Bureau within the Accounting Division receives the reimbursement claims from local governments and conducts a desk audit before making payment. Second, after payment, the Field Audit Bureau within the Audits Division selectively audits local governments to verify the validity of amounts claimed.

Staffing Increase for Mandated Cost Desk Audits

Since 1977-78, the number of claims submitted to the Financial Analysis Bureau for the reimbursement of state mandated local programs has increased from 9,700 to an estimated 19,000 in 1980-81. The amount paid on these claims will rise from \$51 million to over \$100 million in this same time period. Additional workload has resulted as existing staff have become more active in the Board of Control process for determining which costs should be reimbursed in claims of first impression. Despite these increases in workload, budgeted staff for desk audits has remained at three positions since 1977-78. Our analysis of workload indicates that the proposed 4.5 new positions to be supported by the General Fund are justified.

Field Auditing of Local Reimbursements

We recommend that Item 53 be augmented by \$97,837 to provide for three positions to increase the field auditing of local reimbursements.

Section 2231 of the Revenue and Taxation Code authorizes the State Controller to audit the records of local agencies and school districts in order to verify the mandated costs claimed for reimbursement. In 1978-79, the Controller directed 2.6 personnel-years towards this effort, primarily

in the area of workers' compensation claims. As a result, 53 audit reports were prepared covering \$4,095,643 in local reimbursements. These reports recommended a total of \$1,386,506 in net disallowances, or 34 percent of the amount claimed by local agencies. The ratio of net disallowances to direct cost was approximately 24 to 1, which generally exceeds the ratio commonly experienced in tax audit programs.

In the current year, with three audit positions, the Controller has maintained his coverage of these workers' compensation audits, and has extended coverage to claims for reimbursement of juvenile justice costs. So far this year approximately \$5.6 million in local reimbursements have been audited and \$1.7 million in net disallowances were recommended, which is a recovery rate of 30.4 percent.

With three additional positions, the Controller's Office estimates that in excess of 300 field audits could be conducted annually. This would provide for an audit coverage equal to 2 percent of the 19,000 claims filed annually, and approximately 40 percent of the funds disbursed. Assuming a conservative recovery rate of 15 percent, the department estimates audit recoveries would approximate \$4,800,000 annually. Consequently, the cost of the additional positions would be more than offset by savings to the state. For this reason, we recommend an augmentation to increase the number of audit positions from three to six.

An additional three positions were funded by the Legislature in the 1979 Budget Act, as we recommended. The funds, however, were vetoed by the Governor. In view of the potential savings to be gained by increasing audit coverage we recommend that the Legislature seek to clarify the administration's position regarding the audit program.

Program Budgeting for Medi-Cal

We recommend that \$362,495 for the Medi-Cal warrant process be deleted from Item 53, the General Fund appropriation to the State Controller and included in Item 284, the General Fund appropriation for the Department of Health Services.

In our Analysis of the 1979-80 Budget Bill, we recommended that all funding for Medi-Cal warrant writing costs be shown in the Controller's Office as reimbursements from the Department of Health Services. Our recommendation was based on the requirements of Chapter 1284, Statutes of 1978 (AB 3322). Chapter 1284 provides that "program budgeting" concepts be utilized in the budget. The Legislature accepted our recommendation and directed the Department of Finance to prepare the 1980-81 budget on this basis. The department, however, did not comply with this directive.

The specific intent of Chapter 1284 is that department budgets be prepared in such a way as to reflect the costs associated with each of their programs. As we stated in last year's Analysis, the direct appropriation of funds to the Controller to cover the cost of issuing Medi-Cal warrants is contrary to program budgeting because it causes the budget to understate the costs associated with the Medi-Cal program and overstate the costs of the Controller's programs.

STATE CONTROLLER—Continued**Payroll and Personnel Services Division**

The Payroll and Personnel Services Division (PPSD) is responsible for payroll processing and for maintaining the personnel records of all state employees. The personnel services unit maintains state employee personnel records in a computerized system called the Employee History Data Base. Information from the data base is provided to the State Personnel Board, the Public Employees Retirement System (PERS), the State Controller's Office payroll unit and to various other state agencies, as necessary.

Payroll Services Augmentation

During the current year, the Controller established administratively 35.8 positions to handle increased workload in the payroll functions relating to state employees. The budget proposes to continue these positions. The additional workload is a result of several factors including: (1) increases in personnel transactions affecting payroll, (2) an increase in more complex types of workload and (3) staff productivity below established standards due to a high rate of turnover.

If these positions are not continued, it would take longer to process payroll actions such as changes in salary or deduction amounts. The result would be a greater incidence of inaccurate paychecks and late paychecks. On this basis, we believe the positions are justified, and recommend that they be approved.

The Program Evaluation Unit in the Department of Finance is completing a review of the Controller's EDP usage. A major focus of the study is on the payroll and personnel system and potential problems which may be encountered in carrying out these functions. We anticipate that the findings of this report will be released prior to budget hearings on this item. These findings may serve as a basis for discussion of the future payroll needs of the state. They could also serve as input into the scope of the technical study to be undertaken in this area during the budget year (see page 108 for further discussion).

OASDI Sick Leave Exclusion Program

Chapter 1202 (SB 1016) and Chapter 491 (AB 521), Statutes of 1979, provide for a change in the method by which OASDI contributions are computed. Currently, OASDI contributions for both employers and employees are based on the amount of taxable wages paid. These new laws allow the state and local governments to classify compensation paid to employees absent on account of personal sickness as other than taxable wages for purposes of making OASDI contributions, provided certain conditions are met. One of these conditions is that the employer establish a separate account for paying absent employees. These statutes authorize the state and local governments to establish such accounts.

The Department of Finance plans to establish separate accounts for the state to use in paying absent employees, on April 1, 1980. All compensation paid on or after that date is subject to the OASDI sick leave exclusion.

The Controller's costs for implementing this program are estimated at

\$1,250,000. There would also be increased annual personnel costs to the operating departments estimated at about \$1 million. It is assumed that these costs will be absorbed by the departments. Thus, the net savings to the state as a result of Chapters 491 and 1202 are estimated to be about \$1,450,000 in the budget year, assuming that 58,000 employees take one day of sick leave per month. State employees are expected to save about \$2,700,000 in 1980-81.

Workload Requirements to Implement Sick Leave Exclusion

In order to implement the OASDI sick leave exclusion program, the Controller administratively established 51.6 positions in the current year. The budget proposes to continue these positions and add 0.3 positions in the budget year. In addition, 6.5 support positions are proposed for continuation in the Systems Development Division (SDD).

Pending the design and implementation of an automated refund process, the requested staffing would manually (1) record sick leave information from the operating departments, (2) compute and issue any OASDI refunds and (3) make required reports to the Social Security Administration. Automation is expected to be completed by December 31, 1982, at which time PPSD's staffing needs should decline. In anticipation of this, 25 of the 51.9 positions requested by PPSD would be limited to June 30, 1982.

TAX ADMINISTRATION

The Tax Administration program administers the Inheritance and Gift Tax Laws, collects various minor taxes, including the insurance tax and motor vehicle license tax, and refunds gas taxes paid for certain nonhighway uses. Table 4 provides a summary of the personnel-years and expenditures for the four elements of this program.

Table 4
Tax Administration
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
1. Inheritance Tax.....	134.0	142.8	148.3	\$3,748,999	\$4,475,196	\$5,224,087
2. Gift Tax.....	24.2	25.5	24.1	607,293	613,192	648,933
3. Tax Collection.....	1.0	5.9	6.9	63,193	172,077	202,218
4. Gas Tax Refund	35.7	28.1	28.5	922,131	902,622	878,151
Totals	194.9	202.3	207.8	\$5,341,616	\$6,163,087	\$6,953,389

Inheritance Tax Workload

We recommend that the seven permanent positions requested to administer the Howard Hughes case be limited to three years.

Seven positions were established in 1977-78 to handle the complex Howard Hughes estate which is currently in litigation. Although these are scheduled to expire on June 30, 1980, the case is not expected to be resolved by that date. Our analysis indicates that the potential revenue from the Hughes estate justifies the continuation of these positions. Because this workload is temporary, however, it does not justify the establishment of permanent positions.

STATE CONTROLLER—Continued**Consulting and Professional Services**

We recommend control language to restrict the expenditure of \$750,000 budgeted for consulting and professional services so that these funds may be solely used in connection with the Howard Hughes litigation.

The Controller is requesting \$750,000 in the budget year for consulting and professional services in connection with the Howard Hughes inheritance tax case. This is roughly twice the amount expended for this purpose in the current year, and is required primarily for attorney fees. The request is based upon assumptions as to how quickly the case will progress in the budget year. If the case does not proceed as rapidly as expected, the full amount will not be required. For this reason, we recommend that the following control language be adopted in Item 53:

“Provided that \$750,000 of the funds appropriated in category (b) are to be expended solely for services contracted for in connection with the Howard Hughes inheritance and gift tax case.”

Gas Tax Refund Workload Declines

We recommend deletion of three positions because of declining workload, for a reduction of \$35,756 in Item 54 and \$17,878 in Item 56. (Total reduction of \$53,634.)

Number of Claims Overestimated. The workload of the Gas Tax Refund Unit is directly related to the number of claims that must be processed. The Controller projects these claims to decrease by 6 percent between 1978-79, and 1979-80 and by 5 percent between 1979-80 and 1980-81. We analyzed these workload estimates by looking at past actual and year-to-date statistics on claims received and processed. Data for the period July 1978 through November 1979 shows that claim volume has actually decreased by 17 percent from 1978-79. This is a much larger decrease than the 6 percent projected by the Controller. Because the Controller has not been able to provide any information which would indicate that this trend will not continue, we recommend that staff be reduced by three positions, consistent with the trend in workload. Table 5 shows our estimates of workload and personnel requirements compared to the Controller's estimates.

Table 5
Gas Tax Refund Program
Projected Workload

	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
<i>Analyst's Estimates</i>			
Number of claims	26,409	21,919	20,823
Percent change from prior year	-8.6%	-17.0%	-5.0%
Personnel required	26.7	22.2	21.1
<i>Controller's Estimates</i>			
Number of claims	26,409	24,824	23,582
Percent change from prior year	-8.6%	-6.0%	-5.0%
Personnel budgeted	26.7	24.5	24.5

LOCAL GOVERNMENT FISCAL AFFAIRS

The Local Government Fiscal Affairs program is responsible for (1) prescribing accounting and budgeting requirements for counties and special districts and reporting local government financial transactions, (2) reviewing and reporting on the use of state gas tax funds, (3) approving county cost plan allocations, (4) administering state law regarding property tax delinquencies, and (5) administering portions of the Senior Citizens' Property Tax Postponement program. Table 6 summarizes the activities for the five elements in this program.

Table 6
Local Government Fiscal Affairs
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
1. Financial information	29.7	32.8	28.5	\$1,038,856	\$1,236,308	\$1,126,654
2. Streets and roads	23.5	31.1	33.6	776,883	1,002,343	1,151,729
3. County cost plans	8.5	8.2	9.2	242,089	287,678	350,920
4. Tax deeded land	8.4	8.2	8.4	195,449	254,682	278,734
5. Senior citizens' property tax postponement	9.5	11.2	10.5	344,710	391,479	358,418
Totals	79.6	91.5	90.2	\$2,597,987	\$3,172,490	\$3,266,455

Local Government Financial Accounting and Reporting

As a result of Proposition 13 and the Gann Initiative, there has been considerable interest in the general area of local government finances and in specific categories of local financial transactions. The State Controller's reports of financial transactions have been the primary source of information on the fiscal health of various local governments, and have been used to determine the amount of state assistance required by different types of local agencies. The data in these reports have also been used by the Office of Criminal Justice Planning as a basis for allocating grant funds to cities. For these reasons, it is imperative that the data collected and reported by the Controller be consistent and comparable.

Task Force on City Fiscal Information. In our 1979-80 Budget Analysis, we recommended the adoption of legislation to require *uniform accounting* for cities and *uniform reporting* practices for all local governments. ACR 51 (1979 Resolution Chapter 78) created the Task Force on City Government Fiscal Information, and required it to make recommendations for improving the reporting of city financial data. The task force has not completed its work, but it appears that the task force's final report will recommend significant changes in city fiscal reporting. These recommendations are likely to include the following:

- (1) *Reports of financial transactions should contain data accumulated in accordance with generally accepted accounting principles (GAAP).* GAAP are nationally established principles which are intended to produce more meaningful and comparable statements of the financial position of reporting entities.
- (2) *Indirect and overhead costs should be allocated to city functions*

STATE CONTROLLER—Continued

and programs. Currently, the Controller's financial reports contain a category for "nondepartmental" expenditures, which may include expenditures for employee retirement, insurance, debt service, and other costs which are not directly related to functions or programs. Lack of uniformity in the way these costs are reported is a major problem with the existing data. For example, the data on police department expenditures is unreliable because some cities include police retirement within this category and others include it as a nondepartmental expenditure.

- (3) *Reports should be all inclusive and should reflect financial data concerning trust and agency funds, internal service funds and enterprise funds.* Currently, reports generally cover only current operating transactions. Moreover, how various types of resources are classified with regard to these funds varies among cities. For example, some cities account for CETA and federal revenue sharing in their operating fund while others account for them in a "trust fund." Reports prepared in accordance with generally accepted accounting principles reflect the existence of all such funds, and treat different types of resources uniformly.
- (4) *Reports should contain certain balance sheet data.* The balance sheet shows the value of assets, the extent of liabilities, the types and amounts of reserves, and the amounts accumulated and available to finance future year operations. This data would be particularly useful in efforts to evaluate the fiscal health of cities.
- (5) *The State Controller's instructions to cities for preparation of the annual report should be improved to provide for more detailed definition of accounts, classifications and requirements.* The instructions now available lack sufficient detail to provide for uniform reporting of financial transactions by cities. They should be revised to provide a detailed listing of revenues and expenditures, and should specify how to categorize these revenues and expenditures in the annual report.

The task force has concluded that legislative action is not necessary to implement most of these recommendations because the State Controller, with the approval of an advisory committee composed of seven local government officials, can specify the format for the annual report.

Uniform Reporting for All Local Governments. Although the task force was formed to evaluate city fiscal reporting, the uniform reporting requirements discussed above would improve the fiscal information submitted by all local governments. In deciding whether to apply these principles to all local governments, however, the Legislature should recognize that local governments will incur added costs in making the transition to the new standards, and that these costs will be reimbursable by the state. Unfortunately, no estimate of these costs is available.

Accordingly, we recommend that the Legislature adopt supplementary language requiring the Controller to estimate the cost to local government of complying with these reporting requirements. This would permit the Legislature to evaluate both the costs and benefits of such a requirement.

Senior Citizens' Property Tax Postponement

We recommend that one position and \$27,420 be deleted from Item 53 due to an expected decrease in workload.

The property tax postponement program allows eligible homeowners to defer payment of all or a portion of the property taxes due on their residences. Eligibility is determined by such factors as age, income and the amount of their equity in the property (this program is discussed further under Item 477). Administrative responsibilities for the program are shared by the Franchise Tax Board and the State Controller. In the current year, 12 limited term positions are being utilized in the Controller's office for the administration of this program. The budget proposes that 11 of these positions be permanently reestablished.

Workload Decrease Expected. In the current year, the Controller has had a substantial backlog in the area of lien management. This backlog resulted from the large number of liens that had to be reviewed in connection with initial applications for tax postponements. The Controller projects that this backlog will be cleared up by the end of the current year. More importantly, much of this workload is nonrecurring. Once the liens on a specific property have been subject to an in-depth review, a similar review is not undertaken in subsequent years. Estimates indicate that less than 20 percent of the current year participants are applying for tax postponement for the first time. Consequently, workload should decline from what it was in the first years of the program.

Additional Potential Reductions for the Budget Year. The Controller is estimating that participation in the postponement program will increase by 6.3 percent in 1979-80 and by 3.3 percent in the budget year. Our analysis of preliminary data indicates that these estimates may be high and that, in fact, participation may decrease. If such a decrease should occur, the staffing requirements of this program should be reevaluated.

The filing deadline for the postponement of 1979 taxes is April 5, 1980. Accordingly, we withhold any further recommendations concerning the level of staffing for this program until actual statistics on participation become available.

Reimbursement Funding Recommended for County Cost Plans

We recommend that \$210,456 be deleted from Item 53 and that all positions in the Bureau of County Cost Plans be funded from reimbursements.

Counties may recover from the federal government the indirect costs of administering federally funded programs. In order to claim these costs a spending plan must be submitted and approved by an authorized agency. The Bureau of County Cost Plans in the Controller's Office has been given this authority by the Department of Health, Education and Welfare. In all other states, this responsibility has been retained by the federal government.

The budget is proposing an additional four permanent positions to be funded by reimbursements. This would bring total staffing to nine positions. The source of reimbursements for the new positions has not been

STATE CONTROLLER—Continued

specifically identified, but the Controller indicates they will probably come from a combination of federal, local and other state agencies. We request that the Controller identify the source of these funds by July 1, 1980. Funding for the five existing positions is being provided by the General Fund. We believe that these five positions should also be funded by reimbursements.

Reimbursement funding is being proposed for the new positions on the basis that this unit is providing direct services to specific users and that these users should provide funding for the program. The users of this program are the federal and local governments as well as certain other state agencies that administer local programs with federal funding. This same rationale also applies to the five existing positions. Therefore, we recommend that \$210,456 in General Fund support for the five existing positions should be deleted, and that reimbursement funding be used to support the whole County Cost Plan program.

SYSTEMS DEVELOPMENT

The Systems Development Division (SDD) is responsible for developing and maintaining the computer programs utilized in the Personnel and Payroll Services Division. This program is the latest stage in the organizational evolution of the Payroll Information Management System (PIMS) project. The PIMS project was established in 1973 to design and develop a computer-based personnel and payroll information system.

Table 7 summarizes the elements in this division.

Table 7
Systems Development
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
1. Payroll development.....	33.1	37.6	44.9	\$1,092,405	\$1,406,444	\$1,984,781
2. Employment history development.....	19.0	26.7	27.6	639,904	1,097,824	1,266,981
3. Systems maintenance support	33.4	20.8	20.5	1,165,480	864,453	897,102
Totals	85.5	85.1	93.0	\$2,897,789	\$3,368,721	\$4,148,864

The budget is proposing the addition of 32.5 positions in SDD. Twenty positions are being reestablished to continue work in the payroll maintenance and payroll development areas. Five one-year positions are being established to complete data processing changes to the employment history and payroll systems in preparation for the identification of employee designation and collective bargaining units. To gear up for implementation of the OASDI sick leave exclusion program (discussed above), 6.5 positions administratively established in the current year are proposed for continuation for one more year. These positions are being used to develop an automated system to avoid the payment of OASDI on sick leave compensation.

Payroll System Study to be Undertaken. The Controller is requesting \$200,000 in consulting services to finance a study which will (1) review the

current payroll system, (2) assess the Controller's ability to deal with potential demands made by collective bargaining and (3) develop a long-range plan for implementing the study's recommendations. One new position is being proposed for this division to work with the consultant in conducting this technical study of the state payroll plan. Proposed budget language requires that advice on the study scope and selection of a consultant be sought from the Office of Employee Relations, Department of Finance, State Personnel Board and the Legislative Analyst. The study is to be completed by April 1, 1981. We concur with both the need for the study and the amount requested to accomplish it.

UNCLAIMED PROPERTY

Through the Unclaimed Property program, the Controller (a) collects unclaimed property from holders of such property (financial institutions, corporations and others) and (b) attempts to return the property to owners or heirs. Table 8 summarizes expenditures of the Unclaimed Property Division for the two program elements, abandoned property and estates with unknown heirs.

Table 8
Program Summary
Unclaimed Property Program

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
Abandoned property	71.0	83.1	89.9	\$2,629,673	\$3,159,605	\$3,492,818
Estates of deceased persons.....	4.6	5.4	5.5	118,013	204,290	163,808
Totals	75.6	88.5	95.4	\$2,747,686	\$3,363,895	\$3,656,626

A total of five new positions are being requested in the Claims Research Unit and the Claims Scheduling Section in the Division of Unclaimed Property to handle increased workload. Under Section 1540 (b) of the Civil Procedure Code, the Controller is to consider each claim for abandoned property within 90 days. This involves researching the inquiry, evaluating it for legal ownership and scheduling the claim for payment. Due to the increase in the number of claims being filed, processing time has increased from 60 days to 120 days since last year.

Locator Unit

Chapter 1184, Statutes of 1978, required the Controller to establish a procedure to locate the owners of unclaimed property. The Locator Unit was established in August 1979 to carry out this mandate. This unit has led to an increase in the number of claims. Results through December 1979 show that owners of over 350 accounts with a value of \$1.5 million have been found. In general, the unit has been able to return approximately 25 percent of all accounts researched. Based on current year performance the Controller estimates that approximately 1,125 owners of accounts will be found in 1980-81.

STATE CONTROLLER—Continued**Legislation Recommended**

We recommend that legislation be adopted to require the State Controller to establish a schedule of service charges which would cover all ongoing expenses of the Locator Unit.

In 1980-81, the cost of the Locator Unit will be \$91,552. This cost is supported by the Unclaimed Property Fund. However, to the extent that Unclaimed Property Funds revert to the state after five years, this actually represents a cost to the General Fund.

The service provided by this unit benefits only specific persons. However, support for this program is provided by all taxpayers. We believe that because the benefits of this program are limited to relatively few taxpayers, state support is not appropriate. Therefore, we recommend that legislation be enacted to require the Controller to perform this locator function on a fee for service basis only, and that a schedule of service charges be established which would provide for the ongoing expense of the Locator Unit. In this way, only beneficiaries of the service will be required to support the program costs.

REFUNDS OF TAXES, LICENSES AND OTHER FEES

The budget recommends that \$30,000 be appropriated for refunds to taxpayers who have made erroneous payments or overpayments of taxes, licenses and other fees. This mechanism avoids the delays and costs associated with claims for noncontroversial refunds filed with the Board of Control and included in the Claims Bill.

ADMINISTRATION

The administration program provides executive direction, policy guidance, management and support services to the operating divisions. Table 9 shows the expenditures for each element of this program.

Table 9
Administration
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual</i> 1978-79	<i>Estimated</i> 1979-80	<i>Proposed</i> 1980-81	<i>Actual</i> 1978-79	<i>Estimated</i> 1979-80	<i>Proposed</i> 1980-81
Executive office	19	19	19	\$713,299	\$900,616	\$957,546
Administrative services.....	32.9	40.6	45.6	834,619	1,440,385	2,099,661
Totals	51.9	59.6	64.6	\$1,547,918	\$2,341,001	\$3,057,207

Increased Administrative Workload

The budget is proposing to fund five new positions and reestablish one position for 1980-81. These positions are needed in the areas of departmental accounting, personnel and business services. Workload in these areas has increased as a result of the increase in personnel within the Controller's Office over the past several years.

CFIS Positions Continued

In the current year, 10 positions were administratively established to modify and implement the Controller's fund accounting system which will provide information to the California Fiscal Information System (CFIS). The budget is proposing the continuation of these positions in 1980-81. Our analysis indicates that these positions are justified. Funding for these positions is provided through a reimbursement from the Department of Finance CFIS support budget.

Teale Data Center Contingency Costs Overbudgeted

We recommend a reduction of \$66,000 from Teale Consolidated Data Center charges.

The Controller's budget for data processing services contains a reserve for contingencies. This reserve is used to offset certain costs that may arise during the year but which have not been specifically budgeted for. This allows the Controller to accommodate changes in data processing requirements which may occur due to changes in workload. In the current year, the contingency amount is equal to 4 percent of estimated total charges. The budget proposes to increase the reserve for contingencies from \$133,000 to \$199,000, or to 6 percent of total charges.

The Controller's Office was not able to provide any information which would justify either a dollar or percentage increase in the amount budgeted for contingencies. In addition, the Controller did not account for savings which should be realized from the implementation of a new mass storage system.

Therefore, we recommend that the contingency reserve amount be reduced to the current year level of \$133,000, for savings of \$66,000. This represents 4 percent of total consolidated data center charges.

STATE BOARD OF EQUALIZATION

Item 59 from the General Fund
and Items 60-63 from various
funds

Budget p. LJE 86

Requested 1980-81	\$62,589,421
Estimated 1979-80.....	60,592,553
Actual 1978-79	51,065,330
Requested increase (excluding amount for salary increases) \$1,996,868 (+ 3.3 percent)	
Total recommended reduction	\$861,243

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
59	State Board of Equalization	General	\$58,426,771
60	State Board of Equalization	Energy Resources Conserva- tion and Development Spe- cial Account	45,481
61	State Board of Equalization	Motor Vehicle Fund Ac- count, Transportation Tax	2,846,850

STATE BOARD OF EQUALIZATION—Continued

62	State Board of Equalization	Emergency Telephone Special Account	58,166
63	State Board of Equalization	Timber Tax	1,212,153
	Total		<u>\$62,589,421</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *Staff Benefits. Reduce Item 59 by \$456,784.* Recommend reduction in amount budgeted for OASDI contribution. 116
2. *General Expense. Reduce Item 59 by \$54,173.* Recommend reduction of general expense budgeted for new positions. 117
3. *Tax Return Processing.* Recommend Board of Equalization report to Legislature by October 1, 1980 outlining costs and benefits of alternative proposals for improving sales tax return processing. 117
4. *Sales Tax Audits. Reduce Item 59 by \$102,970.* Recommend deletion of five proposed new audit positions. 118
5. *Sales Tax Registration. Reduce Item 59 by \$42,890.* Recommend deletion of three proposed new sales tax registration positions. 120
6. *Delinquent Sales Tax Collections. Increase Item 59 by \$58,294.* Recommend augmentation of four additional new delinquent collection positions. 122
7. *Local Property Tax Monitoring. Reduce Item 59 by \$184,551.* Recommend elimination of Office of Appraisal Appeals. Recommend Local Property Tax Monitoring program be limited to June 30, 1982. 123
8. *State Assessed Property Audits. Reduce Item 59 by \$62,419.* Recommend deletion of two proposed new positions for utility property audits. 125
9. *Data Processing Equipment. Reduce Item 59 by \$15,750.* Recommend deletion of funds requested for minicomputer for Timber Tax Division. 127

GENERAL PROGRAM STATEMENT

The Board of Equalization is the largest tax collection agency in California. It consists of the State Controller and four members who are elected from geographic districts. Members of the board are elected at each gubernatorial election and serve four-year terms. The chairmanship of the board is rotated annually among the members. The chairman automatically serves as a member of the Franchise Tax Board, which administers the personal income and bank and corporation franchise taxes.

Responsibilities of the Board

About 93 percent of the board's staff is devoted to the administration of the state and local sales tax and several other excise taxes. Administration of these taxes includes registration of taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration

of local property taxes, and about 7 percent of its staff is engaged in these activities. The board's various responsibilities are described below.

Administration of State and Local Taxes. The board administers and collects the state's $4\frac{3}{4}$ percent sales and use tax, the local $1\frac{1}{4}$ percent sales and use tax, and a $\frac{1}{2}$ percent sales and use tax for the San Francisco Bay Area Rapid Transit District, the Santa Clara County Transit District and the Santa Cruz Metropolitan Transit District. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax) and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the surcharge on the consumption of electricity, and (3) since July 1, 1977, a telephone surcharge, which will be used to fund the 911 emergency telephone systems. Beginning in January 1978, the board collected an assessment on sellers of tangible personal property which was used to fund programs authorized under the Litter Control, Recycling and Recovery Act of 1977. This tax was repealed in September of 1979.

Local Property Tax Equalization. The board surveys the operation of county assessors' offices, issues rules governing assessment practices, trains property appraisers, and provides technical assistance and handbooks to county assessors' staff.

Assessment of Public Utilities. The board determines the value of public utilities' property and allocates assessed values to each local taxing jurisdiction in which such property is located.

Review of Appeals from Other Governmental Programs. The board hears appeals by taxpayers and property tax assistance claimants from decisions of the Franchise Tax Board. In addition, hearings are also provided to review local assessments of property owned by a city or county, when these assessments are contested.

Taxation of Timber. The board (1) collects a 3 percent yield tax on all timber, which is imposed at the time of harvest, (2) semiannually develops tables of timber value to be used in determining the taxable value of cut timber for yield tax purposes, (3) periodically audits timber owners to ensure payment of tax, and (4) develops schedules of timber land values to be certified to each county assessor.

Revenues Administered by the Board. Table 1 summarizes estimated state and local revenue collections from programs administered by the board. Total revenues in the budget year are estimated at just over \$11 billion, which is an increase of 10.7 percent over estimated 1979-80 levels.

The litter tax revenues shown for the current and budget years reflect the refund of taxes paid and the repeal of the tax. The 40 percent increase shown for 1980-81 energy resources surcharge revenue is attributable to an increase in the level of expenditures for programs funded by the surcharge. Under current law, the surcharge rate is adjusted to produce revenues sufficient to finance projected expenditures. The 41 percent decline shown for timber yield tax revenues in 1979-80 results from the reduction of the yield tax rate from 6 percent to 3 percent, which resulted from the passage of Proposition 13.

STATE BOARD OF EQUALIZATION—Continued

Table 1
State and Local Revenues
Collected by the Board of Equalization
(in millions)

	<i>Revenues</i>			<i>Percent Change from Previous Year</i>	
	<i>Actual</i>	<i>Estimated</i>	<i>Projected</i>	<i>1979-80</i>	<i>1980-81</i>
	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>		
State Sales and Use Tax	\$5,779.2	\$6,460.0	\$7,240.0	11.8%	12.1%
Local Sales and Use Tax	1,520.8	1,700.0	1,905.3	11.8	12.1
Litter assessment	0.6	-0.7	0.0	NA	NA
Alcoholic Beverage Tax	140.1	138.2	141.0	-1.4	2.0
State Cigarette Tax	189.8	191.0	195.0	0.6	2.1
Local Cigarette Tax	79.0	81.5	83.0	3.2	1.8
Motor Vehicle Fuel Tax (gasoline)	822.2	812.2	825.1	-1.2	1.6
Use Fuel Tax (diesel)	74.4	74.4	77.8	0.0	4.6
Energy resources surcharge	18.1	18.8	26.4	3.9	40.4
Emergency telephone users surcharge	14.1	14.2	14.2	0.7	0.0
Insurance Tax	420.2	443.0	490.0	5.4	10.6
Timber Yield Tax	44.1	25.8	31.3	-41.5	21.3
Private Railroad Car Tax	3.3	4.3	4.3	30.3	0.0
Totals	\$9,105.9	\$9,962.7	\$11,033.4	9.4%	10.7%

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of \$62,589,421 from various funds for support of the State Board of Equalization in 1980-81. This is an increase of \$1,996,868, or 3.3 percent, over the estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. In the budget year, 8.1 authorized positions are being deleted due to the repeal of the Litter Tax Program, and 75 new authorized positions are requested primarily to accommodate expected increases in workload. Thus, the budget provides for a *net* increase of 66.9 *authorized positions*. The net effect of the proposed reductions and augmentations are reflected in terms of *personnel-years* associated with each program shown in Table 2. Personnel-years are equal to authorized positions minus salary savings, which generally is equal to about 3 percent to 5 percent of each position.

Table 2
Board of Equalization Budget Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual</i>	<i>Estimated</i>	<i>Requested</i>	<i>Actual</i>	<i>Estimated</i>	<i>Requested</i>
	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>
1. Local property tax monitoring	104.5	47.4	47.4	\$3,198,318	\$2,011,059	\$1,975,277
2. County assessment standards	54.7	57.2	57.2	1,652,185	2,201,714	2,266,847
3. State assessed property	85.7	85.8	88.6	2,421,447	2,966,857	3,169,591
4. Timber Tax	33.1	33.0	33.0	941,155	1,166,458	1,212,153
5. Sales and Use Tax	2,004.9	2,148.3	2,233.1	50,895,841	62,211,731	66,043,046
6. Litter assessment	45.4	8.3	—	989,745	301,939	0
7. Alcoholic Beverage Tax	32.5	32.5	32.5	694,042	833,689	856,426
8. Cigarette Tax	13.3	13.3	13.3	1,218,374	1,252,252	1,274,185
9. Motor Vehicle Fuel License Tax	15.0	15.0	15.0	411,124	464,126	477,498

10. Use Fuel Tax.....	95.6	86.6	86.6	2,233,290	2,290,690	2,369,352
11. Energy resources surcharge	1.5	1.5	1.5	39,007	44,179	45,481
12. Emergency telephone users sur- charge	2.1	2.0	2.0	49,887	56,495	58,166
13. Insurance Tax	3.4	3.4	3.4	100,202	119,197	122,448
14. Appeals from other governmental programs	13.6	13.6	16.5	447,352	510,590	598,151
15. Administration (undistributed)	6.3	—	—	226,220	137,738	98,600
Totals	2,511.6	2,547.9	2,630.1	\$65,518,189	\$76,568,712	\$80,567,221
Reimbursements				-14,452,859	-15,976,159	-17,977,800
Totals from State Funds				\$51,065,330	\$60,592,553	\$62,589,421

In terms of personnel-years, the reduction of 8.3 personnel-years associated with the Litter Tax Program results from the elimination of 7.7 personnel-years (8.1 positions) and the reallocation of 0.6 personnel-years of overhead to other programs. The addition of 75 positions translates into an increase of 71.2 personnel-years. Finally, the budget includes a restoration of funding for the 18.7 personnel-years associated with the increased salary savings required in 1979-80 pursuant to Section 27.2 of the Budget Act of 1979. The net increase in personnel-years from the current to the budget year is 82.2.

Table 3 displays the major changes in the board's program budget from the current year to the budget year. Included in the base-line adjustments of \$2.5 million are changes for merit salary increases, increases in benefit costs, and the restoration of the reduction made pursuant to Section 27.2 of the Budget Act of 1979. The program maintenance proposals relate to requested increases to handle workload changes in existing programs. The major program change involves the repeal of the Litter Tax Program. Finally, the reimbursement entry shows the increase in reimbursements attributable primarily to the increase in payments made by cities and counties for the collection of the local share of the sales and use tax.

Staff Benefits Overestimated

We recommend a reduction of \$456,784 in the amount requested for staff benefits due to an overestimate of social security costs.

The budget requests \$14,739,701 for staff benefits for 1980-81, which is equivalent to 29.7 percent of salaries and wages. Actual costs for staff benefits in 1978-79 were \$10,570,226, or 25.4 percent of salaries and wages.

Table 4 displays the actual costs for staff benefits in 1978-79 and the board's initial estimates for 1979-80 and 1980-81. In arriving at its estimates of total staff benefits required for the current and budget years, the board simply increased its estimate of current year OASDI costs by 4.9 percent as per Department of Finance instructions. The board made no attempt to compare the amount requested as a percentage of salaries and wages with the actual amounts for prior years.

In the course of examining the amounts requested for staff benefits, this office requested the board to provide data on actual costs for 1978-79. On the basis of that data, the board realized that its procedure had effectively overstated the increase in the cost of OASDI or both 1979-80 and 1980-81, and now recommends a reduction in staff benefits of \$494,628 in the current year and \$456,784 in 1980-81. The board's new estimate for 1980-81

STATE BOARD OF EQUALIZATION—Continued

Table 3
Board of Equalization
Proposed 1980-81 Budget Changes

	<i>Cost</i>	<i>Total</i>
1979-80 Current Year Revised.....		\$60,592,553
I. Base-Line Adjustments		
A. Change in Existing Personnel Costs		
1. Salary adjustments	\$859,364	
2. Staff benefits	332,068	
3. Restoration of 27.2 reduction.....	568,970	
Total, Increase of Existing Personnel Costs		\$1,760,402
B. Price Increase.....		763,510
Total, Base-Line Adjustments.....		\$2,523,912
II. Program Maintenance Proposals		
A. Business Taxes		
1. Reimbursement to Department of Motor Vehicles.....	\$313,773	
2. Data processing support	50,373	
3. Registration, processing and collections	579,232	
4. Audits.....	473,660	
5. Vehicle price certification	63,650	
6. Increased facilities operations for workload growth	122,160	
7. Limited term certification positions	-32,610	
8. Limited term career opportunity development.....	-39,138	
B. Appeals from Other Agencies		
1. Franchise and Income Tax appeals	73,636	
Total, Program Maintenance Proposals		\$1,604,736
III. Program Change Proposals		
A. Business Taxes		
1. Litter Tax repeal.....	\$-147,366	
B. Property Taxes		
1. Valuation of state property	105,448	
2. Title II funds	-88,221	
Total, Program Change Proposals		\$-130,139
IV. Reimbursements		\$-2,001,641
Total, Support Budget Change		\$1,996,868
Total, 1980-81 Support Budget		\$62,589,421

Table 4
Staff Benefits
Budget Estimates

	<i>Actual 1978-79</i>		<i>Estimated 1979-80</i>		<i>Estimated 1980-81</i>	
	<i>Amount</i>	<i>Percent of Salaries and Wages</i>	<i>Amount</i>	<i>Percent of Salaries and Wages</i>	<i>Amount</i>	<i>Percent of Salaries and Wages</i>
OASDI (Social Security)	\$1,654,575	3.983%	\$2,592,157	5.438%	\$2,836,946	5.721%
Other Benefits.....	8,915,651	21.463	11,460,797	24.041	11,902,855	24.005
Totals	\$10,570,226	25.446%	\$14,052,954	29.479%	\$14,739,701	29.726%

reflects a cost for OASDI equal to 4.80 percent of net salaries and wages, compared to the initial estimate of 5.721 percent shown in Table 4.

The explanation for the board's error lies in the exceptionally low employee participation in OASDI in 1978-79. This can be attributed in part to a large number of board employees who joined state service prior to

1963 and were not required to join the program. We believe that the revised cost figure is reasonable based upon the board's current estimate of the number of employees eligible for retirement.

Overestimate of General Expense for New Positions

We recommend that budget request for operating expenses be reduced by \$54,173 to account for an overestimate of general expense associated with new positions.

The board has requested \$108,253 for general expenses related to the 75 new authorized positions requested in the budget. These expenses were assumed to require funds equal to 10 percent of the total amount requested for salaries and benefits for these positions. (Separate amounts are identified for certain other items such as travel.) The board has been unable to provide us with adequate justification for this method of estimating general expenses. It has maintained that the amount included for general expense should be equal to the average cost per board employee of several operating expense items—general expenses, communications, and facilities operations. We believe this method of estimating expenses is incorrect, for two reasons. First, the average cost per existing board employee overstates the true additional cost of a new position. Certain fixed costs do not increase when new positions are added, and this approach overstates the cost of the additional positions. Second, including the cost of facilities operations is inappropriate because separate additional increases are requested for the cost of building space associated with workload increases.

Our analysis indicates that the amount requested by the board—about \$1,500 per new position—is excessive. At the current time there is not sufficient information to determine the actual general expense costs incurred by adding new positions. For the budget year, we have estimated the cost per new position at \$650. This is equal to the actual average expense per board employee for general expenses and communications for 1978-79 plus a slight increase for inflation. This amount is the basis for our recommended reduction of \$54,173 for 1980-81.

This figure may still overstate the actual cost of new positions. For this reason, we have asked the board to refine this estimate during the coming year.

SALES AND USE TAX PROGRAM

Sales Tax Return Processing Improvements Remain Unidentified

We recommend that the board complete its study of sales tax return processing and report to the Legislature by October 1, 1980.

In the Analysis of the 1976 Budget Bill, we recommended that the board assess the costs and benefits of expanding the information required on sales tax returns, and of utilizing data processing techniques to verify mathematical computations as well as perform limited desk audit functions. In the analyses of the budgets for the subsequent two fiscal years we made additional suggestions for possible improvements in productivity.

The board finally responded to our recommendations in December 1979, indicating that their review of the return processing system is still

STATE BOARD OF EQUALIZATION—Continued

in progress. Their response provides little in the way of concrete alternative proposals and fails to identify the *costs and benefits* associated with the tentative options described. We are concerned over the board's lack of responsiveness to the Legislature's interest in this issue. Our analysis of the board's process indicates there is significant potential for improving the productivity of the processing system—an activity that requires over 18 percent of the board's total program budget of about \$80 million in 1980-81.

Among our recommendations over the past several years have been suggestions that the board study the possibility of entering more information from sales tax returns into its computers for possible use in the selection of accounts for audit, and to eliminate the semi-manual operation of verifying mathematical computations. The board has noted in its report that it is investigating the use of optical character recognition equipment and the entry of return information data through video terminals. The board has reached no conclusions with respect to these suggestions, and it is impossible for us to evaluate how feasible they are based on the limited information provided.

We recommend that the board give more emphasis to its study of possible improvements to the return processing and review system. We also recommend that the board provide the Legislature with sufficiently detailed information concerning the costs and benefits of the alternatives identified in order that an evaluation of them can be made, and that the board's report be available to the Legislature by October 1, 1980. Therefore, we recommend that the following supplemental language be adopted: "The Board of Equalization shall submit to the Legislature by October 1, 1979, a final report detailing the costs and benefits associated with alternative methods of restructuring the sales tax return processing system. The report shall address the feasibility of using data processing techniques to verify mathematical computations as well as perform limited desk audit functions."

Sales Tax Auditing

We recommend a reduction of 5 of the 23 positions requested for sales tax auditing, due to the continued inefficient allocation of existing auditors, for a savings of \$102,970.

The board has requested \$66.0 million, or 6.2 percent more than in 1979-80, to administer the sales tax program in 1980-81. Of this amount, \$31.3 million (47.4 percent) is proposed for auditing accounts of business firms subject to the sales and use tax.

Twenty-three new field audit positions are being requested for 1980-81, in order to maintain the same coverage of accounts authorized for 1979-80. These positions are requested for the workload growth associated with new eligible accounts. Table 5 shows the actual number of accounts audited, by level of productivity, and the percentage of the total number of eligible accounts audited, for 1977-78 and 1978-79. Estimates for the current year are also included in the table.

Table 5
Sales Tax Audit Coverage

	<i>Type of Account</i>		<i>Totals</i>
	<i>Most Productive</i>	<i>Moderate and Slightly Productive</i>	
Actual 1977-78:			
Number of accounts.....	17,759	343,944	361,703
Accounts audited	4,630	12,989	17,619
Percent audited.....	26.1%	3.8%	4.9%
Actual 1978-79:			
Number of accounts.....	19,814	353,767	373,581
Accounts audited	5,271	11,303	16,574
Percent audited.....	26.6%	3.2%	4.4%
Estimated 1979-80:			
Number of accounts.....	21,527	376,537	398,064
Accounts audited	5,360	14,145	19,505
Percent audited.....	24.9%	3.8%	4.9%

The board's request is based on an estimated 4.4 percent increase in the number of accounts eligible for audit in 1980-81. Eligible accounts include all active accounts that have not been audited in the eight quarters prior to July 1 of a given year. For budget purposes, "audit coverage" has traditionally been defined as the percentage of accounts on the eligible list which are audited in a single year.

The budget requests additional staff to maintain annual audit coverage at its estimated current-year level of 4.9 percent. However, the budget request does not display the fact that the board will recover 18.7 positions which were held vacant in order to generate the \$568,970 in additional salary savings required during 1979-80 pursuant to Section 27.2 of the Budget Act of 1979. Thus, with its request for 23 new positions, the board is attempting to maintain coverage at what the board maintains is its current *authorized* level of coverage—5.0 percent. The board's position is that the *actual* level of coverage (4.9 percent) during the current year is below the *authorized* level only because of the one-time increase in salary savings during 1979-80. Last year, the budget requested additional positions to maintain a 4.9 percent level of coverage. This request reflected the effect of an initial pro rata distribution of the reductions resulting from Section 27.2 of the 1978 Budget Act, reductions that never actually occurred in the audit program. Actual audit coverage during 1977-78 was also at the 4.9 percent level, but the board maintains that coverage was below the authorized level primarily because of the difficulty the board had that year filling audit vacancies.

In summary, the board is requesting an *effective* increase in audit coverage above the 4.9 percent level of coverage on which the board's budget requests for the past two years were based.

Allocation of Auditors. We do not believe that the board's request is justified in view of the allocation of current audit resources. In determining which accounts should be given the greatest audit coverage, the board does not consider the *relative* productivity of audits. The board defines the most productive groups of accounts as those with the highest percentage of "productive" audits. However, the board does not consider in its definition of a productive audit just *how* productive the audit is in terms of, say, tax change or the additional revenue realized by the state. A productive

STATE BOARD OF EQUALIZATION—Continued

audit is simply an audit where the size of the change in tax liability is greater than the cost of the audit. This methodology thus fails to give sufficient emphasis in the allocation of auditors to the marginal benefit of additional audits.

Moreover, the board's allocation of audit resources has resulted in a decline in coverage of the most productive accounts in recent years. Our analysis indicates that, until the board allocates auditors on the basis of the greatest marginal return, an increase in the effective level of audit coverage is not justified. Accordingly, we recommend that funding be provided for the number of auditors required to maintain the current level of coverage, or 4.9 percent, for the budget year.

Sales Tax Compliance Program

This program involves the registration of taxpayers, filing enforcement, and collection of delinquent taxes. Table 6 presents the total staff and expenditure requirements for this program.

Table 6
Board of Equalization
Sales Tax Compliance Program

	<i>Personnel-Years</i>			<i>Proposed Expenditures</i>
	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>	<i>1980-81</i>
Registration	449.8	487.0	490.4	\$12,466,215
Return processing	400.7	423.3	449.3	14,799,334
Delinquent tax collections	251.2	273.9	287.5	7,434,412
Totals	1,101.7	1,184.2	1,227.2	\$34,699,961

Taxpayer Registration Productivity Gains Ignored

We recommend a reduction of three positions and associated expenditures, for a total savings of \$42,890 requested for district registration of new sales tax permits.

Registration of new sales and use tax accounts is a mandatory activity of the board: it must be performed before the potential taxpayer may lawfully engage in business. This includes processing new accounts, close-out and revocation activities, and changes in registration due to mergers and outright sales of businesses. The relevant workload indicators used to develop budget requirements in the registration program are shown in Table 7.

Table 7
Sales Tax Compliance Program
Taxpayer Registration

	<i>New Accounts</i>	<i>New Accounts Processed Per Personnel-Year^a</i>	<i>Percent Increase In Productivity</i>
1975-76	152,254	400	—
1976-77	157,179	425	6.5%
1977-78	159,267	433	1.8
1978-79	161,236	447	3.2
1979-80 (est.)	166,700	447	—
1980-81 (est.)	169,600	447	—

^a This productivity level does not include distribution of administrative overhead.

The board attributes the increased productivity level during the period 1975-76 through 1978-79 to the implementation of the Business Tax Consolidation Information System (BTCIS). This system provides the districts with direct access by video terminal to information stored at headquarters. Productivity gains had been expected to level off by 1977-78, but as the table indicates, increases have continued through 1978-79.

In calculating the additional positions needed to register new taxpayer accounts, the board has assumed that no further increases in productivity will take place. Our analysis indicates that this assumption is not justified, particularly in view of the ongoing expansion of the BTCIS program. Between 1978-79 and 1980-81 an additional 20 video terminals are expected to be added to the system, an increase of about 23 percent. Also, the number of printer attachments will increase from 25 in the current year to 40 in the budget year. Even if productivity increases through 1980-81 are smaller than the average of the period for 1975-76 through 1978-79 (3.8 percent), we believe they will be significant enough to enable the board to process the anticipated number of new accounts through the budget year without additional positions.

Sales Tax Return Processing Workload Up

We recommend approval of 20 headquarters positions and three district positions to process the anticipated increase in sales tax return workload.

The board requests 23 positions to handle the workload increase expected in the budget year. The budget request is based upon a projected increase in tax returns of 166,854 in 1980-81. Table 8 summarizes recent workload history. The workload projections are reasonable and our analysis indicates the positions are needed to process it.

Table 8
Sales Tax Compliance Program
Tax Return Processing

	<i>Actual</i> <i>1977-78</i>	<i>Actual</i> <i>1978-79</i>	<i>Estimated</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>
Sales tax returns	2,296,752	2,368,920	2,395,100	2,521,162
Other tax returns	469,911	505,005	540,510	581,300
Totals	2,766,663	2,873,725	2,935,610	3,102,464

Vehicle Price Certification Workload Increase

We recommend approval of four positions to expand the review of vehicle purchase price certifications for sales tax purposes.

The board has requested four positions to process certification of vehicle purchase price, which are the basis for use taxes paid at the time of vehicle registrations. The Department of Motor Vehicles (DMV) collects the tax and forwards the price certification documents to the board. Prior to November 15, 1976, use taxes were based on value schedules used by the state to determine vehicle license fees. In November of 1976, DMV began

STATE BOARD OF EQUALIZATION—Continued

to collect use taxes on the basis of the actual purchase price as certified by the purchaser. Because the value schedules formerly in use understated the true value of vehicles, use tax collections have increased significantly since then.

In 1978-79, two limited-term positions were approved to review certifications of vehicle purchase price in order to identify understatements of purchase price and tax liability. The board is requesting that the two limited-term positions be renewed and that two additional positions be approved to replace resources lost due to workload growth in other sales tax activities.

The board sorts out for review about 1 percent of the certifications received annually. Of the 11,000 certifications reviewed, the board determines that additional taxes are due from approximately 3,600 taxpayers. Before the cost of review and collection, the additional taxes recovered by the state amounted to about \$575,000 in 1978-79. On the basis of this recovery, we believe that the renewal of the two limited term positions and the addition of two new positions is justified.

Support for Business Tax Information System

We recommend approval of two positions requested for the maintenance of the Business Taxes Consolidated Information System.

The Business Tax Consolidated Information System (BTCIS) was established in 1974-75 to provide the board's district offices with rapid access to information concerning business taxpayer accounts. The system has been expanded since that time, but no personnel have been authorized for the ongoing maintenance and support of the system. To date, resources for that purpose have been borrowed from other data processing activities. This will no longer be possible due to workload growth in the other areas. Because the BTCIS has increased the productivity of district staff, particularly in the sales tax program, we believe that the request for two additional positions is justified.

Sales and Use Tax Account Delinquencies on the Rise

We recommend approval of 14 positions requested in the budget and an augmentation of 4 additional positions at a cost of \$58,294 to process increased workloads and stabilize delinquent taxes receivable.

During the past three years, delinquent accounts have been growing at an average annual rate of over 9 percent. This trend is expected to continue through the budget year. The board has not been able to keep pace with the increasing number of delinquent returns, which has resulted in an increase in the inventory of delinquent items. Based upon the board's records, approximately 80 percent of the monies and 70 percent of the accounts written off as uncollectible are attributable to corporate sales tax liability. The board believes that the disproportionate share of corporate uncollectibles results from the fact the corporate officers are not personally liable for delinquent sales taxes or the penalties imposed on such delinquencies.

The 14 positions requested are to stabilize the inventory of delinquent items. However, due to a methodological error in the request, the board

understated the number of positions required to stabilize the inventory of delinquent accounts.

Our analysis indicates that the longer a delinquent account remains uncollected, the more likely it is to be written off as uncollectible. Accordingly, we believe that this augmentation is justified by the additional collections of delinquent amounts due that will result from it.

LITTER TAX PROGRAM

Litter Assessment Repealed

Chapter 1150, Statutes of 1979, repealed the litter assessment imposed on sellers of personal property, which was to be used to fund programs authorized under the Litter Control, Recycling and Recovery Act of 1977. These programs will now be funded through a General Fund appropriation.

The board has determined that \$301,939 will be needed to process refunds of taxes paid and phase out the Litter Tax Program during 1979-80. In the budget year, the program will be completely eliminated except for the reallocation of fixed overhead costs back to the sales tax program. This results in a savings in 1980-81 of \$1,361,105.

LOCAL PROPERTY TAX MONITORING PROGRAM

Proposition 13

The State Constitution requires the board to determine annually for each county the ratio of assessed value to full cash value of property subject to local assessment, and to "equalize" assessment levels among counties. Prior to the passage of Proposition 13 in 1978, the board accomplished this task by appraising a sample of properties in each county every three years. The board's county assessment ratios played a key role in the distribution of state aid. These ratios were used to allocate approximately \$2.25 billion in intergovernmental payments, consisting primarily of state aid to schools and county payments to the state for their share of Medi-Cal and welfare costs. This independent determination of county assessment ratios by the board was intended to reduce the effect of unequal assessment ratios among counties on the distribution of intergovernmental transfers, and to eliminate the incentive for counties to underassess local property for the purpose of capturing a larger share of the state disbursements.

Effect of Proposition 13 and AB 8

We recommend a reduction of four positions associated with the Office of Appraisal Appeals, for a savings of \$184,551. We also recommend that the 38 positions in the Local Property Tax Monitoring Program be authorized through June 30, 1982.

Enactment of Proposition 13 has eliminated the need for the state to determine county assessment ratios for purposes of allocating state funds. Chapter 282, Statutes of 1979 (AB 8), suspended the use of board-determined county assessment ratios for the allocation of state school aid and eliminated the counties' share of Medi-Cal and welfare costs.

Despite the fact that the use of board-determined ratios for the distribu-

STATE BOARD OF EQUALIZATION—Continued

tion of these funds was suspended, the board has not been released from existing constitutional and statutory requirements to *produce* the county ratios and coefficients of dispersion that indicate a lack of equalization within a county. Moreover, compliance with current assessment rules is not uniform throughout the state. The board has discovered several instances of significant nonconformity with or confusion over the interpretation of statutes governing assessment practices. To the extent this results in underassessments, the effect on local property tax revenues could be significant. In addition, to the extent that the state continues to make up any shortfall in property tax revenues going to school districts, the impact on state costs of widespread underassessment could be significant.

Although there may be considerable disagreement concerning the appropriate valuation techniques to be applied in certain circumstances, for the most part assessors have far less discretion in most situations than they had before passage of Proposition 13. Thus, the level of activity required to monitor compliance with existing assessment rules is substantially less than before passage of the initiative.

Proposed Fifteen-County Sampling Plan

Using existing resources, the board plans to review appraisals on a sample of properties in 15 counties each year, to determine whether reappraisals have been made when a change in ownership has occurred or to reflect new construction, and whether the values enrolled are proper. The board plans to change the cycle of assessment practices surveys, which address assessors' appraisals procedures, from the current six- to a four-year cycle. The information developed from the sample of appraisals conducted under the monitoring program would be used in the course of the assessment practices surveys. Toward that end, the surveys will be conducted a year after the sampling program in each county. The board is planning to redirect seven positions from the sampling program to the survey program to accelerate the survey cycle. Also, the board is planning to conduct small scale surveys on individual topics in all 58 counties.

Our analysis indicates that the board does not have a concrete plan regarding the manner in which the information from the sampling program will be used, either independent of the surveys or as a part of them. In part this is due to the fact that the variability of the value of properties assessed under Proposition 13 rules is unknown. Without this information, the board cannot determine the proper size and stratification of its sample, nor can it determine what level of staffing is required to produce a desired level of statistical reliability in its measure of county compliance.

Value of Board's Sampling Plan Uncertain

The future uses and consequent value of county compliance measures are highly uncertain at this time. For example, the extent to which the board has the ability to bring a county into assessment conformity on the basis of a compliance measure is unclear. Under Proposition 13 it is possible that base-year values, once established, could *not* be revised for equalization purposes unless there were a change in ownership.

Given the uncertainty surrounding the value of the board's sampling

plan we recommend that the positions associated with the Local Property Tax Monitoring program be authorized only through June 30, 1982. We also recommend that the board include in the program budget detailed information concerning the extent of noncompliance with assessment rules and an estimate of the revenue impact of such noncompliance. This information will enable the Department of Finance and the Legislature to evaluate the need for an ongoing local assessment monitoring program and the usefulness of the board's measures of local conformance.

We also recommend that four positions associated with the Office of Appraisal Appeals be eliminated. This office was established to review board appraisals made in the course of the sampling program where an assessor disputes the board's value. Appeals of board-determined values declined by 61 percent from 1977-78 to 1978-79 and 35 percent of the appeals filed in 1978-79 were withdrawn. We believe that the Office of Appraisal Appeals is no longer needed because the results of the board's sampling program will not be used to allocate intergovernmental payments. Adoption of this recommendation will result in a savings of \$184,441 in 1980-81.

STATE-ASSESSED PROPERTY PROGRAM

Appellate Court Rules Against Board

We noted in the Analysis of the 1979 Budget Bill that the board ruled that the provisions of Proposition 13 which "roll back" and limit the growth of assessed values do not apply to state-assessed property, primarily public utilities. The board's position is that these provisions apply only to real property assessed by the county assessor. This interpretation was challenged in a lawsuit filed by one of the affected utilities. In October 1979 the state Court of Appeal overturned a lower court ruling and held that state assessees are covered by Proposition 13's rollback provisions. The board has appealed the ruling to the state Supreme Court, where a decision is expected sometime later this year.

Additional Audit Positions Premature

We recommend a reduction of \$62,419 associated with two audit positions requested to increase audit coverage of state-assessed property.

The board has requested two property auditor-appraiser positions to increase coverage of state-assessed property—primarily utilities and private railroad companies. Audits of the financial statements of the assessees are performed to verify the data used in developing the board's assessments.

If the state Supreme Court rules against the board on the application of Proposition 13 to state assessees, the board will be required to roll back current values to 1975 levels, and factor them forward in the manner required by Article XIII A of the Constitution. Because ownership of state-assessed property is transferred only rarely, the board would be required to compute current market values only in those instances where there is new construction or where current market value is less than the Proposition 13 value.

The board indicates that because of utility market conditions, there are

STATE BOARD OF EQUALIZATION—Continued

a large number of cases where current market value is below the hypothetical Proposition 13 value. Even so, the application of Proposition 13 to state assesses would reduce the need for market value appraisals in those cases where that value exceeds the Proposition 13 value. Thus, we believe that a significant reduction in the board's appraisal and audit workload in this area is possible if the Supreme Court rules against the board. For this reason, we believe that it is premature to add new audit positions until the court has handed down its decision.

Study of Property Transfer Data

We recommend approval of a limited-term position requested to study the circumstances surrounding the transfer of utility and industrial property.

The board has requested a two-year limited-term position to study the characteristics of transfers of utility property. The purpose of this study is to improve the quality of the "capitalized earning indicator" used by the board to value state-assessed property. This study would focus on certain characteristics of actual transfers considered to be important indicators of market value.

Our analysis indicates that it will still be necessary to make appraisals of *some* utility properties regardless of the outcome of the litigation concerning the application of Proposition 13 to state assesses. A study of utility and industrial property transfers could result in higher assessed values on utilities if it results in a modification of the board's capitalized earning indicator of value. Therefore, we recommend approval of the position to conduct the study.

APPEALS FROM OTHER GOVERNMENTAL PROGRAMS**Increase in Appeals from the Franchise Tax Board**

We recommend approval of three positions to process the increase in taxpayer appeals from the decisions of the Franchise Tax Board.

The board hears taxpayer appeals of decisions made by the Franchise Tax Board. After a taxpayer files a notice of appeal, the board holds a hearing to resolve the issue presented by the appeal. The board has requested three legal staff positions to reduce the existing backlog and handle the anticipated increase in the number of appeals from the Franchise Tax Board. The board's legal staff prepares memoranda concerning each appeal in preparation for oral hearings. After such hearings, the legal staff prepare a written opinion reflecting the views of the board members. The board's request is based upon an estimated 9.5 percent growth in the number of appeals filed, and is supported by comparable growth in the number of appeals filed in the current year to date.

TIMBER TAX PROGRAM

The budget proposes to spend \$1,212,153 from the Timber Tax Fund to administer this program in 1980-81. This is an increase of 3.9 percent over the \$1,166,458 estimated to be spent in the current year.

The board establishes a schedule of timberland values for use in valuing timberland over the next three years, based on timberland sales through-

out the state. Also, the board establishes the timber yield tax rate each year, which will be 3 percent for calendar year 1980.

Potential for Improved Data Processing System Noted

In our Analysis of the 1979 Budget Bill, we recommend that the verification of timber harvest values be done by computer. Pursuant to this recommendation, the board has conducted a study of the adequacy of the current timber tax data processing system. This system is partly manual and partly automated. The study identifies a number of problems associated with the existing system, including redundant files, processing bottlenecks, duplication of effort, and limited flexibility in response to requests for information.

The board's study explores a number of alternatives to the current system, and on the basis of the costs and relative advantages, tentatively recommends conversion to a more fully automated system with a remote computer terminal. Because the costs of the various options have not yet been fully identified, we are not able to evaluate the report's conclusion. We will continue to work with the board to identify the options available to improve the current system, and the associated costs.

Mini-Computer Purchase Premature

We recommend a reduction of \$15,750 requested for the purchase of a minicomputer because the request is premature.

The board has requested funds to purchase a minicomputer for use by the Timber Tax program. The requested minicomputer would be used to develop the board's schedule of timber harvest values.

Our analysis indicates that the request is premature, for three reasons. First, based on conversations with board staff, it is apparent that the board has not yet decided that the equipment is necessary. Second, it is possible that if changes are made in the division's data processing system as a result of the study discussed in the preceding section, the need for additional data processing capability could be satisfied more efficiently in connection with these changes. This possibility has not been studied. Finally, other data processing alternatives may be better suited to the task of developing harvest value schedules. However, these alternatives have apparently also not been explored.

SECRETARY OF STATE

Items 64-71 from the General

Fund

Budget p. LJE 111

Requested 1980-81	\$12,516,871
Estimated 1979-80.....	12,232,477
Actual 1978-79	9,935,655
Requested increase (excluding amount for salary increases) \$284,394 (+2.3 percent)	
Total recommended reduction	\$2,052

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
64	Secretary of State Operations	General	\$6,178,648
65	Printing Statewide Ballot Pamphlet	General	2,103,715
66	Mailing Statewide Ballot Pamphlet	General	901,227
67	Printing Registration by Mail	General	249,700
68	Postage Registration by Mail	General	454,096
69	Presidential Delegates Mileage	General	2,000
70	Subvention—Signatures In Lieu	General	319,191
71	Subvention—Registration by Mail	General	800,000
—	Available from Item 68, Budget Act of 1979: Subvention—Voter Registration File Purge	General	592,712
—	Available from Item 411: Political Reform Act 1974—Campaign Disclosure	General	471,678
—	Reimbursements: Document Fees	—	443,904
	Total		\$12,516,871

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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page*

1. Voter Pamphlet Mailing. Recommend that the Secretary of State report on the feasibility of organizing the state voter pamphlet mailing in route carrier sequence, which would achieve annual savings of up to \$125,000 132
2. Salaries and Wages Overbudgeting. Reduce Item 64 by \$2,052. Recommend correction of Schedule 7A, Salaries and Wages Supplement. 132

GENERAL PROGRAM STATEMENT

The Secretary of State is a constitutional officer. In addition to performing numerous duties prescribed in the Constitution, the secretary has statutory responsibility with regard to the filing of specified financial statements and corporate-related documents, statewide elections, campaign disclosure documents, notaries public and the state archival function.

Corporate Filings

Attorneys and document examiners on the staff of the Secretary of State examine articles of incorporation and related documents which establish, revise, or dissolve corporate entities, and attest to their compliance with the appropriate statutes before accepting them for formal filing. Informa-

tion regarding corporate officers and corporate addresses is also maintained as required by law.

Elections

Responsibilities in the area of elections include overseeing and coordinating statewide election activities, producing various statistical reports required by the Elections Code, producing the state ballot pamphlet, compiling a semiofficial and official canvass of election results, and serving on the Commission on Voting Machines and Vote Tabulating Devices.

Political Reform

Under the Political Reform Act of 1974, the Secretary of State is responsible for reviewing all campaign receipts and expenditure statements from candidates, committees and ballot measure proponents and opponents and their committees. The office is also required to register lobbyists, review and publish lobbyist and lobbyist employer expenditure reports, and publish and make available to the public all registrations of qualified lobbyists.

Uniform Commercial Code

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financing statements which assure security interests in personal property.

Notary Public

The office has responsibility for the appointment of notaries public, including the issuance of original certificates and renewals. It also provides verification of the authenticity of notary signatures upon request from the public, and can revoke appointments.

Archives

The Chief of Archives collects, catalogs, indexes and preserves historic and otherwise valuable papers and artifacts. These documents are by law received from both state and local government. Reference services are provided for the public. Advice and direction is received from the California Heritage Preservation Commission and the Secretary of State serves as its secretary.

ANALYSIS AND RECOMMENDATIONS

The proposed 1980-81 budget of \$12,516,871 for the office of the Secretary of State is \$284,394, or 2.3 percent, higher than estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Expenditures by budget item for 1978-79, 1979-80 and 1980-81 are shown in Table 1.

Secretary of State Operations

Item 64, Secretary of State operations, proposes an expenditure of \$6,178,648, which is an increase of \$102,565, or 1.7 percent, over current year estimates. This amount includes \$74,996 for six new positions in the Corporate Filing program, and \$26,583 for an auditor position in the Elections Division. The Corporate Filing and Uniform Commercial Code program

SECRETARY OF STATE—Continued

Table 1
Secretary of State
Comparative Budget Statistics
1978-79 to 1980-81

Budget Item	Title	Actual 1978-79	Estimated 1979-80	Proposed 1980-81	Change 1979-80 to 1980-81	
					Amount	Percent
64	Secretary of State operations	\$5,829,732	\$6,076,083	\$6,178,648	\$102,565	1.7%
65	Printing state ballot pamphlet	1,742,200	1,646,873	2,103,715	456,842	27.7
66	Mailing state ballot pamphlet	—	1,367,000	901,227	-465,773	-51.7
67	Printing registration by mail	(a)	(b)	249,700	249,700	—
68	Postage registration by mail	(c)	(d)	454,096	454,096	—
69	Presidential delegate mileage	—	—	2,000	2,000	—
70	Local government subvention (filing fees)	356,810	23,500	319,191	295,691	1,258.3
71	Local government subvention (mail registration)	750,325	800,000	800,000	0	0
—	Local government subvention (purge of voter files)	1,044,988	—	592,712 ^e	592,712	—
—	Political Reform Act of 1974	396,607	464,635	471,678	7,043	1.5
—	Document fees	704,156	470,904	443,904	-27,000	-5.7
—	Subtotals	\$10,824,818	\$10,848,995	\$12,516,871	\$1,667,876	15.4%
—	November 1979 special election	—	1,660,000	—	-1,660,000	-100.0
—	Ballot Paper Revolving Fund ..	350,000	—	—	—	—
—	Allocation for employee compensation	46,926	530,281	undetermined at present	-530,281	-100.0
—	Estimated savings ..	-950,089	-608,575	—	608,575	100.0
—	Saving 27.1 + 27.2 Budget Act of 1978	-336,000	—	—	—	—
—	Savings 27.2 Budget Act 1979	—	-198,224	—	198,224	100.0
—	Totals	\$9,935,655	\$12,232,477	\$12,516,871	\$284,394	2.3%

^a Included in Item 64 at \$137,542.^b Included in Item 64 at \$223,875.^c Included in Item 64 at \$505,958.^d Included in Item 64 at \$391,146.^e Carried over from Item 68, 1979-80 Budget Act.

units project a combined increase in continuing program costs of \$145,814 due to an increase in the number of documents to be filed. This increased cost will be offset by a corresponding \$752,137 increase in revenue to the General Fund from filing fees.

State Voter Pamphlet

The budget includes \$2,103,715 in Item 65, for printing the state voter pamphlet for the November 1980 general election. This is an increase of \$456,842, or 27.7 percent over current year estimates. This increase is due to a projected increase in the cost of paper. Item 66 appropriates \$901,227 for the cost of mailing the November 1980 voter pamphlet to the voters. This is a decrease of \$465,773, or 51.7 percent, from current year estimates.

Registration by Mail

Chapter 704, Statutes of 1975, redesigned the voter registration program to provide for "self-registration" through the use of postage paid registration cards. Items 67 and 68 are new items which provide \$249,700 and \$454,096, respectively, for the printing and postage costs of the "self-registration" cards. Prior to the budget year, the cost for providing these cards was included in the support item for the Secretary of State operations.

The cost for printing the cards, Item 67, is increasing by \$25,825 over the current year because of an increase in the cost of paper and a projected increase in the number of persons registering to vote. Item 68, postage for the "self-registration" cards, consists of \$265,208 for mailing the cards to the voter and \$188,888 for the return postage. This funding level is \$62,950 higher than current year estimates due to an anticipated increase in the number of persons registering to vote.

Presidential Delegates

The Elections Code provides \$10 per day and \$.05 per mile for presidential electors traveling to Sacramento after the November general election to cast their vote for the presidential candidate. The budget proposes a \$2,000 appropriation which is the same amount that was appropriated in the 1976 Budget Act, for the previous presidential general election.

Local Government Subventions

The budget includes \$319,191 in Item 70 to reimburse counties for costs incurred in checking signatures submitted by candidates for public office in lieu of filing fees. Although candidates file only in those years containing primary elections, counties submit reimbursement claims during the following year.

Item 71 makes \$800,000 available for reimbursing net local government costs resulting from Chapter 704, Statutes of 1975, which authorizes voter registration by mail. This is the same amount estimated to be expended in the current year.

The budget includes \$592,712 to reimburse local governments for net costs incurred in purging voter registration files. The voter file purge system results in costs to counties in those years containing a primary election, and savings in those years containing a general election. For this reason, reimbursement to the counties is budgeted for a two- (or four-) year period of time. The \$592,712 was appropriated in the 1979 Budget Act

SECRETARY OF STATE—Continued

to cover both the 1979-80 and 1980-81 fiscal years. Because this amount was not expended in the current year, it is carried over for expenditure in the budget year when the claims are expected to be filed.

Potential for Reducing Postage Costs

We recommend that during the budget hearings the Secretary of State be prepared to discuss the feasibility of mailing the state voter pamphlet in route carrier sequence, which would permit an annual savings of up to \$125,000.

The United States Postal Service offers a discount of approximately 1½ cents per piece for volume mailings which are organized in route carrier sequence order. The Secretary of State anticipates the mailing of 8,300,000 voter pamphlets in the budget year. If prepared in route carrier sequence order, annual savings of up to \$125,000 would be possible. Costs incurred in making the necessary procedural changes would offset a minor portion of the potential savings.

The Secretary of State is currently reviewing the feasibility of sorting voter pamphlets in the order necessary to take advantage of the discounted mailing rate. We recommend that during the budget hearings the Secretary of State be prepared to discuss the feasibility of mailing the November 1980 state voter pamphlet in route carrier sequence order.

Savings in Salaries and Wages

We recommend a reduction of \$2,052 due to overbudgeting.

The Budget Supplement of Authorized Salaries and Wages (Schedule 7A) displays \$3,760,383 as the amount necessary to support 263.1 positions for the office of the Secretary of State. The proposed budget provides \$3,762,435, an amount which is \$2,052 over that detailed in the Salary Supplement. We recommend deleting this overbudgeted amount.

Guidelines for Reimbursement to Counties

The 1979 Budget Act contains control language requiring the Secretary of State to develop a standardized claim form and adopt guidelines relative to the following programs for which the counties may file claims for reimbursement: (1) registration by mail, (2) voter file purge, and (3) signatures in lieu of filing fee. The Supplemental Language Report of the 1979 Budget Act directs our office to review and evaluate the guidelines.

Guidelines and a claim form for the signature in lieu of filing fees program have not yet been developed. In October of 1979, the Secretary of State issued the *Annual Cost/Savings Comparison Report: Reimbursement of Net Costs*, which promulgates guidelines and contains a standardized claim form relative to the registration by mail and voter file purge programs. We have reviewed these guidelines and have provided written comments on them to the Secretary of State. In our judgment, the guidelines demonstrate substantial progress towards clarifying the various activities and related costs which are reimbursable. Nevertheless, we have concerns about the guidelines to the extent they provide for: reimbursement for the actual cost of preparing and submitting the claim; paying for increased program costs which result from increases in voter population;

and reimbursement using a presidential primary year (1975-76) as the base year for comparison.

The Secretary of State has indicated a willingness to consider our comments, as well as those of counties and other interested agencies, in an effort to promulgate guidelines which are both equitable and not difficult to administer.

COMMISSION ON VOTING MACHINES AND VOTE TABULATING DEVICES

Item 72 from the General Fund

Budget p. LJE 119

Requested 1980-81	\$10,350
Estimated 1979-80.....	5,000
Actual 1978-79	2,254
Requested increase (excluding amount for salary increases) \$5,350 (+107 percent)	
Total recommended reduction	\$4,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Commission Expenditure Request.* Reduce by \$4,500. Recommend that increased funding level be denied.

GENERAL PROGRAM STATEMENT

The Commission on Voting Machines and Vote Tabulating Devices is responsible for approving the use of new machines or devices, and is empowered to employ expert electronic technicians to assist it in doing so. Membership consists of the Governor, Secretary of State and Attorney General. The Governor is the chairman of the commission and the Secretary of State serves as secretary. The secretary furnishes complete reports of all findings and has the ongoing responsibility for verifying that equipment used in elections is operable in every election.

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of \$4,500, based on the commission's expenditure history and lack of justification for an increased level of support.

The commission is requesting \$10,350, which is \$5,350, or 107 percent, above its estimated current year expenditure. Prior to 1977-78, support for the commission was included in the Secretary of State's budget. In 1977-78, a separate budget item was established with an appropriation of \$43,337, of which \$2,855 was expended. In 1978-79, \$21,000 was appropriated, and \$2,254 was expended.

In 1979-80, no funds were requested in the Governor's Budget because the Governor proposed to abolish the commission and transfer its duties to the Secretary of State. Legislation (Senate Bill 601) to accomplish this transfer was introduced, but the bill was not enacted. To enable the commission to carry out its responsibilities, a \$5,000 expenditure was adminis-

**COMMISSION ON VOTING MACHINES AND VOTE
TABULATING DEVICES—Continued**

tratively authorized in the current year.

Table 1 presents past and proposed expenditures for the commission, including our recommended expenditure level for the budget year.

Table 1
Commission Expenditures

	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>	<i>Analyst's Proposal</i>
General expenses	\$1,848	\$4,000	\$4,250	\$4,250
In-state travel	96	1,000	1,100	600
Consultant services	310	—	5,000	1,000
Totals	\$2,254	\$5,000	\$10,350	\$5,850

The level of expenditures by the commission in past years does not justify the commission's budget request. Furthermore, no documentation has been provided to support the need for a substantial increase in funding. Based on the prior year actual expenditures, and the current year experience, we recommend reducing the amount budgeted for travel by \$500. Furthermore, no justification has been presented which indicates that \$5,000 will be needed for consultant services. An allocation of \$1,000 for consultant services will provide the commission with resources in the event that any complaints arise which require an investigation of voting machine performance. Therefore, we recommend reducing support for the commission by \$4,500.

STATE TREASURER

Item 73 from the General Fund

Budget p. LJE 119

Requested 1980-81	\$3,721,299
Estimated 1979-80	3,418,628
Actual 1978-79	2,939,721
Requested increase (excluding amount for salary increases) \$302,671 (+8.9 percent)	
Total recommended reduction	\$1,200
Recommend transfer to Item 284	\$5,119

1980-81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
73	Treasurer's Office, Support	General	\$2,774,552
—	Reimbursements	Various	946,747
	Total		\$3,721,299

Analysis
page

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Medi-Cal Warrant Redemption. Reduce by \$5,119 and transfer funds to Item 284 (Medi-Cal Support). Recommend appropriation for Medi-Cal warrant redemption be transferred to Department of Health Services (Item 284) to ensure proper program budgeting for Medi-Cal.* 138
2. *District Securities Division. Reduce capital outlay request by \$1,200.* 139

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

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

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

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$3,721,299 for support of the Treasurer's Office in 1980-81. This is \$302,671, or 8.9 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The budget request consists of \$2,774,552 in General Fund support, a 6.6 percent increase over the current year, and \$946,747 in reimbursements, a 16.2 percent increase over the current year.

Funding for a total of 3.7 new positions is being requested, of which 0.5 position will be supported by the General Fund and 3.2 positions will be supported with increased reimbursements. In addition, a total of 2.3 temporary help positions are being transferred to permanent status, and 3 positions eliminated as a result of Section 27.2 of the 1979 Budget Act are being restored. The budget also requests an increase in operating expenses and equipment for miscellaneous expenses, and one-time capital outlay expenditures.

BOND SALES AND SERVICES

The responsibilities of this program element include issuing, selling, servicing and redeeming the state's general obligation and revenue bonds. Reimbursements of approximately \$321,709 will be received from individual bond funds. The remaining \$274,048, or 46 percent of the program element cost, will be supported by the General Fund. Table 2 summarizes the Treasurer's bond marketing activities.

STATE TREASURER—Continued

Table 1
State Treasurer
Budget Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual</i> <i>1978-79</i>	<i>Authorized</i> <i>1979-80</i>	<i>Proposed</i> <i>1980-81</i>	<i>Actual</i> <i>1978-79</i>	<i>Authorized</i> <i>1979-1980</i>	<i>Proposed</i> <i>1980-81</i>
Bond sales and services.....	16.6	18.8	19.8	\$464,380	\$542,578	\$602,787
Investment services..	8.7	10.4	10.4	388,086	472,022	496,455
Paying and receiving	39.2	45.8	48.3	1,246,718	1,379,220	1,530,635
Trust services	18.3	19.8	19.7	578,947	697,258	729,605
District Securities Division	7.7	8.5	8.5	261,590	327,550	361,817
Administration (distribution to other programs)	17.1	14.8	16.9	(549,988)	(639,753)	(700,440)
Totals.....	107.6	118.1	123.6	\$2,939,721	\$3,418,628	\$3,721,299
Reimbursements.....				-986,772	-815,063	-946,747
General Fund				1,952,949	2,603,565	2,774,552

Table 2
Bond Marketing Activities

	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>
General Obligation Bonds			
Number issued	7	8	11
Amount (millions)	\$535	\$600	\$480
Revenue Bonds			
Number issued	35	67	91
Amount (millions)	\$341	\$800	\$1,200

INVESTMENT SERVICES

This program element has the responsibility for investing the temporary surplus cash of the General Fund, other state funds, and the Local Agency Investment Fund. The program's objective is to maximize the earnings of these funds within the statutory limitations and policy decisions of the Pooled Money Investment Board.

Earnings from the Pooled Money Investment Account are distributed to the General Fund and to the approximately 200 other special funds to which interest can accrue. The earnings are apportioned to the participants on the basis of the amount and length of time the funds are in the pooled money account.

Investment Earnings Increase in 1978-79

The results of the investment program are summarized in Table 3. In 1978-79 the interest earnings on an average daily investment of \$8,123 million were \$692.4 million. This was a 50 percent increase over the 1977-78 level. The percentage yield for 1978-79 was 8.52 percent.

For the first six months of the current year, the average daily investment has been \$8,921 million and the percentage yield has averaged 9.676 percent. The investment balance is projected to decrease to about \$7,800 million by June 30, 1980, and interest rates are expected to average 10 percent for the 1979-80 fiscal year as a whole. On this basis, interest earnings of \$800 million are projected for the current fiscal year, of which almost \$500 million will be credited to the General Fund. (The investment

pool is comprised of temporarily idle monies from a variety of services, including, for example, monies from the General Fund, over 200 special funds, local agency funds, and the proceeds of bond sales.)

Table 3
Investment Results
Pooled Money Account
(in millions)

	<i>Average Daily Investment Balance</i>	<i>Earnings</i>	<i>Percent Yield</i>
1973-74	\$2,587.2	\$231.2	8.94%
1974-75	2,740.1	236.3	8.62
1975-76	3,209.1	204.3	6.37
1976-77	4,460.5	261.7	5.87
1977-78	6,843.9	458.6	6.70
1978-79	8,123.0	692.4	8.52
1979-80 (estimated)	7,800.0	780.0	10.00

PAYING AND RECEIVING

The State Treasurer provides banking services for state agencies. These services include depositing state funds and redeeming warrants issued by the Controller and other state agencies. In addition, this program element provides information to the Investment Division on the state's daily cash position. Activities of this element are summarized in Table 4.

Table 4
Paying and Receiving

	<i>Actual 1978-79</i>	<i>Estimated 1979-80</i>	<i>Proposed 1980-81</i>
Dollars deposited (millions)	\$91.5	\$103.4	\$111.7
Total program expenditures	1,246,718	1,379,220	1,530,635
Reimbursements	294,026	214,901	289,565
General Fund Total	\$952,692	\$1,164,319	\$1,241,070
Number of warrants paid (millions)	38.4	41.2	44.1
Personnel-years	39.2	45.8	48.3

Conversion of Accounting Systems

The Treasurer's Office is requesting one permanent position to develop computer programming necessary to convert current manual accounting systems to an EDP system. This position will be financed 50 percent from reimbursements and 50 percent from the General Fund. We recommend approval.

Warrant Processing

The Treasurer's Office process all warrants through a computerized reader-sorter. Some warrants are rejected by the reader-sorter and thus must be key entered into the system. The office proposes that the temporary help funds utilized for this function be used for the establishment of a permanent position to handle the continuing workload. The position was established administratively during the current year. We recommend approval.

STATE TREASURER—Continued**Fire Alarm/Retardant System**

Two computers and two card reader/sorters used by the Treasurer's Office are housed in the basement of State Office Building 1. Currently, the only fire suppression equipment available is a hand-held carbon-dioxide extinguisher. The Treasurer's Office is requesting \$25,000 to purchase a halone gas retardant system which, due to the nature of the gas, effectively suppresses on-site fires without damaging EDP equipment. We recommend approval.

Medi-Cal Warrant Redemptions

The Treasurer's Office is requesting 0.7 new position and the transfer of 1.3 temporary positions to permanent status to accommodate new workload created by Medi-Cal warrant redemptions. Prior to June 1, 1979, a private firm under contract with the Department of Health processed payments to Medi-Cal providers. Effective June 1, 1979, the State Controller assumed responsibility for Medi-Cal warrant preparation. Concurrently, the State Treasurer assumed responsibility for Medi-Cal warrant redemptions. Approximately 2.5 million Medi-Cal warrants will be processed in the budget year. The 0.7 position is fully reimbursable. We recommend approval.

Program Budgeting for Medi-Cal

We recommend that \$5,119 be deleted from this item and included in Item 284, the General Fund appropriation for the Department of Health Services, to insure proper program budgeting.

Chapter 1384, Statutes of 1978 (AB 3322), requires program budgeting. This allows the costs associated with each program to be identified. Direct General Fund appropriations to the Treasurer to cover the cost of Medi-Cal warrant processing and redemption is in conflict with the concept of program budgeting because it tends to understate the apparent cost of the Medi-Cal program and overstate the costs of the Treasurer's programs. Accordingly, we recommend that Medi-Cal-related funds be appropriated directly to the Department of Health Services. These funds would then be transferred to the Treasurer where they would appear as a reimbursement. This would provide a more accurate program budget for both agencies.

Reconciling and Numerically Sequencing Warrants

At the end of each workday, the Controller creates a magnetic tape file of the warrants processed that day by the Treasurer's Office. This file is used to certify the Treasurer's records and as an index for individual warrant location. Because of the large number of warrants processed each day, and the random sequencing of the file, the exact location of a particular warrant is unknown. The Treasurer's Office is requesting two positions to expedite the process of locating and reconciling these warrants. One position, a computer operator, will create a research/reference file for the Controller and numerically sequence each day's warrants. The other position, an accounting technician, will each day reconcile the numerically

sequenced research/reference file with the Treasurer's independently created file. These changes should expedite other processes at both the Controller and Treasurer's Offices. Both positions will be fully reimbursed. We recommend approval.

TRUST SERVICES

The trust services program element is responsible for the safekeeping of securities owned by or pledged to the state. These securities are held in the Treasurer's vault or in approved depositories. As of June 1979, the Treasurer was responsible for over \$24.3 billion in securities.

Many of the trust services are provided to other state agencies such as PERS, STRS, and the Insurance Commission. The Treasurer is reimbursed for trust services provided to other agencies. Such reimbursements will amount to \$429,702 in 1980-81, or 59 percent of the trust services program.

DISTRICT SECURITIES DIVISION

The primary function of this division is to provide technical and fiscal evaluation of construction projects proposed by water, irrigation, school and certain other districts. By promoting sound financial programs for those districts, the division seeks to protect the public from unsound securities as well as to protect the credit standing of the state and its local jurisdictions.

The cost of this function is estimated to be \$361,817 in 1980-81, an increase of \$34,267, or, 10.5 percent, above the current year estimated expenditure.

Although the division is budgeted from the General Fund, it is expected to recover an equal amount through fees charged for its services. In recent years this requirement has been more than successfully met.

Moving Expenses

We recommend deletion of \$1,200 in unnecessary moving expenses.

The District Securities Division (DSD) is requesting \$12,600 for the cost of moving expenses and communications, which includes \$4,000 for the purchase of new shelving. The DSD has copies of reports, minutes, review requests and other miscellaneous documents dating back to its establishment. With the acquisition of the word processor, the DSD will be able to purge these old files and reduce its shelving needs. Most of the data are currently on shelves and will have to be boxed for the planned move. Since a purge is forthcoming, and the data is going to be boxed, we believe that only data requiring frequent retrieval should be placed on shelves and that the rest remain in boxes until purged. This action will reduce the initial demand for shelving space. We recommend a reduction in the request for shelving of \$1,200.

ADMINISTRATION

The administration element is comprised of the executive offices and the general services section including budgeting, personnel, and accounting functions. The executive offices consist of the State Treasurer, the assistant treasurer, the chief deputy treasurer, and the assistant deputy treasurer.