

STATE TREASURER—Continued

In light of this, we recommend that funding for this position in the budget year be equally divided between the General Fund and reimbursements. This will enable the Treasurer's Office to provide staff to these commissions until they become fully operational and reimbursements are sufficient to assume full support of the position.

We, therefore, recommend a decrease of \$13,744 in General Fund support and an increase of \$13,744 in reimbursements.

State and Consumer Services Agency
MUSEUM OF SCIENCE AND INDUSTRY

Item 110 from the General
Fund

Budget p. SCS 1

Requested 1981-82	\$4,497,337
Estimated 1980-81.....	3,456,767
Actual 1979-80	2,827,604
Requested increase (excluding amount for salary increases) \$1,040,570 (+30.1 percent)	
Total recommended reduction	\$349,006

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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|---|-----|
| 1. Museum of Afro-American History and Culture. Withhold recommendation on \$211,895 in support and \$410,000 of special item of expenditure 110-001-001 (c), pending development of exhibit plans. | 142 |
| 2. <i>Space Science Center. Reduce by \$62,255.</i> Recommend deletion of proposed staff for unjustified new program. | 143 |
| 3. <i>Office of Development. Reduce by \$71,751.</i> Recommend deletion of staff, due to lack of workload justification. | 143 |
| 4. <i>Refurbishment of exhibits. Reduce by \$150,000.</i> Recommend deletion pending review of potential use of display space for other exhibits. | 144 |
| 5. <i>Special Repairs. Reduce by \$65,000.</i> Recommend deletion of funds for repair projects, due to lack of supporting information. | 144 |

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor. The museum's exhibits feature scientific accomplishments, and its education program is designed to stimulate students' interests in science and the arts. A portion of the program is financed by the Museum Foundation Fund which is supported by private contributions. Several facilities of the museum are available to public and private groups for education, recreational and civic functions. The museum also owns and operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park, which is owned and maintained by the state through the museum. In addition to providing security for its own facilities, the museum is responsible for security in Exposition Park.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$4,497,337 from the General Fund for support of the museum in 1981-82. This is \$1,040,570, or 30.1 percent, more than estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year. Total expenditures in support of the museum during the budget year include \$19,170 from reimbursements and \$775,000 from the California Museum Foundation of Los Angeles for education and other museum-related programs. Table 1 shows the museum's proposed expenditures and funding sources for the past, current and budget years.

Table 1
Museum of Science and Industry
Budget Summary

<i>Programs</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Education:					
Support	\$2,163,074	\$2,727,481	\$3,112,133	\$384,652	14.1%
Refurbish exhibits	—	—	150,000	150,000	N/A
Afro-American temporary exhibits ..	—	—	410,000	410,000	N/A
Subtotals	\$2,163,074	\$2,727,481	\$3,672,133	\$944,652	34.6
Administration	\$675,213	\$748,456	\$844,374	\$95,918	12.8
Foundation	(770,024)	(782,000)	(775,260)	(-6,740)	0.9
Totals	\$2,838,287	\$3,475,937	\$4,516,507	\$1,040,570	29.9
<i>General Fund</i>	<i>\$2,827,604</i>	<i>\$3,456,767</i>	<i>\$4,497,337</i>	<i>\$1,040,570</i>	<i>30.1</i>
<i>Reimbursement</i>	<i>10,683</i>	<i>19,170</i>	<i>19,170</i>	—	—
Totals	\$2,838,287	\$3,475,937	\$4,516,507	\$1,040,570	29.9
Personnel-years	109.9	129.4	137.5	8.1	6.2

The \$1,040,570 increase in the museum's budget consists of \$69,669 for cost changes in the current program, and \$970,901 for new programs and repairs. Table 2 lists the proposed changes. Of the amount requested for new projects, \$286,751 would be used to upgrade the existing program by repairing and refurbishing museum facilities and promoting volunteer activities. The remaining \$684,150 would be used to staff the proposed Aerospace Science Center and the California Museum of Afro-American History and Culture. (The museum is also requesting capital outlay funds for these projects in Item 110-301-036.) As part of these proposals, the museum is requesting authorization of 10 new positions.

Table 2
Museum of Science and Industry
Schedule of Changes

	<i>General Fund</i>	<i>Reimbursement</i>	<i>Total</i>
1980-81 Current Year Revised	\$3,456,767	\$19,170	\$4,516,507
1. Cost Changes			
Personal services	12,506	—	12,506
Operating expenses	57,163	—	57,163
2. Program Change Proposals			
Afro-American Museum (6 positions)	211,895	—	211,895
Afro-American Museum—temporary exhibits	410,000	—	410,000
Aerospace center (2 positions)	62,255	—	62,255
Museum development (2 positions)	71,751	—	71,751
Refurbish exhibits	150,000	—	150,000
Special repairs	65,000	—	65,000
1981-82 Proposed Expenditures	\$4,497,337	\$19,170	\$4,516,507

MUSEUM OF SCIENCE AND INDUSTRY—Continued***California Museum of Afro-American History and Culture***

We withhold recommendation on the \$621,895 requested for staff, travel, exhibits and exhibit procurement for the California Museum of Afro-American History and Culture, pending receipt and analysis of supporting data.

The California Museum of Afro-American History and Culture (CMAHC) was authorized within the Museum of Science and Industry, by Chapter 571, Statutes of 1977 (AB 420). The Legislature expressed its intent that CMAHC preserve, collect and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports and history of the state and the nation. It created a CMAHC board, and gave the board power to appoint an executive director and staff to carry out this directive. It approved support funds for two positions for the museum in the 1978 Budget Act, but the positions were deleted as part of budget cutbacks required by Control Section 27.2. At the present time, CMAHC has no staff.

The board, with the help of staff from the Museum of Science and Industry (MSI) and the office of the Secretary of State and Consumer Services, has submitted a request for state support in 1981-82. The budget proposes \$621,895 for a staff of six, operating expenses, and a temporary exhibit program. It also proposes \$182,600 for plans and working drawings for a building to house the museum. Our analysis of the capital outlay request appears in the following section (Item 110-301-036).

The activities of the proposed staff during the budget-year would include helping the board develop the conceptual framework of the museum and design its facilities, and securing permanent and loaned exhibits. The cost for the director, secretary, curator and three exhibit staff would be \$211,895. The museum also proposes \$367,000 to acquire and display exhibits in temporary quarters at MSI and other museums until its own exhibit space is available. Finally, the budget requests \$53,000 for a customized van and a driver to tour the state with a traveling exhibit. While the temporary exhibit costs are listed as a special item of expense, museum and agency staff anticipate that they would probably be continued as a part of CMAHC's permanent program.

The material submitted to us in support of the budget request for CMAHC states:

"Due to lack of staffing and the delay in appointments to the Advisory Board, no progress was made between 1977 and 1980 toward implementing the provisions of AB 420. Currently, therefore, no facility has been built to house the CMAHC, no exhibits have been secured, no potential resources have been identified, and no detailed conceptual framework for the Museum has been developed."

As a result of the delay in development work, the board was not able to provide us with sufficient information to justify the amount requested. The proposal did not include information on the cost of artifacts, a breakdown of how much would be spent on rented exhibits as opposed to purchased ones, or schedules showing that specific rented exhibits and museum display space would be available in the budget year. It is not clear that the schedules of other museums will be flexible enough to accommodate CMAHC exhibit plans during the budget year. The Museum of Science and Industry, for instance, schedules temporary exhibits up to two years in advance. Finally, as our analysis of the CMAHC capital outlay proposal indicates, the size of the museum facilities has not been defined. That decision will affect the amount needed for purchased exhibits in this item.

Given the Legislature's intent in enacting Chapter 571, state support for CMAHC is appropriate. More research and planning needs to be done, however, to justify the specific amounts of state support requested in the budget.

Recent events indicate that the requisite planning will begin shortly. The vacancies that existed on the CMAHC board have been filled. During the remainder of the current year, consultants funded from an Intergovernmental Personnel Act grant and the Arts Council will help the board start developing both (1) a general conceptual plan for the museum and (2) a schedule of the potential sources and exhibitors of temporary displays in 1981-82. The consultants should be able to provide more information on the funds that will be needed to carry out the program proposed by the CMAHC board.

While we recognize that the museum clearly will require some initial full time administrative and professional staff to initiate its new program, we withhold a recommendation on the funds proposed for the staff and traveling exhibit projects until the board and its consultants present data justifying the amounts requested.

Aerospace Science Center

We recommend deletion of funds for two positions for a new program on the basis that a need for the proposed program has not been demonstrated, for a savings of \$62,255 from the General Fund.

The budget requests \$62,255 for an assistant director and a clerical position to serve as the initial staff of an Aerospace Science Center. The assistant director would help plan the education facilities, exhibits, and programs of a proposed new building. He would also develop various education projects including summer science workshops, faculty training programs, symposia, and an Institute Traineeship Program.

Existing law authorizes the museum to establish a space age museum in its building at Exposition Park. MSI has devoted half of the exhibit area in its Space Building to the display of its aviation and space collection.

The museum has requested funds to plan a new building to house these exhibits, but has not submitted information demonstrating that the current exhibit and education facilities are inadequate, or that new facilities are needed. For this reason, we have recommended deletion of capital outlay funds requested for the building (page 144). If the Legislature deletes these funds, there will be no need for a director to oversee the project.

Office of Development

We recommend deletion of support for museum development staff on the basis that an existing position, once filled, will be adequate to meet the museum's current needs, for a savings of \$71,751 from the General Fund.

The museum is requesting \$71,751 for two new positions (one management and one clerical) to promote and coordinate the efforts of its volunteers who act as tour guides, lead seminars, and provide technical expertise in specific exhibits. These positions would also develop volunteer resources for the two proposed new buildings and their programs, particularly the Space Science Center.

Our analysis indicates several problems with this proposal:

1. If the Legislature does not approve funds for the two new buildings, the need to develop new volunteer projects would be substantially reduced.
2. In the event the Legislature approves funds for the two new projects, the request for additional staff would still be premature, because the new buildings would not be ready for occupancy for two and one-half to three years.
3. There is already one assistant director position allocated to this function. He solicits donations and acts as a liaison with the museum foundation and other volunteer groups. The existing position, however, has been vacant for a year.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

No data is available to indicate that contributions or volunteer services declined during that time.

We recommend that no additional staff be authorized at this time because the existing vacant position, once filled, should be sufficient to meet the current needs of the museum. This will result in a \$71,751 savings to the General Fund.

Unjustified Funds for Refurbishing State-Owned Exhibits

We recommend deletion of funds for refurbishing state-owned exhibits, for a savings of \$150,000 from the General Fund.

Many exhibits in the museum, such as the mathematics, energy and communications displays, are donated and maintained by private companies. Others, primarily the water, geology, parks and forests and redwoods exhibits, are the state's responsibility. The budget proposes \$150,000 to refurbish various state-owned exhibits.

The museum has not provided any justification for the specific amount requested. Moreover, it is possible that the museum's existing space may be used more productively for other exhibits, making it unnecessary to refurbish the existing ones.

In our analysis of the museum's capital outlay request, we have suggested that the museum survey its existing facilities to determine if proposed new programs could be accommodated by rearranging current exhibits and offices. The results of such a survey might eliminate the need to refurbish some or all of the current exhibits. Pending the results of the survey and development of a long-range space utilization plan, we recommend that funds for exhibit refurbishment be deleted, for a General Fund savings of \$150,000.

Funds for Unjustified Repair Projects

We recommend deletion of \$65,000 for repair projects.

The budget proposes \$65,000 for various repairs to the museum's facilities. At the time this analysis was written, the museum had supplied us with a list of projects to be undertaken but had not provided justification for the amounts requested. Accordingly, we have no basis to recommend approval of this request, and recommend that the \$65,000 be deleted, for a General Fund savings.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY

Item 110-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 4

Requested 1981-82	\$1,073,500
Recommended approval	55,000
Recommended reduction	835,900

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	<i>Analysis page</i>
1. <i>Aerospace Science Building. Reduce by \$243,400. Recommend deletion of preliminary plans and working drawings.</i>	145
2. <i>Afro-American History and Culture Museum Building. Withhold recommendation on request for funds to develop architectural</i>	146

- drawings for the construction of a new building, pending (1) clarification of legislative intent and (2) receipt of definitive plan for proposed building.
3. **Afro-American History and Culture Museum.** Recommend that the museum designate specific area(s) within existing buildings for assignment to the Afro-American History and Culture program and install suitable identification of the museum on the exterior of the building. 146
 4. **Elevator Replacement. Reduce by \$138,000.** Recommend deletion of the elevator replacement project. 147
 5. **Hall of Economics and Finance. Reduce by \$350,000.** Recommend deletion of preliminary plans, working drawings and construction for site improvements. 147
 6. **Minor Projects. Reduce by \$104,500.** Recommend reduction of minor capital outlay program. 148

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$1,073,500 from the General Fund, Special Account for Capital Outlay, for five capital outlay projects at the Museum of Science and Industry. The proposal consists of (1) two items for planning funds related to new exhibit buildings, (2) replacement of an elevator, (3) construction of site development related to a new building, and (4) minor capital outlay. A discussion of the projects and our recommendation on each follows.

Aerospace Science Building

We recommend deletion of Item 110-301-036(a), preliminary plans and working drawings, Aerospace Science building, a reduction of \$243,400.

This \$243,400 request is for development of preliminary plans and working drawings for a new building to house the Aerospace Science exhibit program. The data submitted regarding this proposal indicates that the facility would be a two-story building containing approximately 37,000 to 45,000 square feet, and would cost \$4 million. The museum indicates, however, that the Office of State Architect is presently working on the budget package, this may result in modifications to the estimate of square feet and costs.

The museum currently maintains, within approximately 300,000 square feet of building space, several scientific and art exhibits including an Aerospace Sciences exhibit. No information has been presented to indicate that the existing building space is inadequate to exhibit the scientific and art features necessary to maintain the museum's function as a museum and education center. Before any new buildings are planned, the museum should develop a physical space inventory/utilization plan, from which the museum's space needs could be assessed. This plan should, at a minimum, include:

- Total amount of existing space.
- Use of existing space, by space categories such as office, exhibit, classrooms, storage, etc.
- Use of existing space, by types of exhibits, etc.
- Utilization of existing space, including scheduled uses, unscheduled uses.
- Basis for determining adequacy/inadequacy of space.
- Space needs per space category, based on utilization and adequacy/inadequacy of existing space.
- A short-range and long-range plan for meeting identified space deficiencies.

Until the information described above is available, we have no basis upon which to recommend approval of the requested planning funds. Consequently, we recommend that Item 110-301-036(a) be deleted, for a savings of \$243,400.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY—Continued**Afro-American History and Culture Museum Building**

We withhold recommendation on Item 110-301-036(b), preliminary plans and working drawings, Afro-American History and Culture Museum building, pending clarification of legislative intent and receipt of definitive plans.

Further, we recommend that the museum designate specific area(s) within existing buildings for assignment to the Afro-American History and Culture program and install suitable identification on the exterior of the building.

The budget requests \$182,600 to provide for the development of architectural drawings for the construction of the Afro-American History and Culture Museum building. The information submitted by the museum does not indicate the anticipated size of this building although the approximate cost of the facility is estimated at \$3 million. The museum advises us that the Office of State Architect is developing the budget package for this project, and detailed information will be provided when the package is completed.

Prior Legislative Action. During the 1977-78 legislative session, the Legislature created the California Museum of Afro-American History and Culture in the California Museum of Science and Industry. The legislation called for the Museum of Afro-American History and Culture to be governed by a seven-member advisory board with the members appointed by the Governor, Legislature and the California Museum of Science and Industry. The museum is to preserve, collect and display samples of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports and history of the state and the nation. To assist in the operation of the museum, the museum may contract with any institution or private nonprofit organization it deems appropriate and qualified.

Three years have past since the Legislature created the California Museum of Afro-American History and Culture, but no progress toward the development of the exhibits called for by the legislation has been made.

Need for New Building. The museum's current five-year plan (prepared in 1979) does not indicate the need for a new building to house the Museum of Afro-American History and Culture, nor has the museum demonstrated that existing space cannot be dedicated to house exhibits and conduct the program for Afro-American Heritage and Culture. The physical space inventory/utilization plan, recommended above, should provide the information necessary to assess the museum's need for additional space to support this and other programs.

More importantly, legislative intent is unclear with regard to how the Afro-American Heritage and Culture Museum program is to be housed. The legislation creating the museum does not shed light on whether or not the program is to be housed in the Museum of Science and Industry's existing space or in new space. Accordingly, the Legislature should clarify its intent with respect to housing for this program.

If the intent was to provide a separate building, then the availability of existing space is irrelevant and funding for the proposed facility should be considered as soon as adequate information on size and cost is available. Documents being developed by the State Architect should provide this information.

If, on the other hand the legislation establishing the museum did not contemplate construction of a separate building, the need for the proposed facility cannot be established until the space plan, mentioned earlier, is available.

Under these circumstances, we withhold recommendation pending clarification of legislative intent and receipt of definitive plans for the new building.

Implication of Constructing a New Facility. The museum's plan to construct a new building would require two and one-half to three years to implement. This

represents the time required for architectural design and construction. Thus, unless the museum assigns existing space to this program, a minimum of five and one-half years will elapse between legislative authorization of the Afro-American History and Culture Museum and public display of the exhibits called for by the legislation. Consequently, we recommend that the Museum of Science and Industry designate a specific area(s) in existing buildings for assignment to the Afro-American History and Culture program. Further, a suitable identification of the museum should be located on the exterior of the building.

Elevator Replacement

We recommend deletion of Item 110-301-036(c), elevator replacement, for a savings of \$138,000.

The budget proposes to convert an existing freight elevator to a passenger elevator, at a cost of \$138,000.

In the Budget Act of 1979, the Legislature appropriated \$60,000 under the minor capital outlay program to change this freight elevator to a passenger elevator. The original request was based on a hydraulic system. The Office of State Architect, however, has expanded the conversion project, and it now envisions replacement of the present elevator with an electric unit.

According to a consulting engineer's comparative analysis of using electric power rather than hydraulic power for this project, the first cost of the electric elevator is about 25 percent to 50 percent higher than the cost of the hydraulic elevator, and the maintenance cost is about double. The consultant points out that the electric system is more reliable and efficient. Our analysis indicates, however, that the elevator serves only three floors, and that under similar circumstances in other state facilities hydraulic elevators have been very satisfactory.

On this basis, we recommend that the \$60,000 already available be used for modification of the existing elevator as originally proposed. Accordingly, we recommend deletion of the requested \$138,000.

In the event the Legislature approves the project as proposed in the budget, the appropriation should be reduced to \$77,000, given that \$60,000 is already available and has been transferred to the Office of State Architect.

Site Improvement—Hall of Economics and Finance

We recommend deletion of Item 110-301-036(d), preliminary plans, working drawings and construction, site improvements, Hall of Economics and Finance, for a savings of \$350,000.

This \$350,000 proposal is related to the construction of a new Hall of Economics and Finance building. According to the museum, construction of the new facility will necessitate the leveling and expansion of the existing patio, realignment of the museum road, landscaping and the installation of loading and unloading facilities for the main building.

Architectural/engineering drawings, specifications or cost estimates have not been provided for this proposal. Consequently, the need for the elements of the project or the associated costs cannot be substantiated. Moreover, the new Hall of Economics and Finance has been undertaken by the Museum Foundation with financing provided by private donations. The need for the new building, site location and all associated costs were not presented to or reviewed by the Legislature or the administration. When projects to be funded using nonstate funds are undertaken at State University and Colleges campuses or University of California campuses, no state funds are requested or received because the projects are not subject to legislative review/approval. We recommend that this policy also be applied to the Museum of Science and Industry. If additional funds are required for the new Hall of Economics and Finance, the museum should secure the funds in the same manner that funds have been acquired to construct the building.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY—Continued

In view of the fact that no information is available regarding the expenditure of \$350,000, and because the work is apparently associated with the construction of a nonstate financed building, we recommend that Item 110-301-036(d) be deleted, for a General Fund savings.

Minor Projects

We recommend that Item 110-301-036(e), minor projects, be reduced by \$104,500.

Minor capital outlay projects include those capital improvements costing \$100,000 or less per project. The Budget Bill proposes \$159,500 for such projects at the Museum of Science and Industry. The available information indicates that one project, for \$55,000, will provide handicapped access to the Space building and the Main Museum building. We recommend approval of this project. The museum, however, has not provided any information indicating the projects proposed for funding with the remaining funds. Consequently, we recommend deletion of \$104,500 requested for minor project funding, for a General Fund savings.

**State and Consumer Services Agency
DEPARTMENT OF CONSUMER AFFAIRS**

Items 112-163 from various
funds

Budget p. SCS 5

Requested 1981-82	\$56,252,304
Estimated 1980-81	50,827,699
Actual 1979-80	41,349,922
Requested increase (excluding amount for salary increases \$5,424,605 (+10.7 percent))	
Total recommended reduction	\$840,313

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
112-001-704—Board of Accountancy	Accountancy		\$1,861,945
113-004-706—Board of Architectural Examiners	Architectural Examiners		918,176
114-006-001—State Athletic Commission	General		508,255
115-008-128—Board of Automotive Repair	Automotive Repair		3,976,047
116-010-713—Board of Barber Examiners	Barber Examiners		622,219
117-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners		443,663
118-014-717—Cemetery Board	Cemetery		196,179
119-016-157—Bureau of Collection and Investiga- tive Services	Collection Agency		526,523
119-016-769—Bureau of Collection and Investiga- tive Services	Private Investigator and Adjuster		1,093,925
123-018-735—Contractors' State License Board	Contractors' License		14,486,937
124-020-738—Board of Cosmetology	Cosmetology Contingent		1,817,722
125-022-380—Board of Dental Examiners	Dental Auxiliary		386,226
125-022-741—Board of Dental Examiners	State Dentistry		1,422,015
128-024-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair		859,931
130-026-180—Bureau of Employment Agencies	Employment Agencies		615,684
131-028-258—Nurses' Registry	Nurses' Registry		21,728

132-030-745—Board of Fabric Care	Fabric Care	563,295
133-032-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	470,503
134-034-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	181,097
135-036-001—State Board of Guide Dogs for the Blind	General	23,455
136-038-752—Bureau of Home Furnishings	Bureau of Home Furnishings	1,128,995
137-040-757—Board of Landscape Architects	Landscape Architects	156,782
138-042-108—Board of Medical Quality Assurance	Acupuncturists	156,502
138-042-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	101,130
138-042-280—Board of Medical Quality Assurance	Physician's Assistant	117,299
138-042-295—Board of Medical Quality Assurance	Podiatry	183,491
138-042-310—Board of Medical Quality Assurance	Psychology	523,057
138-042-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	127,173
138-042-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	9,251,837
138-042-759—Board of Medical Quality Assurance	Physical Therapy	203,498
147-044-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrators' State License Examining Board	216,586
148-046-763—Board of Optometry	State Optometry	257,387
149-048-767—Board of Pharmacy	Pharmacy Board Contingent	1,626,494
150-050-770—Board of Registration for Professional Engineers	Professional Engineers	1,540,318
151-052-761—Board of Registered Nursing	Board of Registered Nursing	2,737,468
152-054-771—Certified Shorthand Reporters' Board	Certified Shorthand Reporters	158,946
153-056-775—Structural Pest Control Board	Structural Pest Control	1,629,043
154-058-406—Tax Preparers' Program	Tax Preparers	1
155-060-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	66,999
155-060-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	407,817
158-062-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	1,433,850
158-062-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Board of Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	338,179
163-064-001—Department of Consumer Affairs	General	1,423,878
163-064-702—Department of Consumer Affairs	Consumer Affairs *	(4,295,059)
—Building Maintenance and Operations	Consumer Affairs	1,153,414
—Certified Shorthand Reporters' Board	Transcript Reimbursement Fund	316,634
Total		\$56,252,304

* Revolving Fund established to pay administrative costs. Revenue derived from pro rata charges to the department's constituent agencies.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis
page

1. Excessive Surplus. Recommend that Acupuncture Advisory Committee reduce fees to bring surplus funds into conformance with existing law. 153
2. Attorney General Legal Services. Withhold recommendation pending receipt of additional information from the Department of Finance. 153
3. Understated Examination Costs. Recommend Department of Finance submit additional information regarding projected funding deficiencies in three examination programs. 153
4. *Board of Accountancy. Reduce Item 112-001-704 by \$63,514.* Recommend deletion of funds proposed for a new affirmative action program because it would add little to existing efforts intended to increase the number of minority accountants. 154
5. Athletic Commission Fees. Recommend legislation to raise fees to eliminate General Fund subsidy. 155
6. Automotive Repair Fund Deficit. Recommend legislation allowing the bureau to raise fees in order to avoid fund deficit. 156
7. *Expanded Automotive Repair Program. Reduce Item 115-008-128 by \$173,862.* Recommend deletion of funds for program expansion because of impending fund deficit. 157
8. *Underestimated Salary Savings. Reduce Item 115-008-128 by \$148,018.* Recommend reduction because salary savings is underbudgeted, based on past experience. 157
9. *Overbudgeted Temporary Help Services. Reduce Item 340-001-420 by \$80,679.* Recommend reduction because temporary help services are overbudgeted, based on past experience. 158
10. Contractors' State License Board. Withhold recommendation pending further review of operations and receipt of additional budget information from the Department of Finance. 158
11. *Dental Board Investigation Program. Reduce Item 125-022-741 by \$51,139.* Recommend deletion of funds for expansion of investigation program, given the difficulties encountered by the board in initiating the basic investigation program. 159
12. Dental Auxiliary Surplus in State Dentistry Fund. Recommend Dental Board lower radiation safety examination fees. 159
13. Embalmers' Fees Support Funeral Directors' Program. Recommend Board of Funeral Directors and Embalmers adjust fees to reflect individual program expenditures. 160
14. *Geologist Board Report Review Program. Reduce Item 134-034-205 by \$46,100.* Recommend deletion of funds for new Report Review program in the Board of Registration for Geologists and Geophysicists because existence of a problem has not been demonstrated. 161
15. *Evidence Costs. Reduce Item 138-042-758 by \$15,000.* Recommend reduction because agency acknowledges that evidence costs have been overbudgeted. 161
16. Tax Preparers Program. Recommend legislation to eliminate Tax Preparers Program as proposed in the Governor's Budget, because the program offers little public protection. 161
17. Cooperative Development Program. Recommend limited-term 162

- authorization for four positions. Further recommend supplemental report language requiring the Division of Consumer Services to report on efficacy of cooperative development program.
18. **Senior Discount Program.** Recommend that department report during budget hearings on distribution of senior discount cards. Further recommend supplemental report language directing department to report on alternative methods of providing and distributing the senior discount cards. 162
 19. **Annual vs. Biennial License Renewal.** Recommend supplemental report language directing the Department of Consumer Affairs to report on feasibility of converting from annual to biennial license renewal. 164
 20. ***Increased Overtime Blanket. Reduce Item 163-064-702 by a net of \$37,663.*** Recommend reduction of \$53,372 because less costly method for compensating overtime exists. Recommend additional position for an increase of \$15,709. Also, recommend supplemental report language requiring the department to authorize compensatory time off, rather than payment, for some overtime hours worked. 164
 21. ***One-Time Only Appropriations Continued. Reduce specified items by a total of \$59,567.*** Recommend reduction because one-time only current year funds are continued into budget year. 165
 22. ***Overbudgeted Contractual Services. Reduce specified items by a total of \$164,771.*** Recommend individual item reductions because use of the amounts requested has not been identified or justified. 166

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Chapter 1394, Statutes of 1970) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

The department has four major components: (1) the 32 regulatory agencies which include boards, bureaus, programs and commissions; (2) the division of administration; (3) the division of investigation; and (4) the division of consumer services.

Subject to the authority conferred upon the department director by specific statute, each of the 32 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates, and the registration of various occupational groups. It also includes the establishment of curricula, experience standards, and school accreditation. Enforcement activities include inspections, investigations, administrative hearings before an officer of the Office of Administrative Hearings and court proceedings.

The Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. Most of the costs incurred by the Division of Administration are distributed on a pro rata basis to each constituent agency.

The department's Division of Investigation provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators. Boards and bureaus are charged \$34.15 per hour for inspections and \$38.16 per hour for investigations during the

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current year. These charges are projected to increase to \$34.93 and \$38.94, respectively, in the budget year.

The Division of Consumer Services was established by Chapter 139, Statutes of 1970. The division is responsible for the department's statewide consumer protection activities, which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation. Support for the Division of Consumer Services is provided by the General Fund (72 percent), and various special funds (24 percent), and by reimbursements and federal funds (4 percent).

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$56,252,304 from various funds for support of the department and constituent agencies in 1981-82. In addition, the budget proposes expenditures of \$13,546 in federal funds and \$9,375,977 from reimbursements, for a total expenditure program of \$65,641,826. This is an increase of \$8,278,739, or 14.4 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. It will also increase by the amount of any additional resources needed to fulfill the regulation review imposed by Chapter 567, Statutes of 1979 (AB 1111), which establishes the Office of Administrative Law.

The budget includes \$1,153,414 for building and maintenance costs and \$11,344,788 for departmental administrative costs. These costs will be paid from pro rata charges, reimbursements and budget appropriations. The Governor's Budget includes \$316,634 to establish the Transcript Reimbursement Fund per Chapter 1350, Statutes of 1980, which is not displayed in the Budget Bill. The Department of Finance should correct this omission in an amended version of the bill.

Projected Fund Deficits

According to the Governor's Budget, the following ten agencies are expected to have little or no surplus in their respective special funds at the end of the budget year.

- Bureau of Automotive Repair
- Cemetery Board
- Bureau of Electronic and Appliance Repair
- Board of Registration for Geologists and Geophysicists
- Hearing Aid Dispensers Examining Committee
- Board of Examiners of Nursing Home Administrators
- Board of Pharmacy
- Board of Registered Nursing
- Structural Pest Control Board
- Board of Vocational Nurse and Psychiatric Technicians

We are advised that the Board of Registered Nursing and the Board of Vocational Nurse and Psychiatric Technicians (in the Vocational Nurse program) are currently charging the maximum fee allowed by statute, and these agencies anticipate requesting enactment of legislation to increase the maximum fee which they may charge. The Boards of Registration for Geologists and Geophysicists, Nursing Home Administrators, Pharmacy and Structural Pest Control have legislative authority to increase fees administratively and should do so to avoid deficits in their special funds. The Hearing Aid Dispensers Examining Committee recognizes its fiscal problem, but at the time this analysis was prepared, it had no specific remedy to propose.

The Bureau of Automotive Repair budget projects a deficit of \$1,533,438 in the

Automotive Repair Fund. The bureau currently charges the maximum fee allowed by statute, and will require enactment of legislation in order to raise fees to cover the anticipated deficit.

Transcript Reimbursement Fund

Chapter 1350, Statutes of 1980 (AB 1017), requires the Certified Shorthand Reporters Board to establish and maintain a Transcript Reimbursement Fund of not less than \$300,000 for each fiscal year, beginning with 1981-82, to provide shorthand reporting services to eligible low-income litigants. The reimbursement fund will be established using surpluses in the Shorthand Reporters Fund. Chapter 1350 also requires periodic reports to the Legislature on the operation of the Transcript Reimbursement Fund.

To implement this program, the board is requesting \$17,901 in 1981-82 for 0.5 clerical positions to collect and verify all applications. It is estimated that the reimbursement fund will receive between 600 and 1,000 claims or applications per year.

As of June 30, 1981, the Certified Shorthand Reporters Fund will have an estimated surplus of \$112,263, which will be applied to partially establish the reimbursement fund. The board plans to increase fees to the maximum allowed under Chapter 1350 in order to support the board's operation in 1981-82 and to fully fund the reimbursement fund.

Excessive Surplus Funds

We recommend that the Acupuncture Advisory Committee adopt a schedule of reduced fees to bring its surplus into conformance with existing law.

Section 128 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered funds in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Currently, the budget projects a June 30, 1981 surplus in the Acupuncturists Fund that exceeds the maximum amount allowed by Section 128. Therefore, we recommend that the Acupuncture Advisory Committee adopt a schedule of reduced fees in order to bring the fund's surplus into conformance with existing law.

Attorney General Legal Services

We withhold recommendation on all of the various agencies' proposed expenditures for Attorney General services pending receipt of additional information from the Department of Finance.

Our analysis of the budget reveals that there is a discrepancy between the amount of legal services which the Attorney General is budgeted to provide to the various agencies in the Department of Consumer Affairs and the amount of legal services which the department is budgeted to obtain from the Attorney General. Specifically, the various agencies in the department propose to expend a total of \$4,126,868 for Attorney General services in the budget year. The Department of Justice's budget, however, indicates that 79,435 hours, or approximately \$3,912,174, worth of attorney services will be provided. This is \$214,684 less than what the Department of Consumer Affairs has budgeted. Because of this discrepancy in the Governor's Budget, we are unable to determine the amount of funds which will be required to meet the legal services needs of the department in 1981-82.

We have identified similar problems in other departments' budgets, and have requested the Department of Finance to reconcile all of these discrepancies by April 1, 1981. This request is discussed in the analysis of the Department of Justice's budget (Item 082-001-001). We plan to analyze Consumer Affairs' proposed expenditures for Attorney General services after we receive the reconciled data

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from the Department of Finance. Accordingly, we withhold recommendation on the overall department budget request for Attorney General services, pending receipt of additional information from the Department of Finance.

Understated Examination Costs

We recommend that the Department of Finance report during the budget hearings on the source of funds for examination costs to be incurred by three boards, as specified.

We have identified three examination programs where the Governor's Budget does not specify the source of funds needed to administer the examinations. These three programs are discussed individually below.

1. **Board of Medical Quality Assurance.** Physician and surgeon license applicants are required to take and pass a national examination. The board is in the process of developing a license exam to supplement the national exam for persons seeking licensure as a physician and surgeon in California. This supplemental exam, the California Licensing Exam (CLEX), will be administered to approximately 5,000 persons annually, beginning in the budget year. It will test subject matter not covered in the national exam including human sexuality, geriatric medicine, nutrition and child abuse detection and treatment.

The board is requesting \$32,908 and 1.5 clerical positions for the increased workload associated with processing applications for the supplemental exam. However, no funds have been budgeted to cover the costs of administering the exam. These costs typically are incurred for exam copies, score sheets, site and equipment rental, proctors' salaries, exam scoring and notification of exam results. We recommend that, at the time of budget hearings, the Department of Finance identify the costs of administering the supplemental exam and specify funding sources for such costs.

2. **Board of Dental Examiners.** The budget includes \$63,000 to cover the cost of examining applicants seeking licensure as a dentist. A review of information provided by the Department of Consumer Affairs indicates that examinations will cost approximately \$84,556 during the budget year, or \$21,556 more than the amount proposed in the budget. We recommend that the Department of Finance review the projected cost of these examinations and report on the adequacy of the proposed funding level.

3. **Board of Landscape Architects.** The Governor's Budget proposes an expenditure of \$49,325 for examination costs for the Board of Landscape Architects. This is an increase of \$14,961, or 44 percent, over the amount appropriated for the current year. However, a review of examination data provided by the board reveals that costs for this function will be approximately \$83,050 in 1981-82, or \$33,725, over the amount proposed in the budget. The proposed budget for the board in 1981-82 is \$156,782, and the board would not be able to absorb a \$33,725 deficiency within its existing resources. We recommend that the Department of Finance review and comment on this projected shortfall.

Board of Accountancy

We recommend a reduction of two positions and \$63,514 to the Accountancy Fund on the basis that the proposed new affirmative action program would add little to existing efforts to increase the number of minority accountants (Item 112-001-704).

The State Board of Accountancy licenses and regulates certified public accountants (CPAs) and public accountants (PAs) in the state. Currently, approximately 27,000 CPAs and 6,000 PAs are licensed by the board.

For 1981-82, the board is requesting \$63,514 to add an equal employment opportunity (EEO) analyst and a clerical position to its staff in order to implement an

affirmative action program. The program's objective is to increase the representation of minorities in the accounting profession.

Our analysis indicates that, while it is desirable to facilitate the entry of minorities into the accounting profession, the proposed program would accomplish little in this direction. Specifically, we see three problems with this request.

1. **Broader efforts are underway in both the public and private sector to accomplish the program's objectives.** Because CPA applicants must satisfy stringent educational and practical experience requirements and pass a national test before they can be licensed, over 90 percent of all new licensees are college graduates. Thus, entry to the accounting profession occurs primarily at the college or university level. Most universities and colleges have active affirmative action programs as a part of their student recruitment effort. The large accounting firms also have affirmative action recruitment programs (some of which are mandated by federal laws). A single equal employment opportunity analyst on the board staff would add little to these existing programs.

2. **It is not clear what a position assigned to the board could do to accomplish the program's objectives.** Compared with those in a position to recruit minorities for university training in accountancy or for job openings in accounting firms, the proposed EEO analyst is likely to have only minimal impact. It would seem that affirmative action to increase minority representation in this profession can be promoted more effectively by professional associations and organizations, such as the California Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the various minority CPA associations.

3. **Promoting the accounting profession would appear to be inconsistent with the role and function of the board.** The board's statutory objectives are to regulate the accounting profession and to protect the general public from incompetency and fraudulent practices within the profession. Promotion of the profession would appear to be an inappropriate role for such a regulatory body.

For these reasons, we recommend that \$63,514 and two positions be deleted from Item 112-001-704.

Athletic Commission Costs Exceed Revenue

We recommend enactment of legislation to raise various fees that support the Athletic Commission's regulatory activities, so that a General Fund subsidy will not be necessary.

The State Athletic Commission is responsible for regulating the sports of boxing, wrestling and full-contact karate. Revenues, derived from licenses, fees, penalties and fines, are deposited in the General Fund. The commission is supported by a General Fund appropriation.

The commission has required a General Fund subsidy since 1976-77. Table 1 shows that this subsidy has been increasing steadily, and is projected at \$178,347 for 1981-82. The increase in the subsidy is due to the fact that fees to licensees have not been raised since 1971, causing revenues to remain relatively stable, while expenditures have been rising.

Table 1
Revenues and Expenditure of State Athletic Commission

	1977-78	1978-79	1979-80	Estimated 1980-81	Projected 1981-82
Revenue.....	\$318,994	\$244,604	\$305,348	\$323,865	\$329,908
Expenditures.....	373,704	362,508	445,211	491,746	508,255
Required General Fund Subsidy.....	\$54,710	\$117,904	\$139,863	\$167,881	\$178,347

As required by the Supplemental Report of the 1980 Budget Act, the commission

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has submitted a report to the Legislature on alternative ways to reduce the commission's dependence on the General Fund. The commission maintains that adjustments are being made in fees, renewals, reinstatements, prorated fees and penalties and that these adjustments will generate an increase in revenue sufficient to avoid the necessity for statutory fee increases. Nevertheless, the Governor's Budget shows that the commission will still need a General Fund subsidy of \$178,347 in 1981-82 to help finance operating costs of \$508,255. Thus, 35 percent of the commission's budget will be supported by the General Fund.

We can find no compelling reason why this particular regulatory activity should receive a General Fund subsidy. The benefits from the commission's activities accrue primarily to those persons associated with the regulated sports—boxing, wrestling and contact karate—rather than to the general public. Consequently, the costs of providing these benefits should be borne by these persons rather than by all taxpayers. This is the accepted policy for almost all of the department's boards and commissions. For example, while it is recognized that the general public derives some benefits from the regulation of doctors, members of this profession support the entire cost of the regulatory agency on the basis that they are the primary beneficiaries of the program. We therefore recommend that legislation be enacted to raise various fees sufficiently to fully support the commission's regulatory activities, and eliminate the need for a General Fund subsidy.

BUREAU OF AUTOMOTIVE REPAIR

The Bureau of Automotive Repair is responsible for (1) the registration of automotive repair dealers, (2) the licensing of official lamp, brake and smog (device) inspection stations, and (3) the protection of consumers through a program of inspection and complaint handling. In addition, the bureau is responsible for the operation of the vehicle emission inspection program in the South Coast Air Basin, in cooperation with the Air Resources Board.

Automotive Repair Fund Deficit

We recommend that legislation be enacted to allow the Bureau of Automotive Repair to raise various fees in order to maintain its current level of regulatory activities.

The budget projects that the Automotive Repair Fund will have a deficit of \$1,533, 438 on June 30, 1982. Revenues to the fund are derived from licensing and registration fees, penalties and fines. Table 2 shows the status of the Automotive Repair Fund during the three years covered by the budget.

Table 2
Automotive Repair Fund

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Projected 1981-82</i>
Accumulated surplus, July 1, adjusted	\$2,813,418	\$1,837,926	\$302,301
Revenues	3,293,317	3,551,142	3,629,473
Total resources	\$6,106,735	\$5,389,068	\$3,931,774
Total expenditures	4,268,809	5,086,767	5,465,212
Accumulated surplus, June 30	\$1,837,926	\$302,301	\$-1,533,438

The projected deficit will become even greater to the extent (1) salary or staff benefit increases are approved for the budget year, and (2) additional resources are needed to fulfill the regulation review mandated by Chapter 567, Statutes of 1979 (AB 1111).

To fund the proposed 1981-82 expenditure level of \$5,465,212, and thereby avert a deficit in the fund, overall revenues would have to be increased by 42.2 percent

over the amount projected in the budget. This, in turn, would require significant increases in fees. Even if the bureau maintains its *current* level of activities without any expansion, the deficit at the end of fiscal year 1981-82 would be approximately \$1.2 million, thereby necessitating a 33.3 percent increase in projected revenues.

In order to avert a possible deficit in the Automotive Repair Fund, we recommend enactment of legislation allowing the bureau to raise its various fees. The budget indicates that the administration is aware of this projected shortfall and is seeking legislation to raise fees. An alternative budget will be proposed in the spring if such legislation is not enacted.

Expansion in Automotive Repair Program

We recommend a reduction of funds for (1) an additional automotive shop in southern California, and (2) a new complaint disclosure program, for a savings of \$173,862 to the Automotive Repair Fund (Item 115-008-128).

For 1981-82, the bureau is requesting \$173,862 to expand program activities in two areas: (1) enforcement, and (2) complaint information disclosure.

1. **Automotive Shop.** The bureau currently operates an automotive shop in Sacramento. The shop arranges and documents certain mechanical problems in its undercover cars. These unmarked cars are subsequently transported to various licensees for repair, thereby allowing the bureau to determine the accuracy, competency and honesty of the licensee's work. The shop is operated by two staff members who conduct 80 to 90 undercover operations annually.

For the budget year, the bureau is requesting \$95,620 to support an additional automotive shop in southern California. According to the bureau, there has been a shift in the location of automotive repair facilities which are being investigated. Currently, over 60 percent of facilities under investigation are in southern California, indicating the need for a shop in that part of the state. Our analysis indicates that a second shop would enlarge the bureau's capacity to conduct undercover investigations. However, in view of the projected deficit in the Automotive Repair Fund, we do not believe that the bureau should expand its activities beyond the current level. If legislation providing sufficient revenues to support the existing and proposed programs is enacted, the bureau could request funds for a second automotive shop in the 1982-83 budget. We therefore recommend that the funds be deleted, for a savings of \$95,620.

2. **Complaint Information Disclosure.** The bureau proposes to initiate a new program that would provide consumers, upon request, with information on a licensee's complaint history. The bureau anticipates that it will receive 17,000 requests in the budget year, and is requesting 3.8 positions to handle this new workload.

We question the need for the proposed activity. The Better Business Bureau (BBB) currently provides "company reports" on automotive repair facilities, upon request. Thus, the proposed program would duplicate existing efforts. Given this duplication and the projected deficit in the fund, we recommend that the department's request be denied, for a savings of \$78,242.

If the Legislature wishes to provide funding for the complaint disclosure program, we would recommend that a statutory appropriation be made for its support. Such appropriation could be included with any legislation introduced to raise the bureau's fees.

Underestimated Salary Savings

We recommend a reduction of \$148,018 in the Bureau of Automotive Repairs budget (Item 115-008-128) because of underestimated salary savings, for a savings to the Automotive Repair Fund.

The Bureau of Automotive Repair has budgeted \$45,537 for salary savings in its

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Automotive Repair Program in 1981-82. This is equivalent to a 1.7 percent vacancy rate for the currently authorized 138.6 personnel-years. Past experience indicates that the program's vacancy rate has been significantly higher than projected. For 1977-78, 1978-79 and 1979-80, the average annual vacancy rate was 5.7 percent of personnel-years. Based on this experience, we estimate that, as a result of salary savings, the bureau's expenditures for personal services will be \$148,018 less than requested in 1981-82. We therefore, recommend that Item 115-008-128 be reduced by this amount.

Temporary Help

We recommend a reduction of \$80,679 to the Vehicle Inspection Fund (Item 340-001-420) because of overbudgeting for temporary help for the Vehicle Inspection Program.

The Vehicle Inspection Program is currently authorized \$115,679 for temporary help salary and wages. The program proposes the same level of funding for 1981-82.

Table 3 shows the amounts budgeted for temporary help and actual expenditures during the period 1977-78 through 1980-81.

Table 3
Vehicle Inspection Program—Temporary Help

	1977-78	1978-79	1979-80	1980-81
Budgeted Amount	\$107,500	\$107,500	\$120,400	\$115,679
Actual Expenditures.....	13,085	28,184	18,355	337 ^a
Percent Expended	12.2%	26.2%	15.3%	—

^a Actual expenditures through November 1980.

The table indicates that the program has consistently required less for temporary help services than the amount budgeted, causing personal services to be overfunded. Based on actual expenditures in prior years, and allowing for unforeseen contingencies, we recommend a funding level of \$35,000 for temporary help. This would result in a reduction of \$80,679.

Improvements in Contractors' Licensing Board

We withhold recommendation on the budget request for the Contractors' State License Board, pending further review of operations and receipt of additional information from the Department of Finance.

During the past four years, the Contractors' State License Board has had serious workload backlogs in the areas of license application processing and complaint handling. The Supplemental Report of the 1980 Budget Act requires the Contractors' Board to submit quarterly reports on the status of complaint and application/examination backlogs to the Joint Legislative Budget Committee and the fiscal committees. Data from the first quarterly report for 1980-81, as updated orally by board staff, indicates that, as of December 31, 1980, an original license application required three to six months to be processed. As of March 31, 1980, between four and six months was required to process an original application. The complaint backlog has been reduced during the first six months of the current year from 14,777 to 10,190. There were 21,044 complaints backlogged on June 30, 1979.

The budget is proposing an increase of \$1,463,275 (11.2 percent) for support of the board in 1981-82. In addition, the Division of Administration is requesting an additional attorney position for its legal unit, based on workload increases projected for the Contractors' Board. The budget also acknowledges that no resources have been requested for anticipated data processing and examination cost in-

creases, and indicates that the Department of Finance will propose any necessary adjustments to the Legislature in the spring of 1981.

We withhold recommendation on the budget request for the Contractors' State License Board, including the attorney position designated for the Division of Administration legal unit, pending further review and receipt of additional information from the Department of Finance.

Dental Board Investigation Program

We recommend that the State Dental Board concentrate on filling five newly established positions in order to strengthen its investigation program. We further recommend that the probation licensee investigation program be deleted, for a savings of \$51,139 to the State Dentistry Fund (Item 125-022-741).

The Supplemental Report of the 1980 Budget Act requires our office to report on the utilization of new positions authorized for support of the Board of Dental Examiners during the current year. The board was given the authority in the 1980 Budget Act to hire its own investigators, rather than continue to rely on the Division of Investigation for these services. It was allocated a total of \$287,000 for an unspecified number of positions. Of this amount, \$93,000 came from an increase in the appropriation and the remaining \$194,000 came from redirecting the board's existing allocation for Division of Investigation, which would no longer be used.

During the current year, the board has established 7.5 positions and allocated \$12,275 for 1.2 personnel-years of temporary help services. The positions established include four investigators, three clerical and a half-time dental consultant. One clerical position is assigned to the board's application and examination unit, and the remaining positions comprise the board's investigation program staff.

At the time this analysis was prepared, the four investigator positions were vacant. The delays in filling these positions have apparently resulted from problems the board has had in complying with State Personnel Board regulations. Two clerical positions have been filled, leaving one clerical vacancy in the investigation unit. The half-time dental consultant position has not been filled pending establishment of a new classification by the State Personnel Board. The temporary help services are being fully utilized. As a result of delays in filling these positions, the board has not been able to implement the investigation program authorized by the 1980 Budget Act.

For the budget year, the board is requesting \$51,139 for an additional investigator position. It proposes to expand its investigation program to include routine compliance checks of probationary licensees. A similar program is conducted by the Board of Medical Quality Assurance for probationary physician and surgeon licensees.

We do not question the merit of conducting routine investigations of probationary licenses. However, given the board's inability to fill current positions in a timely manner, and the difficulties it has encountered in inaugurating its basic investigation program, it appears premature to augment the staff and expand the program's scope. For these reasons, we recommend that the board concentrate its efforts on implementing its basic investigation program; the probationary license investigation program should be deferred for at least one year until the basic program has been established and stabilized. Accordingly, we recommend deletion of the additional position, for a savings of \$51,139 to the State Dentistry Fund.

Dental Auxiliaries Generate Fee Revenue For State Dentistry Fund

We recommend that supplemental report language be adopted requiring the Board of Dental Examiners to lower fees for the radiation safety examination program, so that revenue generated from exam fees will not exceed the cost of administering the program.

Business and Professions Code Section 1656 requires the Board of Dental Exam-

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iners to conduct an examination in radiation safety. Licensed dentists and dental auxiliaries must pass this exam in order to lawfully operate dental radiographic equipment. Dentists are licensed by the Board of Dental Examiners and the revenue generated from their license fees is deposited in the State Dentistry Fund. Dental Auxiliaries, which includes registered dental assistants and hygienists, come under the jurisdiction of the Committee on Dental Auxiliaries, an advisory committee to the Dental Board. License fees collected from dental auxiliaries are deposited into the State Dental Auxiliary Fund.

In 1981-82, 9,200 persons are expected to take the radiation safety exam. Of these 9,200 examinees, it is estimated that 8,400, or 91 percent, will be dental auxiliaries and 800, or 9 percent, will be dentists. The Dental Board currently charges a \$10 exam fee, which is the maximum amount allowed by statute. Consequently, the fee will generate \$92,000 in revenue for the State Dentistry Fund during 1981-82.

The Dental Board expends approximately \$63,000 to administer the exam. Thus, the \$10 fee results in an annual surplus of \$29,000. This surplus revenue is deposited in the State Dentistry Fund, even though 91 percent of the revenue is generated from dental auxiliaries.

Given the excess of revenues over expenditures, we recommend that supplemental report language be adopted directing the Dental Board to lower the fees for the radiation safety exam so that exam revenues do not exceed costs and no surplus revenue is generated.

Embalmers' Fees Support Funeral Directors' Program

We recommend that legislation be enacted directing the Board of Funeral Directors and Embalmers to adjust license fees so that annual revenue derived from each license group reflect the annual amount expended for each group. We further recommend that the board report by October 1 of each year to the Department of Consumer Affairs on revenue received and funds expended for each group.

The Board of Funeral Directors and Embalmers regulates two distinct and separate license groups: funeral directors and embalmers. Regulatory activities on behalf of both groups are funded from the State Funeral Directors and Embalmers' Fund which derives its revenues primarily from licensing fees collected from each group.

Information provided by the Department of Consumer Affairs shows that annual fees collected from funeral directors account for approximately 43 percent of the board's revenue, yet 83 percent of the board's annual expenditures are for funeral director-related activities. Embalmer fees comprise approximately 46 percent of the board's annual revenue, while only 17 percent of the board's budget supports embalmer-related activities. (The remaining 11 percent of the board's annual revenue is derived from surplus money investments.)

We do not believe it is equitable for one licensee group to continually subsidize the activities provided to another licensee group. Accordingly, we recommend that legislation be enacted requiring the board to adjust licensee fees and submit annual reports to the Department of Consumer Affairs indicating that revenues collected from each of its two license groups reflect the amount expended on behalf of each group. Such legislation would be consistent with Chapter 1234, Statutes of 1971 (Section 17846 of the Business and Professions Code), which addresses a similar situation within the Board of Behavioral Science Examiners. Because license fees for both funeral directors and embalmers are presently at the statutory maximum level, legislation may also be needed to increase the maximum or to provide for new fee categories.

Need for a New Program Not Substantiated

We recommend that funds for a new Report Review program be deleted because the existence of a problem which the program would address has not been documented, for a savings of \$46,100 to the Geology and Geophysics Fund (Item 134-034-205).

The Board of Registration for Geologists and Geophysicists is requesting \$46,100 in 1981-82 to establish a Report Review program. The total program costs include funding for one engineering geologist position and associated operating expenses. The board licenses and regulates approximately 4,545 geologists, engineering geologists and geophysicists. It receives about 30 complaints a year, and has not revoked or suspended any licenses to date.

Many cities and counties in California require that a geological survey be submitted and accepted before they will issue a building permit. Effective January 1, 1979, the Board of Registration for Geologists and Geophysicists adopted a policy requesting that cities and counties forward to the board copies of inadequate reports. To date, very few reports have been received. The board believes that the local geologists charged with reviewing the reports may be discouraged from forwarding such reports by their supervisors or administrators. The board, therefore, is proposing to visit the cities and counties, review files and search for incompetent reports.

Our analysis of the board's proposal indicates that the program may be a premature response to a possibly nonexistent problem. The board has not provided the Legislature with any evidence to indicate that, in fact, inadequate and/or incomplete reports are being accepted for filing by local agencies. Nor has the board analyzed why local governments have not sent many reports. Thus, no information is available to indicate that a significant problem warranting state involvement exists.

Without evidence documenting the problem, the proposed solution does not appear to be justified. On this basis, we recommend eliminating funding for the Report Review program, for a savings of \$46,100.

Overbudgeting of Evidence Costs

We recommend a reduction of \$15,000 to the Contingent Fund of the Board of Medical Quality Assurance (Item 138-042-758) because evidence costs have been overbudgeted.

The Board of Medical Quality Assurance has indicated to us that the operating expense category of "evidence" is overbudgeted by approximately \$15,000. Accordingly, we recommend reducing this category appropriately, for a savings of \$15,000 to the Contingent Fund of the Board of Medical Quality Assurance.

Tax Preparers Program

We recommend enactment of legislation to eliminate the Tax Preparers Program.

Registration, not licensure. Commercial tax preparers are *not* licensed in California, nor do they have to pass any examination to demonstrate their qualification and competency to render tax preparation service. The Tax Preparers Program only requires commercial tax preparing firms or individual proprietors to register with the department and post a bond. Persons working for tax preparing firms, however, are not required to be registered. In 1979-80, approximately 13,500 firms or individual proprietors were registered. The department estimates that there are approximately 13,000 employees of tax preparing firms who are not registered.

Nonjurisdictional complaints. The program was initiated to protect the public from potential abuses in the commercial tax preparation industry. Enforcement of the Tax Preparers Act depends entirely on the nature and number of complaints by consumers. Complaints frequently arise when consumers are audited by the IRS or the Franchise Tax Board. Table 4 shows the number of registrants and the number of complaints received from 1974-75. Complaints as a percentage of total registrants has consistently been low.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 4
Tax Preparers Program
Registrants and Complaints Received

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Registrants	10,000	11,000	12,000	12,200	12,627	13,500
Complaints received	60	183	267	371	257	256
Percent of complaints to registrants....	0.6%	1.7%	2.2%	3.0%	2.0%	1.9%
Disciplinary action	3	9	13	21	16	-

According to the department, the majority of complaints do not fall under the program's jurisdiction and are related to (1) failure by registrants to perform services, and (2) fee disputes. The number of disciplinary actions taken against registrants has also been small. Since 1974-75, the department has denied a total of 16 applications to register and revoked or suspended 21 registrations.

The existing program does not protect consumers against unqualified practitioners. Moreover, consumers may very well consider *registration* to indicate *certification* by the state. Certification would imply a minimum level of competence on the part of the licensee. Thus, the current program may have an illusory effect on consumers, and may even cause them to be less vigilant in selecting practitioners than they would be otherwise.

Currently, the program is staffed with one administrator and three clerical personnel, who are responsible for issuing new and renewing existing registrations annually. The initial registration fee is \$50, and firms have to pay a fee based on the number of employees. Because of the limited level of enforcement activities, the program has experienced a growing fund surplus, estimated to be \$930,290 by the end of the current year.

The registration program is funded by the Tax Preparers Fund which is continuously appropriated. The budget proposes a \$1 in lieu appropriation for the program in 1981-82. This would effectively eliminate the activities of the program. Because the program provides no real protection to the general public, we believe this action is warranted, and recommend that the Legislature enact legislation abolishing the program.

The budget projects the Tax Preparers Fund will have a surplus of \$930,290 at the end of the current year. If legislation is introduced to repeal the program, the Legislature may wish to include provisions to dispense of this surplus such as by providing a rebate to registrants or by transferring it to the unappropriated surplus in the General Fund.

Cooperative Development Program

We recommend that four new positions in the Division of Consumer Services (Item 163-064-001) which have been requested to expand the cooperative development program be authorized on a limited-term basis through June 30, 1983. We further recommend the adoption of supplemental report language directing the department to evaluate the program and report to the Legislature by March 1, 1983.

The Division of Consumer Services is requesting \$131,797 for four positions to expand the cooperative development program in 1981-82. Currently, the program is staffed with one government program analyst. The expanded program will promote the formation and development of food buying clubs and cooperatives in local communities throughout the state. The program will also work through the Interdepartmental Cooperative Coordinating Committee, to promote other types of cooperatives in the areas of housing, production and energy. Technical assist-

ance and information will be provided to groups interested in forming cooperatives.

Cooperative buying helps to lower consumer costs. However, once consumers become more aware of the probable benefits of cooperatives, the division's role in promoting cooperatives should decline in significance. We support the division's request for four additional positions but recommend that the positions be approved for a limited term of two years through June 30, 1983. We further recommend the adoption of the following supplemental report language: "The Division of Consumer Services shall conduct an evaluation and report to the Legislature on the effectiveness of the Cooperative Development Program by March 1, 1983."

Senior Discount Program

We recommend that the department comment during budget hearings on why it has chosen to provide senior discount cards, rather than establish guidelines for the uniform distribution of a standardized card. We further recommend adoption of supplemental report language directing the department to report on alternative methods to provide and distribute the discount cards after the Senior Discount Program expires on December 31, 1982.

The Supplemental Report of the 1980 Budget Act requires our office to report on the implementation and administration of the Senior Discount Program, established under Chapter 31, Statutes of 1980 (AB 1248).

The program's objective is to provide technical assistance to communities to facilitate the development of local discount programs. The Department of Consumer Affairs is required to instruct appropriate local groups on the roles and responsibilities associated with the implementation of community discount programs. Chapter 31 also authorizes the department to "adopt guidelines to provide for the development of the uniform distribution of a standardized discount card" to any community wishing to participate.

It further requires the department to evaluate the program and report to the Legislature on or before July 1982. The provisions of Chapter 31 will expire December 31, 1982.

The Senior Discount Program has been established within the Division of Consumer Services. Currently, the program is staffed by one graduate student assistant and two other employees. According to department staff, the program is currently:

- Preparing a senior discount manual, which is now in draft form;
- Designing and in the process of printing senior discount identification cards;
- Forming an advisory committee which will provide technical assistance to local communities on how to set up senior discount programs.

In addition, the program will be conducting workshops on how to set up discount programs. The department anticipates an initial order of about 50,000 identification cards, to be distributed to participating local communities during the current year.

For 1980-81, the program is supported by \$75,000 from the General Fund. The department has also been awarded a grant from the U.S. Department of Education for \$63,546 to implement an Ethnic Senior Discount Program. Of this amount, \$50,000 will be expended in the current year, and \$13,546 will be expended during the first three months of the budget year. The project's objective is to develop and organize senior discount programs for ethnic minority senior citizens.

Because the program was only established in November 1980, it is too early to comment on its achievements. It appears that the program is generally complying with the provisions of Chapter 31. However, we question whether the department should be the agency to actually provide identification cards to participating communities. The department is authorized by Chapter 31 only to establish guidelines for the development of a uniform distribution of a standardized card. While the development of a statewide card would encourage the use of a standardized

DEPARTMENT OF CONSUMER AFFAIRS—Continued

card, *distribution* of the cards, appears to go beyond the authority granted to the department in the statute.

We recommend that the department comment during budget hearings on the reasons why it has chosen to provide identification cards rather than establish guidelines for the uniform distribution of standardized discount cards. We further recommend the adoption of the following supplemental report language: "The department shall, in its evaluation report to the Legislature, as required by Chapter 31, Statutes of 1980, propose alternative methods for continuing the provision and distribution of identification cards after the Senior Discount Program expires on December 31, 1982."

Annual Vs. Biennial License Renewal

We recommend the adoption of supplemental report language directing the Department of Consumer Affairs to report to the Legislature on or before December 1, 1981, on the feasibility, desirability and associated costs and savings of converting the license renewal process from an annual to biennial basis.

Of the various regulatory agencies that compose the Department of Consumer Affairs, approximately 35 percent renew licenses annually, while approximately 55 percent renew licenses every two years. A few of the agencies combine annual and biennial renewal procedures, and one board renews licenses every four years.

Our preliminary analysis indicates that there is a potential for significant ongoing savings by renewing licenses on a biennial rather than annual basis. For this reason, we recommend that the following supplemental report language be adopted: "The department shall report on or before December 1, 1981, on the feasibility and desirability, including associated costs and savings, of having those boards which presently renew licenses on an annual basis convert to a biennial license renewal system."

Overtime Savings

We recommend (a) a reduction of \$53,372 to the Consumer Affairs Fund (Item 163-064-702) because a less costly method for compensating overtime exists, (b) the addition of an accounting technician, for an increase of \$15,709, and (c) the adoption of supplemental report language requiring the director of the Department of Consumer Affairs to authorize, where feasible, compensatory time off, rather than cash compensation, for overtime work.

The department is requesting an overtime blanket of \$69,975 in salaries and \$16,740 in benefits for its division of administration. In a separate proposal, the department is requesting \$4,176 in overtime salary for a proposed new position. This brings the division's total overtime request for salaries and benefits to \$86,716. This represents an increase of \$76,716 over the current year appropriation of \$10,000. The division indicates it has consistently exceeded its overtime appropriation, and has used salary savings to fund the deficiency.

Our review of information provided in support of the request reveals that it is overstated. We recommend the following five actions, which would result in a total net reduction of \$37,663 to the Consumer Affairs Fund.

1. **Delete overtime for new positions.** The division is requesting \$39,341 to support a proposed additional budget analyst position. This request includes \$4,176 in projected overtime salary. In contrast to the division's proposal, we believe the addition of a new position should decrease, rather than increase, overtime expenditures. Accordingly, we recommend deletion of the \$4,176 in overtime salary for this new position.

2. **Reduce overtime when new positions are added.** As we discussed above, the division is requesting authorization of an additional budget analyst. Currently, there are four analysts and a supervisor position in the budget unit. We believe

that the new position should reduce the total amount of overtime needed for the unit. Based on a review of the 1979-80 overtime schedule, this additional position should enable the unit to reduce its overtime expenditures by \$6,938 in the budget year.

3. **Add new position when cost efficient.** Our review of the Division of Administration's overtime request indicates that the accounting technician classification in the accounting unit is working an amount of overtime equal to nearly 85 percent of one personnel-year. Because employees are compensated for overtime in cash at a rate of one and one-half times the hourly salary per overtime hour worked, it is more cost-effective to add an accounting technician position and eliminate this classification's overtime expense. Such action would result in overtime savings of \$17,394. This savings, however, must be offset by an increase of \$15,709 for the new accounting assistant technician, for a net savings of \$1,685 in the budget year.

4. **Use Compensatory time off when feasible.** Rule 132 of the State Personnel Board states that, "when compensatory time off is not practicable, the appointing authority may authorize cash compensation." Our review of the division's overtime work schedule for 1979-80 indicates that many individuals have "peak" overtime schedules and could take compensatory time off in slower periods, rather than receive cash compensation for overtime, which has been the department's practice. We also identified positions which could receive compensatory time off as well as cash compensation, rather than just cash compensation. By authorizing and encouraging compensatory time off, rather than cash payments for these employees, our analysis indicates that the overtime request for 1981-82 could be reduced by \$9,580. For this reason, we recommend supplemental report language requiring the department to authorize the use of compensatory time off, where feasible, rather than cash compensation for overtime work.

5. **Reduce benefit payments.** The division's total overtime request also includes benefits computed at 30 percent. According to the Public Employees Retirement System, however, overtime benefits are paid for social security only and should be computed at 6.65 percent. By recomputing benefits at 6.65 percent, and accounting for overtime salary reductions as recommended in the preceding four items, the amount appropriated for overtime benefits should be reduced from \$16,740 to \$1,456, for a reduction of \$15,284.

One-Time Appropriations Not Deleted

We recommend a reduction of (1) \$38,067 to the Employment Agencies Fund (Item 130-026-180), and (2) \$21,500 to the Board of Registered Nursing Fund (Item 151-052-761), on the basis that one-time only appropriations should not be continued in the budget year.

(1) In the current year, the Bureau of Employment Agencies was allocated \$33,750 for a one-year special investigation enforcement program with the Fair Employment Practices Commission. A review of the bureau's proposed budget indicates that \$38,067, which is the amount authorized for the current year adjusted for price increases, has erroneously been included in the bureau's 1981-82 budget proposed. We, therefore, recommend that \$38,067 be deleted from the bureau's budget.

(2) The Board of Registered Nursing was allocated \$20,000 in the current year for developing a nurse-midwife examination. The board now indicates that the \$20,000 allocated for this purpose will not be sufficient, as the cost for developing the exam has increased to \$55,000. Therefore, the board is requesting an additional \$35,000 in the budget year to complete development of the exam. A review of the board's proposed budget, however, indicates that \$21,500 which is the amount authorized in the current year adjusted for price increase, and \$35,000, the additional amount being requested to completed the exam, are both included in the board's 1981-82 budget. This brings the total amount available for exam develop-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

ment to \$76,500, rather than \$55,000. Therefore, we recommend that \$21,500 be deleted from the board's budget.

Unjustified Contractual Services Funds

We recommend reductions in four items for proposed contractual services expenditures which are not justified, for a total savings of \$164,771. We further recommend that future budget requests not use a "miscellaneous" category for contractual service requests.

Our analysis indicates that four of the agencies have proposed expenditures in the contractual services category which lack adequate justification. Specifically, appropriations are being requested on a "miscellaneous" basis with no specific project(s) identified. We recommend reductions, therefore, in four items, as shown in Table 5.

Table 5
Department of Consumer Affairs
Recommended Reductions
Based on Unjustified Contractual Services Requests

<i>Item</i>	<i>Agency</i>	<i>Amount</i>
340-001-420	Bureau of Automotive Repair—Vehicle Inspection Program	\$120,000
138-042-310	Psychology Examining Committee.....	3,000
138-042-758	Board of Medical Quality Assurance	39,051
163-064-702	Department of Consumer Affairs, Division of Administration	2,720

We further recommend that supplemental language be adopted requesting that in future budgets, the department identify and justify individual projects and not use a "miscellaneous" category.

DEPARTMENT OF CONSUMER AFFAIRS—CAPITAL OUTLAY

Item 163-301 from the Consumer Affairs Fund

Budget p. SCS 87

Requested 1981-82	\$62,400
Recommended approval	46,800
Recommended reduction	15,600

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Minor Capital Outlay. Reduce by \$15,600.* Recommend reduction of proposed funds for building alterations for handicapped access.

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ANALYSIS AND RECOMMENDATIONS

We recommend Item 163-301-702 be reduced by \$15,600 to delete funds for previously approved project.

The budget proposes \$62,400 for minor capital outlay for the Department of Consumer Affairs. The funds are proposed for alterations to the Consumer Affairs building in Sacramento to provide access for the physically handicapped.

The Consumer Affairs building is composed of the main structure located at 1020 "N" Street and an annex, located at 1021 "O" Street, connected to the main building by enclosed bridges at each floor above the first floor. The requested

funds include (1) \$15,600 to augment previously appropriated funds for installation of a ramp and automatic doors at the entrance to the main building, (2) \$10,800 to modify variations in floor elevation and reduce door-closer effort, and (3) \$36,000 to modify all restrooms in the main building to provide handicapped access. The proposed modifications must comply with handicapped access regulations to be adopted in the Administrative Code. The department's request is based on an accessibility report prepared by the Department of General Services', Space Management Division.

Our analysis indicates that the \$15,600 proposed to augment \$50,000 appropriated in the Budget Act of 1978 for construction of a ramp at the entrance to the Consumer Affairs building is not needed. The Office of State Architect received bids for construction of the ramp on January 6, 1981. The low bid for the work was \$46,976. Consequently, this portion of the project can be undertaken using existing funds and there is no need to provide an additional amount for the ramp. We recommend that the related \$15,600 be deleted from this item. The remaining funds of \$46,800 will provide needed improvement to provide access for the mobility impaired and we recommend approval.

State and Consumer Services Agency DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 170 from the General
Fund

Budget p. SCS 88

Requested 1981-82	\$7,635,153
Estimated 1980-81	5,963,255
Actual 1979-80	2,481,181 ^a
Requested increase (excluding amount for salary increases) \$1,671,898 (+28.0 percent)	
Total recommended reduction	None

^a Represents five-months funding. The remaining seven months funding is shown in the budget of the Department of Industrial Relations (Item 835).

GENERAL PROGRAM STATEMENT

The Department of Fair Employment and Housing enforces laws which promote equal opportunity in housing, employment, and public accommodations. These laws prohibit discrimination on the basis of race, religion, creed, national origin, ancestry, sex, marital status, physical handicaps, medical conditions related to cancer, and age over 40. The department was created effective January 19, 1980, by the Governor's Reorganization Plan No. 1. Previously, the program existed as the Division of Fair Employment Practices in the Department of Industrial Relations.

The department seeks to achieve its objectives through the following three programs.

1. *Prevention and elimination of discrimination in employment and housing*, which seeks to promote equal opportunity and to improve social relationships by preventing and eliminating discrimination in employment and housing.

2. *The Fair Employment and Housing Commission*, which (a) establishes policy, procedures, and regulations for purposes of fulfilling the objectives of the department and (b) holds hearings to adjudicate disputes involving discriminatory practices.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

3. *General administration*, which provides budget, accounting, personnel, and other administrative support services to the program.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$7,635,153 from the General Fund for support of the department in 1981–82. This is \$1,671,898, or 28.0 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increases approved for the budget year.

As shown in Table 1, the department proposes a total budget-year expenditure, including federal funds, of \$10,854,549, an increase of \$1,430,685, or 15.2 percent, over estimated current-year expenditures.

Table 1
Department of Fair Employment and Housing
Budget Summary

	<i>Estimated 1980–81</i>	<i>Proposed 1981–82</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Funding</i>				
General Fund	\$5,963,255	\$7,635,153	\$1,671,898	28.0%
Federal funds	3,460,609	3,219,396	–241,213	–7.0%
Totals	\$9,423,864	\$10,854,549	\$1,430,685	15.2%
<i>Program</i>				
Administration	\$1,036,625	\$1,050,525	\$13,900	1.3%
Personnel-years	21	21.6	0.6	
Prevention and elimination of discrimination in employment and housing	8,104,523	9,508,633	1,404,110	17.3
Personnel-years	202	244.8	42.8	
Fair Employment and Housing Commission	282,716	395,391	112,675	39.9
Personnel-years	7	10.4	3.4	
Special adjustment		–100,000	–100,000	
Personnel-years		–1.5	–1.5	
Totals	\$9,423,864	\$10,854,549	\$1,430,685	15.2%
Personnel-years	230	275.3	45.3	

Under terms of a contract, the department processes discrimination cases for the federal Equal Employment Opportunity Commission. The department expects federal reimbursement for such cases to decrease by \$241,213, or 7.0 percent, in the budget year. The decrease is due to a carry-over of \$505,107 in federal funds from 1979–80 to the current year, which artificially increases the current year expenditure amount.

The department's net increase is due primarily to (1) the proposed addition of 45.5 positions to meet increasing workload, (2) the opening of a new field office in Los Angeles, and (3) expansion of field offices in Oakland, San Jose, Ventura, and San Bernardino. The new office will provide additional service in an area where there is a high concentration of minority employment, and will be near the origin of discrimination complaints.

The proposed new positions are based on workload projections and standards developed from the department's new management information system. Staffing needs, however, have been reduced by \$100,000 because the department intends to increase case-processing productivity by 1.5 personnel-years in 1981–82. Actual workload trends, as of December 31, 1980, indicate that the department's current-year and budget-year workload projections are accurate and that the proposed new positions are warranted.

**State and Consumer Services Agency
OFFICE OF THE STATE FIRE MARSHAL**

Item 171 from the General
Fund

Budget p. SCS 91

Requested 1981-82	\$3,770,771
Estimated 1980-81	3,730,114
Actual 1979-80	2,948,561
Requested increase (excluding amount for salary increases) \$40,657 (+1.1 percent)	
Total recommended reduction	\$448,941

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|---|-----|
| 1. <i>Data Processing Development. Reduce by \$1,299.</i> Recommend deletion of proposed data processing position because the needed services can be obtained from another state agency at less cost. | 171 |
| 2. <i>Arson Detection and Control Training. Reduce by \$28,717.</i> Recommend reduction of personnel services relating to an expiring federal program. | 171 |
| 3. <i>Public Fire Safety Enforcement. Reduce by \$28,727.</i> Recommend deletion of position relating to enforcement of fire safety standards because existing positions are vacant and productivity will increase. | 173 |
| 4. <i>Plan-Check Services. Reduce by \$41,776.</i> Recommend reduction in personnel services to reflect reduced workload in Los Angeles. | 174 |
| 5. <i>Hazardous Materials Program. Reduce by \$302,872.</i> Recommend deletion of three positions and general expenses associated with the Hazardous Materials program because the related training can be conducted by other emergency response personnel. | 174 |
| 6. <i>Operating Expense. Reduce by \$45,550.</i> Recommend deletion of unjustified general operating expenses. | 174 |

GENERAL PROGRAM STATEMENT

The Office of the State Fire Marshal is responsible for the protection of life and property from fire. It does this by:

- Developing, maintaining and enforcing fire safety standards for all educational and institutional facilities, public assembly facilities, organized camps, buildings over 75 feet in height, and all state-owned/occupied structures.
- The developing, maintaining and enforcing controls for portable fire extinguishers, explosives, fireworks, cargo tanks used in the transportation of flammable liquids, decorative materials, fabrics and wearing apparels.

Office activities are carried out through two programs. The first program, Public Fire Safety, consists of (1) enforcement, and (2) analysis and development. The second program, Administration, provides policy guidelines and administrative support to the Public Fire Safety program. Table 1 shows the Fire Marshal's program expenditures, funding sources, positions, and proposed changes. Reimbursements are decreasing due to expiring federal programs administered by the Fire Marshal. Public fire safety expenditures are decreasing due to reduced data processing development expenditures.

OFFICE OF THE STATE FIRE MARSHAL—Continued

Table 1
Office of the State Fire Marshal
Budget Summary

<i>Programs</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>Amount</i>	<i>Percent</i>
Public fire safety	\$4,148,945	\$5,126,590	\$5,005,290	-\$121,300	-2.4%
Administration—distributed	(503,131)	(631,456)	(645,384)	(13,928)	(2.2)
Totals.....	\$4,148,945	\$5,126,590	\$5,005,290	-\$121,300	-2.4%
Funding Sources					
General Fund	\$2,948,561	\$3,730,114	\$3,770,771	\$40,657	1.0%
Federal Trust Fund.....	16,750	17,000	—	-17,000	-100.0
Reimbursements	1,183,634	1,379,476	1,234,519	-144,957	-10.5
Totals.....	\$4,148,945	\$5,126,590	\$5,005,290	-\$121,300	-2.4%
Personnel-Years	109	126.4	124.4	-2	-1.6%

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$3,770,771 from the General Fund for support of the Office of the State Fire Marshal in 1981-82. This is an increase of \$40,657 or 1.1 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 2 summarizes the funding changes proposed by the budget in 1981-82.

Table 2
Office of the State Fire Marshal
1981-82 Budget Changes

	<i>General</i>	<i>Federal</i>	<i>Reim-</i>	
	<i>Fund</i>	<i>Funds</i>	<i>bursements</i>	<i>Total</i>
1980-81 Expenditures, Revised	\$3,730,114	\$17,000	\$1,379,476	\$5,126,590
1. Baseline changes	-45,955	-17,000	-144,957	-207,912
2. Program changes				
a. Data processing development/Fire Service Training and Education Program	23,250	—	—	23,250
b. Arson and explosives investigation	34,635	—	—	34,635
c. Public fire safety enforcement	28,727	—	—	28,727
1981-82 Expenditures, Proposed	3,770,771	—	1,234,519	5,005,290
Percent change	+1.1%	-100.0%	-10.5%	-2.4%

The proposed 1.1 percent increase in General Fund expenditures reflects a baseline reduction of \$45,955 due to discontinuation of a Department of General Services contract for data processing. This reduction is partially offset by increased expenditures for salary and benefits, and increased expenditures for regulation review. In addition, the budget requests appropriations from the General Fund for three program changes: the data processing development (\$23,250), increased arson and explosion investigations (\$34,635), and higher expenditures for safety inspections (\$28,727).

The \$144,957 reduction in reimbursements anticipated in the budget year reflects completion of a one-time project funded by the Office of Criminal Justice and Planning using federal funds provided under the Omnibus Crime Control and Safe Streets Act, during the current year. The reduction also reflects termination

of an Intergovernmental Personnel Act Grant, which was provided for the purpose of increasing the number of women and minorities in the fire service.

Data Processing Development

We recommend deletion of \$41,315 for personal services associated with a proposed data processing analyst. Further, we recommend an augmentation of \$40,016 for operating expenses to continue a data processing contract. This will result in a net savings of \$1,299 in 1981-82 and \$17,393 annually thereafter.

The budget proposes \$41,315 for salary and benefits related to the establishment of one associate data processing analyst position. This person would be responsible for:

1. Developing and programming the California Fire Information Reporting System (CFIRS).
2. Maintaining and revising the office's licensing, scheduling and time reporting systems.
3. Developing a program to automate the clerical/administrative functions for the Fire Service Training and Education Program (FSTEP). These functions currently are performed manually.

In addition, the budget requests an increase in operating expense of \$15,000 for data processing development. These augmentations would enable the office to cancel a contract for data processing development services provided by the Department of General Services, for a savings of \$55,016.

Establishing the new position and canceling the contract with the Department of General Services (DGS) will result in increased costs of \$1,299 in 1981-82 and \$17,393 in each year thereafter. The Fire Marshal has not indicated any problems with the service provided by DGS that would justify an increase in expenditures.

In view of the data processing services available in DGS, there is no apparent reason to establish data processing program/development capabilities in the State Fire Marshal's office. We, therefore, recommend that the office continue the existing contracts with General Services, and that funding for the proposed position be deleted.

Arson Detection and Control Training

We recommend a \$28,717 reduction for personal services related to an expiring federal program.

The budget includes \$28,717 from the General Fund for a fire service training specialist II to provide arson detection and control training under a program funded through the federal Omnibus Crime Control and Safe Streets Act.

The Arson Detection and Control Training program was previously financed 90 percent by the federal government and 10 percent by the state government, with expenditures totaling \$178,889 in federal fiscal year 1980. Federal support for this program has declined. In 1980-81, expenditures under the program are expected to total \$85,872. No federal money is anticipated in 1981-82.

The State Fire Marshal previously assigned a deputy state fire marshal III to provide support for this program, at a General Fund cost of \$27,012. During the current year, this position was reclassified to a fire service training specialist II, at a General Fund cost of \$17,426. In 1981-82 all of the fire service training specialists' time would be devoted to the arson detection and control training.

With the termination of federal support, the arson detection and control training program, in effect, becomes a new state program, since 100 percent of its funding would come from the General Fund. Seventeen training sessions of local fire officials and district attorneys (lasting four to five days each) are anticipated in calendar year 1981. This is a maximum of 85 days of actual training with the entire time of a fire service training specialist II (at a cost of \$28,717) devoted to

OFFICE OF THE STATE FIRE MARSHAL—Continued

this program. This workload does not support continuing this position. Moreover, the Fire Marshal can schedule this training on a priority basis from remaining resources. Course instruction materials have already been developed for this program and could be distributed to interested parties upon notification. Furthermore, arson and bomb investigators, who presently provide arson instruction, could instruct courses as the need develops. Accordingly, we recommend the deletion of \$28,717 for personnel specifically related to this program.

Arson and Bomb Investigation*We recommend approval.*

The budget requests \$34,635 for an additional arson and bomb investigator position in order to increase the office's inspection capability.

Health and Safety Code, Section 13107, requires the office to investigate every explosion or fire in a state-mandated property or in an area where there is no legally organized fire protection agency, whenever arson or attempted arson is suspected. Additionally, upon request from a local fire jurisdiction, the State Fire Marshal is authorized to provide arson detection and investigation training for local personnel.

The Fire Marshal presently has nine field investigators, each of which is assigned a multi-county territory. Table 3 shows the number of investigations conducted and personnel assigned to arson and bomb inquiries during the past three years. The reduction of one position in 1979-80 was due to the retirement of one investigator and the subsequent loss of that position pursuant to Section 20 process when it was not filled within nine months due to the anticipated passage of Proposition 9.

Table 3
State Fire Marshal
Arson and Bomb Investigations Conducted

	1977-78	1978-79	1979-80
Number of new investigations.....	353	343	298
Number of investigators	10	10	9
Average new investigations per investigator.....	35	34	33

The arson and bomb unit is unable to handle all of the requests for training and assistance which it receives. For example:

- In 1979, 11 requests from local authorities for investigation assistance, and 78 requests for assistance in investigation of fires or explosions on state-mandated properties or in prime jurisdiction areas were denied due to lack of manpower.
- In 1980, 18 requests for training, three local requests for investigative assistance, and 92 requests for investigative assistance in connection with fires or explosions on state-managed properties or in prime jurisdiction area, were denied due to lack of manpower.

The average caseload which an investigator can handle is between 20 and 30 cases. Consequently, our analysis indicates that current workload is sufficient to justify a new investigator position, and we therefore, recommend that this request be approved.

Public Fire Safety Enforcement

We recommend deletion of a new position requested for enforcement of fire safety standards, for a General Fund savings of \$28,727.

The budget requests \$28,727 for an additional deputy state fire marshal II position to conduct plan reviews of new construction and to do field inspections.

The Fire Marshal is responsible for enforcing fire safety standards (1) where there are no local authorities charged with this responsibility, (2) in the case of state-owned/occupied buildings, and (3) when requested to do so by local authorities. These responsibilities are carried out by a network of deputy state marshals assigned to specific areas within the state. In the last three fiscal years, the office performed 11,330, 13,627, and 16,360 inspections, respectively. Thus, inspections are growing at an annual average rate of 20 percent.

Our analysis indicates that the proposed position is not justified for two reasons:

1. The office recently has begun to automate its inspection scheduling system. One of the justifications for doing so was that it would result in a 12 percent increase in field staff productivity, or the equivalent of 2.4 deputy state fire marshal positions in the inspection program. This projection was based on a limited test of the proposed inspection scheduling system. Before additional personnel are requested, the new inspection scheduling systems, due on line in 1981-82, should be given a full field test in order to assess the productivity increase.

2. As Table 4 shows, the Fire Marshal has not been able to fill the deputy fire marshal II positions already authorized. In fact, the vacancy rate has averaged 12.8 percent during the three-year period from 1977-78 to 1979-80. Thus, it is not clear that the requested new position could be filled.

Because the need to add an additional position at this time has not been demonstrated, we recommend deletion of \$28,727.

Table 4
State Fire Marshal
Deputy State Fire Marshal IIs:
Filled Vs. Authorized Positions

	1977-78	1978-79	1979-80
Positions authorized.....	34	35	28
Positions filled.....	31.4	28.9	24.2
Positions unfilled.....	2.6	6.1	3.8
Percent of authorization.....	7.6%	17.4%	13.6%

Portable Fire Extinguishers Field Inspection and Enforcement

We recommend approval of two positions for increased field inspection of portable fire extinguishers and enforcement of standards.

Chapter 888, Statutes of 1980 (SB 1309), increased the fees charged by the Fire Marshal for issuing (a) licenses to firms engaged in the business of servicing, charging, or testing any portable fire extinguisher, and (b) certificates of registration to personnel servicing, charging or testing any portable fire extinguisher. Expressed legislative intent was that the increased revenues be used to support additional personnel to enforce fire extinguisher standards.

The Fire Marshal anticipates an additional \$83,000 in revenues during 1980-81 and 1981-82 as a result of the increased fees, bringing total income to \$163,000. This will be sufficient to fund the requested positions during the two fiscal years. Our analysis indicates, however, that revenues will not be sufficient to cover the future costs associated with these two positions. This is because the fees for issuing licenses and certificates are set at a flat rate, while salary and benefits will increase. Over time, this could require General Fund support for the positions. Thus, while

OFFICE OF THE STATE FIRE MARSHAL—Continued

we recommend approval of the proposed deputy state fire marshal II positions as being in conformance with legislative intent, we recommend that the Fire Marshal regularly review the fee structure to assure a balance between revenues and expenditures.

Plan Check Services

We recommend a reduction of \$41,776 in personnel services, to reflect reduced workload in Los Angeles.

The Fire Marshal has budgeted \$1,234,519 in reimbursements, including \$87,158 from the Office of State Architect for technical review of building plans to assure compliance with fire safety codes.

The State Architect has informed the Fire Marshal that it intends to reduce the number of requests for plan check services in Los Angeles. The Fire Marshal's staff has indicated that the OSA work in Los Angeles accounts for most of the workload assigned to a deputy state fire marshal III. Given the reduction in workload for this position, we recommend that it be deleted, for a \$41,776 savings in personnel services.

Hazardous Materials Program

We recommend a reduction of \$302,872 for three positions and related operating expenses associated with the Hazardous Materials program because other emergency response personnel can carry on the training program.

The budget requests \$302,872 to fund three fire service training specialist III positions and related expenses to continue the Hazardous Materials program.

The Hazardous Materials program was established in 1980-81 for purposes of training local and state emergency response personnel in the proper method of handling hazardous material accidents and emergencies. Hazardous materials include chemicals and other substances that pose a probable health or safety hazard. The Fire Marshal spent the first six months of fiscal year 1980-81 developing courses. Fire Marshal staff indicate that training is scheduled at the Highway Patrol Academy near Sacramento during the balance of this fiscal year.

The Supplemental Report to the 1980 Budget Act, Item 121, states "It is legislative intent that the three new fire service training specialist III positions related to the Hazardous Materials program be limited to one year." The Fire Marshal maintains that it would take three years to train *all* emergency response personnel in hazardous materials handling. This three-year proposal was rejected by the Legislature last year when the three positions were limited to one year. The Fire Marshal has not provided any additional information that would justify continuing this program beyond the period envisioned by the Legislature in enacting the 1980 Budget Act.

Other emergency response personnel such as the California Highway Patrol, Caltrans, and firefighters in major metropolitan areas still have access to hazardous materials training curriculum developed by the State Fire Marshal. These personnel should be able to carry on the necessary training. The need to continue the program in the State Fire Marshal's office has not been demonstrated. Consequently, we recommend deletion of the \$302,872 associated with continuing the program in the State Fire Marshal's office.

Equipment Expense

We recommend deletion of \$45,550 for unjustified operating expenses.

The Fire Marshal has budgeted \$4,800 for miscellaneous equipment expense in 1981-82. Table 5 shows that this office has consistently spent more than the amount budgeted for equipment.

Table 5
State Fire Marshal
Budgeted Vs. Actual Equipment Expenditures

	1978-79	1979-80	1980-81 ^a
Amount budgeted for equipment	\$6,000	\$6,000	\$4,800
Actual expenditures for equipment	10,124	20,273	50,350
Expenditures above the budgeted amount.....	\$4,124	\$14,273	\$45,550

^a This reflects estimated equipment expense since actual expense is not known at this time.

According to staff, the unbudgeted equipment purchases have been funded by transferring money from another expense category, principally general expense. In fiscal year 1980-81, the Fire Marshal was able to fund an additional \$45,550 from other expense categories to fund the purchase of four Xerox copiers at a cost of \$35,133, and five gas detectors at a cost of \$7,517.

These unbudgeted equipment purchases in the current year are one-time expenses and should not be part of the baseline budget. The Fire Marshal's budget, however, includes an amount equal to these one-time expenditures in the other general expense categories. Since these funds have not been needed for general expense purposes, including them in the budget overstates the office's need for General Fund support, and reduces the Legislature's control over how state funds are spent. Consequently, we recommend deletion of \$45,550 from this item.

State and Consumer Services Agency FRANCHISE TAX BOARD

Item 173 from the General
Fund

Budget p. SCS 94

Requested 1981-82	\$78,881,493
Estimated 1980-81	72,954,174 ^a
Actual 1979-80	74,549,389
Requested increase (excluding amount for salary increases) \$5,927,319 (+8.1 percent)	
Total recommended reduction	\$1,340,000

^a The Governor's Budget shows a 1980-81 figure of \$85,154,239. This amount, however, includes \$12.2 million for the employer withholding program, which was transferred from Franchise Tax Board to the Employment Development Department beginning in 1981-82.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Homeowners and Renters Assistance. Reduce by \$34,000.* Recommend deletion of 2.4 personnel-years on the basis of revised participation rates. 180
2. *Data Entry. Reduce by \$490,000.* Recommend deletion of 33.3 personnel-years budgeted for workload increase in data entry operations. 181
3. *Report on Data Entry Operations.* Recommend that FTB report to the Joint Legislative Budget Committee by November 1, 1981, on the issue of productivity problems in data entry operations. 181

FRANCHISE TAX BOARD—Continued

4. *Savings from Conversions. Reduce by \$50,000.* Recommend reduction of 3.5 personnel-years due to increased productivity resulting from the conversion of temporary help to permanent positions. 182
5. *Audit Report Recommendations.* Recommend that the Legislature direct FTB to implement the recommendations made in our report on audit effectiveness criteria. 183
6. *Audit Positions. Reduce by \$753,000.* Recommend deletion of 48.1 clerical audit positions proposed for program expansion. 184
7. *Redirection of Audit Staff.* Recommend FTB redirect existing auditors in order to achieve a more efficient allocation of resources. 184
8. *Collections Reclassifications. Reduce by \$13,000.* Recommend reduction of \$13,000 resulting from the reclassification of requested workload positions for collections activity. 185
9. *Substandard Housing.* Recommend Department of Finance be requested to identify how 1981-82 mandated costs will be reimbursed. 185
10. *Substandard Housing.* Recommend legislation which (a) eliminates the state mandate regarding the substandard housing reporting requirement and (b) requires reimbursement of FTB administrative costs from the Local Agency Code Enforcement and Rehabilitation Fund. 185

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering the Personal Income Tax Law, Bank and Corporation Tax Law, the Senior Citizens Property Tax Assistance Law, and the Political Reform Audit program. The board consists of the Director of Finance, the Chairman of the State Board of Equalization, and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$78,881,493 from the General Fund for support of the Franchise Tax Board in 1981-82. This is a *decrease* of \$6,272,746, or 7.4 percent, below estimated current year expenditures. This reduction is due to the transfer of the \$12.2 million employer withholding program from FTB to the Employment Development Department (EDD), beginning with the 1981-82 fiscal year. If FTB spending for the withholding program is eliminated from 1980-81 expenditures in order to make comparisons between the two years meaningful, proposed 1981-82 expenditures are \$5,927,319, or 8.1 percent, *more* than current year estimated expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year.

The department is also scheduled to receive \$4,074,591 in reimbursements, resulting in total 1981-82 budget expenditures of \$82,956,084. This represents a 6.9 percent *decrease* from estimated 1980-81 expenditures. After adjusting for the withholding program transfer, it represents an *increase* of 7.8 percent.

1981-82 Expenditures

As shown in Table 1, the increase in expenditures for FTB's ongoing programs during the budget year can be attributed to: (1) baseline adjustments, (2) workload changes, and (3) program changes. The major baseline adjustments are for expected merit salary increases (\$1,115,206) and a general price increase for oper-

ating expenses and equipment (\$994,410). Workload changes result principally from increases or decreases in the expected number of tax returns filed with the department. The total workload change of \$2,538,000 consists of increased processing, tax assistance, and collections costs in the Personal Income Tax (PIT) and Bank and Corporation Tax (B&CT) programs, and decreased processing costs in the Homeowners and Renters Assistance (HRA) program. (The HRA program has previously been referred to as the Senior Citizens Property Tax Assistance program. As the program now provides relief to nonelderly disabled persons, FTB has broadened the program name.) The only major program change—other than the aforementioned transfer of the employer withholding program to EDD—is a \$753,000 request to expand the PIT clerical audit program.

Table 1
Franchise Tax Board
Proposed 1981-82 Budget Changes

	<i>General Fund</i>	<i>Reim- bursements</i>	<i>Total</i>
1980-81 Current Year Estimated	\$85,154,239	\$3,964,803	\$89,119,042
<i>Baseline Adjustments</i>			
Personal Services:			
Merit increases	1,067,288	47,918	1,115,206
Staff benefits	421,879	24,082	445,961
Operating Expenses and Equipment	956,622	37,788	994,410
Subtotal, Baseline Adjustments	(\$2,445,789)	(\$109,788)	(\$2,555,577)
<i>Workload Changes</i>			
Personal Income Tax:			
Processing and tax assistance	\$1,944,000	—	\$1,944,000
Collections and filing enforcement	361,000	—	361,000
Bank and Corporation Tax:			
Processing and tax assistance	451,000	—	451,000
Collections and filing enforcement	155,000	—	155,000
Homeowners and Renters Assistance:			
Processing	—373,000	—	—373,000
Subtotal, Workload Changes	(\$2,538,000)	(\$0)	(\$2,538,000)
<i>Program Changes</i>			
Personal Income Tax:			
Audits	\$753,000	—	\$753,000
Funding for Review of Regulations (OAL allocation)	134,530	—	134,530
Legislation:			
Chapter 904/1980—energy conservation credit	101,000	—	101,000
Chapter 925/1980—transfer of postponement program	—20,000	—	—20,000
Chapter 1007/1980—transfer of withholding program	—12,200,065	—	—12,200,065
Legislative Mandates	—25,000	—	—25,000
Subtotal, Program Changes	(\$—11,256,535)	(\$0)	(\$—11,256,535)
1981-82 Budget Request	\$78,881,493	\$4,074,591	\$82,956,084
Change 1981-82 Over 1980-81:			
Amount	\$—6,272,746 ^a	\$109,788	\$—6,162,958 ^a
Percent	—7.4% ^a	2.8%	—6.9% ^a

^a The 1980-81 and 1981-82 figures are not comparable due to the shift of Franchise Tax Board's \$12.2 million withholding program to the Employment Development Department in 1981-82.

FRANCHISE TAX BOARD—Continued**Special Adjustment**

In order to reduce overall General Fund expenditures, the administration required several state agencies to take "below-the-line" reductions to previously approved budgets. In many cases, this "special adjustment" is equal to a 1 percent reduction in budgeted expenditures. For FTB, however, the reduction was effected by rescinding approval of an \$825,000 budget change proposal for audit workload growth. While the FTB audit program elements in the Governor's Budget include the proposed \$825,000, we have considered the audit workload resources as no longer a part of the administration's 1981-82 spending plan for FTB.

Program Overview

Table 2 summarizes the department's personnel-years and expenditures by program for fiscal years 1979-80, 1980-81, and 1981-82. FTB receives direct General Fund support for the PIT, B&CT, and the HRA programs. Resources expended on contract work and the Political Reform Act are reimbursed by other government agencies.

Table 2
Franchise Tax Board
Program Summary: 1979-80 Through 1981-82

<i>Program</i>	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82^a</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82^a</i>
Personal Income Tax	1,830.5	1,854.1	2,007.5	\$52,913,217	\$60,793,000	\$53,226,000
Bank and Corporation Tax	680.2	705.8	738.2	19,009,245	21,628,000	22,961,530
Homeowners' and Renters' Assistance	120.0	113.0	107.7	2,876,969	2,751,000	2,736,000
Political Reform Act	38.5	45.4	45.4	1,188,083	1,509,241	1,551,163
Contract Work	166.4	119.5	119.5	3,713,698	2,412,801	2,481,391
Administration—Distributed	(172.2)	(171.2)	(179.5)	(4,061,503)	(4,435,000)	(4,712,000)
Legislative Mandates	—	—	—	9,113	25,000	—
Totals	2,835.6	2,837.8	3,018.3	\$79,710,325	\$89,119,042	\$82,956,084
General Fund	2,630.7	2,672.9	2,853.4	\$74,549,389	\$85,154,239	\$78,881,493
Reimbursements	166.4	119.5	119.5	\$3,972,853	\$2,455,562	\$2,523,428
Political Reform Act	38.5	45.4	45.4	\$1,188,083	\$1,509,241	\$1,551,163

^a These figures have been adjusted for the special adjustment, which eliminated a previously approved increase for audit workload growth in the personal income tax and bank and corporation tax programs.

Table 3 displays budget year information on the three programs supported by the General Fund, by program function. Over two-thirds of FTB's General Fund expenditures are dedicated to the PIT program, and over one-fourth of the total is spent on the B&CT program. With regard to functions, almost one-half of all General Fund expenditures are spent on processing forms and providing taxpayer assistance, while another 30 percent are spent on auditing returns.

Table 3
Franchise Tax Board
Programs Supported by the General Fund
By Program Function
1981-82

Program Function	<i>Personal Income Tax Program</i>		<i>Bank and Corporation Tax Program</i>		<i>Homeowners and Renters Assistance Program</i>	
	<i>Personnel- Years</i>	<i>Budgeted Expenditures</i>	<i>Personnel- Years</i>	<i>Budgeted Expenditures</i>	<i>Personnel- Years</i>	<i>Budgeted Expenditures</i>
Processing/taxpayer assistance ^a	1,181.1	\$29,480,000	185.7	\$4,770,530	107.7 ^b	\$2,736,000 ^b
Audit ^a	399.0	10,589,000	367.8	13,018,000	—	—
Collections	322.9	9,909,000	120.4	3,518,000	—	—
Filing enforcement	104.5	3,248,000	29.6	656,000	—	—
Exempt corporations	—	—	34.7	999,000	—	—
Administration-distributed	(118.1)	(3,135,000)	(44.8)	(1,167,000)	(7.0)	(176,000)
Totals	2,007.5	\$53,226,000	738.2	\$22,961,530	107.7	\$2,736,000
Percent of FTB 1981-82 General Fund Totals	70.4%	67.5%	25.9%	29.1%	3.8%	3.5%

^a The Governor's Budget treats resources spent on the mathematical verification of forms as audit expenditures. We have included them in the processing function.

^b A small amount of these resources is expended on auditing.

I. PROCESSING AND TAXPAYER ASSISTANCE

The most important factor in estimating FTB's processing and taxpayer assistance costs is the number of individuals and corporations who will file returns with the department. Table 4 shows volumes for the most important return categories for fiscal years 1979-80, 1980-81, and 1981-82. Returns and declarations of estimated tax for both the PIT and B&CT programs are expected to increase significantly in the budget year, while the number of HRA claims is projected to decline once again.

Table 4
FTB Document Volumes
1979-80 through 1981-82

Document Type	<i>Actual 1979-80</i>	<i>Revised 1980-81</i>		<i>Projected 1981-82</i>	
		<i>Amount</i>	<i>Percent Change</i>	<i>Amount</i>	<i>Percent Change</i>
PIT:					
Returns	10,739,000	11,090,000	3.3%	11,650,000	5.0%
Declarations	2,190,000	2,625,000	19.9	2,815,000	7.2
B&CT:					
Returns	341,000	380,000	11.4	420,000	10.5
Declarations	413,000	455,000	10.2	495,000	8.8
HRA—Claims	519,000	515,000	-0.8	495,000	-3.9

Errors in Prior Year Budget Estimates

FTB's PIT and B&CT return projections are based principally on estimates of state employment and civilian population. Since these latter two factors have grown at higher-than-anticipated rates in recent years, the number of returns which the department has had to process has exceeded the budgeted levels. For instance, FTB budgeted for 10,429,000 PIT returns in 1979-80. As Table 5 shows, however, it actually received 10,739,000 returns, an increase of 3.0 percent. Similarly, FTB now estimates that PIT and B&CT returns in the current year will also exceed the 1980-81 budgeted levels.

FRANCHISE TAX BOARD—Continued

Table 5
Return Estimates: Budgeted Vs. Actual
1979-80 and 1980-81

	1979-80			1980-81		
	<i>Budgeted</i>	<i>Actual</i>	<i>Percent Change</i>	<i>Budgeted</i>	<i>Revised</i>	<i>Percent Change</i>
PIT returns	10,429,000	10,739,000	+3.0%	10,873,000	11,090,000	+2.0%
B&CT returns	314,000	341,000	+8.6	333,000	380,000	+14.1
HRA claims	625,000	519,000	-17.0	570,000	515,000	-9.6

Redirection of Resources

By underestimating returns, the department has *underfunded* its PIT and B&CT operations budget in recent years. At the same time, however, FTB has *overstated* its HRA program costs, as it has drastically overestimated the number of HRA claimants.

As Table 5 shows, actual HRA claims in 1979-80 were 17.0 percent less than originally budgeted. (For an explanation of why HRA program participation has declined, see our analysis of Item 910.) Consequently, the department has been able to redirect the following resources from the HRA program to the PIT and B&CT programs:

- 1979-80: 81.9 personnel-years
- 1980-81: 31.1 personnel-years
- 1981-82: 4.4 personnel-years

1981-82 HRA Claims Estimate Overstated

We recommend a reduction of 2.4 personnel-years and \$34,000 in the Homeowners and Renters Assistance program, based on more recent data on participation rates.

As shown in Table 4, the department is projecting 495,000 HRA claimants in the budget year, a decline of 3.9 percent from its midyear estimate of 515,000 claimants in 1980-81. Data on claims received in the first six months of the 1980-81 fiscal year is now available, and it indicates that only 504,000 claimants should be expected in 1980-81. Applying the percentage reduction in claimants projected for 1981-82 by FTB (3.9 percent), we estimate 1981-82 claims at 484,000, rather than 495,000. On the basis of this estimate, the budget request overstates the department's needs for the HRA program by 2.4 personnel-years. We recommend that funding for these personnel-years be eliminated, for a savings of \$34,000 to the General Fund.

Declining Productivity Rates

While return estimates are usually the most important determinant of FTB's personnel needs, productivity rates can also significantly affect position requirements. The department tracks the rates—expressed in volumes per hour—at which employees perform certain tasks. For example, an individual in the department's receiving section might handle 100 PIT returns per hour. FTB takes its latest *actual* rates (in this case, 1979-80) and applies them to estimated 1981-82 volumes in order to determine budget year personnel-year needs.

Using this approach, FTB determined that it needed 116.4 *additional* personnel-years in 1981-82 to handle the work in its operations division. The administration, however, reduced this amount by 27.0 personnel-years, on the basis that productivity rates for the receiving section were unusually *low* in 1979-80. The Department of Finance applied 1978-79 productivity rates, which were substantially higher, to estimate staffing needs, and reduced FTB's budget request accordingly. We believe that this reduction will have a positive impact on the department's production rates, which should be brought up to historical levels.

Data entry

We recommend a reduction of 33.3 personnel-years and \$490,000 to FTB's processing workload request, as FTB has understated expected productivity rates.

FTB keypunches much of the information contained on tax returns in order to speed processing, mathematically verify returns, and assist the audit function. In 1979-80, the department experienced substantial reductions in the productivity rates of its data entry operations. As illustrated in Table 6, the 1979-80 rates were much lower than either the 1978-79 rates or the average rates of the three preceding fiscal years.

Table 6
Data Entry Productivity Rates

	<i>Strokes Per Hour</i>			<i>Percent Change 1979-80 Over 1978-79</i>
	<i>Three-Year Average 1976-77 to 1978-79</i>	<i>Actual 1978-79</i>	<i>Actual 1979-80</i>	
<i>Program Documents</i>				
Personal income tax	3,329	3,232	2,985	-7.6%
Bank and corporation tax.....	3,422	3,429	2,598	-24.2
Homeowners and renters assistance	3,469	3,432	2,759	-19.6
Political reform act	1,992	1,983	1,412	-28.8
Contracts	3,179	3,188	2,682	-15.9
Administration	2,143	2,248	868	-61.4

FTB contends that the replacement of its entire data entry equipment inventory with new machines in 1979-80 is responsible for the productivity decline. The department encountered the following types of problems:

- Units oftentimes overheated, causing shutdowns;
- Slow response times;
- Keyboard shortcomings ("sticky" keys, keys in awkward positions, etc.);
- Poor vendor support (training, maintenance).

FTB believes that most of these problems have been resolved and that the productivity rates for data entry should improve in both the current and budget years. If that is the case, we believe the board should have used the normal production rates rather than the unusually low 1979-80 production rates, in calculating budget year needs.

We have recalculated FTB's data entry needs using 1978-79 production rates. Our recalculation indicates that a 46.0 personnel-year reduction in the budget year (plus support positions) could be justified. We recommend, however, that only two-thirds of these positions be eliminated, as:

- Approximately one-quarter of the productivity "decline" was illusory in that the new equipment did not count strokes per hour consistent with the old equipment, and
- We have provided for some allowance to account for problems which have not been totally resolved or which may be of a more permanent nature.

Thus, we recommend a reduction of 33.3 personnel-years (which includes a reduction in support staff), for a savings of \$490,000 to the General Fund.

Report on Declining Data Entry Productivity

We recommend the adoption of supplemental report language requiring FTB to report to the Joint Legislative Budget committee by November 1, 1981, on productivity problems in data entry operations.

Data entry operations command one-seventh of FTB's work force, making it one of the most important tasks that the department performs. Thus, the precipitous

FRANCHISE TAX BOARD—Continued

drop in 1979–80 productivity rates gives the Legislature reason for much concern. Accordingly, we recommend the adoption of the following supplemental report language:

The Franchise Tax Board shall report to the Joint Legislative Budget Committee by November 1, 1981, on the decline in data entry production rates. The report should address the following areas:

- Specific reasons for the 1979–80 declines in production rates and the ways in which problems were addressed;
- Actual rate experience in 1980–81 and, to the extent that productivity has not returned to historical levels, the department's plan to accomplish that;
- The extent to which equipment problems may be due to the failure of the vendor to meet contractual obligations; and
- Ways in which productivity *gains* resulting from the installation of new data entry equipment have been reflected in the department's productivity figures.

Temporary Help Conversions

Given the fact that FTB's workload peaks around the income tax filing dates, the department is forced to use a large amount of temporary help. Approximately one-fifth of FTB's 3,000 authorized personnel-years are filled through temporary help positions. In recent years, FTB has attempted to reduce its reliance on temporary help by converting some of these personnel-years to permanent positions. These conversions result in the following savings to the state: (1) productivity gains resulting from a more experienced and stable work force, (2) reduced training costs and (3) no unemployment insurance costs.

There are, however, costs associated with conversions. Permanent positions receive merit salary adjustments at faster rates than temporary employees, thereby raising salary costs, and permanent employees tend to require higher health benefit contributions. Overall, however, we believe the benefits to the department in terms of net savings and improved resource management outweigh the costs. Therefore, we recommend that the department continue to look for temporary help positions which can be converted to permanent status.

1981–82 Conversions

We recommend the reduction of 3.5 personnel-years and \$50,000 to reflect the total savings which will accrue from temporary help conversions.

FTB's 1981–82 budget calls for the conversion of 66 temporary help positions to permanent status. The department, however, did not account for savings resulting from the productivity gains which—the department asserts—will result from the conversions. In response to our queries on this matter, FTB has acknowledged that it should have included a savings of 3.5 personnel-years and \$50,000. Accordingly, we recommend that FTB's budget be reduced by these amounts.

II. AUDITS

Through the personal and bank and corporation income taxes, FTB collects one-half of the state's General Fund revenues. In order to protect the state's revenue base, the department conducts an extensive audit program. As Table 7 shows, FTB is budgeted to spend \$23 million in 1981–82 in order to audit 1.4 million income tax returns.

Table 7
FTB Audit Program
1981-82^a

	<i>Personnel- Years^a</i>	<i>Expenditures^a</i>	<i>Number of Audits</i>	<i>Average Tax Change</i>
<i>Personal Income Tax</i>				
Desk	213.9	\$4,944,000	816,000	\$7.30
Federal audit reports	91.2	2,218,000	325,000	24.72
Field	93.9	3,427,000	16,600	3.49
Subtotals	(399.0)	(\$10,589,000)	(1,157,600)	—
<i>Bank and Corporation Tax</i>				
Federal audit reports	8.8	\$249,000	10,400	\$82.84
General corporations:				
Desk	34.0	970,000	146,000	5.79
Field	56.0	1,905,000	8,100	4.06
Apportioning corporations:				
Desk	20.0	659,000	22,300	3.20
Field—in-state	103.0	3,877,000	5,300	18.35
Field—out-of-state	117.0	4,792,000	8,400	13.07
Subtotals	(338.8)	(\$12,452,000)	(200,500)	—
Total, FTB Audit Program	737.8	\$23,041,000	1,358,100	—

^a These figures have been adjusted downward to account for elimination of FTB's audit workload request made by the "special adjustment."

Types of FTB audits

Table 7 provides information on the various types of audits performed by FTB. There are three general categories of PIT audits:

- **Desk.** Desk audits, which are conducted in FTB's central office in Sacramento, are performed both by clerical and professional staff. FTB does several types of clerical desk audits (income discrepancies, head-of-household, mini-ASTRA), but professionals work principally on returns selected by the department's computerized audit selection process known as ASTRA (Automated Selection of Tax Returns for Audit).
- **Field.** Field audits are performed by professionals in FTB's district offices. Again, returns are selected mainly through the ASTRA process.
- **Federal Audit Reports (FARs).** FARs are sent to FTB by the Internal Revenue Service (IRS) in cases where federal tax liabilities of California taxpayers are adjusted as a result of an IRS audit.

Bank and corporation tax audits are also divided into FARs, desk and field audits. In addition, corporate returns are also classified according to whether a firm is a *general* corporation, which conducts all of its business within California, or an *apportioning* corporation, which conducts business within and outside of the state.

Allocation of Audit Resources

The Legislature is confronted with requests for additional audit resources virtually on an annual basis. Given the size and the importance of the audit program, it is critical that the Legislature have a sound basis for evaluating requests for additional audit positions. Toward that end, the Legislature requested that this office study different audit effectiveness measures and recommend the most appropriate one. We responded to this request in a recently issued report (Report #81-3, February 1981).

Report Recommendations

We recommend the adoption of supplemental report language directing the FTB to implement the recommendations made in our report on audit effectiveness criteria.

Our review of the department's audit selection process indicates that there are a number of steps the board could take to improve the efficiency with which its

FRANCHISE TAX BOARD—Continued

audit resources are used. Our major recommendations are summarized as follows:

1. The board should allocate all audit resources, both existing and new, on the basis of the *marginal* net assessments expected to be produced. Requests to the Legislature for *new* audit resources should be based on the expected *marginal* productivity of the additional resources, rather than on expected *average* productivity or on the need to maintain an historical level of audit coverage.
2. FTB should also improve its ability to rank returns for audit potential. The board should test its existing screening and ranking processes, and try out new criteria in order to improve the selection system.
3. The board should use the information derived from an improved ranking process as the basis for shifting resources to their most productive uses. FTB should move resources among its various audit groups so that the marginal return is approximately the same for all groups.
4. FTB should use the effectiveness criterion of net assessments per dollar of cost—rather than tax change per dollar of cost—in its audit program and in reporting accomplishments to the Legislature in the Governor's Budget.
5. Finally, the department should report results in the Governor's Budget for all of its major audit groups.

We recommend that the Legislature direct the department to implement these recommendations.

1981-82 Audit Requests

We recommend the deletion of 48.1 personnel-years and \$753,000 requested for the expansion of the PIT clerical audit program, as FTB has not yet proved that its existing resources are efficiently used.

We further recommend that the department reclassify existing low productivity professional positions to clerical positions in order to perform the audits requested in FTB's audit expansion request.

FTB originally had two distinct requests for additional audit resources in 1981-82: (1) an \$825,000 request to maintain audit coverage at the 1980-81 levels in light of a growing number of tax returns, and (2) a \$753,000 request to expand its PIT clerical program. As we have noted, the workload request was deleted from the budget through a "special adjustment."

The way in which FTB established priorities on the two audit requests is representative of the problems we perceive in the department's audit allocation process. In ranking the requests for budgetary purposes, FTB gave a *higher* priority to its *expansion* request than to its *workload* request. The department properly did so because the clerical audits are expected to return over *four* times as much revenue per dollar of cost than the workload audits. The problem is that the department should have been using its *existing* audit resources to perform these high productivity clerical audits instead of directing auditors to much lower productivity cases. Clearly, FTB is not using its *present* audit staff in a manner which maximizes revenue to the state.

Thus, rather than recommending approval of additional audit resources, we recommend that FTB reclassify existing professional positions and/or redirect existing clerical positions in order that it can perform the high productivity PIT clerical audits referenced in its expansion request. We must stress that even after reclassifying and redirecting auditors to perform these clerical audits, the department will still be reviewing returns in *all* its audit groups. It will simply be doing *fewer* audits in those groups with the lowest expected return and more audits in those groups with the highest expected return. Consequently, the \$753,000 and

48.1 personnel-years budgeted for these audits is not needed, and we recommend their elimination for a General Fund savings.

III. OTHER ISSUES

Collections Workload Increase

We recommend a reduction of \$13,000 in FTB's request for additional collection resources, based on the reclassification of certain positions.

The budget includes a request for \$515,000 to provide 30 new positions to meet workload growth in collections. We believe the positions are warranted. The department, however, has not allocated those positions between professional, para-professional, and clerical employees in the most efficient manner. Essentially, FTB's request includes funds for professional positions where para-professionals would be more appropriate.

In response to our concerns, the department has redistributed the requested positions to reflect a greater reliance on para-professionals. This downgrading of professional positions results in a net savings of \$13,000. We recommend that this amount be reduced from the collections workload request.

Substandard Housing Program

The Substandard Housing program, established by Chapter 238, Statutes of 1974, and amended by Chapter 1238, Statutes of 1978, provides funds to local agencies for the support of housing code enforcement and rehabilitation activities. Prior to 1980-81, there were three types of state costs associated with the program: (1) the state reimbursed local jurisdictions for their mandated costs in reporting the names of substandard housing owners to FTB, (2) the state turned over to local governments any revenues generated by the disallowance of certain deductions taken on rental units in violation of housing codes, and (3) FTB incurred costs in administering the program. In 1980-81, however, the Legislature required that mandated cost reimbursement claimed by local governments be reduced by the amount of revenue distributed to such governments.

Mandate Item Still Required

We recommend that the Department of Finance be requested to submit an amendment letter to establish a new Budget Bill item for legislative mandate costs associated with the Substandard Housing program.

In establishing the mandated cost offset, the Legislature did not eliminate the mandate. Since there are some local agencies which incur reimbursable costs yet receive no state revenues, there is still a need for a mandate item in the 1981 Budget Bill to accommodate these agencies. We recommend that the Department of Finance submit an amendment letter establishing a new Budget Bill item which provides the necessary funds.

Recommended Legislation

We recommend legislation which (1) eliminates the state mandate that local agencies notify FTB of housing code violations and (2) provides for the reimbursement of FTB administrative costs from the Local Agency Code Enforcement and Rehabilitation Fund (LACERF).

In December of 1980, our office issued a report on the Substandard Housing program ("An Analysis of the Substandard Housing Abatement Program," Legislative Analyst Office, #80-25), which contained two important recommendations. First, we recommended the elimination of the state mandate that local governments notify FTB of housing code violations. Many localities are not now complying with the law, and those which are would almost certainly continue to do so

FRANCHISE TAX BOARD—Continued

even if reimbursement were not provided.

Second, we recommended that FTB be reimbursed for administrative costs out of the LACERF. Since local agencies are the direct beneficiaries of this program, we believe it is appropriate that they, rather than the General Fund, support the cost of administering the program from the additional revenues realized as a result of their participation.

We recommend legislation which implements these two recommendations.

FRANCHISE TAX BOARD—CAPITAL OUTLAY

Item 173-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 105

Requested 1981-82	\$96,399
Net recommended approval	\$96,399

ANALYSIS AND RECOMMENDATIONS**District Office Alteration—San Francisco**

We recommend approval.

The budget proposes \$96,399 for minor capital outlay (\$100,000 or less per project) for the Franchise Tax Board. The proposed project would improve the department's San Francisco field office facilities. Specifically, it would alter the public area to include a waiting area, and provide an open-office landscaped area for the Income Tax and Senior Citizens' Property Tax Assistance Program. This program experiences a significant increase in workload during the tax season, and the open-office concept would allow the space to be easily and economically rearranged to meet the seasonal workload. The proposed alteration would allow more efficient utilization of available space and eliminate the need to lease additional space, and on this basis we recommend approval.

FRANCHISE TAX BOARD—REVERSION

Item 173-495 from the General
Fund

Budget p. SCS 94

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1182, Statutes of 1979, appropriated, without regard to fiscal year, \$50,000 from the General Fund to the Franchise Tax Board for administrative costs incurred in implementing the jobs tax credit. FTB needed only \$30,400 of the appropriation; consequently, the remaining \$19,600 has been budgeted to revert on June 30, 1981. We recommend approval of the reversion.

State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES

Item 176 from the General
Fund and various funds

Budget p. SCS 106

Requested 1981-82	\$234,211,287
Estimated 1980-81	218,047,448
Actual 1979-80	175,307,123
Requested increase (excluding amount for salary increases) \$16,163,839 (+7.4 percent)	
Total recommended reduction	\$7,755,120

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
176-001-001—Department of General Services. For direct support of department operations.		General	\$6,405,931
176-001-003—Department of General Services. For maintaining, protecting, and administering state parking facilities		General	1,320,031
176-001-022—Communications Division. For support of Emergency Telephone Number program.		General	216,636
176-001-119—Office of State Architect. For direct support of specified plan checking services.		Architecture Public Building	1,515,592
176-001-188—Department of General Services. For support of energy assessment programs.		Energy and Resources	985,000
176-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase Program.		State School Building Lease-Purchase	1,090,427
176-001-602—Office of State Architect. For support of operations.		Architecture Revolving	9,366,686
176-001-666—Department of General Services. For support in form of revenues from agencies receiving products or services other than printing.		Service Revolving, other activities	\$165,675,536
176-001-739—Office of Local Assistance. For support of State School Building Aid Program		State School Building Aid	\$1,271,201
176-001-915—Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees, as authorized by Chapter 1370, Statutes of 1972.		Deferred Compensation	\$196,272
176-001-961—Office of Local Assistance. For support of State School Deferred Maintenance Program.		State School Deferred Maintenance	\$287,643
176-011-666—Department of General Services. Provides authority whereby funds appropriated for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances General Services carpool and reproduction services.		General	N/A
176-021-666—Office of State Printing. For support in form of revenues from agencies receiving printing services.		Service Revolving, printing	\$34,406,118
176-101-022—Communications Division. For reimbursement of local costs of implementing Emergency Telephone Number program as authorized by Chapter 443, Statutes of 1976.		General	\$7,059,621

DEPARTMENT OF GENERAL SERVICES—Continued

—Department of General Services. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by state.	General (continuing appropriation)	\$1,493,500
—Department of General Services. For payment of claims resulting from the Motor Vehicle Liability Self-Insurance Program.	General (continuing appropriation)	\$2,753,593
—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped.	General (continuing appropriation)	\$167,500
Total		\$234,211,287

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. **Salary Savings. Reduce Items 176-001-666 and 176-021-666 by \$4,267,177.** Recommend a 6 percent salary savings requirement to reflect prior-years' experience 191
2. **Building Maintenance. Reduce Item 176-001-001 by \$184,390 and Item 176-001-666 by \$51,800.** Recommend reduction to adjust for delayed occupancy of state buildings. 193
3. **Prepayment of Low Interest Loans. Reduce Item 176-001-666 by \$1,393,289.** Recommend deletion of funds requested to prepay loans carrying interest rates below 5 percent. Also recommend adoption of Budget Bill language prohibiting the Department of General Services from reducing building rental rates in 1981-82 to offset this reduction. 193
4. **State Police.** Recommend adoption of supplemental report language directing the Department of Finance to include the costs of police and security services for the Capitol in pro rata charges for central administrative services. 196
5. **State Police. Reduce Item 176-001-666 by \$270,955.** Recommend elimination of pro rata police service field units in all areas other than Sacramento, Los Angeles, and San Francisco. 197
6. **State Police. Reduce Item 176-001-666 by \$130,203.** Recommend deletion of proposed pro rata police service to Long Beach State Building. 198
7. **Administration. Reduce Item 176-001-666 by \$57,306.** Recommend deletion of one position to eliminate administrative duplication caused by appointment of new deputy director. 199
8. **Administration.** Recommend adoption of supplemental report language requiring the Department of General Services to report on energy savings in state facilities. 199
9. **Office of the State Architect. Reduce by \$1,400,000.** Recommend reduction in staffing and operating expenses for Structural Safety Section, based on reduced workload. 201
10. **Office of the State Architect.** Recommend that the Legislature not approve funds requested for handicapped plan checking until it has received certain materials regarding proposed regulations governing access to buildings for the physically handicapped. 204
11. **Modify Public Resources Code.** Recommend legislation be enacted to require the Office of the State Architect to prepare economic feasibility studies on supplemental solar water heating systems proposed for state buildings. 207

12. Architecture Revolving Fund. Recommend that prior to budget hearings, the Department of Finance report on the need to continue the availability of specific funds in the Architecture Revolving Fund. 209

GENERAL PROGRAM STATEMENT

The Department of General Services was established to increase the overall efficiency and economy of state government operations by (1) providing support services to operating departments more economically than they can provide individually for themselves, (2) performing management and support functions as assigned by the Governor and specified by statute, and (3) establishing and enforcing statewide standards, policies and procedures.

The department provides these services through two major programs: property management services and statewide support services.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of \$234,311,287 from various funds for activities of the Department of General Services in 1981-82. This is \$15,966,319, or 7.3 percent, more than estimated current-year expenditures. Excluding federal funds and reimbursements, the increase is \$16,163,839, or 7.4 percent. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year.

Table 1
Department of General Services
Total Expenditures by Source of Funds
1979-80 to 1981-82

Source of Funds	Actual 1979-80	Estimated 1980-81	Proposed 1981-82	Percent of Total
Direct Support:				
General Fund.....	\$10,285,754	\$17,130,393	\$19,416,812	
Architecture Public Building Fund	1,412,677	1,539,972	1,515,592	
State School Building Aid Fund	611,850	1,585,441	1,271,201	
Deferred Compensation Plan Fund.....	141,957	189,914	196,272	
State School Building Purchase Fund	74,451	524,285	1,090,427	
State School Deferred Maintenance Fund	—	340,586	287,643	
Energy and Resources Fund	—	808,477	985,000	
Federal Trust Fund	94,018	100,000	100,000	
Subtotals, Direct Support	\$12,620,707	\$22,219,068	\$24,862,947	10.6%
Revolving Funds and Reimbursements:				
Service Revolving Fund, Miscellaneous ...	\$124,235,644	\$153,701,545	\$165,675,536	
Service Revolving Fund, Printing	30,505,467	33,109,442	34,406,118	
Architecture Revolving Fund	8,039,323	9,117,393	9,366,686	
Reimbursements	75,411	197,520	—	
Subtotals, Revolving Funds and Reim- bursements	\$162,855,845	\$196,125,900	\$209,448,340	89.4%
Total Expenditures	\$175,476,552	\$218,344,968	\$234,311,287	100%
Less:				
Federal Trust Fund	94,018	100,000	100,000	
Reimbursements	75,411	197,520	—	
Total, State Funds.....	\$175,307,123	\$218,047,448	\$234,211,287	

DEPARTMENT OF GENERAL SERVICES—Continued

Table 1 presents a summary of total department expenditures, by source of funds, for the three-year period ending with fiscal year 1981-82. The department is funded by direct support appropriations, revolving fund appropriations, and reimbursements. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving fund appropriations and reimbursements permit the department to expend specified amounts from revenues it earns by providing services and products to customer agencies. Table 1 shows that 89.4 percent of the department's costs is supported from revenues earned, while 10.6 percent is funded by direct support.

Table 2 identifies the allocation of staff among department functions over the three-year period ending June 30, 1982. As the table indicates, 4,122.6 personnel-years are proposed for the budget year—a net increase of 57.7 personnel-years, or 1.4 percent. It should be noted that the authorized positions for 1980-81 include 83.5 positions established administratively during the current year.

Table 3 presents total expenditures by program element during the three-year period ending June 30, 1982.

Table 4 shows the changes reflected in the proposed 1981-82 budget resulting from workload adjustments, cost increases and new programs. It shows that, of the changes totaling \$18,787,018, 59 percent are for workload, 38 percent are for increased costs, and 3 percent are for new programs. Fourteen percent of these changes have already been implemented by administrative action.

Table 2
Department of General Services
Staff by Programs
1979-80 to 1981-82

<i>Operating Unit</i>	<i>Filled Positions 1979-80</i>	<i>Authorized Positions 1980-81</i>	<i>Requested Positions 1981-82</i>	<i>Percent of Total</i>
1. Property Management Services.....	1,583.8	1,717.5	1,761.5	42.7%
a. Architectural consulting and construction.....	279.5	286.6	286.6	
b. Buildings and grounds.....	1,109.2	1,182.6	1,219.6	
c. Facilities planning and development.....	11.4	12.3	12.3	
d. Local assistance.....	25.6	81.8	88.8	
e. Real estate services.....	86.2	80.2	80.2	
f. Space management.....	71.9	74.0	74.0	
2. Statewide Supportive Services.....	2,015.3	2,194.4	2,206.9	53.6%
a. Administrative hearings.....	66.2	74.6	72.6	
b. Communications.....	267.6	278.0	278.0	
c. Fleet administration.....	133.2	154.3	154.3	
d. Insurance services.....	23.3	25.3	25.3	
e. Legal services.....	18.4	19.3	19.3	
f. Management services office.....	259.1	288.1	288.1	
g. Office services.....	199.0	214.1	213.5	
h. Procurement.....	192.5	208.9	208.9	
i. Records management.....	30.7	32.6	40.9	
j. State Police.....	258.2	317.0	323.0	
k. State printing.....	551.0	564.0	564.0	
l. Small business procurements and contracts.....	10.5	12.3	13.1	
m. California Office of Minority Business Enterprise.....	5.6	5.9	5.9	
3. Administration.....	123.0	153.0	154.2	3.7%
Totals.....	3,722.1	4,064.9	4,122.6	100.0%
Percent Change.....		9.2%	1.4%	

Table 3
Department of General Services
Total Expenditures by Program
1979-80 to 1981-82

<i>Program</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>
1. Property management services			
a. Architectural consulting and construction	\$12,161,403	\$13,525,442	\$13,544,706
b. Buildings and grounds	27,530,890	34,632,816	35,597,165
c. Facilities planning and development	415,804	510,985	525,320
d. Local assistance	780,781	2,428,012	2,688,300
e. Real estate services	3,112,139	3,313,612	3,390,310
f. Space management	2,569,405	3,012,842	3,097,824
g. Building standards commission	69,195	—	—
h. Building rental account	23,298,275	29,397,581	33,765,828
i. Property Acquisition Act	1,066,694	1,648,000	1,493,500
j. Physically handicapped plan checking	140,882	154,000	167,500
k. OSA—Unsafe school investigation	—	513,159	—
Total, Property Management Services	\$71,145,468	\$89,136,449	\$94,270,453
2. Statewide support services			
a. Administrative hearings	\$2,967,644	\$3,430,487	\$3,514,217
b. Communications	25,429,119	31,404,388	33,257,415
c. Fleet administration	14,037,360	15,469,302	17,930,656
d. Insurance services	982,132	1,354,206	1,412,556
e. Legal services	776,066	894,815	917,969
f. Monitoring computer—State Capitol	—	160,000	—
g. Management services office	7,496,123	9,115,421	9,384,253
h. Office services	8,383,752	10,079,399	10,534,024
i. Procurement	21,693,224	25,351,577	26,679,899
j. Records management	1,762,878	1,984,590	2,009,316
k. State Police	8,135,815	9,465,108	9,886,826
l. State printing	30,505,467	33,109,442	34,406,118
m. Small business procurement and contracts....	351,604	546,782	697,607
n. California Office of Minority Business Enterprise	176,777	195,542	202,302
o. Motor vehicle parking facilities	876,340	1,120,865	1,320,031
p. Motor vehicle insurance	2,312,431	2,618,586	2,753,593
Totals, Statewide Support Services	\$125,886,732	\$146,300,510	\$154,906,782
3. Administration	\$3,922,675	\$5,393,191	\$5,638,431
4. Emergency Telephone	614,567	4,814,818	7,059,621
Subtotals	\$201,569,442	\$245,644,968	\$261,875,287
Distribution of intrafund transfers	-26,092,890	-27,300,000	-27,500,000
Unallocated General Fund reduction	—	—	-64,000
Total Net Expenditures	\$175,476,552	\$218,344,968	\$234,311,287
Percent increase over previous year	—	24.4%	7.3%

Underestimated Salary Savings

We recommend an increase in the proposed salary savings requirement to 6 percent, for a savings of \$4,267,177 in Items 176-001-666 and 176-021-666.

When budgeting for salaries and wages, agencies normally recognize that salary levels will fluctuate and that all positions will not be filled for a full 12 months. Savings accrue due to vacant positions, leaves of absence, turnover, delays in the filling of positions, and the refilling of positions at the minimum step of the salary range. Therefore, to prevent overbudgeting, an estimate of salary savings is included in each budget as a percentage reduction in the gross salary and wage amount.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 4
Department of General Services
Proposed 1981-82 Budget Changes

	<i>General Fund</i>	<i>Special Funds</i>	<i>Federal Funds</i>	<i>Other</i>	<i>Total</i>
1980-81 Current Year Revised.....	\$17,938,870	\$1,539,972	\$100,000	\$198,568,606	\$218,147,448
1. Workload Changes					
a. Police and security services.....	—	—	—	633,446	633,446
b. Building maintenance, repairs.....	553,520	—	—	1,638,384	2,191,904
c. Structural safety.....	—	-299,350	—	-37,284	-336,634
d. OSA change orders.....	—	—	—	116,514	116,514
e. EDP procurement.....	—	—	—	94,770	94,770
f. Data processing.....	—	—	—	770,326	770,326
g. Vehicle operation.....	—	—	—	2,146,373	2,146,373
h. Mail and messenger.....	—	—	—	422,389	422,389
i. Portable classrooms.....	—	—	—	137,560	137,560
j. School lease-purchase.....	—	—	—	1,090,427	1,090,427
k. Microwave equipment.....	—	—	—	1,131,627	1,131,627
l. Special education hearings.....	—	—	—	239,372	239,372
m. Electronic hearing reporters.....	—	—	—	93,507	93,507
n. Contract fiscal services.....	—	—	—	99,547	99,547
o. 911 emergency telephone.....	2,244,803	—	—	—	2,244,803
(Subtotal, Workload Changes).....	(\$2,798,323)	(\$-299,350)	—	(\$8,576,958)	(\$11,075,931)
2. Cost Changes					
a. Merit salary adjustment.....	61,464	—	—	901,128	962,592
b. Staff benefits.....	9,474	2,570	—	194,298	206,342
c. Operating expenses and equipment.....	-544,005	28,377	—	6,502,895	5,987,267
(Subtotal, Cost Changes).....	(\$-473,067)	(\$30,947)	—	(\$7,596,321)	(\$7,156,201)
3. Program Changes					
a. State register.....	—	—	—	211,218	211,218
b. Recycle/disposal center.....	—	—	—	205,982	205,982
c. Energy management assessment.....	80,000	—	—	—	80,000
d. Energy projects.....	57,686	—	—	—	57,686
(Subtotal Program Changes).....	(\$137,686)	—	—	(\$417,200)	(\$554,886)
4. Adjustment for Midyear BCP's.....	—	244,023	—	-2,867,202	-2,623,179
1981-82 Proposed Expenditures.....	\$20,401,812	\$1,515,592	\$100,000	\$212,293,883	\$234,311,287

For 1981-82, the department proposes a salary savings rate equal to 2.1 percent of total salaries and wages, or \$1,763,624. Our analysis indicates that this rate is substantially below the actual salary savings rate for the past several years.

Table 5 displays the actual and estimated salary savings rates for the department during each of the last five years. It shows that the 2.1 percent salary savings rate budgeted for 1981-82 is 4 percent below the *lowest* salary savings rate experienced by the department during the five-year period we analyzed.

Accordingly, in order to accurately budget for the departments' personnel needs, we recommend increasing the 1981-82 salary savings rate to 6 percent of total salaries and wages, for an additional savings of \$3,274,887 over the \$1,763,624 budgeted. By reducing the net salaries and wages figure, this recommendation would also permit a reduction of \$992,290 in staff benefits, for a total personal services savings of \$4,267,177 in Items 176-001-666 and 176-021-666. A portion of these savings would be passed on to the General Fund.

Table 5
Department of General Services
Estimated Versus Actual Salary Savings
1975-76 to 1979-80

	<i>Estimated Salaries and Wages</i>	<i>Actual Salaries and Wages</i>	<i>Difference Actual Salary Savings</i>	<i>Estimated Salary Savings</i>	<i>Excess Savings (Actual- Estimated)</i>	<i>Estimated Salary Savings Rate^a</i>	<i>Actual Salary Savings Rate^a</i>
1979-80.....	\$72,192,845	\$67,819,845	\$4,373,000	\$1,157,680	\$3,215,320	1.6%	6.1%
1978-79.....	66,453,763	60,396,268	6,057,495	5,777,375 ^b	280,120	8.7	9.1
1977-78.....	65,958,754	61,721,839	4,236,915	1,076,434	3,160,481	1.6	6.4
1976-77.....	61,471,982	57,529,743	3,942,239	877,301	3,064,938	1.4	6.4
1975-76.....	58,107,382	53,708,592	4,398,790	884,618	3,514,172	1.5	7.6

^a Actual or estimated salary savings divided by the estimated salaries and wages figure.

^b Includes Section 27.2 reduction which included staff benefits, salaries and wages.

1. Property Management Services

The property management services program consists of nine elements which relate to state ownership, use and regulation of real property. The elements, and their related expenditures, are listed in Table 3.

Buildings and Grounds

The Buildings and Grounds Division provides custodial, maintenance and groundskeeping services for state buildings. The state has adopted workload standards established by the federal government which are designed to provide a moderate level of quality for building maintenance services.

The budget proposes several additions to the buildings and grounds program. First, the budget proposes four new positions to provide maintenance and operation of the gasification system being installed at the Sacramento Heating and Cooling Complex, which is scheduled to begin operation in April 1982.

Second, the budget includes \$262,552 for additional special repairs to various state buildings. These funds are proposed in addition to the baseline repair budget of \$495,987.

Third, the budget proposes 39 new positions to provide services to eleven new buildings expected to be occupied in the current and budget year. The new buildings include eight Department of Motor Vehicles facilities, the restored West Wing of the Capitol, the new Water Resources Building in Red Bluff, and the new Long Beach State Building.

Adjust Maintenance Costs for Delayed Occupancy

We recommend deletion of \$184,390 in Item 176-001-001 and \$51,800 in Item 176-001-666 because occupancy of the Long Beach State Building and the West Wing of the State Capitol will be delayed.

The budget includes sufficient resources to staff the maintenance duties at the new Long Beach State Building from November 1, 1981, to June 30, 1982, and the West Wing of the State Capitol from July 1, 1981, to June 30, 1982. These buildings, however, will not be ready for occupancy until January 15, 1982 and December 1, 1981, respectively. Therefore, we recommend that funds budgeted for maintenance during the period prior to the projected occupancy date for these buildings be deleted, for a savings of \$184,390 in Item 176-001-001 and \$51,800 in Item 176-001-666.

Building Rental Account

We recommend deletion of \$1,393,289 from Item 176-001-666 to eliminate funds requested to prepay State Public Works Board Certificates bearing interest rates below 5 percent.

We further recommend adoption of Budget Bill language prohibiting the Department of General Services from reducing building rental rates in 1981-82 to offset this reduction.

DEPARTMENT OF GENERAL SERVICES—Continued

The Public Buildings Construction Fund was established in 1955 to finance the construction of state buildings. The fund's revenues were derived from the proceeds of building certificates sold to state agencies with jurisdiction over special or trust funds. The Government Code provides that certificates may be sold if the State Public Works Board and the purchasing agency are in mutual agreement, and the interest rate does not exceed 5 percent per year.

Since 1955, three issues of building certificates have been purchased by the Public Employees' Retirement System to finance eight state buildings and one garage. The certificates require that, as long as any certificates of the issue remain outstanding, the rent paid by the agencies occupying the buildings must be sufficient to provide for the retirement of all certificates in the issue.

The Department of General Services has adopted a policy of charging a single building rental rate statewide, regardless of the means used to finance the construction or purchase of the particular building. All funds from the rental charges are deposited in the Building Rental Account of the Service Revolving Fund, which funds buildings and grounds maintenance, operating expenses and the rental payment to the Public Buildings Construction Fund. All funds remaining in the Building Rental Account at the end of the fiscal year revert to the General Fund.

The Building Rental Account has transferred \$4,130,331 each year to the Public Buildings Construction Fund to pay the principal and interest on the certificates. However, the monthly amount of principal and interest owed to PERS declined in June 1979, when the final payment to retire the debt for the San Francisco State Building was made. Rather than reduce the monthly payment to PERS, the department has applied the amount paid previously for the San Francisco Building to the prepayment of certificates on the Oakland State Building. When this building is paid off, the department plans to accelerate payment on other buildings. The department estimates the prepayments will total \$734,685 in 1980-81 and \$1,393,289 in 1981-82.

The prepayment of loans bearing interest rates below 5 percent is contrary to the financial interests of the state, given that these funds would earn more than 10 percent for the General Fund if deposited in the Pooled Money Investment Account. For this reason, we recommend that \$1,393,289 be deleted from Item 176-001-666.

If the Legislature approves this recommendation, the reduction in Building Rental Account expenses would result in either (1) a larger reversion to the General Fund or (2) a reduction in building rental rates.

Because the proposed budget for each state department includes an amount sufficient to pay building rental charges at the rates published in the price book, a reduction in the price book rates would result in a windfall to departments with offices in state buildings. To prevent such a windfall, we recommend that the department maintain its building rental rates in 1981-82 at the established levels. Accordingly, we recommend that the following Budget Bill language be added to Item 176-001-666:

“... provided further, that the Department of General Services shall not reduce its building rental rates for 1981-82 to offset reduced payments to the Public Buildings Construction Fund.”

Local Assistance

We recommend approval.

The Office of Local Assistance (OLA) administers the following four major programs providing funding for the acquisition and development of school sites, construction or reconstruction of school buildings, maintenance of existing school

facilities, and the placement of portable classrooms: (1) State School Building Aid, (2) Portable Classroom, (3) Deferred Maintenance and (4) State School Lease-Purchase.

The budget shows that 12 new positions were administratively added in the current year, two of which are proposed to continue in the budget year to meet the workload demands created by Chapter 1354, Statutes of 1980 (AB 2196), which provided an additional \$15 million for the Portable Classroom Program. In addition, the budget proposes the establishment of 19 limited-term positions in the current year and 38 limited-term positions in the budget year to handle increased workload in the State School Lease-Purchase Program. Chapter 288 (SB 1426) and 899 (AB 2973), Statutes of 1980, augmented the Lease-Purchase Program by \$208 million and \$100 million in 1980-81. Chapter 899 will provide an additional augmentation of \$200 million in 1981-82 and each subsequent fiscal year.

2. Statewide Support Services

The statewide support services program consists of 15 program elements. Table 3 lists the elements and the expenditures for each over the three-year period ending June 30, 1982.

State Police

The California State Police Division provides two basic types of services: general law enforcement services and security services. The provision of these services is funded from three different sources: "General Fund," "pro rata," and "contracts." Table 6 shows the positions and expenditures supported by each of these funding sources:

Table 6
California State Police
Positions and Expenditures by Source of Funds
1981-82

	<i>General Fund</i>	<i>Pro Rata</i>	<i>Contracts</i>	<i>Total</i>
Positions	74.2	139.9	108.9	323
Expenditures	\$2,541,049	\$4,285,851	\$3,365,346	\$10,192,246

The positions supported from the General Fund are used to protect the State Capitol area and constitutional officers. The positions supported by pro rata charges provide routine police protective or law enforcement services for state facilities located in major metropolitan areas. All state agencies within the protected area are charged a fee for these services. The charge to individual agencies in 1981-82 will be \$0.33 per square foot of building space and \$0.08 per square foot of parking lot space.

The positions funded from the contract services category are used to provide security services at a higher level than that supported by pro rata charges. An agency may request contract services when it identifies a security problem and a State Police security survey recommends additional security personnel. The 1981-82 hourly charges for contract services will be \$23.50 for a police officer, \$21.75 for a security officer, and \$14.35 for a security guard.

Funding Alternatives for Emergency Response Capability

The Supplemental Report of the Budget Act of 1980 directed that our office report on the current staffing levels and funding sources of pro rata police services, and make recommendations including funding alternatives for emergency response capability.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 6 shows that the State Police propose 139.9 positions for prorata services in 1981-82. This figure represents the average allocation of staff based on fixed beat assignments and time records kept by the State Police. The actual number of officers providing pro rata services varies, depending on workload requirements. Generally, the pro rata positions are used to augment the number of positions available for contract services and General Fund functions, when necessary. When the demand for contract services or General Fund supported services is such that additional officers are needed to provide these services, personnel are shifted from pro rata patrol to meet the demand.

State Police fixed beat assignments provide for three pro rata police officers 24 hours a day, 7 days a week in Sacramento, and from 2 to 7 police officers in Los Angeles and San Francisco, depending on the time of day. Pro rata staffing also includes some security guards and additional staff in areas other than Sacramento, Los Angeles and San Francisco.

One method of increasing emergency response capability is to increase the number of personnel providing pro rata services. Based on current CSP staffing policy, the provision of *one* additional police officer 24 hours a day, 7 days a week in Sacramento would require adding *six* positions at a cost of \$164,877. In Los Angeles or San Francisco, *five* positions would have to be added, at a cost of \$137,898.

Another alternative is to rely on the California Highway Patrol (CHP) and local law enforcement agencies to provide backup personnel when necessary. Both CHP and local law enforcement personnel provide routine patrol services and can, under the terms of mutual aid agreements, be called in when a situation cannot be handled by CSP staff.

Increasing the number of personnel providing pro rata services would require additional expenses for services that are not justified most of the time. Generally, both the CHP and local agencies have more resources than the CSP and will be called for assistance in any serious emergency. The presence of additional CSP personnel would reduce, not replace, the need for assistance from other agencies.

Our analysis indicates that relying on other law enforcement agencies would not increase the response time for emergencies. We surveyed local law enforcement officials in several areas of concurrent jurisdiction with the CSP. All of the local agencies reported a *goal* of between three and five minutes for responding to top priority calls. *Actual* average response time was slower. However, in most cases it was less than 10 minutes. The State Police have established a *goal* of a 15-minute emergency response time. They were unable to provide any statistics on their actual response time.

Given the cost of increasing emergency response by providing additional personnel for pro rata services, we believe relying on the CHP and local law enforcement personnel for emergency response is preferable.

Allocate Cost of Protecting Capitol and Constitutional Officers

We recommend the adoption of supplemental report language directing the Department of Finance to include the costs of police and security services for the Capitol and the protection of constitutional officers as a cost of general administration when developing rates for pro rata charges for central administrative services.

State Police protection of the Capitol and constitutional officers is funded from a General Fund appropriation. This appropriation provides support services for the general administration of the state. As such, the services benefit General Fund and special fund agencies alike. No procedure, however, has been established to collect from the special funds their proportionate share of the cost of providing these services.

A portion of most general administrative costs of the state, including the costs of the Legislature, are recovered from special funds through pro rata charges for central administrative services. These charges are authorized by the Government Code and administered by the Department of Finance and the Board of Control.

We believe that the costs of providing police and security services to the Capitol should be included in these pro rata charges. The Department of Finance estimates that 15 percent of legislative costs are recovered from special funds through these charges. Therefore, inclusion of these costs in the calculation of general administrative costs would recover about \$375,000 from special funds and result in a corresponding savings to the General Fund. Accordingly, we recommend the adoption of the following supplemental report language:

"The Department of Finance shall include costs of providing police and security services to the Capitol and constitutional officers as a general administrative cost when developing rates for pro rata charges."

Eliminate Small Pro Rata Police Field Units

We recommend that funding for pro rata police service field units in all areas other than Sacramento, Los Angeles, and San Francisco be deleted, for a savings of \$270,955 in Item 176-001-666.

The provision of police services to state property is a responsibility of both the California State Police (CSP) and local law enforcement agencies. The California Administrative Code specifies that CSP's jurisdiction includes all state property "owned, leased, rented, controlled, used or occupied" by any state department in most of the state's metropolitan areas. Local governments are required by law to provide basic police services to everyone within their political confines.

Generally, local police agencies defer to the CSP in matters of law enforcement when state property is involved. Although they acknowledge concurrent jurisdiction over state property, local police regard the State Police presence as a voluntary preemption of their need to respond to routine calls. Local police, however, will respond to emergency calls on state property.

A 1979 Department of Finance report entitled "Centralized vs. Decentralized Services, Phase III—California State Police Division" concluded that "over a period of many years, there has evolved a duplicative and unnecessarily expensive law enforcement capability within the CSP. Rather than supplementing local law enforcement capability with facility security personnel as is common private-sector practice, the state has unilaterally supplanted local law enforcement on much of the state's property." The study recommended that CSP services in areas other than the Capitol and surrounding area should be sharply reduced because of the capability of local law enforcement agencies to provide these services. Our analysis indicates that the elimination of CSP's basic police and security services in areas served by small field units would not significantly affect the level of service provided in these areas.

Table 7 shows the positions budgeted for pro rata services in field units outside Sacramento, Los Angeles and San Francisco in 1980-81.

San Bernardino and Stockton have officers on patrol 24 hours a day, five days a week. All of the other locations have two police officers on patrol two shifts a day, five days a week. Although the officers are on call at other times, the primary response to an emergency call is often made by the local law enforcement agency. Even when the State Police are on duty, local law enforcement personnel must respond when the situation cannot be handled by the small CSP staff.

Because current staffing patterns do not provide 24-hour protection in these

DEPARTMENT OF GENERAL SERVICES—Continued

Table 7
California State Police
Pro Rata Positions Outside Sacramento, Los Angeles
and San Francisco, by Field Unit
1980-81

<i>Field Unit</i>	<i>Sergeant</i>	<i>Police Officer</i>	<i>Security Officer/Guard</i>	<i>Total</i>
Fresno.....	1	2	—	3
Redding	—	2	—	2
San Bernardino	1	1	2	4
San Diego	1	2	—	3
Santa Ana.....	—	2	—	2
Stockton	1	1	2	4
Totals	4	10	4	18

areas, and because the state must rely on local police for law enforcement services in many situations already, we do not believe that the elimination of these field units would have an adverse impact on the state facilities in those areas. Accordingly, we recommend the elimination of the field units. The department has indicated that it would eliminate one contract security guard position if this recommendation is adopted. This would result in a total reduction of \$499,955 and 19 positions. The department, however, would incur one-time costs associated with removal of pro rata services from those areas of approximately \$9,000 plus relocation expenses of \$10,000 per employee. Because the CSP personnel in these field units spent about 500 hours during 1979-80 on intermittent contracts, including bailiff services for the Court of Appeals, and "general fund" services, we believe that the Sacramento staff should be augmented by one position and \$30,000 if our recommendation is approved, so that these services can still be provided. Thus, the net savings would be \$270,955 and 18 positions in Item 176-001-666.

Reject Expansion of Services

We recommend that six positions proposed for pro rata police services to the Long Beach State Building be deleted, for a savings of \$130,203 in Item 176-001-666.

The budget proposes \$130,203 to fund six positions to provide pro rata police services to the new Long Beach State Building. The department also proposes the establishment of a new Long Beach unit to provide services to other state facilities in the Long Beach area. These facilities are currently served from the Los Angeles office. The budget, however, does not propose to transfer staff from Los Angeles to Long Beach to reflect this shift in workload.

We recommend deletion of the proposed positions for several reasons. First, as discussed above, we believe that the CSP policy of supplanting local law enforcement on all state property unnecessarily increases state costs without producing a commensurate increase in services available to the state. Second, the department has submitted no justification for the addition of six positions to provide protection to a 156,225-square-foot building. This level of staffing is not comparable to the staffing provided state facilities in other communities, as shown by Table 7. For example, San Diego has over 400,000 square feet of state building space charged for pro rata patrol services and only 2 police officers. Third, the level of staffing proposed for the Long Beach State Building would cost the state three times more than the amount of revenues generated from pro rata charges in the new building. Revenues from the new building would be about \$55,000 at the price book rate, while expenditures would exceed \$160,000 on an annual basis.

Finally, the budget assumes that the building will be occupied November 1, 1981. As discussed earlier, the Long Beach State Building will not be ready for occupancy until January 15, 1982.

3. Administration

The administration program contains executive management, fiscal, and personnel functions which support the department's line programs. The department also provides accounting, budgeting, consulting and personnel services to a number of smaller state entities on a reimbursable basis.

Eliminate Administrative Duplication

We recommend deletion of one position and \$57,306 from Item 176-001-666 to eliminate administrative duplication caused by the appointment of a new deputy director responsible for the State Police Division.

The Director of General Services appointed a new deputy director during the current year, and gave the new position responsibility for the State Police Division. In order to make the appointment, the Director utilized an exempt entitlement for a Procurement Officer. Before this appointment was made, the department had three deputy directors and one assistant director, each with responsibility for four to six of the department's divisions.

The appointment of a deputy director responsible for one division has created unnecessary duplication in the administration of the department. According to their duty statements, both the deputy director and the State Police Chief are responsible for planning, organizing and directing the activities of the California State Police Division, and for developing and directing major programs.

Because it is unnecessary to have two individuals responsible for directing the activities of the same division, we recommend deletion of the deputy director position and \$57,306 from Item 176-001-066.

Energy Assessment Program

We recommend the adoption of supplemental report language requiring the Department of General Services to report on energy savings in state facilities resulting from the department's energy assessment program.

The department is requesting \$80,000 for two new positions to assist "state departments with meeting their responsibilities to reduce energy usage." Last year, the department added four positions and \$429,466 for consultant contracts to implement an energy conservation program for state facilities.

Because the department does not have information on the actual energy savings resulting from the program, we are unable to determine the cost-effectiveness of this program. Furthermore, the lack of information on savings may result in over-budgeting of operating expenses for utilities for departments which have experienced savings due to this program.

To ensure that energy conservation programs are cost-effective and that departmental budgets accurately reflect energy costs, we recommend adoption of the following supplemental report language:

"The Department of General Services shall submit a report to both fiscal committees and the Joint Legislative Budget Committee by November 1, 1981, which identifies the dollar savings for each department resulting from the energy assessment program, and shall include statistics on the actual and estimated energy consumption and utility costs of each department for the prior, current and budget year."

4. Emergency Telephone Numbers—Local Assistance

Under this program, the Department of General Services reimburses local public agencies for their costs in implementing emergency telephone number systems.

DEPARTMENT OF GENERAL SERVICES—Continued

Chapter 1005, Statutes of 1972 (AB 515), requires local public agencies to establish emergency telephone systems to enable an individual to contact emergency services, including medical service, police and fire protection, by dialing "911." The act required that the Communications Division of General Services promulgate statewide standards for such systems.

Subsequently, Chapter 443, Statutes of 1976 (AB 416):

1. Established a tax on intrastate telephone calls beginning November 1977 to fund emergency telephone systems mandated by Chapter 1005.
2. Created a State Emergency Telephone Number Account in the General Fund to receive the tax proceeds.
3. Created within the Department of General Services an Advisory Committee on the State Emergency Telephone Number.
4. Required that local governments be reimbursed for costs of installing and operating emergency telephone systems.
5. Appropriated \$1,222,000 from the General Fund for reimbursable expenses incurred by local governments and the Department of General Services until the tax proceeds become available.

Chapter 352, Statutes of 1978 (SB 1457), extended various time requirements for implementing the 911 emergency telephone number program. Chapter 352 requires the Communications Division to assist local government agencies in placing firm orders for their "911" systems with local telephone companies by July 1, 1981. Currently, there are 60 local agencies operating "911" systems and 118 systems on order. In addition, 59 systems have been approved and 31 are currently being reviewed. The department budget proposes total expenditures of \$7,276,257 for the program in 1981-82, including \$7,059,621 for reimbursement to local agencies and \$216,636 for state administrative costs. The reimbursement funds would cover installation costs of \$1,747,671, first-year annual costs of \$2,231,024, recurring costs of existing systems of \$3,055,926, and \$25,000 for printing "911" decals.

5. Office of State Architect

The Office of State Architect (OSA) provides two basic services. First, OSA provides architectural/engineering services and construction inspection services for all state projects, as required by law. Second, OSA provides plan checking services pursuant to (a) the Physically Handicapped Building Access Law, (b) the Field Act for school buildings (earthquake safety), and (c) hospital seismic safety.

OSA is reimbursed for architectural/engineering (A/E) and inspection services from funds deposited in the Architecture Revolving Fund. Funds appropriated by the Legislature for specific capital outlay projects are deposited in the fund and assessed for services provided by OSA. Consequently, this portion of the office workload is dependent, for the most part, upon the level of capital outlay approved by the Legislature. Costs related to school and handicap access plan checking are reimbursed in an amount equal to a percentage of the project's estimated construction costs, while hospital plan costs are reimbursed on a direct cost plus overhead basis.

The Budget Bill includes three appropriations for the Office of State Architect—(a) \$9,366,686 from the Architecture Revolving Fund for A/E and inspection services, (b) \$1,515,592 from the Architecture Public Building Fund for plan checking and inspection of schools, and (c) \$2,662,428 from the Service Revolving Fund for hospital plan checking, handicapped access plan checking and program costs unrelated to specific capital projects. The total budget request amounts to \$13,544,706, which is \$19,264, or 0.1 percent, more than estimated current year expenditures.

In addition to providing for general price increases, the OSA budget proposes

three major funding changes:

1. A reduction of \$336,634 and four positions due to reduced workload in plan checking activities. Our analysis of this workload is discussed below.

2. The addition of \$116,514 and three positions for increased workload related to construction change orders. These positions are needed to meet temporary increased workload, and are limited in term to June 30, 1982, and

3. A reduction of \$200,000 in the Art in Public Building program. Funds for this program now appear in the Art Council's budget, as required by Chapter 493, Statutes of 1980.

Public Schools and Hospitals Plan Checking Program

We recommend that 27.5 authorized positions in the structural safety section be eliminated, for a savings of \$1,400,000.

In the past, the OSA Structural Safety Section's workload has been limited to the review of public schools and hospital construction projects. OSA checks plans developed by others for conformance to code requirements, and inspects and monitors the construction program to assure compliance with the plans.

OSA's staffing requirements for this program are directly proportionate to the number and complexity of public school and hospital projects to be undertaken during the fiscal year. Consequently, the Office of the State Architect has developed staffing standards which relate to the construction value of the projects to be reviewed. The Governor's Budget displays the estimated value of these projects and identifies the resources to be used in reviewing these projects.

Plan Checking Workload Overstated. The budget proposes a reduction of 4.0 positions and \$336,634 due to reduced workload in the structure safety section. Our analysis indicates that this reduction is considerably smaller than the reduction in plan checking workload.

Table 8 shows the value of projects reviewed in this program since 1973-74. For comparison purposes, the actual value of each year's projects is also expressed in construction costs as of January 1, 1981.

Table 8
Department of General Services
OSA Structural Safety Section
Value of Projects Reviewed
1973-74 to 1981-82
(in millions)

	Actual	Indexed to 1980-81 Cost Basis ^a	Percent Change From Prior Year
1973-74	\$520	\$911	
1974-75	709	1,146	+25.8%
1975-76	659	972	-15.2
1976-77	780	1,064	+9.5
1977-78	607	772	-27.4
1978-79	438	518	-32.9
1979-80	435	472	-8.9
1980-81 (projected)	550	550	+16.5
1981-82 (projected)	588.5	550	0

^a Based on *Engineering News Record* Construction Cost Index for January 1981.

Table 8 shows that the annual value of the projects reviewed has declined steadily since 1976-77. The budget, however, shows the projected value of projects

DEPARTMENT OF GENERAL SERVICES—Continued

to be reviewed in the current and budget year to be 16.5 percent higher than the actual 1979–80 level.

Our analysis indicates that there is no basis on which to project an increase in the real value of projects to be undertaken. Consequently, we recommend that staffing be reduced to the level needed to sustain the actual workload level experienced in 1979–80, or by 16.5 percent. Part A of Table 9 shows the authorized positions for schools and hospital activity requested in the budget and compares them to the positions that can be justified based on the 1979–80 workload level. The 16.5 percent workload reduction from the budget level permits elimination of six professional positions, three clerical positions and related expenses, for a savings of \$400,000.

Table 9
Department of General Services
OSA Structural Safety Section
Workload Distribution 1981–82

	<i>Budget Request</i>	<i>Analyst's Proposal</i>	<i>Difference</i>
A. Schools and Hospitals			
Value of projects to be reviewed	(\$588,500,000)	(\$500,000,000)	(\$-88,500,000)
Authorized Positions:			
Plan checkers.....	21.0	18.0	-3.0
Field staff	8.0	7.0	-1.0
Supervising professionals	7.0	6.0	-1.0
Management	4.0	3.0	-1.0
Clerical support.....	21.5	18.5	-3.0
Subtotals, Schools and Hospitals.....	61.5	52.5	-9.0
B. Miscellaneous Workload			
Authorized Positions:			
Energy Commission.....	2.7	0	-2.7
School Prestress Project	2.7	0	-2.7
Office of Emergency Service	2.0	0	-2.0
Office of Local Assistance	0.3	0	-0.3
Seismic Safety Commission	0.3	0	-0.3
Office of Statewide Health Planning and Development.....	2.0	0	-2.0
SB 1686 Project	1.0	0	-1.0
Unidentified	1.0	0	-1.0
Clerical support.....	6.5	0	-6.5
Subtotals, Miscellaneous	18.5	0	-18.5
Totals, Authorized Positions	80.0	52.5	-27.5

New Workload Not Justified. The OSA has indicated that it has additional workload requirements which are not related to school and hospital plan checking activities. This workload involves providing technical/professional services to other state agencies. A total of 12 professional positions are proposed for these activities in the budget year. Based on the information provided by various client departments, it would appear that these activities do not represent ongoing workload for the OSA. Rather, the activities are due to one-time interagency agreements for specific tasks. The specific interagency agreements anticipated by OSA, and the professional positions to be devoted to this workload, are delineated below.

Energy Commission—(2.7 positions). This workload relates to development of standards for seismic and structural design criteria for thermal power plants. According to the interagency agreement, the final guidelines are to be completed

June 1, 1981. Consequently, the workload related to this contract will be completed in the current year, and no resources need be provided for this purpose in the 1981-82 fiscal year.

School Prestress Project—(2.7 positions). Item 127.1, Budget Act of 1980, provided \$481,000 to the Office of State Architect to support a program for identifying potentially unsafe school buildings constructed with precast, pretensioned, prestressed concrete roof systems. This program was initiated in response to the failure of a school building which was constructed with this type of roof system. A survey of over 30,000 school plans on file with OSA has been completed. OSA found 200 school facilities with structural systems similar to the one that failed. Seven of these facilities were found to be structurally deficient. The OSA has advised the responsible school districts of its findings. Temporary supporting structures have been installed in the affected facilities pending development of a permanent solution by the district. The State Architect states that the program will be completed in the current year, and that no additional resources are needed in 1981-82.

Office of Emergency Services. (2.0 positions) The Office of State Architect provides structural evaluation services to the Office of Emergency Services to evaluate damage incurred during seismic activities. No services were required in this program during 1979-80 or as of this writing during 1980-81. Due to the unpredictable nature of this workload, however, the OSA should provide such services on a priority basis within remaining resources of the OSA.

Office of Local Assistance. (0.3 positions) The Office of State Architect provides inspection services for portable classrooms which are required to meet the Field Act standards. Under an existing interagency agreement, the Office of State Architect is responsible for inspecting 58 portable classroom units which will be delivered during the 1980-81 fiscal year. We have no information as to the amount of workload related to this activity in the budget year. In view of the fact that the anticipated workload cited by the department is approximately three-tenths of one position, these services can be provided through existing staff on a priority basis.

Seismic Safety Commission. (0.3 positions) The department proposes three-tenths of one position for consulting services to the Seismic Safety Commission to assist in the development of criteria for evaluating the seismic safety of existing state-owned buildings. According to the State Architect, these services will not be required during the 1981-82 fiscal year, and the budgeted resources are not needed.

Office of Statewide Health Planning Project. (2.0 positions) The Office of State Architect is under contract with the Office of Statewide Health Planning for plan review and inspection of hospital facilities. The budget proposes two positions to provide additional unidentified services to this office. We have not received any information to indicate the purpose of this agreement.

SB 1686 Project. (1.0 position) This workload involves assisting the Office of Statewide Health Planning and Development (OSHDP) in implementing the provisions of Chapter 835 Statutes of 1978 (SB 1686) relating to the anchorage of equipment in hospital facilities. The OSHDP has proposed establishment of two positions in its support budget to carry out this workload. Approval of additional funds in the OSA budget would duplicate resources proposed by OSHDP.

Unidentified Workload. (1.0 positions) The department indicates that if the total projected workload for the OSA structural safety section is realized during the 1981-82 fiscal year, a total of 79 positions would be required. The budget however, proposes 72 permanent positions and 8 temporary help/overtime positions for a total of 80 positions. Thus, there is one position which would be authorized by the budget, but for which no workload has been identified.

DEPARTMENT OF GENERAL SERVICES—Continued

Part B of Table 2 summarizes the number of positions that the State Architect has requested for each of the activities unrelated to school and hospital plan checking. As noted above, our analysis indicates that existing permanent positions, which in the past were established to meet hospital and school plan checking workload, are not needed for the miscellaneous purposes described above. We, therefore, recommend deletion of 12 professional positions, 6.5 clerical positions and related operating expense support, for a savings of \$1 million. This amount represents the department's estimate for all miscellaneous workload noted above.

Physically Handicapped Plan Checking

We recommend that approval of \$167,500 for physically handicapped plan checking activities in the Office of State Architect be withheld, pending receipt of additional information on the proposed State Architect's regulations for handicapped access.

The Budget Acts of 1979 and 1980 included budget language prohibiting the State Architect from implementing regulations for accommodating physically handicapped persons in public buildings until the final regulations have been reviewed by the Legislature. The language was added because of the Legislature's concern that the regulations—as proposed by the State Architect—could have a detrimental effect on the accessibility program by increasing alteration costs for existing buildings to the point where alteration projects become infeasible. The final draft of the proposed regulations was transmitted to the Legislature in the fall of 1980. The Legislature has not had an opportunity to schedule hearings to review these regulations.

Interim Access Standards Not Being Enforced. Government Code Section 4451 requires that, until building standards relating to access for the physically handicapped are adopted by the State Architect, buildings, structures, sidewalks, curbs and the related facilities shall conform to the American Standards Association (ASA) specification A117.1/1961. Thus, under the interim procedures new construction and alteration projects are to be reviewed by the State Architect's office for compliance with the ASA specifications. However, in our review of various projects undertaken by the state over the past several years, we have found instances in which the Office of State Architect (OSA) has mandated a level of compliance which appears to exceed the level embodied in the ASA standards.

One example of the increased level of compliance required by OSA relates to installation of handicapped accessible hardware on the lavatories in treatment rooms at state hospitals. In reviewing proposed modifications to state hospitals, the OSA Handicapped Compliance Section required installation of special plumbing valves to allow operation by handicapped individuals. The Department of Developmental Services (DDS) indicated that an additional \$139,200 would be required to make the state hospitals currently being renovated comply with OSA's mandate. This requirement is particularly inappropriate in view of the fact that (a) the fixtures would only be operated by able-bodied nurse and physician staff, (b) the required valves would not provide hot and cold water separately which is required in treating some patients, and (c) hand operated controls—in lieu of the traditional knee operated controls—presented a potential for contamination of cleansed hands.

After the handicapped fixtures were installed during the first phase of construction at the state hospitals, DDS appealed the requirement that it comply with the higher standard on the basis that the standard was dysfunctional with the hospital program. The OSA subsequently granted a waiver of this requirement for future alteration projects.

In response to our inquiry as to the level of compliance *currently required* by the Office of the State Architect, the State Architect indicated that, "The interim

standard ASA A117.1/1961 called for under Government Code Section 4451 is:

- a. Below minimum based on field experience developed since the state's original statute in 1968.
- b. Does not cover many areas that must be evaluated for accessibility per Section 4451.

The Office of State Architect has consistently enforced a set of standards based on ASA A117.1/1961 *but updated as required to reflect the above.*" (emphasis added)

Clearly, the State Architect is enforcing regulations that go beyond the interim standard established in existing law. As a result, the state is incurring additional and, in many cases unnecessary, costs in providing handicapped access that is more stringent than what the Legislature has reviewed and approved.

Proposed Regulations May Increase State Costs. Existing law covering access to public buildings by the physically handicapped applies to "buildings, structures, sidewalks, curbs, and related facilities constructed in this state by the use of state, county or municipal funds, or the funds of political subdivisions of the state." Consequently, these regulations impose a state mandate on local governmental entities. Article XI11B of the California Constitution and Section 2231 of the Revenue and Taxation Code require the state to reimburse local agencies for costs mandated by the state.

The Legislative Counsel has issued an opinion stating that, if the proposed regulations on handicapped access are adopted, they would mandate an increase in local costs for which the state would be required to reimburse local agencies. The amount of the reimbursement would depend on the extent to which the regulations would increase costs to local agencies by increasing compliance or enforcement program levels above the levels required by the ASA specifications.

In view of the Counsel's opinion that an increased level of enforcement will increase state costs to reimburse local governments, *we recommend that the Department of Finance and the Office of State Architect review the proposed regulations to determine what these additional costs would be.*

Proposed Regulations Not Consistent With Existing Law Regarding Exemptions. The State Architect's proposed regulations include language under numerous sections which indicates "This section shall not apply in those conditions where due to legal or physical constraints the site of the project will not allow compliance with these regulations or equivalent facilitation without creating an unreasonable hardship." Existing law, however, limits exemptions to the requirements of the regulations to only those instances where it is clearly evident that equivalent facilitation and protection are secured. Thus, any provision in the regulations that would exempt (1) compliance with the regulations or (2) *equivalent facilitation* would be in violation of Section 4451 of the Government Code. If the proposed regulations are to become operative, it is evident that existing law will have to be modified to allow noncompliance where necessary to avoid unreasonable hardships. (This issue was the topic of a Legislative Counsel's opinion issued October 28, 1980.)

Additional Material Needed

In view of the issues raised by the State Architect's proposed regulations governing access to buildings for the physically handicapped, we recommend that the Legislature not approve the \$167,500 budgeted for handicapped compliance until the following material has been received:

1. A written statement by the State Architect that—pending adoption of regulations—he will review plans for conformance with ASA specifications as required by law.
2. An evaluation by the Department of Finance and the Office of State Ar-

DEPARTMENT OF GENERAL SERVICES—Continued

chitect on the estimated potential costs to the state of reimbursing local governments for their increased costs of complying with the proposed regulations.

3. Suggested legislation which would allow exemptions to the State Architect's regulations under conditions of unreasonable hardship.

Administration of Department of Corrections' Facilities Master Plan

In March 1980, the Department of Corrections transmitted to the Legislature a plan for developing new and remodeled facilities to provide adequate housing for the increasing prison population. The plan projected spending of \$1.3 billion over a 10-year period in order to meet the department's facilities requirements. One of the major objectives identified in the Department of Corrections' facilities master plan was to accelerate capital outlay projects so that they would be completed within four years following the authorization of funds.

The Legislature did not endorse the plan, but in recognition of the increasing inmate population, it provided funds in the Budget Act of 1980 to implement a portion of the plan, including preliminary planning and working drawing funds for construction of a new 1,000-bed maximum-security prison at Tehachapi.

The Office of State Architect (OSA) will be responsible for providing architectural and engineering support during the implementation of Corrections' master plan. OSA, however, has not proceeded with the proposed Tehachapi project in accordance with the schedule envisioned by the department. For example, while funds for preliminary planning of the Tehachapi project were appropriated by the Legislature in July 1980, schematic design had not begun as of January 1, 1981. Furthermore, the OSA master schedule for completion of approved capital outlay projects shows the project being completed approximately one year *later* than the Department of Corrections' master plan schedule.

The 1981-82 capital outlay budget for the Department of Corrections proposes further implementation of the master plan, and requests funds for a new prison facility in San Diego County, reconstruction at Folsom State Prison, and partial construction of the Tehachapi facility. The Legislature may wish to consider allocating additional funds in order to expedite this program, which it has given a high priority. If the requested funds are to be utilized in the budget year, however, the OSA will have to expedite implementation of the program.

Clearly, if new prison facilities are to be provided on an *accelerated* basis, as the Department of Corrections and the Legislature desire, the Office of State Architect must implement appropriate procedures to expedite project completion. One method to accelerate project completion is currently being utilized in connection with the renovation of state hospitals. This method involves the use of a "construction management firm" to assist OSA in expediting the project.

We suggest that prior to legislative budget hearings, the Office of State Architect provide the Legislature with an evaluation of the need for a construction management firm to assist it in this major effort. Alternatively, OSA should provide information as to how it otherwise intends to expedite completion of this important program.

State Office Building Program

In our *Analysis of the 1980-81 Budget Bill*, we indicated that under the guidance of the OSA, the new state office building program was behind schedule, and was costing considerably more than anticipated. Construction bids have substantially exceeded budgeted funds as well as the state's construction estimate for projects. This has resulted in delays due to the need to redesign facilities in order to reduce costs.

The OSA has completed working drawings for eight major state office building

projects. Three projects—Site 1A and the Department of Justice building in Sacramento, and the San Jose state office building—required substantial augmentations through legislation. Three projects—Site 1B office building, and Site 3 office building in Sacramento, and Long Beach state office building—are currently under construction but required augmentations of over 15 percent of the amount appropriated. The two remaining projects for which working drawings have been completed but on which construction has not started are the Santa Rosa state office building and the site 1B garage in Sacramento.

Two Approved Projects Not Completed

Santa Rosa Office Building. Construction funds for the proposed state office building were appropriated in the Budget Act of 1979. Construction bids were received on the project on October 15, 1980, approximately 15 months after the appropriation of construction funds. The low bid significantly exceeded budgeted funds, as well as the state's filed cost estimate, and consequently, all bids were rejected.

Site 1B Garage. The Budget Act of 1977 provided construction funds for the 501-space site 1B garage facility in Sacramento. Bids for this project were received in October 1979, and the low bid exceeded the budgeted construction funds by over 100 percent.

The OSA should provide, prior to budget hearings, a plan for completion of the Santa Rosa state office building and the site 1B garage facilities.

Procedures Need to be Improved

As noted above, construction bids for projects included in the state office building program continue to be substantially above budgeted funds as well as the state's estimate for approved projects. In some cases, the project costs exceed the budgeted funds because the consulting architect has not estimated the project cost correctly. This results in the state proceeding with a project where the scope of work cannot be accomplished within available funds. We recommend that the Office of State Architect take steps to assure that consulting architects provide realistic estimates of the cost of proposed new projects. Specifically, the OSA should review all estimates prepared by consulting architects to assure that the estimates are realistic and based on sound estimating principles. Second, OSA should require that all contracts for consulting services include provisions stating that, in the event construction bids for the project exceed the state's budget by more than 10 percent (excluding inflation), the consulting architect must redesign the project at no cost to the state to reduce the costs to within available funding. Further, the consultant's contract should include a penalty, whereby the consultant's fee would be reduced if the project must be delayed for a redesign.

Modify Public Resources Code

We recommend that legislation be enacted to modify the Public Resources Code (Section 25498) so as to require the Office of State Architect to prepare economic feasibility analyses for supplementary solar water heating systems proposed in state buildings.

Chapter 773, Statutes of 1978, amended the Public Resources Code to require that every new state-owned building (which has more than 10,000 square feet of floor area) have a supplementary solar water heating system. This law further states that the system will be included in state-owned facilities "unless such structure is specifically exempted from this requirement by the State Architect for reasons of economic or physical infeasibility."

In our review of individual state building projects, we have noted that the State Architect's office has included supplementary solar water heating systems in facilities which have an extremely low demand for hot water. For example, the Depart-

DEPARTMENT OF GENERAL SERVICES—Continued

ment of Motor Vehicles field offices require hot water for employee rooms and for janitorial use only. Our review of the utility costs for typical DMV field offices indicates that hot water usage is substantially below the consumption rate of a typical single-family dwelling.

In analyzing projects of this type, we have requested that the Office of State Architect provide the Legislature with an economic feasibility analysis which would indicate the economic viability of the proposed solar system. The State Architect has advised us that an economic analysis is not required under existing law, and that such analyses are not routinely prepared for projects which include solar systems. Consequently, projects such as the new DMV field office in Ocean-side are designed to include solar systems costing \$5,000 when the savings from the system are a maximum of only \$10-\$15 per month. The economic "pay-back" for these installation exceed the useful life of the equipment, and are not economically feasible.

To ensure that the economic feasibility of all future proposals for supplementary solar water heating systems are reviewed, we recommend the Section 25498 of the Public Resources Code be amended to require that the State Architect prepare an economic feasibility analysis and establish evaluation criteria for installation of solar hot water systems in new state-owned structures.

Table 10
Department of General Services
Funds Remaining in Architecture Revolving Fund
June 30, 1980

<i>Department</i>	<i>Project</i>	<i>Year of Appropriation</i>	<i>Remaining Amount</i>
Education.....	Diagnostic school, San Francisco	1974	\$21,505
Developmental Services	Remodel bath facilities, Fairview State Hospital	1975	3,122
Developmental Services	Remodel building, Fairview	1975	4,020
Department of Health (defunct)	Budget estimates for proposed projects	1975	61,113
Mental Health.....	Replace heating system, Metropolitan State Hospital	1975	50,266
Developmental Services	Fire sprinklers, Sonoma State Hospital, phase I	1972	10,436
Developmental Services	Fire sprinklers, Sonoma State Hospital, phase II	1972	524,749
Motor Vehicles	Master planning	1973	7,772
Motor Vehicles	Light fixture alterations	1976	12,908
Parks and Recreation	Lake Perris development, phase II	1975	36,068
Governor's Office	Alterations, State Capitol	1975	18,000
Governor's Office	Alterations, State Capitol and Los Angeles state building	1975	335,096
Total			<u>\$1,085,054</u>

Status of Three-Year-Old Funds Remaining in the Architecture Revolving Fund

We recommend that prior to budget hearings, the Department of Finance report on the need to continue availability of funds in the Architecture Revolving Fund for various projects.

The Supplemental Report on the 1977 Budget Act requires the Department of General Services to report to the Chairman of the Joint Legislative Budget Committee on the status of funds in the Architecture Revolving Fund (ARF). The Director of General Services' report of January 9, 1981 details the status of the ARF as of June 30, 1980. The report identifies (1) funds which have been deposited in the ARF and have remained unencumbered for at least three years and (2) funds for projects which have been completed for at least three months.

The director's report indicates that funds for 12 projects have been on deposit for over three years, and that the Department of Finance has extended the availability of these funds which total \$1,085,054. Table 10 shows the specific project funds available in the ARF as of June 30, 1980.

We recommend that prior to budget hearings, the Department of Finance advise the Legislature why these funds should not be reverted to the fund from which they were appropriated, thereby increasing the amount available for appropriation by the Legislature. The reversion of all funds identified in Table 10 would increase the amount available for appropriation from the General Fund by \$1 million. This amount could then be appropriated by the Legislature to fund other priority needs.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Item 176-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 125

Requested 1981-82	\$67,197,948
Recommended approval	7,665,122
Recommended reduction	25,266,572
Recommendation pending	34,266,254
Recommended augmentation	315,000
Net recommended approval	\$7,980,122

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Handicapped Access Surveys. Reduce by \$326,000.* Recommend capital outlay funds for surveying 25 existing state office buildings be deleted. 210
2. *Elevator Modifications—Statewide. Reduce by \$1,074,000.* Recommend construction funds be deleted. 211
3. *Purchase Leased Facility, Red Bluff. Augment by \$5,000.* Recommend funds be included for administrative costs. 212
4. *Purchase Leased Facility, Fresno. Augment by \$10,000.* Recommend funds be included for administrative costs. 212
5. *Franchise Tax Board Facility, Sacramento. Increase by \$300,000.* Recommend funds be increased to provide adequate amount to exercise purchase option on leased facility. Further recommend that purchase of federal surplus property and preparation of preliminary plans be deferred. 213
6. *State Office Building, Oakland. Reduce by \$23,694,500.* Recommend construction funds be deleted. 215

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

7. *State Office Building, San Francisco. Reduce by \$168,532.* Recommend construction funds be reduced to amount previously appropriated for this project. Withhold recommendation on the balance of construction funds pending report to the Legislature. 216
8. *Minor Capital Outlay. Reduce by \$3,540.* Recommend one minor capital outlay project be deleted. 217
9. *Supplemental Report Language.* Recommend that the Supplemental Report on the Budget Bill include a description of the project scope and estimated costs for all capital outlay projects approved by the Legislature. 217

ANALYSIS AND RECOMMENDATIONS**Major Capital Outlay**

The budget proposes \$67,114,786 for eight major capital outlay projects (costing over \$100,000 per project) for the Department of General Services. Table 1 summarizes the department's request and our recommendations.

Table 1
Department of General Services
Major Capital Outlay
1981-82

<i>Item</i> <i>(176-301-036)</i>	<i>Project</i>	<i>Phase^a</i>	<i>Budget Bill</i> <i>Amount</i>	<i>Analyst's</i> <i>Proposal</i>	<i>Future</i> <i>Cost</i>
(a)	Handicapped accessibility survey—statewide	p	\$326,000	0	unknown
(b)	Elevator modifications to meet safety code—statewide	pwc	1,159,500	\$85,500 pw	—
(c)	Purchase leased facility—Red Bluff	a	300,000	305,000	—
(d)	Purchase leased facility—Fresno	a	850,000	860,000	—
(e)	Modernize elevators, library and courts building—Sacramento	c	350,000	350,000	—
(f)	Franchise Tax Building—Sacramento	ap	6,000,000	6,300,000a	\$45,000,000
(g)	State office building and parking facility, Oakland	c	23,694,500	0	—
(h)	State office building and parking facility, San Francisco	c	34,434,786	pending	—
Totals			\$67,114,786	\$7,900,500	\$45,000,000

^a Phase symbols indicate: a—acquisition; c—construction; p—preliminary planning; and w—working drawings.

Handicapped Accessibility Surveys

We recommend that Item 176-301-036(a), which would provide funds for surveying state-owned office buildings for handicapped access, be deleted, a savings of \$326,000.

The budget requests \$326,000 to study the accessibility of existing state-owned office buildings to the handicapped. The Office of State Architect would contract with a consultant for this study. The consultant would survey the 25 state-owned office buildings under the jurisdiction of the department in order to identify the scope of work and estimated cost required to bring the buildings into compliance with handicapped access regulations.

We recommend that the proposed funds be deleted for two reasons:

1. These surveys can be accomplished in a less expensive manner; and
2. the proposed funding source is inappropriate.

Less Expensive Alternative. The Governor's Budget indicates that the "Space Management Division (SMD) is responsible for providing well planned, functional and economical quarters to accommodate the noninstitutional office and warehouse needs of agencies in state-owned and leased facilities." Such office space must be accessible to the handicapped. To ensure that leased *and state-owned buildings* conform to handicapped code requirements, personnel in SMD must be familiar with the requirements for handicapped accessibility.

In view of the fact that the Space Management Division is responsible for ensuring that state-owned space meets the needs of the tenant agencies, it would seem that the evaluation of handicapped access in state-owned buildings should also be the responsibility of this division. The department should be able to accommodate the workload related to this activity within its current authorized staff levels. The Department of Developmental Services (DDS), Facilities Planning Office, has already surveyed many of the DGS state-owned buildings in which it occupies space as part of its own handicapped access program. The DDS indicates that the surveys were completed utilizing less than 20 staff hours per building. We suggest that SMD (1) review the survey technique used by DDS and train its staff to conduct similar surveys, and (2) review the surveys already prepared by DDS for General Services' buildings so as not to duplicate the previous work.

Funding Source. The \$326,000 proposed for surveying existing state buildings for handicapped accessibility would be funded from the Special Account for Capital Outlay in the General Fund. All of the work to be performed under this program, however, would be in state office buildings under the jurisdiction of the Department of General Services. The department charges tenant agencies \$0.63 per square foot per month for space in its buildings. Funds generated from the rental rate are used to pay for utility, janitorial and other costs incurred by General Services in the state building program. The cost of surveying these office buildings for handicapped accessibility should more appropriately be funded from the rental income account, rather than a capital outlay account. Adequate funds are available in this account to fund the needed surveys because the Governor's Budget for 1981-82 shows a projected surplus in the account of \$750,000. If necessary, a portion of these funds, could be utilized by the Space Management Division in performing surveys for compliance with handicapped access requirements.

Elevator Modifications—Statewide

We recommend Item 176-301-036(b) be reduced by \$1,074,000 to delete construction funds.

The budget requests \$1,159,500 for preliminary plans, working drawings and construction of elevator modifications in 21 state office buildings. The proposed modifications would bring a total of 96 elevators into compliance with State Administrative Code requirements relating to earthquake safety.

The Department of General Services has not developed adequate project information to justify appropriation of construction funds at this time. The department needs to develop detailed information identifying the specific work required to make each elevator comply with current earthquake code requirements. This information has been developed for similar projects proposed for the California State University and Colleges and the University of California. In addition, it is unlikely that the department will be able to complete preliminary plans and working drawings and allocate construction funds for a project of this magnitude within the 1981-82 fiscal year. Construction of similar elevator modifications which were funded in the Budget Act of 1977 did not commence until November of 1979, nearly two and one-half years after appropriation of construction funding.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Given the fact that (a) there is not adequate information available to substantiate the amount of construction funds requested, and (b) projects of this type have typically required more than 12 months for preparation of preliminary plans and working drawings, we recommend that construction funds for this project be deleted, a reduction of \$1,074,000. The remaining \$85,500 will provide adequate funds for preparation of preliminary plans and working drawings in support of a future request for construction funds. Any future requests should also reflect reduction in project contingency funds from 10 percent to 5 percent of the estimated contract cost for the project. The department's estimate includes a contingent fund of \$90,000 or 10 percent of the construction funding, while the usual state-supported level for contingencies during construction is 5 percent of the contract amount.

Purchase of Leased Facilities—Red Bluff and Fresno

We recommend that Item 176-301-036(c), \$300,000 to purchase a leased facility in Red Bluff, be augmented by \$5,000. Further, we recommend that Item 176-301-036(d), \$850,000 for the purchase of a leased facility in Fresno, be augmented by \$10,000.

The budget proposes funds to exercise two options held by the state for purchase of leased facilities occupied by the Department of Water Resources.

Red Bluff Purchase Option. The department requests funds to purchase 3.1 acres of land including a 22,520 net square foot office building in Red Bluff that is currently leased by the state. This building is occupied by the Departments of Water Resources, Social Services, and Aging plus some county agencies. The state currently pays \$72,000 in annual rent for this facility. According to the Department of General Services, the current market value of the facility is approximately \$1.5 million. Under the terms of the original lease agreement, the state has the option to purchase these facilities on November 30, 1981 for \$300,000. We recommend approval of the requested funds for purchase of this facility. In addition, we recommend that the proposed funds be increased by \$5,000 to provide adequate funds for administrative costs related to exercising the purchase option.

Fresno. The budget requests funds to purchase 2.75 acres containing a 23,900 square foot office building in Fresno. These facilities are currently leased by the state at a cost of \$118,000 per year, and house the Departments of Consumer Affairs, Water Resources, Health Services and Industrial Relations. The lease gives the state an option to purchase the facility on July 31, 1982 for \$850,000. According to the Department of General Services the purchase-option price is well below the current market value of these facilities. We, therefore, recommend approval of the requested funds, and also recommend an augmentation of \$10,000 to provide funds needed for administrative costs involved in exercising the purchase option.

Modernize Elevators—Library and Courts Building, Sacramento

We recommend approval of Item 176-301-036(e).

The budget proposes \$350,000 to modernize elevators in the Library and Courts Building in Sacramento. This building is served by two passenger elevators which were installed during construction of the building in 1930. The elevators are not automated—an elevator operator is required for each of the elevators whenever the building is open to the public. The proposed project would (1) automate the elevator, thereby eliminating the need for operators, for a savings of \$50,000 per year in operating costs, (2) upgrade the elevators to meet current seismic code requirements, and (3) upgrade the elevators to meet current handicapped access requirements.

This project was originally funded in the Budget Act of 1975 in the amount of \$150,000. Subsequent to the appropriation of these funds, the Department of Gen-

eral Services determined that the project was significantly underbudgeted and therefore, the project could not proceed as planned. After preparing preliminary plans and working drawings, the department reverted \$141,400 of the original 1975 appropriation. The budget proposal represents the department's most recent estimate of the cost to automate and modernize these elevators based on current code requirements. The proposed project is needed and will result in support budget savings. We recommend approval.

Franchise Tax Board Facility—Sacramento

We recommend that Item 176-301-036(f) be increased by \$300,000. We further recommend that the total appropriated funds of \$6.3 million be used to exercise the purchase option for existing leased facilities occupied by the Franchise Tax Board in Sacramento, rather than for partial acquisition of federal surplus land and preliminary planning of alterations.

The budget proposes \$6 million under Item 176-301-036(f) for land acquisition (partial) and preliminary plans for developing facilities for the Franchise Tax Board (FTB) in Sacramento. The proposed funds relate to the Department of General Services' Facilities Plan for the FTB. The plan proposes (1) acquisition of federal surplus property and improvements, (2) acquisition of existing leased facilities, and (3) alteration of the purchased property to accommodate the FTB's projected space needs for 1991. The DGS plan is summarized in Table 2.

Table 2
Department of General Services
Franchise Tax Board Facilities Plan, Sacramento

	<i>Estimated</i>	
	<i>Cost</i>	<i>Revenue</i>
1a. Purchase surplus federal property (50 acres, 300,000 sf building and 401,000 sf building)	\$6,900,000	
1b. Resell portion as surplus property (15 acres and 40,000 sf building)		\$1,300,000
2a. Exercise purchase option (29 acres, 255,000 sf building)	6,300,000	—
2b. Resell portion as surplus property (23 acres)	—	400,000
3. Preliminary plans, alterations	1,000,000	—
4. Working drawings, alterations	1,000,000	—
5. Construction, alterations	40,000,000	—
Totals	<u>\$55,200,000</u>	<u>\$1,700,000</u>
Net costs (costs less revenues)	\$53,500,000	—
Budget Request:		
Acquisition (partial)	\$5,000,000	
Preliminary planning	1,000,000	

The proposal acknowledges that a portion of the property to be acquired through the lease purchase and from the federal government would be in excess of the state's needs, and provides for the sale of the excess. The department would eventually alter the acquired buildings to provide a total of 675,000 square feet of office, storage and file space.

According to the Department of General Services, funds proposed in the Budget Bill would implement only a small portion of the plan. Five million dollars would be paid to the U.S. Government as a deposit towards purchase of 50 acres of land and an existing 300,000 square foot industrial type building located adjacent to the Aerojet site. In addition, \$1 million is proposed for preparing preliminary plans for altering the buildings. Future budget requests would include:

1. The balance of funds necessary to acquire the surplus federal property and improvements (\$1.9 million).

2. Funds to exercise the purchase option on existing leased property (28 acres)

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

and building space (255,000 sf) at the Aerojet site (\$6.3 million), and

3. Working drawings and construction of alterations in the two buildings acquired by the state (\$41 million).

The Franchise Tax Board currently leases 492,800 square feet (sf) of office and storage space at various locations. The DGS facilities plan for FTB indicates a 1986 space need of 638,000 sf, which is 29.5 percent more than its existing space. The 1991 projected space need is 729,400 sf. These projected needs are based on an average growth rate of 3 percent per year in employee work stations. This growth rate may be too high given the fact that the 1981 projected need (computed in 1977) was 556,000 sf while the FTB would actually occupy only 492,800 sf, or 12 percent less than originally projected. DGS should reevaluate the projected growth rate based on the most recent workload growth data.

Our analysis indicates that it would not be to the state's advantage to use the requested funds in the manner proposed by the budget because:

1. Doing so would commit the state to substantial future costs to alter the 300,000 square foot building located on the federal property, and

2. It would be more advantageous for the state to use the requested funds to exercise the purchase option on the existing leased facility.

Use of Federal Surplus Property. Under the department's proposal the state would acquire approximately 50 acres of federal surplus property containing a 300,000 square foot industrial-type building. Purchase of the proposed land and improvements would commit the state to eventual occupancy of this facility including approximately 120,000 square feet to be constructed as a second level within the facility. The facilities plan prepared by the DGS indicates that one alternative means of providing adequate space at the Aerojet site would be to construct new facilities on property for which the state holds an option to purchase. This alternative has the advantage that the proposed construction could more closely follow the anticipated growth in FTB space needs. An additional advantage would be that existing functions would not have to be relocated completely to a new building but rather could grow through additions to the facilities currently occupied by FTB. There would also be no need to dispose of any surplus property.

Exercise of Purchase Option. The department currently holds an option to purchase an existing 255,000 square foot building on 28 acres of land presently leased by the state at the Aerojet facility. The state has the option to purchase this facility by July 9, 1981, for \$6,250,000. The purchase price increases approximately \$350,000 per year until July 9, 1986, when the right to purchase will expire. Under the department's plan, this lease facility will not be acquired until 1982-83 at a cost of \$6.7 million. Our analysis indicates that—considering the lease terms—the state would save approximately \$1,250,000 in rental costs by purchasing this facility on July 9, 1981 rather than on July 9, 1982. This savings would be partially offset by costs to maintain the facility once it is purchased.

The department should reevaluate its proposal for providing the Franchise Tax Board with additional space at the Aerojet site. In any case, it is apparent that the state should eventually exercise its option to purchase the existing facilities. We, therefore, recommend that:

- The department update and reevaluate alternatives contained in the facilities plan for FTB.
- Item 176-301-036(f) be increased from \$6 million to \$6,300,000 in order to provide sufficient funds to allow the department to exercise its purchase option. Purchase of leased facilities in July 1981 will (a) result in savings of approximately \$900,000 in rent, and (b) avoid an increase of \$350,000 in the purchase price.

Oakland State Office Building

We recommend deletion of Item 176-301-036(g), construction funds for new state office building and parking facilities in Oakland, a reduction of \$23,694,500.

The budget proposes \$23,694,500 for construction of a new state office building in Oakland. This project has four elements:

1. Construction of a 108,000 gross square foot (gsf) addition to the existing Oakland state office building to house various state agencies currently located in leased space. This addition will be constructed above an existing one-story annex to the state building.
2. Alteration of a portion of the existing state office building to make the building function with the proposed addition.
3. Remodeling of the state car motorpool operation located in the basement, and
4. Construction of a 500-car parking facility on a site to be acquired in the immediate vicinity of the existing state office building.

The Budget Act of 1979 included \$529,965 for preliminary plans for this project and \$1,035,500 in acquisition funds related to the proposed parking facility. The Budget Act of 1980 included \$750,135 for working drawings.

Construction Fund Request Premature. The department has only recently completed a schematic design of the proposed office building addition in Oakland. Thus, preliminary plans have not been started. Further, the department has not acquired property or prepared any design for the proposed parking facilities. Consequently, there is not adequate project cost information available at this time to justify the proposed construction funds.

Furthermore, the department is currently evaluating the schematic design with the goal of reducing the cost of the proposed alterations to the existing office building. Although the budget proposes a total of \$4,858,000 for this work, the department indicates that the alterations can be reduced to a minimal level, thereby saving \$1.4 million. Our evaluation of the schematic plans indicates that additional savings in the proposed alterations to the existing office building could be realized. The department proposes \$651,600 for installation of fiberglass or metal cladding on the exterior of the existing structure. The department indicates that this exterior covering will modify the existing building exterior to match the exterior of the proposed addition. We suggest instead that the department reevaluate the exterior architectural features of the proposed addition with the goal of eliminating the need to cover the existing office building exterior.

The department also proposed various improvements to the existing office building which are aimed at reducing the energy consumption in the building. These include installation of double-glazed windows and a major modification to the ventilation system. The department should provide adequate cost benefit information to justify these proposed energy saving improvements.

Contingency and Architectural/Engineering Services Cost Increases. The department proposes that the construction fund allocation for this project include \$1,289,200 for contingencies which may arise during construction. This amount represents approximately 6.2 percent of the estimated contract cost. On a project of this magnitude, the contingency fund should not exceed 5 percent of the contract estimate. We, therefore, recommend that future requests for construction funds reflect a 5 percent contingency for this project.

In addition, the department's most recent estimate of architectural/engineering services for this project totals \$1,458,200. The estimate provided by the department last year in support of the working drawing request indicated that these services would cost \$932,900. Thus, the department's proposed budget for these services has increased by \$525,300, or 56 percent, in one year. This increase far exceeds any inflationary increases that have occurred over this period. Consequently, we also

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

recommend that future requests for construction funds reflects an architectural/engineering budget which is reflective of the budget for the services previously approved by the Legislature.

In summary, we recommend deletion of the construction funds for the project at this time because:

- Adequate information is not available to justify the construction amount.
- The department is evaluating alternatives for modifying the existing building that could reduce fund requirements, and
- The proposed funds for contingencies and architectural services are excessive.

New State Office Building—San Francisco

We recommend that Item 176-301-036(h) be reduced by \$168,532. Further, we recommend that prior to budget hearings, the Department of General Services report to the Legislature on the results of its efforts to reduce the costs of this building. We withhold recommendation on the remaining amount requested by this item, pending review of the report.

The budget proposes \$34,434,786 in Item 176-301-036(h) for construction of a new state office building and parking facility in San Francisco. This building would provide 292,380 gross square feet of office space and parking facilities for 240 cars. The building would house the Public Utilities Commission (PUC) and various field offices for state agencies located in San Francisco, thereby reducing the state's need for leased space. The Budget Act of 1978 provided \$2,906,300 for land acquisition and planning for this building, and the Budget Act of 1980 provided \$982,278 for preparation of working drawings. The total estimated project cost exclusive of land acquisition is \$36,133,100.

Previously Appropriated Funds Not Reflected in Budget Request. The amount of construction funds requested for the project is based on the current estimated total project cost less funds previously appropriated for preliminary plans and working drawings. The State Public Works Board approved preliminary plans and released working drawing funds for this project at its November 1980 meeting. Additional working drawing funds (\$168,532) were subsequently allocated by the board in December 1980. The department's request for construction funds does not reflect the allocation of these additional funds by the board at the December meeting. Consequently, the requested construction funds should be reduced by a commensurate amount. We, therefore, recommend deletion of \$168,532 in Item 176-301-036(h).

Cost Reductions Proposed by Department. During legislative hearings on the 1980 Budget Bill, we indicated that the proposed costs for the parking structure, site development and utilities for this project had increased by \$2.7 million beyond the level approved by the Legislature when preliminary plans were appropriated. The Legislature appropriated working drawing funds for the project so that it could proceed on a timely basis. At the same time, it asked the department to attempt to reduce the project cost to the level previously approved by the Legislature.

We recommend that prior to budget hearings the department report to the Legislature on specific aspects of the project which it has evaluated in response to the Legislature's directive. The department's report should address—at a minimum—the following building elements:

- The need for seven elevators in this building, including the proposed shuttle elevator between hearing rooms and PUC offices.
- Extensive landscaping of the atrium included in the building.
- Exterior treatment of the building, including canopies and curved glass surfaces.
- General building finishes such as terrazzo floors and hardwood.

Until this report is available, we withhold recommendation on the balance of the funds requested for the project.

Supplemental Report Language for all Capital Outlay Projects

We recommend that the supplemental report on the Budget Bill include a description for each capital outlay project funded in the Budget Bill.

The Governor's Budget does not include any description of capital outlay projects proposed for funding. Over the years, project descriptions have been eliminated except in the higher education portion of the Governor's Budget.

Information on projects funded in the Budget Act is needed to ensure that the Legislature's intent regarding project scope and cost is clearly understood. We recommend that, in the future, the supplemental report on the Budget Bill include a description of the project scope and estimated project costs approved by the Legislature for *all* capital outlay projects. Including this information in the supplemental report will provide direction to the State Public Works Board and the Department of Finance in allocating funds for projects, and ensure that the projects ultimately developed by the departments are consistent with legislative intent.

Minor Capital Outlay

We recommend that Item 176-301-036(i), minor capital outlay, be reduced by \$3,540, by deleting funds for one project.

The budget proposes \$83,162 for three minor capital outlay projects for the Department of General Services. The department's request is summarized in Table 3.

Table 3
Department of General Services
Minor Capital Outlay
1981-82

<i>Project</i>	<i>Location</i>	<i>Budget Bill Amount</i>	<i>Analyst's Proposal</i>
1. Storage facility for hazardous materials	Redding	\$18,750	\$18,750
2. Replace light fixtures.....	Capitol Park	60,872	60,872
3. Install door strips on two office buildings	Sacramento	3,540	0
Totals.....		\$83,162	\$79,622

One project for \$18,750 would provide funds for construction of a storage building in the vicinity of the Redding state office building. This building would be used for storage of hazardous materials used by various state agencies located in the office building. Construction of the facility will eliminate the hazard of locating these materials within office spaces.

Another project for \$60,782 would provide funds to replace the electrical components within the existing light fixtures in Capitol Park, Sacramento. The fixtures' components are no longer manufactured and replacement parts are not available. The proposed project would convert the fixtures to high-intensity output fixtures which would increase lighting in Capitol Park by 33 percent. These two projects are needed, and we recommend approval.

The project for \$3,540 would provide funds to install segments of polyvinylchloride doorway "curtains" on the loading docks in the Personnel Building and the Education Building in Sacramento. The department indicates that these doorway "curtains" would allow movement through the open door while maintaining the air temperature inside the building and reduce energy costs. The department has not provided any information on the amount of energy which would be saved as

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

a result of this installation. We, therefore, have no basis on which to evaluate the benefits of this project, and recommend the project be deleted for a savings of \$3,540.

DEPARTMENT OF GENERAL SERVICES—REAPPROPRIATION

Item 176-490 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 125

ANALYSIS AND RECOMMENDATIONS**Reappropriation—Capitol Area Street Lighting**

We recommend that Item 176-490, reappropriation of \$250,000 for installing streetlights within the capitol area, be deleted. Further, we recommend that a new item (176-495) be added to the budget to revert these funds to the unappropriated surplus of the General Fund, Special Account for Capital Outlay

The Budget Act of 1980 appropriated \$250,000 in Item 509.1 from the General Fund, Special Account for Capital Outlay, for the state's share of the cost of installing streetlights within the capitol area. The City of Sacramento and the Capitol Area Development Administration are also financial participants in this project to upgrade streetlighting in areas to the south and west of Capitol Park. The estimated cost of the total project was prorated among the three participants based on the linear frontage of properties under the jurisdiction of each agency. Budget Act language limits the state's share of total project costs to 47 percent.

The Legislature also adopted Budget Act language under Item 509.1 requiring the Department of Finance to identify up to \$250,000 in funds appropriated under Section 15863 of the Government Code. If available, these funds were to be used *in lieu of the funds appropriated in Item 509.1*. Section 15863 of the Government Code provides a continuous appropriation to the Department of General Services, and the appropriated funds may be used to implement the objectives of the Capitol Area Plan adopted by the Legislature. Revenues to the section 15863 account are generated through the rental of state property under the jurisdiction of the Department of General Services.

The Governor's Budget (page SCS 123) indicates that estimated expenditures from the Section 15863 account proposed for 1980-81 *include* \$250,000 for this project. Thus, the Department of Finance has identified sufficient funds in this account to fund the project in accordance with the budget control language and the funds appropriated under Item 509.1 are not needed. We, therefore, recommend funds appropriated in Item 509.1, Budget Act of 1980, be reverted to the unappropriated surplus of the General Fund, Special Account for Capital Outlay.

State and Consumer Services Agency
INTERGOVERNMENTAL PERSONNEL ACT ADVISORY
COUNCIL

Item 186 from the Federal Trust

Fund

Budget p. SCS 128

Requested 1981-82	\$1,514,000
Estimated 1980-81	1,516,500
Actual 1979-80	1,694,062
Requested decrease (excluding amount for salary increases) \$2,500 (-0.2 percent)	
Total recommended reduction	None

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
186-001-890—Support, and grants to state agencies		Federal Trust	\$703,610
186-101-890—Grants to local agencies		Federal Trust	810,390
Total			<u>\$1,514,000</u>

GENERAL PROGRAM STATEMENT

The Intergovernmental Personnel Act Advisory Council was created by executive order in 1975 to administer the state's program for improving personnel management in state and local government under the federal Intergovernmental Personnel Act (IPA). The council's five members are appointed by the Governor and serve without compensation. A staff of 5.5 positions (3.5 professional and 2 clerical) provides administrative support.

Under this program, financial assistance in the form of federal grants is awarded to *state and* local agencies on a matching basis for approved projects. Competing projects are evaluated on the basis of specified criteria, such as the potential applicability or benefit to other government agencies. Projects approved by the council are then submitted to the Secretary of State and Consumer Services Agency for concurrence.

Approximately one-third of the proposed projects receive funding under the program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes appropriations of \$1,514,000 from federal funds for support of the Intergovernmental Personnel Act program in 1981-82. This is \$2,500, or 0.2 percent, less than estimated federal fund expenditures under the program during the current year. Table 1 shows total program expenditures and personnel resources for the program during the three-year period ending June 30, 1982. The table shows that the \$1,514,000 is budgeted as follows:

1. \$427,582 for grants to state agencies.
2. \$810,390 for grants to local agencies.
3. \$276,028 for program administration.

Table 1 also shows that operating expenses and equipment costs are expected to increase by \$28,980, or 32.1 percent in the budget year. This increase is due primarily to a budgeted increase of \$18,087 in consultant and professional services.

INTERGOVERNMENTAL PERSONNEL ACT ADVISORY COUNCIL—Continued

Table 1
Intergovernmental Personnel Act Advisory Council
Budget Summary

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Personal services	\$132,627	\$153,008	\$156,777	\$3,769	2.5%
Operating expenses and equipment	40,784	90,271	119,251	28,980	32.1
Total administrative expenses	(\$173,411)	(\$243,279)	(\$276,028)	(\$32,749)	13.5%
Grants to state agencies	740,875	445,611	427,582	-18,029	-4.0
Grants to local agencies	779,776	827,610	810,390	-17,220	-2.1
Total expenditures (federal funds)	\$1,694,062	\$1,516,500	\$1,514,000	-\$2,500	-0.2
Personnel-years	5.1	5.5	5.5	—	—

The council reports that during the 1980 calendar year, 36 projects were supported through grants totaling \$1,635,091 and matching funds of \$1,999,649 provided by the recipient agencies, resulting in total costs for all 36 projects of \$3,634,740. Program grants covered 45 percent of the total budgeted costs of the approved projects.

How the Funding Level is Determined

Under the IPA, federal funds are provided to the 50 states through the U.S. Office of Personnel Management (formerly the U.S. Civil Service Commission). The amount of funds allocated to each state is determined by a formula based on (1) population, (2) the number of state and local government employees, and (3) the extent to which funds provided for the prior year were expended.

If the state did not administer the IPA grant program in California, the U.S. Office of Personnel Management would assume this function. By administering the program, the state, rather than the federal government, determines which of the competing projects receive funding.

State and Consumer Services Agency
STATE PERSONNEL BOARD

Item 188 from the General
Fund and various funds

Budget p. SCS 129

Requested 1981-82	\$24,289,264
Estimated 1980-81	23,282,353
Actual 1979-80	21,269,212
Requested increase (excluding amount for salary increases) \$1,006,911 (+4.3 percent)	
Total recommended reduction	\$499,811
Recommend transfer to Item 516 (Department of Rehabilitation)	1,752,225

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
188-001-001—Support of the State Personnel Board (SPB)	General		\$23,095,681
188-001-677—Support of SPB services to local governments	Cooperative Personnel Services Revolving		1,193,583
Total			\$24,289,264

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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- | | |
|--|-----|
| 1. <i>Printing. Reduce Item 188-001-001 by \$23,210, reduce Item 188-001-677 by \$3,018 and reduce reimbursements by \$12,445. Recommend deleting excess printing funds.</i> | 223 |
| 2. <i>Telephone. Reduce Item 188-001-001 by \$36,500, reduce Item 188-001-677 by \$2,540 and reduce reimbursements by \$4,003. Recommend eliminating unnecessary funds budgeted for telephone costs.</i> | 223 |
| 3. <i>Postage. Reduce Item 188-001-001 by \$40,049, reduce Item 188-001-677 by \$1,646 and reduce reimbursements by \$2,804. Recommend deleting excess funds budgeted for postage.</i> | 224 |
| 4. <i>Sexual Orientation. Reduce Item 188-001-001 by \$34,845. Recommend deletion of \$34,845 from the General Fund and a corresponding increase to reimbursements to continue funding a sexual orientation project with federal funds rather than General Fund money.</i> | 224 |
| 5. <i>COD Coordinators. Reduce Item 188-001-001 by \$358,003. Recommend deletion of funding for COD coordinators.</i> | 226 |
| 6. <i>Rehabilitation Funding. Transfer \$1,752,225 to Item 516. Recommend transfer of funds from SPB to Department of Rehabilitation.</i> | 228 |
| 7. <i>Civil Service Selection. Recommend SPB report to the Legislature by December 15, 1981 on its pilot program to decentralize employee selection.</i> | 228 |

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body consisting of five members appointed by the Governor for 10-year staggered terms. On the basis of constitutional and statutory authority, the board adopts state civil service rules and regulations.

The state civil service system is administered by a staff of approximately 620 employees under the direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees, to ensure compliance with federal requirements.

Pursuant to the Welfare Reform Act of 1971, the board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments.

The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies in accordance with state policy and federal law.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$29,387,543 from the General Fund, special funds, and reimbursements for support of the SPB in 1981-82. This is \$1,250,164, or 4.4 percent, more than estimated total expenditures for the current year. Board expenditures, exclusive of reimbursements, are estimated at \$24,289,264, which is an increase of \$1,006,911, or 4.3 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit

STATE PERSONNEL BOARD—Continued

increase approved for the budget year.

Table 1 presents (1) a summary of expenditures for each of the board's five programs during the three-year period ending June 30, 1982, (2) total personnel-years for these years, and (3) a comparison of expenditures and personnel-years in the current and budget years. The table shows that total staff is expected to decrease by 5.8 positions. This decrease is the net result of (1) the expiration of 9.3 limited-term positions in the current year and (2) the proposed elimination of 6 positions in the budget year, (3) a request for 9.5 additional positions for the budget year. Table 1 also shows a proposed increase in General Fund costs of \$1,051,532, or 4.8 percent, in the budget year.

Table 2 summarizes the proposed 1981-82 General Fund budget changes. It shows that \$417,059, or 40 percent of the General Fund increase, would be used to provide a 7 percent cost-of-living adjustment for reimbursing employers' payroll costs under the jobs program. (We discuss the jobs program later in this analysis.) Other major increases include (1) \$198,044 for 7 additional positions requested for the appeals program, and (2) \$180,629 for employee merit salary adjustments.

Table 1
State Personnel Board
Budget Summary

Program	Actual 1979-80	Estimated 1980-81	Proposed 1980-81	Change	
				Amount	Percent
1. Merit system administration.....	\$20,936,240	\$22,366,350	\$23,270,006	\$903,656	4.0%
2. Appeals.....	1,334,471	1,471,429	1,718,145	246,716	16.8
3. Personnel development.....	1,094,937	1,583,777	1,665,028	81,251	5.1
4. Local government services.....	2,037,798	2,715,823	2,809,364	93,541	3.4
5. Management services:					
Undistributed	14,659 ^a	—	—		
Distributed	(\$3,273,491)	(\$3,636,706)	(\$3,779,556)	(\$142,850)	(3.9)
Special adjustment ^b					
(General Fund)	—	—	-75,000	-75,000	N/A
Total expenditures	\$25,418,105	\$28,137,379	\$29,387,543	\$1,250,164	4.4%
Less:					
Reimbursements	-4,134,234	-4,855,026	-5,098,279	-243,253	5.0
Federal funds	-14,659	—	—	—	—
Total state costs (excluding reimbursements)	\$21,269,212	\$23,282,353	\$24,289,264	\$1,006,911	4.3
General Fund	\$20,491,594	\$22,044,149	\$23,095,681	\$1,051,532	4.8
Cooperative Personnel Service Re- volving Fund	\$777,628	\$1,238,204	\$1,193,583	-\$44,621	-3.6
Personnel-years.....	566.6	628.4	622.6	-5.8	-0.9

^a Represents resources expended by the SPB in providing personnel services to the Liberian government under contract with the United States government. The board was reimbursed fully by the U.S. government for providing these services.

^b Unspecified reduction in board's operating expenses and equipment.

Table 2
State Personnel Board
Proposed 1981-82 General Fund Budget Changes

1. 7 percent cost-of-living adjustment for reimbursing employers' payroll costs under the jobs program	\$417,059
2. 7 additional positions requested for appeals program	198,044

3. Merit salary adjustments	180,629
4. 1.5 additional professional positions requested for recruitment program.....	47,142
5. One additional professional position requested for continuing a sexual orientation project funded in the current year by a federal grant	34,845
6. Special rate increase for Teale Data Center	27,500
7. OASDI increase	22,297
8. Special adjustment (unspecified reduction in board's operating expenses and equipment)	-75,000
9. Less \$22,608 expended in current year from appropriation by Chapter 842, Statutes of 1979 (SB 935) for board to validate examinations in Department of Corrections	-22,608
10. Expiration of one limited-term clerical position from board's Office of Information Management	-12,000
11. Less \$5,355 expended in current year from appropriation by Chapter 938, Statutes of 1979 (SB 370), for board to develop guidelines for reduced worktime program.....	-5,355
12. Price increases and miscellaneous minor adjustments.....	238,979
Total	\$1,051,532

Printing Overbudgeted

We recommend that funding for printing be reduced on the basis of recent experience, for a savings of \$38,684 (reduce Item 188-001-001 (General Fund) by \$23,210; reduce Item 188-001-677 (Cooperative Personnel Services Revolving Fund) by \$3,018, and reduce reimbursements by \$12,456.)

The budget proposes \$96,492 for printing in 1981-82. As shown in Table 3, the board has consistently overbudgeted printing since 1977-78. In 1979-80, it spent only 60 percent of the \$84,830 included in the budget.

Table 3
Printing Expenditures
State Personnel Board

	Budgeted	Expended	Percent of Budget Spent
1977-78.....	\$86,938	\$60,044	69%
1978-79.....	88,467	69,363	78
1979-80.....	84,830	50,492	60
1980-81.....	90,179	—	—

The board was unable to provide details as to how the amount budgeted for printing was derived. Lacking detailed justification, we have no basis for recommending approval of the requested amount. Instead we recommend that the board's budget for printing be reduced to the level actually expended in 1979-80, adjusted for an inflation rate of 7 percent in the current and budget years. This is the inflation rate allowed for general price increases in operating expenses by the Department of Finance in its budget preparation instructions. Accordingly, we recommend an allocation of \$57,808 for printing, or \$38,684 less than included in the Governor's Budget.

Telephone Expenses Overbudgeted

We recommend a reduction of \$43,043 to delete unnecessary funds budgeted for telephone expenses (reduce Item 188-001-001 (General Fund) by \$26,500, reduce Item 188-001-677 (Cooperative Personnel Services Revolving Fund) by \$2,540 and reduce reimbursements by \$4,003.)

The board's budget support documents indicate that \$270,672 is budgeted for telephone costs, which is \$76,615, or 39 percent, more than the \$194,057 actually spent for this purpose in the past year. The Department of Finance, in its budget preparation instructions, advised agencies to budget for a telephone cost increase

STATE PERSONNEL BOARD—Continued

of 15 percent above past-year costs. The board has no data to support the need for the additional amount budgeted for this purpose. In the absence of detailed justification, we have no basis for recommending approval of the requested amount. Instead, we recommend that the amount budgeted for telephone costs be limited to 15 percent more than the amount actually spent in the prior year costs, as suggested by the Department of Finance's budget preparation instructions. Accordingly, we recommend approval of \$227,629, \$43,043 less than the amount requested. The lesser amount provides for a 15 percent increase above 1979-80 expenditures, after allowing for the increase in the number of staff budgeted.

Postage Overbudgeted

We recommend a reduction of \$44,499 to delete unnecessary funds budgeted for postage (reduce Item 188-001-001 (General Fund) by \$40,049, reduce Item 188-001-677 (Cooperative Personnel Services Revolving Fund) by \$1,646, and reduce reimbursements by \$2,804).

A review of the board's budget support data reveals that \$243,831 is budgeted for postage. This is \$65,856, or 37 percent, more than the \$177,975 actually expended for postage in 1979-80. The board was unable to explain how the amount budgeted was determined. Postage rates have not increased since 1978 and no such increase is scheduled. Based on our review of the board's workload indicators, we believe an increase of 12 percent above past-year postage costs would be appropriate. Accordingly, we recommend that \$199,332 be authorized for this purpose, for a savings of \$44,499.

MERIT SYSTEM ADMINISTRATION PROGRAM

The merit system administration program is responsible for (1) monitoring the classification and pay plan; (2) recruiting, selecting and placing qualified candidates in state jobs; (3) developing and adopting personnel management policy; (4) administering the state's affirmative action program; and (5) developing employment opportunities for disadvantaged persons under the Welfare Reform Act of 1971.

Staffing Changes

The budget proposes a net reduction of 9.8 positions in the merit system administration program. This net change results from:

1. Expiration of 9.3 limited-term positions.
2. Proposed elimination of 2 machine operators in the management services program which are distributed to the merit system administration program.
3. Proposed elimination of 1 clerical position in anticipation of increased efficiencies from the acquisition of word-processing equipment.
4. 1.5 additional professional positions requested for recruitment activities. (Our analysis indicates that these positions are justified.)
5. 1 additional professional position requested for continuing a sexual orientation project (discussed below).

Proposed Continuation of Sexual Orientation Project

We recommend deletion of \$34,845 requested from the General Fund and a corresponding increase in reimbursements to continue funding a sexual orientation project with federal funds rather than General Fund money (reduce Item 188-001-001, General Fund).

On April 4, 1979, the Governor issued Executive Order B-54-79 which (1) prohibits state agencies from discriminating in state employment against anyone because of the person's sexual preference and (2) directs that any alleged acts of such discrimination be reported to the SPB for resolution.

Pursuant to the executive order, the SPB used federal funding under the Inter-

governmental Personnel Act (IPA) to hire one professional employee in the current year to investigate the state's personnel management system and recommend adjustments needed for ensuring that the system does not permit discrimination against persons because of their sexual preference. The stated objectives of the project included:

- Analyzing state rules, processes and activities and developing SPB policies in this area.
- Developing and distributing an information pamphlet to promote tolerance or acceptance on the job of persons having different sexual preference.
- Developing a system for enabling persons to file complaints of discrimination in this area without being subject to reprisal or harassment.

The budget proposes to continue this project and fund it with General Fund money.

We are advised that funding for this project could be continued under the IPA program for up to three years. If the administration believes this project warrants extension, we believe it should continue to be financed with federal funds rather than General Fund money.

Accordingly, we recommend deletion of the \$34,845 requested from the General Fund and a corresponding increase in reimbursements to support this project.

Career Opportunities Development Program

The purpose of the Career Opportunities Development (COD) program is to reduce public dependency by creating career opportunities in public sector employment for former, current and potential welfare recipients and other disadvantaged persons. COD consists of two elements: (1) the *jobs program* for welfare recipients and the disabled and (2) *project grants* awarded to state and local agencies for employment-related activities. SPB administers the program in cooperation with the Employment Development Department (EDD) and the Department of Rehabilitation (DOR).

The State Personnel Board (1) provides technical assistance to state agencies in restructuring civil service jobs for the purpose of eliminating artificial barriers to the employment of program candidates, (2) negotiates and monitors contracts with state agencies for the placement of program participants in permanent jobs upon completion of their training; and (3) administers project grants designed to result in employment opportunities for COD clients.

The EDD (1) identifies and refers welfare applicants and recipients to employment and training opportunities created by the board and (2) develops, negotiates, fills, and monitors employment and training opportunities in local governments and community based organizations. EDD's component of COD, targeted for welfare applicants and recipients, utilizes a combination of federal and state funding, and is referred to as the jobs program for welfare recipients. In addition, EDD administers a Work Incentive/On-the-Job-Training (WIN/OJT) program in the private sector. WIN/OJT is similar to the COD program in that it provides job training to recipients of Aid to Families with Dependent Children (AFDC) to enable them to find permanent employment in the private sector and move off public assistance.

The DOR (1) utilizes COD funds as a state match for federal vocational rehabilitation funds, and (2) identifies and refers disabled clients for employment and training opportunities. This component is referred to as the jobs program for the disabled.

The budget proposes expenditures totaling \$9,336,504 from the General Fund and reimbursements for support of the COD program in 1981-82, which is an increase of \$597,917, or 6.8 percent, over estimated current year expenditures. Table 4 details proposed expenditures by program component.

STATE PERSONNEL BOARD—Continued

Table 4
Career Opportunities Development Program
Expenditures by Component
1980-81 and 1981-82

	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
Salaries for welfare recipients ^a	\$4,320,000	\$4,622,775	\$302,775	7.0%
Rehabilitation match ^b	1,639,981	1,752,225	112,244	6.8
Project grants.....	461,187	431,817	-29,370	-6.4
Salaries for the disabled ^c	1,639,981	1,752,225	112,244	6.8
Program coordinators.....	276,966	358,003	81,037	29.3
SPB administration.....	400,472	419,459	18,987	4.7
Totals.....	\$8,738,587	\$9,336,504	\$597,917	6.8%

^a COD pays 80 percent of participant's salary; employer pays the remaining 20 percent.

^b DOR utilizes this match and subsequently contracts with SPB, in the same amount, for salaries for the disabled. This overstates the COD budget by the amount of the contract, as discussed later in this Analysis.

^c COD pays 100 percent of salary.

Variable Retention Rates. In response to the Supplemental Report of the 1980 Budget Act, SPB submitted a report, dated December 30, 1980, on the job retention rates of participants in the jobs program for welfare recipients after they were placed in permanent employment. The report covered the period October 1, 1978 through September 30, 1979. The supplemental language, however, requested data to be provided from August 1, 1979 to July 31, 1980. SPB was unable to comply with the time period requested by the Legislature due to data limitations. Table 5 displays the retention rate over a three- and six-month period for each program component. Retention rates for local government and community-based organizations are lower than for other public sector employers.

Table 5
Jobs for Welfare Recipients
Retention Rates
October 1, 1978 through September 30, 1979

<i>Program Components</i>	<i>Percent Employed After</i>	
	<i>Three Months</i>	<i>Six Months</i>
State Government.....	94%	88%
State University and Colleges System.....	94	94
Local Government.....	76	67
Community Based Organizations.....	60	47

Budget Bill Language

The budget proposes that employers continue to pay 20 percent of total payroll costs for participants in the jobs program for welfare recipients. However, the control language that would maintain this policy was misplaced in the Budget Bill. We recommend that the Budget Bill language be amended to correct this mistake.

Contract Services Circumvent Legislative Review

We recommend deletion of funding for the COD coordinators, for a General Fund savings of \$358,003 (reduce Item 188-001-001, General Fund).

SPB proposes funding for 12.6 positions to administer the COD program in 1981-82. In addition, SPB is proposing to contract with several departments for

additional staff to coordinate COD activities with departmental programs. These additional staff are known as coordinators. Generally, the coordinators are responsible for career opportunities development, affirmative action, and civil rights oversight in their respective departments.

The board is proposing contracts with the following agencies and departments: (1) Health and Welfare Agency, (2) State and Consumer Services Agency, (3) Youth and Adult Correctional Agency, (4) Resources Agency, (5) Department of Transportation, (6) Business, Transportation and Housing Agency, and (7) Department of Developmental Services.

Table 6 details the departments and agencies proposed to have coordinators in 1981-82 and the estimated contract amounts.

Table 6
Career Opportunities Development Coordinators
Organization and Contract Amount
1981-82

<i>Organization</i>	<i>Number of Coordinators</i>	<i>Contract Amount</i>
Health and Welfare Agency	1	\$52,117
State and Consumer Services Agency	1	55,688
Youth and Adult Correctional Agency	1	57,202
Resources Agency	1	43,916
Business, Transportation and Housing Agency	1	43,401
Department of Transportation	1	32,597
Department of Developmental Services	2	73,082
Totals	8	\$358,003

Our analysis indicates that contracting for these services is inappropriate for the following reasons:

1. Funding for the coordinator positions is budgeted by the board in operating expenses and equipment. This conceals from the Legislature the total cost of personal services devoted to the COD program. Similarly, our analysis indicates that, as a result of this budgeting practice, contracting agencies have additional staff resources which are not reflected as positions in their respective budgets.
2. The departments that have entered into interagency agreements for coordinator staff have not established these positions in a uniform manner. For example:
 - a. Although the State and Consumer Services Agency has had a coordinator position for several years, the agency has not requested legislative authorization for the position. In the current year, the agency administratively established the position. When this position expires on June 30, 1981, it will be reestablished during the budget year. This has been the administrative practice since the coordinator position was created.
 - b. The Health and Welfare Agency does not have a permanently authorized position for the COD coordinator. Instead, the agency funds the position out of its temporary help blanket and is subsequently reimbursed by the COD program.
3. Coordinators are supported 100 percent with COD funding but are used to perform tasks which are unrelated to developing COD jobs. Such activities include serving as affirmative action, personnel and labor relations officers. This tends to reduce the cost-effectiveness of the COD program, and may result in fewer persons being served.
4. Our analysis indicates that the responsibilities of the COD coordinators overlap with those of the six professional staff persons in the COD program who are responsible for developing job opportunities.

STATE PERSONNEL BOARD—Continued

For these reasons, we recommend deletion of funding for the COD coordinators, for a General Fund savings of \$358,003. To the extent that the seven affected departments require additional support for their affirmative action, civil rights and labor relations activities previously supported by COD, these funds should be sought through the normal budgetary process.

COD Program Expenditures Overstated

We recommend a transfer of \$1,752,225 from Item 188-001-001 (a) (State Personnel Board) to Item 516-001-001 (a) (Department of Rehabilitation).

The board proposes to transfer \$1,752,225 in funds appropriated for the COD program to the Department of Rehabilitation so that DOR can use them to match federal vocational rehabilitation funds. The matching is done on an 80 percent (federal) / 20 percent (state) basis. Under an interagency agreement, the board agrees to transfer the funds on the condition that DOR will (1) use SPB to develop jobs for the disabled in sufficient number to expend the full amount transferred (\$1,752,225 in the budget year), and (2) pay the board an additional amount for administrative costs (\$350,445 in the budget year.)

Our analysis supports the concept of using General Fund dollars to secure federal matching funds. Our analysis indicates, however, that these funds should be included in the Department of Rehabilitation's (rather than the board's) budget because:

1. The existing arrangement causes COD program requirements to be overstated by \$1,752,225 in the budget year. This occurs, as detailed earlier in Table 4, because the \$1,752,225 is shown as an expenditure *twice*, once when it is temporarily transferred to DOR to provide a match, and again when the funds are used to pay the salaries of disabled participants.
2. Failure to do so prevents the Legislature from having a clear picture of the funding sources utilized by the Department of Rehabilitation when providing the state match for its programs.
3. The COD program could be streamlined by eliminating unnecessary administrative steps.

In order to portray accurately funding for the COD program in the budget, and thus facilitate legislative review, we recommend that \$1,752,225 be reduced from the State Personnel Board's budget and included in the appropriation for the Department of Rehabilitation.

Pilot Program to Decentralize Employee Selection

We recommend that the SPB report to the Legislature by December 15, 1981 on (1) the results of its pilot decentralized selection program and (2) its plans for continuing decentralized employee selection or extending it to other state agencies.

In the 1980 *Analysis*, we noted that the SPB was intending to delegate much of its personnel selection function to the individual line departments. We also noted that, in our judgment, it is not appropriate for the board to begin shifting a major portion of its responsibility for personnel selection without first (1) considering the *total statewide* costs and benefits of such a change and (2) providing the Legislature an opportunity to consider the costs and benefits.

In response, the Legislature, through the Supplemental Report of the 1980 Budget Act, directed the board to suspend any increase in the delegation of its civil service selection responsibilities (1) unless the findings of a study of the state civil service selection process being conducted under the supervision of the Auditor General indicates that such delegation would be to the state's advantage and (2) until the board notifies the Legislature of its specific plans for increasing such delegation.

A November 18, 1980, report entitled *Opportunities to Improve the Efficiency and Effectiveness of the Civil Service Selection Process*, prepared by a private firm under the supervision of the Auditor General, recommended, among other things, that the SPB implement a decentralized employee selection program on a pilot basis.

The board, in a January 7, 1981 letter to the Legislature, stated that it plans to implement such a program in four state departments. The board indicated that, in addition to delegating responsibility for processing examinations, the pilot program will "significantly increase the responsibility on the part of the department to develop selection plans and procedures for individual classes within broad guidelines and standards established by the State Personnel Board."

In order to ensure that the Legislature has an opportunity to consider the costs and benefits of delegated selection before it is extended to other state agencies or implemented on a permanent basis, we recommend adoption of the following supplemental report language:

"The State Personnel Board shall report by December 15, 1981, to the Joint Legislative Budget Committee and the legislative fiscal committees on the results of its pilot decentralization employee selection program, and on its plans for continuing such decentralization or extending it to other state agencies. If the board plans to continue or extend such decentralization, the report should include:

1. An estimate of the number of SPB staff and related costs which would no longer be needed in 1982-83 and subsequent years;
2. An estimate of the total number of additional staff the individual line agencies would require to carry out the delegated functions, and the additional costs these agencies would incur in 1982-83 and subsequent years, and
3. A description of the operational advantages and disadvantages that would result if the board's plan is implemented."

Audit Unit Identifies "Grade Creep"

The State Personnel Board (SPB) Audit and Control unit investigates the personnel practices of state agencies to (1) ensure compliance with personnel regulations, statutes and policies and (2) control "grade creep" whereby, over a period of time, employees performing the same tasks tend to be elevated to higher grade levels. The unit schedules its audits so that each state department is reviewed every five to six years.

In June 1980 the unit published the final report of its audit of the Department of Corrections' personnel practices. In the report the SPB, among other things, identified 361 positions which were misallocated. Most of the misallocations involved employees who were classified at higher levels than warranted by the duties they were performing.

As a result of the board's audit, (1) the misallocations and other deficiencies in the department's personnel practices are being corrected and (2) in our analysis of the Department of Corrections' budget (Item 524) we are recommending a reduction of \$800,000 to reflect the savings which should be realized from correcting the department's misallocations.

APPEALS PROGRAM

We recommend approval

This program involves investigating and making recommendations relative to appeals made to the SPB regarding examinations, discriminatory actions, grievances and related areas.

STATE PERSONNEL BOARD—Continued

The budget requests seven additional positions (five professional and two clerical) for handling workload increases. Our analysis indicates that these positions are needed.

PERSONNEL DEVELOPMENT PROGRAM

The stated purpose of this program is to provide leadership to state agencies in the development, implementation and evaluation of their employee training programs. The program also offers central training courses and consulting services to state agencies on a reimbursement basis.

LOCAL GOVERNMENT SERVICES PROGRAM

This program consists of two interrelated subprograms: (1) Merit Systems Service (MSS) and (2) Cooperative Personnel Services (CPS).

Merit System Services

Under this program, which operates on a fully reimbursable basis, the SPB approves or operates merit systems for a number of local government jurisdictions.

Cooperative Personnel Services (Item 188-001-677)

Under the CPS program, the board provides recruitment, selection and other technical personnel services to local government agencies. All program costs, except those resulting from language proficiency tests and the compilation of lists of interpreters (discussed below), are financed on a reimbursement basis by local agencies for services they receive. Such reimbursements are paid into the Cooperative Personnel Services Revolving Fund.

In the budget year, \$96,000 is requested from the General Fund in order for the board to continue to:

1. Develop and conduct examinations for ensuring the language proficiency of interpreters used in county superior courts, pursuant to the provisions of Chapter 158, Statutes of 1978 (AB 2400).
2. Compile and publish a list of interpreters it has determined to be proficient, for use by state agencies in conducting administrative hearings, pursuant to Chapter 1057, Statutes of 1977 (SB 420).

MANAGEMENT SERVICES PROGRAM

This program consists of executive management and central support services including accounting, budgeting, mail and duplicating services. Program costs are distributed among the board's four line programs.

Two machine operator positions are to be eliminated in anticipation of the proposed acquisition of more efficient duplicating equipment.

STATE PERSONNEL BOARD—REVERSION

Item 188-495 from the General
Fund

Budget p. SCS 137

Reversion—Career Opportunities Development Program

We recommend approval of Item 188-495, which provides that the unencumbered balance of the appropriation made by Chapter 578, Statutes of 1971, is to revert to the General Fund as of June 30, 1981.

Chapter 578 appropriated \$7 million to the State Personnel Board (SPB) for Career Opportunities Development (the "Jobs for Welfare Recipients Program" which is discussed elsewhere in this analysis). According to the budget, this appropriation was reported as fully expended by June 30, 1974, but the State Controller's records indicate that \$105,152 of the appropriation never was expended. Because the program is funded by annual Budget Act appropriations to the SPB, funds remaining from this special appropriation are not needed and, therefore, should revert.

State and Consumer Services Agency
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 190 from General Fund
and various funds

Budget p. SCS 139

Requested 1981-82	\$33,840,950
Estimated 1980-81	33,466,805
Actual 1979-80	25,197,879
Requested increase (excluding amount for salary increases) \$374,145 (+1.1 percent)	
Total recommended reduction	\$621,714

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
190-001-001—Social Security Administration		General	\$52,186
190-001-820—Retirement Administration		Legislators' Retirement	79,819
190-001-830—Retirement Administration		Public Employees' Retirement	19,425,703
190-001-950—Health Benefit Administration		State Employees' Contingency Reserve	2,011,416
190-010-962—Retirement Administration		Volunteer Firefighters	78,186
		Length of Service Award System	
190-011-001—Administration of the Judges' Retirement System		General	121,166
190-101-001—Local Assistance (Legislative Mandates)		General	10,979,840
—Reimbursements		—	1,092,634
Total			\$33,840,950

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis
page*

1. *Salary Savings. Reduce Item 190-001-830 by \$476,143. Recommend increase in salary savings to reflect prior years' experience.* 235
2. *Contracted Services. Reduce Item 190-001-830 by \$145,571. Recommend disapproval of unjustified expenditures for contracted services.* 236

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefits for an estimated 801,334 active and retired public employees in 1980-81. The participants include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS is managed by a Board of Administration whose members are either elected by specified membership groups or appointed by the Governor. It is under the administrative jurisdiction of the State and Consumer Services Agency.

Administrative costs of the system are shared by the employees and employers and are funded, primarily, from the interest earnings on invested employee and employer contributions. Therefore, expenditures funded from these contributions are excluded from the state budget total.

The major PERS-administered retirement programs include a retirement, health benefits and social security program. PERS administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program which is mandatory for state employees and is available to local public workers whose employers elect such coverage. The health benefits program offers state employees, and other public employees, a number of health benefits and major medical plans on a premium-sharing basis.

Table 1
Contribution Rates for Public Employees' Retirement System
(PERS) Retirement Benefits

<i>PERS Membership</i>	<i>Employers^a</i>	<i>Employees^a</i>	<i>Total^a</i>
State miscellaneous	19.25%	6.0% ^b	25.25%
State industrial	20.05	6.0 ^b	26.05
State safety.....	20.15	6.0 ^c	26.15
Highway patrol.....	31.44	8.0 ^d	39.44
Local nonteaching school employees	13.13 ^e	7.0 ^f	20.13
Local contracting agency employees	Various ^g	Various ^g	Various

^a Expressed as a percent of salary.

^b Percent of salary in excess of \$317 per month, if not under Social Security System. If under Social Security System, the rate is 5 percent of salary in excess of \$513 per month.

^c Percent of salary in excess of \$238 per month for most safety members, except state police and forestry and fish-game wardens. Generally not eligible for Social Security System.

^d Percent of salary in excess of \$238 per month. Not eligible for Social Security System.

^e Rates vary from 10.8 percent for Los Angeles County Superintendent of Schools to 15.07 percent for Los Angeles City Schools. However, the rate for the overwhelming majority of the employers is 13.13 percent of employee's salary.

^f Percent of salary, if not under Social Security System. If under Social Security System, the rate is 7 percent of salary in excess of \$133.33 per month.

^g Varies, depending on the membership classification of the employee and provisions of the retirement contract with PERS.

The system provides and administers a number of alternative retirement plans through which the state and the contracting agencies provide their employees a variety of benefits. The costs of these benefits are paid from employer and employee contributions, based on specified percentages of salary. These contributions are designed to fund the long-term actuarial cost of the various benefits provided. For state employees and nonteaching local school employees, the contribution rates are determined by state law and are changed when any statutory change in the benefits is made. For contracting local agencies, the employer and employee rates are determined by PERS actuaries, based on the cost of the particular benefit package approved by the respective governing bodies of these agencies.

In 1980-81, employers and employees pay contributions for PERS retirement benefits based on rates shown in Table 1.

Table 2 shows the actual and projected growth in the numbers of PERS participants and the amount of benefits paid for the past, current and budget years.

Table 2
Increase in Public Employees' Retirement System Workload

<i>Detail</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Increase from 1979-80</i>	<i>Projected 1981-82</i>	<i>Increase from 1980-81</i>
Total number of Participants.....	796,201	801,334	0.6%	806,217	0.6%
Benefit recipients	252,627	255,373	1.1	257,869	1.0
Active members.....	543,574	545,961	0.4	548,348	0.4
Total benefits paid (millions)	\$781.5	\$866.4	10.9	\$946.7	9.3

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$33,840,950 from various funds for the support of the PERS in 1981-82. This is a \$374,145, or 1.1 percent, increase over estimated current-year expenditures. This amount will increase by the amount of any salary or benefit increase approved for the budget year.

Program requirements of the system for the past, current and budget years are detailed in Table 3.

Table 3
Summary of Budget Requirements

<i>Programs</i>	<i>Staff Years</i>			<i>Expenditures (millions)</i>		
	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>
Retirement	459.3	523.6	545.6	\$13.8	\$17.2	\$18.2
Social Security	15.9	17.1	17.7	0.4	0.4	0.5
Health Benefits	50.8	54.0	55.5	1.7	1.9	2.0
Redesign Project	29.2	39.5	30.8	1.4	1.8	1.7
Administration:						
Distributed to other programs.....	(168.9)	(183.7)	(194.3)	(7.0)	(8.4)	(8.8)
Undistributed	11.1	10.6	10.5	0.4	0.5	0.5
Legislative Mandates	-	-	-	7.4	11.5	10.9
Totals	566.3	644.8	660.1	\$25.1	\$33.4	\$33.8
Reimbursements	-	-	-	-0.1	-1.1	-1.1
Totals	566.3	644.8	660.1	\$24.1	\$32.3	\$32.7

Budget-Year Changes

The budget proposes the addition of 55.8 positions to meet existing and projected workload, and to improve service to PERS numbers. A portion of this staff increase is offset by a proposed reduction of 10 positions from the Redesign

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Project, resulting from completion of the redesign work on two major systems of this project. We have analyzed the information submitted in support of these personnel changes and recommend that they be approved.

The budgetary impact of these staff changes, as well as other significant changes, is detailed in Table 4.

Table 4
Budget-Year Changes

	<i>Expenditures (By Fund)</i>		
	<i>General Fund</i>	<i>Nongovernmental Cost Funds^a</i>	<i>Total</i>
1980-81 Revised Net Budget.....	\$11,730,627	\$20,617,235	\$32,347,862
1. Workload Changes			
a. Retirement program	8,301	450,974	459,275
b. Health benefits program	-	60,022	60,022
c. Redesign project	-	-273,274 ^b	-273,274
d. Administration	-	316,249	316,249
2. Cost Changes			
a. Legislative mandates ^c	-531,599 ^d	-	-531,599
b. Operating costs	-	79,568	79,568
c. Anniversary edition of PERS report.....	-	23,000 ^e	23,000
3. Program Change Proposals			
a. New Santa Ana field office	-	68,762	68,762
b. Additional EDP staff.....	-	251,134	251,134
4. Other Changes.....	-54,137 ^f	1,454	-52,683
1981-82 Proposed Net Budget	<u>\$11,153,192</u>	<u>\$21,595,124</u>	<u>\$32,748,316</u>
Net Increase Over 1980-81 Revised Budget.....	\$-577,435	\$977,889	\$400,454

^a Includes the Public Employees' Retirement Fund, State Employees' Contingency Reserve Fund, Legislators' Retirement Fund, and Volunteer Firefighters' Length of Service Award System Fund.

^b Reflects deletion of 10 positions following completion of several task plans under the Redesign Project. However, 8 of these 10 positions are proposed to be added to the EDP staff for maintenance of the redesigned systems, for a net reduction of 2 positions.

^c Includes the following mandates and respective amortized program costs for 1981-82:

- (1) Chapter 799, Statutes of 1980 (SB 162)—Increase in death benefit payment to survivors of PERS school members. Cost: \$245,000
- (2) Chapter 1036, Statutes of 1979 (SB 629)—Cost-of-living increases for retired school members of PERS. Cost: \$1,620,000
- (3) Chapter 1170, Statutes of 1978 (SB 2545)—Pension increase for certain retired school members of PERS. Cost: \$5,100,000
- (4) Chapter 1398, Statutes of 1974 (AB 2926)—Retirement credit for unused sick leave for PERS school members. Cost: \$4,000,000
- (5) Chapter 1322, Statutes of 1974 (SB 1775)—Survivor benefits for full-time students under age 22. Cost: \$14,840

^d This reduction is illusory. It represents the difference between projected mandated costs for 1981-82 (based on actuarial estimates) and estimated costs for 1980-81 (based on claims filed for reimbursements by local employers) under Chapters 1036 and 1170. The projected 1981-82 costs for these two mandates will be adjusted during December 1981, when a more accurate cost estimate can be made, based on the claims filed.

^e Additional funds for producing and printing a special edition of the annual financial report to commemorate the 50th anniversary of the PERS.

^f Most (\$50,000) of this reduction is due to a one-time appropriation for actuarial valuation of the Judges' Retirement System in 1980-81. The balance results from savings due to completion of the Social Security Task Plan of the Redesign Project.

Underestimated Salary Savings—Overbudgeted Personal Services

We recommend an increase in the amount budgeted for salary savings, for a \$476,143 savings to the Public Employees' Retirement Fund (Item 190-001-830).

For 1981-82, the PERS proposes \$248,494 in salary savings. Salary savings result from employee turnover, delays in filling positions, and filling vacated positions at the minimum step of the salary range. Based on the amount proposed for salaries and wages—\$12,018,942—the amount budgeted for salary savings equates to a rate of 2.1 percent.

Our analysis indicates that this 2.1 percent rate is substantially below the actual salary savings rate realized by PERS during the last several years. Table 5 displays the actual salary savings rates experienced during each of the last five fiscal years.

Table 5
Budgeted Versus Actual Salary Savings and Rates
For the Public Employees' Retirement System
1975-76 through 1979-80

	<i>Estimated Salaries</i>	<i>Actual Salaries</i>	<i>Actual Salary Savings</i>	<i>Salary Savings Budgeted</i>	<i>Excess Salary Savings Not Budgeted</i>	<i>Estimated Salary Savings Rate^a</i>	<i>Actual Salary Savings Rate^a</i>
1979-80	\$9,881,394	\$9,104,645	\$746,749	\$529,902 ^b	\$216,847	5.4%	7.6%
1978-79	8,424,681	7,619,742	804,939	393,697 ^b	411,242	4.7	9.5
1977-78	7,832,977	7,328,210	504,767	156,953	347,814	2.0	6.4
1976-77	6,865,425	6,513,999	351,426	112,606	238,820	1.6	5.1
1975-76	5,970,857	5,649,279	321,578	105,734	215,844	1.8	5.4

^a Salary savings amount divided by the estimated salaries and wages figure.

^b Includes reductions per Section 27.2 of the 1979 Budget Act.

Table 5 shows that, during the 1975-76 through 1979-80 period, the PERS consistently underbudgeted its annual salary savings, resulting in substantial excess salary savings at the end of each year. These amounts reverted to the Public Employees' Retirement Fund.

The 2.1 percent salary savings rate budgeted by PERS for 1981-82 is 3 percent below the lowest salary savings rate of 5.1 percent experienced by PERS during the five-year period we analyzed.

To properly budget for PERS personnel needs, we recommend increasing the amount budgeted for salary savings in 1981-82 to 5.1 percent of total salaries and wages. This would increase salary savings by \$360,568 over the \$248,494 budgeted, and result in a reduction of \$115,575 in staff benefit costs, for a total savings of \$476,143 in budgeted personal services.

Excessive Budgeting for Consultant and Professional Services

We recommend a reduction in the amount budgeted for contracted services which are unjustified, for a savings of \$145,571 to the Public Employees' Retirement Fund (Item 190-001-830).

The budget proposes \$646,898 for consultant and professional services. We have reviewed the proposed uses of these funds and our analysis indicates that the following contracts are either overbudgeted or unjustified.

1. **Citicorp Investment Services**—Overbudgeted in the amount of \$28,068.
2. **Wells Fargo Investment Information Services**—Overbudgeted in the amount of \$2,403.
3. **Department of General Services**—A contract in the amount of \$42,927 is proposed as a contingency in the event PERS cannot fill its authorized programmer positions.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Our review indicates that PERS is making progress in filling its authorized programmer positions. Further, the Department of General Services has not been able to fully staff its programmer positions, and is not expected to be able to supply programmers to PERS during the budget year. For these reasons, we believe that the amount proposed for this contract is unjustified.

4. **Sartoris**—This contract, in the amount of \$46,146, is also proposed as a contingency for providing software services, in the event such services are needed for interfacing the PERS Accounting System with the California Fiscal Information Systems (CFIS). According to CFIS staff, however, the newly-designed PERS system is essentially compatible with CFIS for interfacing functions planned during 1981-82, and no additional software services would be needed.

5. **Nassaman, Krueger, and March**—This contract, in the amount of \$26,027, was initially proposed for anticipated, ongoing legal costs of defending PERS in a usury suit. Subsequent to the initial proposal, the suit was successfully resolved for PERS by the contracting legal firm. Now PERS proposes to set aside \$5,000 of the \$26,027 as a contingency in the event the case is appealed. The remaining \$21,027 is proposed for a contract with a bond counsel firm for recasting several seasoned building certificates in the PERS investment portfolio, in order to make them negotiable instruments. These certificates, issued by the State Public Works Board during the 1950's to finance construction of several state buildings, are currently not negotiable instruments and carry an extremely low interest rate (4 percent to 5 percent).

The PERS proposed to recast these certificates as negotiable instruments, so that they may be sold in the event interest rates drop to a point which will permit the sale without an exorbitant discount.

Our review of the information provided by PERS to justify the alternative needs for the proposed \$26,027 indicates that the funds are not likely to be needed during 1981-82. The possibility for appeal in the usury case is remote, according to the PERS Legal Office, and interest rates are not expected to decline during the budget year to a level which would permit the sale of the certificates without a substantial loss.

We recommend the deletion of the overbudgeted or unjustified amounts proposed for these five contracts, for a total reduction of \$145,571 in the amount budgeted for consultant and professional services.

State and Consumer Services Agency
STATE TEACHERS' RETIREMENT SYSTEM

Item 192 from the State Teachers' Retirement Fund and the Teacher Tax-Sheltered Annuity Fund

Budget p. SCS 146

Requested 1981-82	\$10,179,044
Estimated 1980-81	9,574,905
Actual 1979-80	8,503,401
Requested increase (excluding amount for salary increases) \$604,139 (+6.3 percent)	
Total recommended reduction	\$105,521

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
192-001-835—Retirement Administration		State Teachers' Retirement	\$10,079,479
192-001-963—Annuity Administration		Teacher Tax-Sheltered Annuity	99,565
Total			\$10,179,044

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Salary Savings. Reduce Item 192-001-835 by \$105,521.* Recommend increase in salary savings to reflect prior years' experience. 239
2. *New On-line Information System.* Recommend Department of Finance provide appropriate budget information. 241

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for payment of retirement benefits to public school teachers. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency. The STRS has the following primary responsibilities:

1. To maintain a fiscally sound plan for funding approved benefits;
2. To provide authorized benefits to members and their beneficiaries in a timely manner; and
3. To furnish pertinent information to teachers, school districts and other interested groups.

The Governor-appointed members of the board include three members each from the school system and from the public. The Superintendent of Public Instruction, State Director of Finance and State Controller are ex-officio members of the board. In addition to having overall management responsibility for STRS, the board reviews applications for benefits provided by the system.

Administrative expenditures of the STRS are funded out of interest income from the system's investments, and are classified as "nongovernmental cost funds." Therefore, proposed expenditures for administrative support of the system are excluded from the budget totals.

Funding for the benefits provided by the system is discussed under "Contributions to the Teachers' Retirement Fund" (Item 630).

STATE TEACHERS' RETIREMENT SYSTEM—Continued

The actual and projected changes in STRS membership and benefits paid for the past, current, and budget years are shown in Table 1.

Table 1
State Teachers' Retirement System
Workload Information

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Change</i> <i>From</i> <i>1979-80</i>	<i>Projected</i> <i>1981-82</i>	<i>Change</i> <i>From</i> <i>1980-81</i>
Active and inactive members	313,296	313,000	-0.1%	313,000	—
Benefit recipients	82,690	85,700	3.6	88,800	3.6%
Total membership	395,986	398,700	0.7	401,800	0.8
Total benefits paid (in millions)	\$560.1	\$631.4	12.7	\$723.5	14.6

Table 1 shows that active STRS membership has leveled off, but the number of benefit recipients (i.e., retired members and survivors) is continuing to increase at a steady rate.

These factors are indicative of recent demographic trends of stabilization in the working population, due to the declining birthrate, but growth in the retired population, as a result of early retirements and longer life span.

These trends have particular long-term significance for unfunded retirement systems, such as the STRS, where benefits are not actuarially funded and the annual receipts of the trust funds are used to pay the annual benefit costs. Leveling off of the active membership will lead to a corresponding result in contribution receipts, while benefit costs are expected to grow.

We discuss the long-term actuarial condition of this fund in more detail under Item 630 in this Analysis.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total net expenditures of \$10,179,044. This is \$604,139, or 6.3 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 appropriation from the State Teachers' Retirement Fund is \$10,079,479, which is an increase of \$600,976, or 6.3 percent, over the estimated current-year expenditure. The appropriation from the Teacher Tax Sheltered Annuity Fund is \$99,565, an increase of \$3,163, or 3.3 percent. Reimbursements have been reduced from \$301,730 to \$190,000.

Staffing and expenditures, by program, for the past, current and budget years are detailed in Table 2.

Table 2
State Teachers' Retirement
System Requirement

<i>Program</i>	<i>Staff Years</i>			<i>Expenditures (millions)</i>		
	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>
Administration	12.6	13.7	16.0	\$0.6	\$0.6	\$0.8
Member records	100.9	103.1	94.6	2.7	3.1	2.9
Member services	77.4	83.8	81.2	2.3	2.5	2.7
Accounting	35.5	37.1	37.3	1.2	1.4	1.4
Data processing	36.2	39.5	40.1	1.3	1.5	1.7
Management services	22.1	22.5	22.5	0.8	0.8	0.9
Totals	284.7	299.7	291.7	\$8.9	\$9.9	\$10.4
Reimbursements				-0.4	-0.3	-0.2
Net Totals				\$8.5	\$9.6	\$10.2

Budget-Year Changes

We recommend approval.

The budget proposes a staff increase of nine permanent positions in 1981-82. Five of the positions represent the conversion of limited-term staff of the Continued Qualification Program to permanent positions. The conversion is proposed because, after operating for two years as a pilot project, the program saved approximately \$500,000 by monitoring the continued eligibility of STRS disabilitants or their beneficiaries. The projected annual retirement program cost-savings in excess of \$500,000 justify the permanent establishment of this program.

The other four new positions are requested for extension of a pilot rehabilitation program for STRS disabilitants, and for establishment of an in-house audit unit to improve the system's internal fiscal control.

Table 3 details the fiscal effects of these staff and other proposed changes.

Table 3
Summary of Budget Year Changes

	<i>Expenditures^a</i>
1980-81 Revised Net Budget	\$9,574,905
1. Workload Changes	
a. Continued qualification program	95,189
b. Disabilitant rehabilitation program	197,149 ^b
2. Program Change Proposal	
Internal audit unit	68,230
3. Cost Changes	355,301 ^c
4. Reduced reimbursements	-111,730 ^d
1981-82 Proposed Net Budget	<u>\$10,179,044</u>
Net Total Increases	\$604,139

^a Includes expenditures from the State Teachers' Retirement Fund and from the Teacher Tax-Sheltered Annuity Fund.

^b Includes \$150,000 for contracted rehabilitation service.

^c Includes \$60,000 for actuarial valuation, \$70,577 for Attorney General services, \$35,360 for investment services, and \$72,635 for central administrative services (pro rata charges).

^d Reflects an anticipated decline in revenues from refund fees, because fewer STRS members are expected to leave the system and seek refund of contributions.

Underbudgeted Salary Savings

We recommend an increase in the amount budgeted for salary savings, for a savings of \$105,521 to the State Teachers' Retirement Fund (Item 192-001-835).

The budget proposes \$127,148 in salary savings during 1981-82. Salary savings result from employee turnover, delays in filling positions and filling vacated positions at the minimum step of the salary range. The \$127,148 represents a salary savings rate of 2.4 percent of the \$5,305,368 budgeted for Salaries and Wages.

Our analysis indicates that the 2.4 percent rate is less than the actual salary savings rate achieved by STRS during the last several years. Table 4 shows the actual salary savings rates experienced during each of the last five fiscal years.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

Table 4
STRS Salary Savings Information
1975-76 through 1979-80

	<i>Estimated Salaries & Wages</i>	<i>Actual Salaries & Wages</i>	<i>Actual Salary Savings</i>	<i>Estimated Salary Savings</i>	<i>Excess Salary Savings</i>	<i>Estimated Salary Savings Rate^a</i>	<i>Actual Salary Savings Rate^a</i>
1979-80.....	\$4,798,611	\$4,431,066	\$367,545	\$121,590	\$245,955	2.5%	7.7%
1978-79.....	4,272,277	4,096,620	175,657	129,827	45,830	3.0	4.1
1977-78.....	4,212,926	4,159,553	53,373 ^b	128,698	-75,325 ^b	3.1	1.3 ^b
1976-77.....	3,935,766	3,783,308	152,458	119,847	32,611	3.0	3.9
1975-76.....	3,852,879	3,672,637	180,242	125,992	54,250	3.3	4.7

^a Salary savings amount divided by estimated Salaries and Wages.

^b During 1977-78, STRS was authorized to continue 25 limited-term positions to complete the Verification Project. Funding for these positions was provided from salary savings. As a result, the system was unable to meet its estimated Salary Savings figure. For this reason, the rate for 1977-78 is not applicable to our analysis.

Table 4 shows that during the 1975-76 through 1979-80 period, the STRS consistently underbudgeted its annual salary savings, which resulted in substantial excess salary savings in four of the five fiscal years. The excess savings reverted to the State Teachers' Retirement Fund at the end of each year.

The 2.4 percent salary savings rate budgeted for 1981-82 is 1.5 percent below the lowest applicable salary savings rate experienced by STRS during the five-year period we analyzed.

In order to properly budget for STRS personnel needs, we recommend increasing the amount budgeted for salary savings in 1981-82 to 3.9 percent of total salaries and wages. This would increase salary savings by \$79,580 over the \$127,145 budgeted, and result in a reduction of \$25,941 in staff benefit costs for a total savings of \$105,521 in personal services.

Discrepancy in Amounts Budgeted for Attorney General Services

Our analysis of the budget reveals that there is a discrepancy between the amount of legal services which the STRS is budgeted to obtain from the Attorney General, and the amount of legal services which the Attorney General is budgeted to provide. Specifically, the STRS proposes to expend \$173,932 for Attorney General Services. This amount is \$70,577, or 68 percent, more than estimated current-year expenditures for attorney services, and \$86,346, or 98 percent, higher than actual 1979-80 expenditures for this purpose. The Department of Justice's budget indicates that 1,967 hours, or approximately \$96,875 in of attorney services will be provided to the STRS. Because of this inconsistency in the Governor's Budget, we are unable to recommend the amount of funds which will be required to meet the legal services needs of this system in 1981-82.

We have identified similar problems in other departments' budgets, and have requested that the Department of Finance reconcile these discrepancies by April 1, 1981. This request is discussed in the analysis of the Department of Justice's budget (Item 082-001-001). We plan to evaluate the STRS' proposed expenditures for Attorney General services after we receive the reconciled data from the Department of Finance.

Modern Information System Planned

The Governor's Budget reports that the STRS is in the process of developing a modern on-line automated information system. The new system will replace the current antiquated system which is highly labor intensive, uses batch data processing techniques, and is unable to meet workload demands in a timely manner. Significant delays and backlogs exist in most areas of the STRS operation as a result of the existing system.

Our office has monitored the development of a feasibility study by the consulting firm of Arthur Young and Company during the current year. We concur in the design approach for the proposed system recommended by the consultant. The project will require 42 months to complete. The consultant projects that savings totaling \$1.5 million will accrue to the system by 1984-85, and that savings of this magnitude will accrue annually thereafter. Development costs of the system over the design and implementation period are projected at \$2.5 million.

New Information System Improperly Budgeted

We recommend that the Department of Finance provide appropriate budget information for a proposed on-line information system in time for review by the fiscal subcommittees of the Legislature.

The budget proposes to finance development and implementation of this new system from unscheduled savings in personal services and operating expenses. Savings generated during implementation of each phase of the system will be used to finance subsequent phases. Upon full implementation of the system, the unscheduled savings will be deleted from the STRS budget. The Governor's 1981-82 Budget, however, contains no information as to the staff and expenditure needs of the new system, and does not specifically earmark any funds for it.

Our analysis indicates that development of the proposed on-line information system is timely and justified by the projected cost savings and improved level of service that it will yield. Funding the system from unscheduled savings, however, is improper budgetary policy and may be misleading to the Legislature.

1. The approach is improper, because it permits accumulation of unscheduled savings in the STRS budget without a specific, documented purpose. It also places an undue burden on STRS by having to meet all of the new system's development costs from savings in currently authorized programs. In the event excess salary and operating cost savings do not cover system development costs, STRS would have to make additional savings by cutting on going programs, or delaying implementation of the system and thereby postponing further savings.

2. The approach is misleading, because the proposed budget does not specifically identify the system as a new program, and fails to show its personnel and operating costs, or the specific source of funding to meet these costs. Consequently, the Legislature is not being presented with an accurate program and expenditure proposal, making legislative evaluation and monitoring of the new system difficult.

We recommend that the Department of Finance provide the Legislature with information showing the proposed expenditures and source of funding for the new system. This information should be provided in time to permit the fiscal subcommittees to review it during hearings of the proposed STRS budget.

**State and Consumer Services Agency
DEPARTMENT OF VETERANS AFFAIRS**

Items 196 -197 from the Gen-
eral Fund and Veterans Farm
and Home Building Fund

Budget p. SCS 150

Requested 1981-82	\$33,268,651
Estimated 1980-81.....	31,723,046
Actual 1979-80	26,404,815
Requested increase (excluding amount for salary increases) \$1,545,605 (+ 4.9 percent)	
Total recommended reduction	\$1,913,970

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
196-001-001—Administration/Educational Grants	General		\$2,712,319
196-001-592—Administration	Cal-Vet Farm and Home Building		582,535
—Continuing Appropriation—Administration	Cal Vet Farm and Home Building		11,823,093
—Continuing Appropriation—Administration	Cal-Guard Farm and Home Building		288,920
197-011-001—Veterans Home	General		17,021,784
196-101-001—Local Assistance	General		840,000
Total			\$33,268,651

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Cal-Vet Loan Program. Recommend the Department of Veterans Affairs report on ways to balance demand for Cal-Vet loan funds with the supply of available funds. 245
2. Staff Increase. Withhold recommendation on proposed Cal-Vet loan program staff increase pending receipt of updated information. 246
3. Cal-Vet Data Processing Project. Recommend the Department of Veterans Affairs report prior to budget hearings on progress of Cal-Vet loan program data processing project. 247
4. Contract Property Appraisal Funds. Reduce continuing appropriation by \$111,777. Recommend reduction due to overbudgeting. 247
5. *Veterans Home Fees. Reduce Item 197-011-001 by \$195,000.* Recommend the Veterans Home update fee system each year for inflation. 248
6. *Home Data Processing Project. Reduce Item 197-011-001 by \$1,110,135.* Recommend termination of work on automated cost accounting and patient tracking system. 250
7. *Equipment. Reduce Item 197-011-001 by \$59,020.* Recommend phased replacement of beds. 250
8. *Educational Grants. Reduce Item 196-001-001 by \$549,815.* Recommend overbudgeted funds be reappropriated from current year to budget year. 250

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to qualified California veterans and their dependents through four major programs. A fifth program provides home loan services to members of the California National Guard.

Farm and Home Loans—Veterans

The Farm and Home Loans to Veterans program, also known as the Cal-Vet loan program, provides low-interest farm, home, and mobilehome loans to qualified veterans. These loans are financed through the sale of general obligation and revenue bonds which are redeemed from the monthly payments made by the participating veterans. Loans are available in amounts up to \$55,000 for a house (\$60,000 if the house is solar-heated), \$180,000 for a farm, and \$55,000 for a mobilehome situated on the owner's property (\$35,000 if the mobilehome is located in a trailer park). Chapter 121, Statutes of 1979 (AB 3), authorized veterans to defer payments on the principal amount of their Cal-Vet loan for up to five years. Whereas mortgage loans made by conventional lending institutions are secured by deeds of trust, the Cal-Vet loan program purchases and remains the "owner" of the property until the loan is fully amortized.

Veterans Claims and Rights

The Veterans Claims and Rights program provides information to veterans and their dependents concerning the availability of federal and state benefits, and assists eligible persons in obtaining these benefits through four elements: claims representation, employment preference, county subventions, and educational assistance. Benefits include hospital and out-patient medical and dental care, pensions, insurance, burial benefits, educational assistance, and employment preference.

Claims Representation. This element assists California veterans seeking federal benefits by representing these veterans before the Veterans Administration rating boards. Assistance is given for claims involving initial ratings of service-connected disabilities and increases in existing disability ratings.

Employment Preference. Honorably discharged veterans and veterans' widows receive a 10-point preference on civil service examinations, and veterans with a service-connected disability receive 15 points. This element processes applications for the preference points, and certifies eligible veterans and widows to the State Personnel Board.

County Subvention. This element administers grants to local veterans service offices, which assist veterans in establishing their claims and rights. Service offices are located in 53 of the state's counties.

Educational Assistance. The Educational Assistance to Veterans Dependents element provides counseling and financial assistance to qualified dependents of veterans who were killed or totally disabled as a result of active military service. Full-time college students receive \$50 per month and high school students receive \$20 per month.

Care of Sick and Disabled

The Care of Sick and Disabled Veterans program operates the Veterans' Home in Yountville, which is one of the largest geriatric facilities in the country. The home provides war veterans who are California residents with several levels of medical care (acute, skilled nursing, and intermediate care), rehabilitation services, and residential services.

DEPARTMENT OF VETERANS AFFAIRS—Continued**Administration**

General Administration provides for administrative implementation of policies established by the California Veterans Board and the department director. Fiscal, legal, personnel, and other functions which are not specifically assigned to the other programs are included in this element.

Farm and Home Loans—National Guard Members

The department also administers a farm and home loan program for National Guard members. This program, known as the Cal-Guard loan program, provides low-interest loans to part-time National Guard members. It is similar to the Cal-Vet loan program. The Military Department determines National Guard member eligibility for the program, and sells bonds to finance the loans.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of \$33,268,651 from various state funds for support of the department in 1981-82. This is an increase of \$1,545,605, or 4.9 percent, over 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, expenditures from all funding sources, including federal funds and reimbursements, plus the cost of loans, debt service, and taxes for the Cal-Vet and Cal-Guard loan programs, are projected at \$1,184,097,986 in the budget year.

Table 1
Department of Veterans Affairs
Funding Summary

	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
General Fund:				
Item 196-001-001 (Administrative support/Educational Grants)	\$3,086,147	\$2,712,319	-\$373,828	-12.1%
Item 197-011-001 (Veterans' Home) ..	16,190,743	17,021,784	831,041	5.1
Item 196-101-001 (Veterans Service Offices)	840,000	840,000	—	—
Totals, General Fund	\$20,116,890	\$20,574,103	\$457,213	2.3%
Special Fund (Cal-Vet):				
Item 196-001-592 (Department Administration)	\$545,544	\$582,535	\$36,991	6.8%
Continuing Appropriation (Loan Program Administration)	10,779,912	11,823,093	1,043,181	9.7
Loans, debt service, taxes	1,098,921,521	1,112,750,000	13,828,479	1.3
Totals, Cal-Vet Special Fund	\$1,110,246,977	\$1,125,155,628	\$14,908,651	1.3%
Special Fund (Cal-Guard):				
Continuing Appropriation (Loan Program Administration)	\$280,700	\$288,920	\$8,220	2.9%
Loans, debt service, taxes	24,395,283	27,512,211	3,116,928	12.8
Totals, Cal-Guard Special Fund	\$24,675,983	\$27,801,131	\$3,125,148	12.7%
Federal Funds (direct)	\$5,778,602	\$7,059,107	\$1,280,505	22.2%
Reimbursements	\$3,181,788	\$3,508,017	\$326,229	10.3%
Grand Totals	\$1,164,000,240	\$1,184,097,986	\$20,097,746	1.7%

The budget proposes expenditures of \$20,574,103 from the General Fund for support of administrative services, educational grants, the Veterans' Home, and

county veterans service offices in 1981-82. The Special Fund expenditures for the two loan programs will provide for (1) general departmental administrative costs (Item 196-001-592), (2) loan program administrative costs, and (3) the cost of property, interest, and taxes. The "direct" federal funding shown in Table 1 consists of medical and billet payments in behalf of residents of the Veterans' Home. The reimbursements include federal "aid and attendance" payments made to disabled veterans who require special assistance, and fees paid directly by the veterans.

Table 2 summarizes the department's costs, by program, during the current and budget years.

Table 2
Department of Veterans Affairs
Program Cost Summary

Program	Estimated 1980-81	Proposed 1981-82	Change	
			Amount	Percent
Farm and Home Loan-Veterans	\$1,110,246,977	\$1,125,155,628	\$14,908,651	1.3%
Personnel-years	301.5	290	-11.5	-3.8
Veterans claims and rights	3,473,241	3,101,937	-371,304	-10.7
Personnel-years	47.1	47.1	—	—
Home and hospital	25,604,039	28,039,290	2,435,251	9.5
Personnel-years	896.5	915.3	18.8	2.1
Farm and Home Loans-Guard	24,675,983	27,801,131	3,125,148	12.7
Personnel-years	6.8	6.8	—	—
Administration	(1,029,235)	(1,076,503)	(47,268)	4.6
Personnel-years	(29.4)	(29.7)	(0.3)	1.0
Totals	\$1,164,000,240	\$1,184,097,986	\$20,097,746	1.7%
Personnel-years	1,251.9	1,259.2	7.3	0.6

CAL-VET FARM AND HOME LOAN PROGRAM

The budget proposes \$1,125,155,628 for the Cal-Vet Farm and Home loan program in 1981-82. This is an increase of \$14,908,651, or 1.3 percent, over estimated current-year expenditures. The department estimates that it will provide \$700,000,000 in new loans during 1981-82. This amount is expected to fund approximately 13,500 applications. Because the department is the legal owner of the property financed by Cal-Vet funds, it is responsible for paying property taxes and insurance. These costs are expected to total \$85,000,000 in 1981-82. The budget also includes \$12,350,655 for loan processing and servicing activities. Interest payments, redemptions of bonds, and costs associated with selling new bonds are projected to total \$327,804,973.

Demand for Loan Funds Exceeds Supply

We recommend adoption of supplemental report language directing the department to report to the Legislature by November 1, 1981, on alternatives for balancing the demand for Cal-Vet loan funds with the supply of available loan funds.

Applications for Cal-Vet loans far exceed the amount of available loan funds. At the end of calendar year 1980, the department had a backlog of 11,300 applications, totaling approximately \$590 million. Some of the applications were over one year old. By July 1, 1981, the department expects to have a backlog of about 9,350 applications. During the budget year, the department estimates that it will receive 21,500 applications totaling about \$1,118 million, well in excess of the \$700 million in bond funds the department expects to have available. At that rate, the unfundable backlog would total about 12,900 applications by the end of 1981-82. Clearly, some modification is needed if the program is to fulfill legislative intent in a timely

DEPARTMENT OF VETERANS AFFAIRS—Continued

and effective manner.

As the program is currently structured, many veterans must wait over one year to receive Cal-Vet loans. In the interim, they must arrange for temporary financing from private lenders in order to purchase their homes.

The Legislature could take one, or a combination, of several approaches to balance the supply with the demand for loan funds. It could increase the amount of available funds by authorizing the sale of additional bonds. However, due to the heavy volume of bond issues under other state and local programs, the sale of additional Cal-Vet bonds might be difficult, or might require the state to pay interest at a rate significantly higher than normal.

Alternatively, the Legislature could reduce the demand for loan funds by several methods. It could limit the eligibility of certain veterans or certain types of property, or it could shorten the period following discharge during which veterans are eligible for loans. This would reduce the pool of potential applicants, thereby reducing the number of applications. Another option would be to limit the size of eligible homes or reduce the value of the property on which loans are made. Finally, the limit on the size of loans (currently \$55,000 for homes) could be reduced.

These various approaches would have different impacts on the Cal-Vet program, and each needs to be thoroughly studied. Accordingly, we recommend that the department evaluate these options and any other it deems feasible, and report to the Joint Legislative Budget Committee by November 1, 1981, on possible ways to balance the demand for Cal-Vet loan funds with the supply of available funds.

Staffing Increase Proposed

We withhold recommendation on the proposed increase in staff for the Cal-Vet loan program, pending review of the department's progress on eliminating the backlog in the current year.

The Governor's Budget reflects the addition of 33.3 personnel-years which were added to the Cal-Vet loan program in the current year pursuant to the authority granted by Control Section 28 of the 1980 Budget Act. The budget proposes to continue 21.1 of these positions in 1981-82 to deal with the backlog of applications received prior to January 1, 1981. These additional personnel-years supplement the 7.6 personnel-years added to meet increased workload in October 1980 under Section 28. With the added staff, the department expects to eliminate the pre-1981 backlog by July 31, 1981.

The size of staff required for workload purposes in the budget year depends on the size of the backlog on July 1, 1981, which is difficult to predict at this time for several reasons. First, beginning January 1, 1981, veterans who were discharged more than 25 years ago can no longer apply for loans. This will reduce the number of applicants. Second, some applications are over one year old, and the applicants who were not able to arrange interim financing are probably no longer interested in a Cal-Vet loan. The number and timing of cancellations will affect staffing requirements. Third, the department proposes to use temporary personnel from February through July to reduce the backlog. Estimating their productivity is difficult.

Another factor complicating analysis of the department's staffing needs in the budget year is the department's inability to finalize the supporting justification for additional staff. Twice since the Governor's Budget was published, the department has revised workload data used to support its staffing request.

The department should have better information on the time and personnel required to process the backlog and on the rate of new applications by April 1981. With that information, we will be in a better position to analyze the projected

workload for the budget year. Therefore, we withhold recommendation on the proposed staffing for 1981-82.

Data Processing Project Continues

We recommend approval.

The budget proposes an expenditure of \$973,435 for eight new positions and related operating expenses to proceed with its Cal-Vet data processing project, which was initially approved by the Department of Finance in April 1979. The proposal includes funds to equip each Cal-Vet loan district office with a computer terminal linked to headquarters. The project, part of the department's Redesign and Financial Management Information System (RFMIS) is intended to (1) provide management information on the loan program and (2) automate the processing of Cal-Vet loans and remittance payments.

In April 1980 the department completed work on the Statewide Pending Loan Application System that provides information on the status of individual loan applications. This allows the department to inform applicants of their prospects for receiving funding, and it gives the department the information needed to analyze the aggregate workload and funding situation.

The proposal is consistent with the intent of the department's implementation plan.

Data Processing Progress Report

We recommend that the department report to the fiscal committees prior to budget hearings on the progress of the financial management information system and its effect on Cal-Vet loan processing time and staff.

As noted in our *Analysis of the 1980 Budget Bill*, the redesign project is key to improving service to veterans and program management. When the project was proposed, the department stated that it would reduce loan processing time, staffing, and administrative costs. Originally planned for completion by June 1982, the project is now scheduled to be completed in 1983.

Last year the department reported to the fiscal committees that the project would save approximately \$150,000 in 1981-82, and roughly \$400,000 annually beginning in 1982-83. Because of the delay in completing the project, the department now maintains that 1981-82 savings will total less than \$19,000.

We recommend that prior to budget hearings the department report on the progress of the project. The report should include milestones achieved, the costs incurred to date in implementing the system, projected additional implementation costs, the implementation timetable, and the schedule of anticipated savings. The report should also include a comparison of this information with that contained in the original implementation plan, and explanations for any variances.

Property Appraisal Funds

We recommend a \$111,777 reduction in Cal-Vet loan operating expenses funded from the continuing appropriation, due to overbudgeting for fee appraisers.

The department expects to conduct 20,500 property appraisals in the budget year. In past years, the department made extensive use of private fee appraisers to conduct these appraisals, and has proposed \$529,208 for such services in 1981-82. However, the State Personnel Board has ruled that fee appraisers can perform no more than 25 percent of all appraisals. Therefore, if 20,500 appraisals are needed in the budget year, fee appraisers can perform a maximum of 5,125. At an estimated cost of \$81.45 per appraisal, fee appraisal costs should not exceed \$417,431 in 1981-82. Because \$529,208 has been budgeted for fee appraisers, we recommend a reduction of \$111,777 in operating expenses.

DEPARTMENT OF VETERANS AFFAIRS—Continued**CALIFORNIA VETERANS' HOME**

The budget includes \$28,039,290 for support of the California Veterans' Home in 1981-82, which is \$2,435,251, or 9.5 percent, more than estimated current-year expenditures. General Fund expenditures, including the allocation of headquarters administrative costs, are proposed at \$17,484,551, and expenditures from federal funds are expected to be \$7,059,107. Reimbursements are estimated at \$3,495,632, with \$2,786,400 of that amount coming from fees paid by members.

New Fee System Implemented

Beginning in November 1980, the Veterans' Home instituted the graduated fee system proposed in our report, "An Analysis of the California Veterans' Home Fee Policy," and approved by the Legislature in enacting the 1980 Budget Act. The fee system is based on (1) the cost of domiciliary care, (2) federal Veterans Administration (VA) per diem payments, and (3) member incomes. The highest fee cannot exceed the full cost of domiciliary care minus the VA payments. The system exempts the first \$125 of monthly income from the fee calculation. Each \$50 in income above the \$125 is subject to charges at increasing rates. For example, the first \$50 increment above \$125 is subject to a 40 percent charge, and the sixth \$50 increment is subject to an 85 percent charge.

The new system yields more revenue for the home, thereby reducing the amount of General Fund support, and it better distributes the burden of fee payments among members according to their ability to pay. About 40 percent of the members—those with the lowest incomes—pay less under the new fee system than they would have paid under the previous system. The department estimates the system will generate \$2,786,400 in fees in 1981-82.

Home Receives Allocation for Contingencies or Emergencies

The budget for the current year reflects a \$220,706 General Fund allocation for contingencies and emergencies to the Veterans' Home. The department states that the allocation is necessary because member fees are falling short of projections for several reasons. First, the department delayed instituting the new fee system until November 1, 1980, one month after the date established by the Legislature. We estimate that the unauthorized one-month delay in shifting to the new fee system reduced fees by about \$85,000. Second, the department now estimates the home population at approximately 1,250 for the current year, 150 below the 1,400 level it projected last year. The lower population, however, should also result in lower home costs, thereby offsetting a portion of the loss in revenues. Third, the department states that the incomes of current home members are lower than the incomes of members in March 1980 (despite a 14.3 percent increase in Social Security payments and in most VA pension benefits in July 1980). Fourth, the fee system is producing less revenue than anticipated because (a) members with dependents have a certain amount of their income excluded from the fee calculations, and (b) some members who receive VA Aid and Attendance Allowances, which are awarded to disabled veterans to subsidize the cost of assistance necessitated by their disabilities, pay reduced fees. The department estimates that these exemptions will reduce fees by about \$240,000 in 1980-81.

Fees and Charges Underestimated

We recommend that the department update the fee system each July to take into account (1) higher costs of operating the Veterans' Home, (2) variations in federal VA payments, and (3) changes in member incomes, for a General Fund reduction of \$195,000 in 1981-82 (Item 197-011-001).

Because the department did not allow for increases in members' incomes in putting its budget together, the budget underestimates the amount of fees that the department will collect, and overstates the need for General Fund support. About 65 percent of the members' income is from Social Security or VA pension benefits that automatically increase with inflation. If inflation increases by 10.8 percent between March 1980 and March 1981, as forecast by the Department of Finance, benefits would increase in July by that amount, and the total income of members would increase by at least 7 percent (10.8 percent times 65 percent).

Fee schedule should be indexed. Under the present fee schedule, the fee paid by a member increases as his income increases. Thus, to the extent a member's income increases solely on account of inflation adjustments intended to maintain his purchasing power, the member will pay a larger proportion of his income in fees, leaving him with *less* purchasing power for everything else. This could be avoided by adjusting the fee schedule brackets by the increase in income. If the department does not adjust the fee schedule, we estimate that it would collect approximately \$275,000 over the amount of fees budgeted for 1981-82.

To avoid having members pay a greater share of their income in fees each year, we recommend that the department "index" the fee schedule. It should do this by raising the current \$125 personal exemption and \$50 increments by a factor equal to the average increase in members' incomes. For example, if members' incomes increase an average of 10 percent from July 1980 to July 1981, the personal exemption should be increased to \$137.50 ($\125×1.1), and the fees should be based on \$55 ($\50×1.1) increments in monthly incomes. As a result of this indexing procedure, members would pay higher fees, but they would not pay a larger proportion of their income in fees.

We also recommend that the department adjust the fee schedule to reflect higher costs of operating the home. The maximum fee, currently \$435 per month, should increase with operating costs.

We estimate that if the projected increase in members' incomes is taken into account and the changes in fee policy recommended above (which, together, would *reduce* fees paid by members by \$80,000) are made, total fee revenue to the state in 1981-82 would be \$2,981,400, or \$195,000 more than budgeted. Accordingly, we recommend that General Fund support for the home be reduced by \$195,000.

Increased Health Care Services

We recommend approval.

The department proposes to increase the health care staff of the home by 13 positions. Eight of the positions are to alleviate staffing deficiencies identified by the Department of Health in May 1980. One position is to meet federal utilization review standards, and two pharmacist positions are being added to address the conditional compliance finding of the State Department of Health Services. Two additional positions are proposed to upgrade other health services. Because the positions will be eligible for federal Medicare reimbursement, the proposals do not include increases in General Fund costs.

Manual Cost Accounting Project Continues

We recommend approval.

The department proposes to add six positions to the Veterans' Home staff to substantially upgrade its existing manual cost accounting system to meet federal Medicare and VA reimbursement requirements. Total cost of the proposal, including operating expenses and equipment, is \$136,094. The department claims the increased staffing will enable the home more fully to substantiate costs chargeable to the federal government, thereby increasing reimbursements. Therefore, the proposal does not require an increase in General Fund support.

DEPARTMENT OF VETERANS AFFAIRS—Continued**Computerized Cost Accounting and Patient Tracking System Not Needed**

We recommend that the department terminate its computerized data processing project at the home, for a reduction of \$1,110,135 in General Fund expenditures (Item 197-011-001).

The department proposes an expenditure of \$1,110,135 to continue implementing an automated cost accounting and patient tracking system at the Veterans' Home. We recommend deletion of funds for the project for four reasons. First, in the capital outlay section of this *Analysis*, we recommend that the department phase-out the acute care hospital at the Veterans' Home. The primary purpose of the automated system is to improve Medicare billings for hospital patients. Therefore, if our recommendation is approved there would be little reason to continue developing the system.

Second, 1981-82 will be the first full year in which the new manual cost accounting system will be in operation. The department's budget change proposal (BCP) indicates that the manual system (which did not become fully operational until February 1981) should be fully evaluated before it is automated. We concur.

Third, the system's major purpose is to better substantiate costs in order to increase federal payments. From a taxpayer standpoint, the system increases governmental costs so that two levels of government can divide costs more accurately. Lacking a detailed analysis of the extent to which the automated system will increase incremental revenues versus incremental costs, or an analysis showing reduced health care costs, we cannot support continued automation of the existing manual system.

Fourth, the department states that in addition to providing the cost accounting system, the data processing project will provide needed management information and allow improved and faster responses to requests for reports by state agencies. The BCP, however, fails to discuss or evaluate these benefits.

For these four reasons, we recommend eliminating funds for the home's computer project, for a General Fund savings of \$1,110,135.

Equipment Not Justified

We recommend a reduction of \$59,020 in General Fund support (Item 197-011-001) for the Veterans' Home to phase in purchases of new beds for the occupied domiciliary and residential housing units.

The department proposes to replace every bed in the occupied domiciliary and residential housing units at the Veterans' Home at a cost of \$88,530. Most of the beds are approximately 50 years old and periodically require repair. We have discussed the proposal with the department and it states that given the large number of beds (681) involved and their varying states of repair, a three-year phase-in of the new beds is more manageable. We agree with this approach, and recommend replacement of one-third (227) of the beds in the budget year, and purchase of the other 454 beds during the next two years, for a General Fund savings of \$59,020 in 1981-82.

EDUCATIONAL ASSISTANCE PROGRAM

We recommend that \$549,815 of the amount overbudgeted for educational grants in the current year be reappropriated for the budget year, and that the General Fund appropriation for 1981-82 (Item 196-001-001) be reduced by that amount.

The budget shows that \$1,333,250 from the General Fund will be expended for educational grants in 1980-81. At the time this *Analysis* was prepared, the department estimated that it would spend only \$783,435 of that amount, or \$549,815 less than the amount shown in the budget year. The department expects to award grants to approximately 2,190 students, instead of the 7,500 students shown in the

Governor's Budget.

In 1981-82, the budget includes \$931,250 (\$1,333,250 minus a special adjustment of \$402,000) for educational grants. The department expects to fund about 2,348 students with those funds, an increase of about 160, or 7 percent, over the number of students estimated to receive grants in the current year.

This program is funded within the department's General Fund support item. Therefore, to insure that the current-year General Fund savings are realized, we recommend the Legislature reappropriate the unneeded funds available in 1980-81 for the budget year, and reduce Item 196-001-001 by \$549,815.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Item 197-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. SCS 162

Requested 1981-82	\$1,555,775
Recommend reduction	840,180
Recommendation Pending	390,520
Net recommended approval	\$325,075

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. Recommend that the acute hospital facilities at the Veterans' Home be closed. 254
2. We withheld recommendation on the skilled nursing and intermediate care facilities pending further study. 254
3. **Acute Hospital Addition. Reduce by \$700,000.** Recommend that preliminary planning and working drawings for an acute care hospital addition at the Veterans' Home be deleted. 256
4. Cooling Plant and Piping for Hospital Addition (Veterans' Home). Withhold recommendation pending further study of skilled nursing intermediate care facilities. 256
5. **Section A (Domiciliary) Veterans' Home. Reduce by \$87,280.** Recommend that preliminary planning and working drawing funds be reduced to reflect reduced project scope. Further recommend that working drawing money not be allocated by the Public Works Board until written commitment from the Veterans' Administration to fund 65 percent of the project cost is obtained. 256
6. Section C (Domiciliary) Veterans' Home. Withhold recommendation on the request for preliminary planning and working drawing funds. Further, recommend deferral of the Section C domiciliary remodeling. 257
7. **Minor Projects. Reduce by \$52,900.** Recommend deletion of a project related to acute hospital care, and a reduction in another project for handicapped compliance. We withhold recommendation on a project related to skilled nursing facilities. 258

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued ANALYSIS AND RECOMMENDATIONS

Five-Year Master Plan for Capital Outlay—Veterans' Home

Background

The Department of Veterans Affairs currently operates a home at Yountville for California veterans. The mission of this home is to provide long-term care to veterans who meet eligibility requirements set forth by the Military and Veterans' Code.

The present capacity and average occupancy of the Veterans' Home is shown in Table 1.

Table 1
Department of Veterans Affairs
Occupancy of Veterans' Home Beds

<i>Level of Care</i>	<i>Authorized or Licensed Beds</i>	<i>Average Occupancy Rate</i>
Acute:		
Medical	26	88%
Surgical	33	85
Intermediate Care Unit/Coronary Care Unit	7	60
Skilled Nursing	249	96%
Intermediate	522	94
Residential	73	97
Domiciliary	1,502	45
Total	2,412	

Description of Care. The levels of care provided at the Veterans' Home are as follows:

- **Acute Care**—This level of care is provided to patients who require continuous life saving service on a 24-hour, inpatient basis. This includes the basic services of laboratory, radiology, pharmacy, and the services of an organized medical staff. This level of care is licensed by the state. Table 2 shows the sources of support for the acute care services.
- **Skilled Nursing**—This level of care is provided to those patients who require 24-hour inpatient care. This care is less intense than acute care and includes rehabilitation, nursing, dietary, pharmaceutical and activity programs. Skilled nursing facilities are licensed by the state. Table 2 shows that for fiscal year 1979-80, 69 percent of skilled nursing's \$6,046,339 operating budget was provided by the General Fund.
- **Intermediate Care**—This level of care is provided to patients who require nursing and supportive care on a less than continuous basis. Patients generally require a minimum amount of nursing assistance to perform daily living activities. Intermediate care facilities are licensed by the state, and for the 1979-80 fiscal year, 72 percent of the \$8,002,837 intermediate care operating budget was provided by the General Fund.
- **Residential and Domiciliary Care**—Domiciliary care is provided to people who are generally self-sufficient and are able to adequately perform daily living activities. Residential care is provided to people who are able to perform daily living activities, although they may have a handicap and require supportive measures for mobility. Residential care facilities are licensed by the state while domiciliary care facilities are not.

Table 2
Department of Veterans Affairs
Veterans' Home of California
Funding Support Resource—Fiscal Year 1979-80

Level of Care	Total Budget	Medicare	Federal ^a	Fees	General Fund	
					Budget	Percent of Total
Acute	\$1,844,570	\$1,027,919	\$330,604	\$72,080	\$5,614	0.3%
Skilled Nursing Facility	6,046,339	137,592	1,513,632	306,338	4,194,926	69
Intermediate Care Facility	8,002,837	85,862	1,799,955	576,456	5,761,181	72
Residential/Domiciliary	6,491,812	265,627	1,387,833	847,114	4,072,825	63
Totals	\$22,385,558	\$1,517,000	\$5,032,024	\$1,801,988	\$14,034,546	63.0%

^a Veterans Administration including aid and assistance.

Characteristics of the Residents. There are currently 1,397 residents at the Veterans' Home—0.6 percent of the eligible veteran population. Most of these residents come from northern California. Specifically:

- 35.7 percent are from the San Francisco Bay Area.
- 36.7 percent come from other northern California areas.
- 8.5 percent come from the Los Angeles area.
- 6.9 percent come from other southern California areas.

Age and income demographics show that 80 percent of the residents have incomes between \$2,100 and \$8,100 per year, with an average yearly income of \$4,692. The majority of residents (52.9 percent) are over 70 years of age.

Code and Certification Violations. During 1976-77, surveys by the Department of Health Services, Facilities Licensing Section, revealed a high incidence of failure to comply with licensing and Medicare certification requirements. Specifically, 222 deficiencies in acute, skilled nursing and intermediate care were found, and the home did not meet six of the major conditions required for Medicare certification. Therefore, the homes' cost reimbursements from Medicare were threatened.

Proposed Capital Outlay Program. To correct the identified code and certification violations, the department has proposed a five-year major capital improvement program. The estimated total cost of this program is \$40 million (including adjustments for inflation). The department assumes that the Veterans' Administration will provide \$26 million (65 percent) of the total project cost and that the state will provide \$14 million (35 percent). However, the availability of Veterans' Administration funding is uncertain. Failure to obtain a matching grant will require the state to fund the entire \$40 million cost of the projects.

The changes proposed under the plan can be described as follows:

- **Hospital**—To correct code violation, a 56-bed acute care hospital addition is proposed which will provide medical, surgical, and intensive care/coronary care (ICU/CCI) levels of care. Privacy and space violations would be corrected, and various improvements (not required by code) are proposed. These improvements generally consist of remodeling floor areas.
- **Annexes I and II and Section B**—To meet Veterans' Administration requirements concerning privacy and space violations, Annexes I and II will be remodeled into six intermediate care units—each with 33 beds. Section B will be remodeled into a 104-bed intermediate care unit.
- **Domiciliary Buildings, Sections A, C, D, E, F, G, H, J, K, and L**—Fire and life safety violations will be corrected and extensive remodelings will be done to provide privacy for the occupants.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

- Additional miscellaneous major improvements will be made to the laundry building, boiler plant, main kitchen and dining room, maintenance shops, central warehouse, firehouse, members' workshops, recreation ward, theater building, and the administration building.

Upon completion of the proposed capital program, the Veterans' Home will have 23.7 percent less capacity due, according to the master plan, to increased space per bed required by modern day standards and client expectation. Table 3 summarizes the change in capacity.

Table 3
Department of Veterans Affairs
Veterans' Home Capacity After Remodeling

Type of Care	Present	Remodeled	New Construction	Percent Change
Acute	66	—	56	-15.2%
Skilled Nursing	249	322	—	+29.3
Intermediate	522	308	—	-41.0
Residential	110	110	—	—
Domiciliary	1,360	945	—	30.5
Totals	2,307	1,685	56	-24.5

Source: Master Plan, Veterans' Home of California. Department of Veterans Affairs, December 1979.

Veterans' Home Acute Care, Skilled Nursing and Intermediate Care Facilities

We recommend that the acute hospital facilities be phased out. We withhold recommendation on the skilled nursing and intermediate care facilities pending further study.

In order to continue providing general acute, skilled nursing and intermediate care to residents of the Veterans' Home, the state will have to spend an estimated \$27.4 million for capital improvements during the next six years. This is in addition to the \$6,132,000 per year that it costs the state for support/operating costs. Given the fact that the state will have to make a heavy commitment from the General Fund for capital outlay, beginning in the budget year, if it is to continue providing acute, intermediate, and skilled nursing care, we believe the time has come to fully consider the costs and benefits of maintaining these services.

Our analysis indicates that the acute services available to residents of the Veterans' Home can be provided—without any decline in the level or quality of these services—in Veterans' Administration hospitals and/or private sector facilities. Accordingly, we recommend that funds to upgrade the home's acute care hospital be deleted from the budget. We withhold recommendation on the skilled nursing and intermediate care facilities, however, pending further study.

Acute Care. Most veterans rely on the Veterans' Administration's system of 172 hospitals for acute care needs. Our analysis indicates that the Veterans' Administration Hospital at Martinez currently has capacity to meet the acute-care needs of Veterans' Home residents. The hospital has 315 acute-care beds with a 72 percent occupancy rate. Thus, there is an average of 88 vacant beds at any one time—133 percent of the maximum acute-care capacity of the Veterans' Home. Therefore, adequate capacity exists at the Veterans' Administration hospital to accommodate all Veterans' Home acute-care patients. The cost of acute-care provided to veterans in Veterans' Administration hospitals is fully funded by the federal government. Table 4 shows that additional capacity, should it be needed to serve current home members, is also available at acute-care hospitals in the San Francisco Bay Area. Emergency care needs could be met, along with other citizens of this area, by hospitals in the nearby City of Napa.

Table 4
Department of Veterans Affairs
Occupancy Factors in Private Facilities—Bay Area

	<i>General</i>	<i>Occupancy</i>	<i>Nursing</i>	<i>Occupancy</i>	<i>Intermediate</i>	<i>Occupancy</i>
	<i>Acute</i>	<i>General</i>	<i>SNF</i>	<i>Nursing</i>	<i>Care</i>	<i>ICF</i>
	<i>Beds</i>	<i>(Percent)</i>	<i>Beds</i>	<i>SNF</i>	<i>Beds</i>	<i>(Percent)</i>
North Bay	1,497	67.1%	2,989	95.9%	—	—
West Bay	7,927	52.8	7,034	87.3	—	—
East Bay	6,283	56.2	8,970	93.7	410	95.3%
Santa Clara	3,938	59.6	5,062	93.1	150	97.0

Source: Office of Statewide Health Planning as of December 31, 1978. 1978 Hospital Report.

Skilled Nursing/Intermediate Care Facilities. We withhold recommendation on the skilled nursing/intermediate care facilities pending further study.

Preliminary analysis indicates that there are 107,000 licensed skilled nursing facility/intermediate care facility beds in California—24,615 of which are located in the San Francisco Bay Area. The 771 residents of the Veterans' Home who currently require skilled nursing/intermediate levels of care would occupy only 0.7 percent of the state beds and 3 percent of the San Francisco Bay Area beds if these programs were not available at the Veterans' Home and the residents were dependent on the private sector for care.

We are currently studying the feasibility of placing Veterans' Home residents in private sector facilities. Until the costs and benefits of the various alternatives for meeting these veterans' need for care has been reviewed, we withhold recommendation on this aspect of the department's capital outlay budget pending further study. We will develop a supplemental analysis regarding this option prior to budget hearings on this item.

1981-82 Major Capital Outlay Program

The budget proposes \$1,130,555 for preliminary planning and working drawings for four projects at the Veterans' Home in Yountville, as summarized in Table 5. These projects are included in the five-year master plan for the Veterans' Home in order to meet licensing and Medicare certification requirements. The hospital addition and cooling plant projects would provide new facilities, while the Section A and Section C projects involve remodeling existing domiciliary buildings.

Table 5
Department of Veteran Affairs
Major Capital Outlay
1981-82

<i>Project</i>	<i>Total Cost</i>	<i>State Share</i> ^a	<i>1981-82 Budget Request</i> ^b
Hospital addition (acute care)	\$6,250,000 ^c	\$2,187,500	\$700,000 pw
Cooling plant and piping for hospital addition (Veterans' Home)	2,091,000	731,850	133,285 pw
Section A (domiciliary) Veterans' Home	2,026,400	709,240	134,635 pw
Section C (domiciliary) Veterans' Home	2,516,600	880,810	162,635 pw
Totals	\$12,884,000	\$4,509,400	\$1,130,555

^a Assumes a 65 percent federal matching grant can be obtained.

^b p—preliminary planning; w—working drawings.

^c Based on project planning request estimate. Estimated costs based on architectural drawings have not yet been determined.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**Hospital Addition**

We recommend that Item 197-301-036(b), be deleted for a savings of \$700,000.

The budget proposes \$700,000 for preliminary planning and working drawings for a 56-bed addition to Holderman Hospital at the Veterans' Home to replace the 66 acute-care beds located in the present hospital. The addition would provide medical, surgical and ICU/CCU levels of care. The vacated space in the present hospital would then be converted to a 73-bed skilled-nursing unit.

Table 5 shows that the estimated cost of this project is \$6,250,000, with a building cost of \$5 million—\$125 per square foot. The department has stated they anticipate no increase in operating costs. However, our analysis of other building additions indicate that they will incur some additional maintenance and utility costs.

Consistent with our recommendation that this level of care be phased-out at the Veterans' Home we recommend deletion of the \$700,000 for preliminary planning and working drawings.

We also note that the State Architect has not completed the budget package for this project. Consequently, adequate justification for the project cost has not been provided.

Cooling Plant

We withhold recommendation on Item 197-301-036(c) for preliminary plans and working drawings for a new cooling plant.

The budget proposes the appropriation of \$133,285 for preliminary planning and working drawings for (a) a new 4,320 square foot cooling plant, (b) associated piping, and (c) demolition of two vacant buildings which occupy the proposed site. As shown in Table 5, the total project cost is estimated to be \$2,091,000, with a state share of \$731,850. The plant would provide chilled water for future cooling at the hospital addition, Annexes I and II, Section B, and the recreation and theater buildings. The initial phase of this project will provide chiller capacity for and utility connections to the hospital addition and Section B.

This project is proposed on the basis that the acute, skilled nursing and intermediate care units require cooling and ventilation in accordance with Titles 22 and 24.

We withhold recommendation on the \$133,385 requested for this project. The projects' primary purpose is to service the hospital addition, the skilled nursing and intermediate care facilities. We have recommended that the acute hospital services at the Veterans' Home be discontinued and have withheld recommendation on skilled nursing and intermediate care facilities. Since this project will provide service to intermediate care facilities (Annexes I and II, and Section B) we accordingly withhold recommendation on this request.

In addition, our analysis indicates that the project is too expensive. The project is 1,080 square feet larger than necessary, and includes general work such as a partial spanish tile roof, skylights and windows which have helped raise the project cost. Should the project proceed, we would recommend that the scope be reduced to eliminate the unnecessary space and unneeded project features.

Section A (Domiciliary)

We recommend that Item 197-301-036(d) be reduced by \$87,280 to reflect a reduced project scope. We also recommend that funds for working drawings not be released by the Public Works Board until a written commitment is obtained from the Veterans' Administration to provide a 65 percent matching grant to the project.

The budget includes \$134,635 for preliminary planning and working drawings for a project to remodel the Section A domiciliary building. The existing dormitory

rooms will be remodeled into one, two and three bed rooms that meet privacy regulations of the Veterans' Administration. The toilets and baths will be remodeled to meet handicapped accessibility requirements, and all fire code violations will be corrected. This project will decrease the capacity of this building from 190 beds to 145 beds—a 24 percent decrease.

The estimated total project cost is \$2,026,400, including an estimated construction cost of \$1,599,700—\$43 per gross square foot. This project has been proposed to correct fire and life safety code violations and to satisfy Veterans' Administration privacy requirements. However, our review of the planning documents indicates that the proposal includes many items which are unrelated to these objectives. For example, the project calls for all new fluorescent and incandescent light fixtures, TV outlets for every room (110 in total), new piping, new lavatories, and water closets. The present lighting, restroom facilities, piping and TV outlets are adequate for their needs and do not need replacement. Since these items do not relate to either code violations or privacy regulations, they are not necessary and should be eliminated. Deletion of the extraneous items should reduce the construction cost to approximately \$26 per gross square foot. Preliminary planning and working drawing monies for a project of this reduced scope should not exceed \$49,355. Consequently, we recommend a reduction of \$87,280 in this item.

Federal Participation. The estimated cost of this project to the state—\$709,240—assumes that the Veterans' Home will obtain a grant from the Veterans' Administration for 65 percent of the total project cost. Otherwise, the state would be liable for the entire \$2,026,400 project cost. Furthermore, if no federal funds are obtained, the state would also be liable for the entire projected cost for the five-year plan (including inflation). The home is currently applying for a grant, but has no assurance that it will be awarded. Consequently, we recommend that Budget Bill language be included under Item 197-301-036 specifying that working drawing monies may not be released by the Public Works Board until a letter committing the Veterans' Administration to provide a 65 percent matching grant for the total project cost has been obtained.

Section C (Domiciliary)

We recommend deferral of the Section C domiciliary remodeling and withhold recommendation on the amount under Item 197-301-036(e).

The budget includes \$162,635 for preliminary plans and working drawings for remodeling of the Section C domiciliary building. The proposed project is very similar to the Section A remodeling and is of equal scope and square foot cost.

The justification for this project is that the building is presently in violation of State Fire Marshal and Veterans' Administration regulations. Because of these violations, the building is not used as a domiciliary. Instead, it is used to house the Department of Fish and Game (DFG) Region III headquarters. Thus, if the proposed remodeling is undertaken, the DFG will have to be relocated to new facilities at an estimated cost of \$1,540,000. The Budget Bill contains \$40,000 under Item 360-301-200(f), for plans/working drawings for the new facilities.

The capital outlay master plan calls for the remodeling of Sections E, F, H, J, K, L, and G in future years. Our analysis indicates that sufficient capacity exists at the home to allow remodeling of one of these facilities without necessitating the displacement of DFG. Accordingly, we recommend that one of these facilities be remodeled in place of Section C, thereby saving the \$1,540,000 cost associated with building a new Department of Fish and Game regional headquarters. Section C should only be remodeled if sufficient demand for Veterans' Home services materializes in future years to justify the project and its associated relocation expenses. We, therefore, recommend deferral of alteration to Section C.

We withhold recommendation on the request for \$162,635 for preliminary plans

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

and working drawings until the department has selected another domiciliary for remodeling and the State Architect has prepared the supporting architectural plans, outline specifications and cost estimate. Whichever domiciliary is remodeled, its scope should be reduced to \$26 per gross square foot for the same reasons set forth in our analysis of the Section A remodeling project. Once the necessary documents have been prepared by the State Architect, we will advise the Legislature on the amount needed for preliminary plans and working drawings.

Minor Capital Outlay (Item 197-301-036(a))

We recommend deletion of one project relating to acute hospital care facilities, for a savings of \$40,000. We also recommend a reduction of \$12,900 for a project to provide automatic sliding doors. We also withhold recommendation on another project related to skilled nursing facilities.

The budget proposes \$425,220 for nine minor capital outlay projects (\$100,000 or less per project) for the Department of Veterans' Affairs. These projects will correct licensing violations and make minor improvements to the buildings and grounds. Table 6 describes these projects.

Table 6
Department of Veterans Affairs
Minor Capital Outlay
1981-82

<i>Project</i>	<i>Budget Amount</i>
1. Building Code corrections, hospital	\$20,000
2. Public Safety Code, corrections, Annex II	30,000
3. Fire and life safety corrections, boiler room	36,300
4. Fire and life safety corrections, section F	65,000
5. Replacement of obsolete equipment, boiler room	24,420
6. Drainage improvements, Holderman Hospital	40,000
7. Drainage improvements, Alameda area	88,500
8. Handicapped Code Compliance, Dining Hall	26,400
9. Minor remodeling, Ward 1A	94,600
Total	\$425,220

Minor Capital Outlay for Hospital Facilities. The budget includes funding for two minor capital outlay projects that would:

1. Install rainwater collection tiles and a sump pump in the storm drain system to improve drainage around Holderman Hospital (\$40,000).
2. Remodel hospital ward 1A to meet privacy, space and recreation code requirements for a skilled nursing unit (\$94,600).

We have previously recommended the discontinuance of the general acute level of care at the Veterans' Home and have withheld recommendation on the skilled nursing/intermediate care facilities. Accordingly, only those improvements which relate to critical fire and life safety problems should be funded. The rainwater collection project is not critical and the ward 1A remodeling is the pilot project for the renovation of the general acute, skilled nursing and intermediate care facilities. We, therefore, recommend deletion of the rainwater tile project because it does not relate to critical fire and life safety problems and would affect programs that would be discontinued if our earlier recommendation is approved. We withhold recommendation on the remodeling project pending our recommendation on intermediate care facilities.

Automatic Sliding Doors. A project to install three automatic sliding doors at the south and east exits to the dining hall is proposed at a cost of \$26,400. These

doors will give wheelchair traffic access to the dining room without the need for assistance and therefore enable the home to meet handicapped access requirements. These doors will cost an average of \$8,800 per door.

We recommend a reduction of \$12,900 on the basis that a less expensive alternative is feasible. This alternative would require the installation of automatic door openers on the existing double-doors, at a cost of \$4,500 each. This equipment provides the same ease of access that automatic sliding doors do, and use of it would save \$12,900.

**Business, Transportation, and Housing Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

Item 210 from the General
Fund

Budget p. BTH 1

Requested 1981-82	\$13,497,394
Estimated 1980-81.....	13,358,813
Actual 1979-80	12,237,308
Requested increase (excluding amount for salary increases) \$138,581 (+1.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate. Headquartered in Sacramento, the department maintains a northern division office in Hayward, which supervises 10 northern district offices, and a southern division office in Downey, which supervises 11 southern district offices. Department staff is presently authorized at 383.6 positions.

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

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

Licensing Element

Licensing is intended to prevent (1) unqualified persons from engaging in the sale, manufacture or importation of alcoholic beverages, and (2) the sale or manufacture of alcoholic beverages in locations where the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of an applicant's background, character, and financing to assure that those who qualify will be unlikely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 53 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings in the Department of General Services. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the department's decision. Decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals