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

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Board (a separate state agency) and the courts.

Compliance Element

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

Administration Element

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $13,497,394 from the General Fund for support of the Department of Alcoholic Beverage Control in 1981–82. This is $138,581, or 1.0 percent, above estimated current-year expenditures. The expenditure of anticipated reimbursements of $227,000 during the budget year result in a total expenditure program of $13,724,394. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 shows budget data for the department's three program elements.

Table 1
Department of Alcoholic Beverage Control
Budget Summary

	Estimated 1980–81	*Proposed 1981–82*	*Change Amount*	*Change Percent*
Licensing	$7,664,117	$7,723,807	$59,690	0.8%
Personnel-years	225.9	225.9	–	–
Compliance	4,334,885	4,230,685	–104,200	–2.4
Personnel-years	113.1	109.1	–4.0	–3.5
Administration	1,684,487	1,769,902	85,415	4.8
Personnel-years	44.6	44.6	–	–
Subtotals	$13,683,489	$13,724,394	$40,905	0.3%
Less Reimbursements	$–324,676	$–227,000	$97,676	30.1%
Totals	$13,358,813	$13,497,394	138,581	1.0%
Personnel-years	383.6	379.6	–4.0	–1.0

Departmental Funding

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

As shown in Table 2, the department estimates that 1981–82 General Fund revenue from fees and charges will amount to $11,756,000. This is $50,000, or 0.4 percent, more than estimated receipts in the current year.

Table 2
Department of Alcoholic Beverage Control
License Fees and Miscellaneous Revenue
General Fund

	Actual 1979–80	*Estimated 1980–81*	*Estimated 1981–82*
Miscellaneous income	$13,950	$6,000	$6,000
Original license fees	2,560,800	3,000,000	3,000,000
Transfer fees	4,252,764	4,450,000	4,450,000
Special fees	313,837	300,000	300,000
Service charges	259,481	250,000	250,000
Penalties	251,230	225,000	225,000
General Fund portion of annual fees and offers in compromise	1,678,510	1,600,000	1,650,000
Surcharge on annual fees	1,475,811	1,475,000	1,475,000
Seasonal license conversions	996,000	-	-
Caterer's authorization, permits and managers certificates	419,996	400,000	400,000
Totals	$12,222,379	$11,706,000	$11,756,000

The budget proposes two changes in the currently authorized level of service. These changes are discussed below.

Savings from EDP Conversion Delayed

Three years ago, at the request of the Department of Finance, the Department of Alcoholic Beverage Control budget was augmented by $215,000 to initiate automation of its license processing function. The Legislature approved the augmentation, contingent on the approval of the department's EDP feasibility study by the State Office of Information Technology and notification thereof to the Joint Legislative Budget Committee. That study, which was approved in September 1978, indicated that the EDP conversion would permit deletion of 10 clerical positions at the end of 1979–80 and 10 more by June 30, 1981.

In 1979–80, the Legislature limited 10 clerical positions to June 30, 1980. In 1980–81, 10 additional positions were limited to December 31, 1981, which was six months longer than the original feasibility study anticipated. The department, however, has experienced additional delays in converting and reconciling accounting records due to equipment failure, difficulty in retaining trained staff, and the need to operate a dual system during the conversion period. The department indicates that these delays in converting to the new system have lengthened the backlog by six more months.

Since the feasibility study was prepared, several statutes have been enacted which have increased the clerical workload of the department. For example, Chapter 656, Statutes of 1978, established a fee for caterer's authorizations and manager certificates. The department estimates that it will have to spend in excess of 5,000 hours annually to process these permits and account for the fees (which will total $400,000 in the budget year). Because of the delays experienced in converting to the new system and the additional clerical workload imposed by recent legislation, our analysis indicates that the six-month extension of the limited term clerical positions to June 30, 1982 should be approved.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Budget Proposes Staff Reductions in Compliance

We recommend approval.

The department proposes to eliminate four Senior Investigator positions from its compliance function in the budget year. This reduction will leave 109.1 personnel-years of effort devoted to enforcement of alcoholic beverage laws in 1981–82.

We have no objective basis on which to evaluate alternative staffing patterns (within a relatively broad range) for the department's law enforcement activities. Therefore, the effect of this reduction on the public well-being as it relates to alcoholic beverages and on perceived or real problems in the industry cannot be determined. Accordingly, we have no analytical basis for recommending a change in the amount requested for the compliance element.

Business, Transportation, and Housing Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 212 from the General Fund — Budget p. BTH 5

Requested 1981–82	$279,351
Estimated 1980–81	274,161
Actual 1979–80	245,177
Requested increase (excluding amount for salary increases) $5,190 (+1.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954. Upon request, the board reviews decisions of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members are salaried and meet regularly in Los Angeles and San Francisco.

The board is an independent agency and is not subject to departmental control. Board staff consists of two attorneys and two clerical employees. Approximately 25 percent of the appealable decisions rendered by the department over the years have been appealed to the board.

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, reviews board decisions. During 1979–80, 123 appeals of departmental decisions were filed and 114 decisions were issued. The appeals board reversed 16 departmental decisions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an expenditure of $279,351 from the General Fund for support of the Alcoholic Beverage Control Board in 1981–82. This is $5,190, or 1.9 percent, above the current year estimated expenditure. This increase consists of

$2,038, or 0.8 percent, for personal services and $3,152, or 9.1 percent, for higher operating expenses. These increases appear to be reasonable.

Business, Transportation and Housing Agency
STATE BANKING DEPARTMENT

Item 214 from the State Banking Fund — Budget p. BTH 6

Requested 1981–82	$6,026,065
Estimated 1980–81	5,811,800
Actual 1979–80	4,451,370
Requested increase (excluding amount for salary increases) $214,265 (+3.7 percent)	
Total recommended reduction	$252,370

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Personal Services Overbudgeted. Reduce by $242,447.*** Recommend reduction because budget underestimates department vacancy rate. 265
2. ***Operating Expenses Overbudgeted. Reduce by $9,923.*** Recommend reduction to correct overbudgeting for telephone expenses. 265

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from economic loss resulting from bank and trust company failures. Not all banks in California are regulated by this department; some choose to operate under federal authority. The department also regulates licensed companies which sell money orders and travelers checks either for domestic uses or for purposes of transmitting money abroad.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to law, the superintendent is designated as the "administrator of local agency security", and acts as an agent for approximately 1,600 local treasurers in supervising the handling of public funds by depository banks.

The department headquarters is in San Francisco, with branch offices in Los Angeles, Sacramento and San Diego. The current authorized staff is 151 positions.

The department is supported by the State Banking Fund, which receives assessments on banks and trust companies, license and application fees and service charges.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $6,026,065 from the State Banking Fund for support of the department in 1981–82. This is an increase of $214,265, or 3.7 percent, over estimated current year expenditures. This amount will be increased by the amount of any salary or staff benefit increase approved for the budget year.

The department also proposes expenditures of $125,000 from reimbursements derived primarily from fees for (1) examining trust companies, (2) conducting special examinations of banks, and (3) administering the local agency security program. The department is, thus, requesting a total expenditure program of $6,151,065 for the budget year.

Table 1
Expenditure and Staffing Data
State Banking Department

Program	*Elements*	*Actual 1979–80* Personnel-Years	*Actual 1979–80* Expenditure	*Estimated 1980–81* Personnel-Years	*Estimated 1980–81* Expenditure	*Proposed 1981–82* Personnel-Years	*Proposed 1981–82* Expenditure
1. Licensing and supervision of banks and trust companies	Investigation of application for new facilities	7.8	$286,575	8.0	$318,983	8.0	$335,000
	Continuing supervision of existing banks	112.2	4,122,278	130.7	5,210,931	132.7	5,378,565
	Continuing supervision of trust activities	3.8	139,614	5.0	199,364	5.0	225,000
2. Payment instruments		1.2	43,680	4.0	127,920	4.0	130,000
4. Certification of securities		0.2	7,024	0.2	7,900	0.2	8,500
4. Administration of local agency security		1.2	42,043	1.4	45,000	1.4	45,000
5. Supervision of California business and industrial development corporations		0.6	20,316	0.7	26,702	0.7	29,000
6. Departmental administration (prorated to departmental programs)	Executive and administrative services	(5.7)	(218,438)	(10.0)	(303,495)	(12.0)	(358,221)
	Legal and legislative services	(11.7)	(366,979)	(14.0)	(473,208)	(14.0)	(494,597)
	Research—information services	(8.0)	(179,123)	(9.0)	(212,663)	(9.0)	(225,000)
Totals		127.0	$4,661,530	150.0	$5,936,800	152.0	$6,151,065
Reimbursements			−210,160		−125,000		−125,000
Net Totals			$4,451,370		$5,811,800		$6,026,065

Table 1 shows personnel-years and costs for the department's programs and supporting elements.

Overbudgeted Personal Services

We recommend a reduction of $242,447 because the budget underestimates the department's vacancy rate.

The department projects two personnel-years as salary savings for 1981–82. This represents a 1.3 percent vacancy rate for all budgeted personal services. Past experience, however indicates that the department has experienced a high rate of turnover, and therefore, a significantly higher vacancy rate. For 1977–78, 1978–79 and 1979–80, the vacancy rate averaged 10 percent of authorized personnel-years. For the first five months of the current year, the vacancy rate was 15.5 percent.

This high rate has resulted in salary savings that were considerably larger than anticipated in the budget. Table 2 shows the actual savings in personal services in excess of the budgeted amount.

Table 2
Savings in Personal Services
Past Three-Year Period

	1977–78	*1978–79*	*1979–80*
Appropriation for personal services	$3,739,388	$3,947,846	$4,206,450
Personal services expenditures	3,417,386	3,352,634	3,684,198
Savings	$322,002	$595,212	$523,252

Based on the average actual vacancy rate of 10 percent, we estimate that the budget for the department's personal services requirements in 1981–82 will be $4,478,451, which is $242,447 less than the amount requested. We therefore recommend a reduction in personal services of this amount.

Operating Expenses Overbudgeted

We recommend a reduction of $9,923 because the department over-budgeted for telephone expenses.

The department is requesting $88,000 for telephone expenses in 1981–82. Based on Department of Finance budget instructions, we estimate the department's telephone expenses for the budget year to be $78,077. We therefore recommend a reduction of $9,923 to correct this overbudgeting.

Attorney General Legal Services

Our analysis of the Governor's Budget reveals that there is a discrepancy between the amount of legal services which the department is budgeted to obtain from the Attorney General, and the amount of legal services which the Attorney General is budgeted to provide. Specifically, the department proposes to expend $75,000 for Attorney General services. The Department of Justice's budget indicates that 100 hours, or approximately $4,925 in legal services will be provided to the State Banking Department. Because of this inconsistency 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 this department in the budget year.

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 (Item

STATE BANKING DEPARTMENT—Continued

082-001-001). We plan to evaluate the department's proposed expenditures for Attorney General services after we receive the reconciled data from the Department of Finance.

Business, Transportation and Housing Agency
DEPARTMENT OF CORPORATIONS

Item 218 from the General Fund — Budget p. BTH 12

Requested 1981–82	$9,039,576
Estimated 1980–81	8,837,780
Actual 1979–80	6,337,618
Requested increase (excluding amount for salary increases) $201,796 (+2.3 percent)	
Total recommended reduction	$899,947

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Understated Reimbursements. Reduce General Fund Appropriation.*** Recommend department provide the fiscal committee with a revised estimate of reimbursements, and that the General Fund appropriation be reduced by an amount equal to the projected increase in reimbursements over the budget estimate. 268
2. ***Interagency Agreement. Delete five positions and $126,679.*** Recommend reduction of funds proposed for interagency agreement between the department and the Department of Health Services because such an agreement is not in effect, and positions will not be filled. 269
3. ***Underestimated Salary Savings. Reduce budget for personal services by $719,204.*** Recommend reduction because based on past experience the department underestimated its vacancy rate. 269
4. ***Overbudgeted Operating Expenses. Reduce by $54,064.*** Recommend reduction because the department overbudgeted for operating expenses. 270

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, fraudulent sale of securities and franchises, and improper business practices by certain entities which lend or hold money in a fiduciary capacity. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans. The cost of the department's administration is prorated to these three programs.

Under the Investment program, the department approves securities and franchises offered for sale, and conducts investigations to enforce the various laws administered by the department. This program also reviews license applications of prospective securities broker-dealers and investment advisors. The Lender-Fiduciary program licenses and examines lender-fiduciary institutions regulated by the department. The Health Care Service Plan program is responsible for regulating health care service plans under the Knox-Keene Health Care Service Act of 1975, and for administering the charitable trust statutes as they relate to health care service plans.

Table 1
Expenditure and Staffing Data
Department of Corporations Program

		Actual 1979–80		*Estimated 1980–81*		*Proposed 1981–82*	
Program	*Element*	*Personnel-Years*	*Expenditure*	*Personnel-Years*	*Expenditure*	*Personnel-Years*	*Expenditure*
Investment	Qualifications	74.4	$2,204,692	90.9	$2,940,452	91.5	$3,072,839
	Franchises	8.2	262,508	9.3	341,909	9.3	352,485
	Regulation and enforcement	76.4	2,549,153	81.8	3,008,266	82.4	3,140,080
	Commodities	0.2	5,160	—	—	—	—
Lender-Fiduciary	Check Sellers and Cashers Law	0.4	14,967	0.6	20,777	0.6	21,434
	Credit Union Law	41.2	1,340,941	40.4	1,422,691	40.6	1,485,124
	Escrow Law	23.5	718,057	29.2	1,032,045	29.4	1,078,342
	Industrial Loan Law	12.9	433,793	16.1	570,399	16.1	590,613
	Personal Property Broker Law and California Small Loan Law	12.7	418,062	21.1	854,948	26.8	981,398
	Trading Stamp Law	—	1,202	0.1	2,268	0.1	2,338
Health Care Service Plan	Licensing	11.7	347,193	13.6	511,616	13.6	532,366
	Financial examinations	9.4	300,374	10.9	410,687	10.9	424,957
	Enforcement	15.7	554,025	18.2	740,894	18.4	776,767
Administration (prorated to other programs)	General office	(5.9)	(234,400)	(9.0)	(368,022)	(10.0)	(398,089)
	Accounting and personnel	(6.8)	(155,380)	(7.0)	(204,420)	(8.0)	(232,281)
Program Totals		293.0	$9,398,031	339.4	$12,184,496	346.9	$12,795,777
Reimbursements		—	−3,060,313	—	−3,350,496		−3,666,981
Net Totals		293.0	$6,337,718	339.4	$8,834,000		$9,128,796
Special Adjustments		—	—	—	—	−3.0	−93,000
Adjusted Totals		293.0	$6,337,718	339.4	$8,834,000	343.9	$9,035,796
Legislative mandate		—	−95	—	3,780	—	3,780
Totals		293.0	$6,337,623	339.4	$8,837,780	343.9	$9,039,576

DEPARTMENT OF CORPORATIONS—Continued

The department is administered by the Commissioner of Corporations, who is appointed by the Governor. The department's headquarters is in Sacramento, with branch offices in San Francisco, Los Angeles and San Diego. In the current year, the department is authorized a total of 352.6 positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $9,039,576 from the General Fund for support of the department in 1981–82. This is an increase of $201,796, or 2.3 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. The requested appropriation also includes $3,780 for a legislative mandate.

The department also proposes expenditures of $3,666,981 from reimbursements, primarily in the form of fees for examining the financial records of licensees. Thus, total program expenditures for the department will be $12,706,557 in the budget year. Table 1 shows the cost and staffing data for the department's programs and their supporting elements.

Understated Reimbursements

We recommend that prior to budget hearings, the Department of Corporations provide the fiscal committees with a projection of the increased assessment reimbursements that will be received in 1981–82 as a result of legislation enacted in 1980.

Two statutes were enacted in 1980 that affect funding for specific programs administered by the department. Both statutes became effective January 1, 1981.

Chapter 476, Statutes of 1980 (AB 2575). Chapter 476 provides for the annual assessment of escrow agents, on a pro rata basis, for the cost of administering the Escrow law.

Chapter 497, Statutes of 1980 (AB 2757). Chapter 497 provides for the annual assessments of: (1) securities broker-dealers, (2) check sellers and check cashers, and (3) personal property brokers and small loan companies, on a pro rata basis, for the costs of the respective programs. These assessments will increase reimbursements to the various programs.

Table 2 shows the department's projections of program costs and reimbursements from licensee examinations in 1981–82. By not including licensee assessments provided for in AB 2575 and AB 2757, the budget understates the amount of reimbursements that will be available to the department in the budget year, and thereby overstates the proposed General Fund appropriation. We recommend that, prior to budget hearings, the department provide the fiscal committees with a projection of the additional assessment reimbursements anticipated in 1981–82. We will review the department's data and recommend whatever changes in the level of General Fund support are appropriate. Our preliminary estimates indicate that the assessment reimbursement could approximate $2 million.

Table 2
Projected Expenditures and Reimbursements

	Expenditures 1981–82	*Projected Reimbursable Services*
Escrow law	$1,078,342	$354,960
Securities broker dealers and investment advisors	3,140,080[a]	55,000
Check sellers and cashers	21,434	0
Personal property brokers and small loan companies	981,398	212,976

[a] This includes the cost of regulating investment advisors. The department has not disaggregated the cost of regulating security broker-dealers only. Chapter 497 does not apply to investment advisors.

Interagency Agreement Discontinued

We recommend the deletion of five positions in the Health Care Service Plan Program, for a General Fund savings of $126,679.

In 1979–80, the Department of Corporations entered into an interagency agreement with the Department of Health Services which called for the Department of Corporations to perform audits of and prepare cost-utilization reports on Prepaid Health Plans (PHPs) for the Department of Health Services. Such audits are required annually under the Waxman-Duffy Prepaid Health Plan Act administered by the Department of Health Services. The Department of Corporations, on the other hand, administers the Knox-Keene Health Care Service Plan Act, and is required to examine the fiscal and administrative affairs of all health care service plans (HCSPs) at least once every five years. Because all PHPs are HCSPs, the interagency agreement was designed to eliminate duplication in the examination of these plans by the two departments.

To perform the audits in accordance with the interagency agreement, the 1980–81 budget proposed the establishment of five positions in the department, including three corporation examiner III, one corporation examiner IV, and one office assistant II. Expenditures, including $122,825 for personal services and $11,350 for operating expenses, were to be reimbursed by the Department of Health Services. In the Analysis of the 1980–81 Budget Bill, we recommended approval of this request for $134,175 "only for the time period during which the agreement is to be in effect". Our review of the department's budget indicates that (1) there is no interagency agreement in effect for the current year, and (2) no similar agreement is anticipated for 1981–82. The department's budget, however, is requesting a continuation of the five positions. According to the department, the five positions have been vacant during the current year and will remain vacant for 1981–82. They are included as five of the 7.7 personnel-years of salary savings in the budget year.

Because the positions were authorized for a specific function which the department is not performing, the positions should be eliminated, and the funds requested to support them deleted. Accordingly, we recommend that the Department of Corporations budget be reduced by $126,679 and the five positions. The department's estimate for salary savings should also be adjusted for this reduction in personal services. (See discussion in the following section.)

Underestimated Salary Savings

We recommend a General Fund reduction of $719,204 because of an underestimated vacancy rate.

All state agencies have some vacancies in authorized positions during the year because of staff turnover, delay in filling new positions, or filling positions at the beginning of the salary range. Consequently, the agency does not receive funding for all the costs of its authorized positions. "Salary savings" are estimated and deducted from the appropriation to account for the difference between the cost of authorized positions and expected expenditures for salaries and wages.

The department projects savings for 1981–82 at $163,057 for 7.7 personnel-years. This projection includes: (1) 5.0 vacant positions authorized for the interagency agreement with the Department of Health Services (see discussion in previous section), and (2) 2.7 personnel-years for the remaining 349.6 positions requested for the budget year.

DEPARTMENT OF CORPORATIONS—Continued

Our analysis shows that actual personal service savings, including savings on salary and benefits, have been greater than what the department projects for the budget year. For 1977–78, 1978–79 and 1979–80, the department experienced an average vacancy rate of 8.9 percent of personnel-years, which is significantly higher than the 0.8 percent vacancy rate the department projects in the budget. Table 3 shows the net actual personal service savings for the three years, excluding reductions pursuant to Section 27.2 of the 1978 and 1979 Budget Acts. In each case, savings were significantly larger than the salary savings provided for in the budgets for those years.

Table 3
Actual Savings in Personal Services

Personal Services	*1977–78*	*1978–79*	*1979–80*
Total authorized expenditures	$8,180,287	$8,304,815	$8,558,923
Actual expenditures	7,583,036	7,153,318	7,947,481
Savings	$597,251	$1,151,497	$611,442
Reductions per Section 27.2	—	62,000	72,515
Net Savings	$597,251	$1,089,497	$538,927
Budgeted salary savings	$25,000	$66,378	$38,828

Based on the average actual vacancy rate of 8.9 percent, and adjusting for the five vacant positions, which we have recommended for deletion, we estimate that the department will need $9,720,626 for personal services in the budget year. This is $719,204 less than the amount requested. We therefore recommend that the department's budget be reduced by $719,204, for a savings to the General Fund.

Overbudgeted Operating Expenses

We recommend a reduction of $54,064 in operating expenses to adjust for overbudgeting.

Our analysis indicates that the department has overbudgeted for operating expenses. Table 4 shows the actual expenditures for microfilming, copying, and postage for 1978–79 and 1979–80. Based on the department's actual expenditures on these items, we estimate current year expenditures at $93,794, and project an expenditure level of $103,173 for 1981–82. The department is requesting $151,237 for the budget year.

On the basis of actual expenditures in these operating expense categories, we recommend a reduction of $54,064 to correct for this overbudgeting.

Table 4
Actual and Projected Operating Expenses

	Actual	*Actual*	*Estimated*	*1981–82*	
	1978–79	*1979–80*	*1980–81*	*Budgeted*	*Projected*[c]
Microfilm/copying	$6,399	$5,703	$5,836[a]	$10,000	$6,420
Postage	83,605	78,197	87,598[b]	147,237	96,753
Totals	$90,004	$91,977	$93,794	$157,237	$103,173

[a] Estimate based on actual expenditures from July through December 1980.
[b] Estimate based on seven months of actual experience since the department began to comply with a Postal Service ruling in June 1980, through December 1980. (This ruling required postage for transfer of materials via a private concern.)
[c] Our projections allow for a 10 percent increase over current year estimates.

LEGISLATIVE MANDATES

We recommend approval.

Chapter 941, Statutes of 1975, requires health care services plans to be licensed by the Department of Corporations. Each plan is required to establish a department-approved system which will enable enrollees to submit grievances to the plan.

Currently, Contra Costa County operates a health care service plan for its Medi-Cal recipients.

Pursuant to Section 2231 (a) of the Revenue and Taxation Code, this item appropriates $3,780 from the General Fund to reimburse Contra Costa County for costs associated with satisfying the provisions of Chapter 941.

Business, Transportation and Housing Agency

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Item 220 from the General Fund — Budget p. BTH 20

Requested 1981–82	$10,752,463
Estimated 1980–81	9,254,695
Actual 1979–80	5,564,107
Requested increase (excluding amount for salary increases) $1,497,768 (+16.2 percent)	
Total recommended reduction	$474,061
Recommendation Pending	$2,677,000

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
220-001-001	Department of Economic and Business Development-State Support. Includes $4,-300,000 for transfer to the Small Business Expansion Fund	General	$9,052,463
220-101-001	State appropriation to the California Economic Development Grant and Loan Fund	General	1,700,000
	Total		$10,752,463

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Commission on Industrial Innovation. Reduce Item 220-001-001 by $200,000.* Recommend deletion of state funding for the commission. — 274
2. *New Research-Analyst Positions. Reduce Item 220-001-001 by $65,619.* Recommend deletion of proposed positions. — 275
3. Contracted Services-New Projects. Withhold recommendation on $402,000 proposed for new projects. — 278
4. Century Freeway Funds. Withhold recommendation on pro posed $2,275,000 General Fund appropriation for grants, loans and loan guarantees pending Attorney General's determination of funding source. — 278

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

5. ***Out-of-State Travel. Reduce Item 220-001-001 by $20,000.*** Recommend deletion of funds for unnecessary and unjustified foreign trips. 280
6. ***Salary Savings. Reduce Item 220-001-001 by $178,442.*** Recommend increase in salary savings to reflect prior years' experience. 281
7. ***Contract Services. Reduce Item 220-001-001 by $10,000.*** Recommend deletion of fund for unjustified contract services. 281

GENERAL PROGRAM STATEMENT

The Department of Economic and Business Development was established in 1977 for the purpose of stimulating the state's economic growth. It replaced the Department of Commerce and consolidated several economic development-related programs, previously located in several state departments, under one umbrella organization.

The new department began operating on January 1, 1978, and is the state's principal agent for:

1. Coordinating federal, state and local economic development policies and programs, so as to maximize their effectiveness;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies implement state economic development plans;
4. Advising the Governor regarding his annual Economic Report; and
5. Providing information and statistics on the state's economy, products, tourism, and international trade.

Headed by a Governor-appointed director, the department receives guidance from a 21-member advisory council representing a cross-section of California's economy.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $10,752,463 from the General Fund for support of the Department of Economic and Business Development (DEBD) in 1981–82. This is an increase of $1,497,768, or 16.2 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.

Table 1
Summary of Budget Requirements

	Staff-years			*Expenditures (thousands)*		
Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*
Small business development	8.7	11.5	11.5	$2,002.4	$5,046.9	$6,122.8
Local economic development	7.8	9.8	8.8	1,988.7	4,141.0	2,372.2
Business and industrial development	8.5	9.4	9.4	256.8	362.1	374.9
International trade	6.5	7.7	7.7	275.2	351.4	361.2
Tourism	6.4	6.7	7.7	529.9	501.5	537.6
Economic planning policy and research development	7.2	7.3	9.8	301.7	330.3	420.3
Administration	15.5	20.6	24.6	619.0	845.6	1,094.1
Totals	60.6	73.0	79.5	$5,973.7	$11,578.8	$11,283.1
Reimbursements	—	—	—	−112.2	−166.0	−6.0
Federal Funds	—	—	—	−1,155.7	−2,158.1	−524.7
Small Business Expansion Fund	—	—	—	858.3	—	—
Net Total, General Fund Costs				$5,564.1	$9,254.7	$10,752.4

In addition to the $10.7 million General Fund appropriation, the department's proposed budget includes $524,691 in federal Economic Development Administration (EDA) funds and $6,000 in reimbursements. Table 1 summarizes the department's budget requirements, by program, for the past, current and budget years.

Budget-Year Changes

The budget proposes a staff increase of 9.5 positions, three of which will be established during the current year. The new positions include (1) a staff of 3 for the proposed California Commission on Industrial Innovation; (2) 2.5 research-analyst positions for the Office of Economic Planning, Policy and Research Development; and (3) a total of 4 clerical positions in the Office of Tourism and the Office of Local Economic Development and the Office of Administration.

The proposed staff changes and the other budgetary changes for 1981–82 are summarized in Table 2.

Table 2
Budget-Year Changes

	Personnel Changes (Staff Years)	*General Fund*	*Federal Funds*	*Totals*
1980–81 Revised Budget	72.7	$9,254,695	$2,158,140	$11,412,835
1. Program Change Proposals				
a. California Commission on Industrial Innovation	3.0	200,000	—	200,000
b. State match for small business development centers	—	72,000 [a]	—	72,000
c. Loan guarantee funds for rural corporation	—	800,000 [b]	—	800,000
d. Administrative support for rural corporation	—	214,000 [b]	—	214,000
2. Workload Changes				
a. Planning, policy and research development	2.5	75,982	—	75,982
b. Local economic development, tourism and administration	4.0	42,698	—	42,968
3. Other Changes	—	93,088	−1,633,449 [c]	−$1,540,361
Proposed 1981–82 Budget	82.2	$10,752,463	$524,691	$11,277,154
Changes from Revised 1980–81 Budget	9.5	$1,497,768	−$1,633,449	−$135,681

[a] These funds would be used to match federal funds which may become available from the Small Business Administration (SBA), if the SBA approves the department's proposal for small business development centers and Congress approves funds for the program.

[b] Proposed continuation in 1981–82 of loan guarantee and administrative funds for a rural development corporation. In 1980–81, these funds were placed in a special reserve appropriation by the Legislature, subject to legislative reappropriation. As of this writing, they have not been reappropriated.

[c] Reflects termination, as of June 30, 1981, of Public Works and Employment Act Title II funding for local economic development grants.

New Commission Proposed

The Governor's Budget requests $200,000 to support a new commission—the California Commission on Industrial Innovation—to be created by executive order in early 1981. The administration states that creation of the commission is the first step in establishing a multi-phased industrial innovation program. Guided by the commission, the program is to provide technical, administrative and financial assistance to high-technology industries in the following areas:

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

1. *Microelectronics Innovation and Computer Research Operation (MICRO).* This program element is intended to promote basic research and graduate education in high technology. The budget requests a $5 million appropriation to the University of California which would be used, in part, to fund research grants that would be matched on a dollar-for-dollar basis by the electronics industry. We discuss this element of the program under Item 644 in this *Analysis.*

2. *Innovation Research Grant Program.* This element would provide grants up to $50,000 for applied research projects which will lead to ideas for new products and new firms to manufacture them. This program is to be administered by the Department of Economic and Business Development, aided by a review panel of engineers and scientists. An initial funding level of $4 million for grants and about $400,000 for administration is contemplated. However, these amounts are not included in the Governor's Budget. They will be included in enabling legislation, to be introduced during the 1981–82 Session.

3. *California Corporation for Innovation Development.* This nonprofit corporation will provide research, financial, marketing and management assistance for development and commercialization of high-technology products. Activities of the corporation will be financed with $2 million in anticipated federal grants and $3 million in matching state funds. State funding will be proposed in legislation to establish the corporation.

The stated purpose of the commission will be to insure that business, labor and the education community participate in development and implementation of an industrial revitalization program for California. It will be composed of 15 members representing these three sectors. Nine members will be appointed by the Governor, and three each will be appointed by the President Pro Tempore of the Senate and Speaker of the Assembly. The commission will furnish policy guidance to the Governor and to the Legislature on the role of industrial innovation in maintaining California's competitive position in the national and world economy. It will (1) prepare a blueprint for industrial innovation by January 1982, (2) convene a Conference on California's Economic Future during 1982, and (3) terminate at the end of June 1983. The budget proposes $200,000 from the General Fund in this item for support of the commission and a staff of three in 1981–82.

Proposed Funding Unnecessary

We recommend that state funding for the California Commission on Industrial Innovation be deleted, for a General Fund savings of $200,000 (Item 220-001-001). We believe it is desirable for the state to monitor carefully those fiscal, market, regulatory, and other factors that influence the competitive position of California's economy, and that are subject to influence by the state. Our analysis indicates, however, that the California Commission on Industrial Innovation should not be funded in the Budget Bill for two reasons:

1. ***The Commission has not been established by the Legislature.*** The Governor intends to establish the commission by executive order. We have consistently recommended that, before state funds are provided for a new program or entity, the Legislature should first authorize and define the functions, responsibilities, and duties of the program through appropriate legislation. In the absence of such legislation, the Legislature will find it difficult to influence the activities of the program or entity, and to monitor and evaluate its accomplishments.

It appears especially desirable for the Legislature to consider the duties and objectives of the proposed commission before state funds are committed to it. This is because establishment of the commission would only be the initial step in a multi-phased program, and the implementation of subsequent phases will require enactment of legislation. Consequently, it would not be prudent to fund the initial phase (the commission) until the nature and scope of the entire program has been determined by the Legislature.

2. ***The administration may secure guidance for the proposed industrial revitalization program from the existing economic advisory panels of the Department of Economic and Business Development at no additional state cost.*** A 21-member advisory council to the department, composed of legislative, business, academic, labor and governmental representatives, has the statutory responsibility of furnishing policy and program guidance to the department for economic planning, policy and research, as well as for industrial, tourism, international trade and small business development. This council can draw on 73 currently authorized positions in the department, including program administrators, analysts and 5 economic planning, policy and research specialists. In addition, each program area of the department has its own advisory committee, composed of private, public and academic representatives from those respective program areas. These panels would appear to offer both the expertise and flexibility needed to provide guidance for the proposed program while legislation establishing the commission is being considered.

Thus, we believe that state funding for the commission should not be provided in the Budget Bill, and instead should be considered in connection with legislation establishing the commission. In considering such legislation, the Legislature should also review the need for a new commission, given the existing expertise and staff available to the department. Accordingly, we recommend that the $200,000 requested for the commission be deleted.

Planning and Research Staff Increase Unwarranted

We recommend deletion of two proposed research-analyst positions, for a General Fund savings of $65,619 (Item 220-001-001).

The Budget proposes to increase the professional staff of the Office of Planning, Policy and Research Development from five positions to seven by adding a research analyst and an energy economist. In addition, the budget proposes an increase in the office's temporary help blanket so that two half-time graduate students can be hired for research and analysis work.

Our analysis indicates that the actual and projected workload information submitted by the department with this request supports the need for two half-time graduate students as temporary help. The information, however, does not justify the establishment of two full-time, permanent positions.

Our analysis indicates that the recent increase in this office's workload has resulted primarily from an increase in the number of special research projects assigned to the office by the Governor's Office. Such projects include development of the industrial innovation program and support for the Public Investment Task Force. This workload is discretionary, and the volume of such workload in the future cannot be predicted. More importantly, much of this workload can be handled efficiently by using temporary help, such as the proposed graduate student researchers, or by other state agencies having expertise in the particular subject matters of these projects. For instance, rather than authorizing establishment of an energy economist's position in the Department of Economic and Business Development, projects requiring this type of expertise should be assigned to the staff of the Energy Commission.

Finally, at the time this analysis was written one of the five currently authorized research positions had been vacant since October 1980. Filling this position would help alleviate the office's workload problems.

Expansion of the Small Business Development Program

This program, administered by the Office of Small Business Development, is responsible for the following:

1. A loan guarantee program which underwrites private loans to small, disadvantaged businesses unable to get financial assistance through conventional lending channels;
2. Providing management and other technical assistance to small, disadvantaged businesses; and
3. Expanding economic opportunities for small business by coordinating public and private sector efforts.

During 1980, this program was expanded significantly in several areas.

1. *Century Freeway Project.* The 1980 Budget Act provided $1.2 million in loan guarantee funds and $1,075,000 for direct loans and grants to assist small businesses affected by construction of the Century Freeway in Los Angeles. These funds will be disbursed following a determination by the Attorney General as to their source. Specifically, control language in the 1980 Budget Act requires the Attorney General to determine whether these funds can legally be paid from the State Highway Account in the State Transportation Fund. If they cannot legally be paid from that source, they will be paid from the General Fund.

In addition, the department received $1 million in federal, Economic Development Administration grants to assess the impact of the Century Freeway on small businesses located in the construction corridor, and to develop a plan for assisting such businesses.

The department is required to report to the Legislature by March 1, 1981 concerning the use of funds allocated for the Century Freeway Project.

2. *Assistance in Procurement of Federal Contracts.* In June 1980, the department contracted with a private consultant to help contractors meet the requirements of PL 95-507. This act requires private contractors bidding on specified federal contracts to have a minority subcontractor participation plan. The consultant retained by the office attempts to put minority contractors in touch with prime contractors bidding on federal projects.

3. *Alternative Fuel Use Loan Program.* This program was authorized by Chapter 161, Statutes of 1979, to promote the development of alternative fuels. It is administered by the Secretary of the Business, Transportation, and Housing Agency and provides low interest loans to agricultural operations for financing alcohol-generation equipment to reduce dependence on petroleum fuels.

On July 1, 1980, the Office of Small Business Development (OSBD) was assigned the responsibility for evaluating the financial feasibility of the projects and the financial condition of the loan applicants. The Department of Food and Agriculture conducts technical evaluation of the projects and the Business, Transportation, and Housing Agency approves individual projects for funding. As of December 31, 1980, the OSBD had reviewed 18 projects involving a total of $580,000 in loan commitments from a special account of the State Transportation Fund.

4. *Advocacy and Information Assistance.* Starting in 1980, the OSBD initiated a program of providing assistance to small business experiencing difficulties in dealing with state and federal agencies. It also published the *California License Handbook*, a central information-source on all state licenses, as well as guidebooks on starting, financing and buying a business.

5. *New Development Corporation.* The 1980 Budget Act approved $500,000 in loan guarantee funds and $150,000 in administrative support for a new development corporation and this funding is proposed to be continued in 1981–82. The OSBD advisory board is in the process of approving a new urban development

corporation to be located in Los Angeles. This will become the third urban development corporation. The other two are located in Los Angeles and the San Francisco.

The only rural development corporation approved to date, located in Fresno, became inactive following a lengthy legal dispute over control of the corporation. Funds appropriated by the 1980 Budget Act to a rural development corporation are being held in reserve, subject to future legislative reappropriation. The 1981–82 Governor's Budget, however, does not propose to set aside funds specifically for a rural corporation. Instead, the budget continues the $1 million without the control language added last year.

6. ***Loan Guarantee Program.*** Under this program, the state provides annual General Fund appropriations to the Small Business Expansion Fund which are used to guarantee loans made by private lenders to small, disadvantaged businesses through nonprofit regional development corporations. These corporations also provide technical and management assistance to eligible small firms.

Table 3 summarizes the lending activity, as reported by the OSBD, during the last two years and the first half of the current fiscal year.

Table 3
Summary of Loan Guarantee Activity

Activity	*1978–79*	*1979–80*	*1980–81 (Six Months)*
Loan applications received	273	438	183
Number of loans guaranteed	31	64	11
Total financing (millions) [a]	$4.8	$8.8	$3.0
Guaranteed portion (millions) [b]	$2.4	$5.1	$1.4
Guarantee—liability (millions) [b]	$1.7	$4.7	$1.3
Guarantee rate (percent)	71%	92%	93%
Ratio of loan to liability	2.8:1	1.9:1	2.3:1

[a] Total financing includes guaranteed, as well as unguaranteed portions of the total financial package.
[b] Regional corporations guarantee a negotiated percentage of the guaranteed loan's face value, up to 90 percent. Thus, a $100,000 face value loan guaranteed at 90 percent results in a guarantee-liability of $90,000.

Table 3 shows that the number of loans guaranteed during 1979–80 was more than doubled from the number guaranteed in 1978–79. Guarantee rates on these loans also increased, resulting in a lower loan to liability ratio (leverage). For the first half of 1980–81, loan demand lagged behind last year's pace, as a result of higher interest rates.

Updated information from the OSBD shows that, as of December 31, 1980, the Small Business Expansion Fund had unencumbered loan guarantee reserves totaling $151,680. These funds can be used to guarantee new loans. An additional $2 million in loan guarantee funds will become available as soon as the Attorney General determines the appropriate funding source for the $1.2 million in loan guarantee funds appropriated in the 1980 Budget Act for the Century Freeway-related loans. Another $800,000 may also become available if Legislature reappropriates the funds held in reserve for a rural development corporation.

The budget proposes a total General Fund allocation of $4.3 million to the Small Business Expansion Fund for the loan guarantee program in 1981–82. This is the same amount which has been conditionally appropriated for 1980–81.

7. ***Anticipated New Projects.*** New projects under consideration for 1981–82 include establishment of small business development centers, management and technical assistance seminars, and a special program to address the needs of women in business.

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Proposed Contract Services for New Projects Lack Information

We withhold recommendation on $402,000 proposed for "Contract services-new projects," pending receipt of more detailed information.

The department is requesting $402,000 for contracted new projects in the Small Business Development Program. This amount is $48,300, or 13.6 percent, over the amount estimated to be spent in 1980–81. Current-year contracted expenditures include approximately $130,000 for bonding assistance, $200,000 for the business transfer program, and $77,000 to help small, disadvantaged subcontractors participate in federal contracts under provisions of Public Law 95-507.

The $402,000 proposed for 1981–82 is a lump sum amount. This request is not accompanied by a budget expenditure schedule, as the State Administrative Manual requires. In response to our request for additional information, we received a list of project-areas where the proposed funds may be spent. These project-areas include:

1. Participation with the federal Small Business Administration (SBA) in establishment of Small Business Development Centers. These centers would provide management and technical assistance, through universities, to small business. This program will require a plan acceptable to the SBA and state matching funds. Negotiations have been initiated with SBA, but no acceptable plan has yet been developed and the extent of state participation has not been determined.
2. Small business development seminars to provide management and technical assistance to current and prospective business persons.
3. A program to address the needs of women in business.
4. "Nonservice approaches" to small business problems. This program will show how local government can help small business by redefining traditional policy relationships between government and the private sector.

At the time this analysis was written, the department was unable to describe the scope of these projects, estimate their funding requirements, or even say which of them will be funded. The department stated that it continuously solicits proposals for assistance of small business and cannot project in advance the proposals which may be selected during the budget year.

As a result, we have no basis for advising the Legislature on the appropriateness of the proposed expenditure. Accordingly, we withhold recommendation pending further justification.

Legal Determination Needed on Use of General Fund

We withhold recommendation on the proposed $2,275,000 General Fund appropriation for the Century Freeway Project, pending receipt of legal determination by the Attorney General.

In 1981–82, the budget proposes General Fund appropriations consisting of $1.2 million for loan guarantees and $1,075,000 for direct loans and grants to small businesses affected by construction of the Century Freeway. The same amounts were appropriated by the 1980 Budget Act for this purpose, but the disbursement of these funds has been delayed, pending the Attorney General's determination of the appropriate source of funding as required by Budget Act language. The Attorney General must determine whether these funds should be allocated from the State Transportation Fund, or from the General Fund. Such a determination had not been made at the time this analysis was written. Consequently, we withhold recommendation on the proposed $2,275,000 appropriation, pending a decision from the Attorney General.

Section 304 Grant and Loan Program

The Section 304 Grant and Loan program is an economic development program funded from the California Economic Development Grant and Loan Fund, and established for the primary purpose of creating jobs in areas of high unemployment.

Under this program, federal funds are allocated by the Economic Development Administration (EDA) under Section 304 of the Public Works and Economic Development Act of 1965 for specific economic development projects. The state is required to match the federal contribution to each project on a $1 for $4 basis. Projects are funded under this program either as grants or loans. Grants are provided primarily for public works and development facilities needed for local or regional economic development. The loans are provided to public agencies, or to private businesses wishing to locate or expand their operations in economically distressed areas. The loans generally have a long-term, and carry a low-interest rate. The proceeds of these loans may be used to finance the cost of fixed assets, equipment or to provide working capital. The loans must be for projects located in an area with an EDA-approved Overall Economic Development Plan, and applicants must demonstrate their inability to obtain a loan from conventional funding sources.

Loan repayments are deposited in a revolving account of the California Economic Development Grant and Loan Fund, and may be reallocated as economic development grants or loans. All funds deposited in the California Economic Development Grant and Loan Fund are continuously appropriated without regard to fiscal year, and remain available for authorized economic development expenditures. Consequently, expenditures from the fund are not subject to annual review by the Legislature. In our *Analysis of the 1980 Budget Bill,* we recommended a mechanism for such annual review.

The grant portion of this program is administered by the department's Office of Local Economic Development. Loans are allocated and administered by the Office of Small Business Development. Table 4 shows the grant and loan activity under this program for 1979–80 and 1980–81.

Table 4
California Economic Development Grant and Loan Fund
Summary of Grant and Loan Activity

	1979–80	*1980–81 (Six Months)*
Fund balance as of July 1	$2,387,229	$2,627,821
Federal allocations	1,423,756	1,421,789
State allocations	625,000	1,700,000 [a]
Total funds available for fiscal year	4,435,985	5,749,610
Projects funded during first half of fiscal year	597,835	1,805,000 [b]
Unencumbered as of December 31	3,838,150	3,944,610
Projects funded during second half of fiscal year	1,210,329	3,944,610 [cd]
Projects funded during entire fiscal year	1,808,164	5,749,610 [d]
Unencumbered balance as of June 30	2,627,821	— [d]

[a] Includes $1,075,000 allocated exclusively for Century Freeway projects. Disbursement of these funds is subject to Attorney General's determination of appropriate funding source.
[b] Includes five loans in the total amount of $1,525,000, and $280,000 in technical assistance grants.
[c] Projects loan expenditures of $1,594,610 and technical assistance grants of $1,275,000, based on the number of applications received and reviewed. The projected total also includes $1,075,000 for loans committed to businesses affected by the construction of Century Freeway.
[d] Projected.

Table 4 shows that grant and loan expenditures during the first six months of 1980–81 nearly equaled grant and loan expenditures during the previous 12

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

months. Based on the number of inquiries and applications received the department expects the demand for grants and loans to continue to be strong. This is due primarily to high interest rates. The department anticipates that the full amount available in the fund will have been committed by the end of 1980–81, and there will be no unencumbered funds on July 1, 1981.

For 1981–82, the budget proposes a General Fund appropriation of $1.7 million to the California Economic Development Grant and Loan Fund, the same as the amount appropriated for 1980–81.

The amount of federal allocations has been shrinking in recent years. A total of $1.4 million has been allocated for 1980–81. The 1981–82 federal allocation will not be known until October 1981. As a result of the additional appropriation for Century Freeway loans, the General Fund has become the primary funding source of this joint federal-state economic development program.

Budgeted Foreign Travel Unjustified

We recommend deletion of amounts budgeted for unjustified foreign travel, for a General Fund savings of $20,000 (Item 220-001-001).

The department is requesting $79,192 for out-of-state travel in 1981–82. This amount includes $35,000 for proposed foreign travel, $15,000 for the Office of International Trade, $8,000 each for the Office of Tourism and the Office of Business and Industrial Development, and $4,000 for the Office of Administration.

Foreign travel funds for the Office of Tourism and the Office of Business and Industrial Development were first proposed in the 1979–80 Governor's Budget. The Legislature approved the funds 1979 Budget Act, and adopted supplemental report language requiring the department to report the economic benefits realized from the foreign travel budgeted by the two offices. At the time this analysis was written, however, no report had been submitted pursuant to the Legislature's directive.

In addition to the foreign travel budgeted by the Office of Tourism and the Office of Business and Industrial Development, the 1981–82 Budget also proposes $4,000 in foreign travel funds for the department director in 1981–82. These funds would allow the director to accompany one of the office directors on a promotion trip, or to represent the state at as-yet unidentified international meetings.

Our analysis indicates that the $20,000 budgeted for foreign travel by the these offices is not justified, for the following reasons:

1. Trips budgeted and approved for 1979–80 were not taken because of insufficient interest from the potential foreign clients.
2. Foreign travel budgeted and approved for 1980–81 is scheduled for the spring of 1981, but the department has not developed specific objectives to be accomplished by this travel beyond achieving the general goal of calling on trade organizations and several international firms in Japan and in western Europe to establish contacts.
3. The responsibilities of these three offices do not call for activities which require foreign travel. Contacts with foreign clients could be pursued just as effectively, and more efficiently, through foreign business representatives located here in California, or through trade association meetings in the United States.
4. Foreign promotional contacts by these three offices may also be pursued through the foreign travel budgeted by the staff of the International Trade Office, in order to maximize the accomplishments of these expensive trips.

Accordingly, we recommend a reduction of $20,000 in the department's proposed out-of-state travel budget.

Salary Savings Underbudgeted

We recommend an increase in the amount budgeted for salary savings, for a General Fund savings of $178,442 (Item 220-001-001).

The budget proposes $49,933 in salary savings for 1981–82. Salary savings result from anticipated employee turnover, delays in filling positions and filling vacated positions at the minimum step of the salary range. The amount of salary savings proposed is equal to 2.6 percent of the $1,916,372 proposed for salaries and wages in the budget year.

Our analysis indicates that the proposed 2.6 percent rate is substantially below the actual salary savings rate realized by the department during the last two years. Table 5 compares the actual salary savings and rates experienced, with what was estimated in the Governor's Budget for each of these years.

Table 5
Salary Savings Information [d]
1978–79 and 1979–80

Fiscal	*Estimated Salaries and Wages*	*Actual Salaries and Wages*	*Actual Salary Savings*	*Estimated Salary Savings*	*Excess Salary Savings*	*Estimated Salary Savings Rate [a]*	*Actual Salary Savings Rate [a]*
1979–80	$1,497,190	$1,263,785	$233,405	$66,120 [b]	$167,285	4.4%	15.6%
1978–79 [c]	1,381,713	1,094,667	287,046	59,257	277,789	4.3	20.8

[a] Salary savings amount divided by estimated salaries and wages figure.
[b] Includes additional salary savings imposed by Section 27.2 of the 1979 Budget Act.
[c] First full year of operation for the department which became operational on January 1, 1978.
[d] Includes only General Fund allocations. Does not include salary savings in federal allocations.

Table 5 shows that during the last two years, the department consistently underbudgeted its annual salary savings, realizing substantial excess salary savings at the end of both fiscal years. In fact, the 2.6 percent salary savings rate budgeted by the department for 1981–82 is 13 percentage points below the lower of the two salary savings rates (15.6 percent) experienced during the past two years. Even if the 15.6 percent rate is adjusted to eliminate the savings from vacant exempt positions which have subsequently been filled, the actual rate would still be 10 percent.

To properly budget for the department's personnel needs, we recommend increasing the amount budgeted for salary savings in 1981–82 to 10 percent of total salaries and wages. This would increase salary savings by $142,517 over the $49,933 budgeted, and reduce staff benefit costs by $35,925, for a total savings of $178,442 in budgeted personal services.

Excessive Budgeting for Contract Services

We recommend deletion of funds for contract services, for a General Fund savings of $10,000 (Item 220-001-001).

The budget proposes $176,255 for external consultant and professional services during 1981–82. This amount includes $10,000 budgeted by the Office of International Trade for "miscellaneous consultation."

Our analysis indicates that this amount is budgeted in the current year and is proposed for the budget year as a contingency, to fund unanticipated expenditures for consultant and professional services. In the current year, the amount has been used to fund the cost of translating and printing promotional material. These items of expenses, however, have been budgeted separately for 1981–82, and the department cannot identify any other specific need for these funds.

Accordingly, we recommend deletion of $10,000 from the department's external consultant and professional services budget.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 224 from the General Fund and various funds — Budget p. BTH 26

Requested 1981–82	$23,489,189
Estimated 1980–81	$22,063,579 [a]
Actual 1979–80	20,714,891
Requested increase (excluding amount for salary increases) $1,425,610 (6.5 percent)	
Total recommended reduction	$1,536,088

[a] Excludes one-time expenditures of $116,480,772.

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
224-001-001	Department of Housing and Community Development. For direct support of departmental operations.	General	$11,170,658
224-101-001	Department of Housing and Community Development—Local Assistance.	General	4,280,000
	—Health and Safety Code, Section 50516.	Housing Predevelopment	1,602,652
	—Health and Safety Code, Section 18060.2	Mobilehome Revolving	3,792,671
	—Health and Safety Code, Section 50661.	Housing Rehabilitation Loan	305,600
	—Health and Safety Code, Section 50531.	Urban Housing Development Loan	1,202,542
	—Health and Safety Code, Section 50740	Rental Housing Construction	200,000
	—Health and Safety Code, Section 50778	Homeownership Assistance	135,000
	—Health and Safety Code, Section 18502.5.	Mobilehome Parks Revolving	800,000
Total			$23,489,189

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Mobilehome Parks Revolving Fund. Reduce Item 224-001-001 by $515,342.*** Recommend reduction of General Fund support because revenue from fees is underbudgeted. 285
2. ***Employee Housing Inspection Program. Reduce Item 224-001-001 by $595,746.*** Recommend deletion of General Fund support to comply with existing law and legislative intent. 286
3. Mobilehome Revolving Fund Deficit. Recommend that prior to the budget hearings the department submit a plan for eliminating the budgeted fund deficit. 286
4. ***Housing Predevelopment Loan Fund. Reduce Item 224-101-001 by $425,000.*** Recommend deletion of proposed augmentation of loan fund. 287

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development (HCD) has the following responsibilities:

(1) To protect the public from inadequate construction, manufacture, repair or rehabilitation of buildings, particularly dwelling units;

(2) To promote, provide and assist in the provision of safe, sanitary and affordable housing;

(3) To identify and define problems in housing, and devise appropriate solutions.

The department carries out these responsibilities through three programs: (1) Codes and Standards, (2) Community Affairs, and (3) Research and Policy Development.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $37,431,658 from various funds for support of the Department of Housing and Community Development in 1981–82. This is $120,155,241, or 76.2 percent, less than estimated current-year expenditures. Excluding federal funds and reimbursements, budgeted expenditures are $115,055,162, or 83.0 percent, less than estimated current year expenditures. In both cases, expenditures in the budget year decline because of significant one-time expenditures in the current year that overstate the size of the department's ongoing program. The proposed level of expenditures will increase by the amount of any salary or staff benefit increases approved for the budget year.

Table 1
Department of Housing and Community Development
Expenditures and Source of Funds
1979–80 to 1981–82

Program Expenditures	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*
Codes and Standards Program	$4,725,639	$8,672,994	$7,394,425
Community Affairs Program	22,652,373	146,212,287	28,182,064
Research and Policy Development Program	654,396	2,436,618	1,980,169
Emergency Services Program	1,036,839	265,000	—
Administration-distributed	(1,333,901)	(1,807,742)	(1,820,784)
Administration-undistributed	127,061	—	—
Totals, Program Expenditures	$29,196,308	$157,586,899	$37,556,658
Unallocated General Fund Reduction	—	—	−125,000
Total Expenditures	$29,196,308	$157,586,899	$37,431,658
Source of Funds			
General Fund	$105,832,798	$28,696,340	$15,450,658
Farmworker Housing Grant Fund	230,898	86,008	—
Housing Predevelopment Loan Fund	566,747	1,200,928	1,602,652
Housing Rehabilitation Loan Fund	2,240,469	202,476	305,666
Mobilehome Revolving Fund	1,878,073	3,018,215	3,792,671
Mobilehome Parks Revolving Fund	—	—	800,000
Solar Energy Revolving Loan Fund	19,785	19,944	—
Urban Housing Development Loan Fund	440,594	883,602	1,202,542
Rental Housing Construction Fund	−82,000,000	93,819,132	200,000
Home Ownership Assistance Fund	−7,500,000	8,371,600	135,000
Land Purchase Fund	−994,473	994,473	—
Energy and Resources Fund	—	610,000	—
Motor Vehicle Account, State Transportation Fund	—	641,633	—
Federal Trust Fund	4,580,012	13,574,500	9,150,524
Reimbursements	3,901,405	5,468,048	4,791,945

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending with fiscal year 1981–82. It shows that General Fund appropriations finance 41.3 percent of the total budget. The proposed General Fund expenditures of $15,450,658 in 1981–82 are $13,245,682,or 46.2 percent, less than estimated current year General Fund expenditures. Table 1 also shows that the special funds created by Chapter 1043, Statutes of 1979—the Housing Rehabilitation Loan Fund, the Rental Housing Construction Incentive Fund, and the Home Ownership Assistance Fund—account for $102,393,208, or 65 percent, of the estimated 1980–81 expenditures and $640,666, but only 1.7 percent, of the proposed 1981–82 expenditures.

Table 2
Department of Housing and Community Development
Proposed 1981–82 Budget Changes

	General Fund	*Special Funds*	*Federal Funds*	*Reimbursements*	*Total*
1980–81 Current-Year Revised	$28,696,340	$109,848,011	$13,574,500	$5,468,048	$157,868,899
State Operations:					
Current-Year Revised	$13,448,090	$4,610,659	$629,450	$5,468,048	$24,156,247
Century Freeway Program	—	—	—	385,301	385,301
Transfer of mobilehome programs	−1,500,000	—	—	—	−1,500,000
Remote Rural Demonstration Program	155,000	—	—	—	155,000
Indian Assistance Program	90,000	—	—	—	90,000
Housing Coordinator for the Disabled	—	—	43,024	—	43,024
Employee security	10,560	—	—	—	10,560
Business services for operations	22,125	—	—	—	22,125
Emergency services	—	—	—	−265,000	−265,000
Support of AB 333 Programs	—	500,000	—	—	500,000
Solar heating migrant camps	—	−610,000	—	—	−610,000
Mobilehome parks and accessory structures	−800,000	800,000	—	—	—
Solar design competition	−500,000	—	—	—	−500,000
One-time appropriations—not carried forward	−182,117	—	—	—	−182,117
Federal program adjustments	—	—	44,550	—	44,550
Grove-Shafter Freeway Program	—	—	—	−67,184	−67,184
Office of Migrant Services	—	—	—	−272,292	−272,292
Changes in reimbursements	—	—	—	−456,928	−456,928
Price increases	552,000	134,827	—	—	686,827
Unallocated General Fund reduction	−125,000	—	—	—	−125,000
Totals, State Operations	$11,170,658	$5,435,486	$717,024	$4,791,945	$22,115,113
Local Assistance:					
Current-Year Revised	$15,248,250	$105,237,352	$12,945,050	—	$133,430,652
Land purchase program	—	−975,000	—	—	−975,000
Farm worker grants	—	−86,008	—	—	−86,008
Home ownership assistance	—	−8,371,600	—	—	−8,371,600
Rental housing construction	—	−93,819,132	—	—	−93,819,132
Housing rehabilitation	−10,000,000	−74,040	—	—	−10,074,040
One-time pass-through federal programs	—	—	−4,511,550	—	−4,511,550
Housing advisory service	−397,000	—	—	—	−397,000
Change in loan funds	—	691,473	—	—	691,473
Appropriations not carried forward	−571,250	—	—	—	−571,250
Totals, Local Assistance	$4,280,000	$2,603,045	$8,433,500	—	$15,316,545
1981–82 Proposed Expenditures	$15,450,658	$8,038,531	$9,150,524	$4,791,945	$37,431,658

Table 2 shows the significant changes in the department's 1981–82 budget, by source of funding. It shows that, of the net reduction totaling $120,155,241, $13,245,682 are from the General Fund, $101,809,480 are from special funds, $4,423,976 are from federal funds, and $676,103 are from reimbursements. Local assistance accounted for $118,114,107, or 98 percent, of the reduction.

These reductions, however, do not reflect a reduction in the department's ongoing programs. Instead, they reflect the fact the 1980–81 expenditure level includes $100 million appropriated on a one-time basis by Chapter 1043, Statutes of 1979, for several new housing programs. Funding for loans and grants authorized by Chapter 1043 included $93,819,132 for the Rental Housing Construction Program, $8,371,600 for the Home Ownership Assistance Program and $10,074,040 for the deferred payment rehabilitation loan program. The department anticipates that all funds for these programs will be committed during the current year. These funds account for $112,264,772, or 93 percent, of the total reduction.

Other significant changes in the budget year include (1) a $385,301 increase in Century Freeway project reimbursements, (2) a $975,000 decrease in Land Purchase Program loans, (3) a $610,000 reduction resulting from elimination of the solar water heating program in migrant camps, and (4) a $500,000 reduction reflecting completion of the solar design competition. In addition, General Fund appropriations decreased by the amount of the $1.5 million loan for start-up costs associated with the transfer of mobilehome programs from the Department of Motor Vehicles to the Department of Housing and Community Development.

CODES AND STANDARDS PROGRAM

The Codes and Standards Division is responsible for protecting the public from unsafe and unsanitary structures through the development and enforcement of adequate building and housing standards and regulations. The division operates inspection programs in four areas:

(1) Employee housing,
(2) Mobilehome parks and accessory structures,
(3) Mobilehome manufacturing; and
(4) Factory-built housing.

In addition, the division is responsible for the administration of the State Housing Law and the Earthquake Protection Law. It is also responsible for the (1) licensing and regulation of mobilehome manufacturers, dealers, and salespersons, and handling of consumer complaints, and (2) registration and titling of mobilehomes.

Mobilehome Park Fund Revenue Underbudgeted

We recommend the deletion of $515,342 of General Fund support (Item 224-001-001) for the administration and enforcement of the Mobilehome Parks Act because revenue from fees is underbudgeted.

The department proposes expenditures totaling $1,580,429 for the administration and enforcement of the Mobilehome Parks Act. Of this amount, $800,000 is budgeted from fees and $780,429 is budgeted from the General Fund.

Chapter 1131, Statutes of 1980 (AB 2916), established the Mobilehome Parks Revolving Fund. Revenue from the department's mobilehome park activities will be deposited in this fund. (Revenue from the department's other mobilehome activities is deposited in the Mobilehome Revolving Fund.)

Prior to the adoption of Chapter 1131, maximum fees for mobilehome park activities were established by legislation. Chapter 1131 authorized the department to set fees, by regulation, with the expectation that the aggregate revenue to the fund would not exceed the costs of the program.

The department has developed regulations implementing fee increases that will increase revenue by $800,000. This will result in total fee collections of $1,315,342. The department states that upon full implementation of the fee structure the program will be self supporting. The budget, however, reflects only the $800,000 due to the fee increases. The remaining $515,342 is not included in fee revenue, resulting in an overbudgeting of General Fund support.

Accordingly, we recommend that Item 224-001-001 be reduced by $515,342.

Noncompliance with Statutes and Legislative Intent

We recommend a $595,746 reduction in Item 224-001-001, to eliminate General Fund support for the Employee Housing Inspection program.

Current law requires that fee revenues be sufficient to pay for the cost of administering and enforcing the Employee Housing Act. In our analysis of Item 150 of the 1979 Budget Bill, we pointed out that the department was not collecting sufficient revenue to pay these costs. The Supplemental Report of the 1979 Budget Act stated that "it is the intent of the Legislature that the Employee Housing Inspection program be of a self-supporting nature."

The department has not raised the fees since in 1975. Table 3 shows that, despite the supplemental report language, the department is not collecting sufficient revenue to pay the cost of administering and enforcing the act. In fact, since the Legislature expressed its intent that the program be self-supporting, the portion of the program supported from the General Fund has increased from 58 percent to 71 percent.

Table 3
Employee Housing Act
Summary of Fee Revenue and General Fund Support

	Actual 1979–80	*Percent*	*Estimated 1980–81*	*Percent*	*1981–82*	*Proposed Percent*
Fee revenue	$139,225	42%	$245,669	29%	$245,669	29%
General Fund support	188,404	58	589,231	71	595,746	71
Totals, Program Costs	$327,629	100%	$834,900	100%	$841,415	100%

In order to ensure that the department complies with existing law and with legislative intent expressed in the Supplemental Report of the 1979 Budget Act, we recommend the deletion of $595,746 in General Fund support from Item 224-001-001. This reduction will not effect the inspection program if the Commission on Housing and Community Development increases fees to comply with legislative intent.

Eliminate Mobilehome Revolving Fund Deficit

We recommend that the department submit a plan to the fiscal subcommittees prior to hearings on the department's budget indicating how the budgeted deficit in the Mobilehome Revolving Fund will be eliminated.

The budget estimates that the Mobilehome Revolving Fund will have a $321,133 deficit at the end of the 1980–81 fiscal year. In 1981–82, the budget proposes expenditures of $3,792,671 from the fund and revenue of $3,786,480, bringing the prospected year-end deficit to $327,324.

It is poor fiscal policy to budget a fund deficit. Consequently, we believe that the department should either (1) increase fees to generate sufficient revenues to eliminate the deficit or (2) reduce expenditures by the amount of the deficit. Accordingly, we recommend that the department submit a plan to the fiscal subcommittees prior to the hearings on the department's budget indicating how it will eliminate the deficit.

Transfer of Mobilehome Program

Chapter 1149, Statutes of 1980 (AB 2915), transferred the responsibility for titling and registration of mobilehomes from the Department of Motor Vehicles to the Department of Housing and Community Development. The act transferred the authority to (1) charge and collect annual registration fees, (2) issue registration decals, and (3) administer the provisions of law related to vehicle license fees for mobilehomes. Chapter 1149 also appropriated a $1.5 million loan from the General Fund to assist in meeting startup costs associated with the transfer.

The budget does not include the 1981–82 proposed operating budget for the newly transferred mobilehome functions. The administration plans to submit this budget prior to the department's budget hearings.

COMMUNITY AFFAIRS PROGRAM

The Community Affairs program seeks to assist California residents obtain safe, sanitary and affordable housing. It does so by providing technical and financial assistance to housing sponsors and local governments. Financial assistance is provided in the form of grants, loans and housing subsidies funded from local, state, and federal sources.

This program has six elements:

(1) Rehabilitation and housing assistance;
(2) Farmworker and Indian housing services;
(3) Predevelopment housing assistance;
(4) Housing construction finance;
(5) Rural development; and the
(6) Housing replacement program.

Housing Predevelopment Loan Fund

We recommend deletion of the proposed augmentation of the Housing Predevelopment Loan Fund, for a General Fund savings of $425,000 in Item 224-101-001.

Loan Fund Status. The Housing Predevelopment Loan Fund was established by Chapter 1335, Statutes of 1976, to provide short-term loans to public agencies and nonprofit corporations. These loans are provided to cover the preliminary costs of developing federally-assisted and state-assisted housing for low income families in rural areas. The program acts as a source of funds which provides loans for expenses (excluding adminstration and construction) incurred in the process of, and prior to, securing long-term financing. The loans are repaid when long-term financing is secured. Interest is charged at a rate equal to the average yield of the Pooled Money Investment Account, unless waived.

Chapter 1335 appropriated $500,000 from the General Fund to the loan fund in 1976, and subsequent budget acts have appropriated an additional $2,475,000 to the fund.

As of December 31, 1980, the department had approved 57 loans totaling $4,299,-822, and $449,658 was available for commitment. The department estimates that the fund will receive an additional $580,539 in the January–June 1981 period and $1,321,053 in 1981–82, from loan repayments.

The department anticipates that between 12 and 16 loans averaging $90,000 each, will be funded in 1981. Thus the amount loaned is expected to be between $1,080,000 and $1,440,000.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The budget requests that an additional $425,000 be appropriated from the General Fund to the Housing Predevelopment Loan Fund. Data submitted by the department, however, indicate that this appropriation is not necessary to fund the budget program. Even if the department approves $1,440,000 loans in 1981, $911,-250 would still be uncommitted on December 31, 1981, and available to support new loans in the first half of 1982. Without the appropriation of additional funds, $1,431,301 would still be available to support new loans during all of 1982. Since the appropriation is not needed to support the budget program we recommend that it be deleted, for a savings of $425,000 in Item 224-001-001.

Century Freeway Housing Replacement Program

We recommend approval.

The budget proposes expenditures of $2,559,426 and 53 positions, 27 of which are new positions, to adminster the Century Freeway Housing Replacement Program in 1981–82. The program implements the consent decree which settled the *Keith v. Volpe* court case over a 17-mile freeway corridor from the Los Angeles airport to the City of Norwalk. The decree requires HCD to be the lead agency in an 8 to 10-year program of relocating, rehabilitating, or replacing 4,200 housing units which have been or will be displaced by the freeway construction. The court decree is the result of almost 10 years of litigation and negotiations between the plaintiff's attorney (who represented area residents, the NAACP, the Sierra Club, and the Environmental Defense Fund), Caltrans, the Federal Highway Administration, and the department. The 27 new positions would establish an early implementation and new construction program to begin work on approximately 1,000 units before the housing plan and environmental documents are completed. The program is designed to ensure that the housing completion and clearance target dates established pursuant to the consent decree and Caltrans' freeway construction schedule are met.

The expenditure proposed for 1981–82 is fully reimbursable from the State Highway Account in the State Transportation Fund, through an interagency agreement with Caltrans. The funding for the Century Freeway project, including the housing replacement program, will be split between the federal and state highway funds on a 92 percent/8 percent basis.

One-Hundred Million Dollar Housing Program

Chapter 1043, Statutes of 1979, provided $100 million for stimulating the production of low and moderate cost housing units. The $100 million includes $82 million for a new Rental Housing Construction Program, $7.5 million for a Homeownership Assistance program, $10 million for an expanded deferred payment rehabilitation loan program, and $0.5 million for departmental administration.

Rental Housing Construction Program. The Rental Housing Construction Program subsidizes the development and operation of new rental housing units, including conventional housing, manufactured housing and mobilehome parks. The department is required to ensure that (1) between 20 percent and 30 percent of the units are available to or occupied by the elderly or handicapped; (2) at least 10 percent are accessible to the physically handicapped; (3) at least 20 percent are located in rural areas; (4) at least 48 assisted units specially designed for the mentally and developmentally handicapped are funded in locations having access to special supportive services provided by another agency; (5) at least 30 percent of the units of each development assisted through the program are available on a priority basis to, or occupied by, eligible, very low and other lower income households; and (6) at least two-thirds of the assisted units are available to or occupied by very low-income households. At least 40 percent of the program's funds must be used to assist rental housing developments financed by the California Housing Finance Agency, unless certain findings are made by the department.

The program has three components: (1) the sponsor development component, (2) the rights of occupancy component, and (3) the housing authority component. The first two components involve the development of mixed occupancy new rental housing in which a portion of the units (at least 30 percent) will be subsidized and a portion will carry market rents. The housing authority component involves the development of new rental housing to be owned and operated by housing authorities. All of the units in these developments will be assisted by the state.

The department anticipates that all funds available for the Rental Housing Construction Program will be committed before the end of 1980–81. It estimates that $16 million to $20 million of development funds will be committed in January, and another $20 million will be committed in May 1981. In addition, $15.8 million has been used to establish an annuity fund which will be used to finance operating subsidies, and $31.5 million has been set aside for developments financed by the California Housing Finance Agency. Table 4 shows the department's estimate of the number, type and location of units to be developed under the Rental Housing Construction Program.

Table 4
Rental Housing Construction Program
Estimated Number, Type and Location of Units [a]

	Total Number of Units Being Developed			*Units Affordable to Lower and Very Low Income Households*		
Location of New Rental Developments	*Elderly*	*Family*	*Total*	*Elderly*	*Family*	*Total*
Northern California	330	770	1,100	173	402	575
Southern California	420	980	1,400	221	518	739
Totals	750	1,750	2,500	394	920	1,314

[a] Department's estimate as of December 1980.

Homeownership Assistance Program. Under this program, the department provides up to 49 percent of the purchase price of a dwelling unit to eligible households, to enable them to purchase housing which they would otherwise be unable to acquire. Upon sale of the unit, the department will share in the sales proceeds in proportion to its original investment. The program is targeted to condominium and stock cooperative conversions involving potential displacement, and to homeownership opportunities in mobilehome and mobilehome park activities.

The program is implemented at the local level through the commitment of funds for a one- to two-year period to local governmental agencies. The department anticipates that all funds will be committed by the end of 1980-81. Table 5 shows the department's estimate of the number, type and location of dwellings to be sponsored under the program. It shows that 387 of the 1,391 units sponsored are expected to be available to lower and moderate income households.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 5
California Homeownership Assistance Program
Estimated Number, Type, and
Location of Assisted Dwelling [a]

	Total Dwellings Being Sponsored			*Units Affordable to Lower and Moderate Income Households*		
Location of Projects	*Condominiums*	*Mobilehomes*	*Total*	*Condominiums*	*Mobilehomes*	*Total*
Northern California	662	284	946	115	56	171
Southern California	125	320	445	150	66	216
Totals	787	604	1,391	265	122	387

[a] Department's estimate as of December 1980.

Deferred Payment Rehabilitation Loan Program. The Deferred Payment Rehabilitation Loan Program provides loans for the rehabilitation of owner- and renter-occupied dwellings in specified areas. In addition, a $2 million demonstration program provides for the rehabilitation or acquisition and rehabilitation of rental housing developments. The loans bear a 3 percent interest rate, unless interest on the loan is waived, and repayment is deferred for five years. In the case of renter-occupied dwellings, the repayment may be deferred for three additional five-year periods, or a total of 20 years. Loans for owner-occupied dwellings are reviewed every five years, and repayments may be deferred for additional five-year periods as long as the department determines that the owner does not have the ability to repay the loan. Payments on loans made under the demonstration program are deferred for 25 years. All loans are fully repaid upon the sale or transfer of title.

The department commits funds to local agencies which prepare and submit individual loans for review and approval by the department. Commitments for $3.2 million were made in November 1980. The department expects to commit $2 million for a demonstration program for the elderly and handicapped in April or May 1981, $1 million for residential hotel rehabilitation, $2 million for rental units, and the remaining $1.5 million for renter- and owner-occupied dwellings before July 1981.

Based on an average loan of $7,500, the department estimates that the program will provide loans for the rehabilitation of about 1,300 units. However, the average cost of rehabilitating residential hotels and rental units may be lower, which could increase the total number of rehabilitated units to about 1,500.

Business, Transportation and Housing Agency

DEPARTMENT OF INSURANCE

Item 229 from the General Fund and Insurance Commissioners Regulatory Trust Fund — Budget p. BTH 41

Requested 1981–82	$10,721,639
Estimated 1980–81	10,023,497
Actual 1979–80	8,851,512
Requested increase (excluding amount for salary increases) $698,142 (+ 7.0 percent)	
Total recommended reduction	$458,674

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
229-001-001—Support		General	$10,029,890
229-001-218—Support		Insurance Commissioners Regulatory Trust	691,749

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Bureau of Fradulent Claims. Reduce by $214,627.*** Recommend reduction because the Insurance Commissioners Regulatory Trust Fund will not have sufficient funds to support program expansion. 292
2. Treasury Charges. Recommend enactment of legislation enabling the department to charge licensees for the cost of servicing securities on deposit with the State Treasurer. 294
3. ***Fingerprint Chart Processing. Reduce by $155,561.*** Recommend reduction because the department overestimated total cost for processing fingerprint charts. 294
4. ***Training. Reduce by $14,794.*** Recommend reduction because training plan indicates the need for a reduced amount. 295
5. ***Travel. Reduce by $45,000.*** Recommend reduction because the department overestimated travel expenses. 295
6. ***Equipment. Reduce by $28,692.*** Recommend reduction because of overbudgeting. 295

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business which is wholly regulated by the states rather than by the federal government. As a California industry, its worth in terms of direct premiums written in the state is estimated at approximately $19 billion.

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

The department is administered by the Insurance Commissioner, who is appointed by the Governor. The department maintains headquarters in San Francisco and branch facilities in Los Angeles, San Diego and Sacramento. It is currently authorized 393.5 positions.

To perform its mission, the department administers a Regulation program with two elements. The Regulation of Insurance Companies element includes: (1) the company consumer services component, which processes general public inquiries and complaints regarding the actions of insurance companies; and (2) the general regulation component which conducts field examinations and rating examinations of insurers at least once every five years.

The Regulation of Insurance Producers program element includes: (1) the producer licensing component which reviews applicants' qualifications, conducts license examinations, and issues and renews licenses; and (2) the producer compliance component which investigates complaints concerning insurance agents and brokers.

The department investigates insurance fraud under the Fraud Control program. It also administers the Tax Collection program which collects premium, retaliatory, and surplus line broker taxes from insurance companies.

DEPARTMENT OF INSURANCE—Continued

ANALYSIS AND RECOMMENDATIONS

The budget requests appropriations from the General Fund and the Regulatory Trust Fund totaling $10,721,639 for support of the Department of Insurance in 1981–82. Of this amount, $10,029,890 is requested from the General Fund and $691,749 is requested from the trust fund.The proposed appropriations represent an increase of $698,142, or 7.0 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefits increase approved for the budget year. It will also increase to the extent the department requires additional resources to review existing regulations pursuant to Chapter 567, Statutes of 1979 (AB 1111).

The department also anticipates expenditures of $4,295,791 from reimbursements, primarily in the form of fees for examining insurance companies.

The 1981–82 budget includes a request for 17 additional positions including five for rate regulation, six for the Fraudulent Claims Bureau, two for consumer complaints processing, and four for the legal and administrative divisions. Cost and staffing data for the department's programs are displayed in Table 1.

Bureau of Fraudulent Claims

Chapter 1070, Statutes of 1978 (AB 3521), established a Bureau of Fraudulent Claims within the department's Division of Consumer Affairs. The bureau is responsible for enforcing Section 556 of the Insurance Code which makes it "unlawful to (1) knowingly present or cause to be presented any false or fraudulent claim for payment of a loss under a contract of insurance, (2) knowingly prepare, make or subscribe any writing, with intent to present or use the same, or to allow it to be presented or used to support of any such claim." The provisions of Chapter 1070 will expire on January 1, 1984.

Chapter 1070 also establishes the Insurance Commissioners Regulatory Trust Fund which supports the bureau's operations. The fund derives its revenue from annual assessments of all insurance companies licensed to transact business in California. Assessments are statutorily limited to a maximum of $500.

The bureau began operation in April 1979. It conducts investigations involving insurance fraud, provides public information concerning fraud, cooperates with law enforcement agencies, and performs related activities. Currently, the bureau is staffed with 13 positions, including nine investigators, one key data operator and three clerical positions. The assessment fee has been set at $465 for the current year.

Additional Positions Inappropriate

We recommend that six additional positions requested for the Fraudulent Claims Bureau be denied, for a savings of $214,627.

The department estimates that licensee assessment will yield $460,157 for support of the Fraudulent Claims Bureau in the current year. For 1981–82, the department is requesting (1) $477,122 to fund the bureau's existing program level, and (2) $214,627 to fund six additional positions in order to enhance the bureau's investigative capabilities. These requested amounts will increase by any salary or benefit increases approved for the budget year.

The department projects that 1,100 insurance companies will be subject to assessment in 1981–82. Assuming a maximum assessment rate of $500 per insurance company, $550,000 will be available in the Insurance Commissioners Regulatory Trust Fund for support of the bureau. Consequently, the request for an appropriation of $691,749 will result in a fund shortfall of $141,749 and require a General

Table 1
Expenditure and Staffing Data
Department of Insurance Programs

		Actual 1979–80		*Estimated 1980–81*		*Proposed 1981–82*	
Program	*Element*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
Regulation	Regulation of insurance companies	263.1	$9,278,594	271.6	$10,389,102	275.7	$14,264,681
	Regulation of insurance producers	92.7	2,724,888	92.9	3,009,609	97.0	3,007,672
Fraud Control		9.0	365,380	12.0	460,157	18.0	691,749
Tax Collection		2.0	56,000	[illegible]	60,500	2.0	61,000
Administration (prorated to other programs)		(69.7)	(2,687,287)	(64.7)	(2,712,094)	(66.8)	(3,131,700)
Totals		366.8	$12,424,862	378.5	$13,919,368	392.7	$15,017,430
Reimbursements			−3,573,350		−3,895,871		−4,295,791
Net Totals			$8,451,512		$10,023,497		$10,721,639

DEPARTMENT OF INSURANCE—Continued

Fund subsidy. We do not believe such a subsidy is warranted because (1) the program is designed to be self-supported by the trust fund, and (2) the program provides a service primarily for insurance companies and not taxpayers in general. We therefore recommend that the request for six additional positions be denied, for a total savings of $214,627.

Staged Accident Investigation Reports

The Supplemental Report of the 1980 Budget Act requires the Department of Insurance and the California Highway Patrol to report on their respective investigative responsibilities concerning vehicle-related fraud activities. The request for the reports was made because of concern that the agencies' activities might overlap.

We have reviewed the reports submitted by both agencies, and these reports indicate that no such overlap exists (see our analysis of Item 271-001-044). It appears that considerable cooperation exists between the two agencies, and current resource constraints make duplication of effort unlikely.

Treasury

We recommend enactment of legislation enabling the department to charge licensees for the cost of servicing securities on deposit with the State Treasurer.

Insurance companies which underwrite workers' compensation insurance are required to post a bond or deposit securities with the State Treasurer as collateral. The State Treasurer services these securities and charges the Department of Insurance $0.12 for each interest coupon clipped. In 1979–80, the total cost to the department for servicing these securities was $91,546. The cost is projected to be $126,000 from the General Fund in the budget year.

Because the security deposit requirement applies to only one group of insurance companies, the cost of servicing the securities should be borne directly by those insurance companies, rather than by the General Fund. We therefore recommend that legislation be enacted allowing the department to charge insurance companies for the cost of servicing these securities.

Processing Fingerprints Charts

We recommend a reduction of $155,561 because the department has overestimated the cost of processing fingerprints charts.

Applicants for licensure as insurance salesagents are required to be fingerprinted. Fingerprint charts are processed by the Department of Justice, which will charge an estimated processing fee of $6.55 per chart in 1981–82.

Prior to December 1980, fingerprint charts were required to be filed with license applications. This, however, is no longer the case. The department experienced a high rejection rate on these charts because many were not sufficiently clear to be processed. Also, because not all applicants pass the examination required for licensing, many charts were being processed unnecessarily. For these reasons, the department has adopted a new procedure whereby only applicants who passed the examination will be fingerprinted. This will reduce the number of charts to be processed. Moreover, new procedures now ensures that acceptable fingerprint charts will be obtained, thus reducing processing time.

Using the department's projection that 19,377 applicants will pass the license examination in 1981–82, we estimate that the processing cost will be $126,919 in the budget year. The department's budget, however requests $282,480 for fingerprint charges in 1981–82. Accordingly, we recommend a reduction of $155,561 to correct for overbudgeting.

Excess Training Funds

We recommend a reduction of $14,794 because training has been overbudgeted.

The department requests $101,334 for training purposes in 1981–82. It has submitted a comprehensive training plan for the budget year. The plan indicates that total training needs will require an expenditure of $86,540 including approximately $9,000 to provide training for upward mobility of women and ethnic minorities. The cost of training needs identified in the training plan is $14,794 less than the amount requested for training in the budget. On this basis, we recommend a reduction of $14,794 to correct for overbudgeting.

Travel Overbudgeted

We recommend a reduction of $45,000 because the department has overestimated its travel needs.

The department's field examination division conducts financial examinations of licensed insurance companies. For 1979–80, 127 examinations were conducted by a staff of 50 insurance examiners. The division expended $88,815 for in-state travel and $119,094 for out-of-state travel.

For the budget year, the department is requesting $151,477 for two additional examiner positions to handle an increase in field examination workload. We believe the department's request for the positions is justified. However, the requested amount includes $75,000 for travel. This amount is considerably larger than what past travel experience justifies. Based on past experience and allowing for the fact that one of the two additional examiners will conduct mostly out-of-state examinations, we estimate that the two positions will require $30,000 for travel expenses. We therefore recommend that the department's budget be reduced by $45,000.

Equipment Overbudgeted

We recommend a reduction of $28,692 from the amount proposed for the purchase of equipment because of overbudgeting.

The Governor's Budget requests $96,792 for equipment expenditures in 1981–82. The department, however, can substantiate a request for equipment addition and replacement of only $68,100. We therefore recommend a reduction of $28,692 to correct for the overbudgeting.

Attorney General Legal Services

Our analysis of the Governor's Budget reveals that there is a discrepancy between the amount of legal services which the department is budgeted to obtain from the Attorney General, and the amount of legal services which the Attorney General is budgeted to provide the department. Specifically, the department proposes to expend $190,000 for Attorney General services. The Department of Justice budget indicates that 3,100 hours, or approximately $152,675 of legal services will be provided to the Department of Insurance. Because of this inconsistency 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 this department in the budget year.

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 (Item 082-001-001). We plan to evaluate the department's proposed expenditures for Attorney General services after we receive the reconciled data from the Department of Finance.

Business, Transportation and Housing Agency

DEPARTMENT OF REAL ESTATE

Item 232 from the Real Estate Fund — Budget p. BTH 48

Requested 1981–82	$16,627,456
Estimated 1980–81	15,775,500
Actual 1979–80	11,954,188
Requested increase (excluding amount for salary increases) $851,956 (+ 5.4 percent)	
Total recommended reduction	$532,216

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Operating Expenses. Reduce by $369,631.*** Recommend reduction because operating expenses are overbudgeted. 300
2. ***Clerical Positions. Reduce by $11,505.*** Recommend extension of three clerical positions and reduction of $11,505 to correct for overestimating support expenses. 301
3. ***Regulatory Staff Increase. Reduce by $93,320.*** Recommend denial of request for additional positions because filing requirement is new and number of applications is small. 301
4. ***Attorney General Overstated. Reduce by $57,760.*** Recommend reduction because the department overstated its estimate for Attorney General services. 302

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for protecting the public in the sale of subdivided property and real property security, as well as in real estate transactions handled by agents.

The department is administered by the Real Estate Commissioner, who is appointed by the Governor. Department headquarters are in Sacramento, with district offices in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. For the current year, the department has 479 authorized positions.

To perform its mission, the department administers four programs: (1) transaction activities, (2) offerings and securities, (3) policy and planning, and (4) administration. The *transaction activities* program is responsible for protecting the public in transactions with real estate salespersons and brokers. This program consists of the licensing, and regulatory and recovery elements. The licensing function includes (a) the preparation, administration, and scoring of examinations required for salesperson and broker licensing, (b) the maintenance of license records, and (c) the handling of inquiries received from licensees and the public. The regulatory and recovery element takes disciplinary action against licensees for violations of real estate law. This element also investigates claims made against the recovery reserve in the Real Estate Fund, and assists in the recovery of money when violations of law by a licensee in department-licensed transactions impose a financial loss on a complainant.

The *offering and securities* program is responsible for protecting the public from fraud and misrepresentation of facts in sales of subdivided lands and real estate securities. The program contains two elements: (1) in-state subdivisions, and (2) real property securities.

Table 1
Expenditure and Staffing Data
Department of Real Estate

Program	*Element*	*Actual 1979–80* Personnel-Years	*Actual 1979–80* Expenditure	*Estimated 1980–81* Personnel-Years	*Estimated 1980–81* Expenditure	*Projected 1981–82* Personnel-Years	*Projected 1981–82* Expenditure
Transaction Activities	Licensing	117.1	$2,568,881	100.6	$2,582,099	101.0	$2,999,545
	Regulatory and recovery	133.5	4,618,666	157.0	5,034,984	169.6	5,550,251
Offerings and Securities	Subdivision	112.9	4,452,432	202.8	7,522,502	170.0	7,330,082
	Real property securities	2.2	68,414	2.2	79,346	2.2	83,070
Policy and Planning	Education and research	4.3	538.299	4.4	588,520	4.6	616,149
	Legislative liaison	2.2	82,900	2.2	90,900	3.2	120,059
	Continuing education	3.3	103,209	3.3	117,149	5.4	168,300
Administration (prorated to other programs)		(31.0)	923,414	(38.0)	1,044,738	(43.0)	1,237,844
Totals		375.5	$12,432,801	472.5	$16,015,500	456.0	$16,867,456
Reimbursement			−478,613		−240,000		−240,000
Net Totals			$11,954,188		$15,775,500		$16,627,456

DEPARTMENT OF REAL ESTATE—Continued

Functions performed under the *policy and planning* program include (1) the support of real estate courses and projects in educational institutions, (2) legislative liaison, and (3) course approval and continuing education activity.

The *administration* program includes the management and policy formulation functions of the commissioner's office and central services such as accounting, publications and personnel. Program costs include overhead expenditures, and are prorated among the three operating programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $16,627,456 from the Real Estate Fund for support of the department in 1981–82. The department also proposes expenditures of $240,000 to be financed by reimbursements. Thus, the total expenditure program will be $16,867,456 in 1981–82, which is an increase of $851,956, or 5.3 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.

Table 1 shows the expenditures and staffing data for the programs administered by the department. The total expenditures of $16,867,456 include $537,000 for recovery act claims, $389,202 for funding real estate education and research projects, and $15,941,254 for department support.

Proposed Program Changes

The budget proposes an increase of $2,533,340 for its various department program activities. It proposes the addition of 94 positions, including an extension of 60 temporary help positions through the budget year. Table 2 summarizes the proposed increases.

Table 2
Department of Real Estate
Summary of Proposed Increases
1981–82

Program	*Activity*	*Positions*	*Amount*
Licensing	EDP augmentation	6	$131,099
	Renewal—continuing education	4	88,439
	Original license workload	2	34,560
	Data correction	3	50,652
Transaction Activities	Regulatory workload	7	154,160
	Investigation of time-share complaints	4	93,320
Offerings and Securities	Subdivision	60	1,757,160
Policy and Planning	Continuing education	2	45,235
	Management analysis	4	133,453
	Legislative liaison	1	24,664
Administration	Personnel	1	20,598
Totals		94	$2,533,340

Real Estate Fund

Table 3 illustrates the condition of the Real Estate Fund which supports the department's programs. Available fund resources are projected to be $22,772,798 in 1981–82. The proposed appropriation of $16,627,456 from the fund will result in an accumulated fund surplus of $6,145,342 on June 30, 1982. The table shows that the surplus, which has been decreasing in recent years, is expected to decline by 13.5 percent during the budget year.

Table 2 also shows that revenues to the Real Estate fund have been increasing, and are projected to increase by 16 percent over estimated current year revenues. The main source of revenue increase is subdivision filing fees. The department has recently revised subdivision filing fees, effective January 1, 1981, so that fees reasonably cover the cost of processing subdivision filing applications.

Table 3
Real Estate Fund Condition

	Actual 1979–80	*Estimated 1980–81*	*Change From Previous Year*	*Projected 1981–82*	*Change From Previous Year*
Accumulated surplus July 1 (adjusted)	$10,845,056	$9,370,490	–13.6%	$7,102,118	–24.0%
Revenue	10,479,699	13,515,250	29.0	15,670,680	16.0
Total resources available	$21,324,755	$22,885,740	7.3%	$22,772,798	–0.5%
Expenditures	11,954,265	15,783,622	32.0	16,627,456	5.4
Accumulated surplus June 30	$9,370,490	$7,102,118	–24.2%	$6,145,342	–13.5%
Surplus available for appropriation:					
Department of Real Estate	$3,270,680	$2,506,243	–23.3%	$640,126	–74.5%
Reserve for education and research	3,759,721	2,294,759	–29.0	3,212,997	40.0
Reserve for recovery	2,340,089	2,301,116	–1.7	2,292,219	–0.4

Subdivision Public Report Filings

Section 11018.2 of the Business and Professions Code requires that a public report from the Real Estate Commissioner be obtained before any lots or parcels in a subdivision can be sold or leased, or offered for sale or lease. The subdivision public report discloses information to the prospective buyer on such matters as the availability of services such as sewage facilities, public utilities, and schools. A subdivider must substantiate the facts and statements included in the report.

There are two types of public report filings: (1) standard filings, and (2) common interest filings. The standard filings are for subdivisions with no areas owned in common, whereas common interest filings are required for subdivisions which include areas owned in common such as those subdivisions involving condominiums. The required documentation for a public report is more extensive for common interest filings than for standard filings, and the processing time is longer.

The law also requires that public reports be amended when there are substantive changes in the setup of offerings for sale of subdivisions. The commissioner's report is in effect for five years, and must be renewed after the expiration in order that subdivisions can continue to be offered for sale or lease. Thus, besides new filings, the department also receives applications to amend or renew public reports.

Public report filings have increased since 1977–78. There has also been a shift from standard filings to common-interest filings, which require a longer time to process. This growth in workload has resulted in a backlog of filings to be processed. For the current year, the Legislature approved a substantial increase in staff for the subdivision unit to eliminate this backlog. According to the department, the number of pending cases has been reduced. There were 5,669 pending files at the end of November 1980, compared to 6,031 at the end of June 1980.

Legislative Changes

In 1980, the Legislature enacted several bills which will affect the subdivision public report process. The enacted statutes simplify the subdivision report process and ensure that public reports are issued by the department in a timely manner.

1. ***Chapter 601, Statutes of 1980 (SB 1736).*** Chapter 601 requires that a public

DEPARTMENT OF REAL ESTATE—Continued

report be obtained prior to the offering of 12 or more time-share estates or uses. Currently, the department has 29 applications for public reports.

2. ***Chapter 1336 and Chapter 1335, Statutes of 1980 (SB 1776 and SB 1777).*** These statutes eliminated the requirement for certain documents previously required for a public report, and deleted the public report requirement for certain types of subdivisions. Specifically, the following types of subdivisions are exempted from the public report requirement: (a) standard subdivisions inside city limits with completed residential structures and normal city service, (b) common-interest subdivisions of less than five units, (c) subdivisions developed by public agencies, and (d) commercial and industrial subdivisions. The simplification of the filing requirements and the exemption of certain subdivisions from filing will reduce the department's workload.

3. ***Chapter 1152, Statutes of 1980 (AB 2320).*** Chapter 1152 imposes statutory time limits on the department for various phases of the public report issuance process. The department will have to modify its review process to ensure compliance with the mandate of Chapter 1152. This will likely result in an increase in the staffing needs of the department.

Overbudgeting of Operating Expenses

We recommend a reduction of $369,631 because funds proposed for operating expenses have been overbudgeted.

Our analysis indicates that the department has overbudgeted the funds for operating expenses in two areas.

1. ***Temporary Help.*** In the current year, the department is authorized 60 temporary help positions to handle a backlog of subdivision public report filings. For the budget year, the department requests an extension of the 60 positions at a cost of $1,757,160. Of this amount, $588,260 will be for various operating expenses, including training.

Our analysis indicates that the backlog of files has declined, but due to recently enacted legislative mandates, there will continue to be a substantial workload in the subdivision unit. Accordingly, we recommend approval of the department's request to extend the 60 temporary help positions through 1981–82. However, because these positions were authorized for the current year, operating expenses for these positions are included in the base budget for 1981–82. The department's request for additional operating expense funds (excluding training) is overstated by $303,120. For these reasons, we recommend that the budget be reduced by this amount.

2. ***Expiring Positions.*** In the current year, the department is authorized 18 graduate legal assistants and 14 management services assistants as part of the additional personnel to handle subdivision public report backlog. These 32 limited-term positions are due to expire on June 30, 1981. Funding for these positions in the current year includes $577,464 for personal services and $62,160 for operating expenses.

Because these positions expire at the end of the current year, there will be no need to provide funds for operating expenses of these positions in 1981–82. We therefore recommend that $66,511 (the current year amount adjusted for price increase) be deleted.

Management Analysis Unit

We recommend approval.

Because of the backlog and delays in issuing subdivision reports, the department initiated the Subdivision Systems Project in 1979–80 to identify methods to simplify the processing of applications and to coordinate the implementation of improvements in the public report issuance process. The project, currently staffed with five positions, is scheduled for termination on June 30, 1981.

The department maintains that its three main program activities—subdivision filing, regulatory activities and complaint processing, and licensing—should be reviewed on a regular basis in order to review and improve procedures and increase the level of services. Accordingly, the department is proposing to establish a management analysis unit in the Policy and Planning Division. The department requests $133,453 to fund four positions for this unit in the budget year. We concur with the department's proposal.

Extension of Clerical Positions

We recommend approval of the request to extend three temporary clerical positions through the budget year. We further recommend a reduction of $11,505 to correct for overbudgeting of operating expenses in support of these positions.

The department recently automated its licensing program, including examination scheduling and scoring, issuance of original and renewal sales and broker licenses, and other related license services. There have been various technical delays in completing this EDP licensing project. In addition, there is a need to adjust and correct error entries in the files in order that the system can function. For the current year, the department is authorized six temporary clerical positions to complete the correction task. The six positions will expire June 30, 1981.

The department maintains that a substantial amount of data correction is necessary, and is requesting an extension of three clerical positions through the budget year to continue the correction function. We believe these positions are warranted. However, our analysis indicates that $11,505 has been included in the budget for additional operating expenses for these positions. Because the request is to approve existing temporary positions for 1981–82, the operating expenses are already included in the department's base budget for 1981–82. We therefore recommend a reduction of $11,505 from the department's 1981–82 budget request.

Continuing Education

We recommend approval.

Chapter 1346, Statutes of 1976, requires all sales and broker licenses renewals to complete 45 hours of approved continuing education courses during the four-year period prior to renewal. This requirement took effect January 1, 1981. The department is responsible for determining that the requirement is satisfied before a renewal license is issued. The Real Estate Commissioner is also required to provide the Legislature and the Governor with information on the program by February 15, 1982 and again on February 15, 1983.

Currently, the department processes approximately 49,000 renewals each year. It is requesting four program technicians to review renewals for compliance with the requirements mandated by Chapter 1346. We believe the positions are justified by workload.

Regulatory Staff Increase

We recommend that funding for four positions for investigations of time-share real estate projects be denied, for a savings of $93,320.

The department's Regulatory Division investigates complaints that the Real Estate Law has been violated. Currently, there are 118 authorized positions in the division, including 83 auditors and real estate specialists positions and 35 clerical positions.

Regulatory workload has increased since 1978–79. The budget proposes the addition of seven positions for increased workload in 1981–82. Included in the

DEPARTMENT OF REAL ESTATE—Continued

seven are three real estate specialists, one auditor and three clerical positions. We believe these positions are warranted.

The department is also requesting four additional positions—three real estate specialists and one clerical position—to investigate violations of the time-share provisions of the Subdivided Lands Act. Effective January 1, 1981, Chapter 601, Statutes of 1980 (SB 1736) requires subdividers to obtain a public report prior to the offering of 12 or more units of time-share estates. Currently, the department has received 29 such applications. It projects that for 1981–82, it will receive approximately 50 applications.

This filing requirement will increase the department's subdivision and regulatory workload. Because Chapter 601 has only been effective since January 1981, however, there is no actual workload data which can be used to project the number of complaints the department will receive regarding time-share projects. Given that the requirement is new and the number of applications is small, we believe that the request for four positions for regulatory activities related to Chapter 601 is premature. Accordingly, we recommend the request be denied, for a savings of $93,320.

Attorney General Services Overstated

We recommend a reduction of $57,760 because the department overstated its estimate for Attorney General services.

The department has applied a factor, equivalent to 5 percent of personal service expenditures, to budget for central administrative services in 1981–82. This 5 percent factor includes 2 percent for general administration, including services from agencies such as the Department of Finance and the State Controller. The remaining 3 percent, according to the department, is for Attorney General service charges.

We find this method of budgeting for Attorney General services inappropriate. Expenditures for Attorney General services should be budgeted based on actual hours of services used, and not on total personal service expenditures. It is unlikely, for example, that an additional clerical position or computer programmer would cause the department to incur extra costs for Attorney General services. Our review of actual Attorney General hours used by the department in prior years indicates that by applying a percentage factor to the budget for all central administrative services, the department has overstated the need for Attorney General services in 1981–82 by $57,760. Accordingly, we recommend a reduction in the department's budget request.

Business, Transportation and Housing Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 234 from the Savings and Loan Inspection Fund — Budget p. BTH 54

Requested 1981–82	$7,157,617
Estimated 1980–81	6,960,704
Actual 1979–80	5,630,460
Requested increase (excluding amount for salary increases) $196,913 (+2.8 percent)	
Total recommended reduction	$540,105

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Outside Consulting and Professional Services. Reduce by $178,000.*** Recommend reduction of $178,000 for consulting and professional services which have not been justified. — 304
2. ***Underestimated Salary Savings. Reduce personal services by $362,105.*** Recommend reduction because budget underestimates department vacancy rate. — 305
3. Savings and Loan Inspection Fund Surplus. Recommend adoption of supplemental report language directing that the department estimate personal services expenditures more accurately using past vacancy rate experience, to prevent large surpluses from developing. — 305

GENERAL PROGRAM STATEMENT

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

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Its headquarters is in Los Angeles, and a branch office is located in San Francisco. The department is currently authorized to have 158 positions.

The department is supported from the Savings and Loan Inspection Fund. Fund revenues are derived from an annual assessment levied on all state-regulated associations. The assessment is proportional to association assets, and is set by the commissioner at a level sufficient to fund the department's annual operating costs.

The department performs its responsibilities under the "supervision and regulation" program. This program is divided into six elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, (5) management information systems, and (6) administration.

The examination element is by law responsible for examining each licensed association at least once every two years to verify that the association is complying with law, regulations and directives; evaluate the soundness of operating policies and procedures; and ascertain the financial soundness and solvency of the association. This element also handles consumer complaints and inquiries.

The appraisal element makes field appraisals of real property upon which loans have been made by associations. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and mergers.

DEPARTMENT OF SAVINGS AND LOAN—Continued

To assist other program elements, the economic and financial information element provides the department with statistical and analytical information, and the management information systems element provides electronic data processing services.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $7,157,617 from the Savings and Loan Inspection Fund for support of the department in 1981–82. This is an increase of $196,913, or 2.8 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. The department also anticipates $19,421 in reimbursements for travel expenses incurred for appraising out-of-state loans. Thus, the department is requesting a total expenditure program of $7,177,038 for 1981–82.

Cost and staffing data for the department's programs are presented in Table 1.

Table 1
Department of Savings and Loan Programs
Expenditure and Staffing Data

	Actual 1979–80		*Estimated 1980–81*		*Proposed 1981–82*	
Program and Elements	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
Supervision and Regulation						
Examination	59.6	$2,088,787	62	$2,659,685	62	$2,743,410
Appraisal	32.2	1,194,522	34	1,546,698	34	1,596,477
Facilities licensing and legal assistance	6.0	290,914	6	364,254	6	388,643
Economic and financial information	4.4	195,305	6	265,842	6	413,082
Management information system	9.0	501,911	9	756,895	9	653,437
Administration	37.5	1,383,708	42	1,386,751	40	1,381,989
Totals	148.7	$5,655,147	159 [a]	$6,980,125	157	$7,177,038
Reimbursements		−24,687		−19,421		−19,421
Net Totals		$5,630,460		$6,970,704		$7,157,617

[a] The department is authorized 158 positions in 1980–81. The 159 personnel-years figure reflects the total estimated personnel-years needed for the current year, adjusted for salary savings and two administratively added positions.

External Consulting and Professional Services

We recommend a reduction of $178,000 for outside consulting and professional services.

In the current year, the department is authorized $178,000 for outside consultant and professional services. This amount includes (1) $135,000 for professional services to redesign the department's financial evaluation system, subject to the Department of Finance's approval of a feasibility study, and (2) $43,000 for legal consultant services to assist department staff in drafting revisions to existing statutes that will permit the department to supervise and regulate the industry more effectively. Both are one-time projects and funding was requested for the current year only.

In its 1981–82 proposed budget, the department is again requesting $178,000 *without* any substantiation of need. The department has not identified or justified the projects or services to be purchased with these funds. Accordingly, we recommend the deletion of $178,000 from the department's budget.

Underestimated Salary Savings

We recommend a reduction of $362,105 for personal services because the budget underestimates the department's vacancy rate.

The department estimates that the number of vacant positions during 1981–82 will be the equivalent of one personnel-year, resulting in salary savings of $18,567. This represents a vacancy rate of 0.6 percent for the department's 158 authorized positions.

The projected vacancy rate is well below what the department has experienced in the past. For 1977–78, 1978–79 and 1979–80, the department experienced an average vacancy rate of 7.2 percent of total personnel-years. Because the actual vacancy rate has been considerably higher than the budgeted vacancy rate, the department's personal services have been overbudgeted. For 1978–79, total personal services expenditures were $544,558 below the appropriations for personal services. In 1979–80, the overbudgeted amount was $696,618.

To budget properly for the department's personal services need and avoid appropriating more than is needed, we recommend that an average vacancy rate of 7.2 percent be assumed. Using this rate, we estimate that the department's total personal service expenditures for 1981–82 will be $4,978,202 rather than the proposed $5,340,307. We therefore recommend that the amount proposed for personal services be reduced by $362,105.

Savings and Loan Inspection Fund Surplus

We recommend adoption of supplemental report language directing the department to estimate personal service expenditures more accurately using past vacancy rate experience, in order to prevent a large year-end surplus in the Savings and Loan Inspection Fund.

The department projects that $7,499,563 will be available in the Savings and Loan Inspection Fund for department support in 1981–82. The department's proposed budget of $7,157,617 will leave a surplus of $341,946 in the fund as of June 30, 1982. This amount is equivalent to 4.8 percent of the department's proposed expenditures for the budget year.

A surplus of this size would not be inconsistent with the 1979 Budget Act, which prohibits the department from establishing assessments on savings and loan associations that would result in a fund surplus exceeding 10 percent of the department's total budgeted expenditures. However, the *actual* surplus in past years has been significantly larger than the amount projected in the budget, as indicated in Table 2. For instance, the fund surplus on June 30, 1980 was $1,429,515, which was 25.4 percent of the department's actual expenditures for fiscal year 1979–80. The actual surplus was over four times larger than the surplus *estimated* for that period ($345,582). Similarly, the fund surplus for the current year was originally projected to be $335,708. Based on midyear estimates, this surplus will be $822,563 on June 30, 1981, or 2.4 times the original projection.

Table 2
Savings and Loan Inspection Fund Surplus
As of June 30

	Projected in Governor's Budget	*Estimated at Midyear*	*Actual*	*Actual Surplus as Percent of Actual Expenditures*
1977–78	$696,263	$404,552	$922,596	16.9%
1978–79	560,691	629,073	1,098,190	20.6
1979–80	1,198,130	345,582 [a]	1,429,515	25.4
1980–81	335,708	822,563	N/A	N/A
1981–82	341,946	N/A	N/A	N/A

[a] Midyear estimate of fund surplus was significantly less than projected due to control language included in the 1979 Budget Act governing the size of the fund surplus.

DEPARTMENT OF SAVINGS AND LOAN—Continued

The department has consistently underestimated the year-end surplus because it has overbudgeted expenditures in each of these years. Because the department's assessments on licensed savings and loan associations are intended to cover its projected expenditures for the following fiscal year, overbudgeting for personal services results in associations having to pay a higher assessment than necessary.

To encourage the department to budget properly for personal services, and thereby prevent overassessments on savings and loan associations, we recommend that the following supplemental report language be adopted: "The department shall use past actual vacancy rates to estimate personal services expenditures in its budget proposals."

CALIFORNIA TRANSPORTATION COMMISSION

Item 260 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 58

Requested 1981–82	$1,050,988
Estimated 1980–81	1,003,395
Actual 1979–80	751,822
Requested increase (excluding amount for salary increases) $47,593 (+4.7 percent)	
Total recommended increase	$30,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Mass Transporation Review. Augment Item 260-001-046 by $30,000.* Recommend increased staff to review mass transportation allocation requests.	307

GENERAL PROGRAM STATEMENT

The California Transportation Commission was created by Chapter 1106, Statutes of 1977, to replace the California Highway Commission, California Toll Bridge Authority, Aeronautics Board, and State Transportation Board. The commission consists of nine persons appointed by the Governor who serve staggered four-year terms. One member of the Senate appointed by the Senate Rules Committee and one member of the Assembly appointed by the Speaker also serve as ex-officio members.

The commission's major responsibilities include: (1) evaluating the Department of Transportation's annual budget; (2) determining transportation projects to be funded within annual appropriations; (3) adopting a five-year State Transportation Improvement Program; (4) adopting and issuing one-year and five-year transportation revenue estimates to be used by regional transportation planning agencies in developing regional transportation programs; (5) resolving differences between state and regional transportation agencies' improvement programs and (6) issuing a California Transportation Plan in a biennial report.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,050,988 from the Transportation Planning and Development (TP and D) Account, State Transportation Fund, for support of the commission in 1981–82. This is an increase of $47,593, or 4.7 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.

The budget proposes 12 positions to support commission activities in 1981–82, the same number as in the current year. This includes an executive secretary appointed by the commission, six professional staff and five clerical positions.

Display of Expenditures

Chapter 161, Statutes of 1979 (SB 620), appropriated $5 million to the commission for allocation to public agencies to purchase and improve intermodal transfer facilities. Approximately $3.4 million of the amount appropriated by Chapter 161 has been allocated.

The 1980–81 Governor's Budget displayed the $5 million in the budget of the Department of Transportation, rather than in the budget of the commission. As a result, the Legislature adopted language in the supplemental report to the 1980 Budget Act expressing its intent that "future budgets of the commission should include all legislative appropriations made to it, including the $5 million appropriated by Chapter 161".

The 1981–82 Governor's Budget does *not* display actual or planned expenditures for intermodal transfer facilities. Commission staff indicate the display of funds requested by the supplemental report language was mistakenly omitted from the commission's budget.

Mass Transportation Review

We recommend an augmentation of $30,000 and one position to the Transportation Planning and Development Account (Item 260-001-046), to provide for review of mass transportation capital outlay and local assistance requests.

The commission was provided funds for 10 positions in the 1978 Budget Act to carry out the duties imposed upon it by Chapter 1106. In 1979–80, two positions were added to the commission's budget to allow a more detailed financial analysis of highway projects.

Since passage of Chapter 161, the commission's role in the mass transportation area has expanded. Our review indicates that the commission's current staffing level is not sufficient to perform both the duties required by Chapter 1106 and its new duties in the mass transportation area. There are two reasons for this:

1. ***The number of mass transportation projects which the commission must review has increased.*** Prior to passage of Chapter 161, the commission was responsible for allocating approximately $30 million annually to transit guideway and terminal projects. The State Highway Account was the source of almost all the funding for these programs. Chapter 161 increased state mass transportation funding by more than $100 million annually. As a result, in 1981–82, the commission is authorized to allocate approximately $120 million for transit guideways and terminals.

In addition to this general workload increase, we recommend in our analysis of Special Transportation Programs (Item 264-101-046) that authority for allocation of mass transportation discretionary funds be shifted from the Business, Transportation and Housing Agency to the commission. This also will add to the commission's workload. Finally, because the department's Mass Transportation Program expenditures have increased, the commission's responsibility for review of that portion of the department's budget has expanded as well.

2. ***The level of staff effort required to review rail projects has increased.*** In the

CALIFORNIA TRANSPORTATION COMMISSION—Continued

past, applications for capital outlay funds usually have been submitted by local agencies. When state or federal funding is expected, the Department of Transportation is required by law to review and approve the proposed projects. The commission relies on the guideway reviews compiled by the department when it allocates transit monies. Recently, however, the department has become the primary advocate for commuter and intercity rail capital improvements. The department, therefore, is charged with objectively reviewing rail projects which it has also proposed.

Without additional staff for analysis, it is difficult for the commission to judge the merits of the department's rail proposals. For example, according to the department's budget materials, no guideway review of the San Jose-San Francisco commuter service is planned during either the current or budget years. Despite the absence of this guideway review, the commission allocated approximately $10 million to the department for this project. Commission staff now indicate that none of these funds are likely to be encumbered by the end of 1980–81. Improved allocation decisions in the future are dependent upon adequate commission staffing.

Although the level of effort devoted by commission staff to mass transportation activities has increased, no positions have been added for this purpose. By comparison, the Department of Transportation's Mass Transportation program staff is proposed to increase from 177.5 to 221.2 personnel-years (25 percent) between 1979–80 and 1981–82. Our analysis indicates that additional staff is needed to accommodate increased workload in the mass transportation area, and to review in detail commuter rail improvement requests. We recommend, therefore, that Item 260-001-046 be augmented by $30,000 and one position to allow additional review of transit capital outlay and local assistance projects.

CALIFORNIA TRANSPORTATION COMMISSION—REAPPROPRIATION

Item 260-490 from the State
Transportation Fund — Budget p. BTH 58

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 161, Statutes of 1979, appropriated $5 million from the State Transportation Fund to the commission for allocatation to Caltrans or local government for acquisition and improvement of intermodal transfer facility projects. Approximately $3.4 million of this amount has been allocated. The budget proposes that the unencumbered balance be reappropriated for expenditure until June 30, 1982. Because these funds are needed to acquire additional intermodal facilities, we recommend approval of this request.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 264 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 60

Requested 1981–82	$10,200,000
Estimated 1980–81	6,444,000
Actual 1979–80	—
Requested increase (excluding amount for salary increases) $3,756,000 (+58.3 percent)	
Total recommended reduction	$3,700,000

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
264-001-046—Support		Transportation Planning and Development Account, State Transportation	$200,000
264-101-046—Local Assistance		Transportation Planning and Development Account, State Transportation	10,000,000
Total			$10,200,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

Analysis page

1. ***Discretionary Transportation Assistance. Reduce by $3,500,000.*** Recommend deletion of increase in funding for discretionary local transportation assistance because adequate justification for an increase has not been provided. Also recommend Budget Bill language requiring that remaining discretionary funds be allocated by the California Transportation Commission according to specific guidelines. 310
2. ***Research and Training in Public Transportation Systems. Delete Item 264-004-046 for a reduction of $200,000.*** Recommend deletion of funding for unspecified transportation research. 312

GENERAL PROGRAM STATEMENT

Chapter 161, Statutes of 1979 (SB 620), made major changes in state rail and transit programs, and in how funds deposited in the Transportation Planning and Development (TP and D) Account are utilized. It appropriated $10 million in discretionary funds to the Secretary of Business, Transportation and Housing to be allocated for special public transportation needs which would not otherwise be met. In the 1980 Budget Act, the Legislature appropriated an additional $6.4 million in TP and D Account funds for this purpose.

In addition, Chapter 161 appropriated $10 million to the secretary for a program to investigate the practicality and cost-effectiveness of alternative motor vehicle fuels. The act also provided an annual appropriation to the secretary for allocation under a local transit assistance program. Approximately $69.4 million in TP and D Account funds are expected to be allocated for this program in 1981–82. Finally, Chapter 161 appropriated other funds for transit purposes, and assigned respon-

SPECIAL TRANSPORTATION PROGRAMS—Continued

sibilities for various programs to the Department of Transportation and the California Transportation Commission.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $10.2 million from the Transportation Planning and Development Account, State Transportation Fund, for Special Transportation Programs in 1981–82. Of this amount, $10,000,000 is proposed to continue the discretionary program for unmet local transportation needs. The remaining $200,000 is proposed for a new program for research in public transportation systems engineering, management and coordination. In addition, during the budget year, $69,386,452 in funds appropriated in Chapter 161 will be subvened on a formula basis to local agencies for the operation of public mass transit systems. Table 1 shows changes in this program, by major activity group.

Table 1
Special Transportation Programs
Changes in Activities and Funding Levels
1980–81 to 1981–82

Activity	*Estimated 1980–81*	*Proposed 1981–82*	*Change Amount*	*Change Percent*
1. Special public transportation needs....	$6,444,000	$10,000,000	$3,556,000	55.2%
2. Training and research in public transportation systems	—	200,000	200,000	—
3. State transportation assistance [a]	74,307,259	69,386,452	−4,920,807	−6.6
4. Alternative motor vehicle fuels research [b]	5,955,000	—	−5,955,000	−100.0
Totals	$86,706,259	$79,586,452	$−7,119,807	−8.2%

[a] Local transit subventions appropriated annually by Chapter 161, Statutes of 1979.
[b] Demonstration project funds appropriated by Chapter 161 to the Secretary of the Business, Transportation and Housing Agency. A discussion of this program is included in the analysis of the secretary's budget (Item 052).

Discretionary Transportation Assistance Program

We recommend a reduction of $3.5 million from the Transportation Planning and Development Account for discretionary local transportation assistance (Item 264-101-046) on the basis that no justification for an increase has been given. We further recommend Budget Bill language requiring that any funds provided for discretionary assistance be allocated by the California Transportation Commission pursuant to guidelines developed by the commission. Finally, we recommend a reduction of $106,685 and three personnel-years from the Transportation Planning and Development Account (Item 266-001-046) for program support.

The budget requests a $10 million appropriation to continue the discretionary local transportation assistance program authorized by Chapter 161, Statutes of 1979 (SB 620).

Chapter 161 appropriated $10 million to the Secretary for Business, Transportation and Housing to allocate for "public transportation purposes to those areas with special public transportation needs which cannot be met otherwise". The Legislature appropriated an additional $6,444,000 to the department in the 1980 Budget Act for allocation by the secretary to projects meeting the transportation needs of low-mobility persons.

State and local agencies submitted applications totaling $172.6 million for the $10 million appropriated by Chapter 161. At the request of the secretary, the Department of Transportation reviewed the applications and forwarded a list of 72 projects costing $13 million to the agency. In evaluating the proposals, the department gave priority consideration to those projects (1) not eligible for other state or federal funding, (2) in unique areas of statewide interest, and (3) that would enhance the mobility of low-mobility groups. The secretary allocated the $10 million to 57 projects in June 1980.

Our analysis of the projects funded by the secretary found that:

- In one case, funds were used to finance a project which was previously denied funding by the Legislature. This would appear to be a violation of Section 15 of the Budget Act.
- Funds were used to pay the entire cost of purchasing buses; no local or federal financial participation was required. This is not good public policy because local agencies should have a financial stake in their projects to increase the likelihood of successful implementation.
- Some projects that were given a low priority by the department were funded by the secretary. For example, funds were allocated to a community organization to transport visitors to prisons. Using criteria established by the secretary, the department ranked this project last in its project category. It appears that these criteria did not play a dominant role in evaluating the project proposals.
- Some projects were funded at levels substantially in excess of the amounts recommended by the department.

The secretary has not allocated the $6,444,000 appropriated for special public transit needs in the 1980 Budget Act.

The department and the secretary maintain that an increase in funding to $10 million is needed for this program in 1981–82 because qualified requests in 1979–80 exceeded the level of available funding. The secretary has not provided information showing that a higher level of funding is justified.

While we recognize that demand for these funds has far exceeded the amount available, this by itself is not sufficient to justify an increase in the funding level. First, given that in many cases, no local matching funds were required in order to obtain a grant, it is not surprising that demand was so heavy. More importantly, *most* state programs lack sufficient funds to meet the demand.

Absent justification for a funding increase, we recommend that funding in the budget year be reduced to $6.5 million to reflect the current year appropriation of $6,444,000.

We also recommend that the Legislature take three actions to control future expenditures of these funds:

1. We recommend that the Legislature require the California Transportation Commission (CTC), rather than the secretary, to allocate the discretionary transportation funds. The basis for our recommendation is two-fold. First, most of the funds are used for capital outlay purposes, and the CTC has responsibility for allocating other transportation capital outlay funds. Second, we are recommending elsewhere in this analysis that Mass Transportation program expenditures be subject to the same planning and allocation process that currently exists for the highway program. Allocation of the discretionary funds by the CTC is consistent with this recommendation.

2. Given the results of the initial allocation of funds under this program, we recommend that the commission be directed to develop allocation guidelines for distributing funds to local agencies. These guidelines should, at a minimum, (1) prohibit funding of projects previously denied funding by the Legislature, (2) require local financial participation in capital outlay projects, and (3) establish minimum standards which each selected project must meet.

3. To facilitate legislative review of the program next year, we recommend that the department submit to the Joint Legislative Budget Committee and the fiscal committees by January 10, 1982 (a) a preliminary evaluation of projects submitted to the department for funding in 1981-82 and 1982-83, and (b) a priority

SPECIAL TRANSPORTATION PROGRAMS—Continued

list of projects proposed by the Department of Transportation. This is similar to the requirement set forth in Chapter 161 for intermodal transportation facility funds. This information will assist the Legislature in determining the appropriate funding level for the discretionary program in 1982–83.

Accordingly, we recommend adoption of the following Budget Bill language in Item 264-101-046:

"Provided that $6.5 million in discretionary local transportation assistance funds shall be allocated by the California Transportation Commission pursuant to guidelines established by the commission. These guidelines shall, at a minimum, (1) prohibit the expenditure of funds for projects previously considered and denied by the Legislature, (2) require local financial participation in capital outlay projects financed with these funds, and (3) establish minimum standards which each selected project must meet.

Provided further, that by January 10, 1982, the Department of Transportation shall provide the Joint Legislative Budget Committee and the fiscal committees (1) a preliminary evaluation of projects submitted to the secretary for funding in 1981–82 and 1982-83 and (2) the department's recommended priorities for funding. The report shall also include information on projects funded in 1980–81 and an evaluation of projects completed."

Additional Personnel. The budget proposes an increase of 3.0 personnel-years in Item 266-001-046 for the Department of Transportation to evaluate the additional proposals for local assistance which may be generated if funding for the discretionary program is increased from the current year level to $10 million. Budget material submitted by the department states that if the $3.5 million increase is not granted, the currently authorized five personnel-years will be sufficient to administer the program in 1981–82. Consistent with our previous recommendation, we recommend a reduction of $106,685 and three personnel-years from the Transportation Planning and Development Account (Item 266-041-046).

Transportation Systems Training and Research

We recommend that $200,000 for training and research in public transportation systems be deleted.

Chapter 161 provided that, upon appropriation by the Legislature, the Secretary of the Business, Transportation and Housing Agency could allocate Transportation Planning and Development (TP and D) Account funds for specified functions of (1) the Department of Transportation, (2) the California Transportation Commission, and (3) the University of California's Institute of Transportation Studies (ITS). The activities and functions which can be funded by each agency include:

1. Department of Transportation—state planning, mass transportation, and regional transportation planning assistance.
2. Transportation Commission—all activities not supported by the State Highway Account.
3. Institute of Transportation Studies—research in public transportation systems engineering and management and coordination with other transportation modes.

The budget proposes the expenditure of $200,000 by the agency for research in public tranportation systems in 1981–82. The funds would be appropriated to the secretary to support research projects at the University of California.

Our review indicates that the agency does not have an expenditure plan for the requested funds. Agency staff were able to provide only a general description of the types of research that might be supported with the requested funds. Because a research plan had not been developed, no data were available regarding staffing and expenditures or the duration of the projects.

Our analysis also found that other transportation research funds authorized in Chapter 161 are included elsewhere in the Governor's Budget for 1981–82. The budget includes $704,272 in TP and D Account funds for the Institute of Transportation Studies. These funds will be used to provide instruction and research related to the design, construction, operation and maintenance of public transportation facilities. The Legislature stated in Resolution Chapter 170, Statutes of 1979, that the institute should cooperate in its research and training with the Business, Transportation and Housing Agency. Accordingly, the agency should work with the institute in trying to achieve its research and training objectives, once they are developed, with the funds proposed in the ITS budget.

Because (1) transportation training and research funds are included elsewhere in the Governor's Budget, and (2) the agency does not have an expenditure plan for the $200,000 requested, we recommend that the Legislature disapprove the agency's request for training and research funds. This action will result in a savings of $200,000 to the Transportation Planning and Development Account, State Transportation Fund.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION

Item 266 from various funds — Budget p. BTH 63

Requested 1981–82	$860,488,494
Estimated 1980–81	932,355,210
Actual 1979–80	837,735,765
Requested decrease (excluding amount for salary increases) $71,866,716 (−7.7 percent)	
Total recommended reduction	$51,813,448
Additional recommendation pending	$106,967,408

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund[a]	Amount
266-001-041	—Aeronautics—Support	Aeronautics Account	$1,548,736
266-001-042	—Highway—Support	State Highway Account	537,277,787
	Mass Transportation—Support		90,651
266-001-046	—Mass Transportation—Support	Transportation Planning and Development Account	8,212,895
	Transportation Planning—Support		4,683,847
266-001-140	—Highway—Support	Environmental License Plate	47,725
266-101-041	—Aeronautics—Local Assistance	Aeronautics Account	900,000
266-101-042	—Highway—Local Assistance	State Highway Account	26,000,000
	Mass Transportation—Local Assistance		56,381,000
266-101-046	—Mass Transportation—Local Assistance	Transportation Planning and Development Account	63,000,000
	Transportation Planning—Local Assistance		2,031,500
266-301-042	—Highway—Capital Outlay	State Highway Account	46,425,033
266-301-140	—Highway—Capital Outlay	Environmental License Plate	150,000
	Total, Budget Act Appropriation, State Funds		$746,749,174
	—Chapter 1092, Statutes of 1972—Highway	Bicycle Lane Account	$401,905
	—Chapter 1349, Statutes of 1976—Mass Transporta-		

DEPARTMENT OF TRANSPORTATION—Continued

tion	Transportation Planning and Development Account	2,564,708
—Chapter 161, Statutes of 1979—Mass Transportation	Transportation Planning and Development Account	22,188,812
—Chapter 1364, Statutes of 1979—Highway	State Highway Account	8,152,663
—Budget Act of 1979—Highway	State Highway Account	12,011,000
—Budget Act of 1980—Highway	State Highway Account	1,000,000
—Toll Bridge Funds—Highway	Toll Bridge Funds	80,724,210
—Continuing Aeronautics Appropriation	Aeronautics Account	4,592,000
—Continuing Mass Transportation Appropriation	Abandoned Railroad Account	154,405
Total, Continuing Statutory Appropriations, State Funds		$131,789,703
Minus, Balance Available in Subsequent Years		−4,715,495
Minus, Unexpended Balance, Estimated Savings		−13,334,888
Total, All Expenditures, State Funds		$860,488,494

[a] All accounts are within the State Transportation Fund.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Highway Revenue Increase. Recommend enactment of legislation linking increases in fuel tax rates and truck weight fees to increases in the costs of providing and maintaining the highway system. 327
2. Budget Operations. Recommend director be requested to explain why budget documentation not provided to the Legislature. Further recommend remedial action plan be presented at budget hearings. 330
3. Unauthorized Budget Increases. Recommend Department of Finance be directed to explain why department was permitted to depart from authorized budget without prior notification being given to the Legislature in accordance with Section 28 of the 1980 Budget Act. 331
4. Financial and Accounting Systems. Recommend adoption of supplemental report language requesting that various financial and accounting systems improvements be compatible with new mainline financial system. 333
5. Financial Forecasting Capability. Recommend Budget Bill language requiring department to retain outside consultant and commit department personnel to review and improve department financial forecasting procedures. 334
6. Data Users Committee. Recommend adoption of supplemental report language establishing Transportation Data Users Committee to oversee department's financial forecasting models. 335
7. ***Overtime Expenditures. Reduce Item 266-001-042 by $3,226,507.*** Recommend reduction for unjustified overtime expenditures. 336
8. ***Personal Services Expenditures. Reduce Item 266-001-042 by $510,451 and Item 266-001-046 by $381,125.*** Recommend reduction due to overbudgeting of salaries. 336
9. ***Operating Expenses. Reduce Item 266-001-042 by $7,483,255.*** Recommend reduction for unjustified operating expenses. Withhold recommendation on additional proposed $25,487,384 for op-337

erating expenditures pending receipt of additional justification.

10. State Fund Reversions. Recommend adoption of Budget Bill language requiring reversion of state funds upon receipt of unanticipated federal funds. 339
11. ***Off-Airport Terminals. Reduce Item 266-001-041 by $33,600.*** Recommend reduction because proposed activity is not a state responsibility. 340
12. Capital Outlay Staffing. Withhold recommendation on proposed highway capital outlay staffing changes. 344
13. ***Unnecessary Capital Outlay Appropriation. Reduce Item 266-301-042 by $12,011,000.*** Recommend reduction to reflect department's expenditure plan. 346
14. Public Works Board Review. Recommend legislation providing legislative and Public Works Board review of department's nontransportation facility proposals. 347
15. Lands and Buildings Improvements. Withhold recommendation on proposed expenditure of $9,585,634 for improvement of department facilities. 348
16. ***Highway Research. Reduce Item 266-001-042 by $1,100,000.*** Recommend reduction because the need for proposed research projects has not been substantiated. 350
17. ***Equipment Repairs. Reduce Item 266-001-042 by $1,700,000.*** Recommend reduction due to reduced repair costs and overbudgeting. 352
18. ***Ridesharing Services. Reduce Item 266-001-042 by $4,728,235 and augment Item 266-001-046 by $4,656,702.*** Recommend funding source for ridesharing program be changed to Transportation Planning and Development Account because program is viewed as a mass transportation activity. Further recommend reduction for overbudgeted ridesharing expenditures. 353
19. ***Vanpool Reimbursements. Reduce Item 266-001-042 by $510,000.*** Recommend reduction to reflect receipt of reimbursements from vanpooling program. 354
20. Highway Logo Program. Recommend enactment of legislation providing department authority to operate highway services logo program. 355
21. ***Logo Program Staffing. Reduce Item 266-001-042 by $69,740.*** Recommend reduction for overbudgeted personnel. 356
22. Maintenance Reorganization. Withhold recommendation on $16,894,390 reduction proposed for maintenance reorganization and program efficiencies. 357
23. ***Safety Lookouts. Reduce Item 266-001-042 by $884,300.*** Recommend reduction for additional road crew safety lookouts because appropriate staffing levels have not been determined. 358
24. ***Highway Inventory Staffing. Reduce Item 266-001-042 by $2,050,620.*** Recommend reduction because need for staffing increase related to inventory changes has not been substantiated. 358
25. ***Bridge Shuttle Service. Reduce Item 266-001-042 by $60,000.*** Recommend reduction for toll bridge bicycle shuttle service because service can be provided by local operators. 359
26. ***Highway Road Equipment. Reduce Item 266-001-042 by $4,750,109.*** Recommend reduction of amount overbudgeted for road equipment and passenger vehicles. 360
27. ***Telecommunications Equipment. Reduce Item 266-001-042 by*** 361

DEPARTMENT OF TRANSPORTATION—Continued

$340,400. Recommend reduction of overbudgeted expenditures for telecommunications equipment.

28. ***Tort Liability Claims. Reduce Item 266-001-042 by $250,000.*** Recommend reduction to reflect savings from operation of equipment training school. Also recommend supplemental report language requesting department to provide information on training school savings. Further recommend department explain why information was not provided as Legislature requested. 361
29. Allocation Process. Recommend enactment of legislation establishing a coordinated mass transportation allocation process. 365
30. Unexpended Funds. Recommend new Budget Bill item requiring reversion of unexpended funds. 366
31. ***Social Service Transportation. Reduce Item 266-001-046 by $72,350.*** Recommend transfer of funds for Social Service Transportation Improvement program to Business, Transportation and Housing Agency budget to maintain agency control of the program. 367
32. ***Local Transit Assistance. Reduce Item 266-001-046 by $265,842 and increase reimbursements by $112,042.*** Recommend elimination of support for local transit marketing and planning because this assistance can be secured elsewhere. 367
33. ***Lake Tahoe Transit. Reduce Item 266-001-046 by $65,688.*** Recommend reduction for transportation corridor study because planning responsibilities have been changed by recent legislation. 368
34. Transit Guideway Program. Withhold recommendation on $55 million proposed for guideway projects pending submission of priority list by California Transportation Commission. 369
35. ***Transportation Map. Reduce Item 266-001-046 by $140,000.*** Recommend reduction because cost of maps should be recovered from sales proceeds. 370
36. Intercity Bus Plan. Recommend adoption of Budget Bill language requiring plan completion by March 1, 1982 and termination of personnel authorization by end of budget year. 370
37. ***Intercity Bus Service. Reduce Item 266-001-046 by $2,163,898.*** Recommend reduction in local assistance and personal services because increased level of assistance has not been justified. 371
38. ***Rail Marketing. Reduce Item 266-001-046 by $563,000.*** Recommend reduction because proposed increase in marketing budget is not justified. 374
39. High Speed Rail. Recommend adoption of Budget Bill language precluding expenditure of funds for High Speed Rail Project because alternative transportation solutions have been precluded. 375
40. Legislative Notification. Recommend adoption of Budget Bill language requiring legislative notification before funds for rail capital outlay projects are expended. Also recommend supplemental report language requiring Rail Plan updates. 376
41. Rail Contracts. Recommend enactment of legislation making all commuter rail services subsidized by the state subject to reporting requirements imposed by the Transportation Development Act. Also recommend Budget Bill language imposing farebox and state support requirements. 377
42. Intermodal Facilities Plan. Recommend adoption of supplemental report language requesting plan completion by March 1, 1982. 379

43. ***Intermodal Local Assistance. Reduce Items 266-101-042, 266-101-046 and 266-001-046 by $12,608,000.*** Recommend reduction in local assistance and personal services because expenditure of funds in the budget year is unlikely. 379
44. ***Miscellaneous Reductions. Reduce Item 266-001-046 by $147,138.*** Recommend reduction for various minor unjustified personal services. 381
45. Local Roads Report. Recommend adoption of Budget Bill language reverting funds if report requirement is repealed. Also recommend Budget Bill language to limit authorization of personnel needed to prepare the report. 382
46. ***Transportation Program Coordination. Reduce Item 266-001-046 by $223,896.*** Recommend reduction because personnel requirements are overstated. 383
47. ***Planning Reports. Reduce Item 266-021-042 by $30,996.*** Recommend reduction because reports are no longer needed. 383
48. ***Planning Subventions. Reduce Item 266-101-046 by $100,000.*** Recommend reduction for Tahoe Planning Agency assistance. 383

GENERAL PROGRAM STATEMENT

Chapter 1253, Statutes of 1972, created the Department of Transportation (Caltrans) in the Business, Transportation and Housing Agency to replace the Departments of Public Works and Aeronautics. The responsibilities of the former entities are now carried out through two divisions of the department—Highways and Aeronautics. Chapter 1253 also established the Division of Mass Transportation and the Division of Transportation Planning. The four divisions seek to implement and coordinate the development and operation of the various transportation modes and facilities in California.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $860,488,494 in state funds for support of Department of Transportation activities in 1981–82. This is $269,715,020, or 4.2 percent, less than estimated expenditures in the current year as shown in the 1981–82 budget. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

In addition to proposed expenditures of $860,488,494 from state funds, the department proposes to spend $697,405,109 in federal funds and $68,978,001 in reimbursements, for a total proposed expenditure program of $1,626,871,604. The estimated 1980–81 expenditure total presented in the budget, however, does not allow a meaningful comparison of expenditure changes to be made between these two years. This is because major adjustments have been made by the department to the original 1980–81 expenditure figures since the Legislature approved the department's budget.

To allow a more meaningful comparison of changes in expenditures to be made, we have developed a revised 1980–81 expenditure total which excludes the effects of changes made by the department in its 1980–81 budget after the budget was approved by the Legislature. The revised expenditure total is shown in Table 1. Table 1 shows that the $1,626,871,604 expenditure level proposed for 1981–82 is 3.3 percent, or $56,775,630, less than the total approved by the Legislature for the current year ($1,683,647,234).

The budget proposes funding for 14,859.8 personnel-years in the budget year, a decrease of 341.6 personnel-years, or 2.2 percent, from the approved current year level. The net decrease reflects major reductions in highway capital outlay support and maintenance.

Table 1
Proposed 1981–82 Department of Transportation Budget Changes

	State Highway Account	*Aeronautics Account*	*TP & D Account*	*Federal Funds*	*Reimburse-ments*	*Other*	*Total*
1980–81 Approved Budget (July 1980)	$691,619,601	$6,942,156	$154,420,742	$674,528,527	$68,359,518	$87,776,690	$1,683,647,234
1. Cost Changes	47,094,997	36,849	1,137,821	6,540,902	1,321,741	3,183,371	59,315,681
Subtotal (1981–82 Baseline)	($738,714,598)	($6,979,005)	($155,558,563)	($681,069,429)	($69,681,259)	($90,960,061)	($1,742,962,915)
2. Workload and Program Changes							
A. Aeronautics							
(1) State operations	—	−$104,418	—	—	—	—	−$104,418
(2) Local assistance	—	166,149	—	—	—	—	166,149
Subtotals	—	($61,731)	—	—	—	—	($61,731)
B. Highways							
(1) State operations	$27,016,102	—	—	−$15,995,625	−$561,947	−$10,558,444	−$99,914
(2) Local assistance	−7,986,400	—	—	41,678,700	—	−35,564	33,656,736
(3) Capital outlay	−85,963,925 [a]	—	—	−7,290,800 [a]	—	4,185,682	−89,069,043
Subtotals	(−$66,934,223)	—	—	(−$18,392,275)	(−$561,947)	(−$6,408,326)	(−$55,512,221
C. Mass Transportation							
(1) State operations	−$50,104	—	−$539,428	−$556,595	−$429,672	−$73,490	−$1,649,289
(2) Local assistance	1,481,000	—	−49,081,000	−1,500,000	—	—	−49,100,000
(3) Capital outlay	—	—	−6,500,000	—	—	−3,000,000	−9,500,000
Subtotals	($1,430,896)	—	(−$56,120,428)	(−$2,056,595)	(−$429,672	(−$3,073,490	(−$60,249,289)
D. Planning							
(1) State operations	—	—	−$679,893	—	$288,361	—	−$391,532
(2) Local assistance	—	—	—	—	—	—	—
Subtotals	—	—	(−$679,893)	—	(288,361)	—	(−$391,532)
Total Proposed Changes	(−$18,408,330)	($98,580)	(−$55,662,550)	($22,876,582)	($618,483)	(−$6,298,445)	(−$56,775,630)
1981–82 Proposed Expenditures	$673,211,271	$7,040,736	$98,758,242	$697,405,105	$68,978,001	$81,478,045	$1,626,871,604 [b]

[a] The 1981–82 budget is based on the second year (1981–82) of the 1980 STIP adopted by the California Transportation Commission. Proposed capital outlay expenditures have been reduced due to funding constraints which will be addressed in the development of the 1981 STIP.
[b] This total, net of federal funds and reimbursements, equals total expenditures, state funds ($860,488,494).

Significant Program Changes

The proposed budget reflects several significant program changes. Although most of these changes are discussed in greater detail in later sections of this Analysis, the following provides an overview of these shifts in program emphasis.

Aeronautics. Few changes are proposed in the Aeronautics program. The budget, however, proposes to redirect personnel to (1) increase inventorying activities, (2) develop an off-airport terminal demonstration project, and (3) analyze the economic impact of noise regulations.

Highway Transportation. The most significant changes in the Highway Transportation program pertain to personnel levels in the capital outlay and maintenance elements. Staffing totals in the rehabilitation and operational improvements elements are proposed to decline by 173.2 personnel-years and 152.8 personnel-years, respectively. Staffing for new facilities construction will increase 82.2 personnel-years. These changes primarily reflect revised project delivery schedules developed through the department's new automated personnel and capital outlay scheduling system (PYPSCAN).

Total staffing for maintenance activities is projected to decline 75.2 personnel-years. Within this total, however, major personnel additions and reductions are proposed in order to attain projected operating efficiencies, increase service levels, add a new safety program, and reorganize field maintenance operations.

Finally, the budget reflects the reduction of approximately $107 million in capital outlay expenditures in 1981–82, as compared with the expenditure level set in the 1981 proposed State Transportation Improvement Program (PSTIP) for the 1981–82 fiscal year. The department has made this reduction because available resources are not sufficient to fund the expenditure level programmed in the 1981 PSTIP.

Mass Transportation. Mass Transportation program expenditures are proposed to decrease by $59.3 million. This reflects a transfer of $79.4 million to a new Special Transportation program section of the budget and an increase of $20.1 million for other elements within the program.

Two major changes in local assistance funding are proposed: (1) a $20 million increase for construction of mass transit guideways, and (2) an additional $2 million for support of intercity bus transportation. Support for all elements will increase by 20 personnel-years (10 percent), including 14.3 personnel-years for commuter rail support activities.

Transportation Planning. The budget proposes a reallocation of 2.5 personnel-years to prepare a local roads progress and needs report, as required by law. The budget also proposes a personnel reduction to reflect a decrease in services performed for other agencies.

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. It is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year STIP to the Legislature and the Governor by July 1 of each year. The annual planning process actually begins eight months earlier, in November, when the CTC adopts estimates of revenues available to the department and regional agencies. Using these revenues estimates, the department then prepares a proposed STIP which is submitted to the CTC in December. Regional TIP's are also submitted to the CTC, which holds hearings on the plans beginning in April and continuing until the STIP

DEPARTMENT OF TRANSPORTATION—Continued

is adopted. Public hearings are held from July to mid-August at which time appeals on the adopted STIP may be raised.

STIP Requirements

For the five-year period covered, the adopted STIP must contain: (1) an estimate of available state and federal funds and associated constraints; (2) all *major* projects to be funded; (3) a summary of planned *minor* project expenditures; (4) recommended annual expenditures from the State Highway Account, by program category; and (5) appropriate additional information.

Responsibilities of the CTC

In adopting a STIP, the commission is to consider (1) a proposed STIP submitted by the department, (2) regional transportation improvement programs (TIPs), and (3) input from public hearings. Following its adoption, the STIP may be amended by the CTC under specified circumstances.

The CTC allocates available state and federal funds only for projects included in the adopted STIP. For each fiscal year, these allocations must be consistent with total program expenditures specified in the Budget Act.

Role of the Legislature

Chapter 1106 increased the role of the Legislature with respect to state transportation policy formulation and budgeting. Pursuant to this statute, the Legislature's appropriations through the Budget Act establish maximum expenditure levels for the various program components. However, the statute states that the Budget Act shall not identify specific capital outlay projects to be funded. Transfers of funds by the department between programs are permitted upon CTC and Department of Finance approval, provided that any decrease in authorized expenditures within a program component (such as Rehabilitation or Maintenance) does not exceed 10 percent.

Responsibilities of the Department

The Department of Transportation is required to provide the commission with an estimate of state and federal funds available during the five-year STIP period, not later than October 1 in the year prior to when the STIP period begins. The department is also required to submit a proposed State Transportation Improvement Program (PSTIP) to the commission not later than December 1. After the STIP is adopted by the commission, the department is responsible for implementing the STIP consistent with (1) allocations to projects made by the commission and (2) the Budget Act. Because many years are required to plan and carry out typical capital outlay projects, program development and capital outlay support activities of the department during the budget year also include appropriate planning and design work for improvements scheduled for subsequent years in and beyond the five-year STIP.

1981 Proposed State Transportation Improvement Program (PSTIP)

Preparation of the 1981 proposed STIP was delayed, in part, due to the funding uncertainties facing the State Highway Account. As a result, the department submitted the PSTIP to the CTC and other agencies after the due date (December 1). This delay has prevented us from completing our review of the PSTIP prior to the preparation of this analysis.

HIGHWAY FINANCING CRISIS

The Governor's Budget excludes capital outlay expenditures of approximately $107 million which are programmed for 1981–82 in the 1981 Proposed State Transportation Improvement Program (PSTIP). The department has made this reduction because available resources are not sufficient to fund the expenditure level programmed in the proposed STIP. This revenue shortfall is not merely a budget year problem. Our analysis of the highway program indicates that expenditures could exceed available revenues by anywhere from $760 million to $2.4 billion during the next five years. Similarly, many local governments will be unable to fund projected street and road expenditures in the future. Consequently, it is clear that, in the near future, the Legislature must act either to reduce expenditures, increase revenues, or both.

This section discusses the critical issues facing the state in financing transportation, and reviews various alternatives which have been proposed for dealing with this problem. It also discusses our recommendation that the gasoline tax and truck weight fees be linked to increases in the cost of building and maintaining the highway system.

STATE HIGHWAY FUNDING

In September 1980, the Department of Transportation announced that, according to its projections, the State Highway Account (SHA) would show a deficit of $915 million by June 30, 1986, the end of the five-year 1981 STIP period. Furthermore, the department projected that the account balance would reach zero during the 1982–83 fiscal year.

While the size of the projected deficit may be startling to some, there have been numerous warning signals over the past year that serious problems for the account lie ahead. These signals include a higher rate of inflation for highway construction than that projected by the department, a decline in motor vehicle fuel sales and the revenue generated from these sales, and annual deficits which have been funded with surplus revenues in the SHA.

The department's projected $915 million cash deficit is based on two major assumptions: [1]

- The projects (or their current dollar equivalent) now scheduled to be advertised during the last *four* years of the 1980 STIP (fiscal years 1981–82 through 1984–85) will instead be advertised over *five* years. In other words, the department assumes that no new capital outlay projects will be added to the Highway program in the fifth year (1985–86) of the 1981 STIP.
- Inflation rates for various components of the highway program will be as shown in Table 2.

Table 2
Department Inflation Rate Assumptions
For 1981 STIP

Expenditure Category	*1981–82*	*1982–83*	*1983–84*	*1984–85*	*1985–86*
Capital Outlay	16%	12%	8%	8%	8%
Salaries and Benefits	10	8	8	8	8
Operating Expense	7	7	7	7	7
Maintenance Materials	11	10	8	8	8

[1] A more detailed discussion of the assumptions employed by the department and those used by this office in analyzing the SHA deficit is contained in the Legislative Analyst's November 12, 1980 statement to the Senate Transportation Committee.

DEPARTMENT OF TRANSPORTATION—Continued

Analyst's Projections

Our analysis indicates that the assumptions used by the department are reasonable. Nonetheless, they represent only one of many possible views of the future. In order to display what the deficit would be if the department's assumptions are not borne out, we have estimated future cash balances in the account using the department's methodology and various alternative assumptions.

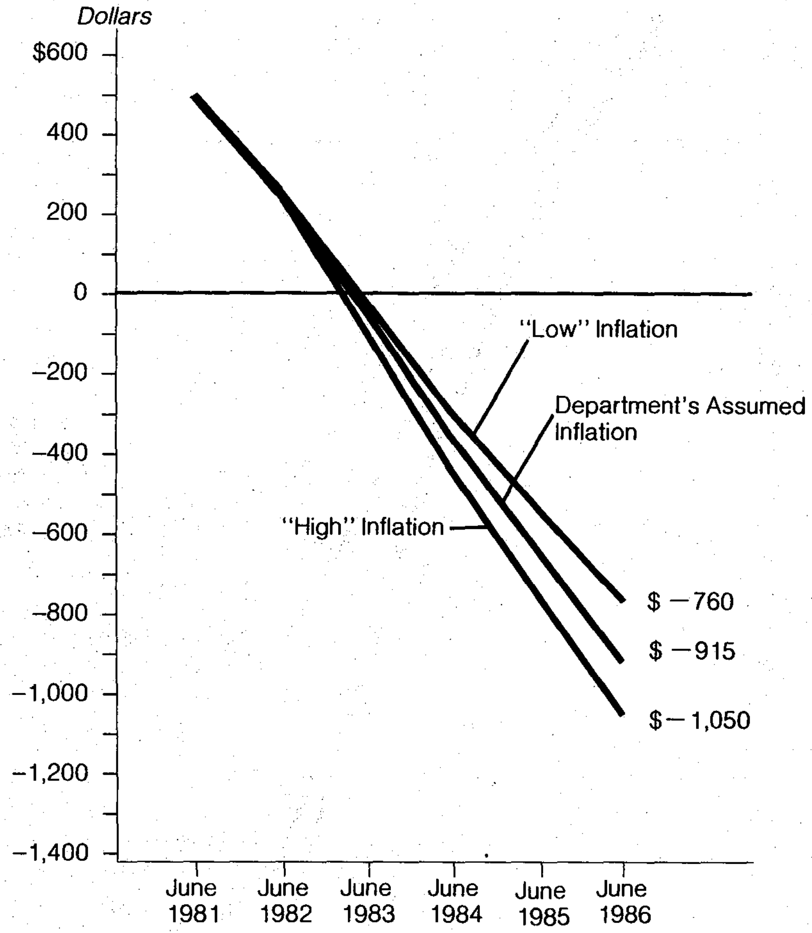
Inflation alternatives. Chart 1 shows what the projected cash balance in the State Highway Account would be under each of three inflation scenarios, based on the levels of highway construction activity and personnel assumed by the department. These are not forecasts of future rates of inflation, but merely estimates of what the consequences would be if inflation is lower or higher than what the department assumes. As the chart shows, the deficit as of June 30, 1986, would be $760 million with "low" inflation (14 percent capital outlay inflation in 1981–82 and 7 percent thereafter, with correspondingly lower rates of inflation for noncapital outlay costs). Under "high" inflation (18 percent annual capital outlay inflation coupled with correspondingly higher rates of inflation for noncapital outlay costs), the deficit would be $1.05 billion. In contrast, the department projects a deficit of $915 million.

Program level alternatives. If the Legislature establishes program levels that are different from those assumed by the department, the June 30, 1986 deficit will not be the same as the department has projected. We projected the cash balance using three alternative levels of highway building and associated personnel support. These alternatives are not highly refined, and are only intended for purposes of illustration. We used the following alternative program expenditure assumptions:

- *Adopted 1980 STIP (gradual decline).* This alternative assumes the capital outlay and personnel levels projected for the last four years (1981–82 through 1984–85) of the adopted 1980 STIP, which decline gradually. Program levels in 1985–86 are assumed to be identical to the 1984–85 levels.
- *Level program.* This alternative assumes that the *1981–82* personnel and capital outlay levels contained in the adopted 1980 STIP are maintained throughout the five-year period.
- *Limited growth program.* This alternative assumes that the 1981–82 personnel and capital outlay levels contained in the adopted 1980 STIP will increase by 2 percent during each of the four years.

Chart 1

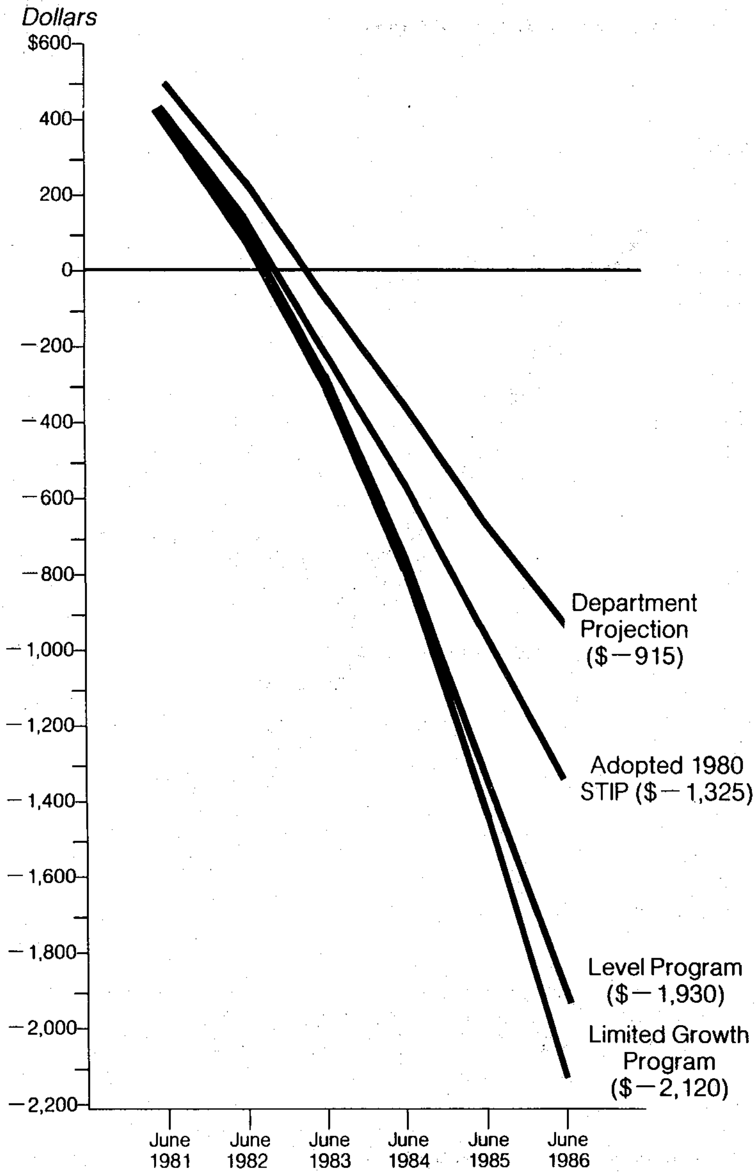
State Highway Account
Estimated Cash Balance
For Different STIP Inflation Assumptions
1981–82 to 1985–86[a] (in millions)



[a] Assumes Department of Transportation's STIP program level.

DEPARTMENT OF TRANSPORTATION—Continued

Chart 2
State Highway Account
Estimated Cash Balance
For Different STIP Program Assumptions
1981–82 to 1985–86 [a] (in millions)



[a] Assumes Department of Transportation's projected inflation rates.

Chart 2 displays the projected cash balance during the five-year period for each of these program levels, using the department's projected inflation rates (i.e., capital outlay inflation rates of 16 percent, 12 percent, 8 percent, 8 percent, and 8 percent). Under the *1980 adopted STIP* scenario, the June 30, 1986 deficit grows from $915 million (the department's projection) to approximately $1.3 billion. If instead, a *level program* or a *limited growth program* is assumed, deficits of $1.9 billion and $2.1 billion, respectively, are projected.

These projections are summarized in Table 3 which also shows the projections for our three alternative program levels under the "low" and "high" inflation scenarios. The projections in Table 3 show deficits ranging from $760 million (which assumes "low" inflation and the program levels assumed by the department) to $2.4 billion (which assumes "high" inflation and a limited growth program). Under all twelve scenarios, the cash balance in the SHA is projected to reach zero sometime during 1982–83. It should be evident from Table 3 that the size of the projected deficit is extremely sensitive to the assumptions used.

Table 3
Projected June 30, 1986 Cash Balance
For Various Inflation Rates and Program Expenditure Levels
(in millions)

Program Expenditure Levels	*"Low" Inflation*	*Department Assumed Inflation*	*"High" Inflation*
Department projection	–$760	–$915	–$1,050
Adopted 1980 STIP	–1,135	–1,325	–1,535
Level Program	–1,700	–1,930	–2,225
Limited Growth Program	–1,885	–2,120	–2,430

Alternatives Available to the Legislature

Faced with a funding shortfall in the State Highway Account which could range from $760 million to $2.4 billion over the five-year 1981 STIP period, the Legislature must make two major decisions. First, it must determine what level of highway expenditure should be undertaken by the state. Second, it must decide how to bring revenues into line with projected expenditures. Following are four alternative means for responding to the funding shortfall that the Legislature may wish to consider.

1. ***Reduce expenditures to what can be financed by revenues under existing law.*** If the Legislature decides not to provide additional revenues to fund Highway program expenditures, it will have to reduce the planned expenditure of *state* funds by approximately $100 million during the budget year and by approximately $1 billion during the next five years. Expenditures could be reduced in a number of areas, including maintenance, administration, local assistance, mass transit guideway expenditures, and highway capital outlay. Because a large part of state capital outlay funds are used to match federal highway construction monies, each $1 million reduction in these expenditures may result in the loss of $4 million to $9 million in federal funds. Most Highway program reductions could be achieved through the budget process, while decreases in some program categories, including mass transit guideways and railroad grade separations, would require legislation.

2. ***Reduce expenditures and increase revenues (the department's proposal).*** As noted above, the department's projected $915 million shortfall assumes that some reductions in highway program expenditures will be made. Had the department assumed that new capital outlay projects would be added to the Highway program in the fifth year of the 1981 STIP, the shortfall would have been even larger. In order to eliminate the $915 million shortfall, the department has proposed a three-part program consisting of: (a) planned economies ($250 million), (b) program reductions ($190 million), and (c) increased revenues ($475 million).

DEPARTMENT OF TRANSPORTATION—Continued

Several of the efficiencies and program reductions proposed by the department are discussed elsewhere in this analysis. Thus far, the administration has not submitted a legislative package which would generate the $475 million in additional revenues called for in its plan. The department, however, has developed an internal draft proposal which consists of (a) a $4 excise tax on the sale of tires, the proceeds of which would be divided equally among local street and road programs, the state highway program and the state transit programs; and (b) a truck weight fee increase that would increase fee revenues by 70 percent; additional truck weight fee revenues would be divided between local street and road programs and the state highway program. The department estimates that these actions would produce approximately $310 million in 1982–83. The draft proposal also calls for funds generated by the sales tax on gasoline to be shifted gradually from the General Fund to the Transportation Planning and Development (TP and D) Account. By 1987, all gasoline sales tax monies would be deposited in the TP and D Account for expenditure on state mass transit programs.

3. ***Increase revenues (the CTC's proposal).*** The California Transportation Commission is committed to continuing the Highway program at approximately the 1979–80 spending level. Commission staff estimate the shortfall for the 1981 STIP could be as much as $1.2 billion.

The commission has endorsed several proposals related to transportation finance. Its recommendations include: (a) changing the seven-cents-per gallon tax on gasoline to an ad valorem tax; (b) increasing truck weight fees by 50 percent and transferring most truck weight fee revenues into the State Highway Account; and (c) allocating a fixed percentage of all motor vehicle and diesel fuel taxes and truck weight fees to local governments. The commission also proposes that gasoline sales tax revenues deposited in the General Fund be held to the 1980–81 level, and that the remainder be deposited in the TP and D Account for mass transit programs.

The commission has not proposed a specific percentage rate for the gasoline tax. We estimate, however, that based on (a) gasoline price increases of 10 percent annually and (b) diversion of 50 percent of all revenues to local governments, the 1983–84 gasoline tax rate would have to be set at approximately 7 percent of the price of gasoline to fund a $1.2 billion shortfall.

4. ***Increase revenues by linking changes in tax rates and fees to changes in the cost of service supported by these taxes and fees.***

A fourth alternative would adjust highway taxes and fees to properly reflect the cost of building and maintaining highways. Such an adjustment would better insure that users of the highway system properly pay their share of the cost of the system.

Highway Taxes and Fees Represent User Charges

Historically, highway construction and maintenance have been supported by user charges of one form or another. Ideally, under a user charge approach, those drivers who use roads the most will pay the most in highway-related fees. In some states, toll charges are imposed on users of major highways to pay the cost of building and maintaining the road. It is administratively impractical, however, to charge a toll on all roads in a state. Instead, California imposes a motor vehicle fuel tax to pay a portion of highway costs. Motor vehicle fuel tax revenues are related to consumption of fuel which, in turn, generally is related to the use of state and local roads. Thus, although it is referred to as a tax, *the 7 cent per gallon levy on motor vehicle fuel is very similar to a user fee.*

Truck weight fees also are a form of user charge. The construction cost of highways is increased when additional layers of road surface must be applied to withstand the weight of trucks. Heavy trucks also cause more damage to highways than do automobiles, which results in higher maintenance and rehabilitation expenses. Accordingly, it is appropriate that trucks pay user fees that reflect the additional costs their weight imposes on highways.

Impact of inflation. Ideally, the balance between the user fees charged and the costs imposed by users should be maintained over time. Our analysis indicates, however, that such a balance has not been maintained with respect to highway user charges in California. The current tax rate of 7 cents per gallon on gasoline has not been increased since 1963 (except for temporary increases in 1965 and 1969 to raise funds for flood damage repair). When account is taken of increases in the cost of constructing highways, the 7 cents per gallon rate levied in 1963 currently is worth approximately 1.6 cents per gallon—an effective cut in the user charge rate of more than 75 percent. Similarly, truck weight fees have not been increased since 1974. In the interim, the cost of building highways has increased 245 percent.

Analyst's Recommendation

We recommend enactment of legislation which would link increases in motor vehicle fuel tax rates and truck weight fees to increases in the cost of building and maintaining the highway system.

It is evident that the fees imposed on users of the California highway system have not kept pace with the cost of constructing and maintaining that system for their use. If this trend continues in the future, it will become increasingly difficult to maintain and improve the system. Given that the state has invested many billions of dollars in its highway system, it would not be prudent policy for the state to allow that system to deteriorate.

To assure that the state's investment in this system is not jeopardized by funding shortfalls, we recommend that increases in motor vehicle fuel tax rates and truck weight fees be linked to increases in the cost of building and maintaining the state's highway system. Linking the fee increases in this manner is consistent with the concept of these charges as user fees imposed for use of the state's road system. Furthermore, we recommend that all truck weight fee revenues (net of collection costs) be deposited into the State Highway Account. (This recommendation is discussed in greater detail in our analysis of Item 274.) If this is done, truck weight fees will again serve as a highway user fee by providing the funds needed to cover the additional maintenance costs trucks impose on highways. The fiscal impact of adjusting these fees in the future would depend upon (a) the initial tax and fee structure, (b) the adjustment mechanism selected, and (c) the changes in the mechanism over time. To illustrate what the fiscal impact of this recommendation might be under one of many possible sets of circumstances, we have assumed that the adjustment factor selected increases 10 percent per year over the five-year period ending 1985–86, and that the current fee schedule is first adjusted in early 1982. We have also assumed that drivers license, registration and other minor fees will be adjusted to pay for all future Motor Vehicle Account expenditures, thereby allowing almost all truck weight fee revenues to be transferred to the State Highway Account. Under these illustrative assumptions, we estimate that five-year revenues to the State Highway Account would be $1,853 million more than they would be under current law. This amount would be sufficient to offset the projected State Highway Account deficit in 7 of the 12 expenditure scenarios shown in Table 3.

LOCAL STREETS AND ROADS

Local street and road departments also are faced with rapidly increasing costs and relatively fixed revenues. Although maintenance of the *state* highway system during the next five years is likely to be continued at current levels, it appears that,

DEPARTMENT OF TRANSPORTATION—Continued

at least in some locations in the state, maintenance of *local* streets and roads has *already* been reduced.

Both state and local officials have called attention to the problem of funding local street and road programs in the future. The director of the Department of Transportation has reported that, ". . . the present scale of funding will not meet all the reported maintenance and operational needs of local government." Officials of the County of San Diego have stated that, without additional funding ". . . certain routine maintenance activities must be eliminated. The level of service for others must be substantially reduced". In addition, the City of Oakland reports that during the last decade, it has shifted from a 30-year to a 100-year cycle for resurfacing streets. If this schedule is adhered to, the roads in Oakland will deteriorate long before resurfacing takes place.

These statements, as well as testimony recently presented to legislative committees, indicate that local street and road needs are not being met. It is extremely difficult, however, to establish the amount of these unmet needs and to estimate the cost of meeting those needs. The most recent attempt to estimate the statewide streets and roads funding shortfall was undertaken in 1978 by cities and counties pursuant to Section 2156 of the Streets and Highways Code. Section 2156 requires that every four years cities and counties shall report (1) on progress made in construction or improvement of streets and roads, and (2) an estimate of future road or street needs.

The 1978 Section 2156 report limited the definition of needs to include (1) administration, (2) maintenance, and (3) rehabilitation and safety improvements. No new facilities were included in the estimate of needs. Table 4 shows the pertinent findings of this report. It shows that between fiscal years 1977–78 and 1981–82, needed expenditures for local streets and roads were estimated to be $7.1 billion dollars. Revenues were projected to be $4.3 billion during this same period. If these estimates prove to be accurate, revenues will exceed maintenance and administrative costs by approximately $500 million, but will fall short of total needs (including rehabilitation and safety improvements) by $2.8 billion during the five-year period.

Table 4
Local Roads and Streets
Needs, Revenues and Shortfall
1977–1982
(in billions)

Needs	
Maintenance	$3.2
Administration	.6
Rehabilitation and Safety Construction	3.3
Total Needs	$7.1
Revenues	
Gas Tax	$1.8
Other	2.5
Total Revenues	$4.3
Shortfall	*$2.8*

We have not analyzed the validity of the estimates contained in the 1978 Section 2156 report. Nonetheless, we can make the following observations on the conclusions set forth in the report:

1. The estimated needs shown in the report were based strictly on information provided by cities and counties. The needs reported by different localities were

compared by department staff in order to determine whether projections made by individual cities and counties were reasonable. No attempt was made, however, to verify the reported needs or the validity of the methodologies used to cost out these needs. As a result, department staff believe that needs reported in the Section 2156 report may be exaggerated.

2. Beyond 1981–82—the final year covered by the Section 2156 report—inflation will continue to drive costs upward. Therefore, the cost of maintaining and constructing streets and roads during the upcoming five years will probably increase as well. Increased dollar needs coupled with relatively fixed revenues could result in an even greater shortfall during this period.

3. The report was completed prior to the adoption of Article XIIIA of the California Constitution (Proposition 13 on the June 1978 ballot). This measure reduced funds available for street and road expenditures, and made it more difficult for local entities to generate additional revenues. Had the report been published after the passage of Proposition 13, the estimate of "other" revenues probably would have been lower.

4. Financial difficulties encountered vary widely among individual counties. According to the report, the ratio of available gasoline tax revenue to estimated needs ranges from 6.9 percent in Tuolumne County to 86.2 percent in Alameda County. Any revenue increase would have to account for the varying needs of each city and county.

In summary, the findings in the Section 2156 report appear to indicate that a significant number of California cities and counties will be unable to fund all future administrative, maintenance, rehabilitation and safety needs with the resources likely to be available under current law.

Local Revenue Increase Apparently Needed

The Section 2156 report and testimony by local public works officials before the Legislature's transportation committees indicate that many local street and road programs are, and will continue to be, faced with a sizable shortfall of revenues relative to the amount needed. Unfortunately, we have no analytical means of accurately estimating the size of the funding shortfall.

Cutbacks in street and road maintenance and rehabilitation may impose significant costs on future budgets. Poor maintenance usually leads to more costly rehabilitation; similarly, insufficient rehabilitation leads to costly reconstruction. If the data reported in the Section 2156 report are accurate, many localities are currently deferring maintenance and rehabilitation projects which will cost much more in the future, even after adjusting for inflation, than they cost today.

Local governments could respond to the shortfall by increasing revenues from local sources or by diverting revenues from lower priority activities to street and road programs. An increase in local general fund revenues is limited, however, by Article XIIIA of the State Constitution (Propostion 13) which requires all tax increases to be approved by two-thirds of the voters.

Recommend action. Available data suggest that there may be insufficient local funds available to pay for the cost of maintaining and rehabilitating local streets and roads. Although we do not believe that it is necessarily the responsibility of the state to provide the needed revenues to local entities, we note that the passage of Proposition 13 and the decline in existing fuel tax revenues have limited the ability of local governments to respond to these growing needs. Given that an adequate level of maintenance and rehabilitation can ease the demand on local finances in the future, and that the state has assumed an increased responsibility for financing local needs, we believe the state has a fiscal stake in solving this funding problem. On this basis, we recommend the Legislature, in addressing the state highway revenue problem, act to resolve the local problem at the same time.

DEPARTMENT OF TRANSPORTATION—Continued

This may simply require linking local gas tax revenues to increases in the cost of maintaining local streets and roads. As we have discussed, however, we are unable to determine at this time the level of additional local revenues required to meet current local road needs.

GENERAL ADMINISTRATION

This is the fourth year in which the department's entire budget has been formally presented to the Legislature for appropriation as required by Chapter 1106, Statutes of 1977 (AB 402). Prior to the enactment of Chapter 1106, the highways portion of the budget was reviewed and approved by the now-defunct California Highway Commission.

Budget Operations

We recommend that, during the budget hearings, the fiscal subcommittees ask the director to explain why the department has not provided adequate budget documentation to the Legislature. We further recommend that the director be asked to present at the hearings an action plan for remedying the department's chronic budgeting deficiencies.

The establishment of legislative budgeting imposed significant additional requirements on the department's budget preparation process. We anticipated that some problems would occur in developing the new budget procedures. Problems did occur and we discussed them briefly in the *1979 Analysis of the Budget Bill.* In the *1980 Analysis,* we discussed, at length, the continuation of these budget deficiencies, as well as the department's failure to conform with basic budgeting requirements imposed on all state agencies by the State Administrative Manual (SAM).

Our examination of the proposed 1981–82 budget reveals that the department has made improvements in several aspects of its budgeting process. Budget change proposals submitted this year, particularly those related to administration and mass transportation, are generally more complete than those submitted in previous years. The department's budget also follows more closely the guidelines specified in SAM. Despite these and other improvements, however, the department's budget operations are still in need of considerable upgrading if the Legislature is to fulfill its fiscal control and oversight responsibilities. Remaining problem areas include:

1. ***Lack of timeliness.*** As in previous years, the department's preparation of its budget was not completed until late in the state budget cycle. As a result, department staff were not permitted to provide responses to the budget inquiries we made on behalf of the Legislature until late in December.

2. ***Lack of responsiveness.*** Due to the late completion date of the budget materials, we were not able to begin our review of department proposals until mid-December. Once the department's formal budget was completed, a large portion of the budget support staff were permitted to take vacation time, and therefore, were not available to discuss budget issues with legislative staff. Even when these personnel returned, issue meetings often could not be scheduled until well into January.

In addition, in early December, we requested various technical and summary budget materials. Despite this advanced notice, however, much of the requested material was not provided until a month later. Also, in some cases department staff waited a week or more after recieving our questions before asking for clarification of these questions. Finally, detailed materials prepared by program staff in response to our questions were not provided to us by the budget staff in at least one instance.

The Legislature requires timely information to begin its deliberations on the department's budget. The unavailability of this information not only delays the

Legislature's budget process but represents a lack of department responsiveness to the Legislature's needs.

3. ***Unsubstantiated requests.*** Many budget changes and proposals continue to lack supporting detail that is required by state budgeting procedures. The highway maintenance proposals, for example, often fail to identify the specific program activities in which changes are proposed. They also lack basic data on workload and staffing.

Department aware of problems. Last year we recommended that the department take strong measures to improve its budget process. We also recommended to the director that she seek experienced budget staff from outside the department to effect the needed improvements. This recommendation was also made by staff from the Department of Finance and the Business, Transportation and Housing Agency. The director acknowledged these concerns, both to our office and to administration staff, and indicated that actions would be taken to improve budget operations.

When the opportunity arose to acquire outside expertise, however, the director chose to rely on existing budget personnel and procedures. Our analysis indicates that, in choosing to continue "business-as-usual", the director has reduced the department's opportunity to make the significant improvements necessary to overhaul the budget operations.

It is most unfortunate that after four years of legislative budgeting, the department continues to experience significant budgeting problems. The inability of the department to provide timely, accurate and detailed budget support materials requires that an inordinate amount of legislative staff effort be expended on the technical and procedural aspects of the department's budget, at the expense of policy, program and service considerations. This is a regrettable situation, and there is little evidence that it is being corrected.

We recognize that it is the responsibility of the director to organize and manage the internal affairs of the department. It is essential, however, that the Legislature have adequate information available on a timely basis so that it can discharge its fiscal responsibilities.

Because the transition to legislative budgeting has progressed in such an unsatisfactory manner, we recommend that the fiscal subcommittees ask the director to explain during the budget hearings, why acceptable budget materials have not been prepared. She should also be asked to present an action plan for remedying the deficiencies identified above.

Budget Changes Without Prior Notification

We recommend that the fiscal subcommittees of the Legislature request the Department of Finance to explain why the Department of Transportation has been authorized to depart from the budget program approved for 1980–81 by the Legislature without giving prior notice to the Legislature as required by Section 28 of the 1980 Budget Act.

Existing law (Control Section 28 of the 1980 Budget Act) provides that the Director of the Department of Finance may authorize expenditures (1) for a new program not identified in the budget, or (2) for purposes which constitute an increase in the level of service beyond that authorized in the budget. The director, however, must notify the Chairman of the Joint Legislative Budget Committee (JLBC), in writing, 30 days prior to authorizing the expenditure of funds for these purposes.

Our analysis indicates that the director has authorized the addition of (1) $2.6 million and 20 personnel-years in the Mass Transportation program, (2) $76,000 and 2.5 personnel-years in the Aeronautics program, (3) $109,000 and 2.5 personnel-years in the Planning program, and (4) $16,750 and 26.5 personnel-years in the highway maintenance element to the department's 1980–81 budget without giving

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prior notification to the JLBC. Changes to the approved budget program for the current year have been made by the department in the following areas:

- $265,101 and 7.0 personnel-years have been added to plan for the design and acquisition of Union Station in Los Angeles.
- $33,000 and 1.0 personnel-year have been transferred from an activity authorized by the Legislature—study of Lake Tahoe transit needs—to a new activity a study of transit alternatives in Sacramento.
- $109,000 and 2.5 personnel-years have been added to collect data for a report on local street and road needs.
- $330,000 and 7.0 personnel-years have been added to provide staff support for commuter rail activities.
- $681,000 has been added to revise the department's financial and accounting systems.

The department has not proposed to continue the first two activities during 1981–82. As a result, the Legislature will not be able to examine the merits of these activities. In addition, the department has increased staffing in the maintenance element by a net of 26.5 personnel-years, which reflects (1) an increase of 372.5 personnel-years for new activities, including increased safety activities, added storm damage repair and hazardous chemical clean-up, and (2) a decrease of 346.0 personnel-years because or organizational efficiencies. Also, our analysis indicates that a large portion of the funding for added personnel in the Mass Transportation, Planning and Aeronautics programs has been made available by shifting charges for overhead costs from these program to the Highway program.

In addition to authorizing these changes in the department's budget plan, the director also authorized the Business, Transportation and Housing Agency to allocate $250,000 to the Department of Corrections to transport persons wishing to visit inmates in the state's prisons. SB 1679, which would have provided funding for this purpose, failed passage in committee *before* the agency made this allocation. Our analysis indicates that this allocation may violate Control Section 15 of the 1980 Budget Act, which prohibits the use of any appropriation to "... achieve any purpose which has been denied by a formal action of the Legislature."

The merits of the specific activities which we have identified as examples are not at issue. Expenditure of state funds for these activities may be appropriate. Neither do we question the legal authority of the Director of Finance to authorize changes in the budget plans of the department and agency. At issue is a process in which Finance does not notify the Legislature of these changes in the approved budget, as required by existing law. By failing to notify the Legislature of changes in the approved budget, legislative control over how state funds are spent is weakened.

Recommended action. In summary, the budget plan upon which the Legislature's 1980–81 appropriation was based has been altered significantly by the department, without giving prior notice to the Legislature. Approximately 85 percent of the activities that the department proposes to change in the budget year are also being changed in the current year.

The Department of Finance is responsible for allocating funds and approving changes in the budget program. Accordingly, we recommend that the fiscal subcommittees of the Legislature request the Department of Finance to explain why the Department of Transportation has been authorized to depart from the approved budget program without giving prior notice to the Legislature in accordance with current law. We also recommend that the Department of Finance be asked to explain its policy for seeing to it that Section 15 of the Budget Act is observed by state departments.

Financial and Accounting Systems

We recommend the adoption of supplemental report language requiring that various accounting and financial systems improvements currently being developed by the department be designed for compatibility with the new mainline financial system being developed by the department and its outside consultants.

Financial and accounting systems are the backbone of the extensive and complex financial transactions conducted by the department. These systems record the billions of dollars in revenues and expenditures which flow through the department annually, and provide data that are critical for the successful management of department operations on a day-to-day basis.

The current accounting system was installed in 1964. At that time, it was relatively advanced in design. During the years subsequent to its development, however, the accounting system has had to meet ever-growing demands imposed by the department, outside control agencies and the increasing sophistication of other departmental management information systems.

It has been obvious for some time that the present system cannot provide the kinds of information now required to operate the department. For example, in 1977 our office reported on significant deficiencies inherent in the department's cash accounting and information system and strongly recommended that these deficiencies be corrected. Chapter 1106, Statutes of 1977, required the department to improve its budgeting, accounting, fiscal control and management information systems.

A May 1980 study, prepared by Boeing Computer Services for the department, confirmed that these concerns over the department's financial and accounting systems were justified. Boeing found that:

- Department financial systems are inefficient, unresponsive, labor intensive, inflexible and unduly complex.
- Caltrans is not organizationally structured for effective management of financial systems data or control of changes.
- Financial responsibilities overlap, resulting in inadequate follow-through, circumvention of organizations and counterproductive or duplicate effort.

Department response. The department readily acknowledges the reported deficiencies in its financial and accounting systems, and has initiated efforts to improve these systems. Agreement was reached in December with the consulting firm of Deloitte, Haskins and Sells to develop a new departmental financial system. Work will begin shortly to determine which of four alternative financial accounting systems will be implemented within the department. Completion of the project could take from one to two years, depending on the alternative selected. Final costs of the project, which could total as much as $1 million, will also vary according to the system chosen and the consulting services and related computer support systems which will be required.

Related accounting projects. The department also is developing a new automated accounts receivable-accounts payable system. This system will replace the labor-intensive manual system currently in existence, and is projected to produce annual savings of approximately $1.2 million and 55 personnel-years of effort. In addition, the department expects to make other accounting modifications to further improve its accounting operations.

Our analysis indicates that the development of various accounting and financial systems should be compatible with the new mainline financial system that is under development. Therefore, we recommend that the Legislature adopt the following supplemental report language for inclusion in Item 266-001-042:

"Various accounting and financial systems improvements under development shall be compatible with the new mainline financial system being developed by the department and its outside consultants in order to establish an integrated

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and comprehensive financial management system.

Financial Forecasting Inadequate

We recommend that Budget Bill language be adopted which directs the department to (1) retain a consultant who shall review and recommend improvements to the department's financial forecasting procedures, and (2) commit the staff resources required to implement the consultant's recommendations.

In September 1980, the department projected a June 1986 State Highway Account (SHA) cash deficit of $915 million. The department calculated this deficit using its financial forecasting model which compares anticipated revenues and expenditures. The model is composed of three major components: (1) *a revenue component,* which estimates expected SHA revenues, (2) *a fixed-cost component,* which projects expenditures for department personal services, operating expenses and equipment, and (3) a *cash flow component,* which combines capital outlay expenditure amounts with the outputs of the first two components and then produces a forecast of the cash balance in the SHA.

In 1977, the consulting firm of McKinsey and Company reviewed the financial forecasting capability of the department and identified several shortcomings of the department's forecasting system. Most importantly, the McKinsey report noted that "complete (forecasting) information can be provided only through testing (the) impact of possible variations in revenue forecasts and . . . alternative programs", but that "the (department's) current manual process makes it extremely difficult to perform these analyses." In other words, the department's reliance on manual inputs to its forecasting process made it difficult to develop alternative financial forecasts on the basis of varied assumptions.

To deal with this and other problems which were identified, McKinsey developed a financial forecasting model called FINPLAN for the department. This model was intended to coordinate the various fiscal components and to automate the forecasting process. The department accepted many of McKinsey's recommendations, and currently uses FINPLAN to produce *revenue* estimates. But FINPLAN has been discarded as a tool for providing *expenditure* projections. Department staff maintain that FINPLAN was not as sophisticated or detailed as the expenditure components already in place, and as a result, the outputs from FINPLAN were not particularly useful.

Analyst's findings. Our analysis of the projected deficit in the State Highway Account caused us to examine in detail the department's current forecasting process. We found that many of the problems identified by McKinsey more than three years ago still exist today. Specifically, we found that documentation for the two expenditure components of the forecasting model is inadequate. We also found that the department's reliance on manual inputs and calculations virtually prohibits extensive analysis of alternative assumptions. The department acknowledges these shortcomings and indicates it is attempting to correct them. Our review, however, suggests that the resources the department is willing to commit to this effort may be insufficient to remedy the identified problems.

The financial forecasting function is particularly important because it forms the basis for fiscal decisions that must be made by the Legislature. An improved forecasting ability will assist the Legislature in considering solutions to fiscal problems. Our analysis indicates that the department must renew and expand its efforts to improve its financial forecasting capabilities. We recommend, therefore, that the department be directed to (1) retain a consultant to review the department's financial forecasting system and to recommend improvements, and (2) commit the staff support required to implement the consultant's recommendations.

Accordingly, we recommend that the Legislature adopt the following Budget

Bill language for inclusion in Item 266-001-042.

"Provided, that the department shall retain a consultant who shall assist in reviewing the financial forecasting capabilities of the department and recommend improvements to the current procedures. Special emphasis shall be placed upon: (1) analyzing the assumptions used in the department's cash flow model, (2) improving the department's capability to develop forecasts based on alternative assumptions, (3) increasing the level of automation in the system, and (4) utilizing, to the extent possible, procedures already in use by the department. Provided further, that the department shall commit the required staff resources to implement the consultant's recommendations."

Data Users Committee Needed

We recommend adoption of supplemental report language in Item 266-001-042 establishing a Transportation Data Users Committee which would oversee the use of the Department of Transportation's financial forecasting models.

The Department of Transportation currently maintains and operates the financial forecasting system which was described in the preceding section. Direct access to the system is limited to department staff. When members of the Legislature, the California Transportation Commission or their staff require information from the model, it must be provided by department staff.

Because it has no independent data base or model at its disposal, the Legislature has difficulty verifying the department's forecasts and the assumptions used to develop those forecasts. In addition, the Legislature must rely on the department to test the impact of alternative assumptions on the projected cash balance. Our analysis indicates that legislative decision-making could be improved significantly by additional oversight of this financial forecasting activity.

A model for legislative oversight and access to a department forecasting system exists in education. For example, in K–12 education, there is a data users committee composed of administration and legislative staff which oversees use of the education finance model. The Department of Education maintains the data base for the model. A set of standard assumptions is agreed to by the data users committee. Users may test alternative assumptions either by directly accessing the model or by requesting that the Department of Education operate the model. Assumptions must be clearly spelled out by users. This approach reduces the likelihood of time consuming discussions about the methodology used to produce forecasts.

Although some adjustments would have to be made to account for the uniqueness of transportation finance, it appears that a data users committee—modeled after the education committee—could improve legislative oversight of transportation financial forecasting. We recommend, therefore, adoption of supplemental report language in Item 266-001-042 as follows:

"It is the intent of the Legislature that a data users committee be established to oversee the use of financial forecasting models maintained by the Department of Transportation. The following entities shall be represented on this committee: the Department of Finance, the Department of Transportation, the California Transportation Commission, the Senate Office of Research, the Assembly Office of Research, the Assembly Ways and Means Committee, the Senate Finance Committee, the Office of the Legislative Analyst and other agreed-upon users. The representative from the California Transportation Commission shall be responsible for convening the first meeting. The committee's primary responsibility shall be oversight of the Department of Transportation's cash forecasting model; however, it is the Legislature's intent that the committee shall also be provided access to other forecasting models maintained by the department. All such models shall continue to be maintained by the department. The department shall fully cooperate in providing the data users commit-

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tee with direct access to these models."

Unjustified Overtime Expenditures

We recommend a reduction of $3,226,507 and 9.1 personnel-years in Item 266-001-042 for overtime cash payments, benefits and operating expenses which are overbudgeted.

The department's budget includes approximately 438.2 personnel-years of cash overtime valued at $12.2 million. This is the same personnel level that was budgeted for cash overtime in 1980–81. Maintenance personnel who provide emergency snow removal and project engineers who must remain at construction sites after normal working hours are among those who receive cash overtime payments.

Our analysis indicates that the department has overbudgeted cash overtime payments in three ways:

1. ***Reduced effort.*** The budget proposes that approved capital outlay support be reduced by 253.7 personnel-years. Cash overtime, however, has remained constant. If the level of project-related effort is reduced, the need for cash overtime payments should be reduced as well. Therefore, we recommend a proportionate reduction of 9.1 personnel-years and $300,500 in cash overtime payments.

2. ***Benefits.*** The department includes benefits as part of its estimate of cash overtime expenditures. This practice is improper; only social security benefits should be budgeted for overtime work. We recommend, therefore, a deletion of all other benefit payments budgeted for overtime work, for a savings of $2,246,551.

3. ***Operating expense.*** The department also includes operating expense as part of its total budget for cash overtime work. Clearly, there are certain operating expenses associated with overtime activity. Our analysis indicates, however, that many categories of operating expense which the department includes in its cash overtime budget are inappropriate. These include moving costs, tuition, rent, postage, advertising and payment of bad debts. We recommend elimination of these and other inappropriate categories of operating expense from the cash overtime budget, resulting in a savings of $679,456.

In summary, we recommend reductions in the proposed budget for cash overtime as follows: (1) work effort ($300,500), (2) benefits ($2,246,551) and (3) operating expense ($679,456), for a total reduction of $3,226,507 in Item 266-001-042.

Overbudgeted Salary Request

We recommend a reduction of $891,576 for overstated salaries. This recommendation will result in the deletion of $381,125 from the Transportation Planning and Development Account (Item 266-001-046) and $510,451 from the State Highway Account (Item 266-001-042).

The department budgets changes in personnel by program, rather than by organization. This means that when a personnel-year of work effort is added to the budget, neither a specific position which will be added, nor a job classification requested for that position can be identified. As a result, the department assumes that new personnel added to a given program component will be paid the average salary of all personnel currently working in that component. For example, because the average salary budgeted for personnel in the Mass Transportation program's rail component is approximately $30,000, new personnel-years are budgeted at $30,000 as well. Personnel-years which are reduced also are assumed to have received the average salary level.

This methodology causes the department to overstate its salary needs. The department tends to exaggerate total salary increases when personnel-years are added to the budget because, generally speaking, new employees are paid less than the average salary. Conversely, the department tends to understate total salary reductions when personnel-years are eliminated from the budget, because many persons who leave the department have many years of service and, therefore, salaries above the norm.

Our analysis of the department's budget identified two areas where salaries appear to be overbudgeted.

Mass transportation. The average starting salary for positions added to the Division of Mass Transportation in Sacramento since July 1979 is $16,600 (adjusted to 1980–81 pay scales). In contrast, the department's budget proposes that 19.9 personnel-years (net) be added to the Mass Transportation program at an average salary of $31,800, or approximately 90 percent more than the average salary actually paid to new hires. If the 19.9 new personnel-years are assumed to receive a starting salary of $16,600, and if appropriate benefits are included, the Mass Transportation program budget is overstated by $381,125 and should be reduced by this amount.

Highway capital outlay support. The department proposes to reduce capital outlay support by 253.2 personnel-years (excluding transfers) at an average salary of $22,400. These reductions will be achieved through attrition. Many of the persons leaving the department will be engineers who have reached retirement age and are receiving salaries which we estimate to be approximately $1,600 higher than the average used to prepare the department's budget. If these reductions are budgeted at the higher level of pay, and if appropriate benefits are added, the department's Highway program budget is overstated by $510,451 and should be reduced by this amount.

Because the department's budget overestimated its salary and benefit needs, we recommend a reduction of $381,125 to Item 266-001-046 (Mass Transportation) and $510,451 to Item 266-001-042 (Highway Transportation).

Operating Expenses Overstated

We recommend a reduction of $7,483,255 from the State Highway Account (Item 266-001-042) for unjustified operating expenses. We withhold recommendation on proposed operating expenditures of $25,487,384.

The budget proposes expenditures of $236 million for operating expenses and equipment. This is an increase of $21.9 million (10 percent) over approved current year levels, and reflects (1) a $15 million increase due to approved cost escalation, (2) a $4.2 million reduction primarily due to decreased use of consultants, and (3) a $11.1 million addition due to workload increases.

A change in department workload usually affects the level of operating expenses. If more personnel are hired, the department can expect increases in equipment, communications, training, office supplies and other personnel-associated operating expenditures. Conversely, a reduction in workload should reduce personnel levels and the operating expenses necessary for their support.

Our analysis indicates that the department's proposed increase in operating expense is not consistent with proposed changes in workload and personnel levels. In addition, our review identifies several other deficiencies or irregularities in the method used by the department to develop its operating expense totals. Examples of these inconsistencies and deficiencies include the following:

1. ***Operating expenses do not reflect workload declines.*** The budget proposes a net reduction of 341.6 personnel-years from approved current year staffing levels, a decline of 2.2 percent. The budget indicates, however, that *increases* in workload will add $11.1 million (5.2 percent) to approved operating and equipment expense.

2. ***Operating expenses were artificially increased.*** The department budgets operating expenses for each additional personnel-year in a given program at the average expense for all existing personnel-years in the program. Therefore, personnel additions to programs with high average operating expenses—for example, highway maintenance programs which incur large employee travel expenses—

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generate a higher operating expense request than additions to less expensive programs. Similarly, when overhead personnel charges are shifted from a program with lower operating expenses to a program with higher operating expenses, a higher operating expense is budgeted for the same work effort.

An example of this is the shift of various overhead legal services personnel-year charges from the Aeronautics, Planning and Mass Transportation programs to the administration element of the Highway program. Because average operating expense charges are higher in the highway administration element, the shift results in a higher level of operating expense, even though the actual work being performed has not changed. Therefore, net operating expenses are proposed to increase even though department personnel and activities will not.

3. ***Operating expense increases were not substantiated.*** The budget indicates that workload increases would increase facility lease expenses to $1.7 million in 1981–82, an increase of $780,000. However, the department has not provided a budget change proposal that would substantiate an increase in lease expenditures. Further, our analysis of the department's current leases indicates the actual cost will be approximately $758,000.

In summary, the department has been unable to document the increased workload upon which it bases increases for at least 20 different expenditure categories. Workload-related expenses do not properly reflect declines in workload levels. In addition, lump sum operating expense increases have not been justified. Consequently, we cannot recommend approval of operating expense increases totaling $7,483,255, and accordingly, recommend this amount be reduced from Item 266-001-042.

Withhold recommendation. Our review of the operating expense budget also identifies four categories of operating expense in which the two-year increase over 1979–80 expenditure levels is significantly greater than the increase provided by the Department of Finance budget guidelines. Table 5 shows that the budgeted amounts for 1981–82 in these four categories exceed actual expenditures in 1979–80 by $25.5 million. Percentage increases in these categories range from 34 percent to 225 percent, whereas Department of Finance guidelines provide for an average two-year increase of 14.5 percent.

Table 5
Budgeted and Actual Operating Expenses
For Selected Categories of Expense

	Actual 1979–80	*Budgeted 1981–82*	*Change* *Amount*	*Percent*
Training	$593,511	$1,024,433	$430,922	73%
Facilities Operation	20,808,247	34,457,956	13,649,709	66
Other Expense: General	28,865,818	38,756,146	9,890,328	34
Bad Debts	593,511	2,109,936	1,516,425	255
Totals	$50,861,087	$76,348,471	$25,487,834	—

The department explains that comparison of actual and budgeted amounts is difficult because (1) accounting data for 1979–80 are inaccurate, and (2) the definition of items of expenditure which are supposed to be charged to these categories has changed. We recognize that, for these reasons, comparisons between the two years are difficult to make. At the same time, the department has failed to provide any reasonable means for evaluating the proposed increases. Accordingly, we withhold recommendation on the $25,487,834 increase proposed in the budget until the department provides a rationale for the increase.

Revert Unnecessary Appropriation

We recommend adoption of Budget Bill language requiring that, when state funds are budgeted for a purpose for which federal funds subsequently become available, the state funds be reverted to the appropriate fund.

During the budget year, the department anticipates receiving federal funds as reimbursements for costs incurred by the department. For example, the budget proposes an appropriation of $26,500 in funds received from the federal government to reimburse the Aeronautics program for the costs of inspecting airports pursuant to a Federal Aviation Administration contract.

In addition, the budget also proposes using state funds for certain activities that are eligible for federal reimbursement, but for which federal funds are not yet available. For example, the budget proposes to spend $279,391 in state funds to develop a state bus plan. The department anticipates, however, that federal funds may become available during the budget year to pay a portion of the cost. If this occurs, the state money which would have been spent on these activities would become available for other department activities.

We recommend that, if federal funds become available for purposes for which state funds are budgeted, state funds should revert to the account from which they were appropriated. The basis of this recommendation is two-fold. First, if these federal funds were available for appropriation in the Budget Act, the state funds would not be appropriated. Reverting the state funds after the federal funds are received would have the same effect. Second, our analysis of department expenditures indicates that some department activities were begun or expanded during the current year without prior notification having been given to the Legislature, as existing law requires, using funds appropriated by the Legislature for other purposes.

To prevent such program changes from occurring when additional federal funds become available, we recommend that state funds revert whenever they are no longer required for the purposes for which they were appropriated. Accordingly, we recommend adoption of the following Budget Bill language:

> "Provided, that any state funds that become unencumbered because of the receipt of federal funds in excess of the amount appropriated by this act, shall not be encumbered for any other purpose and shall revert to the unappropriated surplus of the fund from which the appropriation was made."

AERONAUTICS

The Aeronautics program contains four elements which are designed to improve the safety and efficiency of the California aviation system: (a) safety and local assistance, (b) administration, (c) planning and noise, and (d) reimbursed work for others.

The budget proposes an appropriation of $7,040,736 from the Aeronautics Account in the State Transportation Fund to support the program's activities. State operations are budgeted to increase 4.0 percent (to $1,548,736), and local assistance is proposed to increase 3.1 percent (to $5,492,000) over current year levels. The budget also proposes the expenditure of $26,500 in federal reimbursements for airport inspections, for a total proposed expenditure of $7,067,236. This is an increase of 1.4 percent from the approved current year levels.

Program staff are budgeted at 39.1 personnel-years, a reduction of 2.8 personnel-years from the level authorized in the current year. In addition, during the current year, the department reallocated personnel to (1) update the airport inventory and increase inspections, (2) update aeronautics regulations, (3) establish an off-airport terminal demonstration project, and (4) analyze the economic impact of airport noise control efforts. The budget proposes to continue these activities in the budget year.

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Table 6 displays the proposed program changes and fund sources.

Table 6
Proposed 1981–82 Aeronautics
Program Changes and Fund Sources

	Personnel-Years	*State Operations*	*Local Assistance*	*Total Expenditures*
1980–81 Approved	41.9	$1,642,550	$5,325,851	$6,968,401
1. Technical Adjustments and Transfers	−3.5	—	—	—
2. Program Changes				
Safety	1.5	42,655	—	42,655
Local assistance	1.0	15,629	166,149	181,778
Administration	—	−38,735	—	−38,735
Planning and noise	−1.8	−87,118	—	−87,118
Work for others	—	255	—	255
Subtotal, Program Changes	−2.8	−$67,314	$166,149	$98,835
1981–82 Proposed	−2.8	$1,575,236	$5,492,000	$7,067,236
Fund sources				
Aeronautics Account	—	$1,548,736	$5,492,000	$7,040,736
Federal Funds	—	26,500	—	26,500
Total Funds		*$1,575,236*	*$5,492,000*	*$7,067,236*

Off-Airport Terminal Demonstration Project

We recommend a reduction of $33,600 and 1.0 personnel-year from the Aeronautics Account (Item 266-001-041) for developing an off-airport terminal demonstration project, because the project is not a state responsibility.

The budget requests 1.0 personnel-year and $33,600 to continue an off-airport terminal (OAT) demonstration project in 1981–82. This program was established in the current year without prior notification having been given to the Legislature as required by existing law.

This demonstration project would provide ticketing and baggage handling service, as well as transportation to and from the airport. The department would identify potential sites in a suburban area, develop policies for (1) parking, (2) the level of transportation service, and (3) terminal management, and identify fund sources.

After the budget was prepared, the Federal Highway Administration agreed to fund the demonstration project. Accordingly, state funding no longer is required for this program. The Legislature, however, should decide whether to (1) reduce Item 266-001-041 by $33,600 and 1.0 personnel-year and increase Item 266-001-890 by an identical amount to reflect the availability of federal funds, or (2) reduce Item 266-001-041 by $33,600 and 1.0 personnel-year to eliminate the program. We recommend the second alternative.

Department staff indicate that the primary benefits of off-airport terminals are to reduce (1) the parking needs of airports, and (2) the amount of automobile traffic going to and from airports. If parking problems exist at an airport or an off-airport terminal would be more convenient for airport users, an individual airport would appear to have adequate incentive to establish such a terminal. In fact, off-airport terminals have been established in many cities, including San Francisco. Moreover, where governmental intervention is warranted, regional transportation planning agencies, such as the Metropolitan Transportation Commission, and not the department, should take prime responsibility for a project which is entirely regional in nature. Consequently, we can find no basis for Caltrans to become involved in this project.

Accordingly, we recommend that the legislature delete the 1.0 personnel-year and $33,600 proposed in Item 266-001-041 for an off-airport terminal demonstration project.

HIGHWAY TRANSPORTATION

Consistent with Chapter 1106, Statutes of 1977, the highway program is divided into eight elements: (a) rehabilitation, (b) operational improvements, (c) local assistance, (d) program development, (e) new facilities, (f) administration, (g) operations and (h) maintenance. Each of these elements is in turn broken down into its several components.

The budget proposes the expenditure of $1,454,412,608 for highways, which is $293,188,146, or 16.8 percent, below the revised current year expenditure estimate of $1,747,613,521. The budget year projection, however, is $1,946,676, or 0.1 percent, above the 1980–81 expenditure level approved by the Legislature last year. The significant increase in 1980–81 expenditures over the authorized 1980–81 level reflects (1) increased local assistance and capital outlay subventions, (2) the slippage of 1979–80 project completion dates, (3) an increased level of new facility construction, and (4) project cost increases.

Table 7
Proposed 1981–82 Highway Transportation Program Changes and Fund Sources

	Personnel-Years	*State Operations*	*Capital Outlay and Local Assistance*	*Total Expenditures*
1980–81 Approved	14,736.2	$592,007,349	$860,458,583	$1,452,465,932
1 Technical Adjustments and Transfers	−21.8	—	—	—
2. Program Changes				
Rehabilitation	−175.7	−1,721,314	−65,599,599	−67,320,913
Operational improvements	−183.2	1,169,709	−31,001,438	−29,831,729
Local assistance	−9.3	654,617	64,156,736	64,811,353
Program development	+1.0	1,029,724	—	1,029,724
New facilities	+105.7	10,390,941	−22,968,006	−12,577,065
Administration	−1.9	19,059,076	—	19,059,076
Operations	−7.2	420,885	—	420,885
Maintenance	−56.5	26,355,345	—	26,355,345
Subtotals, Program changes	−327.1	$57,358,983	−$55,412,307	$1,946,676
1981–82 Proposed	14,387.3	$649,366,332	$805,046,276	$1,454,412,608
1981–82 Fund Sources				
State Highway Account	—	$537,277,787	$79,461,833	$616,739,620
Bicycle Lane Account	—	22,469	379,436	401,905
California Environmental License Plate Fund	—	47,725	150,000	197,725
Toll Bridge Funds	—	26,172,403	54,551,807	80,724,210
Federal Funds	—	76,888,890	615,503,200	692,392,090
Reimbursements	—	8,957,058	55,000,000	63,957,058
Total Funds	—	$649,366,322	$805,046,276	$1,454,412,608

DEPARTMENT OF TRANSPORTATION—Continued

Table 7 provides a comparison of expenditures in the 1981–82 proposed highway program with those authorized in the 1980–81 program. Table 7 also shows that the 1981–82 personnel-year total is 348.9 less than the current authorized level of 14,736.2 personnel-years. In addition, Table 7 displays the funding sources for the 1981–82 highway program. The State Highway Account will provide approximately $616.7 million (42.4 percent), while federal funds will contribute approximately $692.4 million (47.6 percent) of total support. The remaining $145.3 million (10 percent) will come from several other state funds and reimbursements.

Budget Year Funding Shortfall

The department's proposed budget shows the amount of unrestricted state resources in the State Highway Account in 1981–82 as being $681.4 million. This is the sum of (1) $539.9 million in new 1981–82 revenues and receipts, and (2) a $141.5 million unrestricted account balance. Against these resources, the department proposes 1981–82 obligations and transfers of $679.3 million. Thus, the June 30, 1982 *unrestricted* balance of state funds in the account will be *$2.1 million.* Although there will still be a sizable *cash balance* in the account at that time, all but $2.1 million of it will have been appropriated for future expenditure.

Highway program shortfall. In order to bring 1981–82 encumbrances into balance with the $681.4 million in unrestricted account resources, the department reduced the expenditure level programmed by the California Transportation Commission (CTC) in the State Transportation Improvement Program (STIP). If *all* state funded capital outlay and mass transportation guideway expenditures programmed in the adopted 1980 STIP for the 1981–82 year were included in the department's 1981–82 budget, state obligations would total approximately $755 million—$77.5 million more than available state resources. Similarly, state expenditures in the 1981 proposed STIP (PSTIP), prepared by the department, exceed available state resources by approximately $107 million.

Table 8 compares 1981–82 programmed state expenditures in the 1981 PSTIP with budgeted 1981–82 state expenditures. Although a small increase in local highway assistance is shown, budgeted expenditures fall short of programmed PSTIP expenditures in several major areas: state operations ($8.9 million), mass transit guideways ($27.5 million) and capital outlay projects which are fully financed with state funds ($76.8 million). Because the budget does not (1) distinguish between state-only funded capital outlay and state funds used to match federal capital outlay grants, and (2) reduce federal funding, we have assumed that all of the capital outlay reductions will be made in state-only funded projects.

Table 8
Proposed 1981–82 State Highway Account Obligations
(in millions)

Obligation Category	*1981 PSTIP*	*Governor's Budget*	*PSTIP Less Budget*
State Operations	$546.2	$537.3	−$8.9
Local Assistance:			
Highways	21.2	27.0	+5.8
Mass Transit Guideways	83.9	56.4	−27.5
Capital Outlay			
State-Only Funded Projects	85.1	8.3	−76.8
Federal Match	44.2	44.2	—
Transfer to TP and D Account[a]	5.3	4.0	−1.3
Totals	$785.9	$679.3	−$106.6

[a] Transportation Planning and Development Account.

Other factors. Two other factors could change the amounts shown in Table 8.

- Project support staff and mass transit guideway allocations included in the department's budget are based on the adopted 1980 STIP. The department indicates that it will submit a budget revision letter prior to budget hearings which will propose reduced expenditures of approximately $20 million resulting from department efficiencies. Staff indicate that the letter may also shift expenditures among program categories.
- Expenditures for (1) retroactive salary payments pursuant to Chapter 192, Statutes of 1979 (SB 91) and (2) salary increases granted to employees for 1981–82 have not been included in 1981–82 budget totals. According to department staff, retroactive salary payments will add approximately $13 million in state expenditures to the total for the current year, while a 5 percent pay increase would add another $13 million to the budget year total.

Alternatives Available to the Legislature

If the Legislature decides to increase revenues, then expenditure levels equal to or greater than the level programmed in the proposed 1981 STIP for 1981–82 would be possible. We discuss several revenue increase alternatives in the introduction to our analysis of the department's budget (pages 327–329).

If the Legislature does not act to increase revenues, the level of expenditures programmed in the 1981 PSTIP for 1981–82 will have to be reduced by approximately $120 million (including the retroactive pay increase), plus the amount of any 1981–82 salary increase. The Legislature can either approve the department's reductions, as shown in Table 8, or adopt other reductions of its choosing. Elsewhere in this analysis, we recommend reduced State Highway Account expenditures of $47.1 million. Further reductions could be made in any of the following or other areas:

- ***State-only funded capital outlay.*** Most of the projects in this category are part of the Primary highway system.
- ***Federal aid match.*** A reduction of every dollar in this area would also mean a loss of $4 to $9 in federal aid.
- ***Capital outlay support.*** Highway construction requires lengthy lead times. Therefore, significant numbers of capital outlay support staff are currently working on projects that are not planned for construction for several years. If the Legislature intends to reduce capital outlay projects, either in 1981–82 or in subsequent years, project support staff could be reduced also. For example, the CTC's adopted 1981 fund estimate (used by the department to prepare the proposed 1981 STIP) eliminates nearly $2 billion of potential federal capital outlay funding. The department estimates that if these projects are not going to be constructed, project support staff could be reduced by approximately 1500 personnel-years in 1981–82, for a savings of approximately $50 million.
- ***Local assistance.*** Expenditures for grade crossing separations, mass transit guideways and intermodal facilities are included in this program.
- ***Program development.*** This program includes much of the department's highway-related research.
- ***Maintenance.*** The department has already included maintenance efficiency reductions of 221.7 personnel-years in its budget. Conversely, it has increased staffing for safety and workload by 235.8 personnel-years. This program also includes maintenance of toll bridges which frees approximately $8 million in toll revenues for transit capital expenditures in the Bay Area.

DEPARTMENT OF TRANSPORTATION—Continued

Capital Outlay Support

We withhold recommendation on the department's proposed staffing changes in the three highway capital outlay elements due to (1) the uncertainty concerning the level of capital outlay programming and (2) the likelihood that changes in the methodology for estimating capital outlay personnel needs will result in revisions to the department's staffing request.

The budget proposes a total highway capital outlay staffing level of 5,011.5 personnel-years. This amount is 243.8 personnel-years less than the 5,255.3 personnel-years approved for the current year and is the net of several changes within the three capital outlay elements. A display of these changes is provided in Table 9.

Table 9
Summary of Highway Capital Outlay Personnel-Year Changes
Proposed 1981–82 over Authorized 1980–81

Program Element	*Authorized 1980–81*	*Proposed Changes Workload*	*Technical*	*Total*	*Proposed 1981–82*
Rehabilitation	1158.3	−175.7	2.5	−173.2	985.1
Operational Improvements	1989.8	−183.2	30.4	−152.8	1837.0
New Facilities	2107.2	105.7	−23.5	82.2	2189.4
Totals	5255.3	−253.2	9.4	−243.8	5011.5

Table 9 shows that personnel-year totals in the rehabilitation and operational improvements elements will decrease, while the new facilities element total will increase.

Two factors—uncertainty concerning the level of capital outlay programming and changes now being considered in the department's methodology for estimating capital outlay personnel needs—prevent us from analyzing the department's capital outlay personnel needs at this time.

Capital outlay programming. The budget is based on the 1981–82 year of the 1980 State Transportation Improvement Program (STIP). Alternative capital outlay programs are being developed which will affect the level of personnel needed to implement capital outlay projects. The fund estimate adopted by the California Transportation Commission, and the proposed 1981 STIP which is based on the commission's fund estimate would, for example, require 1,500 personnel-years less effort than proposed in the budget. Given the uncertainty which exists regarding the level of capital outlay expenditures for 1981–82, we have no basis for making a recommendation on the department's proposed staffing changes.

PYPSCAN. The proposed capital outlay support levels were developed using the department's new automated person-year, project scheduling and cost analysis system (PYPSCAN). The budget year is the first year in which the department used this new system to develop its capital outlay support budget.

An extensive data base which contains actual personnel and cost data for thousands of projects completed by the department in recent years is fed into PYPSCAN to generate workload factors for different project types, sizes and costs. These factors and project scheduling data are used to estimate the number of personnel-years needed annually to meet the construction timetables for projects in the STIP. The result, according to the department, is a capital scheduling plan which identifies for each project, all of the key target dates in the development of a project and the staffing required to meet those dates.

Our review indicates that PYPSCAN's potential for improving the department's procedures for estimating capital personnel requirements is considerable. It is a systematic approach which replaces the department's previous method of relying on gross capital outlay expenditures, rather than on individual project characteristics and costs, to predict personnel needs. PYPSCAN also standardizes delivery schedules for similar types of projects. According to department staff, capital outlay support requirements in the budget year have declined primarily because the project schedules developed by PYPSCAN are more realistic.

Our analysis also indicates that the current version of PYPSCAN is a "first-cut" effort at automating and standardizing project personnel estimating procedures. Significant portions of the system still are adjusted manually. The department acknowledges that PYPSCAN is still under development, and reports that the system is scheduled for further refinement and testing.

Further refinement of PYPSCAN and the data it generates is likely to produce some changes in the personnel levels needed for the capital elements of the highway program.

Because of these expected changes in capital outlay programming levels and in the personnel needs identified by PYPSCAN, it would be premature for us to make recommendations on the capital outlay personnel levels requested by the department. Accordingly, we withhold recommendation on these proposals at this time.

Environmental Protection Agency Sanctions

On December 12, 1980, the federal Environmental Protection Agency (EPA) imposed sanctions limiting federal aid for highway and sewer projects in California. The sanctions were imposed on projects in the following areas: San Diego, Ventura County, Fresno, Sacramento, San Francisco Bay Area, and the South Coast Air Basin (Los Angeles area). Sanctions were imposed because California has not adopted an annual vehicle maintenance and inspection program. The federal Clean Air Act requires the state to adopt such an inspection program.

The sanctions imposed by the EPA will not affect all of the highway projects receiving federal support. Projects which have already received funding approval will be permitted to continue. In determining which projects will be affected, the EPA identified three categories for projects:

1. *Exempt*—those projects which are (a) assumed to contribute to improved air quality, such as transit-related or transportation systems management projects and (b) safety projects. Funding for this group will continue without interruption.

2. *Potentially exempt*—those projects which the EPA and the Federal Highway Administration (FHWA) will review on a case-by-case basis to determine their effect on air quality. Projects meeting EPA standards will be given funding clearance.

3. *Not exempt (delayed)*—all other projects which do not qualify for categories 1 or 2. This group of projects will not be given funding clearance unless the sanctions themselves are modified or the state adopts an appropriate vehicle inspection program.

The department reports that a substantial number of projects scheduled for construction in the current fiscal year have already been approved by the FHWA and EPA. These projects will continue according to schedule.

In December 1980, the department estimated that projects which appear to fall in category 3 (not exempt) may total $68 million. Another $100 million in projects appeared to qualify for category 2 (potentially exempt). At the time this analysis was prepared, the department reported that the EPA had given tentative approval to reclassifying rehabilitation projects as safety projects, making these projects eligible for exemption under category 1. If this is done, many projects currently delayed could continue on schedule. It is not known at this time how many projects will remain subject to the funding delay.

The department reports that the EPA sanctions have not yet produced a significant impact on the state's highway program. Adverse effects are more likely,

DEPARTMENT OF TRANSPORTATION—Continued

however, the longer the sanctions remain in effect. A lengthy freeze on federal funding will reduce the volume of projects scheduled for advertising. Also, construction inflation increases will ultimately increase total project costs so that when the federal dollars are received, they will buy fewer projects.

It is unclear how the EPA will administer the sanctions, now that there is a new administration in Washington. Even if sanctions were lifted immediately, the federal notification and public hearing procedures associated with the sanctions' revocation could take several months to complete. It this occurs, California could still experience a slowdown in its planned highway program.

The department plans to publish a weekly or bi-weekly status report on the effect of the EPA sanctions. Also, the department reports that it will continue its normal processing of project funding requests and forward these requests to the FHWA. These actions are intended to minimize any additional delays in project approval once the sanction issue is resolved.

Unnecessary Capital Outlay Expenditures

We recommend a reduction of $12,011,000 in capital outlay funds (Item 266-301-042) because the budget indicates that this sum will not be spent.

The budget proposes an appropriation of $46,425,033 for highway capital outlay activities in 1981–82. In addition, $8,152,663 appropriated in Chapter 1364, Statutes of 1978, and $12,011,000 appropriated in the 1979 Budget Act will be available in the budget year for a total of $66,588,696 in capital outlay resources.

Of this amount, the budget indicates that $2,115,863 will be carried forward for expenditure in subsequent years and $12,011,000 will revert to the State Highway Account on June 30, 1982. Rather than revert the $12 million appropriated in the current year, as the budget proposes, we recommend that the appropriation for the budget year be reduced by that amount. We further recommend that the $12 million in capital outlay projects proposed for funding with money provided in the 1981 Budget Act be funded instead with money provided in the 1979 Budget. The basis for this recommendation is three-fold:

First, Section 5.4 of the Budget Act states the Legislature's intent that all available revenues in the State Highway Account be used in the order of receipt (that is, first available, first used). Our recommendation to spend the 1979 Budget Act funds before spending funds appropriated in the 1981 Budget Act is consistent with this accounting principle. Second, there is no assurance that the $12 million would, in fact, revert to the State Highway Account. Our analysis of the department's expenditures during the current year indicates that the department has increased expenditures in other programs, using excess funds available in the Highway program, without prior notice to the Legislature as required by existing law. The proposed appropriation would appear to make $12 million in surplus money available for such expenditures in the current or budget years. We do not believe that unneeded funds should be available for use in this manner. Finally, it is proper budgeting policy to appropriate only as much money as the department plans to spend. The budget indicates that $12 million proposed for appropriation would not be spent. Therefore, we recommend that Item 266-301-042 be reduced by $12,011,000.

Deleting this amount will not affect the June 30, 1982 State Highway Account balance of $2,105,350 projected in the Governor's Budget. This is because the $12,011,000 currently is reflected as a reversion to the account and has been included in the total resources available in the account in the 1981–82 fiscal year.

REHABILITATION

The rehabilitation element includes those activities which extend the service life of highway facilities through the restoration and reconstruction of facilities which have deteriorated due to age, use or disasters. In some instances, improvements, or protective betterments, are made to existing structures to reduce the likelihood of serious damage at a later date. This element also contains resources for the construction and improvement of district buildings and related facilities.

The budget for this element proposes the expenditure of $123.3 million in 1981–82, of which $79.2 million is for capital outlay. The total amount requested is $67.3 million, or 35.3 percent, below authorized current year expenditures of $190.6 million. Total personnel-years are projected to decline 173.2 from the current year, to a level of 985.1 in the budget year. This difference reflects a workload decrease of 175.7 personnel-years and a 2.5 personnel-year increase for technical adjustments and transfers.

The significant reduction in proposed expenditures reflects a reduction in the level of construction programmed in the adopted STIP and the department's re-evaluation and recalculation of capital outlay delivery schedules. Information developed through the department's new automated personnel and capital scheduling system (PYPSCAN) indicates that the department previously underestimated the time that will be necessary to complete capital projects. These results have extended project delivery dates, thereby reducing projected expenditure and personnel totals in the budget year.

Public Works Board Review

We recommend that legislation be enacted authorizing the Legislature and requiring the Public Works Board to review proposed capital outlay projects involving land purchase, buildings and improvements to facilities owned by the department. We further recommend that Chapter 1106, Statutes of 1977, be amended to remove this authority from the California Transportation Commission.

Chapter 1106, Statutes of 1977, requires that Budget Act appropriations from the State Highway Account be made on a program basis without identifying specific capital outlay projects. Under this statute, the California Transportation Commission (CTC) is responsible for allocating appropriated funds to specific projects within the budget's program categories.

This statutory provision is intended to insure that the commission, as an independent entity, can determine project allocations on the basis of statewide importance and need. Department projects funded by the State Highway Account, however, include not only highway and other transportation projects but also construction of department buildings, improvements to existing support facilities (such as maintenance buildings or district headquarters), and nonhighway land purchases. The department is unique among state agencies in that these "nontransportation" projects are *not* subject to legislative review.

Previous legislative action. In our *Analysis of the 1979–80 Budget Bill*, we recommended the enactment of legislation to provide legislative and Public Works Board review of department facilities and nontransportation projects. Subsequently, the Legislature adopted Budget Bill language that was intended to make these department projects subject to the same review procedures established for other state capital outlay proposals.

The language included in the 1979 Budget Act provides an opportunity for legislative review of department projects, but it does not supplant the project review process specified by Chapter 1106. This process remains in effect for these capital outlay projects. Thus, nontransportation capital outlay projects are subject not only to CTC review, but also to formal approval by the Public Works Board. This results in a more lengthy and less efficient process for reviewing nontransportation projects than that which existed previously.

Legislative scrutiny desirable. We continue to believe there is a pressing need for legislative and Public Works Board review of Caltrans' nontransportation projects. Our analysis indicates that the CTC's review of department facility proposals is not as rigorous as its review of highway and transit capital outlay projects. This is because the commission has focused its analytical resources on the billions of dollars in higher-priority transportation projects included in the five-year State Transportation Improvement Program (STIP).

We believe that review of the department's nontransportation projects should be no less rigorous than the review to which other state agencies' projects are subjected. This requires the Legislature to establish priorities for, review the merits of, and allocate funds to capital outlay projects involving land purchase, buildings and improvements to nontransportation facilities. In addition, review of these projects by the Public Works Board is warranted so that nontransportation capital outlay projects are treated in a consistent manner throughout state government.

Having the Legislature review the department's nontransportation projects would not be inconsistent with the spirit of Chapter 1106. The CTC still would review the merits of individual *highway* projects and would allocate funds to these projects. The Legislature, by reviewing nontransportation requests, will not be budgeting on a project basis but will be making the review process for the department's facilities consistent with the existing process for all other state departments.

Therefore, we recommend that legislation be enacted to provide legislative and Public Works Board review of nontransportation capital outlay projects. Further, we recommend that such legislation amend the appropriate sections of chapter 1106, Statutes of 1977 (AB 402), to delete the CTC's authority for allocating funds to capital outlay projects involving land purchase, buildings and improvements to nontransportation facilities.

Land and Buildings Improvements

We withhold recommendation on the department's request to expend $9,585,634 for the construction and improvement of department lands, buildings and toll bridge facilities, pending the receipt of information justifying the amount and sources of the expenditure request.

As discussed in the previous section, the Legislature does not review nontransportation capital outlay projects on a case-by-case basis. Specific project review and the allocation of funds to individual projects is the responsibility of the California Transportation Commission.

The Legislature, however, is responsible for appropriating a lump-sum expenditure amount for the construction of these lands, buildings and facilities projects. For 1981–82, the budget requests an expenditure total of $9,585,634 for this project category.

Discrepancies in supporting data. We requested supporting materials from the department to facilitate our analysis of the proposed expenditure. Information furnished by the department, however, does not agree with the figures contained in the budget. For example, the supporting data contains projects with a total cost of $12,307,000 rather than the $9,585,634 shown in the budget. Similarly, the information provided by the department regarding the funding sources for these projects does not agree with the fund source breakdown displayed in the budget.

Our review of the lands and buildings proposal raises several other questions and issues which should be resolved before the Legislature approves the department's expenditure request. Specifically:

- ***Major project lists.*** The 1981–82 schedule of major projects (those in excess of $200,000) provided by the department in April 1980, differs from the 1981–82 schedule provided in January 1981. The department should prepare material accounting for the changes and substitutions.

- *Minor project list.* The budget requests approximately $1.4 million for unidentified minor construction projects. Last year, however, the department agreed to provide a detailed listing of the 1981–82 minor projects by July 1, 1981. The detailed listing of projects has not yet been received.
- *Study results.* Some projects were proposed despite ongoing studies of alternatives to such projects. These alternatives studies should now be complete and their results made available for review. This information will permit a more careful assessment of the department's expenditure request.
- *Project priorities.* The major project list furnished by the department appears to include many low-priority projects. Priority data previously submitted shows that projects ranked 16th, 19th, 22nd, and 30th are included on the 1981–82 project list. The department should prepare materials explaining why higher-priority projects have not been included in the expenditure proposal.

Withhold recommendation. Our analysis indicates that the nontransportation lands and buildings request is incomplete. Additional program detail and supporting materials must be provided before we can determine whether the department's request is reasonable. This additional detail should address the questions raised in our analysis, as well as the relationship between the proposed projects and the department's plan to reorganize its maintenance and project development operations. For these reasons, we withhold recommendation on the proposed expenditure of $9,585,634 for these projects.

OPERATIONAL IMPROVEMENTS

The operational improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system. The components of this element include: (a) safety improvements—signals, median barriers, warning signs and crash barriers; (b) compatibility improvements—sound walls, roadside rests, vista points, highway planting and fish and wildlife preservation, and (c) system operation improvements—high-occupancy vehicle lanes, passing and climbing lanes, and lane delineation and channelization.

The budget for this element proposes the expenditure of $157.8 million in 1981–82. This total includes $88.6 million in capital outlay expenditures. The total amount requested is $29.8 million, or 15.9 percent, less than authorized current year expenditures of $187.6 million. Nearly all of the reduction occurs in capital outlay expenditures. Total personnel-years are projected to decline 15.2 from the current year, to a level of 1,837 in the budget year.

The large reduction in capital outlay expenditures reflects, in part, the department's re-evaluation and recalculation of capital outlay delivery schedules. Information developed through the department's new automated personnel and capital scheduling system (PYPSCAN) indicates that the department previously underestimated the time that will be necessary to complete capital outlay projects. These results have extended project delivery schedules, thereby reducing expenditure totals in the budget year.

LOCAL ASSISTANCE

The department's activities in this element fall into two general areas. First, the department acts as a coordinating agency for state and federal funds which are subvened to local agencies, and attempts to insure that these funds are expended according to established guidelines. Second, the department undertakes highways and road work on behalf of local agencies, for which it is fully reimbursed.

DEPARTMENT OF TRANSPORTATION—Continued

Expenditures in this element are projected to total $304.4 million in the budget year, including $289.6 million in capital outlay and subventions. The amounts compare to $239.6 million in total expenditures and $225.4 million in capital outlay and subventions approved for the current year.

The budget shows capital outlay work performed on a reimbursable basis for others increasing from $2 million authorized for the current year to $32.5 million in the budget year. This change, however, does not indicate any significant increase in reimbursed work. Instead, the increase reflects a change in the department's program definitions. Reimbursed work on behalf of others was shown as part of the new facilities construction element in last year's budget. Now it is being moved back to the local assistance element where it was shown two years ago. It appears that the department cannot determine whether these reimbursed expenditures should be displayed as local assistance or new facilities construction.

The budget proposes a decrease of 16.6 personnel-years, to a total of 315.6, in 1981–82. This decrease consists of a 9.3 personnel-year decrease in reimbursed work for others and a 7.3 personnel-year decrease for technical adjustments and transfers.

PROGRAM DEVELOPMENT

The program development element encompasses three component areas of activities, including: (1) research—theoretical, applied, and environmental studies designed to improve the construction, maintenance, and safety of highways; (2) system planning—road mapping, monitoring construction progress and the 55 miles per hour speed limit, and preparation of the STIP and other reports and (3) highway programming—scheduling of capital investments and determination of the distribution of resources.

Expenditures in this element are budgeted at $13.7 million in 1981–82, $1 million (8.1 percent) more than the amount authorized for the current year. Personnel-years are projected to decline from the authorized current year total of 352.3 to 338.7 in the budget year. The 13.6 personnel-year reduction is the net of a 1 personnel-year increase for workload and a 14.6 personnel-year decrease for technical adjustments and transfers.

Highway Research

We recommend a reduction of $1,100,000 from the State Highway Account (Item 266-001-042) for highway research activities because the department has failed to provide any basis for judging the merits of new research projects to be supported by these funds. We further recommend that the fiscal committees ask the department to explain during budget hearings why current-year expenditures exceed the level authorized by the Legislature for the current year.

The department's research activities encompass a wide range of theoretical and applied research, testing and evaluation, and demonstration projects. Its facility research promotes the design of safe and efficient highways, while its environmental research explores the impact of highway facilities on the surrounding physical and social environment.

The 1980 Budget Act appropriated $3.3 million for department research activities, and authorized a staffing level of 72 personnel-years. During the current year, the department obtained additional federal funds and increased its expenditure level for this activity by $1.4 million—or 42 percent—to an expenditure level of $4.7 million. The department's budget for 1981–82 proposes a decrease of approximately $100,000 for highway research and a minimal increase of 0.5 personnel-years from the current year level. Thus, the department's request is approximately $1.3 million, or 39 percent larger, than the current year authorized level.

The substantial increase in the level of expenditures for research over the authorized level during the current year is yet another example of a major change to the approved budget program made by the department without giving prior notice to the Legislature as it is required to do by existing law. (We discuss this general problem in an earlier section of this analysis.)

Substantiation lacking. We asked the department to provide information on the new research projects proposed for 1981–82, and to identify the relative priority of these projects. The department instead prepared a project rating system as follows: 4 points—urgent; 3 points—high; 2 points—medium; 1 point—low; and 0 points—no need. The department rated all proposed projects either 4 (urgent) or 3 (high). The department did not provide a relative priority listing of the projects.

We also requested materials describing the new projects and justifying the need for them and the proposed amounts. This information has not been made available to us.

Our analysis of what limited descriptive data exists indicates that some projects (1) overlap activities being performed by other state agencies, (2) are of questionable application, or (3) are a low priority use of limited highway resources.

Because the department has not substantiated the need for or the proposed funding level of the new research projects, we are unable to recommend that the requested funds be approved. Instead, we recommend that expenditures for highway research be limited to those projects currently underway, and that $1,100,000 of the $4,600,187 requested in Item 266-001-042 be deleted. We further recommend that the department be prepared to explain to the fiscal subcommittees during the budget hearings why estimated current-year expenditures substantially exceed the level authorized last year by the Legislature.

NEW FACILITIES

The new facilities element is the largest—in dollar terms—of the eight highway program elements, and has three components: (1) new highway construction—new development along with additions to or the upgrading of existing facilities; (2) new toll bridge construction—additions to existing toll bridges or the construction of new and replacement facilities, and (3) new bicycle facilities—widening of existing roadways and construction of separate bikeways.

The budget proposes the expenditure of $436.7 million in this element, a decrease of $12.6 million, or 2.8 percent, from the level approved for the current year. Of the $436.8 million budgeted for 1981–82, approximately $347.4 million is earmarked for capital outlay, with the remaining $89.4 million for the support of state operations. When viewed on a component-by-component basis, the largest portion of the new facilities expenditures is found in the new highway construction component, where a total of $381.1 million has been proposed. Of the remaining amount, $52.2 million is programmed for toll bridge expenditures and $3.5 million is proposed for development of new bicycle facilities.

The $381.1 million budgeted for new highway construction consists of $81.5 million in state operations (support) expenditures and $299.6 million in capital outlay expenditures. Support expenditures account for $5.3 million of the total $52.2 million in toll bridge expenditures and $2.6 million of the $3.5 million in total bicycle facilities expenditures.

The staffing level for this element is proposed to increase from 2,107.2 personnel-years authorized in 1980–81 to 2,189.4 in 1981–82. This is an increase of 82.2, and is the net result of a 105.7 personnel-year increase for workload changes and a 23.2 personnel-year reduction for technical adjustments.

DEPARTMENT OF TRANSPORTATION—Continued

ADMINISTRATION

The administration element contains the business, legal, management and other technical services necessary to support the highway program. This element has four components: (1) program administration—budgeting, business and fiscal management, training and data processing; (2) general administration—personnel, program evaluation, employee relations, public information and financial control; (3) professional and technical services—legal services; and (4) external costs—tort liability payments, pro rata charges and Board of Control claims.

The budget shows expenditures in this element increasing from a revised total of $78.2 million in the current year to $82 million in the budget year. A more meaningful comparison, however, is obtained when the $60.9 million expenditure level approved for the current year is compared with the proposed $82 million budget year amount. On this basis, the expenditure increase is $19.1 million, or 31 percent, above the approved 1980–81 amount.

The $19.1 million increase is the sum of several major technical changes and the internal redistribution of program costs. These changes include (1) an increase in state administrative prorata charges, (2) correction of a baseline pricing error in the current year budget, (3) redistribution of technical services, and (4) inflation adjustments to the base program amount.

Personnel-years are proposed to increase from the current authorized level of 1,494.1 to 1,535.5 in the budget year. The increase of 41.4 personnel years is the net of a 1.9 personnel-year reduction for workload changes and a 43.3 personnel-year increase for administrative transfers and technical adjustments.

Equipment Repair Services

We recommend a reduction of $1,700,000 from the State Highway Account (Item 266-001-042) for the commercial repair of department road equipment due to reduced repair costs and overbudgeting.

The 1980 Budget Act provided funds for the addition of 38 personnel-years for equipment services and repair operations. Of this total, 12 personnel-years were proposed for additional mechanics to replace the 12 personnel-years that were used to establish the department's motorized equipment training school. The remaining 26 personnel-years were proposed as staff for the department's new equipment preventive maintenance program.

The department stated that the 38 personnel-years were needed to reduce the backlog of road equipment needing repair, and to prevent additonal repairs from occurring. The Legislature approved the staffing increase, and in the Supplemental Report to the 1980 Budget Act directed our office to analyze the department's progress in using the new personnel resources.

Our review of the material submitted by the department on its utilization of the additional staff indicates that major operating and capital replacement costs have been reduced or avoided through the deployment of the additional equipment staff. For example, major equipment failures have been prevented by early discovery of problems and corrective repairs, with savings estimated at $700,000 annually. New engine coolant replacement procedures have produced added savings of $200,000 annually. The department also estimates a reduction in equipment "down-time" from 7 percent to 5 percent. This 2 percent reduction will increase the availability of existing equipment and reduce the need to purchase additional equipment, permitting a one-time capital cost avoidance of $4.5 million. Even if this estimate proves optimistic, it appears that the total savings accruing from the addition of the 38 personnel-years should exceed the increased costs associated with these staff.

Additional savings possible. During our review of this program, we discovered that an error in the department's internal allocation of personnel resources resulted in an under-allocation of staff to the Office of Equipment. As a result, 13 personnel-years which should have been assigned to the office to further reduce commercial vehicle and equipment repairs by outside firms were instead assigned to other department units. As a result, this office has not been fully staffed, thereby causing the department to rely more heavily on commercial repair shops than is necessary. Hourly repair rates changed by commercial repair shops typically average $35 to $45, in contrast to the department's "in-house" hourly rate of approximately $17.

The proper internal reallocation of the 13 personnel-years for commercial repairs will enable the department to reduce these repair costs by approximately $1 million annually. No additional personnel expenditure, however, will be necessary. Accordingly, we recommend that the department reallocate the 13 personnel-years to the Office of Equipment, which will result in a savings of $1,000,000.

In addition, our discussions with equipment office staff reveal that outside commercial repair costs are overbudgeted by an additional $700,000. We recommend, therefore, an additional reduction of $700,000, resulting in a total savings of $1,700,000 in Item 266-001-042.

OPERATIONS

Activities within this element are designed to maintain roads, bridges, tunnels and associated facilities, and to improve the manner in which they are operated. Although these activities are related to those in the operational improvements element, the latter is directed toward providing structural improvements while the operations element is oriented toward orderly traffic flow. The four components of this element are: (1) ridesharing—carpools, transit information and development of work schedules supportive of mass transportation; (2) traffic operations—message signs, ramp metering, road surveillance and emergency road service; (3) toll collection—collection of tolls on state bridges, and (4) real property services—airspace and property leases, sale of surplus property and management of state-owned housing units.

Expenditures in this element are proposed to rise from $45.5 million approved for the current year to $49.9 million in the budget year. The $4.4 million increase consists largely of increased program operating expenses and numerous technical adjustments associated with the redistribution of program costs.

Staffing is proposed to decline from 1,105.2 personnel-years in 1980–81 to 1,064.1 in 1981–82, a decrease of 41.1 personnel-years. This reduction reflects decreases of 33.9 personnel-years for technical changes and transfers and 7.2 personnel-years as a result of implementing one-way toll collection on the San Diego-Coronado Bay Bridge.

Ridesharing Services

We recommend that ridesharing services be budgeted as part of the Mass Transportation program, and that the funding source for support of ridesharing services be changed from the State Highway Account to the Transportation Planning and Development Account. Consequently, we recommend a reduction of $4,728,235 from the State Highway Account (Item 266-001-042) and an equivalent, offsetting increase to the Transportation Planning and Development Account (Item 266-001-046).

We also recommend a reduction from the Transportation Planning and Development Account (Item 266-001-046) of $71,533 to delete funds overbudgeted for the support of ridesharing services. This action will result in a net increase in Item 266-001-046 of $4,656,702.

Chapter 686, Statutes of 1975, declared the Legislature's intent to conserve energy and provide incentives for the expanded use of carpools in metropolitan areas. Accordingly, the department was given authorization to (1) establish com-

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puter or manual ride-matching systems, (2) promote efforts to encourage carpooling and flexible work hours, and (3) develop preferential treatment strategies for pool vehicles on highways. Chapter 686 also authorized the department to conduct these activities with funds made available from any source.

The budget proposes expenditures of $4.7 million and 52.5 personnel-years for ridesharing services in 1981–82. This is an increase of $184,120, or 4 percent, over estimated current year expenditures and reflects the needs of a stable program. This program has expanded rapidly in recent years, as gasoline shortages and price increases resulted in increased interest in ridesharing. Ridesharing expenditures and personnel support in 1977–78, for example, were only half as large as the levels of expenditures and support proposed for the budget year.

Appropriate funding source. The ridesharing activity is budgeted as part of the Highway program. Accordingly, state funding for ridesharing services is provided from the State Highway Account. Our analysis indicates, however, that a more appropriate source of funding for these services would be the Transportation Planning and Development (TP and D) Account. This conclusion is based on (1) the nature of the services provided and (2) the basic purpose of the TP and D Account.

1. *Services provided.* Ridesharing is designed to move large numbers of travelers in as few vehicles as possible. Ridesharing consists of (a) a carpooling program, (b) a vanpooling program, (c) a buspooling program, and (d) a transit—including paratransit—program. The goals of these programs are the same as those for rail, bus and air transportation operations—the mass transportation of people. Ridesharing, therefore, can be viewed as a mass transportation activity. Recent department action tends to support this view. When the department proposed recodification of mass transportation programs, it included ridesharing activities among its mass transportation programs.

2. ***TP and D Account support.*** The TP and D Account generally was established to provide a funding source for mass transportation planning, development and operations. It is the primary source of funding for direct state support of mass transportation. Funds in the account may be appropriated to the department "for its mass transportation responsibilities and its assistance in regional transportation planning."

Recommended action. Based on these considerations, we recommend that the ridesharing activity be budgeted in the Mass Transportation program, and that funding for the ridesharing program be changed from the State Highway Account to the Transportation Planning and Development Account. The TP and D account has sufficient revenues to accomodate this funding shift. Approval of this recommendation would require a reduction of $4,728,235 in Item 266-011-042 and an equivalent increase in Item 266-001-046.

In addition, we recommend that Item 266-001-046 be reduced by $71,533 to delete funds requested for unsubstantiated expenditures. Ridesharing program expenditure detail furnished by the department indicates an expenditure need of $4,656,702, rather than the $4,728,235 requested in the budget. The difference of $71,533 should be deleted, for a savings to the TP and D Account.

Ridesharing Reimbursements

We recommend a reduction of $510,000 from the State Highway Account (Item 266-001-042) to reflect the receipt of additional reimbursements in the department's ridesharing program.

As a part of its ridesharing program, the department operates an inhouse vanpooling program. Passenger vans can accomodate 12 persons commuting to and from work. The state maintains the vans but is fully reimbursed by van riders for the vans' purchase and operating costs.

The proposed budget includes funds for the purchase of 39 additional ridesharing vans. The additional reimbursements and revenues which will be received from van riders, however, are not included in the budget. The department reports that this reflects a technical oversight, and that it expects to receive payments of $510,000 from van riders in the budget year.

Therefore, we recommend that the appropriation in Item 266-001-042 be reduced by $510,000, and that reimbursements in this item be increased by the same amount to reflect the payments the department expects to receive.

Motorist Information Signs

We recommend enactment of legislation extending the authority of the Department of Transportation to administer and operate the highway services sign program.

Chapter 680, Statutes of 1978, provides for the development and implementation of a test program permitting the placement of business logos on rural highway (Interstate Route 5) signs. These signs provide for the advertising of nearby business and motorist services with the state receiving an amount of reimbursement that exceeds the costs of providing the additional signs. Chapter 680 specified a two-year test period for the logo program, ending January 1, 1981. The legislation also required the department to submit a report to the Legislature on its findings with respect to (1) the program's operation and (2) whether the program should be authorized on a statewide basis.

The department has implemented the logo program, and on August 21, 1980, it submitted the required report. The report's preliminary findings are that:

- The logo signs effectively display motorist service information, are harmonious with the environment, and are accepted by the public and roadside businesses.
- The signs are uniform, inexpensive, and provide some incentive to businesses to remove or forego the installation of larger off-highway signs.
- Administration of the program is more complex than standard motorist service signs but is fully paid for by participating businesses.
- Space limitations may preclude some businesses from participating at some interchange locations.
- Pressure exists to expand the program to urban areas and increase the variety of businesses permitted to participate.

Program authority has expired. The department's authority to conduct the logo program expired on December 31, 1980. Despite this, the department has continued to operate the program and plans to extend indefinitely the existing business sign permits. Additional businesses will not be permitted to participate, however, unless new legislation is enacted to continue the program. At this time, the department needs either the authority to continue operating the program or direction from the Legislature that it should begin to dismantle or modify the program.

Our review of the department's preliminary report indicates that results to date favor continuation of the program. To give the department the legal authority to continue the program, we recommend that legislation be enacted which continues the logo program's authorization. Consideration of a bill would permit the policy and fiscal committees of the Legislature to (1) evaluate competing proposals to restructure portions of the program, (2) consider the proper disposition of program revenues, and (3) refine staffing and support requirements needed to administer the program on an ongoing basis.

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Logo Program Staffing

We recommend the reduction of $69,740 (2.2 personnel-years) from the State Highway Account (Item 266-001-042) for support of the highway logo program.

The proposed budget includes funding for 3.2 personnel-years for the highway logo program. This is the same level of effort estimated for the current year.

As explained above, the department will not expand the program pending the enactment of legislation to continue it. Program staff report that maintenance of the program at its existing level would require approximately one personnel-year of effort in the budget year. We recommend, therefore, that 2.2 personnel-years of work effort be deleted for a savings of $69,740 in Item 266-001-042. Any bill which extends the authorization for the program should consider the personnel and support needs of the department to administer the program.

MAINTENANCE

Activities in the maintenance element, which the department has designated as its first priority for expenditures, include five components: (1) roadbed—resurfacing and repair of flexible and rigid pavements; (2) roadside—litter removal, vegetation control, roadside rests and minor damage repair; (3) structures—bridges, pumps, tunnels, tubes and vista points; (4) traffic control and service facilities—snow removal, pavement markings, electrical equipment and special transportation permits, and (5) auxiliary services—administration, training, maintenance stations and employee relations.

Expenditures for maintenance activities are proposed to increase by $4.4 million, or 1.6 percent, in the budget year, to a total of $286.4 million. This increase reflects the net impact of several significant changes within the five maintenance

Table 10
Summary of Proposed Changes in Highway Maintenance Operations 1980-81 and 1981-82 over Authorized 1980-81

	1980-81 Revised		*1981-82 Proposed*	
Reasons for Proposed Change	*Personnel-Years*	*Expenditures*	*Personnel-Years*	*Expenditures*
A. Workload				
1. Inventory	12.0	$513,881	85.8	$6,690,183
2. Service level	247.5	7,546,306	242.5	9,077,696
3. Safety	113.0	4,311,298	150.0	11,893,101
4. Organizational changes	−46.0	−1,635,168	−108.5	−4,606,890
5. Efficiencies	−95.4	−3,337,749	−221.7	−12,287,500
6. Program analysis	−204.6	−7,381,818	−204.6	−13,203,102
Subtotal, Workload Adjustments	26.5	$16,750	−56.5	−$2,436,512
B. Technical adjustments				
7. Technical services proration	23.8	$41,390,367	23.8	$39,337,045
8. Administrative consolidation transfers	−37.9	−1,259,237	−37.9	−1,168,296
9. Materials purchase transfer	—	−30,500,000	—	−32,635,000
10. Direct charging of lab expenditures	2.4	125,270	2.4	141,786
11. Legal services transfer	−0.4	−13,285	−0.4	−12,325
12. Miscellaneous technical transfers	−10.6	−490,284	−6.6	−288,282
Subtotals, Technical Adjustments	−22.7	$9,252,831	−18.7	$5,374,928
Total Adjustments	3.8	$9,269,581	−75.2	$2,938,416
Authorized Baseline Amount	6,197.1	272,753,924	6,197.1	283,508,399
Totals, Revised Maintenance Program	6,200.9	$282,023,505	6,121.9	$286,446,815

components. These changes include program transfers, operating efficiencies, workload and inventory adjustments and price increases in maintenance materials.

The proposed personnel-year total of 6,121.9 is 79 lower than the estimate for the current year. Comparison of the budget year total to the revised current year total, however, does not provide a clear accounting of changes occurring in the maintenance element. This is because the department has made major changes in the program levels originally authorized for the current year in the 1980 Budget Act.

A more accurate comparison of changes in maintenance activities, personnel-years and expenditure totals is provided in Table 10. Table 10 summarizes the proposed workload and technical adjustments in both the current year and budget year, as compared with the levels authorized by the Legislature in the 1980 Budget Act. When the department's maintenance program is viewed in this manner, the major changes are more apparent.

Table 10 shows that 478.3 additional personnel-years are requested for various workload adjustments. These increases, however, are more than offset by proposed efficiencies and reductions of 534.8 personnel-years, leaving a net reduction of 56.5. Several technical changes also are proposed which reflect the redistribution of various overhead charges.

Reorganization and Efficiencies

We withhold recommendation on the department's proposed reductions of 330.2 personnel-years and $16,894,390 in Item 266-001-042 for organizational changes and program efficiencies, pending receipt of additional substantiation and further discussions with department staff.

1. ***Organizational changes.*** In December 1980, the department announced plans to begin implementing, in January 1981, a major reorganization of its field maintenance operations. The department proposes to shift from its current 81-maintenance territory configuration to a 41-region configuration.

This proposal results from recent organizational and staffing studies conducted by the department. Based on these studies, the department believes it can standardize (1) spans of control among middle and upper-level managers and (2) maintenance crew and territory sizes. The department expects to implement these organizational changes over a period of four to five years, through normal staff attrition. In addition to reducing the number of field organizations by one-half, the department anticipates eliminating approximately 200 supervisorial and clerical positions.

2. ***Operational efficiencies.*** The department proposes further reductions in its maintenance program on the basis of expected operating efficiencies. The department's budget package states, however, that "the details of these savings have not yet been worked out." Although some additional summary material was provided by the department in support of the proposed efficiency reductions, it did not contain sufficient details to permit a full evaluation of the proposals.

Our preliminary analysis of the department's two proposals indicates that many details of the reorganization and efficiency plans still have to be decided. Materials submitted in support of the budget are extremely limited and do not provide a complete accounting of the department's plans. Complete documentation of the proposal must be made available to the Legislature before the fiscal subcommittees hold budget hearings. Otherwise, the Legislature will not be able to insure that critical maintenance functions are properly organized and that personnel are not reduced below levels necessary to preserve the existing highway system.

We also note that the Supplemental Report to the 1980 Budget Act directed the department to report to the Legislature on February 1, 1981 on "the feasibility of

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achieving uniformity in maintenance crew size, reducing supervisorial ratios and reducing the number of maintenance stations, to arrive at a better workload balance between maintenance territories and standardizing maintenance position classifications." This report will also have a bearing on the department's need for maintenance personnel in the budget year.

For the reasons given above, we withhold recommendation on the department's proposal to reduce expenditures $16,894,390 and eliminate 330.2 personnel-years.

Safety Lookouts

We recommend a reduction of $884,300 and 37 personnel-years from the State Highway Account (Item 266-001-042) budgeted for additional road crew safety lookouts because the department has not yet determined an appropriate staffing level for this activity.

The department reports that it is implementing a new safety standard which will require the use of lookouts for many maintenance crews working on or at the side of roadways. The department has adopted this standard in response to concerns over employee safety, and as a result of several incidents involving injury or death among maintenance workers in recent years.

The department proposes to station lookouts to monitor approaching traffic and warn crews working on foot of any observed erratic driving behavior. Upon observing such behavior, the lookout will activate one of a number of warning devices, including airhorns, loudspeakers or police whistles. In some cases, electrical or mechanical detection systems may be substituted for the lookouts. The department has augmented its current year budget by 113 personnel-years to implement the program, and requests an additional 37 personnel-years for this purpose in 1981–82, for a total increase of 150 personnel-years over existing maintenance staffing levels.

Our analysis indicates that the department has not made a final determination of which work situations would qualify for an additional crew member to serve as lookout. Data needed to make this determination are being compiled and will be evaluated at the end of the current fiscal year. At that time, the department will refine its estimates of the personnel levels necessary to operate the program. In addition, the department is still testing alternative warning systems, including mechanical systems, to determine which are the most effective.

Because the department has not yet (1) completed the development of standards for additional lookout personnel or (2) collected and evaluated the results of operations which began in the current year, we recommend that staffing for the safety lookout program be continued at the current level of 113 additional personnel-years. Accordingly, we recommend the reduction of funding for 37 personnel-years proposed in 1981–82, for a savings of $884,300 in Item 266-001-042.

Highway Inventory Changes

We recommend a reduction of $2,050,620 (85.8 personnel-years) from the State Highway Account (Item 266-001-042) for support associated with increased maintenance inventories because workload data have not been presented in such a manner as to indicate the need for an increase in the budget year.

The budget proposes a maintenance staff augmentation of 85.8 personnel-years as a result of projected increases in the level of highway, landscaping and facilities inventories. These inventories include the number of landscaped acres, lane-miles of pavement, buildings and other facilities owned and maintained by the department. This increase is distributed among the five maintenance components, although most of the increase (71.9 personnel-years) occurs within the roadside component for the maintenance of landscape vegetation.

In reviewing the department's proposal, we attempted to compare changes in productivity standards for the activities being increased. We learned, however, that such a comparison could not be made because the department has changed its method of measuring work inventories. Inventory was previously defined as *all* facilities, land, structures and equipment owned by the department. Inventory is now defined as only those items proposed to be worked on in a given year.

By making this change, the department effectively has eliminated any opportunity for comparison of proposed levels of work effort with the actual levels from past years. This is directly contrary to the requirement contained in Supplemental Report to the 1980 Budget Act that "the department shall display all relevent fiscal and program information on the same basis for past, current and budget years whenever major definition or format changes are made."

Other considerations. Although the department projects increases in its inventory measures, past experience indicates that these increases may not occur. Inventory increases are projected, in part, on the basis of expected completion dates for various highway construction and work projects. Many projects, however, "slip" their schedules, and are completed at later dates. Also, a comparison of projected inventories in the 1980–81 budget and the 1981–82 budget reveals that (1) a substantial number of the reported inventories are identical, (2) some totals decline and (3) others show increases so large as to cast doubt on their credibility.

Our analysis also reveals that where units of inventory actually increase, many are less labor-intensive than existing units or require virtually no additional maintenance.

In summary, our review indicates that (1) maintenance is virtually a stable program, (2) inventory increases represent only a minor component of the overall work effort, and (3) existing inventory figures are questionable. Further, the department has failed to provide a consistent basis for evaluating the proposed support increases. Therefore, we have no analytical basis for recommending that the Legislature approve the increases, and must recommend that that requested increase of 85.8 personnel-years be deleted, for a savings of $2,050,620 in Item 266-001-042.

Bridge Shuttle Service

We recommend a reduction of $60,000 from the State Highway Account (Item 266-001-042) to eliminate the subsidy for toll bridge bicycle shuttle services because of the high per-trip subsidy and the availability of other alternatives for providing this service.

The department currently operates a bicycle shuttle service on the Oakland-San Francisco Bay Bridge. This service is provided by two department shuttle vans as a means of reducing traffic congestion, pollution and fuel consumption.

Operation of the shuttle service was originally authorized by the now-defunct California Highway Commission. The department has funded the service using federal funds available for that purpose. Although the availability of these federal funds lapsed in January 1980, the department has continued to operate the service using state resources. The department now proposes an increase of two personnel-years and $60,000 in state funds to fully fund the service.

Our analysis indicates that the shuttle service provides an inordinately high per-trip subsidy to service users. The department charges only $0.25 per-trip and expects to collect revenues of $3,600 from 14,400 trips in the budget year. At a cost of approximately $60,000, the state is providing a per-trip subsidy of $3.90. This amounts to a 6 percent farebox return, and is among the lowest of any publicly-provided transportation service.

Other alternatives. Our review indicates that other options exist for providing the shuttle service. Buses operated by local transportation districts which traverse the bridge can be fitted with racks for carrying bicycles. This is currently done in Santa Barbara and San Diego. In addition, transit vehicles of the Bay Area Rapid

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Transit District (BART) already accommodate bicycles on BART's transbay service. Finally, the Governor's Budget contains $10 million in discretionary funds which are allocated by the Secretary of Business, Transportation and Housing for special unmet transportation needs. A portion of these funds could be used if the Legislature chooses to fund the shuttle service with state money.

For these reasons, we recommend that the two personnel-years and $60,000 proposed for the bridge shuttle service be deleted for a savings to the State Transportation Fund (Item 266-001-042).

Highway Road Equipment

We recommend a reduction of $4,750,109 from the State Highway Account (Item 266-001-042) for acquisition of new and replacement vehicles and road equipment because of overbudgeting.

The maintenance, rehabilitation and improvement of state highways requires that the Department of Transportation maintain a large invenory of passenger and other road vehicles, plus other related capital equipment. The department's current inventory is estimated at 10,000 vehicles and other pieces of equipment, or about 35 percent of the state's entire inventory. Given this large capital equipment inventory and the intensive use that it is put to, the replacement of existing, and acquisition of additional, equipment often constitutes a major expenditure by the department.

Expenditures for this road equipment have fluctuated noticeably in recent years, reflecting both the age and composition of the department's fleet, as well as major changes in operating conditions. The department's cash-flow crisis and personnel reductions in 1975–76 brought on a period during which vehicle and equipment purchases were kept to a minimum. The department also "aged" its fleet to extend the fleet's service life and postpone large capital expenditures.

The department began replacing its fleet in 1979–80 and 1980–81 when it requested approximately $40 million and $30 million, respectively, for new vehicle and equipment purchases. The Legislature reduced each of these requests by approximately $2 million to reflect overbudgeting by the department as a result of inaccurate cost data.

The 1981–82 budget requests $23 million for the purchase of 1,177 replacement and additional vehicles and pieces of road equipment. Our review concludes that the department's estimates of equipment and vehicle costs are overstated.

Revised estimates. We compared the department's unit cost estimates for replacement vehicles with those being used by the Department of General Services and found the latter to be substantially lower. In addition, we found that some of the passenger vehicles being requested by the department do not meet mileage standards which will be required for state vehicle purchases in 1981–82.

After making adjustments to (1) reflect the purchase of vehicles which will meet the new mileage standards and (2) allow for a reasonable inflationary increase in prices, we estimate savings of approximately $800 each on the purchase of 500 passenger vehicles. We also estimate savings of several thousand dollars each on the purchase of numerous large trucks, road graders and other specialized road equipment.

Finally, we reviewed the department's request for additional units which would expand the overall fleet and equipment inventory. We compared this request with projected staffing levels and department's plans to retain as many as 277 older trucks for use as safety barrier protection for crews maintaining roadways. Our analysis concluded that, because (1) total maintenance staffing is proposed to decline by approximately 75 personnel-years and (2) the older trucks being retained by the department will partially offset the need to buy as many vehicles as those proposed by the department, the department's need for vehicles should decline, not increase.

For these reasons, we recommend that the excess funds budgeted for passenger vehicles and a portion of the funds requested for fleet expansion be deleted, for a total savings of $4,750,109 to the State Highway Account (Item 266-001-042).

Telecommunications Equipment

We recommend a reduction of $340,400 from the State Highway Account (Item 266-001-042) for acquisition of new and replacement telecommunications equipment because the department is likely to switch to a less costly communication system.

The department's highway construction, maintenance, and traffic operations activities require an extensive telecommunications network. The safe movement of vehicular traffic over the state's 15,000 miles of roadway requires that department staff in the field be in frequent communication with each other and with base facilities.

The current communications system was established in 1947 and consists of a 47 megahertz (MHZ) radio system supported by some 5,000 mobile and portable radio units throughout the state. In addition, other communications equipment and relay stations are needed for the system's operations.

The budget proposes the expenditure of $1,437,500 for the replacement and addition of mobile and fixed station radio telecommunications equipment. Our analysis indicates that the department's request assumes that the communications system's current configuration will continue into the future. We have learned, however, that the department has petitioned the Federal Communications Commission (FCC) for authority to switch from the present 10-channel 47 MHZ system to a new 20-channel 800 MHZ relay network. The department's petition states that the new system will allow greater communications flexibility while easing an existing overload on the channels presently available. The new system would be phased in gradually over a ten-year period, beginning in 1981–82.

Alternative budget. In anticipation that the FCC will approve the new system, the department prepared two different telecommunications equipment budgets. The less expensive version ($1,097,100) is based on conversion to the new system while the more expensive version ($1,437,500) assumes continuation of the existing system. The department's budget requests funding for the more expensive version. Department staff, however, state that FCC approval of the new system is likely for 1981–82.

Therefore, we recommend that the Legislature approve funding for the less-expensive replacement telecommunications equipment, for a savings of $340,400 in Item 266-001-042.

Tort Liability Claims

We recommend a reduction of $250,000 from the State Highway Account (Item 266-001-042) to reflect expected savings in personal injury and tort liability claims resulting from the department's motorized equipment training school operations. We also recommend adoption of supplemental report language requiring that information pertaining to such savings be included in materials submitted in support of the department's budget request. We also recommend that the department explain to the fiscal committees its failure to submit data on tort liability claims and worker compensation, as the Legislature requested in the Supplemental Report of the 1980 Budget Act.

For approximately two years, the department has operated a statewide road equipment training school at the California National Guard's Camp San Luis Obispo. The school was initiated because of a demonstrated need to limit burgeoning maintenance repair costs. Costs for these training operations were budgeted at $1.6 million in the first year of operation and have continued at approximately $1 million annually thereafter.

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In establishing school operations, the department made no provision for offsetting savings. The Legislature, therefore, required the department to report on the savings potential of the equipment school. Subsequent reports received from the department documented substantial savings in the need to purchase capital equipment (rolling stock) but did not address savings in personnel costs.

Savings data. Last year, the Legislature reduced the department's budget by $250,000 to reflect expected savings from reduced tort liability and worker compensation costs. The Legislature also adopted supplemental report language requesting that the department prepare data comparing changes in expenditures for tort liability claims and worker compensation as a result of the operations of the training school. This information was to be submitted by the department in support of its 1981–82 budget request.

The department has not prepared the data requested by the Legislature. Department staff state that, in their opinion, compilation of the requested material is not a worthwhile effort because of data collection difficulties. The department chose, therefore, not to review its tort liability and worker compensation claims.

We believe that the department should have made some effort to respond to the Legislature's request, even if only to report difficulties in preparing the requested material. We believe the department's failure to respond is indicative of its desire to avoid the issue of personnel savings resulting from the operation of the motorized equipment training school.

Recommended action. Documentation supporting the establishment of the training school and statements made by department legal staff have established a link between improved equipment operations training and reductions in the level of tort and compensation claims. In addition, the department reports that other states have reduced the amount of these claims as a result of operating equipment schools. We can find no convincing reason why the department cannot respond to requests for information on the claims savings realized from operating its equipment school.

We recommend a reduction of $250,000 in Item 266-001-042 to reflect expected savings in personal injury and tort liability claims. This amount is equal to the budget reduction made by the Legislature in the 1980 Budget Act. We also, once again, recommend adoption of supplemental report language in Item 266-001-042 as follows:

> "The department shall prepare data comparing the changes in expenditures for tort liability claims and worker compensation as a result of the operations of the equipment training school. This information shall be included in materials submitted by the department in support of its 1982–82 budget request."

In addition, we recommend that fiscal subcommittees ask the department to explain its failure to submit data on tort liability claims and worker compensation in support of the 1981–82 budget, as requested by the Supplemental Report of the 1980 Budget Act.

MASS TRANSPORTATION

The Mass Transportation program contains seven elements: (a) low mobility transportation, (b) local assistance, (c) interregional public transportation (bus and rail transportation), (d) transfer facilities and services, (e) transportation demonstration projects, (f) administration, and (g) work for others. Requested funding and staff increases for these elements are shown in Table 11.

Significant Program Changes

As Table 11 indicates, the budget proposes expenditures for this program of $150,751,828, a decrease of $59,253,414, or 28 percent compared to adjusted current year expenditures of $210,005,242.

State operations. The department requests $10,360,828 for mass transportation support activities, a decrease of $653,414, or 6 percent below the current year level. Of the total budgeted amount, $8,303,546 is proposed for appropriation in the Budget Bill. The remainder will be funded from federal funds, reimbursements and appropriations made by existing law. The department requests an increase in staffing from the approved current year level of 201.2 personnel-years to a total of 221.2 personnel-years in the budget year.

Changes proposed in the budget include: (1) a reduction of $3 million for alternatives fuel research, which will be completed in the current year, (2) an increase of 21.7 personnel-years for rail and intercity bus support, and (3) an increase of $315,000 to hire rail transportation consultants.

Local Assistance and Capital Outlay. The budget proposes $140,391,000 for local assistance and capital outlay, which is $58,600,000 less than the expenditure level approved for 1980–81. This decline reflects (1) a transfer of $79,386,452 to the Special Transportation Programs section of the budget and (2) an increase of $20,786,452 in the remainder of local assistance and capital outlay categories.

Table 11
Proposed 1981–82 Mass Transportation
Program Changes and Fund Sources

	Personnel-Years	*State Operations*	*Local Assistance/ Capital Outlay*	*Total Expenditures*
1980–81 Approved	201.2	$11,014,242	$198,991,000	$210,005,242
1. Technical Adjustments	.1			
2. Transfer to Special Transportation Programs			$−79,386,452	$−79,386,452
3. Program Changes				
Full mobility	2.4	$122,927	–	$122,927
Local assistance	7.6	249,426	$19,061,452	19,310,878
Bus transportation	7.4	517,419	2,000,000	2,517,419
Rail transportation	14.3	1,524,101	2,200,000	3,724,101
Transfer facilities and services	5.6	373,930	−2,475,000	−2,101,070
Transportation demonstration projects	−7.6	−3,498,810	–	−3,498,810
Administration	−4.6	224,485	–	224,485
Work for others	−5.2	−166,892	–	−166,892
Subtotals, Program changes	19.9	$−653,414	$20,786,452	$20,133,038
1981–82 Proposed	221.2	$10,360,828	$140,391,000	$150,751,928
1981–82 Fund Sources				
State Highway Account	–	$90,651	$56,381,000	$56,471,651
Transportation Planning and Development Account	–	8,212,895	83,830,000	92,042,895
Federal Funds	–	806,519	180,000	986,519
Reimbursements	–	1,096,358	–	1,096,358
Abandoned Railroad Account	–	154,405	–	154,405
Total Funds		$10,360,828	$140,391,000	$150,751,828

DEPARTMENT OF TRANSPORTATION—Continued

The proposed budget for local assistance includes: (1) $11.9 million for support of intercity and commuter passenger rail services, (2) $3 million for support of intercity bus services, (3) $12.5 million for intermodal transfer facilities, (4) $103.9 million for mass transit guideways, and (5) $180,000 for local planning assistance. Another $8.9 million is proposed for intercity and commuter rail capital outlay expenditures.

PROGRAM ASSESSMENT

Prior to 1979, the department's responsibility in the mass transportation area was limited primarily to (1) encouraging efficiency in the provision of local mass transit services, (2) reviewing plans for local transit projects and (3) supervising and conducting transit demonstration projects. The department also advocated the expansion of transit services and the construction of new transit facilities.

During the last two years, however, the department's role has expanded significantly. Chapter 161, Statutes of 1979 (SB 620), authorized the department to enter into contracts with railroad and bus corporations, and to purchase and lease rail vehicles. It also created several new program categories, and added more than $100 million annually to the level of state funding for mass transportation. Other enacted legislation authorized the department to purchase, lease and operate multimodal terminals.

Program accomplishments. Since the expansion of its mass transportation role, the department has successfully implemented several legislatively mandated activities. Accomplishments include: (1) addition of a second Amtrak train between Oakland and Bakersfield, which is supported by the department, (2) initiation of state support for operation of the San Francisco-San Jose commuter service, and (3) allocation of $1 million to support nine intercity bus services between small- and medium-sized California cities. In addition, the department's mass transportation budgeting and its coordination of Chapter 161 programs with ongoing programs have both improved considerably.

Problem areas. Notwithstanding the accomplishments discussed above, improved administration of the Mass Transportation Program is required in several areas. Our review identifies the following problems which hamper the effective implementation of the program.

1. A coordinated planning, budgeting and allocating process does not exist. As a result, the program lacks focus, and the opportunities for legislative and local input are limited.
2. Documentation of past expenditures and future expenditure plans is inadequate. Reliable accounting data are not always available. In addition, intermodal facility and intercity bus plans authorized by the Legislature have not been completed.
3. The department's expenditure plans are sometimes unrealistic. For example, the Governor's Budget for 1980–81 estimated 1979–80 expenditures of $107 million, excluding State Transit Assistance funds which are automatically allocated by law. According to the Governor's Budget for 1981–82, actual 1979–80 expenditures totaled $54 million.
4. Staff for the rail component of the program is proposed to increase from 17.5 personnel-years in 1979–80 to 53.1 personnel-years in the budget year (203 percent), but according to the department, needed rail expertise is still lacking. The department proposes to acquire this expertise in the budget year, in part, by spending $315,000 for rail consultants.
5. No financial standards have been established to protect the state's investment in rail operations.
6. The department's role as an objective reviewer of local transit projects sometimes conflicts with its advocacy of local transit, intercity and commuter rail projects. For example, the department both reviews and proposes capital

improvement projects for the San Francisco-San Jose commuter service.

Many of these problems can be resolved within the department. Others will require legislative direction through the enactment of legislation or the adoption of Budget Bill language. We discuss several of these problems in detail in the following section. Where appropriate, specific legislative action is recommended.

Fragmented Allocation Process

During the last two years, state funding for mass transportation programs has increased by more than $100 million. Authority for the Department of Transportation to act in the mass transportation area has also expanded.

While the size of the Mass Transportation program has grown dramatically, the process for planning, budgeting and allocating capital outlay funds remains fragmented. Our review of this process has identified the following problems:

- ***Planning.*** Long-range plans for expenditure of funds are often nonexistent or poorly documented. For example, the director of the department testified before the Senate Transportation Committee in November 1980 that state-funded mass transportation needs would exceed available revenues by $770 million during the next five years. Although we have asked the department for documentation on this projected shortfall, none has been provided to date. In addition, no formal process has been established to set priorities for planned expenditures among competing program categories such as rail improvements, intermodal terminals and new mass transit guideways. Finally, no formal provision has been made for local input to the planning process.
- ***Budgeting.*** The department annually requests funding for various program categories. Under the current process, the Legislature often is asked to appropriate monies without the benefit of information on which projects are proposed for funding.
- ***Allocation.*** Funds are allocated by (1) the California Transportation Commission (CTC), (2) the department, (3) the Business, Transportation and Housing Agency, and occasionally, (4) the Legislature. This fragmented allocational process makes it difficult to set priorities among competing projects, and to coordinate components within local and regional transportation systems.

Recommended Approach

We recommend enactment of legislation which would establish a coordinated process for planning, budgeting and allocating mass transportation capital outlay and local assistance funds.

Chapter 1106, Statutes of 1978 (AB 402), established a planning, budgeting and allocation process for the State Highway Program. The department proposes, and the CTC adopts, an estimate of available funds. The department and regional agencies each submit a capital outlay plan which is consistent with the CTC fund estimate. The CTC adopts the final plan. On the basis of this plan, funds are appropriated by the Legislature. Finally, the CTC allocates funds to specific projects contained in the plan.

Our analysis indicates that introduction of a similar planning, budgeting and allocation process for capital and local assistance projects in the mass transportation area would (1) improve local input into project selection, (2) streamline the currently fragmented allocation mechanism, and (3) increase the probability that limited state resources would be used to fund the highest priority projects. It would also require the department to document its plans to expend funds for state operations in the Mass Transportation and Transportation Planning programs.

We therefore recommend that legislation be enacted which would establish a coordinated planning, budgeting and allocation process for state capital outlay and

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local assistance funds in the mass transportation area.

Unexpended Funds

We recommend that the Budget Bill be amended to require monies appropriated by Chapter 1349, Statutes of 1976, and not encumbered by June 30, 1982, to revert to the Transportation Planning and Development Account because other legislation has appropriated funds for purposes similar to Chapter 1349 and the department cannot spend the funds in the near future.

For several years, the department has encountered difficulty in spending monies appropriated to it for mass transportation local assistance and capital outlay projects. For example:

- As mentioned previously, the budget for 1980–81 showed that during 1979–80, the department expected to spend, approximately $107 million, excluding State Transit Assistance funds which are automatically allocated by law. The department actually expended $54 million of this amount during 1979–80.
- Chapter 161—which came effective on June 28, 1979—appropriated $15 million for rail capital improvements and $21 million for rail operations. As of November 30, 1980, the department had spent $31,805 and $4,065,000 of these amounts, respectively.
- Since 1978, the Legislature has appropriated $32.5 million for intermodal facilities improvements. The department has spent $8.7 million of this amount.

Chapter 1349. Chapter 1349, Statutes of 1976 (SB 1879), appropriated $8.2 million, primarily to support rail and bus feeder service in the Stockton-San Francisco and San Diego-Los Angeles corridors. As of November 30, 1980, $3.8 million of this amount has been spent, leaving an unexpended balance of $4.4 million.

Under normal circumstances, funds not encumbered after three years revert to the account of origin—in this case, the Transportation Planning and Development (TP and D) Account. Chapter 1349, however, appropriated these funds without regard to fiscal year. Thus, the unexpended balance cannot revert to the TP and D Account without further legislative action.

We recommend that the Legislature revert the funds appropriated by this bill, but as yet unencumbered, for four reasons: (1) Chapter 161 appropriated funds which may be used in most of the areas designated by Chapter 1349 for expenditure, (2) according to the department, it will not be able to spend some of the funds appropriated by Chapter 1349 in the near future, (3) several of the activities required by the bill have been accomplished—only small amounts remain from their original appropriation items, and these remaining funds cannot practically be expended for their original purposes, and (4) management of the TP and D Account will be simplified if the number of restricted balances in the account is reduced.

We recommend, therefore, that a new Budget Bill item be created containing the following language:

"As of June 30, 1982, the unencumbered balance of the appropriations provided in Chapter 1349, Statutes of 1976, and any reimbursements made by local agencies pursuant to these appropriations, shall revert to the unappropriated surplus of the Transportation Planning and Development Account".

LOW MOBILITY TRANSPORTATION

Activities in this element attempt to insure that the accessibility and service levels of transportation systems used by the low mobility population (the elderly and the disabled) are improved. The budget proposes expenditures of $783,622 for this purpose in 1981–82. This is an increase of 19 percent above the 1980–81 approved budget.

TRANSIT OPERATOR ASSISTANCE

Both financial and technical assistance to operators are contained within this element. Major assistance programs include (1) the abandoned railroad rights-of-way program, and (2) mass transit guideway programs under Article XIX of the Constitution, and Chapter 161, Statutes of 1979. Transit development programs and administration of federal and state aid functions are among the other assistance activities provided by the department.

The department proposes expenditures of $114,238,402 for this element. This represents an increase of $249,426 (10 percent) for state operations and $19,061,452 (21 percent) for local assistance over approved current year expenditures.

Social Service Transportation

We recommend that $72,350 from the Transportation Planning and Development (TP and D) Account proposed for social service transportation activities be transferred from the department's budget (Item 266-001-046) to the budget of Business, Transportation and Housing Agency (Item 052-001-046).

Chapter 1120, Statutes of 1979 (AB 120), provides for the consolidation of transportation services required by social service recipients. The act appropriated $180,000 to the Business, Transportation and Housing Agency (BTHA) and required the agency to (1) contract for a study of the insurance problems of existing social service transportation services and (2) submit several reports to the Governor and the Legislature on problems related to implementation of the act.

In 1980–81, the department requested $50,000 for support of social service transportation activities. This amount was not included in the 1980 Budget Act on the basis that these activities should be reimbursed by the agency. The department's 1981–82 budget requests $72,350 for this function. Because the Legislature has acted twice to place funding and administrative authority for this program within the office of the BTHA, we recommend that $72,350 for social service transportation activities be transferred from Item 266-001-046 to Item 052-001-046.

Local Transit Assistance

We recommend that the Transportation Planning and Development Account (Item 266-001-046) be reduced by $265,842 and 4.2 personnel-years for purchase of questionable materials and reimbursable services, and that reimbursement to this item be increased by $112,042 for local transit marketing and planning assistance activities which are reimbursable.

Local transit marketing. The department requests 4.2 personnel-years and $153,800 for local transit marketing. The objective of this program is to aid smaller public transit systems "... by introducing them to modern marketing practices". Assistance normally includes assessment of ridership, preparation of marketing materials and implementation of a publicity campaign for a given small operator.

Our review of this program indicates that it should not be continued for two reasons:

1. ***There is no need for the state to provide this assistance because it can be secured from other sources.*** Our analysis indicates that marketing assistance is available from three trade associations—the American Public Transit Association, the California Association of Publicly Owned Transit Systems and the Western Public Transit Association—each of which is attempting to place more emphasis on the needs of small operators. Small operators also can seek assistance from private sector advertising firms or larger public transit operators.

2. ***The cost-effectiveness of the program is questionable.*** Some of the materials developed by program personnel are of questionable value. These include a "bus

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game" for use in public schools. We also note that $20,000 is being requested to hire a consultant to conduct training workshops on market analysis, planning and implementation. In 1979–80, the fiscal committees deleted funding from the department's budget for transit management training programs. A proposal to hire a consultant to provide similar training also was deleted from the current year budget.

For these reasons, we recommend that small operator marketing assistance activities be eliminated from the department's budget, for a savings of $153,800 and 4.2 personnel-years (Item 266-001-046).

Transit planning assistance. The department's budget includes $180,000 in federal funds (Urban Mass Transportation Act) for transit planning in nonurbanized areas. These funds are subvened to local agencies to defray the cost of creating local transit development plans (TDPs), which the agencies must have to qualify for federal transit operating and capital grants. A local agency can prepare its TDP in one of three ways: (1) do the work itself, (2) hire a private sector firms to assist it, or (3) request the department to assist it.

The department's budget also includes 6.6 personnel-years and $224,084 to (1) administer the transit planning assistance program, (2) aid local agencies in determining transit needs, and (3) assist local agencies in creating their TDPs. We estimate that approximately one-half of the department's effort is devoted to the first two activities. The other 3.3 personnel-years will be used to prepare plans at the request of local agencies.

The 1979 Budget Act required reimbursements for this and several other local transit operator assistance activities. The department, however, has not included any reimbursements for this activity in its 1981–82 budget. Because the federal government provides funds to local governments specifically for the purpose of preparing, or hiring others to prepare, transportation development plans, the department should be fully reimbursed for its work in developing these plans. We recommend, therefore, a reduction of $112,042 in state funding and an increase of the same amount in reimbursements in Item 266-001-046.

Lake Tahoe Transit Support

We recommend a reduction of $65,688 and 2.0 personnel-years from the Transportation Planning and Development Account (Item 266-001-046) requested to initiate a transportation corridor study in the South Lake Tahoe area because of the recent changes in state law relating to planning activities.

The Legislature authorized 2.0 personnel-years in the 1980 Budget Act so that the department could act as a catalyst to improve transportation problems in the Lake Tahoe Basin. During 1980–81, the department has transferred one personnel-year from Lake Tahoe support to work on a study of transit alternatives in Sacramento. The budget proposes that $65,688 and 2.0 personnel-years of effort be devoted to initiating a transportation corridor study along the Route 50 corridor in South Lake Tahoe in 1981–82.

In the past, a fragmented transportation decision making structure has made coordinated transportation planning in the Lake Tahoe basin difficult. The bi-state Tahoe Regional Planning Agency (TRPA) and the California Tahoe Regional Planning Agency (CTRPA) adopted regional transportation plans with different goals, priorities and transportation solutions. Caltrans justified its staff involvement, in part, on the need for some entity to provide leadership in solving transportation problems in the Lake Tahoe area.

New compact. Chapter 872, Statutes of 1980 (SB 82), gave California's approval to extensive modifications of the TRPA bi-state compact. In the transportation area, this compact centralizes the transportation planning and decision making process by (1) deactivating CTRPA after certain conditions are met, (2) vesting in TRPA the authority to adopt a regional transportation plan, and (3) creating a Tahoe transportation district and vesting it with specified taxing authority.

Our review indicates that an analysis of transportation alternatives in South Lake Tahoe may be appropriate, but that Caltrans should not be funded to support this activity for several reasons:

- The bi-state compact vests the authority for creating a *new* regional transportation plan in the TRPA. Aside from the transportation plan, all other regional plans, ordinances, rules and regulations adopted by CTRPA are automatically adopted by TRPA. TRPA's governing board and the Tahoe transportation district board—not Caltrans—should decide, therefore, whether an alternatives analysis is needed.
- The compact provides the department with a voice in the decisions of TRPA and the transit district. The Director of the Department of Transportation is a permanent member on the transporatation district's board of directors. In addition, the Governor appoints two members to the TRPA board.
- Both TRPA and the Tahoe Transit District can hire technical experts from the department or private consulting firms with funds available to them. If the department is requested to provide technical assistance, it should be fully reimbursed for its effort.

For these reasons, we recommend a reduction of $65,688 and 2.0 personnel-years from Item 266-001-046.

Mass Transit Guideway Program

We withhold recommendation on the request to expend $55 million for mass transit guideways and rolling stock (Item 266-101-046) pending development of a project priority list.

The budget proposes an appropriation of $55 million to fund exclusive mass transit guideway projects. Of this amount, $30 million is provided from Sales and Use Tax revenues. Chapter 899, Statutes of 1980 (AB 2973), provided an additional $25 million annually from tidelands oil revenues for mass transit guideways.

Chapter 161, Statutes of 1979 (SB 620), established the following process for selecting guideway projects: (1) the California Transportation Commission selects criteria for evaluation of projects, (2) the department submits its evaluation of projects to the commission, (3) the commission determines the priority of the projects, (4) the Governor includes an expenditure proposal for projects in the budget, (5) the Legislature appropriates funds, and (6) funds are allocated by the commission to projects on the basis of their priority.

The department's budget documentation includes the following list of proposed projects for the $30 million in Sales and Use Tax revenues: San Jose-San Francisco commuter service ($13 million), San Diego Metropolitan Transit Board vehicle acquisition ($10.5 million) and San Francisco Municipal Railway Route 24–Divisadero line ($6.5 million). Because this is the first year in which funding will be available from Chapter 899, however, the priority of projects to be supported with the remaining $25 million has not yet been determined. The Legislature, therefore, is being requested to appropriate $25 million for projects that have not been identified in accordance with the Chapter 161 process. For this reason, we withhold recommendation on the entire request until the commission provides its list of project priorities.

INTERREGIONAL PUBLIC TRANSPORTATION

Activities in the interregional public transportation element include (1) support of intercity and commuter rail and bus passenger service, (2) improvement of rail and bus passenger facilities, (3) purchase and lease of rail capital equipment, (4) implementation of the State Bus Plan, and (5) update and implementation of the State Rail Plan for freight service.

This element proposes expenditures of $28,177,199. This is an increase of approximately $2.0 million (88 percent) in state operations and $4.2 million (21 percent) for local assistance and capital outlay expenditures over the approved budget for 1980–81.

State Transportation Map

We recommend a reduction of $140,000 in state funds and increased reimbursements of the same amount to the Transportation Planning and Development Account (Item 266-001-046) for printing state transportation maps. We also recommend adoption of Budget Bill language in the same item requiring that production costs be recovered from the proceeds of map sales.

The Business, Transportation and Housing Agency allocated $60,000 in state discretionary funds to the department in 1979–80 to design and print 300,000 state transportation maps. These maps display public and private intercity bus, rail and air routes, and identify urban bus and rail operators. The department is requesting $140,000 in 1981–82 to print 500,000 additional maps. The maps are available to the public at no charge.

There is no evidence available to show that demand for such a map is very great. The department could not tell us how many of the 240,000 maps which it distributed to various bus terminals and institutions have actually been given to the public. Moreover, it is not clear how many of the maps that have been distributed are actually being used by the public, and how many were taken simply because they are free.

The department charges for other maps which it designs and prints. We see no reason to exempt state transportation maps from this policy. At a price of 25 cents per map, the department could recover almost all of its printing costs. Pricing the map at its cost also would help the department determine the level of demand for future printings.

We recommend, therefore, a reduction of $140,000 and an increase in reimbursements of the same amount to Item 266-001-046. We also recommend the following Budget Bill language in the same item.

"Provided that the cost of designing, printing and distributing state transportation maps shall be recovered from sales of the maps."

Intercity Bus Plan

We recommend that Budget Bill language be adopted in Item 266-001-046 (1) requiring the department to complete its intercity bus plan by March 1, 1982 and (2) providing that the positions requested to complete this plan be authorized only through June 30, 1982.

The 1979 Budget Act authorized 1.3 personnel-years for preparation of an intercity passenger bus plan that was scheduled for completion in 1981–82. The department requested 1.9 additional personnel-years in 1980–81 in order to advance completion of the bus plan one year. The Legislature deleted funding for one of these personnel-years. In spite of the Legislature's action, the department administratively redirected funds so as to add 1.0 personnel-year during the current year for this activity. It is requesting another 3.8 personnel-years and $172,055 to continue its planning effort in 1981–82. To date, not even a preliminary plan has been prepared.

If funding for this activity is to be continued, we believe that timely completion of a plan is essential. The department anticipates that Congress will consider legislation in the current session which would limit the regulation of private intercity bus carriers. The proposed bus plan should assist the Legislature in determining whether deregulation will warrant more or less state support of the intercity bus industry in the near future. In addition, requests for additional intercity bus support should not be approved until a detailed plan has been adopted.

Our discussions with department staff indicate that the requested level of support should be sufficient to finish an assessment of the impact of deregulation by the end of the current year and to complete the intercity bus plan by the end of the budget year. We recommend, therefore, that the Legislature adopt the following Budget Bill language in Item 266-001-046 which (1) directs the department to complete its bus plan by the end of the budget year and (2) provides that the personnel requested to prepare this plan be authorized only until June 30, 1982.

"Provided, that the Department of Transportation shall complete its intercity passenger bus plan by March 1, 1982. This plan shall contain, at a minimum: (1) alternatives for future state involvement in the intercity bus area, (2) projected state capital and operating costs and revenues for each of these alternatives, and (3) a recommended approach for future state action.

Provided further, that the 6.1 personnel-years requested to prepare this plan shall be authorized only through June 30, 1982."

Intercity Bus Service

We recommend a reduction of $2,000,000 proposed for intercity bus transportation support from the Transportation Planning and Development Account (Item 266-101-046) because a plan has not been completed and the proposed amount has not been justified. We also recommend that the 3.6 personnel-years proposed for administration of these funds be eliminated, for a savings of $163,898 in Item 266-001-046.

State support of intercity passenger bus service was first provided by Chapter 161. Funds appropriated by that statute were used in 1979–80 to support nine intercity services between small and medium-sized California cities. Several of these services will continue to receive state support from the $1 million appropriation provided by the 1980 Budget Act for the current year. The department is requesting an increase in support for intercity bus service of $2 million in the budget year. The department is also requesting the addition of $163,898 and 3.6 personnel-years for staff to allocate the additional support funds.

Our analysis indicates that the department's request should be denied. There are three reasons for this:

1. ***The department's request is premature, because its intercity bus plan has not been completed.*** A detailed plan of action should be developed before any additional funds are provided for this purpose.

2. ***The level of support requested has not been substantiated by the department.*** According to department staff, current year requests total approximately $3 million. It is unlikely, however, that all of the proposals merit state support. Furthermore, the mere fact that demand for funds exceeds the amount available is not sufficient to jusify additional funding, since this is the case in most state programs.

3. ***Increased support should be deferred until legislation before Congress limiting intercity bus carrier regulation is acted upon.*** Limited regulation could reduce the need for future state support.

Based on these considerations, we recommend a reduction of $2 million to Item 266-101-046. We also recommend that increased funding for staff to allocate this additional amount be deleted, for a savings of $163,898 (3.6 personnel-years) from Item 266-001-046.

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Rail Passenger Development Plan

Control language in the 1980 Budget Act requires the department to submit its Rail Passenger Development Plan (RPDP) to the Legislature on December 1, 1980. This plan is to identify expenses and revenues for all rail passenger services supported by, or proposed to be supported by, state funds. To date, only a draft plan has been released by the department.

Table 12 displays the expenditure of state funds for rail operating and capital purposes shown in the budget for 1979–80, 1980–81, and 1981–82. Capital expenditures total $23.2 million and operating expenditures total $25.7 million.

The current draft 1981 RPDP reflects major changes from the 1980 plan including (1) slippage from 1980–81 to 1981–82 of approximately $4.6 million in operating and capital expenditures for four projects—Los Angeles/Sacramento, Los Ange-

Table 12
Proposed Expenditures of State Funds
For Rail Operations and Capital Improvements
(in millions)

	Actual 1979–80	*Estimated 1980–81*	*Planned 1981–82*	*Total*
Operations Expenditures				
Intercity:				
Los Angeles/San Diego	$1.10	$1.20	$1.45	$3.75
San Joaquin				
Oakland/Bakersfield	.50	1.45	1.90	3.85
Bakersfield/Los Angeles	–	.20	.25	.45
Los Angeles/Sacramento	–	–	.95	.95
Los Angeles/Santa Barbara	–	–	.20	.20
Sacramento/San Jose	–	–	.90	.90
Commuter:				
San Jose/San Francisco	–	4.55	5.35	9.90
Los Angeles/Oxnard	–	.40	1.75	2.15
Los Angeles/San Bernardino	–	–	3.15	3.15
Los Angeles/Orange	–	–	.35	.35
Total Operations	$1.60	$7.80	$16.25	$25.65
Capital Expenditures				
Intercity:				
Los Angeles/San Diego	–	$1.00	$.90	$1.90
San Joaquin				
Oakland/Bakersfield	–	.55	.25	.80
Bakersfield/Los Angeles	–	–	.20	.20
Los Angeles/Sacramento	–	–	–	–
Los Angeles/Santa Barbara	–	–	.85	.85
Sacramento/San Jose	–	.50	1.00	1.50
High Speed Rail	–	.50	1.00	1.50
Commuter:				
San Jose/San Francisco	–	3.95	5.65	9.60
Los Angeles/Oxnard	–	2.30	1.50	3.80
Los Angeles/San Bernardino	–	–	3.40	3.40
Los Angeles/Orange	–	–	.75	.75
Total Capital	–	$8.30	$14.85	$23.15

les/Santa Barbara, Los Angeles/San Bernardino and Los Angeles/Orange County, (2) acceleration of $200,000 in expenditures which had been planned for expenditure in 1981–82 to 1980–81 for extension of the Oakland/Bakersfield service to Los Angeles, and (3) inclusion, for the first time, of $1.5 million for study and design of high speed rail service in California.

Operating revenues. According to the draft 1981 RPDP, operating revenues in 1979–80 financed 60 percent of the operating expenses of the Los Angeles-San Diego service, and 29 percent of the operating expenses of the Oakland-Bakersfield service. Preliminary financial data provided to the department by the Southern Pacific Transportation Company, for the first quarter of fiscal year 1980–81, indicate that operating revenues provided approximately 46 percent of the San Jose-San Francisco commuter service operating costs. The remaining portion of operating costs for all three services was supplied by federal, state and local funds.

Our analysis of the department's draft plan indicates that, based on the actual experience of those services *currently* operating, the expected ratio of operating revenue to operating expense for *new services* may prove to be too high. For example, the department assumes that, in its first year of operation, 70 percent of the operating costs for Los Angeles-Oxnard and Los Angeles-Orange County services will be covered by operating revenues. If these assumptions prove to be too high, state support of these services will be greater than is shown in Table 12.

Rail Personnel

The department requests a total of 53.1 personnel-years, at a cost of $3.5 million for support of intercity and commuter rail service in the budget year. Three out of ten rail services proposed in the RPDP have been funded to date. As additional service is commenced, more personnel will be required.

Future staffing needs. The level of future staffing which will be needed is dependent upon a number of factors, including who operates the service. To date, the state has contracted with two entities—Amtrak and the Southern Pacific Transportation Company (SP)—to operate state-supported services. Amtrak, in turn, subcontracts with other transportation companies which actually provide intercity service. When the state contracts with a railroad company to operate a rail service, pesonnel are needed to oversee the operation of the service and to assure that charges to the state are appropriate and accurate. More personnel will be needed if the state decides, at some future date, to operate rail services itself, rather than contract for the service.

Even if the state continues to retain private firms to operate rail services, the number of personnel needed to administer the rail program is almost certain to increase rapidly during the next few years. The budget proposes 14 personnel-years to oversee operation of the San Jose-San Francisco commuter service. If each of the proposed commuter services is staffed at this level, another 32 personnel-years will be required. Discussions with department staff and other public agencies which subsidize rail service, such as the Regional Transportation Authority in Chicago, indicate that even this level of staffing may be inadequate to properly monitor the commuter operations of railroad companies. In addition, this increase would not provide for the effort which would be required to monitor *intercity* rail services or to administer the program centrally from Sacramento.

Limited expertise. Not only does state support of rail services require the addition of support staff; it also requires the addition of staff with special expertise. Needed personnel include auditors who are able to examine the accounts of railroad companies and to verify charges to the state, and purchasing agents who understand rail equipment needs. The department also must hire experts in rail service contract negotiation.

The department readily admits that its rail staff does not possess this needed

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expertise. A May 1980 request by the department to obtain consultant services concluded that "Caltrans does not have the necessary expertise to monitor the cost portion of the Caltrans/Southern Pacific Transportation Company Agreement. . . " This lack of expertise may have already been costly to the state. A report on the California rail program prepared by the Assembly Select Committee on Mass Transit states:

> "Commentary by passenger rail officials from other states tends to support the conclusion. . . that the contract negotiated by Caltrans (with SP) ignored precedence (and left) the state exceptionally vulnerable to excessive costs."

The report also states that future SP negotiations should be conducted by persons with "substantial experience in railroad negotiations."

The department is attempting to add the necessary expertise to its staff by (1) hiring consultants and (2) seeking to establish a rail consultant civil service classification. Because the department may not be able to offer salaries which are competitive with those available in the private sector, however, it is not clear that these steps will solve the long-term problem facing the department. We will continue to monitor the department's progress in hiring qualified personnel in the rail program.

Rail Marketing

We recommend a reduction of $563,000 from the Transportation Planning and Development Account (Item 266-001-046) for rail marketing activities because of insufficient justification.

The department's budget proposes the expenditure of $981,000 for marketing of state-supported commuter and intercity rail services. This is an increase of $563,000 (135 percent) over the $418,000 approved for this purpose in the current year. The requested funds would be used to purchase newspaper and radio advertisements to publicize (1) three existing services—San Diego/Los Angeles, San Jose/San Francisco and Oakland/Bakersfield, and (2) two proposed services—Los Angeles/Oxnard and the Los Angeles/San Francisco overnight train.

The Supplemental Report to the Budget Act of 1980 requested the department to ". . . develop guidelines which would identify reasonable levels of expenditure for the purpose of marketing state-supported passenger rail services." Although the department has clearly documented the amount and purpose of its proposed expenditures for each service, the expenditure guidelines requested by the Legislature have not been developed. As a result, it is impossible to determine whether the requested level of support is justified.

Marketing guidelines were not developed, according to department staff, because their survey of other public transportation entities found no examples of guidelines. We do not believe that this justifies the department's failure to comply with the Legislature's directive. Presumably, the department used some rationale to arrive at its $981,000 request. At a minimum, the department should provide information on the criteria it used in developing the budget proposal.

In addition, a portion of the department's request is probably premature because it includes $394,000 to market two new services. Decisions to initiate these services are still being appealed by private railroad companies, and no marketing funds will be required if these services do not begin operations during the budget year. We also note that the department's timetables for commencing service have been optimistic. For example, the department's 1979–80 budget included funding for two services which did not commence operations during that year. The budget for the current year includes funding for six services which, at the time this analysis was prepared, had not begun operations.

Marketing is integral to the success of any transportation endeavor. The level of marketing expenditure, however, should be based on some strategy which is relatively consistent from year to year. Because the department cannot justify the proposed increase in its marketing budget, we recommend that marketing expenditures be maintained at the current year level, for a savings of $563,000 in Item 266-001-046.

High Speed Intercity Rail

We recommend adoption of Budget Bill language in Item 266-101-046 which would preclude the department from spending funds from any source for the California Corridor High Speed Rail Project because the transportation problem to be solved has not been adequately identified and proposal is impractical at this time.

Chapter 161 appropriated $15 million for three years to the department for acquisition, lease, design, construction and improvement of rail track lines and related facilities. The department proposes to allocate funds from this source to initiate work on the "California Corridor High-Speed Rail Project". This project would establish 125-mile per hour rail passenger service (bullet trains) in California, and would be implemented in three phases. Phase I would (1) review existing research on high-speed passenger rail service, (2) identify potential corridors for such service, and (3) evaluate alternative high-speed rail passenger technologies. Phase II would examine the selected corridor in greater detail and perform preliminary engineering work on the project. Phase III would prepare plans, specifications and estimates for the construction and implementation of the service in the selected corridor segment.

On December 17, 1980, pursuant to Item 174 of the Budget Act of 1980, the Director of Transportation notified the Chairman of the Joint Legislative Budget Committee and the fiscal committees that she intended to allocate $500,000 to implement Phase I of the high-speed rail project. The Chairman of the Budget Committee, on behalf of the committee, recommended that the director not allocate these funds. The budget proposes allocation of an additional $1 million to implement Phase II of the project in 1981–82.

Analysis of the proposal. Our analysis of this proposal has identified three problems with the project as proposed by the Director of Transportation.

1. ***The Caltrans approach proposes a solution to a problem that has not been identified.*** The only information available on the project is contained in the Request for Proposals (RFP) which the department has sent to outside consultants. The RFP indicates that Caltrans had decided to establish high-speed rail passenger service in California and is trying to determine (a) where to provide the service, and (b) what high-speed rail technology to use. This puts the cart before the horse. Before deciding to establish high-speed rail passenger service, the department should first identify a transportation problem in a particular corridor, and then analyze the alternatives for solving the problem. Such alternatives should include (a) conventional rail, (b) bus, (c) air and (d) highway-related improvements.

2. ***Previous studies indicate that the Caltrans' proposal is impractical at this time.*** A 1975 study of the Sacramento-Stockton-San Francisco Corridor indicates that it would not be prudent to implement immediately high-speed rail passenger service, as Caltrans is proposing to do. This study was conducted by Alan M. Voorhees and Associates for local, state, and federal agencies, and the findings were endorsed by the Secretary of California's Business and Transportation Agency. The study concluded that a decision to implement 120 miles-per-hour passenger service should not be made until *after* a seven-year demonstration program providing for gradual implementation of higher rail speeds and greater service frequencies had been evaluated. The study maintained that each improve-

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ment in speed and service levels should be evaluated before any additional improvements were undertaken. In contrast, the department proposes to establish 125 miles-per-hour service without first conducting and evaluating a demonstration program.

Furthermore, in another more recent study, Federal Railroad Administration (FRA) staff concluded that high-speed rail passenger service between Los Angeles and San Francisco was not practical. The study found that the substantial costs of the required facilities would not be sufficiently offset by additional passenger revenue because the high-speed rail service would not significantly reduce the travel time between Los Angeles and San Francisco.

3. ***The cost of implementing high-speed rail service is well in excess of what is projected to be available for rail purposes.*** The 1975 corridor study indicated that building the facilities necessary to increase passenger rail speeds from 90 miles per hour to 120 miles per hour between Richmond and Sacramento would cost between $500 million and $800 million in 1975 dollars, depending upon whether rail tracks are dedicated exclusively to the passenger service or are shared with rail freight service.

In addition, the state probably would be responsible for covering what is likely to be a large operating deficit on the high-speed service. Available evidence shows that the cost of passenger rail service increases dramatically with the speed of the service because additional track maintenance is required. For example, the rail track in the Northeast Corridor of the United States is designed for passenger service at speeds up to 110 miles per hour. This track must be kept clear of debris continuously, and must be maintained in near-perfect alignment to avoid derailment. These costs are well in excess of the money currently available, or projected to be available, to the state for rail purposes.

The department has programmed $13.5 million in capital funds through 1981–82 for conventional commuter and intercity rail service in the state. Our analysis indicates that pursuing the high-speed rail passenger rail project could hinder the department in successfully implementing the other services by causing funds and staff resources to be diverted to the high-speed rail project.

For these reasons, we recommend that funding not be used for this project during the budget year, unless the scope of the project is changed to (1) address a transportation problem in a specific corridor and (2) consider other modes of transportation as solutions to that problem. Because the funds which the department proposes to allocate have already been appropriated to the department by Chapter 161, they are not included in the 1981–82 Budget Bill. Therefore, we recommend that the Legislature adopt the following Budget Bill language in Item 266-101-046:

> "No funds from any source shall be expended for the California Corridor High-Speed Rail Project, or any other high-speed rail passenger service unless (1) a transportation problem in a specific transportation corridor is being studied and (2) other modes of transportation are considered equally as solutions to that problem."

Legislative Notification

We recommend adoption of Budget Bill language in Item 266-101-046 requiring the department to notify specified committees of the Legislature, the Department of Finance and the California Transportation Commission, prior to allocation of funds for rail capital projects. We also recommend supplemental report language in the same item which directs the department to develop an update of its Rail Passenger Development Plan prior to December 1, 1981, and each year thereafter.

The department is required by statute to include in its annual budget the amounts to be expended from funds appropriated by Chapter 161 for rail capital and operating purposes. This information was first published in January 1980 as the department's Rail Passenger Development Plan. Control language in the 1980 Budget Act required the department to prepare an update of this plan by December 1, 1980, and to add specified data. The 1980 Budget Act also required the department to submit specified information to various entitites at least 30 days prior to allocating funds from Chapter 161 to specific rail capital projects.

These two requirements allow the fiscal and policy committees of the Legislature, the California Transportation Commission, and the Department of Finance to oversee the plans and achievements of the department's rail program. The Budget Act language, for example, resulted in the department submitting to the Legislature its plans for studying the feasibility of high-speed rail service in California. Similarly, the language requiring the Rail Passenger Development Plan provides information as to the department's long-term plans to expend funds for rail capital and operating programs.

In order that the department will continue to notify the Legislature and other entities when it plans to allocate rail capital outlay funds, we recommend that the following language be continued in Item 266-101-046 of the 1981 Budget Bill.

"Provided, that 30 days prior to allocation of funds for any rail capital project, the Department of Transportation shall provide the following information to the Joint Legislative Budget Committee and the fiscal committees, the California Transportation Commission, and the Department of Finance.

(1) A description of the project.
(2) The cost of the project.
(3) Funding sources for the project.
(4) A time schedule for completion of the project."

We also recommend that the following supplemental report language directing the department to prepare annually by December 1, a Rail Passenger Development Plan, be adopted in Item 266-101-046.

"The Department of Transportation shall prepare an update of its Rail Passenger Development Plan annually, prior to December 1. It shall be consistent with encumbrances proposed in the Governor's Budget and shall, at a minimum, identify:

(1) Each rail passenger service and rail capital project funded with, or proposed to be funded with, state funds.
(2) Encumbrances and revenues for each service and project identified. Revenues shall be identified by fund source.

These data shall be displayed by year as follows:

(i) Actual encumbrances and revenues for the past fiscal year.
(ii) Estimated encumbrances and revenues for the current fiscal year.
Proposed encumbrances and revenues for the budget year and the four following fiscal years."

Monitoring Rail Contracts

We recommend enactment of legislation making all commuter rail services subsidized by the state subject to financial and performance reporting requirements imposed by the Transportation Development Act. We also recommend that this legislation (1) limit the state's share of the net operating deficit provided for commuter rail services to 50 percent, and (2) provide that fare revenues shall finance 40 percent of the operating costs of any new commuter rail service. Finally, we recommend budget bill language in Item 266-101-046 which imposes such farebox and state support limitations on state-supported commuter rail service until recommended legislation is enacted.

The Transportation Development Act (TDA) (Sections 99200 through 99408 of

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the Public Utilities Code) imposes requirements on California public transit operators which receive funds from the ¼ percent sales tax earmarked for local transportation programs. The requirements include (1) minimum farebox recovery rates based on rates experienced in 1978–79, (2) financial planning and reporting requirements, and (3) periodic independent audits of operator performance.

Most of the public transit operators covered by the TDA provide intracity and commuter bus service, although some operators, including the Bay Area Rapid Transit District and the San Francisco Municipal Railway, provide rail services. The Southern Pacific commute service between San Jose and San Francisco, however, is not required to comply with the provisions of TDA, even though the operating deficits of the service can be financed with TDA funds allocated to other operators in the region. Similarly, proposed San Bernardino-Los Angeles, Riverside-Los Angeles and Oxnard-Los Angeles commuter rail services would not be subject to TDA restrictions under current law.

Over the last year, the department's role in commuter rail service has evolved from strictly advocating the expansion of rail services to allocating millions of dollars annually for rail operations and overseeing the use of these funds. Despite this sudden expansion of the department's role, legislative oversight and control of funds allocated for commuter rail service is virtually nonexistent. For example, no independent audit of the performance of commuter rail services is required. Our analysis indicates that legislative control would be facilitated by making commuter rail services subject to the same TDA regulations that apply to other public transportation services in the state. Moreover, we see no reason why commuter rail services should be excluded from farebox and financial and performance reporting requirements imposed on other public transit operators providing a similar service.

We recommend, therefore, that legislation be enacted which would make commuter rail services subject to appropriate requirements of the TDA. Such legislation should address the unique characteristics of commuter rail service in California, such as (1) the capability of commuter rail service to finance a relatively high percentage of operating costs from fare revenue, and (2) the direct involvement of the state in subsidizing rail operations. Specifically, we recommend that the legislation (1) establish a minimum farebox level for commuter rail services, and (2) set a maximum level of state subsidy which is appropriate for support of commuter rail service. Based on the experience of the San Jose-San Francisco commuter service, standards which set (1) a minimum farebox level equal to 40 percent of operating costs, and (2) a maximum state contribution level equal to 50 percent of the net operating deficit, would be appropriate.

The department plans to establish commuter service in other locations during the next year. Its negotiations with local agencies and the operator of these services will be facilitated if legislative conditions are adopted *prior* to the onset of these negotiations. If legislation is enacted during 1981 in accordance with our recommendation, it probably would not become effective until January 1, 1982, or after some of these negotiations are expected to begin. We recommend, therefore, the adoption of the following Budget Bill language in Item 266-101-046, which would (1) limit the state's contribution toward paying the operating deficit, and (2) establish a minimum ratio of fare revenue to operating costs for commuter rail services:

> "Provided that for any commuter rail service supported by the state (1) state funding shall not exceed 50 percent of the net operating deficit, and (2) operating revenues shall equal at least 40 percent of operating costs, excluding lease/purchase of assets."

TRANSFER FACILITIES AND SERVICES

The department is authorized by law to (1) enter into agreements to plan and design mass transit guideways and their related fixed facilities and (2) construct, purchase or lease, improve and operate rail passenger facilities which provide intermodal passenger facilities. In addition, the department is required to evaluate proposed transfer facilities and to prepare a report which lists these facilities by priority.

The budget proposes expenditures of $13,275,922 for transfer facilities and services, which is $2,101,070 (14 percent) less than approved current year expenditures. An additional $7.5 million for acquisition of intermodal transfer facilities is included in the local assistance element of the Mass Transportation program.

Intermodal Facilities Plan

We recommend adoption of supplemental report language in Item 266-001-046 which would require the department to submit its intermodal transfer facility plan to the Joint Legislative Budget Committee and the fiscal committees by March 1, 1982.

The department's budget for the current year includes 1.4 personnel-years to prepare an intermodal passenger transfer facility plan. In the budget year, the department is requesting the addition of 1.1 personnel-years and $69,851 for the same purpose. The department is required by law to catalogue and set priorities for transfer facility acquisitions proposed by local agencies statewide. The facility plan will add new facilities to this list and detail the department's plans to acquire facilities.

Chapter 568, Statutes of 1980 (SB 654) authorized the department to acquire, improve and operate intermodal transfer facilities. As a result of passage of this act, the department has assumed a more active role in this area. Because this new role will probably result in future requests to the Legislature for additional financing, the timely completion of a comprehensive plan is extremely important. We recommend, therefore, approval of the department's request for additional resources to complete the intermodal facilities plan. In order to encourage the department to complete the plan in time for consideration during the 1982–83 fiscal year, we also recommend adoption of the following supplemental report language in Item 266-001-046 which would require that the plan (1) be completed by March 1, 1982 and (2) contain, at a minimum, anticipated state capital and operating costs and revenues during the following three years.

> "The department shall complete an intermodal passenger transfer facility plan by March 1, 1982, for submission to the Joint Legislative Budget Committee and the fiscal committees. It shall contain, at a minimum, projected state capital and operating costs and revenues for fiscal years 1982–83 through 1984–85."

Local Assistance Expenditures

We recommend a reduction of $12,481,000 budgeted to acquire and improve intermodal transfer facilities because adequate funds for this purpose are available from previous appropriations. Approval of this recommendation will result in reductions of $7,481,000 to the State Highway Account (Item 266-101-042) and $5,000,000 to the Transportation Planning and Development Account (Item 266-101-046). We also recommend that associated support costs of $127,000 (two personnel-years) be reduced from the Transportation Planning and Development Account (Item 266-001-046).

The department proposes the expenditure of $12,481,000 for local assistance to acquire and improve intermodal transfer facilities. Of this amount, $7,481,000 would be funded from the State Highway Account and $5,000,000 would be funded from the TP and D account.

Our analysis indicates that appropriation of these funds in 1981–82 is unnecessary and should be deferred for at least one year. The basis for this recommendation is three-fold.

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1. ***Based on past experience, it appears unlikely that $12.5 million requested for transfer facilities could be spent during the budget year.*** Of the funds appropriated during the last three years for transfer facilities, 27 percent has been spent. Table 13 shows appropriations and expenditures for intermodal transfer facility projects since 1978. During that time, the Legislature has appropriated $14.5 million from the State Highway Account and $18.0 million from the TP and D Account. Of the $32.5 million appropriated, approximately $17.7 million has been allocated to specific projects by the Legislature and the California Transportation Commission, and $8.7 million has been expended.

Table 13
State Appropriations and Expenditures
For Intermodal Transfer Facility Projects
(in millions)

Appropriating Legislation	*Appropriations*	*Expenditures*[a]	*Unexpended Balance*
State Highway Account			
Budget Act of 1979	$7.0	$6.3	$0.7[b]
Budget Act of 1980	7.5	—	7.5
Subtotals	$14.5	$6.3	$8.2
Transportation Planning and Development Account			
Chapter 460, Statutes of 1978	5.3	2.3	3.0
Chapter 161, Statutes of 1979	7.7	.1	7.6
Budget Act of 1980	5.0	.0	5.0
Subtotals	$18.0	$2.4	$15.6
Totals	$32.5	$8.7	$23.8[c]

[a] Through November 30, 1980.
[b] Unexpended balance reverted to State Highway Account on June 30, 1980.
[c] $9 million of this amount has been allocated to specific projects by the Legislature and the California Transportation Commission.

In fact, none of the $12.5 million appropriated in the 1980 Budget Act has been allocated or expended. Much of this amount will still be available during 1981–82 for expenditure on new projects.

2. ***The department has not completed its intermodal transfer facilities plan which will detail the department's plans to acquire intermodal transfer facilities.*** We recommended in the previous section that the Legislature adopt supplemental report language requiring the department to complete this plan by March 1, 1982. Additional funding should be deferred until the department presents its project acquisition and expenditure plan to the Legislature.

For these reasons, we recommend a reduction of $7,481,000 from Item 266-101-042 and $5,000,000 from Item 266-101-046.

Support personnel. The department requests the addition of 4.5 personnel-years and $285,761 to evaluate facility projects and to review and execute contracts. Our analysis indicates that two of the personnel-years will no longer be required if local assistance is reduced in the budget year as we recommend. Consistent with that recommendation, we recommend a reduction of 2.0 personnel and $127,000 from Item 266-001-046.

Miscellaneous Reductions

We recommend a reduction of $147,138 and 3.8 personnel-years from the Transportation Planning and Development Account (Item 266-001-046) for miscellaneous mass transportation support activities due to lack of justification.

Our review of the department's Mass Transportation Program budget has identified five instances where proposed staffing of one personnel-year or less does not appear to be justified. In each of these cases, (1) requested personnel are not justified on the basis of reported workload data, or (2) proposed activities can be absorbed within current staffing levels. Table 14 shows the proposed staffing level and recommended reductions.

Table 14
Recommended Miscellaneous Reductions

Activity	*Requested Personnel-Years*	*Recommended Personnel-Year Reductions*	*Recommended Dollar Reductions*
Transit equipment demonstration projects	0.3	0.3	$15,197
Federal demonstration project evaluation	1.1	0.8	32,534
Priority list update	0.8	0.8	28,897
Plan review	1.0	1.0	36,175
Guideway review	9.1	1.0	34,335
Total recommended reductions	—	3.9	$147,138

Our analysis indicates that the funding request and personnel-years shown in Table 14 are not needed for the following reasons:

- ***Transit equipment demonstration projects.*** No new projects are anticipated in 1981–82. The 0.3 personnel-year is requested so that the department may respond to information requests. This activity can be absorbed within current staffing levels.
- ***Federal demonstration project evaluation.*** Contracts monitored will drop from four in the current year to one in the budget year. Staffing should be reduced proportionately.
- ***Priority list update.*** The department requests 0.8 personnel-years to update the abandoned railroad rights-of-way priority list, but only if additional funds are made available to purchase abandoned railroad rights-of-way. Because this would require legislation, the request for personnel-years is premature.
- ***Review plan.*** The department requests 1.0 personnel-year to review regional transportation plans, air quality plans and regional transportation improvement plans. This duplicates effort in the Transportation Planning Program, and should therefore be deleted.
- ***Guideway review.*** The department's request includes 1.0 personnel-year to review a guideway project in Lake Tahoe. This request is premature, and therefore, should be deleted.

Based on the preceding analysis, we recommend a reduction of $147,138 and 3.8 personnel-years from Item 266-001-046.

TRANSPORTATION PLANNING

The Transportation Planning program contains four elements which are designed to improve the quality of transportation planning in the state: (a) statewide planning, (b) regional planning, (c) administration and (d) reimbursed services.

The budget proposes an appropriation of $6,715,347 from the Transportation Planning and Development Account in the State Transportation Fund. The budget also proposes to subvene $4 million in federal funds to regional planning agencies, and will spend $3,924,585 from reimbursements, for a total expenditure

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of $14,639,932, an increase of 3 percent from the approved current year levels.

The budget also proposes a reduction of 9.9 personnel-years from current-year levels because of (1) a technical adjustment in allocating general administration expenses among the department's programs, and (2) a reduction in reimbursed services. In the current year, the program also reallocated 2.5 personnel-years to begin work on the County Road and City Street Progress Report, prepared every four years pursuant to Section 2156 of the Streets and Highways Code. The budget proposes to continue this activity in 1981–82.

Table 15 displays proposed program changes and fund sources.

Table 15
Proposed 1981-82 Transportation Planning Program Changes and Fund Sources

	Personnel-Years	*State Operations*	*Local Assistance*	*Total Expenditures*
1980-81 Approved	222.2	$8,176,149	$6,031,500	$14,207,649
1. Technical Adjustments and Transfers	−6.0	–	–	–
2. Program Changes	–	–	–	–
Systems planning	2.5	243,507	–	243,507
Program analysis	–	176,790	–	176,790
Regional planning	–	68,759	–	68,759
Administration	–	−102,416	–	−102,416
Reimbursed services	−6.4	45,643	–	45,643
Subtotals, Program changes	−9.9	$432,283	–	$432,283
1981-82 Proposed	212.3	$8,608,432	$6,031,500	$14,639,932
1981-82 Fund Sources				
Transportation Planning and Development Account	–	$4,683,847	$2,031,500	$6,715,347
Federal Funds	–	–	4,000,000	4,000,000
Reimbursement	–	3,924,585	–	3,924,585
Total Funds	–	$8,608,432	$6,031,500	$14,639,932

Streets and Roads Progress Report

We recommend adoption of Budget Bill language in Item 266-001-046 requiring the reversion of funds in the event the requirement that a local streets and roads needs study be prepared is repealed. We further recommend that the personnel requested to complete this report be authorized only through December 31, 1981.

The budget requests 2.5 personnel-years and $108,171 from the Transportation Planning and Development Account to prepare a report on the progress and needs of city streets and county roads. This report would be prepared pursuant to Section 2156 of the Streets and Highways Code.

SB 136, an urgency measure, is currently before the Legislature. It would repeal that requirement. If the bill is enacted, funds for preparing the report would not be needed. If the requirement is not repealed, the report will be completed by January 1, 1982. Personnel should, therefore, be authorized only through December 31, 1981.

Accordingly, we recommend that Budget Bill language in Item 266-001-046 be adopted as follows:

"Provided, that the unencumbered balance of $108,171 appropriated to prepare a report pursuant to Section 2156 of the Streets and Highways Code shall revert to the unencumbered balance of the Transportation Planning and Development

Account should Section 2156 of the Streets and Highways Code be repealed. Provided further, that any personnel requested to prepare this report shall be authorized only through December 31, 1981."

Ridesharing, Transit and Operational Improvements Coordination

We recommend a reduction of $223,896 and six personnel-years from the Transportation Planning and Development Account (Item 266-001-046) for ridesharing, transit and operational improvements coordination because workload justification is lacking.

The budget requests $447,791 and 12 personnel-years to coordinate ridesharing and transit programs and highway operational improvements, such as park and ride lots and freeway ramp meters. According to the department, this coordination involves such activities as (1) reviewing relevant goals and policies in each district, (2) reviewing district progress reports and coordination plans, and (3) reporting to the director on statewide implementation.

The department has provided no documentation to demonstrate a need for 12 personnel-years to perform these activities. This level of personnel effort would be equal to one person in each district office and headquarters working full time reviewing coordination plans and other related documents.

Although we recognize the need to coordinate transportation programs within the department, we estimate that this effort could be performed adequately with six personnel-years. Accordingly, we recommend that Item 266-001-046 be reduced by six personnel-years and $223,896.

Planning Reports No Longer Needed

We recommend a reduction of 0.8 personnel-years and $30,996 from the State Highway Account (Item 266-021-042) for Transportation Improvement Program reports due to a reduction in workload.

The budget requests 12.5 personnel-years and $484,365 to perform various analyses of the State Transportation Improvement Program (STIP). Included in this request is 0.8 personnel-years and $30,996 to prepare a STIP impact analysis and a report comparing the STIP with regional transportation plans, pursuant to California Transportation Commission (CTC) requirements.

CTC staff inform us that the commission will not require the department to prepare these reports in the budget year. Therefore, we recommend a reduction of 0.8 personnel-years and $30,996 associated with these activities.

Subventions to Planning Agencies

We recommend a reduction of $100,000 from the Transportation Planning and Development Account (Item 266-101-046) because the California Tahoe Regional Planning Agency will not require as much financial assistance in the budget year.

The budget proposes allocating $2,031,500 in state funds and $4 million in federal funds to support regional transportation planning agencies in 1981-82. The agencies submit work plans to the department, which allocates the funds on a discretionary basis based on the work proposals.

In the current year, the department allocated $151,000 in state funds to the California Tahoe Regional Planning Agency (CTRPA) for transportation planning activities. The Legislature, however, eliminated the need for nearly all CTRPA transportation planning functions when it enacted Chapter 872, Statutes of 1980. This bill (1) modified the bi-state Tahoe Regional Planning Compact, and (2) specifically abolished the transportation plan adopted by CTRPA. As a result, the only significant transportation planning activity with which CTRPA should be involved is review of environmental impact statements. Discussions with department staff indicate that this will significantly reduce the allocation of state planning funds to CTRPA, and accordingly, the planning funds needed by the

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department for allocation statewide.

We recommend that state planning funds be reduced by $100,000 in Item 266-101-046. This reduction reflects our preliminary estimate of what CTRPA would be allocated in the budget year. A more precise amount may be available prior to subcommittee hearings on the department's budget.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS

Item 266-490 from the State Transportation Fund — Budget p. BTH 90

1981–82 FUNDING BY ITEM AND SOUCE

Item Description	Fund[a]	Amount
Budget Act of 1978—Local Assistance	State Highway Account	$500,000
Budget Act of 1979—Local Assistance	State Highway Account	500,000
Budget Act of 1979—San Diego Metropolitan Transit Development Board	State Highway Account	-
Budget Act of 1980—Local Assistance	State Highway Account	1,500,000
Budget Act of 1980—San Diego Metropolitan Transit Development Board	State Highway Account	-
Chapter 161, Statutes of 1979—Rail Service Contracts	Transportation Planning and Development Account	-
Chapter 161, Statutes of 1979—Intercity Bus Services	Transportation Planning and Development Account	-
Chapter 161, Statutes of 1979—Rail Capital Projects, Cars and Track Lines	Transportation Planning and Development Account	-
Chapter 1098, Statutes of 1977—Local Assistance	Abandoned Railroad Account	-

[a] All accounts are within State Transportation Fund.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on proposed reappropriations pending further review.

The budget proposes reappropriating the unencumbered balance of specified funds made available in (1) previous Budget Acts, (2) Chapter 161, Statutes of 1979, and (3) Chapter 1098, Statutes of 1977. These funds would be used for a variety of specified purposes, including local assistance, rail services and subventions to the San Diego Metropolitan Transit Development Board.

Adequate documentation has not yet been provided on the proposed reappropriations. Accordingly, we withhold recommendation until our review has been completed.

Business and Transportation Agency

OFFICE OF TRAFFIC SAFETY

Item 270 from the Motor Vehicle Account, State Transportation Fund, and federal funds — Budget p. BTH 107

Requested in 1981–82	$221,007
Estimated 1980–81	213,657
Actual 1979–80	198,761
Requested increase (excluding amount for salary increases) $7,350 (+3.4 percent)	
Total recommended reduction	$12,209

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Miscellaneous Reductions.* 386
   a. ***Reduce amount budgeted for program administration by $49,700 and reallocate savings to grant program.***
   b. ***Reduce Motor Vehicle Account appropriation in Item 270-001-044 by $12,209.***

   Recommend reductions to correct for overbudgeting, and to eliminate unjustified expenses.

GENERAL PROGRAM STATEMENT

Chapter 1492, Statutes of 1967, established the California Traffic Safety Program. The Office of Traffic Safety (OTS) was subsequently created to implement this program and the requirements of the National Highway Safety Act of 1966.

OTS is responsible for allocating traffic safety assistance grants from the Federal Highway Administration and the National Highway Traffic Safety Administration to state and local agencies. Its principal responsibilities are to (1) develop and update the California Comprehensive Traffic Safety Plan, (2) coordinate ongoing traffic safety programs, (3) provide technical assistance and information, (4) assist state and local agencies in identifying traffic safety needs and deficiencies as well as in developing and implementing traffic safety programs, and (5) approve project funding for eligible traffic safety projects.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $17,456,528 for support of the activites of the Office of Traffic Safety in 1981–82. This amount consists of $221,007 from the Motor Vehicle Account of the State Transportation Fund, $17,235,521 in federal funds and $37,231 in reimbursements. Proposed expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year.

The federal government provides 100 percent of the funds for grants to state and local agencies and approximately 85 percent of the funds needed to cover OTS's program administration costs. The remaining 15 percent is funded by the Motor Vehicle Account, State Transportation Fund. Table 1 displays the funding sources and availability of funds as shown in the Governor's Budget.

OFFICE OF TRAFFIC SAFETY—Continued

Table 1
Funding Summary Office of Traffic Safety

Item	*Funding Source*	*Purpose*	*1979–80*	*1980–81*	*1981–82*
270-001-890	Federal	Grants to state agencies and program administration	$14,920,445 [a]	$6,217,406 [b]	$7,669,521 [c]
270-101-890	Federal	Grants to local agencies	15,717,680 [a]	14,753,593 [b]	9,566,000 [c]
270-001-044	Motor Vehicle Account	Program administration	198,761 [a]	213,657 [d]	221,007 [d]
	Totals		$30,836,886	$21,184,656	$17,456,528

[a] Actual expenditure.
[b] Total amount of federal funds available for expenditure. Includes carryover from previous year.
[c] New federal funds.
[d] Estimated and proposed state funds.

Office Support and Grants to State Agencies

The budget proposes $221,007 from the Motor Vehicle Account of the State Transportation Fund as the state's share of support for administration of the Traffic Safety Program, and $7,669,521 in federal funds for the federal share of administration and for grants to state agencies in 1981–82.

The office has a total of 32 positions which assist state and local agencies in solving traffic problems by (1) identifying deficiencies, (2) identifying needs of potential grant recipients through site visits, and (3) monitoring the implementation of the grant proposals. In the budget year, OTS proposes expenditures of $1,550,759 for these purposes. Federal funds will finance $1,292,521 of this amount. A total of $6,377,000 in federal funds is available for grants to state agencies.

Local Assistance

Federal law requires that at least 40 percent of the assistance money expended by OTS be allocated to local agencies. As a matter of practice, OTS allocates in excess of 50 percent to local agencies with the remaining funds ($7,669,521) providing support for state activities.

The budget provides $9,566,000 in new federal funds to implement traffic safety projects proposed by local agencies in 18 different traffic safety areas such as motorcycle safety, driver education and emergency medical services.

Overbudgeting for Program Administration

We recommend that (1) the amount budgeted for program administration be reduced by $49,700, and that the amount available for grants be adjusted accordingly, and (2) the amount budgeted in Item 270-001-044 as the state's share of administrative costs be reduced by $12,209, for a savings to the Motor Vehicle Account.

Our analysis of the office's proposed budget indicates that the amount budgeted for administration of the grants program can be reduced by $49,700. Table 2 depicts the components of the recommended reduction.

Table 2
Office of Traffic Safety
Recommended Reductions to Administrative Cost

1. Adjustment for salary savings	$20,000
2. Delete executive secretary I position	14,700
3. Delete management information system funds	15,000
Total	$49,700

These reductions are warranted for the following reasons:

a. ***Salary savings.*** Our review of actual salary expenditures by the Office of Traffic Safety for fiscal years 1976–77 through 1979–80 reveals that the office had annual salary savings ranging from $34,000 to $93,000. According to OTS staff, the higher savings resulted from extended vacancies in two positions which have since been deleted. Because of this, OTS staff maintains that annual salary savings will decrease. However, the proposed budget includes no estimated salary savings, although some savings will occur. We recommend that salary savings be budgeted in the amount of $20,000, which is approximately 3 percent of the amount budgeted for salaries.

b. ***Executive Secretary I position.*** During the current year, the office administratively established an executive secretary I position. The budget includes $14,700 to continue this position in 1981–82. There has been no increase in the number of managerial positions within the office, and we are unable to identify any demonstrable increase in secretarial workload. Accordingly, we can find no justification for the new position, and recommend that it be deleted.

c. ***Management information system.*** In early 1979, OTS awarded a $30,000 contract to a private consulting firm to prepare a management information and evaluation system study report. The report, which was issued in March 1979, has not resulted in any significant information system activity. The proposed budget includes $15,000 for consultant and professional services for a "management information system." Our analysis indicates that OTS has no definite plans for expenditure of these funds, and that the amount is essentially a contingency figure. On that basis, it should be deleted.

Approval of the recommended reductions would reduce OTS' administrative costs by $49,700. Pursuant to federal regulation, administrative costs must be covered in part by matching state funds. According to OTS, the required state match in the current year is 13.91 percent of the total administrative cost. We understand that the same percentage match will be applied in 1981–82. Therefore, a $49,700 reduction would enable the reallocation of $42,787 in federal funds to the grant program, and would reduce the amount of state funds required for support of the office by $6,913. In addition, the amount of state support requested in the budget was calculated using an incorrect percentage. As a result, this amount is overbudgeted by $5,296. Therefore, Motor Vehicle Account support (Item 270-001-044) can be reduced by a total of $12,209.

Business, Transportation and Housing Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 272 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 109

Requested 1981–82	$296,174,461
Estimated 1980–81	287,300,507
Actual 1979–80	263,984,713
Requested increase (excluding amount for salary increases) $8,873,954 (+3.0 percent)	
Total recommended reduction	$1,735,184

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

1981–82 FUNDING BY ITEM AND SOURCE

Item Description	Fund	Amount
272-001-044—Support	Motor Vehicle Account, State Transportation	$295,994,941
Chapter 615, Statutes of 1980, Hazardous Waste Inspection	Motor Vehicle Account, State Transportation	179,520
Total		$296,174,461

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. State Personnel Board Audit. Withhold recommendation on departmental staffing pending Personnel Board action on CHP personnel audit. Recommend CHP meet with board staff to resolve issues prior to budget hearings. 390
2. ***Communication Costs. Reduce by $70,034.*** Recommend reduction because department overstated increase in telephone usage. 391
3. Special Items of Expense. Recommend Budget Bill language requiring Director of Finance approval before special item of expense funds are spent. 391
4. ***Enforcement Vehicle Purchase Costs. Reduce by $1,129,438.*** Recommend reduction because department overestimated purchase price of new vehicles and understated revenue from sale of old vehicles. 391
5. ***Multi-Agency Registration Compliance. Reduce by $49,908.*** Recommend reduction because data processing equipment not needed and nonuniformed personnel can be used in certain program facilities. Also recommend positions be authorized for limited term. 392
6. ***Mechanical Violation Clearance. Reduce by $128,448.*** Recommend reduction because nonuniformed personnel should be used. Also recommend department evaluate feasibility of restructuring assignments to permit additional reclassifications. 395
7. ***Executive Management Vehicles. Reduce by $22,750.*** Recommend reduction because standard sedans, and not enforcement vehicles, should be used for administrative driving purposes. 397
8. ***Operating Expenditures. Reduce by $65,851.*** Recommend reduction because increases in operating expenditures exceed amount required. 397
9. ***Equipment Expenditures. Reduce by $59,515.*** Recommend reduction because equipment is not needed or is overbudgeted. 398
10. ***Reimbursements. Increase reimbursements by $53,240 and reduce appropriation by same amount.*** Recommend reduction because reimbursements for department are understated. 398
11. ***Lands and Buildings. Reduce by $156,000.*** Recommend reduction because land and building expenditures are inappropriate at this time. Also recommend an additional reduction of $21,399 if funds are provided in the budget to purchase Monterey field office. 399

GENERAL PROGRAM STATEMENT

The California Highway Patrol is responsible for the safe and expeditious movement of people and goods along the state's roadway system. The department seeks to accomplish this objective through four programs. The first involves the control of vehicle traffic along roadways, which is accomplished by (1) patrolling highways and enforcing the Vehicle Code, (2) aiding distressed and injured motorists, (3) clearing roadway obstructions, (4) investigating accidents and (5) assisting other law enforcement agencies as required. Highway Patrol traffic officers are deployed along the entire state freeway system and along roads in unincorporated areas to meet program requirements.

The regulation of motor vehicles and equipment is the department's second program. Inspection of commercial vehicles and terminals are among the activities performed by both uniformed and nonuniformed personnel in this program. The third program is vehicle ownership security, which includes investigation and inspection activities to control vehicle theft.

Finally, the administrative support division provides general management to the other three programs. In addition, this division oversees the training of cadets at the patrol's academy in Bryte.

Department activities are coordinated from the department's headquarters in Sacramento. Patrol facilities include eight division commands, 95 area offices, and several inspection installations and communication centers. These facilities are linked to headquarters by an extensive communications network.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $300,225,686 from various funds for support of the Department of the California Highway Patrol (CHP) in 1981–82. These expenditures are funded from three sources. First, the budget proposes an appropriation of $295,994,941 from the Motor Vehicle Account, State Transportation Fund. Second, the budget proposes to spend $179,520 in Motor Vehicle Account funds appropriated in Chapter 615, Statutes of 1980. Third, reimbursements and federal funds are expected to provide $4,051,225 in the budget year.

Proposed expenditures in 1981–82 are $9,054,943, or 3.1 percent, greater than estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Significant program changes proposed in the Governor's Budget include (1) the purchase of additional communications equipment, at a cost of $2,335,665, (2) a request for four new positions to increase compliance with vehicle registration laws, at a cost of $162,483, and (3) a request for 15 new positions to inspect bus terminals, at a cost of $436,617.

TRAFFIC MANAGEMENT

Traffic management is the largest department program, accounting for $272,018,092, or 92 percent, of the proposed Motor Vehicle Account appropriation. Approximately 88 percent of the department's uniformed personnel and half of its nonuniformed personnel are employed in this program. According to the department, 90 percent of the uniformed personnel in the program are used regularly on patrol duty. Officers spend about 88 percent of their time in "on-sight" patrol, with the balance consumed by activities such as report writing.

The three primary elements of the traffic management program are accident control, optimizing safe traffic flows and assistance to highway users. A fourth element is flight operations, which will cost $3,676,621 during the budget year. The department deploys four single-engine planes, with two based in Coalinga and one each in Barstow and El Centro. The department is acquiring three additional airplanes with federal funds to increase compliance with the 55 miles per hour

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

speed limit. In addition, the department deploys six helicopters. The helicopter in San Francisco is used almost exclusively in traffic management. The four helicopters located in Sacramento, Barstow, Fresno and Redding generally assist other law enforcement agencies, transport injured people and perform search-and-rescue missions in recreational areas. The helicopter in Los Angeles is used both for traffic management and search-and-rescue purposes.

Table 1 presents program staffing and expenditures levels for the traffic management program.

Table 1
Traffic Management Program
Staffing and Expenditure Data

	Actual 1979–80	*Estimated 1980–81*	*Percent Change*	*Proposed 1981–82*	*Percent Change*
Program Expenditures	$242,631,120	$263,376,440	8.6%	$272,018,092	3.3%
Personnel-Years					
Uniformed	4,294.0	4,375.5	1.9	4,375.9	—
Nonuniformed	899.3	978.4	8.8	988.5	1.0
Totals	5,193.3	5,353.9	3.1%	5,364.4	0.2%

State Personnel Board Audit

Supplemental report language directed the State Personnel Board (SPB) to determine the number of uniformed CHP employees presently performing duties which might more appropriately be performed by nonuniformed employees. Accordingly, SPB staff reviewed the duties of 98 positions which are occupied by uniformed employees.

SPB found that the responsibilities of some positions reviewed did not appear to fall clearly within the specifications of the uniformed personnel series. The SPB review of job descriptions indicates that:

- Twenty-five positions which currently are filled by uniformed personnel would be more appropriately filled by nonuniformed personnel because the job responsibilities do not require a law enforcement background.
- Up to 20 additional positions could be changed to a nonuniformed classification by restructuring the current assignments of the uniformed staff.
- Five sergeant positions were retained in the Los Angeles Communications Center even though the SPB directed the CHP to remove these positions when the board upgraded the nonuniformed supervisory positions in the center.

Reclassifying uniformed positions to nonuniformed classifications has two significant benefits. First, the department realizes personnel cost savings because nonuniformed personnel generally earn less in salaries and benefits than uniformed personnel. Second, such reclassifications would allow the department's affirmative action program to become more effective. Very few uniformed personnel in the department are women or minorities. By opening up more department jobs to nonuniformed personnel, more jobs would become available to women and minority employees currently working in nonuniformed classifications.

We withhold recommendation on that portion of the CHP budget related to departmental staff reviewed in the personnel audit, pending action by the State Personnel Board. We recommend that the department meet with board staff to resolve issues raised in the report prior to CHP budget hearings.

At the time this analysis was prepared, CHP had not met with the SPB staff to discuss the findings of the audit report. The board will not implement the report recommendations until the SPB staff has resolved the issues raised by the report with CHP. We cannot, therefore, make a recommendation concerning budgetary adjustments which reflect the board's action.

We do recommend that the CHP meet with board staff so that all issues raised by the report can be resolved before the fiscal subcommittees hold hearings on the department's budget. If these issues can be resolved prior to final legislative action on the department's budget, we will submit recommendations to the Legislature for revising the department's budget, as warranted.

Communication Cost Increases Overstated

We recommend a reduction of $70,034 in the amount budgeted for communication expenditures because of an overestimated increase in telephone use.

The budget requests $5,028,606 for communication costs in 1981–82, an increase of $2,072,026, or 70 percent. Our analysis of the request indicates that a part of the increase results from significant increases in telephone line usage projected by the department in two areas.

First, the department assumed that its business use of telephones would increase 15 percent over the 1979–80 level at a cost of $53,103 because the Department of General Services is encouraging state agencies to communicate by telephone, rather than by traveling, whenever possible. The department, however, is unable to demonstrate any basis for the rate of increase assumed. In addition, no corresponding reduction in the department's travel budget was made to reflect the increased reliance on telephones.

Second, the department estimated that usage of the freeway call boxes in Los Angeles County would increase 15 percent over 1979–80 levels. Our analysis of call box usage in the past indicates that use of the freeway telephones increases at a rate of only 2 percent per year. No information is available that would indicate such a significant change in this trend. A reduction to reflect current trends would save $16,932.

For these reasons, we believe the department has overbudgeted communications costs. Adjusting the department's budget to correct for this overbudgeting would save $70,034. We therefore recommend a reduction of $70,034.

Control Language Required

We recommend Budget Bill language be adopted which prohibits the expenditure or transfer of funds from Item 272-001-044 (c) without notification of the Director of Finance.

The budget proposes the expenditure of $1,700,684 as a "special item of expense" to pay for potential increases in gasoline and communication costs during the budget year.

The Department of Finance intended the money to be available only for such purposes, and only if needed. We concur with this intent. The Budget Bill, however, does not restrict how the money is used. To insure Department of Finance control over the use of the funds, we recommend adoption of the following Budget Bill language:

> "Provided, that none of the funds in schedule (c) shall be spent or transferred to schedule (b) unless and until authorized in writing by the Director of Finance."

Overstated Enforcement Vehicle Purchase Costs

We recommend a reduction of $1,129,438 because the budget overstates the price of patrol vehicles to be purchased in the budget year.

The budget proposes the expenditure of $7,953,538 to replace 989 enforcement vehicles in 1981–82. This proposal is based on an estimated purchase price of $8,692

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

per vehicle, including sales tax, minus the revenue derived from selling the old vehicles, estimated to be $650 per vehicle.

After this estimate was made, the department awarded the vehicle purchase bid for the budget year. According to the department, each vehicle will cost $7,700, including tax, and the department will receive $800 from the sale of each old car. This will result in a net cost of $6,824,100 for vehicle replacement. We recommend a reduction of $1,129,438 to correct this overbudgeting.

REGULATION AND INSPECTION

The regulation and inspection program is composed of seven activities in the current year. The Governor's Budget, however, does not propose funding the Abandoned Vehicle Abatement program in the budget year. This is consistent with the conclusion we reached, based on our study of the vehicle abatement program, conducted pursuant to Chapter 447, Statutes of 1978. In a report to the Legislature summarizing our findings (A Review of the California Abandoned Vehicle Abatement Program, 80-19) we recommended the program be terminated because program benefits accrue to the local community and not to the state as a whole.

The budget is proposing total net expenditures of $18,442,525 for regulation and inspection in 1981–82, a decrease of $1,226,360 (6.2 percent). This reflects reductions in expenditures (totaling $1,476,899) for all program activities except motor carrier safety operations, which is proposed to increase by $250,539. Proposed expenditures from the Motor Vehicle Account are $179,628 (1 percent) above current year estimates. Table 2 shows staffing and expenditure data for the regulation and inspection program.

Table 2
Regulation and Inspection Program
Staffing and Expenditure Data

	Actual 1979–80	*Estimated 1980–81*	*Percent Change*	*Proposed 1981–82*	*Percent Change*
Program Expenditures	$15,942,504	$18,198,097	14.1%	$18,377,725	1.0%
Personnel-Years					
Uniformed	218.4	211.1	–3.3	211.7	0.3
Nonuniformed	214.8	239.6	11.5	242.6	1.2
Totals	433.2	450.7	4.0%	454.3	0.8%

Multi-Agency Registration Compliance Activity

We recommend that data processing equipment requested for the five facilities participating in the Commercial Vehicle On-Site Fee Collection program be replaced with portable radio equipment, for a savings of $28,500. We also recommend that two CHP Traffic Officers be reclassified to Commercial Vehicle Inspection Specialists (CVIS) for a savings of $21,408. Finally, we recommend that the two remaining State Traffic Officers in the program and the CVIS positions be authorized only until June 30, 1983.

The budget proposes the establishment of two statewide programs to increase compliance with vehicle registration fee requirements, and, therefore, increase revenues to the Motor Vehicle Account. These programs would be administered by the CHP, the Department of Motor Vehicles (DMV) and the Board of Equalization. The first program would seek to increase compliance by investigating and citing California resident motorists who illegally register their vehicles in another state. No additional CHP personnel are proposed for this program.

The second program, the Commercial Vehicle On-Site Fee Collection Program, would place CHP and DMV personnel in five platform scale and inspection facilities. These personnel would verify that out-of-state commercial vehicles entering the state comply with vehicle registration requirements. Drivers of vehicles which are not properly registered would be required to pay appropriate fees and penalties if they wished to continue traveling through the state. The CHP budget proposes an increase of four positions and $162,483 to establish this program. Our analysis of the proposed On-Site Fee Collection Program indicates that the cost-effectiveness of the program can be increased in several ways.

Eliminate data processing equipment. The budget proposes the expenditure of $40,500 to purchase, install and operate data processing equipment in the five facilities. The annual cost of operating this equipment would be $12,000. This equipment would access directly into vehicle registration data files to determine the status of a vehicle's registration.

A less costly alternative for obtaining this information exists. Instead of using expensive new data processing equipment, program personnel could request a CHP dispatcher to query the data file using existing data processing equipment in the dispatch center.

The department states that obtaining the information through a dispatcher would overburden the dispatchers. According to department staff, however, only about 1,100 requests for information were made during a 54-day pilot study of the On-Site Fee Collection program in the Banning inspection facility. This is an average of 20.4 requests per day. This represents 1 percent of the calls a dispatcher could receive and still meet the department's dispatcher service standard. We do not believe that this number of requests would place a significant additional burden on the radio dispatchers.

Communicating with dispatchers, however, would require the purchase of a portable radio for each facility, at a cost of $2,400 each. Replacing the data processing equipment with radios would result in a net savings of $28,500. Accordingly, we recommend a reduction of $28,500.

Reclassify two officer positions to nonuniformed positions. The budget proposes an increase of four traffic officers for three platform scale facilities—two in Truckee and one each in Cajon and Winterhaven. The officers would be used in conjunction with additional DMV staff at these facilities. According to department staff, the personnel in Cajon and Truckee would increase the operating hours of these facilities from the current 16 hours per day to 24 hours per day. Presently there is one officer per shift at each of the two facilities. The officer in Winterhaven would staff the On-Site Fee Collection program eight hours per day, rotating among the three shifts.

The department states that traffic officers are needed to provide peace officer authority and maintain security at the facility. Such benefits still would be available, however, if only one traffic officer was available at the facility at any one time to perform traffic officer functions. There appears, therefore, to be justification for only one additional traffic officer at Truckee. In addition, there is no apparent need for an additional officer at Winterhaven. Peace officer authority would be available to the program if the officer currently operating the weight facility staggered his hours in the same manner as personnel assigned to the On-Site Fee Collection Program.

In summary, our analysis indicates that only two of the four officers proposed appear to be justified. The other two officers are not needed and could be replaced by Commercial Vehicle Inspection Specialists (CVIS) without weakening the program. These specialists inspect commercial vehicles at vehicle inspection facilities. This would still leave one traffic officer, one commercial vehicle inspector and one DMV employee to work as a team in performing the weight and registration compliance functions. Reclassifying these positions, however, would reduce the

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

personnel costs of the program by $21,408 in 1981–82. We therefore recommend that the two positions be reclassified, and that the budget be reduced by $21,408.

While we recommend that funding for the Commercial Vehicle On-Site Fee Collection program be approved as outlined above, we are uncertain as to the long term cost-effectiveness of the program. The proposal is based on pilot studies established in specific areas of the state. Whether the program will (1) be as successful on a statewide basis, and (2) continue to be cost-effective over time remains to be seen. To encourage evaluation of the program, we recommend that all new positions be authorized only through June 30, 1983. If the department proposes to continue the program beyond 1982–83, it should include an evaluation of the program in budget support material provided to the Legislature.

VEHICLE OWNERSHIP SECURITY

This program includes the vehicle theft element, which is aimed at recovering stolen vehicles, and the vehicle identification number element, which identifies and renumbers vehicles when identification plates have been removed or are missing. Proposed expenditures from the account are $5,778,644, an increase of $52,674, or 1 percent over estimated current year expenditures.

Table 3 displays proposed staffing and expenditure levels for the Vehicle Ownership Security program.

Table 3
Vehicle Ownership Security Program
Staffing and Expenditure Data

	Actual 1979–80	*Estimated 1980–81*	*Percent Change*	*Proposed 1981–82*	*Percent Change*
Program Expenditures	$5,411,089	$5,725,970	5.8%	$5,778,644	0.9%
Personnel-Years					
Uniformed	106.1	97.6	−8.0	94.9	−2.8
Nonuniformed	20.8	20.9	0.5	21.0	0.5
Totals	126.9	118.5	−6.6%	115.9	−2.2%

Staged Accident Investigation Reports

The Supplemental Report of the 1980 Budget Act directed the CHP and the Department of Insurance (DOI) to report to the Legislature on each agency's involvement in investigating vehicle-related fraud activities. The Legislature requested the reports because of its concern that the agencies' activities might overlap.

Both departments have submitted the required reports. The reports indicate that the two departments have separate functions. The CHP investigates accidents pursuant to its Vehicle Code authority. If the department believes an accident was staged or falsely reported, it will investigate the accident within the resources available to the department.

It appears that the CHP uses the Bureau of Fraudulent Claims in the DOI primarily for technical assistance. This assistance is provided in two ways. First, the bureau maintains the Insurance Fraud Information System (IFIS). This system catalogues insurance claim and accident information submitted by insurance companies and law enforcement agencies. IFIS aids investigators by permitting them to detect patterns of activity. In addition, the bureau has personnel that can lend investigative assistance to CHP when needed.

The departments have established two procedures to minimize overlap. First, the information system is programmed to indicate which state agency is investigating a particular suspect. This reduces the likelihood that both CHP and DOI would unknowingly duplicate each other's efforts. In addition, a committee consisting of CHP, DOI and other state agencies has been formed to promote investigative coordination.

ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support are budgeted at $42,207,967, an increase of 1 percent over estimated current year expenditures. The six elements of this program include administrative services, management and command, budget and fiscal management, operational planning and analysis, training and the Statewide Integrated Traffic Records System.

Administrative costs are prorated among the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 4.

Table 4
Administrative Support Program
Staffing and Expenditure Data

	Actual 1979–80	*Estimated 1980–81*	*Percent Change*	*Proposed 1981–82*	*Percent Change*
Program Expenditures	$39,205,877	$41,998,099	7.1%	$42,207,967	0.5%
Personnel-Years					
Uniformed	274.8	271.8	−1.1	270.2	−0.6
Nonuniformed	826.4	754.0	−8.7	758.4	0.6
Totals	1,101.2	1,025.8	−6.8%	1,028.6	0.3%

Operating Expenditures in Excess of the Budget Level

In 1979–80, the CHP spent $3 million more for operating expenses and equipment than was budgeted. Most of the excess spending was for automobile operations. The additional funds were available from the personal services category funds because the vacancy rate was higher than anticipated, causing increased salary savings to be realized.

According to the department, the overexpenditure resulted from a manual expenditure monitoring system which did not tabulate expenditures on a timely basis. This process has been replaced by an automated system. In addition, the Department of Finance is reviewing CHP's fiscal control system to insure that expenditures in excess of budget levels do not recur. We will continue to monitor this situation and inform the Legislature of any problems with the department's fiscal management.

Reclassify Violation Clearance Officers

We recommend that 12 State Traffic Officer positions involved in mechanical violation clearance be reclassified to Commercial Vehicle Inspection Specialist (CVIS) positions, for a savings of $128,448. We further recommend the adoption of supplemental report language directing the department to evaluate the feasibility of restructuring assignments in 11 other area offices to enable reclassification of clearance officers to CVIS positions.

Each year, the department issues approximately 800,000 notices to correct violations of vehicle registration and mechanical safety laws. Violators are not cited if the violation is corrected within a specified time. Generally, violators go to a CHP area office and prove to the clearance officer that the violation has been corrected. Clearing a violation involves (1) looking at drivers licenses or registration forms and/or (2) observing that the vehicle defects, such as a faulty muffler or headlight, has been corrected.

We reviewed the number of hours authorized by the department for clearance

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

officer functions, for each area office. The department's data suggest that, in 23 area offices, the personnel time spent per year clearing these violations would occupy or nearly occupy a full-time position. This is shown in Table 5. The clearance officer positions in these 23 offices are filled with traffic officers.

Our analysis indicates that the clearance functions are more appropriately performed by nonuniformed personnel, such as commercial vehicle inspection specialists (CVIS), because the duties of the job do not require a law enforcement background beyond the knowledge of a CVIS.

Table 5
Personnel-Hours Authorized for Mechanical Violation Clearance Officers [a]

Area Office	*Authorized Hours Per Year*	*Full-Time Equivalent Positions* [b]
San Jose	2,510	1.39
Contra Costa	2,250	1.25
Marin-Golden Gate	2,250	1.25
Oceanside	2,080	1.16
Riverside	2,080	1.16
San Diego	2,080	1.16
Santa Ana	2,080	1.16
San Bernardino	2,079	1.16
Hayward	2,010	1.11
Redwood City	2,010	1.11
Santa Rosa	2,010	1.11
Oakland	2,000	1.11
El Cajon	1,730	0.96
Westminster	1,730	0.96
Hanford	1,700	0.94
Baldwin Park	1,620	0.90
Central Los Angeles	1,620	0.90
East Los Angeles	1,620	0.90
Glendale	1,620	0.90
Santa Fe Springs	1,620	0.90
South Los Angeles	1,620	0.90
West Los Angeles	1,620	0.90
West Valley	1,620	0.90

[a] As of April 1980.
[b] The State Administrative Manual defines 1,800 hours as a full-time position.

Reclassifying a traffic officer position to CVIS would save an average of $10,704 in salaries and benefits annually. Consequently, we believe the clearance officer function can and should be performed by a CVIS. In 12 of the offices shown in Table 5, the clearance officer function is more than a full-time responsibility. We therefore recommend the reclassification of one position in each of these 12 offices to CVIS, and a reduction of $246,192 in the budget.

In the 11 remaining offices shown in Table 5, the clearance officer function is slightly less than a full-time responsibility. In these offices, reclassifications would be feasible if assignments can be restructured to provide at least one personnel-year of work for the CVIS. To determine the feasibility of increasing department efficiency in this manner, we recommend adoption of the following supplemental report language:

"The department shall evaluate the feasibility of restructuring assignments within those area offices in which department staffing data indicate that the mechanical violation clearance activity occupies between 0.9 and one full-time equivalent position, in order to provide for the reclassification of the clearance officer position to a nonuniformed classification. The department shall report its findings to the Joint Legislative Budget Committee and the fiscal committees by December 1, 1981."

Replace Executive Management Vehicles

We recommend that 14 enforcement vehicles provided to executive management be replaced with sedans, for a savings of $22,750.

Department headquarters maintains 28 vehicles for staff use. This number includes 14 enforcement vehicles for senior management and division personnel to drive in performing their administrative duties.

Enforcement vehicles generally are used for road patrol purposes. They are significantly more expensive to purchase and operate than the subcompact and compact vehicles used by other department personnel for administrative purposes. In addition, Section 22 of the Budget Act states that all passenger-type vehicles shall be of the "light" class (that is, subcompact or compact) except "on the basis of unusual circumstances." We know of no unusual circumstances which would warrant the use of an enforcement vehicle, instead of a "light" vehicle, in the performance of administrative duties.

Accordingly, we recommend that the 14 enforcement vehicles be replaced with sedans. Purchasing 14 sedans would cost $85,050. This would be more than offset, however, by assigning the 14 enforcement vehicles to the field, thereby eliminating the need to buy 14 replacement enforcement vehicles in the budget year. Based upon the price of sedans and enforcement vehicle to be purchased in the budget year, replacing the enforcement vehicles with sedans would save $22,750. We recommend that the budget be reduced accordingly.

Overbudgeted Operating Expenditures

We recommend a reduction of $65,851 because the department budgeted various operating expenditures in excess of the amounts required.

Each year, the Department of Finance issues guidelines to departments to assist them in developing their budget for the following year. These guidelines include allowed increases in operating expenses above the level actually experienced in the previous year. In some cases, the CHP requested amounts that exceeded the allowable amounts without providing justification for such an increase. A description of each example of overbudgeting follows.

Feeding Expenses. Department of Finance guidelines permit a 13.5 percent increase in feeding expenses above actual 1979-80 expenditure levels. In 1979-80, the CHP paid $182,471 for food at the Academy. A 13.5 percent increase would raise expenditures to $207,105. The budget, however, proposes expenditures of $219,897. We recommend a reduction of $12,792 to correct this overbudgeting.

Utility Expenses. The Department of Finance advises departments to budget 1981-82 electricity costs at 132 percent of 1979-80 expenditures. It also advises agencies to assume increases of 30 percent and 40 percent over 1979-80 levels in the cost of natural gas and fuel oil, respectively. Table 6 indicates (1) CHP expenditures for each fuel source in 1979-80, (2) the amount proposed in the budget for 1981-82, and (3) the 1981-82 expenditure levels justified by the Department of Finance guidelines.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 6
Budgeted Vs. Recommended Utility Expenditures

	Actual 1979–80	*Proposed 1981–82*	*Finance Guidelines 1981–82*	*Difference*
Electricity	$828,272	$1,140,393	$1,093,319	$47,075
Gas	155,419	195,522	202,045	−6,523
Fuel	53,513	87,426	74,918	12,508
Totals	$1,037,204	$1,423,341	$1,370,282	$53,059

The budget exceeds the amount justified using Finance's guidelines, by $53,059. Accordingly, we recommend a reduction of $53,059.

Overbudgeted Equipment Expenditures

We recommend a reduction of $59,515 because equipment expenditures either are overstated or have not been justified.

The budget proposes expenditures of $12,268,737 for major equipment purchases. In certain cases, either the amount requested exceeds the amount required or the equipment is not needed in the budget year.

Sedan prices are overstated. The budget requests funds to replace six nonenforcement sedans and purchase 14 additional sedans, for various programs. The department has budgeted the sedans to cost $7,050 per car. Department of General Services staff report that a sedan in the budget year will cost $6,075, a difference of $975. We therefore recommend a reduction of $19,500 for vehicle purchases.

Communications equipment unneeded. The budget requests $2,335,665 for additional communications equipment and related operating expenses. This request includes $40,015 for (1) equipment for a new Dublin/Livermore area office and two scale facilities, and (2) additional microfiche readers at the Los Angeles Communications Center. According to department staff, this equipment will not be needed in the budget year, and consequently should not have been budgeted. We therefore recommend reducing the budget by $40,015.

Underestimated Reimbursements

We recommend an increase in reimbursements of $53,240 and an equivalent decrease in appropriations for various understated reimbursements to the department.

The department estimates it will recieve $3,840,059 in reimbursements during the budget year by selling various documents and providing services to other agencies. Our analysis of the department's reimbursement schedule indicates two areas in which no reimbursements are shown or the reimbursement budgeted is too low. Increasing the reimbursement levels reduces the amount of state funds that is needed. It does not, however, reduce the department's expenditure authorization. A discussion of each discrepancy follows.

Lieutenant Governor's Driver. The department provides a traffic officer to the Lieutenant Governor to serve as a driver, pursuant to an interagency agreement. According to the department, the CHP will be reimbursed $51,000 for the officer in the budget year. The budget does not reflect any such reimbursements, although funds are included in the Lieutenant Governor's budget to reimburse the department. Therefore, we recommend an increase of $51,000 in reimbursements.

School Bus Advisory Committee. The School Bus Advisory Committee is appointed by the CHP Commissioner to advise the department in the development and adoption of school bus regulations. Committee expenses are financed from revenues derived from the sale of school bus handbooks and handbook revisions. Committee expenses in 1981-82 are budgeted at $47,040, while reimbursements are estimated to be $44,800, a difference of $2,240. We therefore recommend an increase of $2,240 in reimbursements to correct this discrepancy.

Inappropriate Expenditures for Department Lands and Buildings

We recommend a reduction of $36,000 because repainting offices to be replaced is inappropriate. We also recommend a reduction of $120,000 for new leased space for Golden Gate Division because the department's plans for this office are uncertain of this time. Finally, if funds to purchase the Monterey field office are approved in Item 272-301-044(d) we recommend a reduction of $21,399 for continued lease payment for the facility.

The department will lease land, offices and other facilities at 64 locations in 1981-82. All other facilities are owned by the state. The budget proposes spending $1,390,780 in lease payments and $132,900 to paint and maintain CHP offices. Our analysis indicates that certain proposed expenditures are inappropriate.

Painting expenses. The budget proposes an expenditure of $36,000 to repaint the North Sacramento and Oakland area offices. The budget, however, also includes funds to replace these offices within three years. We are recommending approval of funds in Item 272-301-044(c) to plan for a new office in North Sacramento. We do not believe it is appropriate to spend money on a building which will soon be replaced unless the expenditures are needed to correct safety or building code violations. Funds proposed in the support item for North Sacramento would be used for repainting. Given that this office will be replaced within three years, we recommend that funds for repainting the North Sacramento office be deleted.

The department's capital outlay budget includes funds to replace the Oakland office. If funds to proceed with a replacement project are approved, there would be no need to paint the existing facility. The department should forego any improvements on its existing facility at this time.

Lease expenditures. The budget includes $120,000 to fund *additional* leased space for the Golden Gate Division office in San Francisco. This office is currently located in a state-owned building with the San Francisco area office. The Golden Gate Division office may be affected by the same replacement program as the Oakland area office (discussed earlier). At this time, the department is uncertain whether the division office will be located in the new facility and when a new facility would be ready for occupancy. Our analysis indicates that it is not in the state's best interests for the department to enter into a lease arrangement until these issues have been resolved. We therefore recommend the deletion of $120,000 proposed for that purpose.

The budget also includes $24,768 to pay rent for the Monterey area office. Item 272-301-044(d) includes funds to purchase that office. We are recommending in our analysis of that item that funds to buy this office not be approved. If capital outlay funds are approved by the Legislature, however, leasing funds should be deleted. The department states that lease funds for the first three months of 1981-82 should be sufficient. This would permit a reduction of $21,399.

DEFICIENCY PAYMENT

We recommend approval.

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department. Moreover, the department cannot obtain additional funds from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, has provided funds each year which may be used for any approved deficiency. The budget proposes $1,000,000 for that purpose in 1981-82. The Joint Legislative Budget Committee must be notified at least 30 days before the authorization of funds for *contingency* expenditures, and within 10 days after the authorization of funds for *emergency* expenditures. No expenditures have ever been authorized from this item.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

ADVANCE PURCHASE AUTHORIZATION

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to $2,500,000 in 1981-82 for vehicles to be delivered in 1982-83. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 272-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 124

Requested 1981–82	$1,717,064
Recommended approval	786,736
Recommended reduction	$930,328

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *New Area Office—Lakeport. Reduce by $352,100.* Recommend deletion of project.	402
2. *New Golden Gate Division/Oakland Area Office. Reduce by $40,000.* Recommend deletion of project.	402
3. *New Area Office—Santa Rosa. Reduce by $381,650.* Recommend deletion of project pending investigation of possible less costly alternatives.	403
4. *Minor Capital Outlay. Reduce by $156,578.* Recommend deletion of three minor capital outlay projects.	404

ANALYSIS AND RECOMMENDATIONS

Field Office Construction Program

The budget proposes the appropriation of $1,278,750 for five major capital outlay projects located in northern California. Table 1 summarizes these projects.

The project at Monterey requests funds for the purchase of a field office which is currently occupied under a lease agreement. The other four projects at north Sacramento, Lakeport, Oakland and Santa Rosa are new, and funds are requested for site acquisition and working drawings. The north Sacramento, Lakeport and Santa Rosa requests propose construction of new area offices, and the Oakland project calls for the construction of a joint division/area office.

The total cost of all the projects proposed for funding in this item is estimated to be $6,008,835 with $4,730,085 being requested in future years. Our analysis of the projects follows.

Table 1
California Highway Patrol
Proposed Capital Outlay Program 1981–82

	Office Building Size			*Cost*		
Project	*Proposed (gsf)* [a]	*Traffic Officers*	*Existing (gsf)*	*Budget*	*Future*	*Total*
North Sacramento	11,960	100	12,846	$60,000 pw [b]	$1,291,035 c	$1,351,035
Lakeport [c]	4,004	15	2,069	352,100 aw	748,350 c	1,100,450
Golden Gate Division/Oakland Area	Unknown	N/A	11,984	40,000 p	1,328,000 wc	1,368,000
Monterey	N/A	N/A	N/A	445,000 l	—	445,000
Santa Rosa	10,801	100	11,901	381,650 aw	1,362,700 c	1,744,350
Totals				$1,278,750	$4,730,085	$6,008,835

[a] Gross square feet.
[b] Symbols Indicate: a—site acquisition; w—working drawings; c—construction; p—planning; l—lease purchase.
[c] Combination CHP/DMV facility.

New Field Office—North Sacramento

We recommend approval of Item 272-301-044 (a), preliminary plans and working drawings for a new north Sacramento field office.

The California Highway Patrol (CHP) currently occupies a 12,846 gross square foot (gsf) field office in north Sacramento for 101 traffic officers. Occupancy of this office has averaged 95 traffic officers.

The facility is 22 years old (built in 1959), and the CHP has stated that the building contains deficiencies which contribute to inadequate and insufficient operations. The CHP maintains that:

- The walls and floors suffered water damage when the building caught fire in 1959.
- The heating/air conditioning system is inadequate.
- Electrical and signal capability is insufficient.

To correct these deficiencies, the CHP proposes the demolition of the building and construction of a new 100-traffic officer facility on the same site. The new facility—to be designed to meet the needs of the CHP through 1995—will contain a 9,643 gsf building, a 1,957 gsf carport and 360 gsf of covered walks. In addition, an 800 gsf carport for motorcycle parking and a 120 gsf generator enclosure are proposed, along with solar hot water heating, an outdoor staff meeting area, and 107 parking spaces. The CHP states that the building will be based on approved 100-traffic officer standard building plans. A total project cost of $1,381,900 is anticipated, with the building cost being $862,000 ($82 per gsf). Costs for site work and utility work of $257,900 and $39,100, respectively, are anticipated.

The budget proposes the appropriation of $60,000 for preliminary planning and working drawings, and $1,291,035 will be requested in the 1982–83 budget for construction.

We recommend approval of this project because the existing building will be approaching the end of its useful life (25 years) when construction on the new facility is completed in 1984.

Our analysis of the proposed building, however, indicates that the plan includes excess space and is too expensive. The proposed building contains 1,160 more square footage than a standard 100-officer facility. Specifically, the building has 1,000 gsf of excess building area, the carport space is inadequate by 200 gsf, and the building has 360 gsf of nonstandard covered walk. Furthermore, the estimated cost of the basic building is $82 per gsf, compared to recent CHP building costs of $60 per gsf. This is due, in part, to the fact that (1) the building proposal calls

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

for solar hot water heating and excessive landscaping, and (2) the building is not designed to standard CHP plans.

Therefore, while we recommend the approval of this project, we also recommend that this project be reduced in scope and cost, and be redesigned to standard CHP building plans.

New Area Office—Lakeport

We recommend Item 272-301-044 (b) for site acquisition and working drawings be deleted for a savings of $352,100.

The budget proposes an appropriation of $352,100 for site acquisition and working drawings for a new Highway Patrol field office in Lakeport. The building will be designed as a standard 15-traffic officer field office with 4,000 total gross square feet, and will include 2,950 gsf of building area and a 1,050 gsf carport. A total project cost of $1,167,400 is anticipated, with $748,350 in construction funds to be requested in 1982–83.

The Lakeport office presently occupies a leased facility which it shares with the Department of Motor Vehicles. The CHP portion contains 2,069 gsf, which includes 1,689 gsf of building area and a 380 gsf carport. The present lease, which will expire in June 1983, calls for a monthly rental of $1,100.

The present building was constructed to accommodate one lieutenant, six traffic officers, one full-time clerk, and was occupied in 1963. As of December 1980, 15 traffic officers are assigned to the Lakeport post but only 10 actually work out of the office. Five traffic officers are assigned to residential posts. The CHP has stated that capacity problems have arisen at this office.

Our analysis indicates that, for a 10-traffic officer facility, 1,813 gsf should be sufficient to meet operational needs. The present facility contains 1,689 gsf, which is 93 percent of adequate space needs. Therefore, whatever capacity problem exists is marginal, and if necessary could be solved by adding on to the existing building. Accordingly, we do not believe there is adequate justification for a new office, and we recommend deletion of the request for site acquisition and working drawing monies.

New Division/Area Office—Oakland

We recommend Item 272-301-044 (c) for program planning be deleted, a savings of $40,000.

The budget proposes the appropriation of $40,000 for "program planning" for a facility to house the Golden Gate Division and Oakland area offices plus a regional radio dispatch operation. The proposed program planning includes plans, outlines, specifications, and a cost estimate which Section 26 of the Budget Bill defines as "preliminary planning." The total project cost is estimated to be $1,368,000, with funds for working drawings ($78,000) to be requested in 1982–83 and funds for construction ($1,250,000) to be requested in 1983–84.

The Golden Gate Division currently shares a facility with the San Francisco area office. The division occupies 5,614 square feet of space on the second floor, and the area office occupies 6,370 square feet on the first floor. This space is inadequate for the needs of the department.

As of December 1980, the San Francisco area office had 76 traffic officers stationed at this post which, according to standard CHP plans, should contain approximately 8,600 gross square feet. Thus, the existing facilities provide only 73 percent of needed space. The division office on the second floor employs 65 people and, according to the State Administrative Manual, should contain a minimum of 7,444 gross square feet. Thus, the division office has only 75 percent of the standard space requirement.

As of December 1980, the Oakland area office had 76 traffic officers. Although the office has adequate space in terms of gross square feet, the facility is old and has maintenance problems. The facility consists of 24 modular type buildings which are 13 years old. The standard life for a facility of this type is 15 years. As it approaches the end of its useful life, the office has developed maintenance problems such as a leaking roof, deteriorating heating and air conditioning and wiring systems, and outside walls separating from the floor (which allows water to enter).

To correct these problems the department originally proposed the construction of a new office in Oakland which would house the Golden Gate Division, the Oakland area office and a regional radio dispatch operation. The division would vacate its present quarters and allow the San Francisco area office to occupy the entire 11,984 gross square foot building. The Oakland area office would also be vacated.

Our analysis indicates that there is a capacity problem that needs to be addressed. Department staff, however, have stated that the CHP is reconsidering its previously submitted plan, which we described above. The department has not settled on a site, nor has it decided whether to house the division, area office, and regional radio dispatch operations together in one building, or make some other arrangement. Because of this uncertainty, a cost estimate has not been scheduled by the State Architect, and consequently adequate justification for the requested amount of program planning money is not available. For these reasons, the request for program planning money is premature, and we recommend that Item 272-301-044(c) be deleted.

Purchase Leased Facility—Monterey

We recommend approval of Item 272-301-044(d), purchase leased facility, Monterey.

The budget proposes the appropriation of $445,000 for the purchase of a CHP field office located in Monterey which is currently occupied under a lease agreement. The lease will expire on December 31, 1981.

The building was originally constructed and occupied by the CHP in 1966. The department has stated that the facility construction and size is more than adequate, and is located in an excellent geographical location for continued operational activities. It further states that the facility will be suitable in that area for many more years. The lessor desires to sell the property as soon as possible, preferably on July 1, 1981, and the CHP is requesting $445,000 to purchase it.

Our analysis of the proposal indicates that the state should realize a net savings of $21,600 over the next 12 years (minimum remaining years of occupancy) if the facilities are purchased. Consequently, based on the department's evaluation of the building plus the financial benefits from purchasing it, we recommend approval.

New Area Office—Santa Rosa

We recommend the deletion of Item 272-301-044(e), site acquisition and working drawings, Santa Rosa, a savings of $381,650.

The CHP currently occupies an 11,901 gross square foot (gsf) leased facility in Santa Rosa which has 5,201 gsf of building space and a 6,700 gsf carport. The facility rests on 36,049 square feet of land, and it is presently the post for 86 traffic officers. The rent on the facility is $1,196 per month, and the existing lease will expire in May of 1982.

The lessor is dissatisfied with the CHP occupancy, and has stated that he will not make needed improvements to the premises or renew the lease unless the rental rate is increased and he is relieved from all maintenance responsibility. A requested monthly rental rate of $3,000 is expected when the lease comes due for renewal in May of 1982.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

The CHP is also dissatisfied with the premises. The office facility was constructed to accommodate a maximum of 50 traffic officers, and the department states the facility has insufficient space. Also, it was designed to the old facility plans which are now outdated.

To solve these problems the CHP proposes to build a new 100-traffic officer facility. The office will be designed according to standard CHP plans and contain adequate space to meet the department's needs through 1995. A site of 63,000 gsf is planned for acquisition, which will provide sufficient area for 84 parking spaces. A total facility area of 10,801 gsf (containing 8,801 gsf of building space and a 2,000 gsf carport) is proposed with an anticipated project cost of $1,475,300. The building is expected to cost $809,000—$83 per gross square foot. An appropriation of $381,650 for site acquisition and working drawings is requested in the budget for this project. Construction funds of $1,362,700 will be requested in 1982–83.

Our analysis confirms that a capacity problem exists at this site. The office should contain approximately 7,890 gsf of space to meet operational needs, but it contains only 5,201 gsf. The cause of the problem is an oversized carport and an undersized building. The total area of this facility (including building and carport) is 10 percent in *excess* of a 100-traffic officer facility's standard area of 10,800 gsf—yet only 86 traffic officers are stationed at Santa Rosa.

Our analysis has also indicated that the proposed building is too expensive. The $1,474,350 future cost is equivalent to a monthly rental of $13,397 ($1.37 per gsf) over the 25-year life of the facility, assuming a 10 percent discount rate. We, therefore, recommend that the CHP investigate other less expensive alternatives before site acquisition and working drawing monies for the proposed project are approved. Some possibilities are:

1. Continue leasing the existing facility, but convert excess carport space into additional office space. CHP buildings are expressly designed for easy expansion into the carport area, and the current facility has a total area which is 10 percent larger than a 100-traffic officer facility. Extending the lease at a $3,000 lease rate would result in a monthly equivalent rental savings which would probably be sufficient to amortize the remodeling costs.

2. Lease other office space and remodel it to suit CHP needs. Space Management Division of the Department of General Services has stated that this alternative has not been explored. The lessor's expected rental request of $3,000 per month translates to a rental of $.35/gsf. If this is representative of market conditions in this area, a new lease might be more economical than constructing a new facility.

Because these alternatives have not been analyzed, and given the estimated cost of the proposed project, we believe the request for site acquisition and working drawing funds is premature. Accordingly, we recommend that Item 272-301-044(e) be deleted.

Minor Capital Outlay

We recommend deletion of three minor capital outlay projects from Item 272-301-044(f), a savings of $156,578.

The budget contains $438,314 for minor capital outlay ($100,000 or less per project) for the California Highway Patrol. The projects include minor building alterations and site improvements.

We have reviewed the proposed program and agree with the need for and cost of most of the projects. However, our analysis causes us to recommend that three projects totaling $156,578 be deleted.

San Juan Capistrano Utility Improvements. The CHP's budget proposes $56,578 to reimburse the Department of Transportation which is presently engaged with the CHP in a joint project of developing adjacent properties in the City of San Juan Capistrano. The city has requested that all street and utility work be included as part of the Caltrans construction, which is a year ahead of the CHP construction. The CHP is requesting $56,578 to reimburse Caltrans for the CHP's share of this cost.

A total of $832,600 has been appropriated and released by the Public Works Board for construction of the San Juan Capistrano field office. The funds have not been expended, and there is no reason the money for this work cannot come out of these funds. The requested utility work should be financed by the original appropriation. In any case, augmenting a major capital construction project through the minor capital outlay program is inappropriate and contrary to legislative policy. Consequently, we recommend deletion of the proposed $56,578.

Field Office Handicapped Access. The budget proposes $50,000 to provide funds for construction of ramps and removal of architectural barriers at state-owned CHP field offices to comply with regulations outlined in Chapter 7, Division 5 of Title 1 of the Government Code; and to comply with Part 5.5 of Division 13 of the Health and Safety Code. The Budget Act of 1979 included $45,000 for outside handicapped access to these buildings. These funds were supposed to be sufficient to complete all necessary modifications, and we have not received any information which justifies additional funds. The CHP indicates that additional remodeling is needed, but the extent of required remodeling has not been determined.

We recommend that, before these funds are provided, the CHP do a survey statewide to determine the total amount of remodeling work needed for handicapped regulation compliance. The identified needs should be addressed in order of priority, with the most pressing remodelings (such as outside access to CHP buildings) funded first. We, therefore, recommend deletion of $50,000, pending completion of a master handicap access plan for CHP buildings.

Construct Additional Driveway—Placerville. The budget proposes $50,000 for construction of an additional driveway to facilitate ingress and egress at the Placerville area office. The location and design of the existing parking facilities require that drivers back their vehicles a considerable distance, thus causing a potential safety problem. However, as designed, the proposed driveway is excessively long and costly. Furthermore, the CHP has occupied this facility 10 years and did not indicate that it was having problems during this period. Thus, the need for this project appears to be marginal. We, therefore, recommend deletion of the $50,000. If the CHP believes that this project is a high priority, a less costly solution should be proposed.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—REAPPROPRIATIONS

Items 272-490 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 124

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed reappropriations.

The budget (Items 272–490(1) and (2)) proposes the reappropriation of the undisbursed balances in the following two items:

(1) ***Item 455(b), Budget Act of 1979, ($129,300)***—Hollister-Gilroy, site acquisition and working drawings.

(2) ***Item 516(s), Budget Act of 1980 ($702,550)***—Hollister-Gilroy, construct area facility.

Reappropriation of the remaining funds would extend their availability until June 30, 1982.

The original appropriations provided site acquisition, working drawings and construction funds for a new area office in the Hollister-Gilroy area because the existing offices in this location were not adequate for the number of assigned traffic officers.

None of these funds have been released by the Public Works Board, and the Department of the California Highway Patrol has not provided any information to the Legislature as to why delays in utilizing the funds have occurred. Nor has it provided information supporting the proposed reappropriation. Accordingly, we withhold recommendation, pending receipt of this information.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—REVERSIONS

Items 272-495 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 124

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed reversions.

The budget (Items 272–495(1), (2), (3) and (4)) proposes the reversion of the unencumbered balance of funds originally appropriated by four items in the Budget Act of 1979. They are as follows:

1. ***Item 455(c), Budget Act of 1979 ($300,386)***—Chico, purchase leased facility.
2. ***Item 455(d), Budget Act of 1979 ($131,300)***—Banning, purchase leased facility.
3. ***Item 455(e), Budget Act of 1979 ($304,010)***—Mojave, purchase leased facility.
4. ***Item 455(i), Budget Act of 1979 ($11,000)***—California Highway Patrol Academy, land acquisition.

The funds for Chico, Banning and Mojave were provided so that the department could exercise purchase options which were contained in the lease agreements under which these facilities were occupied. These facilities were supposed to be in excellent condition and able to meet the department's needs for 15 years. The department has not provided any information on why the options are not-or should not be-exercised.

The land acquisition project at the academy was to acquire a one-foot strip of land along the easterly boundary of the academy property. The department has not provided any information on the disposition of this matter.

We withhold recommendation on these reversions, pending receipt of additional information.

Business, Transportation and Housing Agency

DEPARTMENT OF MOTOR VEHICLES

Item 274 from the Motor Vehicle Account, State Transportation Fund and various funds — Budget p. BTH 126

Requested 1981–82	$187,222,105
Estimated 1980–81	176,675,966
Actual 1979–80	162,563,070
Requested increase (excluding amount for salary increases) $10,546,139 (+5.9 percent)	
Total recommended reduction	$1,684,320
Additional reduction pending	$1,746,810

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
274-001-001	Anatomical donor designation and petit jury selection	General	$253,681
274-001-044	Departmental operations	State Transportation Fund, Motor Vehicle Account	155,938,150
274-001-064	Collection of vehicle use taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	24,518,431
274-001-140	Environmental license plate issuance	California Environmental License Plate	4,374,999
274-001-378	Bicycle registration	State Bicycle License and Registration	68,469
274-001-516	Undocumented vessel registration	Harbors and Watercraft Revolving	2,068,375
274-011-044	Reserve for deficiencies	State Transportation Fund, Motor Vehicle Account	(500,000)
	Total		$187,222,105

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fee Increase. Recommend legislation authorizing fee adjustments to increase Motor Vehicle Account revenue. 412
2. Registration Compliance Program. Withhold recommendation on $634,262 and 25.4 personnel-years budgeted in Item 274-001-044 for new program, pending receipt of information substantiating workload. 414
3. *On-Site Fee Collection. Recommend approval of $323,761 and 14.3 personnel-years budgeted in Item 274-001-044 for collection of commercial vehicle registration fees.* Further recommend that 415

DEPARTMENT OF MOTOR VEHICLES—Continued

positions be authorized on a limited-term basis.

4. Reflectorized License Plates. Withhold recommendation on $1,174,737 and 61.6 personnel-years budgeted in Item 274-001-044 for issuance of reflectorized plates, pending receipt of information substantiating workload. 416
5. Over-the-Counter Issuance of Driver Licenses and ID Cards. Recommend adoption of supplemental report language directing department to (1) test over-the-counter issuance concept, (2) address concept in field office automation planning, and (3) provide for conversion to over-the-counter process, if warranted, without charges for terminating contract for central photo processing. 417
6. Post-Licensing Control. Recommend adoption of supplemental report language directing department to provide Legislature annual status reports regarding efforts to develop alternatives to the group educational meeting as a means for treating negligent drivers. 419
7. *Occupational Licensing and Regulation Program. Reduce Item 274-001-044 by $154,478.* Recommend reduction to reflect department's estimate of savings. 419
8. *Overstaffing. Reduce Item 274-001-044 by $35,930 and reduce department's expenditure authorization and reimbursements by $39,963.* Recommend reductions to correct for overstaffing in off-highway vehicle and vessel registration activities. 420
9. *Mobilehome Registration and Titling Transfer. Reduce Motor Vehicle Account Support of Item 274-001-044 by $682,303.* Recommend reduction to reflect statutory transfer of function. 421
10. *Salary Savings. Reduce Item 274-001-044 by $500,000.* Recommend reduction because salary savings are underbudgeted based on past experience. 422
11. Data Communications. Recommend department provide fiscal subcommittees with analysis of alternatives for meeting data communications message-switching requirements. 423
12. *Miscellaneous Reductions. Reduce Item 274-001-044 by $311,609.* Recommend reductions to correct for overbudgeting in various categories. 424

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Registration, Field Office Operation, Administration, Electronic Data Processing Service, and Compliance. Through these divisions, the department administers the following six programs:

1. Vehicle Licensing and Titling, which protects the public interest by identifying ownership through the process of vehicle registration.
2. Driver Licensing and Control, which promotes safety on highways by licensing and controlling drivers.
3. Occupational Licensing and Regulation, which provides public protection by licensing and regulating occupations and businesses related to the manufacture, transportation, sale, and disposal of vehicles, and the instruction of drivers in safe operation on the highways.
4. Financial Responsibility, which encourages California motorists to maintain

financial responsibility (for example, automobile liability insurance).

5. Associated Services, which provide services not directly related to motor vehicles or driver licensing, to the public and to other state agencies as required by statutes.

6. Administration, which administers Vehicle Code provisions and statutes, establishes departmental policy, and provides management support services to all departmental programs.

In the budget year, the department will operate 152 field offices in 15 districts throughout California, as well as a central headquarters facility in Sacramento.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $187,222,105 from various state funds for support of the Department of Motor Vehicles in 1981–82. This is an increase of $10,546,139, or 5.9 percent, over estimated expenditures in the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget also proposes expenditures of $12,205,384 from reimbursements for services the department will provide to other agencies and the public. This results in a total proposed expenditure program of $199,427,489, which is an increase of $10,560,760, or 5.6 percent, over estimated current year expenditures. Table 1 shows expenditures by program for the past, current and budget years.

Table 1
Department of Motor Vehicles
Progam Expenditure Summary

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Change from Current Year* Amount	Percent
1. Vehicle licensing and titling	$86,675,053	$94,054,507	$100,689,303	$6,634,796	7.0%
2. Driver licensing and control	60,227,085	65,018,619	67,578,368	2,559,749	3.9
3. Occupational licensing and regulation	10,131,155	11,528,090	11,746,936	218,846	1.9
4. Financial responsibility	4,099,559	4,441,730	4,551,900	110,170	2.5
5. Associated services	11,664,545	13,823,783	14,860,982	1,037,199	7.5
6. Administration (distributed to program)	(16,706,929)	(18,859,379)	(19,411,362)	(551,980)	2.9
Totals	$172,797,397	$188,866,729	$199,427,489	$10,560,760	5.6%

Table 2
Staffing by Program

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Change from Current Year* Number	Percent
1. Vehicle licensing and titling	3,461.4	3,371.6	3,471.5	99.9	2.9%
2. Driver licensing and control	2,529.0	2,449.6	2,481.7	32.1	1.3
3. Occupational licensing and regulation	350.0	358.8	351.5	−7.3	−2.0
4. Financial responsibility	162.1	157.2	154.1	−3.1	−1.9
5. Associated services	524.0	547.0	577.1	30.1	5.5
6. Administration (distributed)	(659.9)	(663.5)	(664.9)	(1.4)	0.2
Totals	7,026.9	6,884.2	7,035.9	151.7	2.2%

DEPARTMENT OF MOTOR VEHICLES—Continued

Department's Work Force Request

Personnel-years for the Department of Motor Vehicles in 1981–82 are budgeted at 7,035.9, compared to 6,884.2 in 1980–81. This is a net increase of 151.7 personnel-years, or 2.2 percent. Personnel-years are shown by program in Table 2 for the prior, current and budget years.

The department estimates that in 1981–82 it will process a total of 19,817,600 vehicle registrations and issue 5,718,200 driver licenses and 906,900 identification cards. These major workload indicators reflect a growth of 2.5 percent in vehicle registrations, 7.1 percent in driver license issuance, and 17.9 percent in identification card issuance.

Significant Program Changes

The budget proposes eight significant program changes, all but one of which will produce savings and/or revenue in the budget year and/or subsequent fiscal years. These changes are listed in Table 3. The table also indicates whether the individual changes were initiated by statute or by the department.

Table 3
Significant Program Changes

Action	*Personnel-Years*	*1981–82 Fiscal Effect*	*Subsequent Year Savings*	*Revenue Producing*	*Cause of Change*
1. Workload adjustments	165.4	$2,749,782	no	no	Department
2. Reflectorized license plates	61.6	1,174,737	no	yes	Chapter 696, Statutes of 1979
3. Multi-agency registration compliance	39.7	895,834	no	yes	Department
4. Administrative reductions	−52.1	−776,720	yes	no	Department
5. Field Office Automation: Phase I	−165.1	−670,387	yes	no	Department
6. Field Office Automation: Phase II	20.9	533,274	yes	no	Department
7. Motorized bicycle registration	16.0	444,158	no	yes	Chapter 1070, Statutes of 1980
8. Hearing process modification	−7.6	−203,730	yes	no	Chapter 92, Statutes of 1980
Totals	78.8	$4,146,948			

Funding Support

The department's activities are supported by appropriations from a variety of funds. Most of the money, however, comes from the Motor Vehicle Account, State Transportation Fund and the Motor Vehicle License Fee Account, Transportation Tax Fund. Table 4 displays the department's sources of funding.

STATUS OF THE MOTOR VEHICLE ACCOUNT

Funds from the Motor Vehicle Account are used to finance activities related to motor vehicles and the use of highways. In the budget year, over 92 percent of proposed account expenditures will support the California Highway Patrol (CHP) and the Department of Motor Vehicles (DMV). Additional account funds will either be (1) spent by agencies such as the Air Resources Board and the Department of Justice for purposes related to motor vehicle use, or (2) transferred to the State Highway Account.

Table 4
Department of Motor Vehicles
Sources of Funding, 1981–82

Fund	*Amount*	*Percent of Total Support*
1. Motor Vehicle Account, State Transportation Fund	$155,938,150	78.2%
2. Motor Vehicle License Fee Account, Transportation Tax Fund	24,518,431	12.3
3. Reimbursements from various funds	12,205,384	6.1
4. California Environmental License Plate Fund	4,374,999	2.2
5. Harbors and Watercraft Revolving Fund	2,068,375	1.1
6. General Fund	253,681	0.1
7. State Bicycle License and Registration Fund	68,469	—[a]
Total	$199,427,489	100.0%

[a] Less than one-tenth of one percent.

Budget Year Revenues and Expenditures

Revenues coming into the account are derived primarily from (1) an $11 annual registration fee imposed on California vehicles, (2) a progressive weight fee schedule imposed on commercial vehicles, and (3) a $3.25 driver's license fee imposed every four years on California drivers. In addition, funds are transferred from the Motor Vehicle License Fee Account and the Driver Training Penalty Assessment Fund to the Motor Vehicle Account to support specified DMV activities. The Motor Vehicle License Fee Account transfer will be eliminated beginning in 1982–83, pursuant to Chapter 650, Statutes of 1980.

The budget estimates that the Motor Vehicle Account will receive fee revenues of $468.9 million in 1981–82. When transfers into the Motor Vehicle Account ($24.8 million), interest on the investment of surplus money ($11 million) and miscellaneous revenues ($3.6 million) are added to this amount, account revenues for 1981–82 are estimated to be $508.3 million. Proposed expenditures in the budget year total $495.5 million, an amount which does not include expenditures for any salary or benefit increase. In addition, the budget proposes a transfer of $10 million from the Motor Vehicle Account into the State Highway Account.

Financial Problems in the Account

Since 1976, we have called attention to the problems facing the Motor Vehicle Account in each year's *Analysis of the Budget Bill.* Over this period of time, we have noted that expenditures of Motor Vehicle Account funds were increasing at a faster rate than revenues. Initially, we anticipated that the account would run a deficit in 1978–79. That deficit was avoided because (1) the Legislature approved few new positions for the CHP and DMV, (2) the state imposed a hiring freeze and provided no cost-of-living salary increase for state employees in 1978–79, and (3) the Legislature deferred large capital outlay expenditures for DMV and the CHP.

By the end of 1981–82, the balance in the account is estimated to be only $29.2 million. Because expenditures from the account have been increasing steadily, relative to revenues, the transfer of truck weight fees into the State Highway Account, which was intended to cover the additional building and maintenance costs that trucks impose on the highway account, has declined from $100 million in 1978–79 to $10 million in the budget year. The remaining money derived from truck weight fees (approximately $150 million) in 1981–82, will be used to help pay the costs of CHP, DMV and other Motor Vehicle Account-supported departments. The cost of administering these departments has little relationship to the weight of trucks using California highways.

DEPARTMENT OF MOTOR VEHICLES—Continued

Despite the redirection of truck weight fees from the State Highway Account to the Motor Vehicle Account, the account fund balance has declined from $93.1 million on July 1, 1978, to an estimated $29.2 million on June 30, 1982. The projected balance on June 30, 1982, however, is overstated because it does not reflect (1) salaries paid to employees pursuant to Chapter 192, Statutes of 1979 (SB 91), or (2) any salary increase which may be authorized by the Legislature for 1981–82. Together with the Department of Finance, we have estimated that the account balance will reach zero by 1982–83, given current expenditure and revenue trends.

Reason for Critical Fund Condition

The basic reason the Motor Vehicle Account is being depleted is that revenues have not been keeping pace with the increase in the cost of operating DMV and the CHP. The expenditures proposed in 1981–82 are 35 percent higher than actual expenditures in 1978–79. This is equivalent to an average annual increase of 10 percent. In contrast, revenues are increasing at an average rate of 4.2 percent per year.

Account revenues are increasing at a relatively slow rate, relative to expenditures, because they do not reflect the impact of inflation. Instead, they are based on the number of vehicles registered, the number of drivers licensed and the total weight of trucks on the road—all of which are rising at a slower rate than prices. Thus, under existing law, the increasing cost of providing the service financed by the account is not automatically matched by an increase in revenues. Accordingly, given present trends, the Motor Vehicle Account soon will be unable to cover the cost of administering DMV, CHP, and the other activities related to motor vehicle use.

Fees Should be Increased

We recommend enactment of legislation which would (1) increase driver license fees and other licensing, registration, regulatory and information service fees to levels which, at a minimum, reflect the actual cost of these specific activities, (2) increase vehicle registration fees to cover remaining Motor Vehicle Account expenditures, and (3) require the administration to adjust all future licensing and registration fees to levels which pay the cost of account-supported services.

In order for the Motor Vehicle Account to remain solvent, either (1) expenditure growth will have to be reduced, or (2) revenues will have to be increased. To reduce the rate of expenditure growth would require that either salary increases be curtailed or personnel levels and department programs be reduced. Our analysis indicates that, while some efficiencies are possible, the amount of savings needed to maintain the solvency of the account cannot be achieved through these actions without sharply reducing services to motorists and Californians generally. Accordingly, we believe that action to increase revenues into the account is warranted. Our specific recommendations are as follows:

1. ***Make licensing, regulatory and other service functions self-supporting.*** The DMV provides many services for which a fee is charged. Such services include issuing driver licenses and California identification cards, licensing and regulating vehicle dealers and dismantlers, registering vehicles and providing information to the public on vehicles and vehicle owners. In some cases, such as issuing identification cards, the fees charged are sufficient to pay the full cost of the service provided. In most cases, however, expenditures exceed the revenues generated by the function. The applicant for a driver license, for example, pays $3.25 for a license which is valid for four-years. However, it will cost DMV an average of $6.85 to issue, renew or extend 5.7 million licenses in 1981–82. Similarly, the cost to DMV of licensing and regulating vehicle dealers, dismantlers and other vehicle-related

occupations is estimated to be $10.3 million in 1981–82, while license and regulatory revenues are expected to be only $4.1 million. Finally, the cost of registering off-highway vehicles is more than twice the revenue produced by the registration fees.

We see no basis for subsidizing those persons benefiting from the licensing, regulatory, registration and other service functions. For this reason, we recommend that the fees charged for these functions be increased to reflect, at a minimum, the cost of the specific service provided. By increasing fees in this manner, those who benefit from these services will be required to finance them.

If this recommendation is approved, not all fees would have to be increased at this time. The budget anticipates, for example, that the revenues derived from issuing California identification cards will be sufficient to cover the cost of issuing these cards in 1981–82, without a fee increase.

In order to make the issuance of driver licenses a self-supporting function, the cost of the license would have to be increased to $6.85 for a four-year period. Further, our analysis indicates that, based on the history of fee increases, the fee charged for driver licenses should be increased. The current fee was set at $3 in 1953, and remained at that level until 1971 when it was increased to $3.25 to cover the cost of colored photographs in place of black and white photographs. Consequently, license fee revenue has increased only as fast as the growth in the number of licenses issued since 1953. If allowance is made for the increase in the cost of providing government services since 1953, the $3 charged in that year is equivalent to a $13 fee today.

2. ***Increase registration fees to pay vehicle-related expenditures of the Motor Vehicle Account.*** Nearly 70 percent of Motor Vehicle Account expenditures support activities that are carried on outside of the DMV. These include patrolling the state's highways by the CHP, and Air Resources Board programs to reduce vehicle pollution. These other activities are directly related to the use of motor vehicles. Consistent with our recommendation to make all vehicle-related services self-supporting, we recommend that vehicle owners fully fund those activities supported by the Motor Vehicle Account which are not funded by the licensing or regulatory fees discussed earlier.

Our analysis indicates that the vehicle registration fee, currently set at $11 per year, is the most appropriate service charge for raising the additional revenues. We estimate that registration fees would have to be increased by nearly 85 percent if they are to fund proposed vehicle-related expenditures in 1981–82. This would result in a $20 annual registration fee and a $5.50 registration transfer fee.

An 85 percent increase in registration fees is not unreasonable, given what has happened to prices since the fee was last raised in 1968. Between 1968 and 1980, the cost of government goods and services (as measured by the Implicit GNP Deflator for State and Local Government Purchases) has increased by 174 percent. Consequently, if the $11 fee were adjusted for inflation since 1968, a $30 fee would be needed in 1982.

If vehicle registraion fees are required to fund all remaining Motor Vehicle Account expenditures, it would allow the transfer of all truck weight fees to the State Highway Account. These fees, which have little relationship to the cost of operating the DMV, CHP and other Motor Vehicle Account-supported entities, could then be used as originally intended: to cover the additional cost of building and maintaining roads for heavy trucks.

3. ***Authorize the Department of Motor Vehicles to increase vehicle registration fees to pay account expenditures not financed by license and regulatory fees.***

In order to provide for continued financial stability of the Motor Vehicle Account, revenues will have to increase in the future in line with increases in the expenditures of the motor vehicle-related agencies. Consistent with our earlier

DEPARTMENT OF MOTOR VEHICLES—Continued

recommendation, the DMV should increase licensing and regulatory fees to reflect increases in the cost of the related activity. This would maintain the self-sufficiency of these activities.

Similarly, the DMV should be authorized to raise vehicle registration fees up to a legislatively-imposed maximum level to pay all costs not covered by the other fees. The department would adjust the registration fee to reflect Budget Act and statutory appropriations made by the Legislature to support CHP, ARB and the other nonregulatory functions. This is similar to the requirement that the Board of Equalization increase the electrical utility surcharge to pay all expenditures from the State Energy Resources Conservation and Development Account.

This funding mechanism would provide the Legislature with sufficient financial flexibility to change Motor Vehicle Account-supported activities as necessary. The Legislature still would retain control over the fee structure, however, because (1) the fee would be related to the level of expenditures authorized by the Legislature, and (2) the fee could only increase to the maximum level authorized by the Legislature.

VEHICLE LICENSING AND TITLING

The Vehicle Licensing and Titling program has been established to (1) register vehicles and establish ownership records, (2) collect in-lieu taxes, weight fees, and registration fees, and (3) provide vehicle registration information.

The department estimates that this program will process 1,614,000 original and 17,448,900 renewal registrations in 1981–82, and collect approximately $1.2 billion in revenues. Support for the program is budgeted at $100,689,303, an increase of 7 percent over 1980–81 estimated expenditures.

Multi-Agency Registration Compliance Program

We withhold recommendation on $634,262 and 25.4 personnel-years budgeted in Item 274-001-044 for a proposed new registration compliance program, pending substantiation of workload during budget hearings or a reduction in program scope.

The budget requests $1,216,336 and 49.4 personnel-years to establish a new statewide program designed to (1) collect amounts due from California residents who evade California sales taxes and vehicle license fees by registering vehicles in other states, and (2) increase the collection of registration fees for commercial vehicles registered out-of-state but which operate in California. The program will involve DMV, the Board of Equalization and the California Highway Patrol (CHP). Table 5 displays the allocation of the budgeted resources to these agencies for each of the two components of the new program.

Table 5
Multi-Agency Registration Compliance Program
Proposed Budget Allocations

	Vehicles Registered Out-of-State		*Commercial Vehicle Registration*		*Totals*	
	Funds	*Personnel-Years*	*Funds*	*Personnel-Years*	*Funds*	*Personnel-Years*
1. Motor Vehicles	$572,073 [a]	25.4	$323,761	14.3	$895,834	39.7
2. Board of Equalization	158,019	5.7	—	—	158,019	5.7
3. California Highway Patrol	—	—	162,483	4.0	162,483	4.0
Totals	$730,092	31.1	$486,244	18.3	$1,216,336	49.4

[a] Excludes $62,819 in use tax collection reimbursement.

According to information provided by DMV in support of the budget request, the new compliance program is intended to produce *$16,601,720* in *additional* revenue in 1981–82, and about *$19 million* in 1982–83. Table 6 portrays the estimated revenue increases and the funds to which they would accrue.

Table 6
Multi-Agency Registration Compliance Program
Estimated Revenue

Fund	*1981–82*	*1982–83*
1. General	$8,019,300	$8,019,300
2. Transportation Tax Fund, Motor Vehicle License Fee Account	5,202,774	6,506,004
3. State Transportation Fund, Motor Vehicle Account	3,379,646	4,475,635
Totals	$16,601,720	$19,000,939

Revenue Increases are Tentative

Our review of data provided by DMV and CHP, which includes the results of current fee collection efforts, indicates that the revenue estimates are very tentative—particularly with respect to the program component regarding private vehicles registered out of state. As currently planned, this component is based on the assumptions that: (1) there are 200,000 vehicles registered out-of-state to avoid California fees, (2) CHP traffic officers will identify 55,650 "suspect" vehicles annually, (3) the Board of Equalization will determine that about 70 percent of these vehicles, or 39,000, are owned by California residents, and (4) DMV will collect $13 million to $15 million in fees from the owners of approximately 30,000 vehicles.

The methods used by DMV to arrive at key assumptions are open to question. For example, the estimate of the number of vehicles registered out-of-state (200,000) was made using a "Delphi Method"—that is, an educated guess. The estimate of the number of suspect vehicles that will be identified by CHP officers (55,600) is based on the assumption that, on the average, each officer will identify one such vehicle per month. It is not possible to gauge the accuracy of these assumptions.

Current DMV and CHP efforts to collect fees from those registering vehicles out-of-state have apparently produced revenue in excess of investigation and collection costs. Consequently, the proposed new program may be cost-effective, as well. However, unless the department can give the Legislature a better basis for its workload estimates, we believe a more prudent approach at this time would be to scale down the program and validate the assumptions using results gained from actual program operation.

We recommend that DMV be prepared to discuss these issues during the budget hearings and either validate the workload estimate or reduce the scope of the program. In any case, we recommend that positions established for this program component be authorized on a limited term basis. Permanent positions should be authorized only when it can be demonstrated that an ongoing program is justified.

On-Site Registration Fee Collection

We recommend approval of $323,761 and 14.3 personnel-years budgeted in Item 274-001-044 for the collection of commercial vehicle registration fees at state vehicle inspection facilities and platform scales. We recommend further that the positions be established on a limited-term basis.

The second component of the proposed compliance program is intended to increase the collection of registration fees from commercial vehicles which are operated in California. This component would require the addition of DMV and CHP staff to inspection facilities at five strategic locations (Mount Shasta, Truckee,

DEPARTMENT OF MOTOR VEHICLES—Continued

Cajon, Banning and Winterhaven). The additional staff would collect fees on the spot from those commercial vehicle operators whose vehicles are registered out of state.

The proposal is based on a three-month pilot program conducted at the Banning inspection facilitiy in late 1979. Our analysis of information provided in support of an expanded program indicates that additional net revenue will result. Therefore, we recommend approval of $323,761 and 14.3 personnel-years requested for the program. However, because this program is based on very limited data, we recommend that the additional positions be authorized only until June 30, 1983, so that the Legislature will have an opportunity to review the cost effectiveness of these positions after the expanded program has been operating for awhile.

Reflectorized License Plates

We withhold recommendation on $1,174,737 and 61.6 personnel-years budgeted in Item 274-001-044 for a reflectorized license plate program, pending substantiation of workload by DMV during the budget hearings.

Section 4850 of the Vehicle Code requires DMV to ". . . implement a voluntary program phasing in reflectorized safety license plates as soon as practicable." The law provides that these plates may be either partially or fully reflectorized. The 1980 Budget Act included $400,000 to provide for the purchase and installation of production equipment to produce *fully* reflectorized plates.

The budget requests $1,174,737 and 61.6 personnel-years to enable DMV to begin issuing these plates, beginning on January 1, 1982. In accordance with the law authorizing reflectorized plates, DMV must charge each person requesting a reflectorized license plate a fee ". . . sufficient to cover the department's administrative cost and the cost of reflectorization." DMV has set this fee at $3 per license plate transaction. Except for motorcycles and trailers, each transaction would generally result in the issuance of two plates.

The proposed budget for this new program is based on the assumption that approximately 60 percent of all license plates issued will be reflectorized. Based on that assumption, DMV estimates that program costs in 1982–83, the first year of full operation, will be $3.1 million.

We have no analytical basis for either questioning or confirming the reasonableness of the department's assumption that 60 percent of all license plates will be reflectorized. Actual funding and personnel requirements will depend upon the extent to which the public requests reflectorized plates. The Legislature should be provided a sounder basis upon which to evaluate the department's proposed expenditures for this new activity. For example, DMV could survey clients in field offices to determine how many of them would pay the proposed fee for reflectorized plates, and estimate workload based on survey results. We withhold recommendation, therefore, on $1,174,737 and 61.6 personnel-years pending substantiation of workload by DMV.

Finally, our analysis of information supporting the request indicates an uncertainty regarding the durability of the reflectorizing material. Durability could have program cost implications if, for example, reflectorized plates which had been issued were recalled because of loss of reflectivity or legibility. The department should be prepared to discuss this issue at the time the budget is heard.

DRIVER LICENSING AND CONTROL

The Driver Licensing and Control program is designed to promote the public's safe use of the road and highway system while minimizing the risk of injury, death or property loss. These goals are achieved by licensing drivers, promoting safe driving practices, and exercising control over drivers who have mental or physical impairments or have been judged to be unsafe. Operations also include providing anatomical donor stickers with driver licenses and identification cards, and furnishing information to county jury commissioners to expand potential jury populations.

During the 1981–82 budget year, this program is expected to process 5,718,200 original and renewal driver licenses, and send an estimated 113,900 warning letters to negligent drivers. The program's support request is for $67,578,368, an increase of 3.9 percent from the current year.

Over-the-Counter Issuance of Driver Licenses and ID Cards

We recommend adoption of supplemental report language directing the department to (1) include in its feasibility study of field office automation, Phase III, an analysis of the costs and benefits of over-the-counter issuance of driver licenses and identification cards, (2) test such issuance on a pilot basis to gather information in support of the feasibility study, and (3) include in any contract for continuation of central photo processing, terms which enable the state to implement over-the-counter issuance without incurring contract termination charges.

Since 1961 the department has contracted with the Dek-Electro company to provide photo-processing for driver licenses and identification cards. The budget requests $1,936,931 to fund this contract in 1981–82. In the Analysis of the 1979 Budget Bill, we recommended that DMV evaluate the feasibility of establishing an in-house capability to meet photo-processing requirements.

The department forwarded its feasibility study on in-house photo processing capability to the Legislature in November 1979. The study concluded that an in-house operation would save DMV $639,000 by the third year of operation, and that ongoing annual savings would approximate $500,000.

During hearings on the 1980 Budget Bill, the department indicated that it wanted to consider, as an additional alternative to in-house photo processing, the concept of over-the-counter license issuance using instant photography. The department stated that it would report its findings to the Legislature in December 1980.

The department's December report concludes that DMV should extend its contract with Del-Electro. According to this report, the department now believes that, based on new cost estimates and greater recognition of the risks associated with in-house photo processing, the current practice of contracting out for photo processing is preferable to in-house processing. Our analysis indicates that the department's reasons for rejecting the in-house alternative appear to be sound.

The department's report also rejects over-the-counter issuance *at this time.* Here, however, the department's conclusion may not be sound because it is based on several key assumptions which have not been verified. In any case, the report indicates that over-the-counter issuance will be considered as part of DMV's planning effort for the third and final phase of field office automation.

Over-the-Counter Issue Is Not New

The idea of over-the-counter issuance of driver licenses and identification cards using an instant photograhic process in the field offices is not new. Immediate issuance has been a long-term goal of the Legislature since it authorized large-scale automation in DMV in 1965. The Supplemental Report to the 1975 Budget Act directed DMV to study the concept. As a result, DMV conducted a pilot test in two field offices in 1976. The results of the test, as reported by DMV, were inconclusive, and the concept was effectively discarded.

Since that time, postage rates and personnel costs associated with the centralized mailing of driver licenses and identification cards have increased significantly. At the same time, DMV has begun a program to increase field office access to

DEPARTMENT OF MOTOR VEHICLES—Continued

modern computer system technology. DMV is now planning for the final phase of field office automation (Phase III), and over-the-counter issuance would be a logical component of that planning. In addition to possibly offsetting personnel and postage costs incurred under the present system, over-the-counter issuance *would* provide an improved level of service to clients. Pilot testing of the concept would provide DMV with "hard" data which could be used to evaluate over-the-counter issuance in lieu of assumptions.

Given the uncertainty surrounding the issuance function, any contract providing for continuation of the central photo processing service should allow the state to terminate the contract, without penalty, at the time Phase III is implemented. Accordingly, we recommend adoption of the following supplemental report language.

> "The department shall (1) include in its feasibility study of field office automation, Phase III, an anlysis of the costs and benefits of over-the-counter issuance of driver licenses and identification cards, (2) test such issuance on a pilot basis to gather information in support of the feasibility study, and (3) include in any contract for continuation of central photo processing, terms which enable the state to implement over-the-counter issuance without contract termination charges."

Group Educational Meetings (GEM) Effectiveness

The proposed budget requests $16,652,789 and 561.5 personnel-years to control and treat negligent drivers. This is accomplished through warning letters, group educational meetings (GEM) and individual hearings. The objective of these treatment methods is to produce a positive effect on the driving record of those persons convicted of driving violations. The departent evaluates each method periodically, based on statistical analyses. Reports of its findings have concluded that each method is cost-effective in terms of the *probable* number of accidents prevented.

In our *Analysis of the 1980 Budget Bill,* we questioned the effectiveness of the GEM. Subsequently, the Legislature adopted supplemental report language directing our office to evaluate the effectiveness of the GEM program and report our findings in this year's Analysis.

Since our last review of this program in 1979, the department has taken the following actions:

1. GEM attendance has once again been made mandatory and those who fail to attend may have their license suspended. (The GEM had been changed to a voluntary program in December 1977). According to the department, this has increased the initial appearance rate to 73 percent. Attendance had been as low as 38 percent during the period in which the program was voluntary.
2. The department is committed to implementing two alternatives to the GEM: (1) a modified GEM which will emphasize the 55 mile per hour speed limit, and (2) a mailed programmed learning homework assignment. These alternative programs are scheduled for implementation in February 1981.
3. A grant for $96,976 was obtained from the Office of Traffic Safety for the purpose of studying the relative costs and benefits of the modified GEM.
4. The department has scheduled for September 30, 1983, and January 2, 1984, reports to the Legislature on the department's evaluation of the two GEM alternatives.

Evaluation Inconclusive

Our evaluation of the current GEM indicates that the program is more effective now than it was one year ago. This conclusion is based on the department's historical and statistically-based assessments of its post-licensing control program and the increased attendance which has resulted from the current mandatory GEM. However, our evaluation does not lead us to conclude that the GEM is necessary.

In a sense, assignment of an individual to a GEM is similar to being "sent to the school principal's office." There is generally an initial but temporary effect. The department's own studies have verified the temporary nature of GEM effectiveness. Therefore, it is possible that alternatives to the GEM would be more effective in terms of preventing accidents over an extended period of time.

Because the relative effectiveness of the two alternatives soon to be studied will not be available for several years, we believe the department should provide annual status reports to the Legislature with respect to the GEM alternatives. To accomplish this, we recommend that the following supplemental report language be adopted:

> "The department shall provide to the fiscal committees and the Joint Legislative Budget Committee, by December 1 of each year, a report on the status of efforts to develop alternatives to the group educational meeting component of the post-licensing control program element, including preliminary findings."

OCCUPATIONAL LICENSING AND REGULATION

The department provides consumer protection to the motoring public through its Occupational Licensing and Regulation program. This protection is realized through the program's regulation of persons and firms engaged in the manufacture, transportation, sale, distribution, and dismantling of vehicles. The program also provides a means of remedial or recovery action for persons suffering financial loss. Support for the program is budgeted at $11,746,936 for 1981–82, an increase of $980,518, or 9.1 percent, over estimated current year expenditures.

Savings Should Not Be Deferred

We recommend that Item 274-001-044 be reduced by $154,478 to reflect savings recommended by the department with respect to the Occupational Licensing and Regulation program.

The Occupational Licensing and Regulation program has experienced substantial growth over the past 10 years, as shown in Table 7. In the past, both our office and the Commission on California State Government Organization and Economy have concluded that there is a need to evaluate this program. The growth in program cost, the fact that many of its activities are undertaken at the department's discretion (rather than because of statutory requirements), and the possible overlap with other state consumer protection efforts, have combined to underscore the need for an evaluation.

In response to these concerns, the department completed an evaluation of the program which was released in November 1979. The evaluation report contained several recommendations which, if implemented, would have resulted in estimated savings of between $513,000 and $579,000 annually.

In our *Analysis of the 1980 Budget Bill,* we recommended that DMV's budget for this program be reduced by $513,000—the minimum amount of savings anticipated by DMV from implementing the recommendations contained in the report. We withdrew this recommenation at DMV's request, on the condition that the department would implement the recommendations at issue in the 1981–82 fiscal year.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 7
Historical Growth in Occupational Licensing and Regulation Program

	Budget	*Change Over Previous Year*	*Cumulative Change*
1971–72	$3,028,175	-	-
1972–73	3,384,102	11.8%	11.8%
1973–74	4,471,215	32.1	47.6
1974–75	5,202,322	16.4	71.8
1975–76	6,880,199	32.2	127.2
1976–77	7,506,322	9.1	147.9
1977–78	8,939,991	19.1	195.2
1978–79	8,894,168	−0.5	193.7
1979–80	10,460,163	17.6	245.4
1980–81	10,766,418 [a]	2.9	255.5
1981–82	11,746,936 [b]	9.1	287.9

[a] Estimated
[b] Proposed.

The department's budget for 1981–82, however, does not reflect all of these savings. Information obtained from DMV indicates that the department can realize savings of $346,476 in the budget year by implementing the recommendations. The department's budget, however, reflects only a portion of the savings ($191,998). Therefore, we recommend that Item 274-001-044 be reduced $154,478, which is the difference between budgeted and estimated savings.

FINANCIAL RESPONSIBILITY

The purpose of the Financial Responsibility program is to enforce and administer the Compulsory Financial Responsibility Law. Every driver or owner of a motor vehicle is required to maintain financial responsibility (automobile liability insurance, self-insurance, or bonds as specified). The law requires drivers to report to DMV any accident in which property damange exceeds $500 or which results in death or personal injury, show proof of financial responsiblity, and maintain responsiblity for three years after an accident in order to compensate persons who may be injured or whose property may be damaged in a subsequent accident.

The budget requests $4,551,900 for the financial responsibility program in 1981–82, an increase of 2.5 percent over estimated current year expenditures.

DEPARTMENT OF MOTOR VEHICLES ASSOCIATED SERVICES

The purpose of the Associated Services program is to provide the public with a variety of auxiliary services not directly related to the regulation of street vehicles or driver licensing. The program utilizes the department's network of service locations to provide identification cards, register vessels, collect taxes, license off-highway vehicles and bicycles, and issue special license plates.

The department is requesting $14,860,982 to support this program in 1981–82, an increase of $1,037,199, or 7.5 percent, over estimated current year expenditures. As in previous years, the largest increase in workload is anticipated in the environmental license plate registration activity.

Staff Increases Not Justified

We recommend that Item 274-001-044 be reduced 2.4 personnel-years and $35,930 in the off-highway vehicle registration, titling and fee collection program element. We further recommend that the department's expenditure authorization and reimbursements be re-

duced 2.1 personnel-years and $39,963 in the undocumented vessel registration, titling and fee collection program element.

The budget proposes to increase staffing for the Associated Services program from 547 to 577.1 personnel-years, an increase of 30.1 personnel-years. Table 8 shows this increase by program element.

Table 8
Department of Motor Vehicles Associated Services
Personnel-Year Increases

Program Element	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Change from Current Year Number*	*Change from Current Year Percent*
1. Identification card issuance	98.8	95.3	97.0	1.7	1.8%
2. Undocumented vessel registration, titling and fee collection	85.8	92.8	94.9	2.1	2.3
3. Environmental license plate registration and fee collection	128.5	117.5	133.8	16.3	13.9
4. Use tax computation and collection	138.7	170.6	178.0	7.4	4.3
5. Off-highway vehicle registration, titling and fee collection	57.3	55.8	58.2	2.4	4.3
6. Bicycle licensing	0.3	0.3	0.3	-	-
7. Administration distribution	14.6	14.7	14.9	0.2	1.4
Totals	524.0	547.0	577.1	30.1	5.5%

Our analysis of the workload projections and assumptions used by DMV to project staffing requirements indicates that *no* increases are warranted for the off-highway vehicle and vessel registration activities. According to DMV's workload estimates, the number of original registrations for off-highway vehicles in 1981–82 will increase by only 400, from 45,700 in the current year to 46,100. At the same time, DMV estimates that renewals will *decrease* by 1,100. The staffing increase requested for vessel registration is based on an assumption made in June 1980 that the slump in vessel sales had reached bottom. This assumption is questionable given the current level of interest rates. Further, DMV indicates that actual workload in the current year has been less than anticipated.

Accordingly, we recommend deletion of funds requested for an additional 4.5 personnel-years and associated costs in these two areas. Because DMV is reimbursed for vessel registration, elimination of 2.1 personnel-years for this activity would allow a $39,963 reduction in the department's expenditure authorization and a decrease in reimbursements from the Harbors and Watercraft Revolving Fund.

DEPARTMENTAL ADMINISTRATION

The purpose of the department's Administration program is to (1) provide executive direction in administering and enforcing provisions of the Vehicle Code, (2) formulate departmental policy and (3) provide management support services (including EDP services) to all department programs.

The budget request for this program is $19,411,362, an increase of $551,983, or 2.9 percent, above the estimated current year expenditures. Administration costs are distributed to the department's various programs.

Transfer of Mobilehome Function

We recommend that $682,303 budgeted in Item 274-001-044 as Motor Vehicle Account support of the mobilehome registration and titling activity be deleted. We withhold recommendation on 45.3 personnel-years and $126,167 in use tax collection reimbursements, pending receipt of additional information on the transfer of registration and titling responsibilty

DEPARTMENT OF MOTOR VEHICLES—Continued

to the Department of Housing and Community Development.

Chapter 1149, Statutes of 1980, provides for the transfer of mobilehome titling and registration from DMV to the Department of Housing and Community Development (DHCD), effective July 1, 1981. Chapter 1149 appropriated $1.5 million as a General Fund loan to DHCD in the current year to enable that department to prepare for assumption of the titling and registration function and other responsibilities associated with mobilehomes.

Our review of the budget and discussions with staff of the two departments indicate that the details of the July 1, 1981 transfer have yet to be worked out. For example, the budget narrative for DHCD states that the department's operating budget for the transferred program in 1981–82 will be submitted to the Legislature prior to budget hearings. Further, despite the scheduled transfer, $808,470 and 45.3 personnel-years are included in DMV's proposed budget for this activity. This amount includes $682,303 from the Motor Vehicle Account and $126,167 from the General Fund to reimburse DMV for collecting use taxes.

Although the transfer plan remains to be completed, there does not appear to be any requirement for continued Motor Vehicle Account support of the mobilehome registration and titling activity. Therefore, we recommend that Item 274-001-044 be reduced by $682,303. We withhold recommendation on the 45.3 personnel years and $126,167 in reimbursements associated with the registration and titling function pending receipt of additional information on the transfer, because it is possible that DHCD may request DMV to provide registration and titling services *on a reimbursable basis.*

Salary Savings Understated

We recommend that budgeted salary savings be increased by $500,000, and that Item 274-001-044 be reduced an equivalent amount.

All state agencies have some vacancies in authorized positions during the year because of staff turnover, delay in filling new positions, or filling positions at the beginning of the salary range. Consequently, DMV does not receive funding for the full costs of its authorized positions. "Salary savings" are estimated and deducted from the appropriation to account for the difference between the cost of authorized positions and expected expenditures for salaries and wages.

Our review of annual personal services reversions indicates tht DMV's salary savings have been consistently understated in annual budget requests. For exmple, in the 1980–81 Governor's Budget, DMV estimated 1979–80 salary savings of $3,128,048. According to information provided by DMV, actual savings exceeded the estimate by $1,885,167. Further, our analysis indicates excess salary savings of over $1 million in each of the years 1976–77 through 1978–79. The underbudgeting of salary savings in those years appears to have resulted from *overestimating* workload.

The department has abandoned its previous method of estimating workload, and maintains that the new method, using statistical analysis techniques, should provide a more accurate forecast. Furthermore, DMV notes *estimated* salary savings were increased in 1979–80 to $3,128,048, as compared to $1,976,474 in 1978–79. As discussed above, however, even this increase was still $1.8 million *less* than what was actually realized. Further, our analysis of major workload indicators for 1979–80 indicates that actual workload was reasonably close to estimates.

The proposed budget includes $3,533,379, or 3 percent of salaries and wages, as estimated salary savings for 1981–82. Based on the department's actual salary savings experience, we believe that this amount is less than that which will actually be realized. Therefore, we recommend an increase of $500,000 in salary savings, a relatively modest increase when compared to previous understatements, but one which acknowledges DMV's efforts to improve its workload estimating techniques.

DEPARTMENTAL AUTOMATION

Automation projects budgeted for 1981–82 reflect the department's continued strong commitment to using computers to reduce costs and improve services. Primary emphasis has been focused on efforts to increase the use of automation in field office operations. The automation program is comprised of three phases: (I) revenue accounting, (II) vehicle registration, and (III) driver licenses and identification cards.

Significant Savings Produced

Phase I, which will streamline the revenue accounting process, is currently being implemented in 84 field offices. Anticipated savings resulting from Phase I are reflected in the budget as a *reduction* in 1981–82 of $670,387 and 165.1 personnel-years. Phase II, which is presently under development, is budgeted at $533,274 and 20.9 personnel-years for 1981–82. Concurrent with an estimated expenditure of $2.4 million in 1982–83 to complete Phase II, DMV anticipates initial savings of $150,000, and subsequent annual savings in excess of *$6 million* and *740 personnel-years.*

Data Communications Issue Unresolved

The data communications needs of both DMV and the Department of Justice are currently being met by one message-switching computing facility located at DMV headquarters, but operated by the Department of Justice. The system, which uses data communications software developed by the Department of Justice for the California Law Enforcement Telecommunications System (CLETS), was installed at DMV in 1979, at a cost of $532,000. This system has reduced both DMV's and the Department of Justice's data communications support costs. At the time the facility was established, it was understood that if the facility was relocated once the Department of Justice's new computer center was completed, it would continue to meet DMV's communications requirements. The primary reason for relocation is that the DMV site does not contain the requisite backup capability necessary to ensure CLETS operation on an uninterrupted basis.

The new computer facility is now nearing completion, and the Department of Justice's budget (Item 082) contains $538,384 to relocate the computing equipment located at DMV to the new site. Of this amount, $121,679 is allocated for modifications needed if Justice is to continue to meet DMV's needs from the new site. However, DMV has indicated a preference for a different approach which does not require the modifications proposed by the Department of Justice. The State Office of Information Technology in the Department of Finance, which has general statewide responsibility for electronic data processing, is reviewing this situation and had not rendered a decision at the time we prepared this analysis. Therefore, in our analysis of Item 082, we have withheld recommendation on $121,679 of the funds budgeted for relocation, pending final agreement on the relocation plan.

Issue Has Statewide Implications

We recommend that prior to hearings on the department's budget, the department provide the fiscal subcommittees with an analysis of alternatives for meeting the department's data communications message-switching requirements.

Our analysis of information provided by DMV regarding the data communications issue indicates that the department will incur undetermined added costs if

DEPARTMENT OF MOTOR VEHICLES—Continued

it does not continue to receive service from the Department of Justice. In addition, the abandonment of a shared message-switching concept would run contrary to current efforts by the State Office of Information Technology (SOIT) which are directed toward eventual establishment of a statewide data communications management capability. For these reasons, we recommend that DMV provide the Legislature with an analysis of alternative methods for meeting the department's message-switching requirements. The analysis should include all costs and benefits for each alternative, and except for the recommendation section, should be agreed to by both DMV and the Department of Justice. The entire analysis, including funding implications and recommendations, should be reviewed by SOIT and its comments should be appended to the analysis forwarded to the Legislature.

Miscellaneous Reductions

We recommend that Item 274-001-044 be reduced $311,609 and two personnel-years to correct for overbudgeting in various categories.

Our analysis of the department's budget revealed that resource requirements were overstated in various expenditure categories. The largest overstatement occurred in the operating expenses and equipment category.

The budget includes $51,142,258 for operating expenses and equipment in 1981–82, an increase of 14 percent over estimated current year expenditures. Table 9 displays the allocation of these funds to major expense categories in 1981–82, as compared to current year estimated expenditures.

Table 9
Operating Expenses and Equipment Detail

Category	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
1. General expense	$4,213,410	$4,385,594	4.1%
2. Printing	3,458,411	3,972,992	14.9
3. Communications	2,477,040	2,709,692	9.4
4. Postage	8,467,133	8,926,678	5.4
5. Insurance	75,968	79,113	4.1
6. Travel—in-state	1,022,247	1,155,379	13.0
7. Travel—out-of-state	66,190	127,050	91.9
8. Training	130,989	155,759	18.9
9. Facilities operation	6,855,695	7,495,378	9.3
10. Utilities	1,995,686	2,308,286	15.7
11. Consultant and professional services, interdepartmental	1,022,239	1,160,868	13.6
12. Consultant and professional services, external	499,761	228,856	−49.1
13. Data processing internal	4,202,320	5,292,168	25.9
14. Central administrative services	4,776,818	6,185,382	29.5
15. Equipment	1,157,260	1,009,271	−12.8
16. Other items of expense:			
a. Vehicle operations	634,060	736,856	16.2
b. Other:			
Tabs and stickers	1,573,976	1,695,210	7.7
License plates	2,276,807	3,467,439	52.3
Bicycle indicia	—	50,287	—
Totals	$44,856,010	$51,142,258	14.0%

A review of the operating expenses and equipment budget with DMV staff resulted in a joint determination that the request could be reduced $239,594 by deleting overbudgeted amounts. DMV also agreed that $30,650 and two personnel-years would be saved as a result of consolidating certain coding functions. In addition, we determined that $41,365 could be saved by deleting inadequately justified funds proposed for a new field office in Paradise. The components of the total recommended reduction are shown in Table 10.

Table 10
Recommended Miscellaneous Reductions

Item or Category	*Recommended Reduction*
1. Printing	$194,894
2. Postage	44,700
3. Paradise field office	41,365
4. Division of EDP Service	30,650
Total	$311,609

Agreed upon reductions. Analysis of the detail supporting the department's printing request indicates that the requirement for a number of the forms, envelopes and other materials comprising the request is overstated by $194,894. Further, postage is overstated by $44,700, as a newly implemented zip code sorting enhancement will save that amount each year. Finally, $30,650 and two personnel-years can be reduced from the amount budgeted for the Division of EDP Service because that is the amount of net savings accruing to the department as the result of eliminating redundant coding of vehicle registration documents.

Additional reduction. The proposed budget includes $41,365 to establish and maintain a new field office in Paradise. The area is now served on a part-time basis by DMV personnel operating out of the Chico office. According to DMV, the new facility would cost $93,738 in 1981–82. This amount consists of the additional funds requested in the budget ($41,365) plus the cost of personnel transferred from the Chico office ($52,373).

The proposal has not been supported by an adequate analysis of alternatives for etablishing an additional field office. As a result, we have no basis for recommending approval of the new facility. Therefore, we recommend deletion of $41,365 budgeted for this purpose.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 274-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 141

Requested 1981–82	$4,699,200
Recommended reduction	4,341,200
Recommendation pending	358,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Site Acquisition and Working Drawings—Los Angeles. We withhold recommendation on a requested appropriation of $358,000 pending receipt of additional information — 426
2. *Site Acquisition—Santa Barbara. Reduce by $500,000.* Recommend deletion based on lack of need. — 427
3. *New Field Offices—Mission Viejo, San Jose. Reduce by* — 427

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

$3,466,000. Recommend deletion due to lack of sites. Further, recommend Public Works Board not release previously appropriated working drawing money until space needs have been recalculated based on new DMV planning manual.

4. *Minor Capital Outlay. Reduce by $375,200.* Recommend deletion of all proposed projects due to backlog of previously approved projects. 428

ANALYSIS AND RECOMMENDATIONS

Field Office Construction Program

The budget requests construction funds for two field offices which had been funded for land acquisition and working drawings in the 1980 Budget Act. It also requests funds for site acquisition and working drawings for two new projects. Table 1 shows the proposed capital outlay program and the previously approved funds. Our analysis of the proposed projects follows.

Table 1
Department of Motor Vehicles
Major Capital Outlay 1981–82

Budget Item 274-301-044 *Project Location*	*Previously Appropriated Funds*	*Proposed 1981–82*	*Total*
(a) Los Angeles (Hope Street)	—	$358,000aw[a]	$358,000
(b) Santa Barbara	—	500,000a	500,000
(c) Mission Viejo	$1,275,000aw	2,034,000c	3,309,000
(d) San Jose S.E.	891,000aw	1,432,000c	2,323,000
Totals	$2,166,000	$4,324,000	$6,490,000

[a] Phase symbols indicate: a—acquisition; w—working drawings; c—construction

Land Acquisition and Working Drawings—Los Angeles

We withhold recommendation on $358,000 proposed in Item 274-301-044(a), site acquisition and working drawings, Los Angeles, pending receipt of additional information.

The budget requests $50,000 for site acquisition and $308,000 for working drawings for a new two-story, 26,680 square foot Department of Motor Vehicles (DMV) facility near the department's existing field office on Hope Street, Los Angeles. The ground floor would be a typical DMV field office, and would have a total area of 14,400 square feet including a 7,200 square foot public service area. The second floor would contain 12,280 square feet which would include 300 square feet for the regional manager, 2,310 square feet for the driving improvement analyst staff, 3,000 square feet for the legal staff, 2,200 square feet for the central registration center and 2,850 square feet for the Los Angeles information unit. The total project cost is anticipated to be $4,446,000, with a construction cost of $4,079,000.

The DMV currently occupies a facility on Hope Street which was built during the 1930s. The department states that the existing building has sufficient space, but its condition is deplorable and unsafe. The department further states that no existing structures suitable for DMV operations within the service area are available for lease on a permanent basis.

In prior years, the DMV indicated that the Hope Street site was unsatisfactory and did not adequately serve the public. For these reasons, DMV proposed to relocate the field office. The budget, however, proposes to construct a new facility in the same area that previously was judged unacceptable by DMV. This change in plans may be warranted, but we have not received adequate information to substantiate the appropriateness of the proposed location. Pending receipt of data which substantiates the desirability of remaining at the Hope Street site, we withhold recommendation.

Land Acquisition—Santa Barbara

We recommend deletion of $500,000 requested in Item 274-301-044(b), site acquisition at Santa Barbara, because this site may not be needed.

The budget requests $500,000 for site acquisition for a new DMV facility at Santa Barbara. The department proposes to construct a 10,600 square foot building with a public service area of 4,800 square feet and sufficient space for six investigators, 10 driver improvement analysts, and four clerks. Parking area sufficient for 125 vehicles is also proposed.

The facility will replace an existing 2,300 square foot state-owned building which was constructed in 1960 and is now inadequate. The total cost of this project is projected to be $2,445,000, with requests anticipated in future fiscal years of $59,600 for working drawings and $1,885,400 for construction.

We understand that the department has changed its plans for this site and is now exploring the costs associated with adding on to the present site. Until the department determines the site needs for this office, the request for site acquisition funds is premature and we recommend deletion of the proposed $500,000. Any future proposal should be based on space needs indicated in the new DMV planning manual, as discussed under the analysis of the Mission Viejo and San Jose projects.

Construction Funds—Mission Viejo and San Jose

We recommend deletion of Items 274-301-044(c) and 274-301-044(d), construction of office buildings and parking facilities at Mission Viejo and San Jose, a total reduction of $3,466,000. We further recommend that supplemental report language be adopted requiring the department to reevaluate building space areas based on the new DMV planning manual before the Public Works Board approves the release of working drawing monies.

The budget requests $3,466,000 for construction of field offices and parking facilities at Mission Viejo and San Jose. Appropriations totaling $2,166,000 were provided in the 1980 Budget Act for land acquisition and working drawings.

The Mission Viejo project proposes the construction of an 11,000 square foot field office with a 5,100 square foot public service area and 151 parking spaces. This office will meet the service needs of this area until at least 1995, and will take pressure off of the present Santa Ana, Westminister and Costa Mesa field offices. Item 517(g) and 517(j) in the 1980 Budget Act appropriated $1,125,000 and $150,000, respectively, for site acquisition and working drawings.

The San Jose project proposes the construction of an 8,200 square foot field office with a public service area of 3,600 square feet and 95 parking spaces. This facility will meet the projected service needs resulting from projected population growth until at least the year 1995. The existing facility is reaching the saturation point. Items 517(h) and 517(k) in the 1980 Budget Act provided $729,000 and $162,000 for site acquisition and working drawings, respectively.

Our analysis indicates that the request for construction money is premature and we recommend that the funds be deleted. Sites have not been acquired or selected at either Mission Viejo or San Jose, and new construction sites are now being considered. The Real Estate Services Division in the Department of General Services has indicated that sites will probably not be acquired until April or May of 1981. Due to the delay, preliminary plans and working drawings have not been scheduled by the State Architect, and therefore adequate justification for the construction amount does not exist. Further, because of the delay in acquiring a site, construction funds probably would not be utilized in 1981–82. For these reasons, we recommend deletion of the construction funds.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

DMV Building Space Needs. We further recommend that supplemental report language be adopted requiring the department to recalculate its space needs based on the new DMV planning manual. This should be done before working drawing monies are released by the Public Works Board for either the Mission Viejo or San Jose projects. The space requirements for these two field offices are based on the old planning manual which did not include the effects of driver license renewal/registration workload differentials on space requirements. The DMV's new manual considers the effect of these differentials on building area and parking requirements. Consequently, since these buildings have not been designed, the project scope should be modified to reflect the current needs. We recommend that the following language be included in the supplemental report: "The State Public Works Board shall not approve preliminary plans and allocate working drawings funds for the DMV field office/parking facilities in Mission Viejo or San Jose unless the preliminary plans are based on the DMV's latest planning manual which takes into consideration programmatic changes such as driver license renewal/registration workload differentials."

Minor Capital Outlay

We recommend that Item 274-301-044(e) be deleted for a savings of $375,200 because of the backlog of active projects from previous years.

The budget contains $375,200 for 11 minor capital outlay projects ($100,000 or less per project). Table 2 summarizes this request.

Table 2
Department of Motor Vehicles
Minor Capital Outlay
1981—82

Projects (in priority order)	*Budget Bill Amount*	*Analyst's Proposal*
1. Install 600-ton cooling tower—Sacramento headquarters	$65,000	0
2. Enlarge main chill water heater system to accommodate air conditioning load—Sacramento headquarters	85,000	0
3. Widen driveway on Capitola Road	6,600	0
4. Modify parking lot—San Diego	16,400	0
5. Install ceramic tile in restrooms—Van Nuys	7,800	0
6. Remove handicapped barriers—various DMV offices	100,000	0
7. Install floor drains—Oakland Coliseum	6,400	0
8. Erect concrete wall—Riverside	6,800	0
9. Construct meeting rooms—Inglewood	3,600	0
10. Modify loading ramp—Oakland	38,600	0
11. Install public restrooms—Quincy	39,000	0
Total	$375,200	0

We recommend deletion of funds for all of the proposed minor projects due to the large backlog of active projects from previous years. Table 3 shows that 13 minor capital outlay projects totaling $438,137 from the years 1976–77 to 1979–80 are still incomplete (several have not been started) as of December 1980. Only one $3,000 project in the 1980–81 minor capital outlay program (totaling $355,818) has been started. In addition, five miscellaneous projects from the 1979–80 support budget totaling $178,796 are incomplete. In view of this backlog (31 projects totaling $972,751) we recommend that no monies be appropriated for minor capital outlay until the backlog is significantly reduced.

Table 3
Department of Motor Vehicles
Prior Years Incomplete Minor Capital Outlay Projects
1981–82

Year Appropriated	*Location*	*Description*	*Amount*
1976–77	Sacramento	Lamson tube alterations	$48,000
1978–79	Riverside	Remodel public service area	65,000
1978–79	Sacramento	Handicap modification requirements	14,000
1979–80	Sacramento	Handicapped compliance	87,000
1979–80	Carmichael	Handicapped compliance—floor drains	50,000
1979–80	Yuba City	Handicapped compliance—storage	16,100
1979–80	San Francisco	Handicapped compliance	19,500
1979–80	Fresno	Handicapped barriers	28,800
1979–80	Oakland	D.A. improvement	2,337
1979–80	Oakland	Handicapped compliance	19,500
1979–80	El Cerrito	Handicapped compliance	19,500
1979–80	San Diego	Handicapped compliance	45,000
1979–80	Mountain View	Handicapped compliance	23,400
Incomplete minor capital outlay projects			$438,137

DEPARTMENT OF MOTOR VEHICLES—REAPPROPRIATION

Item 274-490 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 141

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed reappropriations under Item 274–490, pending receipt of additional information.

The Budget Bill proposes reappropriation of eight capital outlay projects previously approved for the Department of Motor Vehicles. The following projects are proposed for reappropriation:

(1) Item 362(h), Budget Act of 1975 ($568,560)—Site acquisition and working drawings—Compton.
(2) Item 362(i), Budget Act of 1975 ($879,880)—Site acquisition and working drawings—Los Angeles.
(3) Item 362(1), Budget Act of 1975 ($559,600)—Site acquisition and working drawings—Santa Barbara.
(4) Item 450(e), Budget Act of 1978 ($422,500)—Site acquisition and working drawings—Vallejo.
(5) Item 450(f), Budget Act of 1978 ($563,000)—Site acquisition and working drawings—San Clemente.
(6) Item 450(1), Budget Act of 1978 ($257,000)—Site acquisition and working drawings—Victorville.
(7) Item 517(j), Budget Act of 1980 ($150,000)—Site acquisition and working drawings—Mission Viejo.
(8) Item 517(k), Budget Act of 1980 ($162,000)—Site acquisition and working drawings—San Jose.

DEPARTMENT OF MOTOR VEHICLES—REAPPROPRIATION—Continued

We withhold recommendation on this proposal, pending receipt of information detailing the status of each project. The reappropriation citations for Items 517(j) and (k), Budget Act of 1980, however, include "site acquisition" and the original appropriation was for working drawings only. This technical error should be corrected.

DEPARTMENT OF MOTOR VEHICLES—REVERSIONS

Item 274-495 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 141

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed reversions under Item 274–495, pending receipt of additional information.

The Budget Bill proposes to revert the unencumered balance of funds previously appropriated for nine capital outlay projects for the Department of Motor Vehicles. The following projects are proposed for reversion:

(1) Item 362(e), Budget Act of 1975 ($187,100)—Site acquisition and working drawings—South Lake Tahoe.

(2) Item 362(j), Budget Act of 1975 ($196,500)—Site acquisition and working drawings—Oroville.

(3) Item 362(k), Budget Act of 1975 ($247,300)—Site acquisition and working drawings—Davis.

(4) Item 450(b), Budget Act of 1978 ($1,018,000)—Construct office building and parking facilities—Torrance.

(5) Item 450(m), Budget Act of 1978 ($125,000)—Purchase leased facility—Roseville.

(6) Item 450(p), Budget Act of 1978 ($350,000)—Purchase leased facility—Fontana.

(7) Item 456(h), Budget Act of 1979 ($1,147,100)—Construct office building and parking facilities—San Fernando.

(8) Item 362(1), Budget Act of 1975 ($559,600)—Site acquisition and working drawings—Santa Barbara.

(9) Item 450(o), Budget Act of 1978 ($550,000)—Purchase leased facility—Fremont.

We withhold recommendation on the proposed reversions, pending receipt of additional information regarding the status of each project.

Business and Transportation Agency

TRAFFIC ADJUDICATION BOARD

Item 276 from the Driver Training Penalty Assessment Fund — Budget p. BTH 142

Requested 1981–82	$1,387,374
Estimated 1980–81	1,258,653
Actual 1979–80	0
Requested increase (excluding amount for salary increases) $128,721 (+10.2 percent)	
Total recommended reduction	$65,520

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Hearing Officers. Reduce by $65,520.* Recommend deletion of two hearing officer positions based on revised workload estimates.	432

GENERAL PROGRAM STATEMENT

The Traffic Adjudication Board was established by Chapter 722, Statutes of 1978, which also provides for a demonstration program to administratively adjudicate traffic safety violations in lieu of adjudication by the courts. The board is responsible for establishing and conducting this program.

Board responsibilities include (1) adopting rules and regulations, (2) hearing appeals from decisions of hearing officers, (3) adopting a schedule of monetary and other sanctions for traffic safety violations, and (4) appointing an executive director who shall be the board's chief administrative officer.

The board's five members are appointed by the Governor. Their term of office is for the period of the demonstration program, January 1, 1979 through July 1, 1984. Three of the board's members must represent the counties designated in the demonstration program: Sacramento, Yolo and Placer. Compensation is fixed by law at $7,932 annually for each member other than the chairman, who receives $8,208. In addition, members are reimbursed for necessary expenses.

Program Scope

The demonstration program provides for adjudication of traffic safety violations occurring within the municipal court districts of participating counties. The program may be expanded to additional counties at the request of their boards of supervisors and with the approval of the Traffic Adjudication Board, provided that sufficient funds are available to accommodate the expansion.

Annual Reports to the Legislature

The board is required to submit an annual report on the progress of the demonstration program to the Governor and the Legislature on January 1 of each year. The report is to be accompanied by an evaluation of the program prepared by an independent consultant retained by the board. The consultant's evaluation must address areas specified in Chapter 722, including cost-benefit analyses regarding the program's impact on the judicial system, law enforcement, local government, defendants, the general public, driver improvement programs and the Department of Motor Vehicles. The evaluation must also include an analysis of the impact of administrative adjudication on traffic safety as compared to the court system.

TRAFFIC ADJUDICATION BOARD—Continued

Advisory Committee

Chapter 722 also establishes a Traffic Adjudication Advisory Committee of 10 members to assist the board in developing rules, regulations, procedures and program evaluation guidelines. Additional members will be added to the extent that additional counties participate in the demonstration program. Advisory committee members serve without compensation but are reimbursed for expenses.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,387,374 from the Driver Training Penalty Assessment Fund to support the board's activities in 1981–82. This is $128,721, or 10.2 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 total amount of funding proposed to support the board including federal funds, is $1,648,374. This is a decrease of $206,241, or 11.1 percent from the estimated current year expenditure. The budget proposes a total authorized staff of 37.6 positions.

Demonstration Program Initiated

The board started operation on January 1, 1979. Field office operation began during October 1980 in Sacramento and Yolo Counties in the Cities of Sacramento and Woodland (one officer per city). Although Chapter 722 also authorizes the pilot project in Placer County, it has not been initiated there because the county does not have a municipal court district (a requirement for participation in the program). The budget provides for continued operation of the two field offices which have been established, but does not contain funds for any expansion of the demonstration program.

Consultant Reports

As required by Chapter 722, the board has contracted for consulting services to perform the required cost-benefit and traffic safety evaluations. These services were acquired on a competitive basis, and two contracts were awarded in January 1980. Science Applications, Inc. (SAI) was awarded a contract for $798,896 to perform the cost-benefit evaluation. A traffic safety evaluation contract in the amount of $216,513 was awarded to Dunlap and Associates, Inc. Each of these firms has submitted an annual progress report to the board.

Since award of the cost-benefit evaluation contract, SAI has focused its efforts on establishing the evaluation work plan and creating the data base necessary to perform the cost-benefit evaluation. SAI's first annual report contains baseline cost data and identifies the principal economic areas which will be affected by administrative adjudication. The report also includes work tasks to be performed in 1981.

Dunlap and Associates has also submitted its first annual report. It provides a brief summary of activities performed in developing a work plan. According to the report, an evaluation of the results of the board's activities can be expected in the three subsequent annual reports.

Staffing Exceeds Need

We recommend deletion of two hearing officer positions, for a savings of $65,520 to the Driver Training Penalty Assessment Fund.

The budget request for the current year was based on the assumptions that the board would be required to process 130,500 citations and 39,150 hearings, of which 12,500 would be time-consuming "full" hearings. The board was authorized staffing sufficient to handle this workload estimate. The positions which have been approved include five hearing officers.

To date, the actual number of full hearings requested has been substantially lower than what was estimated. In discussing this matter with board staff, we were advised that two hearing officer positions can be deleted from the budget. This will result in a savings of $65,520 to the Driver Training Penalty Assessment Fund (this amount includes estimated staff benefits).

Additional Adjustments Anticipated

The October and November 1980 workload statistics also suggest that the annual citation volume may be less than the 130,500 reflected in the budget. It is too early to determine whether statistics for these two months provide a sound basis for projecting workload in the future.

At the time this Analysis was prepared, board staff was conducting a further review of 1981–82 resource requirements. This review is scheduled to be completed prior to budget hearings. At that time, we will be prepared to discuss any additional budgetary adjustments which appear warranted based on workload projections.

Business, Transportation and Housing Agency

STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 278 from the Stephen P. Teale Consolidated Data Center Revolving Fund — Budget p. BTH 143

Requested 1981–82	$30,476,398
Estimated 1980–81	24,092,266
Actual 1979–80	16,641,590
Requested increase (excluding amount for salary increases) $6,384,132 (+26.5 percent)	
Total recommended reduction	$675,210
Additional reduction pending	$3,300,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. CFIS Support. Withhold recommendation on $3.3 million and 27 personnel-years budgeted in support of CFIS, pending receipt of information on CFIS workload and funding.	435
2. *Unspecified Equipment. Reduce by $600,000.* Recommend reduction to delete funds for unspecified equipment because feasibility studies required by existing law have not been completed.	435
3. *Mass Storage System. Reduce by $75,210 and five personnel-years.* Recommend reductions to reflect anticipated savings resulting from installation of new equipment.	436
4. Questionable Contract. Recommend Department of Finance and Department of General Services discuss at the budget hearings procurement issues resulting from award to Unicom Computer Corporation.	436

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of three consolidated data centers authorized by the Legislature. The center, which provides computer services to 88 state government units, was established to provide a modern computing capability to its users while at the same time minimizing the total cost of data processing to the state. The costs of operating the center are fully reimbursed by the center's customers, and annual increases in its budget reflect increased user workload for the most part.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of $30,476,398 for the data center in 1981–82, which is an increase of $6,384,132, or 26.5 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.

The proposed budget is 83 percent over actual 1979–80 expenditures. This large increase in expenditures results from major enhancements to the center's capacity made during the last two years in response to workload increases. It is also indicative of the rapid growth in the information processing requirements of the various state agencies served by the center.

Rate Increase

After maintaining stable rates for three years, the data center will impose a general rate increase of *18 percent* on its users in 1981–82. The increase is required primarily by the establishment of a second computing facility in the current year. The second facility is needed to meet computer processing requirements of the California Fiscal Information System (CFIS), as identified by the Department of Finance, and user workload increases. The cost of the new facility will be financed by a $2,923,000 General Fund loan authorized by the Budget Act of 1980 (Item 197.1). The budget proposes $8,545,079 and 83.3 personnel-years to operate the new facility in 1981–82.

Significant Current Year Activities

In addition to establishing a second computer facility, the data center has accomplished several significant enhancements to its information processing capability during the current year in order to meet customer demands. These include (1) acquiring a large new IBM 3033 computer system, (2) upgrading the large-scale Amdahl V/7 computer, (3) installing a distributed data processing capability, and (4) upgrading the computer system dedicated to serve exclusively the information processing requirements of the State Controller. In addition, the data center is in the process of converting data stored on magnetic tape to a second large-capacity "mass storage" system which will augment the computer system dedicated to the State Controller.

CFIS Requires Accelerated Site Acquisition

In order to meet the time schedule proposed by the Department of Finance for the implementation of CFIS, the data center accelerated plans to establish a second computing facility. It received approval to enter into a sole-source contract for lease of the new facility, and site preparation is currently underway. In addition, the data center is preparing to acquire additional computing equipment and personnel based in part on the anticipated workload generated by CFIS, as represented to the data center by the Department of Finance. According to data center staff, support of CFIS will require $3.3 million and 27 personnel-years in 1981–82.

The data center's billing rate projections for the budget year are based on a *guarantee* of this amount.

The importance of a guaranteed level of data center funding from the CFIS project was stressed in a July 21, 1980 memorandum from the director of the data center to the CFIS task force director in the Department of Finance. The director stated that (1) the data center was proceeding to incur costs to satisfy the expected workload demands of CFIS, (2) it was essential that funding for these items be available from CFIS users or from the Department of Finance, and (3) there were no other sources of funds available to allow recovery of the expense items incurred by the data center to meet CFIS workload.

Income from CFIS In Question

We withhold recommendation on $3.3 million and 27 personnel-years budgeted for computing equipment and personnel in support of the California Fiscal Information System (CFIS), pending substantiation of the amount of income assured the data center. We further recommend that data center and Department of Finance staff be prepared to discuss this issue at the budget hearings.

There is no assurance that the data center will receive $3.3 million in income from CFIS and/or CFIS users. According to staff of the Department of Finance, the proposed CFIS budget (Item 888-001-001) contains $1,153,695 that is dedicated to data center funding. An additional $2,007,984 will be made available to the center *only to the extent actual workload warrants it.* The sum of these two amounts is $138,321 *less* than the amount upon which the data center based its expansion plans. Of more concern to the data center is whether the $2,007,984 will actually be made available to it. If sufficient workload does not materialize and a significant portion of these funds are withheld, the data center budget would incur a large deficit because of prior commitments to acquire the second site, additional computer equipment, and personnel.

The adequacy of the budget proposed for the data center can only be determined when the amounts of CFIS workload and funding have been determined. Accordingly, we withhold recommendaon on $3.3 million and 27 personnel-years budgeted by the data center in support of CFIS, pending receipt of better data on CFIS requirements. Further, we recommend that the data center and Department of Finance be prepared to discuss the issues of income from CFIS and data center funding during the budget hearings.

Equipment Request is Premature

We recommend a reduction of $600,000 which is budgeted for unspecified distributed data processing equipment.

Distributed data processing (DDP) is a computing methodology whereby smaller computers distributed among customer departments are linked through a data communications network to a central large computer center. In the current year, the data center will provide DDP capability to four state agencies—the Departments of Industrial Relations, Consumer Affairs, and Education, and the Public Utilities Commission. Equipment installed in these agencies will cost an estimated $669,805. The budget proposes $1,574,157 to continue DDP service in 1981–82. Of this amount, $600,000 is allocated to prospective new users.

Section 4 of the Budget Act and the State Administrative Manual, Section 4920 et seq., require that a prescribed feasibility study report (FSR) be prepared and approved *prior* to the expenditure of funds for specified electronic data processing purposes. In accordance with these requirements, the proposed expenditure of $600,000 for DDP must be supported by an FSR for *each* of the prospective users. According to information provided by the data center, no FSRs have been completed at this time.

STEPHEN P. TEALE CONSOLIDATED DATA CENTER—Continued

Furthermore, an FSR is required to address alternative solutions to the problem. The request for $600,000 in the data center's budget is based on the assumption that IBM or IBM-compatible computing equipment will be selected because the data center's computing equipment is either manufactured by IBM or compatible with IBM equipment architecture. This assumption may not be valid because each new system will be acquired on a competitive basis. This competition could result in equipment which is not IBM compatible.

For these reasons, we believe the request for unspecified DDP equipment is premature at this time, and recommend deletion of the $600,000.

Mass Storage System Savings

We recommend a reduction of $75,210 and five personnel-years to reflect savings from the installation of a new data storage system.

The data center will be installing its second "mass storage" system in the current year. This system will allow the conversion of data now stored on magnetic tapes to a more efficient medium. As a result, five personnel-years associated with using current data storage media will not be required in the budget year. The budget does not reflect these savings. We therefore recommend a reduction of $75,210 and five personnel-years.

Questionable Contract

We recommend that, at budget hearings, representatives of the State Office of Information Technology in the Department of Finance and the Office of Procurement in the Department of General Services discuss issues resulting from the purchase of an IBM 3033 computer from Unicom Computer Corporation.

During the current year, the data center requested bids for the acquisition of a new, large scale computer. Following an evaluation of the bids received, the center awarded an installment purchase contract to a commercial leasing company, Unicom Computer Corporation. This decision was protested by two other firms, Municipal Finance Corporation and CMI Financial Services, Inc., which had submitted a joint bid. We have been informed by the State Office of Information Technology (SOIT) in the Department of Finance that the protest was settled *by an agreement among all three firms* that any unexpected profits resulting from the award to Unicom would be shared by the firms.

Once the protest was settled, a four-year installment purchase contract in the amount of $5,379,025 was awarded to Unicom on November 6, 1980, for the purchase of an IBM 3033 computer. The effective data of the contract was November 12, 1980. On November 12, IBM announced a significant price reduction for the IBM 3033. According to SOIT, this reduction, which was passed on to Unicom, amounts to approximately $660,000 over the four-year period.

In a November 21, 1980 letter to the Director of General Services, the department which procured the computer for the data center, SOIT asked whether Unicom and the other firms involved might have had prior knowledge of the pending price reduction. This possibility apparently was raised by the unusual profit-sharing agreement among the three firms and the timing of the IBM price reduction. According to staff of the data center, the contract with Unicom was amended on December 12, 1980, to reduce the contract amount by $105,484. We understand that Unicom agreed to this reduction following efforts by SOIT to have the three firms pass the full amount of the unexpected profit on to the state.

SOIT's letter raises a serious question as to whether the procurement was fair. To the extent that *any* vendor had prior knowledge of a price reduction, that vendor could bid a low price with the knowledge that its eventual profit would exceed any profits anticipated by competing vendors unaware of pending price reductions. As a result, we recommend representatives of SOIT and the Office of Procurement in the Department of General Services discuss at the budget hearings the issues raised by the procurement and any actions they believe are appropriate to resolve the current situation and prevent a similar occurrence in the future.

Resources Agency

SPECIAL RESOURCES PROGRAM

Item 311 from the General Fund — Budget p. R 1

Requested 1981–82	$834,007
Estimated 1980–81	819,857
Actual 1979–80	674,007
Requested increase (excluding amount for salary increases) $14,150 (+1.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Federal Designation. Defer recommendation pending federal action on the Governor's petition to add five California rivers to the national wild and scenic rivers system. Recommend that the Secretary of Resources report to the Legislature at the time of budget hearings on the fiscal and program impacts of federal action on the petition. 438

This item requests $834,007 from the General Fund for support of two programs: (1) $334,007 for Waterways Management Planning and (2) $500,000 for state support of Sea Grant projects. The programs are discussed separately below:

WATERWAYS MANAGEMENT PLANNING

GENERAL PROGRAM STATEMENT

The California Protected Waterways Act of 1968 established state policies to protect certain waterways possessing extraordinary scenic, fishery, wildlife, or recreational values. Subsequently, Chapter 761, Statutes of 1971, directed the Resources Agency to develop detailed management plans for portions of 20 specified waterways on the North Coast.

The California Wild and Scenic Rivers Act of 1972 (Chapter 1259, Statutes of 1972) declared further legislative intent that five streams and certain of their tributaries be preserved in essentially their natural state. The act covered the Klamath, Trinity, Smith, Eel, Lower and North Fork American Rivers. With limited exceptions, construction of dams, reservoirs or water development projects on these rivers is prohibited. In addition, the 1972 Act directed the Resources Secretary to (1) classify these rivers or segments as "wild", "scenic", or "recreational"; (2) prepare and submit management plans covering these rivers to the Legislature for approval; (3) administer these rivers so as to protect scenic, recreational, fishery and wildlife values without unreasonably limiting compatible timber harvesting, grazing and other uses.

In 1975, the Resources Secretary delegated the responsibility for administering the program and preparing waterways management plans to the Department of Fish and Game.