NATIONAL CENTER FOR STATE COURTS

Item 0460 from the General Fund — Budget p. LJE 17

Requested 1984–85	$14,000
Estimated 1983–84	14,000
Actual 1982–83	14,000
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $14,000 from the General Fund for California's membership fee in the National Center for State Courts. This is the same amount appropriated for each year since 1975–76. Members of the center include all 50 states, four territories, and the District of Columbia. The $14,000 fee is approximately 7 percent of California's actual assessment of about $200,000 (the assessment is based on the state's population), and amounts to less than 1 percent of the membership fees collected by the center from all states in 1983. Membership in the center entitles California to judicial research data, consultative services, and information on the views of the various states on federal legislation and national programs affecting the judicial system.

GOVERNOR'S OFFICE

Item 0500 from the General Fund — Budget p. LJE 18

Requested 1984–85	$4,760,000
Estimated 1983–84	4,831,000
Actual 1982–83	4,471,000
Requested decrease (excluding amount for salary increases) $71,000 (−1.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Constitution grants the supreme executive power of the state to the Governor, who is responsible for administering and enforcing state law. The Governor is elected to a four-year term and currently receives a salary of $49,100.

The Governor's office has 87.6 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $4,760,000 from the General Fund for support of the Governor's office in 1984–85. This is a decrease of $71,000, or 1.5 percent, from estimated current-year expenditures. The proposed reduction, however, is somewhat misleading because the administration proposes to shift certain items of expense to another department. In addition, it does not take into account any salary or staff benefit increases that may be approved for the budget year and would increase expenditures accordingly.

The budget request for the Governor's office is summarized in Table 1. As shown in the table, personal services are budgeted at $3,280,000, an increase of $280,000, or 9.3 percent, from estimated current-year expenditures. According to the Governor's office, the increase reflects the full-year costs of employee compensation increases granted in the current year and salary increases for various staff consistent with the increases granted to certain state officers by Ch 803/83, partially offset by a reduction of 2.6 personnel-years. Operating expenses and equipment are budgeted at $1,365,000 for 1984–85, an increase of $106,000, or 8.4 percent, from the current year. The proposed increase includes $76,000 for price increase adjustments, and $30,000 in additional dues for the National Governors' Association.

The table also indicates that $115,000 is requested for special items of expense for the Governor's office. This is $457,000, or 80 percent, less than anticipated current-year expenditures in this category. The net decrease reflects:

- A reduction of $465,000 for printing the Governor's Budget. The administration proposes to shift the cost of printing the document to the budget for the Department of General Services, Office of State Printing.
- An increase of $8,000 (from $17,000 to $25,000) for miscellaneous items of support for the Governor's residence.

If the cost of printing the Governor's Budget is excluded from current-year expenditures, the amount proposed for support of the Governor's office in 1984–85 is $394,000, or 9 percent, higher than estimated current-year expenditures.

Table 1
Governor's Office
Budget Summary
(dollars in thousands)

	Actual 1982–83	Estimated 1983–84	Proposed 1984–85	Change From 1983–84 to 1984–85 Amount	Percent
Personal services	$2,599	$3,000	$3,280	$280	9.3%
Operating expenses and equipment	1,261	1,259	1,365	106	8.4
Special items of expense	611	572	115	−457	−79.9
Totals	$4,471	$4,831	$4,760	−$71	−1.5%

Governor's Office

SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General Fund — Budget p. LJE 19

Requested 1984–85	$631,000
Estimated 1983–84	563,000
Actual 1982–83	543,000
Requested increase (excluding amount for salary increases) $68,000 (+12.1 percent)	
Total recommended reduction	33,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Facilities Operation. Reduce Item 0510-001-001 by $9,000.*** Recommend deletion of funding to correct for overbudgeting. 33
2. ***Staff Benefits. Reduce Item 0510-001-001 by $24,000.*** Recommend reduction in staff benefits to correct for overbudgeting. 33

GENERAL PROGRAM STATEMENT

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

Department of Consumer Affairs
Department of Veterans Affairs
Department of General Services
Office of the State Fire Marshal
Franchise Tax Board
State Personnel Board (by Executive Order)
Public Employees' Retirement System
State Teachers' Retirement System
California Museum of Science and Industry
Department of Fair Employment and Housing
Fair Employment and Housing Commission

In addition, the Secretary administers the Statewide Disabled Compliance Program.

The agency has 19.9 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $631,000 from the General Fund for support of the State and Consumer Services Agency in 1984–85. This is $68,000, or 12 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.

Total agency expenditures in 1984–85, including expenditures from reimbursements, are budgeted at $651,000—a decrease of $248,000, or 28 percent, from current-year expenditures.

Table 1 presents a summary of the agency's expenditures and personnel-years for the past, current, and budget years. The main funding change reflected in the table is the elimination of all reimbursable support,

$244,000 and 6.5 positions, for the Office of Statewide Compliance Coordination (OSCC), as the office is being terminated during 1983–84 (see below). Table 1 also reflects a $46,000 reduction in reimbursements due to the termination of a contract between the agency and State Personnel Board (SPB) for a civil rights/career opportunities development (COD) coordinator. In the past, SPB has reimbursed the agency for the cost of a COD coordinator to work with departments within the agency in order to promote COD training opportunities and monitor the progress of COD participants. In signing the 1983 Budget Act, the Governor eliminated from the SPB budget the funding for the agency COD coordinators.

Table 1
Secretary for State and Consumer Services
Budget Summary
1982–83 through 1984–85
(in thousands)

Programs	Actual 1982–83	Estimated 1983–84	Proposed 1984–85	Changes Amount	Changes Percent
Administration of State and Consumer Services Agency	$710	$655	$651	–$4	–.6%
Statewide Disabled Compliance Coordination	311	244	—	–244	N/A
Intergovernmental Personnel Act Advisory Council	90	—	—	—	N/A
Totals	$1,111	$899	$651	–$248	–27.6%
Funding Sources					
General Fund	$543	$563	$631	$68	12.1%
Reimbursements	498	336	20	–316	–94.0
Federal Trust Fund	70	—	—	—	N/A
Personnel-years	23.8	13.9	12.4	–1.5	–10.8

ANALYSIS AND RECOMMENDATIONS

Facilities Operation Is Overbudgeted

We recommend a reduction of $9,000 to correct for overbudgeting of facility rent and state police protection.

The agency has budgeted for 5,060 square feet of office space, at an annual rental cost of $43,111. The agency, however, needs only 4,090 square feet, at a cost of $34,847, as it recently has relinquished 970 square feet of space and has provided no further plans for its use. Thus, facility rent is overbudgeted by $8,264. Fees for state police protection of this office space also were calculated on the basis of the larger square footage, resulting in overbudgeting for the agency's total facilities operation amounting to $9,000. We therefore recommend a deletion of this amount.

Staff Benefits Overestimated

$22,000 mr

We recommend a reduction of ~~$24,000~~ in the amount requested for personal services to correct for an overestimate of staff benefits.

The agency has requested $144,000 for staff benefits in 1984–85. As Table 2 indicates, this amount is equal to 36.1 percent of total agency salaries and wages, a significant increase over the *actual* ratio in 1982–83.

SECRETARY FOR STATE AND CONSUMER SERVICES—Continued

Table 2
State and Consumer Services Agency
Staff Benefits
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*
Staff Benefits	$170,000	$188,000	$144,000
Percent of Salaries and Wages	25.5%	33.1%	36.1%

In order to determine the amount needed for staff benefits in the budget year, we followed Department of Finance budget instructions in estimating retirement and social security costs, and relied on information regarding health and dental plan use in estimating those costs. Our analysis indicates that the agency needs only *$120,000* for staff benefits in 1984–85, which is equivalent to 30 percent of budgeted salaries and wages. Consequently, we recommend a reduction of $24,000.

Statewide Disabled Compliance Program To End Early

The Federal Rehabilitation Act of 1973 (Sections 503–505) requires that no qualified handicapped person be denied any benefits or be excluded from participating in any program which receives federal assistance. State agencies receiving federal financial assistance were supposed to have been in compliance with the act by June 2, 1980. Nevertheless, it is our understanding that compliance with federal requirements had at that time been achieved by only a few agencies.

On June 12, 1980, the Governor issued Executive Order B-65-80, creating a central unit within the State and Consumer Services Agency to (1) direct, facilitate and monitor compliance by all state agencies with the requirements set forth in the Federal Rehabilitation Act of 1973 and (2) coordinate with the Health and Welfare Agency statewide efforts involving disabled program recipients.

Subsequently, the agency Secretary administratively established 6.5 positions (5.5 professional and 1 clerical) to staff the new unit, which was named the Office of Statewide Compliance Coordination (OSCC). The 1982 and 1983 Budget Acts authorized continuation of the 6.5 positions, as well as a funding arrangement which provides for OSCC's costs to be reimbursed fully by those state agencies having program responsibilities in this area.

Agency staff advise that termination of the office can occur during the current year, rather than during the budget year, because the OSCC has satisfactorily completed its compliance program activities.

Governor's Office

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

Item 0520 from various funds Budget p. LJE 20

Requested 1984–85	$808,000
Estimated 1983–84	772,000
Actual 1982–83	783,000
Requested increase (excluding amount for salary increases) $36,000 (+4.7 percent)	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0520-001-001—Support		General	$304,000
0520-001-044—Support		Motor Vehicle Account, State Transportation Fund	504,000
Total			$808,000

GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing, one of five agency secretaries in the Governor's Cabinet, supervises the activities of 16 departments and administrative bodies. These entities can be divided into three general groupings: (1) business and regulatory agencies, (2) transportation agencies, and (3) housing agencies. The 16 entities are as follows:

Business and Regulatory

Department of Alcoholic Beverage Control
Alcoholic Beverage Control Appeals Board
State Banking Department
Department of Corporations
Department of Economic and Business Development
Department of Insurance
Department of Real Estate
Department of Savings and Loan
Stephen P. Teale Consolidated Data Center

Transportation

Department of the California Highway Patrol
Department of Motor Vehicles
Department of Transportation
Office of Traffic Safety
Traffic Adjudication Board

Housing

Department of Housing and Community Development
California Housing Finance Agency

The agency is authorized to have 21 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations from the General Fund and the State Transportation Fund totaling $808,000 to support the office in 1984–85. This is an increase of $36,000, or 4.7 percent, above estimated

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued

current-year expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The agency also expects to spend $517,000 in reimbursements during 1984–85, resulting in a total expenditure program of $1,325,000. This is $65,000, or 5.2 percent, more than estimated total expenditures in 1983–84. Agency staffing is proposed to continue at the current-year level of 21 positions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed expenditure increases for the agency in 1984–85 reflect the general increase in prices and appear to be warranted.

Sunset for Sunny Mac

The Budget Act of 1982 appropriated $240,000 from the General Fund to the Secretary for loans to the Solar and Energy Conservation Mortgage Corporation (Sunny Mac). The corporation was created by Ch 1033/81 (SB 921) to establish a secondary financial market for energy conservation loans. The $240,000 General Fund loan was to be repaid, with interest, during 1982–83, using the proceeds from the anticipated sale of corporate stock.

In October 1983, the Board of Directors of the corporation voted to suspend corporate operations as of October 15, 1983. It did so because it doubted that Sunny Mac could successfully market common shares in the corporation. Subsequently, on October 24, 1983, the corporation repaid $80,000 of the loan using unspent funds, leaving an unpaid balance, including accrued interest, of approximately $185,000. According to corporation staff, this is the amount that was spent on staff and consulting contracts to produce a study of the secondary lending market and a circular. The circular would have been used to interest investors in the corporation's stock, had the board decided to proceed with a public offering.

The Department of Finance currently is auditing the corporation to identify any additional funds that may not have been spent. Corporation staff indicate that an additional $5,000 could be secured through the audit. Agency staff anticipate that the agency will initiate a Board of Control claim in the current year to remove its liability to repay the remaining balance of the loan from the General Fund.

Governor's Office

SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General Fund — Budget p. LJE 22

Requested 1984–85	$6,577,000
Estimated 1983–84	5,685,000
Actual 1982–83	2,045,000
Requested increase (excluding amount for salary increases) $892,000 (+15.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office of Long-Term Care. Recommend that prior to budget hearings, the Health and Welfare Agency advise the fiscal committees on its plans for implementing a long-term care services delivery system in 1984–85. 39

GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area, and for the operations and sound fiscal management of each department and office within the agency. These departments and offices are as follows:

- Aging, Department and Commission;
- Alcohol and Drug Programs;
- Developmental Services;
- Employment Development;
- Health Services;
- Mental Health;
- Rehabilitation;
- Social Services;
- Emergency Medical Services, Authority and Commission;
- Health and Welfare Agency Data Center;
- Office of Statewide Health Planning and Development;
- Developmental Disabilities, Area Boards and State Council;
- Health Facilities, Authority and Commission;
- Advisory Committee on Child Development; and
- Medical Assistance Commission.

In addition to staff that assist the Secretary in performing his policy formulation and oversight responsibilities, the Secretary's office contains three program units: (1) Multipurpose Senior Services Program (MSSP), (2) Office of Migration and Refugee Affairs, and (3) Office of Long-Term Care.

The 1983 Budget Act authorized 38 positions for the Health and Welfare Agency. During the current year, the agency reestablished two positions for the Migrant and Refugee Affairs unit. These positions had been abolished pursuant to provisions of Ch 323/83, companion bill to the 1983 Budget Act, because they were vacant for more than nine months during 1982–83. By restoring these positions, the agency increased the total number of positions in the current year to 40.

SECRETARY FOR HEALTH AND WELFARE—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $6,577,000 from the General Fund for support of the Secretary's office in 1984–85. This is $892,000, or 16 percent, more than estimated current-year expenditures. The increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

Table 1
Secretary for Health and Welfare
Program Expenditures and Funding Sources
1982–83 through 1984–85
(in thousands)

				Change from 1983–84 to 1984–85	
Expenditures	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Amount*	*Percent*
Secretary's Office	$2,267	$1,326	$1,374	$48	3.6%
Office of Long-Term Care	11	286	—	−286	−100.0
MSSP					
State Administration	2,781	2,116	1,978	−138	−6.5
Site Operations	696	6,499	8,459	1,960	30.2
Totals	$5,755	$10,227	$11,811	$1,584	15.5%
Revenue					
General Fund	$2,045	$5,685	$6,577	$892	15.7%
Reimbursements	3,710	4,542	5,234	692	15.2

Table 2
Secretary for Health and Welfare
Proposed Budget Changes
1984–85
(in thousands)

	Total	*General Fund*	*Reimbursements*
1983–84 Revised Expenditures	$10,227	$5,685	$4,542
1. Baseline Adjustments			
a. Increase in existing personnel costs	46	40	6
b. Decrease in existing personnel costs	−12	−12	—
c. Operating expenses and equipment			
(1) Price increase—agency and MSSP	513	272	241
(2) MSSP caseload increase	1,322	747	575
d. Position deletions			
(1) Office of Long-Term Care	−286	−149	−137
(2) Migration and Refugee Affairs	−105	—	−105
Total Baseline Adjustments	$1,478	$898	$580
2. Reestablishment of Migration and Refugee Affairs positions	$112	—	$112
3. Budget Change Proposals	−6	−6	—
a. Operating expense reduction			
Total Changes	$1,584	$892	$692
1984–85 Proposed Expenditures	$11,811	$6,577	$5,234

Total program expenditures by the agency, including those financed from reimbursements, are projected at $11,811,000 in 1984–85. This is $1,-584,000, or 16 percent, more than estimated current-year expenditures. Table 1 presents a summary of the agency's expenditures and funding sources for the prior, current, and budget years.

Table 2 shows the proposed changes from the current year to the budget year. The major adjustments proposed in the Secretary's budget include (1) the continuation of two positions for the Office of Migration and Refugee Affairs ($112,000), (2) an augmentation for an anticipated caseload increase in the MSSP ($1,322,000), and (3) elimination of the Office of Long-Term Care and its 7 positions ($286,000).

OFFICE OF LONG-TERM CARE

Status of the Long-Term Care System Is Unclear

We recommend that prior to the budget hearings, the agency advise the Fiscal Committees on its plans for the long-term care system in 1984–85.

The Office of Long-Term Care (OLTC) was established in the Governor's Office by Ch 1453/82 (AB 2860) and transferred to the Office of the Secretary of the Health and Welfare Agency in 1982–83. Chapter 1453 requires the OLTC to prepare a plan and timetable for the transfer of various health care and social services programs and funds from the Departments of Aging, Health Services, and Social Services to a new Department of Aging and Long-Term Care. Chapter 1453 directs the Governor to submit to the Legislature no later than December 1, 1983, a plan for implementing the new long-term care services delivery system.

Chapter 1453 requires that the implementation plan include (1) an identification of the roles and functions of the state and local entities in the new long-term care delivery system, (2) an implementation timetable, (3) fiscal analyses of the reorganization, and (4) recommendations for appropriations in the 1984–85 budget. At the time this analysis was prepared, the report had not been submitted to the Legislature. Because the budget does not propose to continue funding the OLTC in 1984–85, the status of the long-term care services system is unclear. Therefore, we recommend that prior to the budget hearings, the agency advise the fiscal committees on its plans for implementing the long-term care system in 1984–85.

MULTIPURPOSE SENIOR SERVICES PROGRAM

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

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

The Multipurpose Senior Services Project (MSSP) was designed to achieve the goals of Chapter 1199. It has tested the effectiveness of the case management approach in the delivery of services to the elderly. Through the MSSP, case management is integrated into the community's network of existing programs serving older persons in each of the eight MSSP sites.

Chapter 1199 was effective through December 31, 1980. Chapter 665,

SECRETARY FOR HEALTH AND WELFARE—Continued

Statutes of 1980 (AB 565), extended the MSSP through June 30, 1983.

Establishment of Ongoing Program

Chapter 306, Statutes of 1983, terminated the MSSP as a demonstration project and established it as an ongoing program as of July 1, 1983.

Chapter 306 requires the program to target services on those who are immediately "at-risk" of long-term institutionalization. As a result, clients selected for inclusion in the *program* must be certified or certifiable for placement in an intermediate care facility (ICF) or a skilled nursing facility (SNF). Prior to enactment of Chapter 306, the project included clients who were not "at-risk" of being institutionalized. Because of the stricter eligibility criteria established by Chapter 306, MSSP sites discontinued two-thirds of the project caseload of 1,900 clients as of July 1, 1983. These sites are acquiring clients in the current year to reach full capacity again. As of January 1, 1984, there were 924 clients in the eight MSSP sites.

Chapter 306 permits expansion of the MSSP by increasing the caseloads of existing local sites and/or adding new sites, if cost-effectiveness is demonstrated. The provisions of Chapter 306 remain in effect until the establishment of a new local long-term care delivery system, as specified by the Long-Term Care Reform Act, Ch 1453/82 (AB 2860), or July 1, 1986, whichever is earlier. The program is operating under an approved federal Medicaid waiver until 1985–86.

The 1983 Budget Act appropriated $8.6 million ($4.5 million General Fund and $4.1 million federal funds) to support phase-out of the demonstration project and establishment of the program on an on-going basis. The 1984–85 budget proposes $10.4 million ($5.5 million General Fund and $4.9 million federal funds) for support of eight positions in the Health and Welfare Agency (HWA) and continuation of the program at eight existing sites with a full caseload of 1900 clients. The 1984–85 budget request represents an increase of $1.8 million ($1.0 million General Fund and $0.8 million federal funds) over estimated current-year expenditures. Of the $1.8 million increase, $1.3 million is for caseload growth.

Cost-Effectiveness of the MSSP.

An important aspect of the MSSP demonstration was the collection and analysis of data on the costs, services, and functional ability of MSSP participants over time. There are two components to the evaluation of the MSSP: (1) assessment of the costs of care through MSSP case management relative to the costs of institutionalization and (2) analysis of the costs and outcomes of the MSSP client group compared to a control group of similar size.

Costs of MSSP Community-Based Care. Each MSSP site collects data on the costs of services received by its clients, including Medi-Cal (existing services and those covered under the MSSP federal waiver), in-home supportive services, special services, and local and state administration. Since the case-management approach is designed to provide an alternative to institutionalization, the average monthly costs of institutional care can be used as a benchmark against which to compare MSSP client costs. The available data suggests that MSSP care is less expensive than care in a SNF. For example, the estimated average Medi-Cal cost for an MSSP client residing in a SNF is $1,146 per month. The average cost per client served by the eight MSSP sites ranges from $792 to $1,044 per month, with a statewide average monthly cost of $902, or 79 percent, of SNF costs.

Comparative Analysis of Costs and Benefits. On March 31, 1984, the agency will issue its final report on the MSSP research and demonstration project. Prepared by a research group at UC Berkeley, the report will contain an analysis of the MSSP data and an evaluation of the project's cost-effectiveness based on a comparison of client costs and outcomes with those of a control group.

System Impact Unknown. Although project data indicate that the services provided through MSSP are less costly than institutional care, it appears that the case management approach does not reduce the effective demand for nursing home and hospital care. Specifically, the MSSP has reported that based on historical trends of increasing numbers of SNF beds and continuing high occupancy rates, it is unlikely that a program such as MSSP will reduce the number of occupied institutional beds. Generally, because of an aging population and increasing demand for nursing home care, free beds will be filled, regardless of whether more people are being sustained in the community through the MSSP. Nonetheless, the MSSP demonstrates the potential of community-based case management as a less costly, less restrictive alternative to institutional long term care.

Governor's Office
SECRETARY FOR RESOURCES

Item 0540 from the General Fund and the Environmental License Plate Fund — Budget p. LJE 25

Requested 1984–85	$1,478,000
Estimated 1983–84	1,455,000
Actual 1982–83	962,000
Requested increase (excluding amount for salary increases) $23,000 (+1.6 percent)	
Total recommended reduction	37,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0540-001-001—Agency		General	$1,098,000
0540-001-190—Deactivation of CTRPA		Environmental License Plate	380,000
Total			$1,478,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Clerical Staffing. Reduce Item 0540-001-001 by $37,000 from the General Fund.* Recommend that two clerical positions be eliminated in partial recognition of the reduced workload that has resulted from the loss of four professional positions over the past two years. 43
2. Staffing Understated. Recommend that the Resources Agency report prior to budget hearings on the number, use, and funding of borrowed positions. 43

SECRETARY FOR RESOURCES—Continued

3. Disposal of Radioactive Waste. Recommend that the Resources Agency and the Department of Health Services report at budget hearings on progress made in developing a permanent site in California for the disposal of low-level radioactive wastes. 44
4. Implementation of Lake Tahoe Bond Program. Recommend that the Resources Agency and Department of Finance report prior to budget hearings on the administration's plans for implementation of the $85 million Tahoe Bond Act during 1984–85. 49

GENERAL PROGRAM STATEMENT

The Secretary for Resources is the administrative head of the Resources Agency. In this capacity, he is responsible directly to the Governor for the management, preservation, and enhancement of California's natural, recreational, and wildlife resources. The Secretary is a member of the Governor's cabinet.

By statute, the Resources Agency is composed of the following units: The Departments of Conservation, Fish and Game, Forestry, Parks and Recreation, Boating and Waterways, and Water Resources, the Air Resources Board, California Coastal Commission, California Conservation Corps, Colorado River Board, Energy Resources Conservation and Development Commission, Santa Monica Mountains Conservancy, State Coastal Conservancy, State Lands Commission, State Water Resources Control Board, and the California Waste Management Board. In practice, however, the Air Resources Board, California Waste Management Board, and State Water Resources Control Board report to the administratively established Environmental Affairs Agency, rather than to the Resources Agency.

Several miscellaneous programs, including those providing for planning in the Lake Tahoe Basin, are also budgeted in the Resources Agency. In addition, the agency (1) is the administration's liaison with the San Francisco Bay Conservation and Development Commission, (2) allocates money in the Environmental License Plate Fund, (3) issues the state's guidelines for preparation of environmental impact reports (EIRs), and (4) designates the classes of activities exempted from the preparation of EIRs.

The agency has 21.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling $1,478,000 to the Resources Agency in 1984–85. This amount consists of $1,098,000 from the General Fund for direct support costs and $380,000 from the Environmental License Plate Fund (ELPF) for Attorney General fees ($210,000) and administrative costs ($170,000) associated with the deactivation of the California Tahoe Regional Planning Agency (CTRPA). The total amount is $23,000, or 1.6 percent, more than comparable estimated current-year expenditures. (Current-year expenditures by the agency include $400,000 from the ELPF that were appropriated separately to the agency for costs associated with the deactivation of CTRPA.) The increase is due almost entirely to price increases and the full-year effect of salary increases approved in 1983–84. It will increase by the amount of any salary or staff benefits that may be approved by the Legislature for the budget year.

Total proposed expenditures for 1984–85, including reimbursements, are $1,488,000. This is a decrease of $27,000, or 1.8 percent, from estimated current-year total expenditures of $1,515,000. The current-year total includes a one-time $50,000 expenditure from the ELPF for a study by the Lake Tahoe Area Land Acquisition Commission (TALAC). The decrease in the budget year reflects the completion of the one-year expenditure for TALAC, the savings from which are partially offset by the price and salary increases mentioned above.

ANALYSIS AND RECOMMENDATIONS

Reduce Clerical Staffing

We recommend that Item 0540-001-001 be reduced by $37,000 to eliminate two clerical positions due to reduced workload resulting from a reduction of four professional positions.

In the last two years, the staff of the Resources Agency has been reduced by 4 professional positions, from 25.5 authorized positions in 1981–82 to 21.5 in the current and budget years. The current-year and proposed budget-year staff consists of 10 professional positions, 10 clerical positions, and 1.5 temporary-help positions. The 4 positions eliminated were 2 CEA Is, an assistant secretary for coastal affairs, and an associate governmental program analyst.

Although the professional staff has been reduced from 14 to 10 positions, there has been no corresponding reduction in the clerical staff. As a result, the ratio of clerical to professional staff is now 1:1 (10 clerical and 10 professional positions). The agency could not cite clerical workload increases over the past two years that would justify retention of all of the clerical positions. Consequently, we recommend that Item 0540-001-001 be reduced by $37,000 to eliminate 2 clerical positions. Even with the elimination of the 2 positions, the agency will have a higher ratio of clerical to professional staff (1:1.25) than it had prior to the elimination of the 4 professional positions (1:1.4).

Agency Staffing Understated

We recommend that the Resources Agency report to the Legislature prior to budget hearings on positions borrowed in 1983–84 and proposed to be borrowed in 1984–85. The report should identify the duties of the positions, the full cost of the positions (including overhead), and the source of funds used to cover these costs.

Over the past several years, the Legislature has taken steps to limit the growth of agency staffing. For example, in the 1982 Budget Act, the Legislature reduced the budgets of four of the five agencies (all but the Youth and Adult Correctional Agency) to the 1980–81 expenditure level. It also adopted language in the *Supplemental Report of the 1982 Budget Act* directing our office to review the growth in personnel and expeditures of the five agencies. A report containing the results of our review was issued in May 1983.

The 1984–85 budget proposes 21.5 positions for the Resources Agency, the same number as in 1983–84 (excluding one Work Incentive/Career Opportunities Development program position that was not funded in the current year). This total, however, understates the full amount of staffing available to the agency by at least two positions because the agency is borrowing two exempt positions from the Department of Water Resources (DWR).

SECRETARY FOR RESOURCES—Continued

The agency began borrowing one position, described as a "resources aide" (monthly salary range from $2,398 to $2,513) from DWR during the current year. The second position serves as the Resources Agency representative in Washington, D.C. Prior to the current year, the salary, benefits, and travel costs of the position (approximately $65,000 for 1983–84) were prorated among the various departments, boards, and commissions within the Resources Agency. In addition, the Resources Agency provided approximately $21,000 annually from its own budget to pay overhead costs (office rent, clerical help, etc.). During the current year, DWR is paying the full cost of the salary and benefits with no proration among other departments. It is unclear how the overhead costs of this position are being supported during 1983–84.

At the time this *Analysis* was prepared, the Resources Agency had not determined (1) if it would continue to borrow the resources aide in 1984–85 or (2) how it will fund the Washington, D.C. position. Because these positions support the activities of the Resources Agency generally, rather than DWR alone, the Legislature should be aware of their functions and the full costs of supporting the agency. We recommend, therefore, that the Resources Agency report prior to budget hearings on positions borrowed in 1983–84 and proposed for 1984–85, the duties of the positions, and the full cost (including overhead) and source of funds for the positions.

Potential High Cost for Disposal of Radioactive Waste

We recommend that the Department of Health Services and the Resources Agency report at budget hearings on progress made in developing a permanent site in California for the disposal of low-level radioactive wastes. The report should indicate (1) whether the department will be able to comply with the time schedules of Ch 1177/83, (2) the number of applications received and/or estimated to be received, (3) an estimate of the 1984–85 cost to the Resources Agency if the agency is required to operate a low-level radioactive disposal site in California, and (4) a description of the activities the department plans to undertake in 1984–85.

At this time, there is no authorized disposal site for low-level radioactive waste within California. Consequently, generators of such waste are disposing of it in neighboring states.

Due to recent federal legislation, other states may refuse to accept low-level radioactive waste from California after January 1986. Chapter 95, Statutes of 1982 (AB 1513) and Ch 1177/83 (SB 342) provide a process for selecting a permanent site in California for the safe disposal of low-level radioactive wastes. Under the legislation, the Department of Health Services (DHS) is designated as the lead agency in developing criteria for site selection and identifying and licensing potential site operators.

Chapter 1177, Statutes of 1983, requires DHS to adopt emergency regulations for licensing low-level radioactive waste disposal facilities and to receive applications for licenses for three months after adopting the regulations. DHS must then notify the Resources Agency if no acceptable applications have been received and, in that case, the Resources Agency must apply within one year for a license to operate a disposal site. This schedule is summarized below:

• DHS must adopt emergency regulations for licensing low-level radioactive waste facilities and may begin receiving applications for licenses.	March 28, 1984

• Application period ends.	June 28, 1984
• DHS must notify the Resources Agency if no acceptable applications have been received.	August 13, 1984
• Resources Agency must apply to DHS for a license to operate a low-level radioactive waste disposal site if no private party has applied and been accepted.	August 13, 1985

Chapter 1177 authorizes the Department of Finance to provide General Fund loans to the Resources Agency for the development, construction, and operation of a state-owned disposal site, if one is required. The act limits the amount of loans to $2 million in 1983–84 and $15 million in total. The amount for loans in 1984–85 and subsequent fiscal years is to be specified in the annual Budget Act. Any loans made to the agency are to be repaid through fees charged for the disposal of radioactive materials.

The budget does not propose any General Fund loan to the Resources Agency for 1984–85. At the time this *Analysis* was prepared, DHS was still developing licensing regulations. It is too early to determine if any acceptable applications will be received once the regulations are issued. If no acceptable applications are received from private contractors, the Resources Agency could be required to begin planning for an agency-operated disposal site as early as August 1984, and a major General Fund loan could be required in 1984–85. Because the development of a safe low-level radioactive disposal site is urgently needed, and because the development of a site could require a major General Fund augmentation for 1984–85, we recommend that the Resources Agency and the Department of Health Services report at the time of budget hearings on the implementation of Ch 1177/83. The report should include an estimate of the department's ability to comply with the time schedule set forth in Ch 1177/83, the number of applications for licenses received and/or expected to be received, an estimate of the 1984–85 cost to the Resources Agency if the agency is required to develop and operate a low-level radioactive waste disposal site in California, and a description of the activities that the department plans to undertake in 1984–85.

Tahoe Land Commission Study Report Recently Completed

The 1982 Tahoe Bond Act. Pursuant to the provisions of Ch 833/80 (as amended by Ch 519/82), the 15-member Lake Tahoe Area Land Acquisition Commission (TALAC) recently adopted a series of recommendations for implementing an $85 million bond program for purchase of undeveloped property at Lake Tahoe. The bond program was approved by the voters at the November 1983 general election. Authorized uses of bond act proceeds include purchase of (1) lands threatened with development which are located within stream environment zones and (2) lands providing lakeshore access to the public, preservation of wildlife habitat, or a combination of these benefits.

The $85 million bond act represents the second major source of acquisition funding for purchase of undeveloped property at Tahoe. The U.S. Forest Service (USFS) currently is administering a federal program for acquiring environmentally sensitive land pursuant to the federal Burton-Santini Act (Public Law 96-586). Funding for the USFS program is being derived from the sale of surplus federal lands near Las Vegas in Clark

SECRETARY FOR RESOURCES—Continued

County, Nevada. To date, $16.7 million has been appropriated by Congress for Burton-Santini purchases, and another $7 million–$10 million is available to the Forest Service in the 1984 federal budget. By the fall of 1983, the USFS had acquired or was about to acquire more than 300 ownerships totaling $8.7 million and 3,765 acres ($6.2 million and 3,270 acres in California), using funds appropriated in the 1982 and 1983 federal fiscal years. The USFS has also accepted 77 donated lots worth about $1 million.

TALAC Mandate. The legislation that established TALAC requires the commission to consider, amoung other things, (1) which land in the Tahoe Basin should be purchased through the state's $85 million bond program, (2) methods for valuing property sought for acquisition, (3) the most appropriate agency to carry out the purchases, and (4) how the acquired property should be managed. Chapter 519 directed TALAC to submit its final report, containing its recommendations on the above matters, to the Governor and Legislature by June 30, 1983.

Chapter 833, Statutes of 1980, appropriated $50,000 from the Environmental License Plate Fund to the Resources Agency for commission member expenses and staff support. That legislation terminates the commission not later than six months after the final report has been transmitted to the Legislature and Governor.

Completion of the TALAC report was six months behind the schedule specified in Ch 519/82. This delay occurred, in part, because the Governor's appointments to the commission were not made until September 1983.

TALAC Recommendations. The commission's final report was issued on January 18, 1984 following a series of public hearings conducted in the Tahoe Basin and Sacramento during the fall of 1983. The more significant of TALAC's recommendations are discussed below.

1. The highest priority for the acquisition program should be purchase of small "environmentally sensitive" individual lots and parcels needed to protect the environment, especially water quality.

The TALAC report indicates that the primary purpose of acquiring such lands is to assure that the properties are not developed. This is desirable because scientific research has determined that the principal cause of deterioration in Lake Tahoe's water quality during the last two decades has been construction and development activity in the surrounding Tahoe Basin. Construction in environmentally sensitive areas increases erosion and sedimentation, which accelerate growth of algae and adversely affect the lake's exceptional clarity and blue color.

For purposes of the 1982 bond program, TALAC recommends adoption of the following definition of "environmentally sensitive" lands, which is the definition used by the Forest Service for purchases under the Burton-Santini Act:

- Lands in stream environment zones (SEZ's)—marshes, meadows, and other areas along streams.
- High-hazard lands with steep slopes, fragile environments, or prone to erosion.
- Man-modified, but unimproved, areas contributing to sedimentation problems.
- Sensitive and eroding shoreline areas.
- Substandard subdivisions where lot sizes are too small to allow ade-

quate area for development under current land coverage regulations.

Using the Forest Service definition, TALAC estimates that there are between 5,300 and 7,100 lots on the California side of Lake Tahoe that are "environmentally sensitive." TALAC recommends that the state's acquisition program focus primarily on the purchase of small individual lots meeting the Forest Service criteria which cannot be developed under existing land-use policies in the Tahoe Basin. TALAC commission members have urged that bond monies be used to purchase these lots in order to compensate property owners for their inability to construct homes or subdivide their land due to these land-use restrictions.

Analyst's Comments. Environmentally sensitive lots are scattered throughout the Tahoe Basin, with many located in or near existing urban areas. As a consequence, it is unlikely that such properties can be managed effectively, and it is doubtful that the lots would ever be useful for more than open-space. This acquisition priority would also relegate to a secondary status the use of bond funds to provide additional public recreation, shoreline access, or wildlife habitat. These are the other purposes for which acquisition money authorized in the bond act may be used.

The bond act limits the purchase of environmentally sensitive parcels to those lands "threatened with development." Because the act does not define this term, it is unclear whether otherwise-qualifying properties that are prohibited from development under existing land-use restrictions are eligible for purchase. TALAC's recommendations do not address this issue. The Legislature should clarify the term "threatened with development," so as to indicate whether bond proceeds should be used to acquire lots that either (a) cannot legally be developed or (b) are unlikely to be developed in an environmentally harmful way, unless the properties also afford opportunities for public recreation, lakeshore access, or wildlife habitat. At the time this *Analysis* was prepared, there existed an effective moratorium on construction projects covering lands classified as "environmentally sensitive" or located within stream environment zones.

2. The Tahoe Conservancy established pursuant to Ch 1064/73 should be activated and designated as the implementing agency for the bond act.

Although never activated, the Tahoe Conservancy consists of seven statutory members including (a) one member each appointed by the City of South Lake Tahoe, and Placer and El Dorado Counties, (b) one member each appointed by the Senate Rules Committee and the Speaker of the Assembly, and (c) a representative of the U.S. Secretary of Agriculture. TALAC recommends that the conservancy be expanded to include the Director of Finance as a voting member.

Activation of the conservancy, as recommended, would require operation of a local office in the Tahoe Basin. The TALAC report estimates that a professional staff of 8 to 10 positions, plus related support and clerical staff, would be needed for (a) evaluating and initiating acquisitions and (b) supervising the management of lands once they are acquired. The commission suggests that the conservancy also be authorized to exchange and lease lands for purposes consistent with the bond act. Maintenance of a local office and staff would also facilitate the coordination of the state's purchase program with the Forest Service's Burton-Santini program.

TALAC further recommends giving the conservancy flexibility by (a) empowering it to provide grants to state, local, and federal agencies, and qualified nonprofit organizations, for making land purchases in behalf of the state and (b) providing it with a limited exemption from the Property

SECRETARY FOR RESOURCES—Continued

Acquisition Law for properties costing less than $250,000. Exemption from the Property Acquisition Law would eliminate separate review by the Public Works Board. It is unclear from the TALAC report who would retain title to lots acquired with grants.

3. The standard of valuation for the state bond program generally should be fair market value, but with the acquiring agency provided specific authority to use an alternate standard under certain circumstances.

This TALAC recommendation addresses provisions of the bond act (Government Code Section 66959) which *permit, but do not require,* acquisition of individual lots at a price other than fair market value that would "assure fairness to the landowner," if the value of the property "has been substantially reduced by any statute, ordinance, rule, regulation, or other order adopted after January 1, 1980," by state or local agencies to protect water quality or other resources.

Analyst's Comments. TALAC has not presented any specific justification for using a standard other than fair market value. Based on a study commissioned by TALAC, the Real Estate Services Division (Department of General Services) found that the value of Tahoe lots between 1980 and 1983 remained stable with no conclusive evidence that values have either increased or decreased during this period due to government regulatory actions.

Acquiring lots for more than fair market value under the bond act could undermine the ongoing Burton-Santini program which is using the traditional fair-market method of valuation and enjoying considerable success in finding willing sellers, according to TALAC. In addition, this provision of the bond act conflicts with Section 1263.32 of the Civil Procedure Code, which requires state agencies to use fair market value in making property acquisitions.

Payment of more than fair market value would also reduce the number of lots that ultimately could be acquired at Tahoe with bond proceeds. Using the Department of General Services' estimate of $15,000 as the fair market value of a typical lot, TALAC estimates that up to 5,000 lots can be purchased over the life of the bond program. Typical lake front lots (which could be used for public access and recreation) in Placer County would cost substantially more, having an estimated value of about $125,000 per acre, according to TALAC.

4. The acquiring agency should (a) try to limit the state's ongoing obligation to pay mandatory property owner association fees by negotiating a waiver or fee reduction prior to acquisition and (b) provide funds (in-lieu taxes) to compensate county and city governments for revenue losses due to removal of land from property tax roles.

In the Tahoe Basin there currently are a number of property owner associations that charge fees in return for services such as parks, beaches, other recreational facilities, and snow plowing. These fees range from $50 per year for unimproved lots in the Alpine Peaks Subdivision to $400 per year in Tahoe Keys. According to the Forest Service, up to 20 percent of the Tahoe Basin's subdividied lots may be subject to such fees. At an assumed annual cost of $100 per lot, TALAC estimates this liability would add up to an obligation of approximately $120,000 per year for lots acquired in California. TALAC recommends possible deferral of any purchases for which a waiver or fee reduction cannot be negotiated prior to acquisition.

Analyst's Comments. We recommend that assumption of ongoing fees or assessments *not* be permitted in any acquisition financed with bond proceeds. Only lots for which these obligations are waived, or eliminated by a lump-sum payment as part of the purchase price, should be considered for state acquisition. This policy would (1) insure that the *full* cost of each acquisition is recognized and measured against the appropriate standard of value and (2) reduce the need for ongoing appropriations to support land management costs.

Relative to in-lieu taxes, the TALAC report recommends that the state annually reimburse affected local governments an amount equal to 1 percent of the purchase price for a five-year period. This is the same formula currently used by the Forest Service in connection with its purchase program. TALAC further recommends that local governments be required to use one-half of the payments for erosion control projects. TALAC staff have estimated that the payment of in-lieu taxes under the Forest Service formula would cost the state of California $3.75 million over the life of the acquisition program. Although the source of funding for such payments is not specified in the TALAC report, it is assumed that bond proceeds would not be used for this purpose.

We believe that such payments would be inconsistent with existing state policy, which generally limits payment of in-lieu taxes to situations where state-owned property is generating revenues, such as grazing fees.

Action Needed to Implement Tahoe Land Purchase Program

We recommend that the Resources Agency and Department of Finance report at the time of budget hearings on (1) the administration's plans for implementing the 1982 Tahoe Bond Act and (2) its response to the recommendations of the Lake Tahoe Area Land Acquisition Commission.

Most of TALAC's recommendations will require both legislation and budgetary action to implement. If the Tahoe Conservancy is to become operational and land purchases started during the current calendar year, it will require (1) enactment of appropriate enabling legislation on an urgency basis and (2) provision of support funds in the 1984 Budget Bill or other legislation.

The TALAC staff have estimated that the Tahoe Conservancy will need approximately $550,000 per year for planning and supervising acquisitions over the life of the program. The TALAC expects that a total of between 4,200 to 5,000 separate parcels can be purchased over a four-year period, or approximately 1,150 acquisitions per year. Although expenses for escrow costs, such as title insurance, appraisals, and acquisition negotiations by the Department of General Services, can be financed with bond proceeds, support costs for the conservancy would have to be funded primarily from other sources. This is due to a statutory ceiling of $100,000 (Section 66906.7 of the Government Code) on the amount of bond funds which may be used for direct conservancy support in any one year. The Department of General Services has estimated that its costs would be $7.2 million over the life of the Tahoe bond program.

Additional state expenses that would arise if the program recommended by TALAC is implemented include (1) ongoing land management costs (estimated by the commission at $260,000 per year) and (2) $3.75 million for in-lieu tax payments to local government over a four- to five-year period. Although the source of funding for both ongoing land management costs and local government payments (if authorized) is not specified

SECRETARY FOR RESOURCES—Continued

in the bond act, the commission has assumed that bond proceeds will not be used for these purposes.

A summary of these various one-time and recurring costs for implementing the Tahoe Bond program as estimated by TALAC are as follows:

- Support of the Tahoe Conservancy staff and operations—$550,000 per year.
- One-time acquisition costs, including appraisals, title insurance and escrow fees—$1.8 million per year for four years ($7.2 million total).
- Ongoing land management costs, including payment of property owner assessments—$260,000 per year.
- In-lieu tax payments to local government—$3.75 million over four to five years.

Neither funding for the Tahoe Conservancy nor an appropriation of bond proceeds has been proposed in the budget. In addition, no legislative proposals for implementing the bond act had been made or otherwise endorsed by the administration at the time this *Analysis* was prepared. The Resources Agency and the Department of Finance should, at the time of budget hearings, present the administration's plans for implementing the Tahoe Bond Act and respond to the TALAC report recommendations. In particular, the administration should indicate how it proposes to finance various one-time and ongoing costs associated with the acquisition program. This will assist the Legislature in determining what actions it will need to take this spring, either through the budget process or the enactment of any legislation required to implement the Tahoe Bond Act.

Governor's Office

SECRETARY FOR YOUTH AND ADULT CORRECTIONAL AGENCY

Item 0550 from the General Fund — Budget p. LJE 27

Requested 1984–85	$645,000
Estimated 1983–84	613,000
Actual 1982–83	565,000
Requested increase (excluding amount for salary increases) $32,000 (+5.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary for Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Department of Corrections, Department of the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Board, and the Narcotic Addict Evaluation Authority. Current-year staffing for the agency consists of 9 full-time positions and 0.3 personnel-years of temporary help.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $645,000 from the General Fund for support of the Secretary for Youth and Adult Correctional Agency in 1984–85. This is an increase of $32,000, or 5.2 percent, over estimated current-year expenditures. The increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

The $32,000 increase results primarily from an adjustment to reflect (1) the full-year costs of the salary increase that took effect on January 1, 1984, and (2) general increases to offset the effects of inflation.

Agency's Staff Reorganized

Last year the new administration reorganized the agency's staff. The major changes involved two positions that acted as liaisons with the various departments which deal with youth and adult corrections. The positions were converted to a law enforcement/local government liaison position, and a program compliance and review position. Total staffing for 1984–85 is proposed at the current-year level of 9.3 positions.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General Fund — Budget p. LJE 30

Requested 1984–85	$224,000
Estimated 1983–84	203,000 [a]
Actual 1982–83	36,000
Requested increase (excluding amount for salary increases) $21,000 (10.3 percent)	
Total recommended reduction	15,000

[a] The 1983–84 budget includes $21,000 in Federal Funds that will not be available in 1984–85.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Establishment of Second Office. Reduce Item 0580-001-001 by $15,000.*** Recommend deletion of funds because the need for a second office has not been demonstrated. 52

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OC-MA) was created by Ch 1197/1982 (AB 2716). This act combined the staffs of the Commission of the Californias and the California Office of the Southwest Border Regional Conference (SWBRC) under one administrative body, effective January 1, 1983.

The Commission of the Californias continues as an organizational unit within the new office. The 18-member commission includes members of the Legislature and representatives of the public. Its primary function is to promote economic, cultural and educational relations with the States of Baja California and Baja California Sur of the Republic of Mexico. It seeks to accomplish this purpose through periodic meetings with designated Mexican officials. The commission is chaired by the Governor, who

OFFICE OF CALIFORNIA-MEXICO AFFAIRS—Continued

appoints the members. The Lieutenant Governor serves as vice chairman of the commission.

The OC-MA also provides staff support for California's participation in the Southwest Border Regional Conference. The conference is composed of the Governors of the four American and six Mexican border states. Its purpose is to promote binational cooperation in economic, cultural and environmental relations on both sides of the U.S.-Mexican border. The Office of California-Mexico Affairs provides staff support to the Governor (or his designee), as the California member of the conference.

The office currently has four authorized positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $224,000 for the OC-MA in 1984–85, which is $42,000, or 23 percent, more than estimated current-year General Fund expenditures. The total for 1983–84 includes expenditures of $21,000 in federal funds. The budget does not anticipate that additional federal funds will be available to the office in 1984–85. Consequently, the increase in *total* expenditures in the budget year is $21,000, or 10 percent of current-year expenditures. This increase will grow to the extent the Legislature approves staff salary or benefit increases for the budget year.

The proposed $42,000 increase in General Fund support would be used to finance (1) merit and cost-of-living adjustments to the baseline budget ($26,000), and (2) increases in operating expenses ($16,000).

The budget for the office is summarized in Table 1, and compared with the office's budget for 1983–84.

Table 1
Office of California-Mexico Affairs
Budget Summary
(dollars in thousands)
1983–84 and 1984–85

	Estimated 1983–84	*Proposed 1984–85*	*Changes*	
			Amount	*Percent*
Costs				
Personal Services	$138	$149	$11	8.0%
Operating Expenses	65	75	10	14.4
Total Costs	$203	$224	$21	10.3%
Funding				
General Fund	$182	$224	$42	23.1%
Federal Trust Fund	21	—	−21	−100
Authorized Positions (staff-years)	4	4	—	—

ANALYSIS AND RECOMMENDATIONS

Need for Second Office Has Not Been Justified

We recommend that $15,000 requested for support of a second OC-MA office be deleted, because the need for a second office has not been demonstrated.

The budget for the OC-MA proposes an increase to rent office space at San Diego State University during 1984–85.

Prior to the establishment of the OC-MA, the office of the Commission of the Californias was located in Sacramento, and the office of the Southwest Border Regional Conference (SWBRC) was located in San Diego.

In compliance with Chapter 1197, the OC-MA was established in the Governor's Office in January 1983. According to the OC-MA, the office administratively established a second office at San Diego State University during the first half of 1983–84. It did so in order to (1) accommodate its new director, who was already living in the San Diego area, and (2) provide a closer presence to the border communities that the office was supposed to serve.

The university agreed to provide space for this new office at no cost to the OC-MA during 1983–84. It has decided, however, to charge the OC-MA $15,000 for rental of the same space during 1984–85. In response, the OC-MA requests an increase in its facilities operation budget to pay this new expense.

In combining these two offices and their staffs into the OC-MA, Chapter 1197 specifically expressed the Legislature's intent that consolidation produce a single, cost-effective entity in the Governor's Office with a maximum staff of four persons. Although Chapter 1197 required the OC-MA to take advantage of the services available from San Diego State University in carrying out its statutory responsibilities, the act did not require, nor did it expressly authorize, the OC-MA to establish and fund a facility at the university.

Our analysis indicates that the proposed increase in operating expenses for a second OC-MA facility has not been justified using the budgeting guidelines established by the State Administrative Manual. Specifically, the budget change proposal submitted for this increase does not demonstrate the cost effectiveness of having two offices for a total staff of four people, nor does it show how the proposed division of the existing staff between the two offices would meet legislative intent as expressed in Chapter 1197. Moreover, we do not believe offices that are not needed to accomplish statutory objectives should be opened at state expense, in order to accommodate the preferences of those selected to head state agencies.

For these reasons, we recommend that the $15,000 budgeted to support a second facility for the OC-MA be deleted from the budget, for a corresponding savings to the General Fund.

Governor's Office

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General Fund — Budget p. LJE 31

Requested 1984–85	$443,000
Estimated 1983–84	424,000
Actual 1982–83	89,000
Requested increase (excluding amount for salary increases) $19,000 (4.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California State World Trade Commission was created by Chapter 1526, Statutes of 1982 (AB 3757), to promote international trade, tourism

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

and investments. Located in the Governor's office, the commission replaced and became the successor to the Office of International Trade in the Department of Economic and Business Development, effective January 1, 1983.

The 15-member commission is composed of executive, legislative and private sector representatives and is chaired by the Secretary of State. It serves as the official representative of the state on all international trade and tourism matters. The commission's responsibilities include (1) promoting and coordinating export trade, tourism and foreign investments in California through research and administrative programs, trade missions, overseas offices (if feasible) and other appropriate methods and (2) soliciting funds for the commission's activities from federal, state and private sources.

The commission is authorized to have an advisory council composed of 20–40 members, representing the diverse nature of the state's economy.

In the current year, seven authorized positions provide staff support to the commission.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of $443,000 for the commission in 1984–85. This is $19,000, or 4.5 percent more than estimated current-year expenditures. The size of this increase will grow to the extent the Legislature approves staff salary or benefit increases for 1984–85.

The proposed $19,000 increase in expenditures consists of (1) $11,000 for personal services, primarily to cover the full-year cost of salary adjustments that took effect on January 1, 1984, and (2) $8,000 for operating expenses—resulting primarily from price increases.

Status of Commission's Fund Raising Efforts

Chapter 1526, Statutes of 1982, which established the commission, authorized it to supplement state funding by seeking money from other governmental and private sector sources. Language contained in Item 0585 of the 1983 Budget Act required the commission to submit to the Legislature specified budget and program information, including a detailed plan for seeking private funds so that the Legislature could determine the likelihood of obtaining outside funding and the cost of its fund raising.

In response, the commission, on October 11, 1983, submitted budget and program information which met, for the most part, the requirements of the 1983 Budget Act language. With respect to fund raising from other governmental or private sources, the commission's report identified $29,311 as the estimated value of private sector contributions received by the commission as of September 30, 1983. These contributions consisted of loaned executives, donated office space and cash. With respect to fund raising in the future, however, the commission merely listed several potential sources of funds as possibilities. It did not specify the sources or the likelihood that funds would, in fact, be received from them.

The commission's proposed budget for 1984–85 is 100 percent supported from the General Fund. It does not show any funds from other sources being expended by the commission during either the current year or budget year.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General Fund and Federal Trust Fund — Budget p. LJE 34

Requested 1984–85	$3,299,000
Estimated 1983–84	3,085,000
Actual 1982–83	3,253,000
Requested increase (excluding amount for salary increases) $214,000 (+6.9 percent)	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0650-001-001—Support		General	$3,299,000
0650-001-890—Support		Federal Trust	(500,000)
0650-101-890—Local Assistance		Federal Trust	(125,000)
Reimbursements			(59,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Positions. Recommend adoption of supplemental report language directing OPR to submit schedules detailing its authorized positions to the Department of Finance for inclusion in the Governor's Budget documents. 57

GENERAL PROGRAM STATEMENT

The Governor's Office of Planning and Research (OPR) assists the Governor by conducting research and making policy recommendations on a wide range of matters. In addition, it has statutory responsibilities related to state and local land use issues, environmental and federal project review procedures, and permit assistance.

In the current year, the office was reorganized into six units:

1. ***Education Planning and Policy.*** This unit has five positions that advise the Governor, monitor legislation, and provide liaison with interested parties on issues related to education.

2. ***Local Government Affairs.*** A staff of 15 positions in this unit assist local governments with planning matters, review general plans developed by local governments, analyze legislation pertaining to local government issues, and provide liaison between the Governor and local agencies.

3. ***Resources, Energy, and Permit Assistance.*** This unit, with 29.5 positions in the current year, coordinates state and local reviews of environmental and federal projects through the State Clearinghouse, assists applicants for state and local development permits, provides assistance to the administration on outercontinental shelf matters, and performs other related duties.

4. ***Energy Extension Service.*** This program conducts outreach efforts and contracts with community groups, businesses, and local governments to promote awareness of energy conservation and renewable resource methods. The program has a staff of 9.5 positions and is fully supported by federal funds.

OFFICE OF PLANNING AND RESEARCH—Continued

5. ***Community Relations.*** Staffed with 10.5 positions, this unit provides liaison between the Governor and various community groups, advises the Governor on policy proposals, and represents the Governor at public meetings with community groups.

6. ***Executive Office and Support Services.*** This unit has 21.5 positions that provide general policy direction and administrative and support services to other OPR units. The unit also provides staff support and expenses to the California Commission on Industrial Innovation, and provides various administrative services to the Office of California—Mexico Affairs.

The OPR has 91 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,299,000 from the General Fund for support of the Office of Planning and Research (OPR) in 1984–85. This is an increase of $214,000, or 6.9 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary or staff benefit increase approved for the budget year. The $214,000 increase primarily is due to routine merit salary and inflation adjustments plus the proposed addition of one new position to the State Clearinghouse.

Total expenditures from all fund sources are proposed at $3,983,000 in 1984–85, a decrease of $958,000, or about 19 percent, below estimated current-year expenditures. This decrease primarily results from (1) a reduction in reimbursements due to the expiration of the Hazardous Waste Management Council on July 1, 1984, and (2) a reduction in federal funds allocated to the Energy Extension Service during the current year.

The budget proposes a total of 85.3 positions for OPR in the budget year, a reduction of 5.7 from the current-year level. Table 1 displays the budget for OPR, by program, for the past, current, and budget years.

Table 1
Office of Planning and Research
Budget Summary
1982–83 through 1984–85
(dollars in thousands)

	Expenditures			Change from 1983–84	
Program	*Actual[a] 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Amount*	*Percent*
1. Education Planning and Policy		$261	$293	$32	12.3%
2. Local Government Affairs		762	762	—	0
3. Resources, Energy, and Permit Assistance		1,221	1,116	−105	−8.6
4. Energy Extension Service		1,564	625	−939	−60.0
5. Community Relations		462	523	61	13.2
6. Executive Office and Support Services		671	664	−7	−1.0
Totals	$4,946	$4,941	$3,983	−$958	−19.4%
Funding Sources					
General Fund	$2,941	$3,072	$3,299	$227	9.0%
Federal Trust Fund	730	1,564	625	−939	−60.0
Environmental License Plate Fund	312	13	—	−13	−100.0
Reimbursements	963	292	59	−233	−79.8
Total Funding	$4,946	$4,941	$3,983	−$958	−19.4%

[a] Detailed expenditures by program unit for 1982–83 are not available because a different program structure was used prior to 1983–84.

OPR Display of Positions Inadequate

We recommend that the Legislature adopt supplemental report language requiring OPR to submit annually a schedule specifically identifying the office's positions and related information, for inclusion in the Salary and Wages Supplement.

Under the provisions of the State Administrative Manual, state agencies are required to submit various budget documents to the Department of Finance. Among these are the salary and wage schedules (Schedules 7A and 8) which the administration compiles into the Salaries and Wages Supplement to the Governor's Budget. This document provides the Legislature and the general public with information on the specific titles, number, and salary of all positions authorized in state government.

In our review of the Salary and Wages Supplement, we found only a one-line entry for OPR categorizing *all* office employees as temporary help. Although OPR compiles a detailed listing of positions for internal use and makes it available to the Legislature upon request, we can see no reason not to include this information in the Supplement. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

"The Office of Planning and Research (OPR) annually shall submit to the Department of Finance complete schedules identifying the specific positions in the office, the number of each type of position and the cost of these positions, for the past, current, and budget years, in accordance with the State Administrative Manual. This information shall be included in the Salary and Wages Supplement to the Governor's Budget."

Governor's Office

OFFICE OF ECONOMIC OPPORTUNITY

Item 0660 from the General Fund and Federal Trust Fund — Budget p. LJE 39

Requested 1984–85	$114,488,000
Estimated 1983–84	132,961,000
Actual 1982–83	106,017,000
Requested decrease (excluding amount for salary increases) $18,473,000 (−13.9 percent)	
Total recommended reduction	None
Recommendation pending	4,805,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0660-001-001—Support		General	$80,000
0660-001-890—Support		Federal	9,134,000
0660-101-890—Local Assistance		Federal	105,274,000
Total			$114,488,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Low-Income Home Energy Assistance Block Grant Proposal. Recommend (a) that the Office of Economic Opportunity (OEO) submit a budget proposal to the fiscal committees that reflects new federal funding levels, (b) approval of the proposal to suspend the 5 percent limit on administrative expenses, and (c) reduction of $266,000 and 12.5 positions proposed to increase administrative support of the program. Also, withhold recommendation on $4,805,000 in federal funds for the administration of energy programs, pending the submission of a reorganization plan that provides justification for existing positions. 61
2. Weatherization Program Priorities. Recommend that the OEO submit to the fiscal committees, prior to the budget hearings, a plan to use federal weatherization funds in a way that maximizes the energy savings resulting from weatherization activities. 63
3. Available Community Services Block Grant Funding. Recommend that the OEO submit to the fiscal committees, prior to the budget hearings, (a) information explaining why proposed Community Services Block Grant (CSBG) expenditures are less than federal funding levels for 1984–85 and (b) a plan for using any additional CSBG funds available in 1984–85. 65
4. Interdepartmental Coordination. Recommend that the OEO submit to the fiscal committees, prior to the budget hearings, a plan to coordinate economic development and job training activities under the CSBG program with the Employment Development Department, the Job Training Coordinating Council, and the Department of Economic and Business Development. 66

GENERAL PROGRAM STATEMENT

The Office of Economic Opportunity (OEO), which is located within the Governor's office, (1) administers the Low-Income Home Energy Assistance (LIHEA) block grant program, (2) administers the Community Services Block Grant (CSBG), (3) plans, coordinates, and evaluates programs that provide services to the poor, and (4) advises the Governor on the needs of the poor. The LIHEA block grant assists low-income persons in meeting the cost of energy. The CSBG provides funds to community action agencies for programs intended to assist low-income people.

The 1983 Budget Act authorized 196.5 positions for the office. During the current year, 21.4 positions were administratively reestablished in order to increase review of home energy assistance grants. As a result, the OEO has a total of 217.9 positions in the current year.

OVERVIEW OF THE PROPOSED BUDGET

The budget proposes total expenditures of $114,488,000 from all funds for programs administered by the office in 1984–85, as shown in Table 1. This is a net decrease of $18,473,000, or 14 percent, below estimated current-year expenditures. This reduction is due to the fact that $18.4 million in LIHEA block grant funds carried over into the current year will not be available in the budget year.

The proposed expenditure level of $114 million includes $9 million for administration and $105 million for direct services programs. The amount proposed for administration includes $266,000 to fund an additional 12.5 management and program support positions for the LIHEA block grant. If approved by the Legislature, this would bring LIHEA expenditures for administrative above the 5 percent limit established in state law. Any increase in salaries or staff benefit approved for the budget year would cause the amount spent for administration to further exceed the 5 percent cap. In view of this, the administration proposes Budget Bill language to suspend the 5 percent cap and thereby allow funding for LIHEA administrative expenses to be based on program needs, as determined by the office.

Table 1
Office of Economic Opportunity
Program Expenditures and Revenues
1982–83 through 1984–85
(in thousands)

Expenditures	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*[a]	*Change From 1983–84 to 1984–85* Amount	*Percent*
Program and Resource Planning	$283	$385	$430	$45	11.7%
Energy Programs	87,032	103,706	85,163	–18,543	–17.9
Administration	(4,652)	(6,073)	(6,290)	(217)	(3.6)
Program	(82,380)	(97,633)	(78,873)	(–18,760)	(–19.2)
Special Programs	214	—	—	—	—
Community Services	18,021	28,795	28,815	20	0.1
Administration	(568)	(1,681)	(1,467)	(–214)	(–12.7)
Programs	(17,453)	(27,114)	(27,348)	(234)	(0.9)
Executive and Administration	1,711	1,436	1,584	148	10.3
Distributed Administration	–1,218	–1,361	–1,504	143	10.5
Total Expenditures	$106,043	$132,961	$114,488	–$18,473	–13.9%
OEO Administration	$6,210	$8,214	$9,214	$1,000	12.2%
Programs	$99,833	$124,747	$105,274	–$19,473	–15.6%
Revenue					
General Fund	$956	$75	$80	$5	6.7%
LIHEAP	84,781	93,801	81,921	–11,880	–12.7
CSBG	18,021	28,795	28,815	20	0.1
Other Federal Funds	2,259	10,290	3,672	–6,618	–64.3
Reimbursements	26	—	—	—	—
Total Revenues	$106,043	$132,961	$114,488	–$18,473	–13.9%

[a] The 1984–85 budget shows incorrect federal funding levels for Energy Programs and Community Services. The Department of Finance advises that corrections will be made in a subsequent budget amendment letter.

OFFICE OF ECONOMIC OPPORTUNITY—Continued

ANALYSIS AND RECOMENDATIONS

LOW-INCOME HOME ENERGY ASSISTANCE BLOCK GRANT

The OEO administers the Low-Income Home Energy Assistance (LIHEA) Block Grant, which provides direct assistance to low-income households in order to help them finance their heating, cooling, and lighting bills. The program has three components.

The Home Energy Assistance Program (HEAP) provides cash grants to eligible households to help alleviate the burden imposed by energy-related utility bills. Grants vary by household size, the type of fuel used, and the location of the recipient's residence. In 1982–83, HEAP grants averaged $162 per household.

The Energy Crisis Intervention Program (ECIP) provides emergency assistance to households in cases where fuel has been shut off or is about to be shut off, the household does not have sufficient funds to pay a delinquent utility bill, or the household is unable to finance the purchase or repair of heating devices. The ECIP is operated by local Community Action Agencies (CAAs) and other community-based organizations. Payments under ECIP averaged $140 in 1982–83.

The Weatherization Program provides low-cost energy conservation services, including weatherstripping, insulation, and heater adjustment, to recipients through community organizations. The average cost of weatherization services totaled $681 per home in 1982–83.

Federal and State Block Grant Requirements

Federal law imposes a number of requirements on states receiving LIHEA funds. In addition, California law (Section 16367 of the Government Code, as amended by Ch 228/82 and 1185/83) specifies the use and allocation of these funds within the state. The provisions of federal and state law that apply to the LIHEA program can be summarized as follows:

- *Administrative Expenditures.* Although federal law allows states to use up to 10 percent of the LIHEA grant for administration, California law limits administrative expenditures to *5 percent* of the allocation for a given year unless the Director of Finance provides 30-days' prior notification to the Legislature of his/her intent to authorize an increase above the 5 percent limit. In no case, however, can administrative expenditures exceed 7.5 percent of the allocation. During the current year, the Department of Finance authorized an increase, to 5.6 percent, in the cap on OEO's administrative expenses under the LIHEA program.
- *Program Expenditures.* Federal law requires that a "reasonable" portion of the block grant funds be made available for ECIP, and that no more than 15 percent of the funds be used for weatherization. State law limits expenditures for the weatherization program to 10 percent. Chapter 1185/83 (SB 492) eliminated the prior provisions of state law which limited ECIP expenditures to 7.5 percent of the total allocation. As a result, funding for ECIP will now be determined in the Budget Act within the 10 percent federal limit. Federal law *allows* a state to transfer up to 10 percent of the LIHEA grant to social services programs. State law *requires* that up to 10 percent of the block grant funds be used to support social services programs.
- *Benefit Requirements.* Federal law requires that households

which have the lowest income and the highest energy costs in relation to income (after adjustments are made for household size) receive the highest benefits. In addition, the federal government requires the state to conduct (1) outreach activities designed to inform eligible households about LIHEA and (2) administrative fair hearings for those persons whose requests for benefits are denied or delayed.

- ***Eligibility Requirements.*** Under federal law, LIHEA benefits are available to (1) households in which at least one member is eligible for AFDC or SSI benefits or (2) households with incomes below either 150 percent of the poverty level or 60 percent of the state median income. The current state plan restricts HEAP benefits to households with an AFDC or SSI/SSP recipient, provided the household's income is less than 130 percent of the poverty level. Table 2 summarizes the eligibility restrictions imposed by federal and state law.

Table 2

Federal and State Requirements for LIHEA Eligibility

Program	*Federal Law*	*State Law*	*State Plan*
Home Energy Assistance	1. AFDC or SSI eligible, *or* 2. Income less than 150% of poverty	AFDC or SSI/SSP eligible	Income below 130% of poverty.
Energy Crisis Intervention and Weatherization Program	1. AFDC or SSI eligibles *or* 2. Income less than 150% of poverty.	AFDC, SSI/SSP General Relief, or Food Stamp eligibles.	1. AFDC, SSI recipients *or* Food Stamp eligibles *and* 2. Income below 130% of poverty.

LIHEA Proposal Is Incomplete

We recommend:

1. The OEO submit to the fiscal committees, prior to the budget hearings, a revised budget proposal for the LIHEA block grant that reflects new federal funding levels.

2. Approval of the administration's proposal to eliminate the 5 percent cap on LIHEA administrative expenses and to budget such expenses based on workload needs.

3. A reduction of $266,000 in federal funds and 12.5 positions proposed for administrative support of the LIHEA program. We further recommend that these fund be redirected to increase benefits available under the LIHEA in 1984–85. Further, we withhold recommendation on $4,805,000 in administrative expenses proposed for LIHEA in 1984–85 pending the submission of information on the office's reorganization plan.

LIHEA Budget Proposal Is Outdated. The budget proposes $85,163,000 for the OEO energy program in 1984–85. This amount includes $3.7 million in federal funds for the Department of Energy Weatherization program and $81,491,000 in LIHEA expenditures. Of that amount, the budget proposes to spend $14,025,000 on weatherization activities, $15,600,000 on the ECIP program, and $55,538,000 for HEAP payments.

Our analysis indicates that the federal LIHEA funding level for 1984–85 will be lower than what the budget anticipates. Specifically, the budget proposal assumes that California will receive $90,439,000 in LIHEA funds in federal fiscal year 1985. Based on more recent information, the Department of Finance now assumes that California can expect to receive only

OFFICE OF ECONOMIC OPPORTUNITY—Continued

$85,830,000 in federal fiscal year 1985, which is $4,609,000, or 5.1 percent, less than the budget estimate.

Our review of the LIHEA allocations proposed for 1984–85 also determined that the proposed allotment for weatherization exceeds the percentage permitted by state law. As discussed above, Chapter 228 limits LIHEA expenditures on weatherization to 10 percent of the total grant. The budget, however, proposes $10.4 million, or 11.2 percent, of 1984–85 LIHEA funds for weatherization.

In order to inform the Legislature of the amount of funds available for energy assistance programs in 1984–85 and how these funds will be used, we recommend that the OEO submit to the fiscal committees, prior to the budget hearings, a revised LIHEA proposal that is consistent with (1) the expected level of federal funding and (2) allocation limits set in state law.

Budget Proposal Lacks Documentation. The 1984–85 budget proposes an increase in LIHEA administrative expenditures of $581,000 and 32.0 positions. The increase consists of three components:

1. Permanent establishment of 19.5 additional positions ($315,000) that were administratively established in 1983–84 to comply with audit requirements imposed by the State Controller.
2. $145,000 and 6.0 new positions to increase officewide administrative support.
3. $121,000 and 6.5 new positions in support of additional LIHEA workload relating to (a) outreach and application activities in the HEAP program and (b) additional review of ECIP and Weatherization contracts.

As a result of the increase in positions, the budget request for administrative costs associated with LIHEA is $5,071,000, or 5.9 percent of the expected 1984–85 LIHEA grant. Because current state law limits LIHEA administrative support to 5 percent of the LIHEA grant, the administration is proposing budget bill language to suspend the 5 percent cap and allow funding for LIHEA administrative expenses to be based on program needs, as determined by the office.

We agree that LIHEA administrative expenditures should be based on workload needs, rather than as percentage of available federal funds. We base this conclusion on two considerations. First, allocating administrative costs as a percent of the total grant does not insure that the office receives the appropriate amount of funds. If the allocation is larger than necessary, some of the administrative funds could have been used to increase program benefits.

Second, allocating the proper full-year allocation would increase legislative review of OEO's total LIHEA administrative expenditures. In both 1982–83 and 1983–84, the OEO increased LIHEA administrative support above the 5 percent level through the Section 28 process. While the Joint Legislative Budget Committee reviews such increases, such reviews do not substitute for review by the full Legislature that the budget process affords.

Therefore, we recommend approval of OEO's request to waive the 5 percent cap and allow LIHEA administrative support to be based on workload requirements. We cannot, however, determine the proper amount that should be budgeted for the administration of LIHEA. This is because (1) the office cannot document its need for 12.5 new positions and (2) the office is reorganizing its staff and cannot demonstrate how the OEO budget proposal relates to the proposed organization.

New Positions Not Justified. In its justification for 12.5 new positions, the office provides no workload statistics which would indicate that the additional positions are essential to the efficient administration of the office. Without such workload documentation, the fiscal committees have no way to evaluate whether these positions are needed. For this reason, we recommend deletion of the 12.5 positions proposed for 1984–85. We further recommend that OEO redirect the $266,000 budgeted to support these positions as program benefits in the revised LIHEA budget proposal.

Reorganization Affects Administrative Needs. The OEO is currently reorganizing its staff. We cannot determine whether the OEO proposal for LIHEA adminstrative expenses is appropriate for the needs of its proposed organization. For example, the office has not demonstrated how the proposed organization differs from the current structure, or which program (LIHEA or CSBG) will support overhead administrative positions.

Therefore, to allow the Legislature to determine the appropriate allocation for administrative expenses, we withhold recommendation on $4,805,000 proposed for LIHEA administrative support. We recommend that prior to the budget hearings the OEO submit to the fiscal committees the following information:

1. A chart showing the current and proposed organizational structures, including the number of positions budgeted for each organizational unit.
2. A list of the positions in each unit, the salary associated with each position, and the amount supported by each funding source.
3. A detailed workload justification for each position in the proposed organizational structure.

Weatherization Strategy Has Leaks

We recommend that the OEO submit to the fiscal committees, prior to the budget hearings, a plan to use OEO weatherization funds in a way that maximizes the energy savings resulting from weatherizing activities.

As part of the LIHEA and Department of Energy (DOE) weatherization programs, the OEO funds two types of services: low-cost conservation services and renewable-resource measures. Low-cost conservation services include caulking and weatherstripping doors and windows, attic insulation, and other measures designed to conserve energy. Renewable resource measures include solar space and water heaters and wood stoves.

Both conservation and renewable resource measures are provided by local agencies under contracts with OEO. Funds are allocated to these agencies based on the proportion of the eligible population residing in the county and the heating and cooling needs of that population.

The OEO gives some discretion to provider agencies with regard to the types of conservation or renewable resource measures that may be provided to eligible persons. The office, however, requires that (1) low-cost weatherization measures be provided in a specific priority order, (2) renewable resource measures be installed only if the dwelling does not require low-cost conservation services, and (3) the cost of services provided to each dwelling not exceed $1,000.

Our analysis indicates that this policy may not maximize the effectiveness of weatherization funds in reducing the energy needs of low-income households. We base this conclusion on the following findings:

1. ***The office does not have a policy of providing the most cost-effective services to the largest number of low-income households.*** Instead, agencies are permitted to provide up to $1,000 worth of weatherization services to a low-income household regardless of the effectiveness of those

OFFICE OF ECONOMIC OPPORTUNITY—Continued

services relative to others. As a result, agencies may install solar devices in some homes while other low-income households in the same area are not provided basic low-cost conservation measures.

2. ***The priority order in which the OEO requires local agencies to provide low-cost conservation services is not appropriate for all areas (and weather conditions) in the state.*** Research done by the California Energy Commission (CEC) suggests that the OEO should require local agencies to use different priorities when providing low-cost conservation services, depending on local climate and energy needs. For example, the OEO requires that local agencies give weatherstripping and caulking first priority throughout the state. While this makes sense in northern California, the CEC research shows that other conservation measures, such as thermostat clocks, are more cost-effective than caulking and weatherstripping in southern California.

3. ***The OEO rules permit agencies to install solar water heaters in any area, even though these devices are not cost-effective in all areas of the state.*** Research done by the CEC also shows that the cost-effectiveness of solar heaters is greatly affected by the climate of the area in which the heater is installed.

Therefore, we recommend that the OEO submit a plan to the fiscal committees, prior to the budget hearings, for maximizing the energy savings resulting from federal weatherization funds. The plan should provide that:

1. The priority order of low-cost conservation measures reflects the relative cost-effectiveness of individual measures in different areas of the state.
2. Solar hearing devices can be provided by an agency only if such devices have been shown to be cost-effective in the agency's service area.
3. Funds must be used to provide the most cost-effective conservation measures to as many eligible households as possible.

COMMUNITY SERVICES BLOCK GRANT

The OEO assumed responsibility for the Community Services Block Grant (CSBG), effective October 1, 1982. The CSBG, which replaced the federally administered Community Services Administration program, provides a range of services to low-income people through local Community Action Agencies (CAA).

Chapter 4x, Statutes of 1983 (AB 3x), provides statutory authorization for the OEO to administer the CSBG program. The bill defines the responsibilities and duties of the state, CAAs, and various other local entities. Chapter 4x also provides that the allocation of CSBG funds to various programs (for example, CAAs, rural areas, migrant farm workers) be determined as part of the budget process.

The budget proposes the expenditure of $28,815,000 in CSBG funds by OEO during 1984–85. This is an increase of $20,000, or 0.1 percent, from OEO's current-year expenditure level.

Federal CSGB Guidelines.

Under federal law, the CSBG funds may be used to assist low-income people to:

- Secure and retain meaningful employment;
- Attain an adequate education;

- Made better use of available income; or
- Fulfill urgent family health, food, housing, or employment-related needs.

Federal rules require that (1) at least 90 percent of a state's CSBG grant be distributed to local public or private nonprofit agencies and (2) state administrative expenses not exceed 5 percent of the state's total allocation.

Federal law allows the OEO to distribute CSBG funds to four types of agencies, as follows:

1. ***Community Action Agencies (CAA),*** which provide services to low-income people and receive the bulk of CSGB funds.
2. ***Districts without CAAs*** which are eligible to maintain community action programs. Community services programs in these areas are operated by private nonprofit organizations or other public agencies. These agencies may cover more than one county.
3. ***The Migrant and Seasonal Farmworker program,*** which ensures that these special groups receive CSBG services. Three migrant and seasonal farmworker districts have been established in California to directly, or through other agencies, provide services to these populations.
4. ***An American Indian program,*** which distributes funds to American Indians who are on or off reservations.

The remaining 10 percent of the funds are allocated for administration and discretionary purposes. Under federal law, up to 5 percent of the state's CSBG grant may be set aside for "discretionary" purposes, such as special projects and support programs, and to provide technical assistance to CAAs.

Table 3 shows the current and budget-year expenditures of CSBG funds. The budget anticipates that the funding levels for CSBG in federal fiscal years 1984 and 1985 will be the same. As a result, the budget proposes to allocate in 1984–85 the same amount of CSBG funds for administration and programs, as was allocated in 1983–84.

Table 3
Community Services Block Grant Allocations
Federal Fiscal Years 1984 and 1985
(in thousands)

	1984		*1985*	
	Dollars	*Percent*	*Dollars*	*Percent*
Administration	$1,467	5.0%	$1,467	5.0%
Discretionary	1,467	5.0	1,467	5.0
Community Action Agencies	21,706	74.0	21,706	74.0
Native American Indian	1,145	3.9	1,145	3.9
Rural Areas without Community Action Agencies	616	2.1	616	2.1
Migrant and Seasonal Farmworkers	2,933	10.0	2,933	10.0
Totals	$29,333	100.0%	$29,333	100.0%

Additional CSBG Funds May Be Available

We recommend that prior to the budget hearings the OEO submit (1) information explaining why proposed CSBG expenditures are less than available federal funding levels and (2) its plan for using any additional CSBG funds that the office determines to be available in 1984–85.

Because each *federal* fiscal year overlaps two *state* fiscal years, the administration must apportion CSBG funds it receives from the federal government between the two years. As a result, a portion of the CSBG

OFFICE OF ECONOMIC OPPORTUNITY—Continued

funds received in each federal fiscal year is carried over into the next state fiscal year.

Our analysis indicates the office may not have budgeted in 1983–84 and 1984–85 the entire amount of available CSBG funds that it expects to receive in federal fiscal year 1984. We base this conclusion on two considerations.

First, *average* expenditures for the two state fiscal years is less than the federal grant level. Specifically, the OEO proposes to spend $28.8 million under the CSBG in both 1983–84 and 1984–85. Federal funding for CSBG, however, is expected to be $29.3 million in both years. As a result, it appears that the level of proposed CSBG spending is $450,000, or 1.6 percent, less than the amount of federal funding available.

Second, the OEO budget documents show that the amount of CSBG funds carried over from one state fiscal year to the next is increasing. The carryover of funds into 1984–85 is estimated at $14.6 million. The expected carryover into 1985–86 is $15.1 million, an increase of $518,000, or 3.5 percent. It is not evident why the carryover amount should increase while the amount of available funds is the same for both years.

The OEO could not explain these discrepancies. Although the office indicated that all federal funds were being *obligated,* it could not provide data to verify this claim.

So that the Legislature might verify that the OEO has budgeted the full amount of CSBG funds available for 1984–85, we recommend that the office submit to the fiscal committees, prior to the budget hearings, the following information:

1. A table showing quarterly actual and proposed CSBG cash expenditures, by funding category (as shown in Table 3 of this analysis), from January 1983 through July 1985.
2. A table showing quarterly actual and proposed CSBG obligations by funding category for the same period.

If the office determines that the 1984–85 spending proposal is underbudgeted, it also should submit a plan to the fiscal committee of how it proposes to spend the additional funds.

CSBG Activities Not Coordinated with Those of Other State Agencies

We recommend that prior to budget hearings, the OEO submit to the fiscal committees a plan for coordinating its job training and economic development activities with similar activities conducted by the Employment Development Department, the Job Training Coordinating Council, and the Department of Economic and Business Development.

In 1983, the OEO declared that job creation was a high priority activity under CSBG. In order to facilitate job creation, the office undertook two major initiatives. First, the OEO included job creation activities as a statewide priority in the 1984 state CSBG plan. While Chapter 4x permits the office to establish priorities under CSBG, these priorities are not binding on local agencies. Instead, each agency must only *consider* the state priorities as it goes through the process of determining its own local priorities. Nevertheless, local agencies responded to OEO's priorities. Of 965 local CSBG program activities planned for 1983–84, 218, or 23 percent, were job-related.

The second step taken by the OEO was to use discretionary CSBG funds to support local job creation programs. Activities supported with discretionary funds included (1) on-the-job training programs similar to those administered by the Employment Development Department (EDD) and (2) economic development programs of the type administered by the Department of Economic and Business Development (DEBD).

Our analysis indicates that the OEO initiatives in job creation were designed and administered independently of other state and local job training and economic development programs. In developing its initiatives, the office did not seek or receive advice or comments from either the EDD or DEBD. Consequently, these agencies had no opportunity to ensure that (1) OEO's state priority declaration for the CSBG effectively communicated *state* job training and economic development policy to local agencies and (2) OEO's discretionary activities in these areas followed policy guidelines established by the two state agencies.

Effective coordination of OEO's training and development activities with those of the lead state agencies is especially important for two reasons. First, the OEO has no expertise in either job training or economic development programs. As a result, EDD and DEBD could provide considerable help in making CSBG programs as effective as possible. Second, coordination of the activities undertaken by these state agencies could increase the use of common strategies in pursuit of common goals. Without such coordination, *local* economic development strategies may differ from those of the *state.* If, however, OEO informs local agencies of the guidelines DEBD uses to evaluate economic development proposals, local and state programs might follow a common economic development strategy.

In order to ensure that CSBG money used for job training and economic development is as effective as possible, we recommend the OEO submit to the fiscal committees prior to budget hearings a plan for:

1. Communicating state job training and economic development policy to local CSBG agencies as part of its annual state plan.
2. Effectively coordinating discretionary CSBG activities in the job training and economic development areas with the EDD, the Job Training Coordinating Council (which oversees the implementation of the new federal Job Training Partnership Act), and the DEBD.

Governor's Office

OFFICE OF EMERGENCY SERVICES

Item 0690 from the General Fund — Budget p. LJE 45

Requested 1984–85	$15,910,000
Estimated 1983–84	33,348,000
Actual 1982–83	14,696,000
Requested decrease (excluding amount for salary increases) $17,438,000 (−52.3 percent)	
Total recommended reduction	None

OFFICE OF EMERGENCY SERVICES—Continued

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0690-001-001—Support		General	$7,023,000
0690-001-029—Support		Nuclear Planning Assessment, Special Account	287,000
0690-001-890—Support		Federal Trust	(3,359,000)
0690-101-029—Local Assistance, Fixed Nuclear Powerplant Planning		Nuclear Planning Assessment, Special Account	600,000
0690-101-890—Local Assistance, Emergency Mutual Aid Services		Federal Trust	(38,013,000)
Continuous Appropriation—Local Assistance		Public Facilities Account	4,500,000
Continuous Appropriation—Local Assistance		Street and Highway Account	3,500,000
Reimbursements			(265,000)
Total, State Funds			$15,910,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. California Specialized Training Institute. Recommend adoption of Supplemental Report language directing the OES to provide details on its proposed plan for the organization and operation of the California Specialized Training Institute. 72
2. ***Coalinga Disaster Relief Program. Transfer $2,230,000 to the General Fund.*** Recommend that funds not needed for disaster relief be transferred to the General Fund. 74
3. Street and Highway Storm Damage Program. Recommend that the OES report to the Legislature on the status of the Street and Highway Storm Damage Program. 76

GENERAL PROGRAM STATEMENT

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. The office carries out its mission through two programs—emergency mutual aid services, and fixed nuclear power plant planning. It also provides aid to local governments through the Natural Disaster Assistance Fund. The office was authorized 125 positions in the current year to carry out these activities. In addition, 4.1 positions have been established administratively to accomplish federally funded work, for a total of 129.1 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a total expenditure program of $57,547,000 from the General Fund, federal funds, special funds, and reimbursements for support of office activities in 1984–85. This amount is $17,259,000, or 23 percent, less than estimated current-year expenditures.

The decline in expenditures proposed for the budget year, however, does not reflect a cutback in the office's ongoing programs. The net decline results almost entirely from a reduction in the estimated amount of state and federal disaster assistance that will be distributed to local governments in the budget year. The budget anticipates that $42.5 million in disaster assistance and loans will be distributed in 1984–85, compared with $62.5 million in 1983–84. The higher level of expenditure in the current year results from two programs established to assist local agencies in recovering from 1981–82 and 1982–83 winter storm damage and the 1983 Coalinga earthquake. (These programs are discussed in more detail later in this analysis.) It is important to note that the amount of disaster assistance budgeted for 1984–85 is merely an estimate. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters. Approximately $34.2 million was distributed for this purpose in 1982–83.

If the proposed budget is adjusted to eliminate the effect of changes in disaster assistance funding, the level of expenditures is $2,741,000, or 22 percent, *higher* than estimated expenditures in the current year.

Expenditures for support and local assistance are summarized by funding source and fiscal year in Table 1.

Table 1
Office of Emergency Services
Source of Funding Summary
1982–83 through 1984–85
(dollars in thousands)

Category/Source of Funds	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change From 1983–84 to 1984–85 Amount*	*Percent*
Support					
General Fund	$3,609	$4,464	$7,023	$2,559	57.3%
Federal funds	2,906	3,390	3,359	−31	−0.9
Nuclear planning assessment	329	284	287	3	1.1
Reimbursements	60	55	265	210	381.8
Subtotals	$6,904	$8,193	$10,934	$2,741	33.5%
Local Assistance					
General Fund [a]	—	($21)	($21)	—	—
Federal funds	$26,759	38,013	38,013	—	—
Nuclear planning assessment	811	600	600	—	—
State Highway Account	—	15,000	—	−$15,000	−100.0%
Public Facilities Account	6,863	4,500	4,500	—	—
Street and Highway Account	3,084	3,500	3,500	—	—
1983 Natural Disaster Account	—	5,000	—	−5,000	−100.0
Subtotals	$37,517	$66,613	$46,613	−$20,000	−30.0%
Totals	$44,412	$74,806	$57,547	−$17,259	−23.1%

[a] Funding for 1983–84 and 1984–85 is provided in the budget for "State-Mandated Local Programs," Item 9680.

As can be seen in Table 1, the costs of state operations are proposed to increase $2,741,000, or 34 percent, in the budget year. This increase, moreover, will grow by the cost of any salary or staff benefit increase approved for the budget year.

The $2.7 million increase reflects:

- The transfer of $758,000 from the General Fund and $210,000 in reimbursements from the Military Department to the OES for operation of the California Specialized Training Institute.
- A one-time expenditure of $566,000 in the budget year related to the expansion of the FIRESCOPE project to northern California.
- Increased expenditures of $231,000 on acquisition and maintenance of state mutual aid resources. Of this amount, $145,000 represents a one-time cost in 1984–85.
- The addition of $276,000 and eight positions related to increased workload in existing programs.

OFFICE OF EMERGENCY SERVICES—Continued

- An increase of $382,000 and nine positions to expand the level of service in certain programs.

The reductions in local assistance are related to the disaster relief expenditures mentioned above.

Table 2 provides a summary of the OES expenditures and personnel, by program.

Table 2
Office of Emergency Services
Program Summary
1982–83 through 1984–85
(dollars in thousands)

				Change From 1983–84 to 1984–85	
Expenditures	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Amount*	*Percent*
Mutual Aid	$29,115	$55,847	$41,794	−$14,053	−25.2%
Emergency Communications Systems	840	1,011	1,267	256	25.3
Emergency Planning	2,305	2,772	4,020	1,248	45.0
State Mutual Aid Resources	1,074	1,292	1,579	287	22.2
Nuclear Power Plant Planning	1,140	884	887	3	0.3
Natural Disaster Assistance	9,947	13,000	8,000	−5,000	−38.5
Administration (distributed)	(1,049)	(1,110)	(1,328)	(218)	(19.6)
Totals	$44,421	$74,806	$57,547	−$17,259	−23.1%
Personnel-Years					
Mutual Aid	32.8	34.1	38.1	4.0	11.7%
Emergency Communications Systems	11.7	12.5	14.1	1.6	12.8
Emergency Planning	32.1	33.0	35.0	2.0	6.1
State Mutual Aid Resources	15.0	15.5	17.5	2.0	12.9
Nuclear Power Plant Planning	3.9	5.0	5.0	—	—
Natural Disaster Assistance	—	—	—	—	—
Administration	24.8	25.0	30.0	5.0	20.0
Totals	120.3	125.1	139.7	14.6	11.7%

ANALYSIS AND RECOMMENDATIONS

Proposed Expansion of FIRESCOPE

We recommend approval.

The budget includes a one-time appropriation of $566,000 from the General Fund to expand the FIRESCOPE system to northern California in 1984–85.

FIRESCOPE is a federally developed project in southern California designed to improve the management of resources in areas susceptible to large multi-jurisdictional fires. Initially, the project focused on the problems associated with wildland fires. The United States Forest Service provided funds for development costs and necessary equipment and initially paid for a large portion of the personnel costs. As the project proceeded, the state assumed an increasingly larger percentage of the ongoing costs. At present, the Forest Service pays for 25 percent of the ongoing cost of the southern California project. Thus, the federal government is providing $106,000 of the current-year operating budget of $424,000. Federal support for the southern California work is projected at $111,000 for the budget year.

The FIRESCOPE system currently operates with a staff of eight at the

California Department of Forestry regional headquarters in Riverside. The system provides a framework for interaction between local agencies through standard organizational structure, procedures, terminology, and descriptions of firefighting resources. The FIRESCOPE computer can provide an up-to-date inventory of resources, resource allocation and fire status reports, as well as information on the fire potential of nearby areas. In addition, it provides a focal point for the collection, processing, and dissemination of information. Consequently, the system allows for improved coordination between agencies and better distribution of resources to fire incidents.

The budget proposes to make these same capabilities available to firefighting entities in northern California. Under the proposed expansion, a second computer would be installed at the OES headquarters in Sacramento, and linked to the existing system in Riverside. This arrangement will serve two purposes. First, it will provide the additional computer capacity that is necessary to allow northern California jurisdictions access to the system. Second, the Sacramento computer will serve as a backup system for the existing computer. Currently, the Riverside installation has no backup. Any physical damage to the facility could result in the loss of information and programs or could render the entire system inoperative.

The OES advises that local jurisdictions which desire to access the system will be required to purchase their own terminals. In addition, the local entities will be required to provide some level of in-kind services toward the implementation and upkeep of the system and data collection. It is anticipated that the expansion of the OES system will result in a General Fund cost of $40,000 annually for operation and maintenance, starting in 1985–86.

Aquisition and Maintenance of Mutual Aid Resources

We recommend approval.

The budget includes $231,000 in additional funds for acquisition and maintenance of state mutual aid resources. These funds are in addition to an ongoing replacement program of $694,000. The state maintains emergency equipment at various locations around the state to assist local jurisdictions in handling emergencies which exhaust local response capabilities. The additional funds requested in the budget year will be used to:

- Expand the fleet of law enforcement mobile communication vans from three to four to provide a van for use in the north central part of the state.
- Refurbish one law enforcement mobile equipment support van.
- Provide funds for stationary and mobile radio equipment whose replacement was deferred in recent years due to budgetary constraints.
- Purchase tools and equipment to allow more in-house repair of vehicles.
- Replace other obsolete items of equipment.
- Provide funds for better maintenance of vehicles owned by the OES.

Of the amount requested, $145,000 represents one-time expenditures which will not be needed by OES in subsequent years. We have reviewed the proposed acquisitions and believe they are reasonable.

OFFICE OF EMERGENCY SERVICES—Continued

New Positions Requested

We recommend approval.

The budget proposes to establish a total of 21 positions in the OES in the budget year. Four of these positions have been established administratively in the current year to accomplish federally funded work related to civil protection planning and radiological hazard identification. The office proposes to continue these positions in the budget year.

In addition, the office is requesting eight new positions to handle increased workload in existing programs. These positions will (1) evaluate applications from local agencies and individuals for disaster assistance funds, (2) prepare and update various emergency response plans, (3) provide sufficient staffing for 24-hour coverage in the communications warning center, and (4) provide additional administrative and fiscal support to the office.

The office also is proposing to expand the level of service in certain programs through the addition of nine positions. Six of these positions will allow increased interaction with local emergency response agencies through expanded coordination of law enforcement mutual aid, reestablishment of the Mutual Aid Region IV office in Redding, and the creation of a southern California headquarters office. The office is also proposing to expand earthquake preparedness planning activities and develop a masterplan for the state's emergency broadcast and amateur radio systems.

Based on the information provided by the office, the proposed new positions appear reasonable.

Budget Proposes Transfer of California Specialized Training Institute to OES

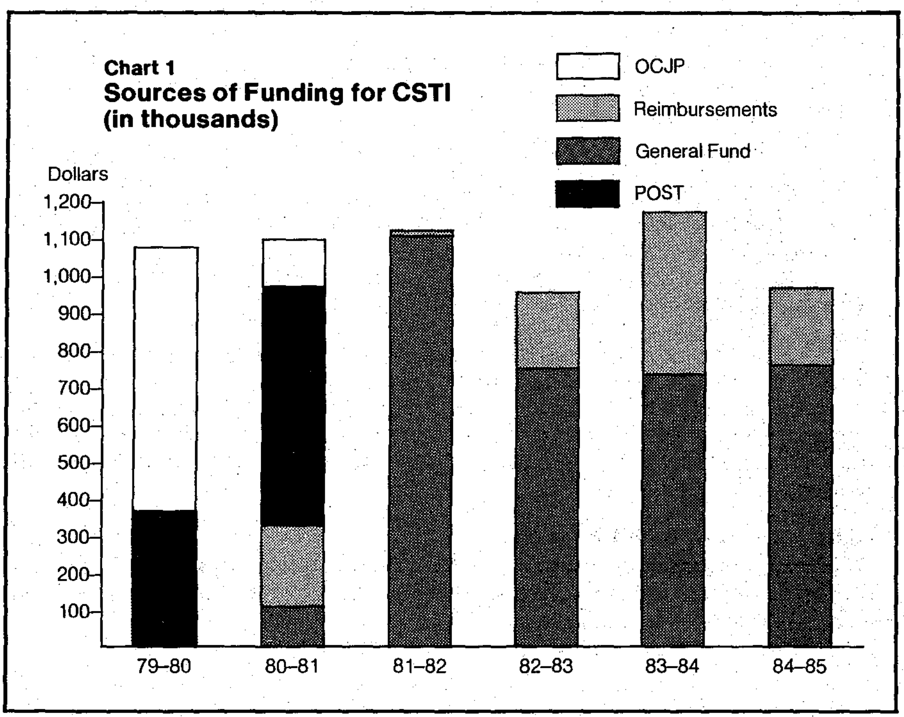
We recommend the adoption of supplemental report language directing the OES to report to the Legislature by December 1, 1984, on its review of the California Specialized Training Institute and its plan for the organization and operation of the institute in 1985–86.

The California Specialized Training Institute (CSTI) was formally established as part of state government by Ch 639/81. The institute was established originally by executive order in 1971 as a result of the civil unrest that occurred during the sixties and early seventies. Because the scope and intensity of various civil emergencies exceeded the control capability of any one agency, CSTI was created to provide a training program that would insure appropriate response to large scale civil disorders. The institute's curriculum has been expanded from civil disorder management to include courses on (1) planning and emergency management for earthquakes, hazardous materials, fire and other disasters; (2) responding to the needs of disabled individuals in disasters; (3) investigation of violent crimes and robbery; and (4) peace officer safety and field tactics. The institute is operated by the Military Department in facilities located at Camp San Luis Obispo.

The OES also administers a program in emergency management training for local agencies. This program, which is funded fully by the federal government as a pilot project, is staffed by three positions. Funding for the project will terminate at the end of the current federal fiscal year (September 30, 1984).

The budget proposes to transfer the funding for CSTI from the Military Department to the OES in the budget year. The total transfer of $968,000 includes $758,000 in General Fund support and $210,000 in reimbursements. The proposed transfer is the first step in an effort to consolidate the responsibility for emergency management training in one state agency. Under the administration's proposal, the OES would contract with the Military Department in 1984–85 to continue running CSTI at the Camp San Luis Obispo facility. Thus the operation of the institute would remain essentially the same in the budget year except that program responsibility would rest with the OES, rather than with the Military Department. The office plans to review the organization and operation of CSTI in the budget year, and develop a plan for full transfer of the institute to the office in the following year.

Funding of CSTI. When first established, the institute was funded entirely by federal grants through the Office of Criminal Justice Planning (OCJP). Since the late 1970s the funding of CSTI has undergone significant changes. As shown in Chart 1, CSTI received about two-thirds of its funding from OCJP and one-third from the Peace Officers' Training Fund in 1979–80. In 1980–81, federal funds from OCJP were no longer available for support of CSTI. The administration proposed, and the Legislature adopted, a funding plan that called for support of the institute solely from the Peace Officers' Training Fund and tuition fees from some participants. The reimbursements and the allocation from the Training Fund proved insufficient to run the program in 1980–81 and the institute received General Fund support through an allocation from the appropriation for contingencies and emergencies.



OFFICE OF EMERGENCY SERVICES—Continued

In 1981–82, CSTI received General Fund support for the first time in the Budget Act. In that year, $1,103,000 of its total operating budget of $1,122,000 was provided from the General Fund. The remaining $19,000 came from tuition reimbursements. In the past two years, the Legislature has moved toward greater support of CSTI from reimbursements. In both 1982–83 and 1983–84, the approved budget for CSTI included $600,000 in reimbursements. As shown in the chart, however, the institute has not received that level of reimbursements in either year. Reimbursements totaled $205,000 in 1982–83 and are estimated at $449,000 in 1983–84.

The OES Should Submit Detailed Proposal to Legislature for Review. The administration's proposal for 1984–85 contains no details on how OES plans to modify CSTI's operations after the budget year. Rather, the information submitted in support of the proposed transfer, indicates that during 1984–85, the office will review the organization and curriculum, determine the most appropriate methods of program delivery, establish a training advisory body to provide assistance, and determine the appropriate civil service classifications to accommodate the present operation within OES.

The proposed transfer of CSTI could result in significant changes in the method of delivery and content of emergency management training courses in California. In order that the Legislature may have sufficient opportunity to review the proposed changes, we recommend adoption of the following supplemental report language:

"The OES shall report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee by December 1, 1984, the results of its review and its plans for CSTI in 1985–86. The report specifically should address:

"1. The internal organization of the institute, including proposed civil service classifications, and where the program will be placed within the OES organizational structure.

"2. The impact of the proposed changes on the level and types of services provided by CSTI.

"3. The proposed fee structure for classes offered at CSTI and how the structure meets the legislative mandate for recovery of costs through reimbursements.

"4. Any additional costs which will be incurred (such as facility rental and maintenance expenses) when the program is fully shifted to the OES from the Military Department.

"5. How the program will be coordinated with federal training dollars which may become available in the future.

"6. The relationship of the proposed curriculum to emergency management courses offered by other government agencies, such as community colleges, the Highway Patrol, and the Department of Health Services."

Coalinga Disaster Relief Program

We recommend adoption of Budget Bill language transferring to the General Fund $2,230,000 from the 1983 Natural Disaster Account not needed for disaster relief in Coalinga.

On May 2, 1983, an earthquake caused severe damage to public facilities in and around the city of Coalinga. Because the costs of clean-up and repair were beyond the financial capabilities of the local community, the Legislature enacted Ch 1205/83 which appropriated $5 million from the General Fund to a new account, the 1983 Natural Disasters Account, in the Natural Disaster Assistance Fund. The funds are earmarked to:

1. Reimburse local agencies for personnel overtime costs and supplies used for disaster assistance.
2. Provide for the repair, cleanup, and reconstruction of damaged public facilities.
3. Provide state matching funds for federal assistance.
4. Provide other assistance as the director of OES deems necessary to carry out the provision of the act.

The OES recently completed the initial disbursement of funds under the provisions of Ch 1205/83. A total of 11 applications were approved for grants totaling $1,838,298. The initial disbursements are based on estimated project costs. The final grant level will be determined following completion and audit of the projects. The OES staff indicates final grants could vary by as much as five percent from the initial level. Thus, up to $92,000 more could be needed from the 1983 Natural Disaster Account for these 11 projects.

In addition, the OES indicates that the following projects also may require funding:

- Repairs to an elementary school which is outside the area presently eligible for federal assistance.
- Reconstruction, rather than repair, of a portion of a fire station to meet seismic code.

The exact amount which will be needed for these projects depends on actions by the federal government on requests to (1) expand the area eligible for assistance and (2) consider reconstruction in lieu of repair. Preliminary estimates indicate that up to $1.1 million could be needed for this work.

Under the terms of the act, the balance of the appropriated funds cannot be used for any purpose other than relief for the Coalinga area. The balance of funds in the 1983 Natural Disaster Account in excess of a 5 percent contingency reserve and funds needed for the two projects mentioned above should be returned to the General Fund where it can be used for other high-priority needs of the state. Based on information available at the time this analysis was prepared, a balance of $2,230,000 is available for transfer. Consequently, we recommend the adoption of Budget Bill language transferring to the General Fund $2,230,000 of funds not needed for Coalinga disaster relief:

"On the effective date of this act, $2,230,000 of the unencumbered balance of the 1983 National Disaster Account, Natural Disaster Assistance Fund shall be transferred to the General Fund."

Additional information may be available prior to budget hearings, which would modify the amount which we recommend be transferred to the General Fund.

OFFICE OF EMERGENCY SERVICES—Continued

Street and Highway Storm Damage Loan Program

We recommend that the office report to the Legislature on the status of active applications and loans made under the Street and Highway Storm Damage Loan program.

Chapter 1064, Statutes of 1983, created the Street and Highway Storm Damage Loan Advisory Board for the purpose of making recommendations to the OES concerning loans to local jurisdictions for repair of streets and roads damaged by storms during 1981–82 and 1982–83. The board makes a recommendation to provide a loan only after evaluating all other possible sources of funding for the needed repairs. Local entities are required to repay the loan with interest within five years of the effective date of the enabling legislation (September 27, 1983). The interest charged on the loan is the same as the rate earned by the Pooled Money Investment Account.

The amount of $15 million was appropriated by Ch 1064/83 from the State Highway Account, State Transportation Fund to the OES for loans to cities and counties for the needed repairs. Under the provisions of the measure, the OES is prohibited from charging any administrative costs against the Highway Account funds. Instead, the office is requesting a General Fund appropriation of $34,000 and 1.5 positions in the budget year to administer these loans and the Coalinga disaster relief program discussed above.

The budget indicates that the $15 million in loan funds will be fully expended in the current year. The budget, however, does not indicate any repayment of loans occurring in the budget year.

The OES staff indicates that as of January 10, 1984, the advisory board had met only to establish procedures for making applications and processing loans under the program. At the time this analysis was prepared, the board had not received any applications and, consequently, no loans had been made. In fact, OES staff indicates that none of the anticipated 250 applications should be received until March 1984. Thus, it would appear unlikely that the full $15 million will be disbursed in the current year as shown in the budget. To ensure that the Legislature receives adequate information on the status of the program, we recommend that the OES report to the Legislature during budget hearings on (1) the number and dollar value of local agency applications, (2) the number and dollar value of loans made by the office, (3) the anticipated need for the full $15 million appropriation, and (4) anticipated loan repayments in 1984–85.

Mandated Local Program—Deaf Teletype Equipment

We recommend approval.

Chapter 1032, Statutes of 1980, requires any county which provides emergency services to provide deaf teletype equipment at a central location in the county to relay requests for emergency services. The budget proposes a General Fund appropriation of $21,000 to reimburse counties for their costs of complying with this mandate. This is the same amount appropriated for this purpose in the current year. Funding for reimbursement of this and other state-mandated local programs is now included in Item 9680.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General Fund — Budget p. LJE 56

Requested 1984–85	$1,089,000
Estimated 1983–84	1,043,000
Actual 1982–83	1,005,000
Requested increase (excluding amount for salary increases) $46,000 (4.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

In addition to the Lieutenant Governor himself, the Office of the Lieutenant Governor is authorized 22 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of $1,089,000 for support of the Lieutenant Governor's office in 1984–85. This is $46,000, or 4.4 percent, more than the estimated current-year expenditures. This amount will increase by the cost of any salary or staff benefit increase approved by the Legislature for the budget year. The past-, current- and budget-year requirements of the office are shown in Table 1.

Table 1
Office of the Lieutenant Governor
Budget Requirements
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Personal Services					
Salaries and Wages	$583	$636	$673	$37	5.8%
Staff Benefits	96	124	132	8	6.4
Subtotal Personal Services	($679)	($760)	($805)	($45)	(5.9%)
Operating Expenses and Equipment	385	309	310	1	0.3
Total Expenditures	$1,064	$1,069	$1,115	$46	4.4%
Reimbursements	−59	−26	−26	—	—
General Fund Expenditures	$1,005	$1,043	$1,089	$46	4.4%
Authorized Positions (Staff-years)	21.6	23.0	23.0	—	—

Of the proposed $46,000 increase in expenditures, $45,000 is for personal services, consisting of (1) cost-of-living and merit salary adjustments and (2) increased costs for retirement and health benefits. The only proposed change in operating expenses is a $1,000 increase for in-state travel.

Our analysis indicates that the increases are routine in nature.

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds — Budget p. LJE 57

Requested 1984–85	$116,503,000
Estimated 1983–84	107,128,000
Actual 1982–83	95,186,000
Requested increase (excluding amount for salary increases) $9,375,000 (+8.8 percent)	
Total recommended reduction	1,219,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0820-001-001	—Support	General	$97,780,000
0820-001-012	—Anti-Trust	Attorney General's Anti-Trust Account, General	381,000
0820-001-017	—Fingerprints	Fingerprint Fees, General	6,566,000
0820-001-044	—Data Center Support	Motor Vehicle Account, State Transportation	11,065,000
0820-001-460	—Dealer's Record of Sale	Dealer's Record of Sale Special Account, General	711,000
0820-001-890	—Support	Federal	(5,384,000)
Reimbursements			(20,994,000)
Political Reform Act			(263,000)
Totals			$116,503,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Investigative Assistants. Reduce Item 0820-001-001 by $85,000.*** Recommend deletion of three Criminal Intelligence Specialist positions because the department's own evaluation failed to indicate that the positions (established on a pilot basis) had a measurable impact. 83
2. ***Clandestine Laboratories. Reduce Item 0820-001-001 by $685,000.*** Recommend deletion of 10 Special Agent positions because the department has not documented the need for additional staff. 85
3. ***Financial Investigations. Reduce Item 0820-001-001 by $500,000. Further, add new item appropriating $165,000 as a General Fund loan and adopt Budget Bill language requiring the loan to be repaid, with interest, in future years.*** Recommend deletion of $335,000 for five special agent positions because workload can be absorbed by existing staff. Recommend workload related to the seizure and forfeiture of assets be financed by a General Fund loan to be repaid in future years from the Narcotic Assistance and Relinquishment by Criminal Offender Fund. 87
4. ***Overtime. Reduce Item 0820-001-001 by $79,000, and various other items by $35,000.*** Recommend deletion of $114,000 requested for overtime because the amount exceeds demonstrated needs. 89
5. ***Attorney Hours.*** Recommend adoption of supplemental 89

report language directing Department of Finance to include in the annual budget document a listing of attorney hours, by program and client.

6. ***Legal Services Reimbursements.*** Recommend the department report on the extent of its compliance with Budget Act language. 90

GENERAL PROGRAM STATEMENT

Under the direction of the Attorney General, the Department of Justice enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies. Its functions are carried out through six programs—Executive and Administration, Special Programs, Civil Law, Criminal Law, Public Rights, and Law Enforcement.

The department's legal programs are staffed with approximately 625 attorneys, paralegals, auditors, and related support positions. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts. The new Public Rights Division was established through a reorganization of the Civil Law and Criminal Law Divisions. The division provides legal services in the areas of Civil Rights and Charitable Trust, Natural Resources, Environmental Law, Antitrust, Land Law, and Consumer Law.

The law enforcement support program has an authorized staff of approximately 1,950 positions and is the largest of the department's divisions. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department is authorized a total of 3,041.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of $116,503,000 from the General Fund and various special funds for support of the Department of Justice in 1984–85. This is an increase of $9,375,000, or 8.8 percent, over estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The proposed General Fund appropriation for the department in 1984–85 is $97,780,000. This is $8,623,000, or 9.7 percent, more than estimated expenditures in 1983–84.

When expenditures from special funds, federal funds and reimbursements are added to those financed by the General Fund, total expenditures from all sources reach $143,144,000, which is a $10,683,000, or 8.1 percent, more than estimated total expenditure in 1983–84.

Table 1 summarizes the department's funding proposal for 1984–85, by source.

DEPARTMENT OF JUSTICE—Continued

Table 1
Department of Justice
Funding Source Summary
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change from 1983–84 to 1984–85*	
				Amount	*Percent*
1. General Fund	$80,555	$89,157	$97,780	$8,623	9.7%
2. Attorney General's Anti-Trust Account (General Fund)	296	931	381	−550	−59.1
3. Fingerprint Fees (General Fund)	3,943	6,148	6,566	418	6.8
4. Motor Vehicle Account (State Transportation Fund)	9,806	10,212	11,065	853	8.4
5. Off-Highway Vehicle Fund	—	1	—	−1	−100.0
6. Dealers' Record of Sales (General Fund)	586	679	711	32	4.7
Total, Direct Appropriations	$95,186	$107,128	$116,503	$9,375	8.8%
7. Reimbursements	18,983	19,809	20,994	1,185	6.0
8. Federal Trust Funds	4,402	5,271	5,384	113	2.1
9. Political Reform Act	227	253	263	10	4.0
Total Funding	$118,798	$132,461	$143,144	$10,683	8.1%

Table 2 presents a summary of the department's total expenditures, by program.

Table 2
Department of Justice
Budget Summary
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change from 1983–84 to 1984–85*	
				Amount	*Percent*
1. Executive [a]	($2,293)	($2,722)	($2,867)	($145)	(5.3%)
Personnel-years	48.9	55.9	55.5	−0.4	−0.7
2. Special Programs	3,713	4,162	4,492	330	7.9
Personnel-years	45.3	48.2	48.0	−0.2	−0.4
3. Civil Law	26,526	19,878	21,959	2,081	10.5
Personnel-years	291.9	203.7	209.3	5.6	2.7
4. Criminal Law	21,571	19,504	21,553	2,049	10.5
Personnel-years	276.2	264.5	271.4	6.9	2.6
5. Public Rights	(9,016)	11,811 [b]	12,689	878	7.4
Personnel-years	(94.5)	124.6	127.5	2.9	2.3
6. Law Enforcement	66,955	77,106	82,451	5,345	6.9
Personnel-years	1,650.3	1,818.8	1,741.1	−77.7	4.3
7. Administration [a]	(23,145)	(25,500)	(28,156)	(2,656)	(10.4)
Personnel-years	526.3	525.8	528.3	2.5	0.5
8. Legislative Mandate [c]	33	[126]	[126]	—	—
Program Totals	$118,798	$132,461	$143,144	$10,683	8.1%
Personnel-years	2,838.9	3,041.5	2,981.1	−60.4	−2.0

[a] Amounts in parentheses are distributed among other items.
[b] The Public Rights Program was established as a separate entity in 1983–84.
[c] Reimburses cities and counties for mandated costs incurred in (1) destroying possession-of-marijuana files and (2) submitting dental records of missing persons. Funding for these mandates in 1983–84 and 1984–85 is provided in the budget for State-mandated Local Programs, Item 9680. The amount in brackets is shown here for information purposes only.

The proposed \$10.7 million increase in total expenditures from all funds is attributable to various cost increases, workload adjustments and new program proposals.

Significant cost changes include:

- Increases to offset the effects of inflation amounting to \$1.8 million.
- Employee compensation changes of \$3.4 million, including the added cost of employee compensation increases that were in effect for only one-half of the current year.
- Merit salary adjustments of \$832,000.
- Rent increases, resulting primarily from lease renewals in Los Angeles and San Diego of \$1 million.

Significant workload changes include:

- An increase in legal services workload requiring 17 new attorneys, 5.4 new paralegal positions, and related support at a cost of \$1.5 million.
- Miscellaneous increases in workload requiring seven new administrative and program positions and 5.5 new clerical positions, at a cost of \$430,000.
- Various reductions to reflect one-time costs in the current year, the expiration of limited-term positions, the termination of contracts, and changes in grants, for a savings of \$2.8 million.

Significant program changes include:

- Second-year funding for an expanded California Identification System (Cal-ID), at a cost of \$1.8 million. This project involves automating the manual fingerprint file and developing a data base for the new statewide latent fingerprint system.
- Increased staffing in the Bureau of Narcotic Enforcement, at a cost of \$1.2 million. Ten agents are proposed for clandestine laboratory work, and five agents, three auditors, and related supporting staff are proposed for financial investigations of assets acquired in conjunction with illegal drug-related activities.
- Increased equipment purchases for crime lab safety and other investigative activities, at a cost of \$243,000.
- A two-year limited term pilot project to improve the reporting of arrest and disposition data, at a cost of \$209,000.

These and other changes proposed for 1984–85 are detailed in Table 3.

Table 3
Department of Justice
Proposed 1984–85 Budget Changes
(in thousands)

	General Fund	*Special Funds*[a]	*Federal Funds*	*Reimbursements*[b]	*Total*
1983–84 Revised Expenditures	\$89,157	\$17,971	\$5,271	\$20,062	\$132,461
1. Cost Changes					
A. Antitrust Funding Shift	600	−600	—	—	—
B. Pro-rata Adjustments	—	241	—	—	241
C. Price Increase	1,183	323	91	238	1,835
D. Reduce Salary Savings/Promotions	406	—	20	110	536
E. Facilities—Lease renewals	685	—	49	245	979
F. Data Processing Contract	91	112	—	—	203
G. Employee Compensation	2,292	456	135	469	3,352
H. Merit Salary Increase	570	113	33	116	832
2. Workload Changes					
A. Crime Prevention Center	62	—	—	—	62

DEPARTMENT OF JUSTICE—Continued

B. Licensing	—	—	—	284	284
C. Business and Tax	71	—	—	—	71
D. Tort and Condemnation	419	—	—	—	419
E. Appeals, Writs and Trials	573	—	—	—	573
F. Consumer Law	—	—	—	77	77
G. Decentralized Testing	11	—	—	—	11
H. Land Law	185	—	—	—	185
I. Reimbursement Contracts	—	—	—	−432	−432
J. Charitable Trust Registry	85	—	—	—	85
K. Grant Changes	—	—	−215	−38	−253
L. One-time Costs/Limited Term Programs	−1,365	−1,425	—	−25	−2,815
M. Blood Alcohol	—	—	—	199	199
N. Case Management-Docketing	40	—	—	13	53
O. Statutory Compliance	20	—	—	—	20
P. Marijuana Review Workload	975	—	—	—	975
Q. Diablo Canyon Legal Work	−240	—	—	—	−240
R. Financial Legislation	−50	−1	—	—	−51
3. Program Change Proposals					
A. Cal-ID Project	295	1,552	—	—	1,847
B. Narcotics–Financial Investigations	500	—	—	—	500
C. Clandestine Laboratory Investigations	685	—	—	—	685
D. Arrest and Disposition—Reporting Project	209	—	—	—	209
E. Registered Sex Offender Testing	78	—	—	—	78
F. Crime Lab Safety Equipment	103	—	—	—	103
G. Investigative Equipment Replacement	140	—	—	—	140
H. California Parent Locator Service	—	—	—	−61	−61
I. Stolen Vehicle Unit	—	−19	—	—	−19
1984–85 Proposed Expenditures	$97,780	$18,723	$5,384	$21,257	$143,144
Change from 1983–84	$8,623	$752	$113	$1,195	$10,683

[a] Includes special accounts in the General Fund.
[b] Includes amounts payable from the Political Reform Act.

ANALYSIS AND RECOMMENDATIONS

Expansion of the California Identification System

We recommend approval.

The budget proposes an increase of $1,847,000 to expand the California Identification System (Cal-ID). The project, which involves automating and combining the existing name index, fingerprint file, and latent fingerprint data base into one system, is expected to cost over $17 million during the period 1983–84 through 1990–91.

The department proposes to fund the development and operation of the system over the eight-year period from two sources—the Fingerprint Fee Account ($9.4 million) and the General Fund ($6.6 million). During this period, the department estimates that savings from the current level of expenditures will be in excess of $11.6 million, reflecting the elimination of 100 currently authorized positions. When the project is completed, the department anticipates savings of over $2 million annually.

The Fingerprint Fee Account receives most of its revenue from a fee charged to licensing and employment agencies to cover the cost of processing applicant fingerprints. Additional revenues to pay for the cost of automating the name index and fingerprint files will be generated by a $5 surcharge on the applicant fee. The department estimates that it will collect about $2 million per year from the surcharge. The budget includes $1,552,000 from the Fingerprint Fee Account for the Cal-ID project in 1984–85.

The General Fund portion of the project involves the expansion of the Automated Latent Print System from 38 to 58 counties. The budget requests $295,000 from the General Fund to support the costs of expansion in 1984–85.

When completed, the Cal-ID will consist of the following:

1. ***Automated Name Index.*** Currently, the department maintains a manual name file which stores the name and other identifying information for 7.2 million subjects with criminal and/or applicant records. In the 1983 Budget Act, the Legislature appropriated $1,446,000 from the Fingerprint Fee Account and authorized 81.5 positions for one year only to automate these files. This task is scheduled to be completed by June 1984.
2. ***Automated Fingerprint Identification System.*** Currently, the master fingerprint file contains more than 7.3 million cards and grows at the rate of 400,000 cards per year. This system will automate the storage and search capabilities for 4.5 million of these records.
3. ***Automated Latent Print System.*** The existing Latent Print System allows a data base made up of fingerprints of active criminals in California to be searched by computer for a match to a fingerprint found at the scene of a crime. The existing system serves 38 counties. As part of the Cal-ID project, the existing system will be expanded to serve all counties.
4. ***Digital Image Retrieval System.*** This system will provide for storage and retrieval of fingerprint images in the data base.
5. ***Remote Access Network.*** This system will allow local law enforcement agencies that choose to join the system to have remote terminal access to all of the above data bases and systems.

Long range cost and savings estimates for the project are based on the assumption that six local agencies will invest $300,000 to purchase the appropriate terminals. If local agencies obtain remote access terminals, they will be able to request information directly through the system without involving Department of Justice personnel. The proposal anticipates savings in departmental staff time. If the agencies do not join the system, the department estimates that the project will increase costs by $3.5 million above current projections.

Approval of this project will result in a commitment of a substantial amount of funds over the next several years. Our analysis indicates, however, that the increased benefits to state and local governments resulting from expanded services, as well as the long-term continuing savings that the department estimates will occur, outweigh the projected costs. Accordingly, we recommend approval of the amount requested for the Cal-ID project in the budget year.

Pilot Program for Investigative Assistants is Unsuccessful

We recommend deletion of three positions from the Investigative Assistant Pilot Program because the department's own study failed to indicate that the positions had a measurable impact, for a General Fund savings of $85,000 (Item 0820-001-001).

DEPARTMENT OF JUSTICE—Continued

The 1981 Budget Act authorized the department to redirect three positions from a terminated program to a one-year investigative assistant pilot program in the Investigation and Enforcement branch. The department proposed to use the positions to perform routine noninvestigative tasks that were then being performed by special agents, thereby freeing the agents for more complex work. Such tasks included searching public records, serving legal documents, collecting data for statistical reports, and assisting in background investigations.

In the *Supplemental Report of the 1982 Budget Act,* the Legislature directed the department to submit by September 1, 1982, an evaluation of its Investigative Assistant Pilot program. Specifically, the department was requested to include information on workload and performance, address the impact of the investigative assistants on special agent activity, and discuss the potential for increased utilization of investigative assistants in the Investigation and Enforcement program.

In September, 1982, the department notified the Legislature that, because of problems in implementing the program, it had not been able to thoroughly evaluate the program or assess the impact of the investigative assistants on the agents' workload. The department requested one more year to complete the study.

The final report on the two-year pilot project was submitted to the Legislature in September 1983. Our analysis of the report indicates that using the department's own measure of program success, the program was *not* found to be successful.

When it proposed the project initially, the department indicated that its success should be measured by the increase in special agent time devoted to investigation or enforcement activity rather than to more routine noninvestigatory activity. Accordingly, the department collected data on the time spent by special agents on various investigative and enforcement activities. The allocation of special agents' time while an investigative assistant was assigned to the office was then compared to the allocation during those months when the office did not have the position. The results of this comparison are shown in Table 4.

Table 4

Special Agent Activities Before, During, and After an Investigative Assistant Was Assigned [a]

(Sacramento, San Francisco, and Los Angeles offices)

Sacramento	*Interview*	*Investigation*	*Data Collection*	*Miscellaneous*	*Travel*	*Report Preparation*	*Office*	*Other*[b]	*Total*
Before	7.6%	18.7%	25.2%	4.0%	13.1%	9.6%	3.8%	18.0%	100%
During	6.2	15.6	31.2	4.2	10.9	7.4	3.3	21.2	100
San Francisco									
Before	4.4	11.2	22.9	8.5	10.2	8.7	9.2	24.9	100
During	4.0	5.5	29.3	6.7	11.6	10.7	6.8	25.4	100
After	4.0	14.7	22.2	6.5	10.7	10.7	9.2	22.0	100
Los Angeles									
Before	7.6	14.2	15.6	3.5	11.1	11.2	5.3	31.5	100
During	4.2	19.6	11.2	4.8	11.3	12.4	5.7	30.8	100
After	3.7	23.5	9.2	4.6	11.5	11.3	8.5	27.7	100

[a] Based on data collected from July, 1980 through April, 1983.

[b] This column includes activities which are minor or, due to the nature of the task, are not affected by the presence of an investigative assistant. Activities include: court appearance, conference, service of documents, supervision, instructor, student, surveillance, and professional organization.

The data in Table 4 show that there were shifts in the percentage of time agents devoted to various tasks at individual offices, but that these shifts generally were not consistent among the offices. According to the department, the primary indicator of the program's performance is the time spent by agents on investigation work. If the project *was* successful, one would expect that during the period when an investigative assistant was assigned to an office, agent time spent on investigatory work would increase while time spent on other more routine tasks, such as data collection, would decrease.

The data shows, however, that in two of the three offices (Sacramento and San Francisco), *the percentage of agent time spent on investigations decreased* during the time the assistant was assigned to the office. In the third office (Los Angeles), agent investigation time increased while the assistant was present, but increased further *after* the assistant left the office. Conversely, agent time spent on data collection increased in Sacramento and San Francisco while investigative assistants were assigned to those offices. Once again, although the Los Angeles office experienced a decrease in agent time devoted to data collection while the assistant was present, this decrease continued *after* the assistant left the office.

The department concluded that it was not possible to determine from the data whether these shifts in agent activities can be attributed to the use of investigative assistants.

Even though the study failed to document the value of investigative assistants, the department believes that investigative assistants can be useful within the Investigation and Enforcement Branch. Specifically, the department believes that six positions can be used for tort investigations and one position can be used for drug diversion activity. On this basis, the department suggests that the three positions currently authorized for the pilot program be reassigned to the tort investigation program. The budget for 1984–85, however, simply continues the three currently authorized positions.

Given the results of the department's own study, we have no analytical basis on which to conclude that continuation of these positions is cost-effective. Accordingly, we recommend deletion of three positions authorized for the pilot study, for a General Fund savings of $85,000.

Expansion of Narcotic Enforcement Staff

The Bureau of Narcotic Enforcement assists in the management and coordination of multijurisdictional narcotic enforcement efforts. The budget requests $11 million for this purpose in 1984–85. Currently, the bureau has 149 authorized positions, including 114 special agents. The budget proposes an increase of 15 agents in 1984–85, due to workload increases related to (1) clandestine narcotics laboratories and (2) the seizure and forfeiture of property related to controlled substances violations.

Need for Additional Staffing Has Not Been Demonstrated

We recommend deletion of 10 positions and $685,000 requested from the General Fund for clandestine laboratories investigations, because the need for additional staffing has not been demonstrated (Item 0820-001-001).

The budget requests an augmentation of $685,000 from the General

DEPARTMENT OF JUSTICE—Continued

Fund and 10 positions for the Bureau of Narcotic Enforcement. The department indicates that the positions are needed because of the rapid growth in clandestine narcotics laboratories within the state. These laboratories are used for the illicit manufacture of narcotics and other controlled substances. The bureau considers this workload to be critical because most of these laboratories have been found in counties where sheriffs have relatively small staffs that lack the specialized skills needed to seize a laboratory.

Our analysis indicates that the need for additional special agents has not been justified on a workload basis. This is due to the bureau's inability to establish a workload indicator system that can be used to evaluate staffing needs. While we recognize the difficulties involved in developing such a workload system for law enforcement personnel, we believe the department can do more to compile the kind of objective analytical data that is necessary to document its need for 10 additional special agent positions, and project the results it could expect to achieve with the new positions.

In lieu of developing such a system, the department provided data which, it maintains, establishes the need for the additional positions. According to the department, this data demonstrates that the bureau has responded to an increase in the number of laboratory cases by redirecting agents from other narcotics enforcement activities.

For example, it cites data showing that 5.3 agent-years were devoted to laboratory work in 1979–80, but that the number had grown to 16.5 agent years by 1982–83. Since, however, the department received 15 additional special agent positions in 1980–81, it is not clear that redirection away from other enforcement activities was necessary. The staffing increase could account for the additional agent hours being available for lab cases.

Our review found that the department's data does not necessarily demonstrate that the increased assignment of agents to clandestine laboratory work has reduced the amount of staff who are available to perform narcotics enforcement activities, other than lab work. Table 5 compares actual hours worked by agents in 1981–82 and 1982–83, excluding management or supervising positions. The data shows that hours worked on clandestine laboratory cases increased from 17,936 to 27,000 in one year, an increase of 9,064 hours, or 50 percent. The data also shows that total hours worked by all agents in the bureau dropped by 8,424 hours (four agent-years of work), even though the budget authorized the same number of agents for those two years. The department states that the reduction in total hours was due to a greater number of vacancies in 1982–83. If there was a reduction in staffing for other narcotics enforcement activities, it may not have been due to a redirection of staff to clandestine lab workload, but rather to the decline in the number of agents available to perform enforcement-related work.

We recognize the importance of identifying and seizing illicit clandestine laboratories and providing adequate investigative staff to accomplish this purpose. Lacking documentation of the need for additional staff, however, we have no basis on which to recommend approval of the budget request. Accordingly, we recommend deletion of $685,000 from the General Fund requested for 10 special agents. If the department subsequently provides documentation of the need for some or all of the positions, we will adjust this recommendation accordingly.

Table 5
Bureau of Narcotic Enforcement
Hours Worked by Special Agents by Program
(1981–82 and 1982–83)

	Actual Hours 81–82	*Actual Hours 82–83*	*Difference*
Task Forces	25,520	26,822	1,302
Area Agents	3,086	2,393	−693
Special Operations Units	161,040	154,245	−6,795
Clandestine Lab Cases	(17,936)	(27,000)	(9,064)
Drug Diversion	28,628	27,808	−820
Loaned to Bureau of Investigation	1,418	—	−1,418
Totals	219,692	211,268	−8,424
Actual Agent Years	120	116	−4

Expansion of Property Forfeiture Activities

We recommend the deletion of five agent positions and $335,000 requested from the General Fund (Item 0820-001-001) for financial investigation of drug violators, because the workload can be absorbed by existing staff.

We further recommend that the Legislature (1) add a separate item to the Budget Bill appropriating $165,000 from the General Fund to the Narcotic Assistance and Relinquishment by Criminal Offender (NARCO) Fund as a loan to finance activities related to the seizure and forfeiture of assets, (2) adopt Budget Bill language requiring the loan to be repaid, with interest, in future years from the NARCO fund, and (3) delete $165,000 requested from the General Fund for six positions and related operating expenses in Item 0820-001-001.

The budget requests $500,000 from the General Fund for 11 new positions in the Bureau of Narcotic Enforcement to conduct financial investigations of drug violators in 1984–85, as part of the new property forfeiture program. The 11 positions include five special agents, three auditors, a criminal intelligence specialist, and two clerks.

Description of the Forfeiture Program. Chapter 1289, Statutes of 1982 (amended by Chapter 948/83), authorizes the Attorney General or the district attorney of any county to petition for forfeiture of property used in connection with controlled substances offenses. Any money from forfeiture which remains after qualified lien holders are paid and the costs of selling the property have been deducted is distributed as follows:

a. Fifty percent goes to the Department of Mental Health for its primary prevention program;
b. Up to 50 percent, as awarded by the courts, goes to reimburse state and local costs for investigation and prosecution; and
c. Any remaining balance goes to the Narcotics Assistance and Relinquishment by Criminal Offender (NARCO) Fund. Money from this fund is available for appropriation by the Legislature to local and state agencies for general narcotic law enforcement efforts.

Chapter 948, Statutes of 1983, amended Chapter 1289 to designate as the first priority for the NARCO Fund support of financial investigator positions within the Department of Justice.

When Chapter 1289 was being considered by the Legislature, the Department of Justice advised the Legislature that any additional costs it would incur in implementing the measure could be absorbed. Similarly, when the Legislature was considering Chapter 948, the department main-

DEPARTMENT OF JUSTICE—Continued

tained that any new positions added pursuant to the bill's provisions would be funded from NARCO Fund revenues or court-awarded reimbursements—*not* from the General Fund.

Activity Under the Program. Although authorization for the property forfeiture program became effective on January 1, 1983, the department is not aware of any activity under the program during 1983, and no monies have been deposited in the NARCO Fund. The department maintains that this is because the initial statute authorizing the program was too restrictive, thus, deterring action by state or local law enforcement agencies. The department advises, however, that this problem was corrected by Chapter 948, which took effect on January 1, 1984. Consequently, it expects activity under the program in 1984. Nevertheless, it is unlikely that funding for law enforcement activities will be available from either court awarded costs or the NARCO Fund in 1984–85. This is because financial investigations usually involve more than one defendant, and forfeiture can be expected to take from one to three years.

Request for Special Agents. Of the 11 positions requested for the forfeiture program, the five special agents are proposed for assignment to the Bureau of Narcotic Enforcement's field offices, at a General Fund cost of $335,000. The agents would conduct financial investigations as a follow-up to bureau arrests, and would provide assistance and advice to local agencies.

Our analysis indicates that authorization of the five additional agents for financial investigations—at General Fund expense—is not warranted, for two reasons.

First, no additional staffing is necessary to implement Chapter 1289. The act does not mandate any new work on the department. Rather, it permits the department to initiate property forfeiture proceedings if it is in the state's interest to do so. This can be done by the bureau's 114 special agents, (including 11 management or supervising positions), as well as by agents working for local law enforcement agencies.

Second, use of General Fund money to support this program would be contrary to what the Department of Justice advised the Legislature at the time it was considering the most-recent amendments to the program.

Accordingly, we recommend the deletion of five additional agents, for a General Fund savings of $335,000.

Request for Specialist Positions. The budget requests $165,000 from the General Fund for three auditors, a criminal intelligence specialist, and two clerical positions. The department advises that these positions are needed to provide the Bureau of Narcotic Enforcement with special expertise which it currently does not have. The auditors are needed because few agents have the fiscal expertise necessary to conduct financial investigation on their own. They would be assigned to bureau headquarters to provide services to agents in the field. The auditors would attempt to establish an audit trail covering a drug trafficker's financial business. The Criminal Intelligence Specialist would be used to analyze and correlate statewide information and identify and target investigative leads.

The bureau currently is not authorized any positions with these skills and, advises that the workload cannot be absorbed. Accordingly, we recommend that these positions be approved. We note, however, that under Chapter 948, any financial investigation positions for the forfeiture program are to be financed from NARCO Funds. Accordingly, we recommend that the new positions be financed with a General Fund *loan,* to be repaid from future revenues to the NARCO Fund. This loan should be repaid with interest, at the rate earned by the Pooled Money Investment Fund.

Overtime Overbudgeted

We recommend deletion of $114,000 requested for overtime costs, to correct for overbudgeting. [Delete $79,000 from the General Fund (Item 0820-001-001) and $35,000 from various other items.]

The budget requests $463,000 to compensate departmental employees (other than special agents) for the overtime they will work in 1984–85. This is $149,000, or 47 percent, more than the $314,000 actually spent for this purpose in 1982–83.

The department indicates that 1982–83 expenditures for overtime were lower than the amount budgeted because it imposed restrictions on the use of paid overtime in order to meet savings requirements imposed by the Department of Finance. We have no indication, however, that these restrictions resulted in program deficiencies. Consequently, we believe that the level of expenditures in 1982–83 represents an appropriate basis on which to budget for 1984–85.

We estimate that the department will need $349,000 for overtime expenses in the budget year. This amount is based on actual overtime expenditures in 1982–83, and adjusted for workload increases projected by the department. Because our estimate of the department's overtime needs is $114,000 less than the amount budgeted, we recommend a reduction of $114,000.

Of the total, $79,000 should be deleted from the General Fund and $35,000 should be reduced from various other funds.

Attorney Hour Schedule Should be Restored to the Budget Document

We recommend that the Legislature adopt supplemental report language directing the Department of Finance to include a schedule in the annual budget document listing Department of Justice attorney hours by program and clients.

For many years, the budget included data for a substantial number of the department's performance measures, including a detailed schedule listing attorney hours by programs and individual client. This schedule provided data on hours worked during the past year, estimates of current-year workload, and a listing of the workload proposed for the budget year. This data is used both to analyze the attorneys' performance and to project staffing needs for the legal services programs in the budget year.

Since 1982, this information has been absent from the budget document because the data is available to users of the California Fiscal Information System (CFIS). The detailed schedule of attorney hours that used to appear in the budget has been replaced with a four-line summary display for each legal service program.

In 1982–83 and 1983–84, detailed and up-to-date information on legal services workload *was* available to CFIS users by December. This year, however, the data was not available through CFIS by the time the Governor's Budget was presented to the Legislature. Consequently, information needed to review the budget for the Department of Justice was not available on a timely basis.

The budget for 1984–85 proposes to eliminate funding for the centralized Performance Measures Program from the Department of Finance's budget. According to the budget, performance measure data will no

DEPARTMENT OF JUSTICE—Continued

longer be entered in the centralized CFIS data base, but it will be maintained by the individual agencies.

We believe the Legislature needs information on attorney-hours in order to determine the Department of Justice's funding requirements. For this reason, we recommend that the Legislature adopt supplemental report language directing the Department of Finance to include in the annual budget document a schedule listing Department of Justice attorney-hours, by program and individual client.

Evaluation of Excess Reimbursements for Legal Service

We recommend that the Department of Justice report to the Legislature, prior to the budget hearings on its compliance with Budget Act language restricting expenditure of excess reimbursements.

In each year since 1981, the Legislature had adopted Budget Act language which requires that reimbursements for legal services performed by the Civil Law Division in excess of the amount budgeted for the division's support revert to the General Fund. Expenditure of the excess reimbursements by the department can only occur upon authorization by the Director of Finance and after notification has been given to the Legislature. The Legislature adopted this language because the budgets for many of the department's client agencies contained an amount for legal services that exceeded the amount reflected in the department's budget.

Our review of the department's actual expenditures in 1982–83 indicates that the department may have failed to comply with the provision in the Budget Act limiting the use of reimbursements. The 1982 Budget Act required that reimbursements in excess of $12,966,000 received by the Civil Law Division be reverted to the General Fund unless the expenditure of the excess was properly authorized by the Department of Finance. The budget document reports, however, that although the Civil Division collected $13,505,000 in reimbursements in 1982–83—$609,000 more than the ceiling—only $381,000 was reverted.

We requested an explanation for this apparent discrepancy from the department. At the time this analysis was prepared, no explanation had been received. Therefore, we recommend that, prior to budget hearings, the Department of Justice report to the fiscal committees of the Legislature and the Joint Legislative Budget Committee on its compliance with the provisions of the Budget Act.

Legislative Mandates

Funding for two state-mandated local programs is included in the appropriation proposed for Item 9680, State-mandated Local Programs. Because the programs are related to Department of Justice activities, these programs are reported in the department's budget as information items.

Destruction of Marijuana Records

We recommend approval.

Cities and counties must be reimbursed for the costs of destroying criminal records of persons arrested or convicted of specified marijuana offenses, as required by Ch 952/76. The budget proposes a $93,000 General Fund appropriation for these reimbursements in 1984–85. This is $91,000 more than the amount appropriated in 1983–84, but approximately equal to the amount claimed in 1982–83 ($93,101). On this basis, we recommend approval of the proposed 1984–85 amount.

Dental Records

We recommend approval.

Chapter 462, Statutes of 1978, requires cities and counties to have dental examinations performed on unidentified dead bodies and to obtain dental records of missing persons. The budget for 1984–85 requests $33,000 from the General Fund to reimburse cities and counties for their costs in complying with this mandate. Our analysis indicates that this request is reasonable. Therefore, we recommend that the request be approved.

STATE CONTROLLER'S OFFICE

Item 0840 from the General Fund and various other funds — Budget p. LJE 81

Requested 1984–85	$47,419,000
Estimated 1983–84	45,057,000
Actual 1982–83	42,120,000
Requested increase (excluding amount for salary increases) $2,362,000 (+5.2 percent)	
Total recommended reduction	578,000
Recommendation pending	212,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0840-001-001	State Controller, Support	General	$43,601,000
0840-001-041	State Controller, Support	Aeronautics Account, State Transportation	229,000
0840-001-061	State Controller, Support	Motor Vehicle Fuel Account, Transportation Tax	2,051,000
0840-001-988	State Controller, Support	Retail Sales Tax	132,000
0840-001-739	State Controller, Support	State School Building Aid	304,000
0840-001-890	State Controller, Support	Federal Trust	991,000
0840-001-903	State Controller, Support	Assessment	111,000
0840-001-970	State Controller, Support	Unclaimed Property	—
Total			$47,419,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***~~Medi-Cal~~ Audit Project. Reduce Item 0840-001-001 by $371,000 and ~~increase~~ reimbursements by $371,000 (net General Fund savings: ~~$278,000~~).*** Recommend change in funding source to recover federal ~~share~~ of project costs. 95 Withdraw Rec.
2. ***LIHEAP check writes. Reduce reimbursements by $162,000.*** Recommend reduction to reflect lower volume of workload. 95
3. Oil and Gas Royalty Audits. Recommend that the Controller and Department of Finance report during budget hearings on the fiscal consequences of underbudgeting for this program. 96
4. Los Angeles office. Recommend adoption of Budget 97

STATE CONTROLLER'S OFFICE—Continued

Bill language requiring the Controller to close the Los Angeles office by June 30, 1985, because there will not be sufficient workload beyond the budget year to justify the costs of maintaining the office.

5. Inheritance and Gift Tax Program. ~~Withhold recommendation~~ for nine new positions and $212,000, pending receipt of information establishing the collectability of outstanding accounts receivable. Recommend that prior to budget hearings, the Controller submit data needed by the Legislature to evaluate potential collections. 101 Recommend Approval
6. ***Howard Hughes Case. Reduce Item 0840-001-001 by $157,000.*** Recommend funding for six positions be deleted because these positions are no longer needed. 101
7. Transportation Development Act Audits. Recommend approval of 14 positions on a limited-term basis. 103
8. County Cost Plan Task Force. Recommend adoption of supplemental report language requesting the Controller to undertake the special study recommended by the Task Force. 103
9. Senior Citizens' Property Tax Postponement Program. Recommend adoption of supplemental report language requesting the Controller to report to the Legislature on the workload impact of AB 800 (Ch 1051/83). 105
10. ***Retirement System Review. Reduce Item 0840-001-001 by $50,000.*** Recommend elimination of funds for consulting services that would be duplicative of services provided by the new actuarial position. 106

GENERAL PROGRAM STATEMENT

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

The Controller has 1,234.2 authorized positions in the current year. In addition, the Controller has established 26.9 positions administratively during the current year, bringing the total number of positions to 1,261.1.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $47,419,000 from the General Fund and various special funds to support the Controller's office in 1984–85. This is an increase of $2,362,000, or 5.2 percent, above current expenditures as estimated in the budget.

The Controller also expects to receive and spend $9,748,000 in reimbursements during 1984–85, resulting in total budget-year expenditures of $57,167,000. This is $2,513,000, or 4.6 percent, more than estimated 1983–84 expenditures from all funding sources. Table 1 identifies the proposed level of expenditures and personnel-years for each of the major programs administered by the Controller's office in the prior, current, and budget years.

Table 1
State Controller's Office
Program Summary
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Fiscal control	753.7	793.9	771.8	$30,550	$33,211	$35,517
Tax administration	129.6	85.3	88.8	6,412	6,744	6,118
Local government fiscal affairs	103.9	108.6	118.2	4,310	4,433	4,943
Systems development	111.4	103.8	103.5	4,930	5,286	5,472
Unclaimed property	84.2	81.7	81.8	3,227	3,522	3,657
Refunds of taxes, licenses and other fees	—	—	—	16	30	30
Administration:						
Distributed to other programs	(56.8)	(49.4)	(50.9)	(2,097)	(2,097)	(2,222)
Undistributed	24	23	22.7	1,054	1,428	1,430
Totals	1,206.8	1,196.3	1,186.8	$50,499	$54,654	$57,167
Reimbursements	—	—	—	−8,379	−9,597	−9,748
Net program Totals	1,206.8	1,196.3	1,186.8	$42,120	$45,057	$47,419

Table 2 identifies the three major categories of changes in the Controller's budget proposed for 1984–85: (1) baseline adjustments, (2) workload changes, and (3) program change proposals.

The budget proposes the establishment of 80.7 new positions in 1984–85. Of these, 45.5 are currently filled and are either limited term positions scheduled to expire on June 30, 1984 or positions that were administratively established during the current year. The Controller requests that 46.5 of the 80.7 new positions be established on a limited-term basis; the remainder are to be established permanently.

The new positions are concentrated primarily in the following three divisions of the Controller's office:

- Tax Administration—9 new positions are proposed for the Inheritance and Gift Tax program;
- Audits Division—34 expiring positions are proposed for continuation on a limited term basis in order to continue or enlarge several audit programs; and
- Local Government Fiscal Affairs Division—14 expiring positions are proposed for continuation on a permanent basis to continue audits required by the Transportation Development Act, and 16 new positions are proposed for several programs.

The remaining 7.7 requested new positions are allocated among the Disbursements, Accounting and Administration divisions.

The Controller's budget shows that 12 positions will be eliminated in the budget year because of workload changes associated with decentralization in the Personnel/Payroll Services Division.

STATE CONTROLLER'S OFFICE—Continued

Table 2
State Controller's Office
Proposed 1984–85 Budget Changes
(in thousands)

	Adjustment	*Total*
1983–84 Expenditures (Revised)		$54,654
1. Baseline Adjustments		
A. Changes in existing personnel:		
(1) Full-year funding of 1983–84 Salary Increase	$755	
(2) Merit Salary Adjustment	521	
(3) Staff Benefits	185	
(4) Personal Services Adjustment	−580	
Total, Changes in Cost of Existing Personnel	$881	
B. Increases to Offset Effects of Inflation	1,325	
C. O E & E Adjustment	−2,948	
Total Baseline Adjustments		−$742
2. Workload Changes		
1. Fiscal Control	−$470	
2. Local Government and Fiscal Affairs	−437	
Total, Workload Adjustments		−$907
3. Program Change Proposals:		
A. Fiscal Control	$1,643	
B. Tax Administration	1,534	
C. Local Government and Fiscal Affairs	905	
D. Unclaimed Property	46	
E. Administration	34	
Total, Program Changes		$4,162
1984–85 Expenditures (Proposed)		$57,167
Change from 1983–84:		
Amount		$2,513
Percent		4.6%

ANALYSIS AND RECOMMENDATIONS

FISCAL CONTROL

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

Table 3
Fiscal Control Program
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
1. Accounting Division:						
a. Control accounting	55.1	53.1	53.3	$1,909	$1,805	$2,055
b. Financial analysis	24.6	26.6	26.7	942	1,031	1,082
2. Audits Division:						
a. Claim audits	57.8	57.7	57.7	1,423	1,514	1,602
b. Field audits	156.6	173.7	178.8	6,434	8,185	8,389
3. Disbursements Division:						
a. Disbursement services	124.3	130.6	128.4	8,366	8,358	9,241

b. Technical services—undistributed	39.6	41.3	40.5	354	106	463
c. Technical services—distributed to other programs	—	—	—	(1,480)	(1,250)	(919)
4. Payroll and Personnel Services Division:						
a. Personnel services	180.8	120.8	115.9	4,559	4,789	5,150
b. Payroll services	114.9	190.1	170.5	6,563	7,423	7,535
Totals	753.7	793.9	771.8	$30,550	$33,211	$35,517

Costs from the Medi-Cal Audit Project Can be Shifted to the Federal Government

W drawn Rec

We recommend that (1) reimbursements from the Department of Health Services be increased by $371,000, and (2) Item 0840-001-001 be reduced by the same amount, so that a major portion of project costs can be shifted to the federal government, for a net General Fund savings of $278,000.

The Department of Health Services (DHS) contracts with the State Controller's office to issue warrants for the Medi-Cal program. The Controller's budget includes a General Fund appropriation of $371,000 to audit the electronic tapes of Medi-Cal claims.

Since 1974, these electronic tape audits have found over $19,000,000 in major exceptions to claims. Because the federal government funds approximately 50 percent of Medi-Cal expenditures, it realizes approximately 50 percent of the savings resulting from these audits.

According to the agreement between the federal goverment and the Department of Health Services, the federal government will fund up to 75 percent of the costs of the Medi-Cal Audit Project, *provided* the full costs of the audit are billed *directly* to the Medi-Cal program. Therefore, we recommend that:

- The General Fund appropriation to the Controller be reduced by $371,000;
- Reimbursements to the Controller from DHS be increased by $371,000; and
- DHS bill the federal government directly for its share of the Medi-Cal Audit Project's costs, for a General Fund savings of $278,000 (75 percent of $371,000).

Workload for LIHEAP will be Less Than Anticipated

We recommend that reimbursements to the Controller be reduced by $162,000 to reflect a decrease in the volume of warrants to be processed under the Low Income Home Energy Assistance program.

The Controller's office issues warrants for the Low Income Home Energy Assistance Program (LIHEAP), which is administered by the State Office of Economic Opportunity (OEO). The Controller's costs are reimbursed by the OEO, using federal funds.

The Controller's office has estimated budget-year operating expenses and personnel requirements on the assumption that 800,000 warrants would be issued and two mailings will be necessary. According to the Office of Economic Opportunity, however, only 350,000 warrants will be issued, and only one mailing will take place.

Because of the reduced volume of warrants to be issued and mailed, our analysis indicates that postage expenses will be $96,000 less, and the costs of printing, warrants, envelopes and microfilm will be $19,000 less than the budget estimates. Further, our analysis indicates that three personnel-years and $47,000 will not be necessary and, thus, can be deleted from the budget. Accordingly, we recommend that reimbursements be reduced by $162,000 to reflect the lower projected workload volume.

Costs of the Oil and Gas Royalty Audit Program are Underbudgeted

We recommend the continuation of 13 limited-term positions used to conduct federal oil and gas royalty audits be approved. We further recommend that, at the time of budget hearings, the Controller and the Department of Finance provide information to the fiscal committees on the consequences of underbudgeting for this program.

The budget proposes the continuation of 13 limited-term positions in 1984–85, at a cost of $214,000. These positions currently are being used to conduct federal oil and gas royalty audits.

The Controller's office has an agreement with the U.S. Department of Interior to audit federal oil and gas royalties paid by companies with leases in California. Under the terms of this agreement, and pursuant to the 1982 Minerals Act, the Controller's office is entitled to federal reimbursement of 50 percent of the direct costs of the contract audits it conducts. Also, California receives 50 percent of all federal royalties paid on California federal oil and gas leases, and 50 percent of all collections resulting from the audits.

The Controller estimates that recoveries resulting from these audits will produce approximately $5.5 million for the State School Fund in 1984–85. As these funds reduce the amount that has to be transferred to the State School Fund, the General Fund ultimately benefits from the audit activity. The full amount of these revenues, however, has not been taken into account in the budget's estimate of State School Fund revenues. Our analysis indicates that the State School Fund should receive $2 million *more* than the amount reflected in the budget.

Our review further indicates that the amount requested for these audits may not be sufficient to pay for the costs of the program. The Controller has revised his estimates of the General Fund costs associated with the contract audits upwards by $69,000, predominately for increased travel to out-of-state audit locations. As of this writing, no information is available as to the extent that failure to provide funding for these costs may result in a reduced level of audit recoveries from the program. Accordingly, we recommend that the Controller and the Department of Finance provide such information at the time of budget hearings.

The Controller has also begun an audit effort, in association with several other states, relating to a potential lawsuit over the federal Department of Interior's management of mineral lease royalties. The Controller intends to complete this audit effort during the current year, however, there will be a continuing workload to support the Attorney General's legal efforts through June 30, 1986. The budget includes no funding for this workload.

TAX ADMINISTRATION

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

In the current year, the Department of Finance conducted a Priorities Based Budget Review of the Division of Tax Administration. Its report, issued in December 1983, evaluated 18 options for incremental changes in the Controller's tax administration program. The budget proposes to implement several of these options.

Table 4
Tax Administration
Summary by Element
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
1. Inheritance tax	87.6	27.1	30.5	$4,836	$4,360	$3,692
2. Gift tax	7.9	5.8	7.7	451	239	277
3. Tax collection	8.2	8.9	9.0	260	293	315
4. Gas tax refund	22.2	22.7	20.8	865	891	855
5. Estate tax	3.7	20.8	20.8	—	961	979
Totals	129.6	85.3	88.8	$6,412	$6,744	$6,118

Phase-Out of The Inheritance and Gift Tax Program

Adoption of Proposition 6 on the June 1982 ballot abolished the state's Inheritance and Gift Tax laws and established the new California Estate Tax. The Estate Tax is a "pickup" tax, the effect of which is to transfer a portion of the federal government's estate tax revenues to California. It does not increase the taxpayer's tax liability.

Prior to the approval of Proposition 6, the Controller's office employed approximately 195 people and maintained three regional offices to administer Inheritance and Gift Tax laws. The 1983 Budget Act restructured the Controller's Division of Tax Administration to reflect the impact of Proposition 6. Specifically, the 1983 Budget Act:

- Eliminated 195.3 positions in the Inheritance and Gift Tax program;
- Established 20 limited term positions (two years) to process outstanding inheritance and gift tax cases; and
- Established 21 limited term positions (two years) to begin developing a program to administer the new Estate Tax.

In response to the adoption of Proposition 6 and the 1983 Budget Act, the Controller closed the San Francisco regional office, moved some of its staff to Sacramento, and reduced staffing levels at the Los Angeles office.

In our *Analysis of the 1983 Budget Bill*, we recommended that the Controller study the necessity of maintaining two offices to process the workload remaining under the old inheritance and gift tax, and to administer the new Estate Tax program. In response to our recommendation, the Legislature adopted language in the *Supplemental Report of the 1983 Budget Act* requiring the Controller to conduct a study to determine the feasibility of closing the Los Angeles office.

Need for the LA Office will Disappear in 1984–85

We recommend that the Legislature adopt Budget Bill language requiring the Controller to close the Los Angeles office by June 30, 1985 because there will not be sufficient workload beyond the budget year to justify the costs of maintaining this office.

STATE CONTROLLER'S OFFICE—Continued

In December 1983, the Controller issued a report entitled "District Office Feasibility Study", which analyzed alternatives for the Los Angeles district office. The report provided estimates of what the fiscal impact would be of consolidating the Los Angeles office with the Sacramento office at different points in time.

The first alternative considered in the report, maintaining the LA office indefinitely, is expected to result in costs of $111,000 in 1984–85 and 1985–86. This represents the cost of rent, utilities, telephones and other operating expenses, and equipment necessary to support the office. The second alternative, closing the LA office on June 30, 1985, is expected to increase these costs by $30,000 in 1984–85, and by almost $20,000 in 1985–86. These increases are attributable to (1) moving costs in 1984–85 ($30,000), and (2) the assumption that private counsel would have to be retained (at a net cost of $118,000) to conduct the valuation effort in 1985–86, in lieu of using Los Angeles-based staff attorneys. The report identifies no other adverse consequences associated with this alternative. The report also discusses two other alternatives but concludes that they are not viable.

The report's conclusion is that the benefits of maintaining the LA office outweigh its costs through the end of the 1984–85 fiscal year. By keeping the office open through the end of the budget year, the Controller would be able to retain the existing, highly productive staff necessary to "wind down" the inheritance and gift tax program. Beyond 1984–85, the report finds that the maintenance of the LA office is not cost-effective. It does not, however, identify the most appropriate time for terminating the office's operations. Instead the report recommends that *another* study be conducted in early 1985, in order to determine whether the LA office should be consolidated with the Sacramento office as of June 30, 1985, or on some later date.

Our analysis indicates that in examining each alternative, the Controller's office has considered only expenditures for items other than personnel. The report assumes that the same level of expenditure for personnel would be required regardless of whether there is one office or two for inheritance and gift tax administration. This assumption appears unreasonable. At a minimum, the report should recognize that the Controller would no longer need two file room supervisors. Further savings in personnel costs could result from a reduced need for temporary help through consolidation of the available personnel.

In terms of the report's conclusions, however, we agree that the Los Angeles office should be maintained until the end of the budget year. At that point, our analysis indicates that the office should be consolidated with the Sacramento office. Generally, this conclusion is based on our findings with respect to two key issues influencing the need for the office: the valuation effort associated with the Hughes case, and the likelihood that a significant amount of inheritance and gift tax workload will continue beyond the budget year.

Hughes Case Workload Must be Completed in 1984–85. According to the Feasibility Study, the largest cost ($118,000) associated with closing the Los Angeles office involves the valuation effort in connection with the Hughes case. The study assumes that private attorneys would have to be hired in the 1985–86 fiscal year, at a cost of $175,000. This assumption, in rests on the assumption that the existing staff presently assigned to the valuation phase of the Hughes case would not move to Sacramento from Los Angeles. Consequently, these positions would be abolished, for a savings of $57,000.

It is by no means clear, however, that private attorneys would have to be retained for this workload. There is no documentation in the report to indicate that attorneys employed by the Controller's office and operating out of the Sacramento office could not conduct the work that remains to be done.

In any event, the issue would appear to be irrelevant, given the recently announced decision to accelerate the schedule for bringing the Hughes case to trail. According to the Controller's office, the Supreme Court's special master will begin hearing the case in June 1984. His recommendation to the Supreme Court will follow in 3 to 4 months, and according to the Controller's office, a final decision by the court should be issued very soon thereafter. If the decision is favorable to the state, a trial on the valuation of the estate would commence in California. According to the Controller's office, this trial would "certainly" begin before June 30, 1985, and *the valuation effort would of necessity have to be concluded prior to the time that the trial begins.* Thus, whatever expenditure of funds is necessary to conclude the valuation effort, whether it be for private attorneys or for state employees, the expenditure will occur prior to June 30, 1985.

Consequently, there is no reason to assume that closing the Los Angeles office on June 30, 1985, would increase the costs related to the Hughes case, as the Controller's study assumes. When the $118,000 in additional 1985–86 cost identified in the report is eliminated, we estimate that closing the Los Angeles office shortly after the end of the budget year would generate *savings* to the General Fund of approximately $88,000 in 1985–86.

Inheritance and Gift Tax Workload will Dwindle Rapidly. The Controller's study indicates that workload associated with the old Inheritance and Gift Tax will be substantially depleted by the end of the budget year. In subsequent discussions, however, the Controller's office has asserted that this workload may continue for an indefinite period of time, and that this may justify keeping the LA office open beyond June 30, 1985. The Controller's staff insists that it is impossible to develop a more definitive estimate of how soon the remaining inheritance and gift tax workload will be depleted, or at what rate it will decline.

We believe, however, that recent workload reports prepared by the Division of Tax Administration do, indeed, provide a reasonable basis on which to project the level of inheritance and gift tax workload. New inheritance and gift tax cases are submitted to the Controller's office by "inheritance tax referees" located in all of California's counties. The Division of Tax Administration prepares a report which accounts for the new cases submitted, cases closed, and the inventory of remaining cases. Our review of these reports indicates that given the rate at which this inventory has declined recently, the inheritance tax referees will have turned over all remaining cases to the Controller's office by October 1, 1984.

The workload reports also indicate that both the Los Angeles and Sacramento offices are processing cases at a faster rate than new cases are being referred by the referees. This is indicated by the fact that in both offices, the backlogs of cases remaining to be processed is declining. If their current processing rate continues, the backlog of cases remaining to be processed will disappear before the end of the *current* year.

Once the offices deplete their backlog of pending cases, the remaining workload will consist only of new cases forthcoming from the inheritance tax referees. Staff of the Controller's office maintain that the resolution of

STATE CONTROLLER'S OFFICE—Continued

these new cases, and the collection workload related to previously processed cases, may require continuing the operation of the LA office beyond June 30, 1985.

Our analysis indicates that these factors will *not* provide sufficient workload to justify maintaining the LA office beyond June 30, 1985, for the following reasons:

- ***Any new cases filed will be processed during the budget year.*** The workload reports indicate that the number of new cases forthcoming from the inheritance tax referees probably will dwindle to virtually zero during the first quarter of the budget year. Based on the trends evident in these workload reports, the last cases submitted by the referees will be processed by December of 1984.
  According to the workload reports, during 1982–83 the Los Angeles office completed 77 percent of its new inheritance tax cases within 2 to 3 weeks from the time the reports were received from the referees. Sixty-five percent were completed in less than two weeks. All but 9 percent were completed in under two months. During the same period, the Sacramento office processed over 60 percent of its new cases in under a month, and all but 18 percent in under 2 months.
- ***Remaining Legal Workload Will Be Minimal.*** The Controller's workload reports indicate that only 2 percent of the new cases are likely to require court appearances and hearings.
- ***Accounts Receivable Balance Overstates Workload.*** The Controller also states that the continuation of the Los Angeles office is justified by the large backlog of accounts receivable. Table 5 shows the growth in the accounts receivable balance since 1978–79 for both inheritance and gift taxes. It also shows the percentage of the prior year's accounts receivable balance which was collected each year. These figures show that the Controller's office has never collected more than 51 percent of deferred inheritance tax accounts receivable from the prior year, nor more than approximately 15 percent of deferred gift tax accounts receivable. Consequently, we question whether the current-year accounts receivable balance is a true reflection of revenues that are collectable and warrant attention by the office.

Table 5

Accounts Receivable Balance and Percent of Prior Year Balance Collected 1978–79 through 1982–83 (dollars in thousands)

	Fiscal Year				
	1978–79	*1979–80*	*1980–81*	*1981–82*	*1982–83*
Inheritance Tax					
Accounts Receivable Ending Balance	$38,667	$49,218	$93,427	$161,630	$164,163
Percent of Prior Year Collected	37.5%	29.9%	40.1%	51.3%	40.0%
Gift Tax					
Accounts Receivable Ending Balance	$6,176	$9,280	$12,682	$12,926	$13,851
Percent of Prior Year Collected	13.3%	6.8%	14.7%	9.9%	13.5%

In summary, we can find no analytical basis to support the additional expenditure of state funds required to continue the operation of the LA office past June 30, 1985. On this basis, we recommend that the Legislature adopt Budget Bill language directing the Controller to terminate the operation of the Los Angeles office as of June 30, 1985, as follows:

"The Controller shall consolidate all inheritance and gift tax administration activities in the Sacramento office as of June 30, 1985".

Inheritance and Gift Tax Collection Workload May Not Warrant a Staff Increase Recommend Approval

We ~~withhold recommendation~~ on 9 positions and $212,000 proposed to reduce the backlog of delinquent Inheritance and Gift Tax accounts receivable, because the collectability of sufficient accounts to warrant an increase in staff has not been established. We further recommend that prior to budget hearings, the Controller present information needed by the Legislature to assess the collectability of these accounts.

The Controller has requested 9 positions and $212,000 in the budget year in order to reduce the backlog of accounts receivable under the inheritance and gift taxes. These are accounts where a final determination of the amount due has been made, and no legal issues or actions are pending. As shown in Table 5, a sizeable inventory of accounts receivable has accumulated under these tax programs in the past five years. The budget indicates that this inventory is expected to begin declining in the current year. It also indicates that 300 accounts, which are carried on the books as being worth $500,000, will be written off as uncollectible in both the current and budget years.

Our analysis indicates that the size of the backlog may not be a valid indicator of the amount that can reasonably be expected to be recovered. Many of these accounts have been carried on the books for several years and their potential for collection has not improved. Thus, a large proportion of the accounts in the reported backlog may actually be uncollectible. If that is the case, the extra resources requested by the Controller would produce little in the way of benefits.

Most businesses perform an "aging" of their accounts receivable as a means of determining which accounts are potentially collectible and which are not. We believe that such an analysis would assist the Legislature in determining whether the requested staff increase is warranted. Accordingly, we recommend that the Controller present such an analysis of the accounts receivable prior to budget hearings. Pending the receipt of this analysis, we withhold recommendation on the request for $212,000 and 9 new positions.

Hughes Case Research Positions No Longer Necessary

We recommend the deletion of $157,000 (Item 0840-001-001) and six positions assigned to the Howard Hughes Case because the positions are no longer justified on a workload basis.

The budget includes $157,000 to continue six positions assigned to the Howard Hughes Inheritance Tax Case. These six positions were established in 1977–78 to begin the groundwork for the case. The Hughes Case has now been scheduled to go to trial in June 1984. In response, the Controller has greatly accelerated his efforts in the current year to prepare for the upcoming court date, and private counsel has been obtained to argue the case.

According to the Controller's office, the workload associated with the six positions established in 1977–78 will be largely completed by the time the trial commences. With the court case scheduled to begin this June,

STATE CONTROLLER'S OFFICE—Continued

there is no justification for continuing the positions in the budget year. Therefore, we recommend that the six positions and $157,000 be deleted.

Board of Control Write-Off Limit

Under existing law, state agencies *must* pursue all delinquent accounts receivable which exceed $25, and *may* refrain from taking any action to collect accounts below that limit, upon approval of the Board of Control. The budget proposes increasing this write-off limit to $50. According to the Priorities Based Budget (PBB) report prepared by the Department of Finance in 1983, increasing the write-off limit to $50 would reduce the Controller's personnel requirements by 0.5 personnel-years, for a savings of $10,500.

The total amount of accounts receivable valued between $25 and $50 currently held by state agencies is unknown. The administration has not provided any information regarding what amount might be recovered in the absence of an increase in the limit, or on the effect this proposal might have on the tendency of persons to pay accounts valued under $50 in the future.

Gas Tax Refund Audits

We recommend approval.

The Division of Tax Administration receives claims for refunds of gasoline taxes from individuals who have purchased gasoline and used it for purposes other than transportation over public roads. The Tax Administration division reviews these claims, some of which are field audited. Currently, field audits are only conducted on claims exceeding $3,000.

The budget proposes to raise the threshold level for gas tax refund field audits from $3,000 to $6,000. This proposal also stems from the PBB review. The $6,000 threshold level is essentially the break-even point for audit costs and recoveries. The PBB report determined that raising the threshold to $6,000 will result in the loss of approximately $40,000 in claims exceptions, based on documented audit recovery rates. Raising the threshold level, however, will also reduce audit workload requirements by one General Auditor II position, for a savings of $41,267. Thus, the net benefit of raising the threshold level is $1,267.

LOCAL GOVERNMENT FISCAL AFFAIRS

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

Table 6
Local Government Fiscal Affairs
Summary by Element
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual	Estimated	Proposed	Actual	Estimated	Proposed
1. Financial information	29.4	31.8	36.0	$1,332	$1,466	$1,664
2. Streets and roads	40.0	47.0	48.4	1,673	1,771	2,023
3. County cost plans	10.4	4.3	4.3	426	243	253
4. Tax deeded land	9.2	10.2	10.3	350	423	346
5. Senior citizens' property tax postponement	14.9	15.3	19.2	529	530	657
Totals	103.9	108.6	118.2	$4,310	$4,433	$4,943

Transportation Development Act Audit Workload is Uncertain

We recommend approval of the request to reestablish 14 positions needed to conduct reimbursable Transportation Development Act Audits. We further recommend that the positions be reestablished on a two-year, limited-term basis in recognition of the uncertainty surrounding workload projections.

The Controller proposes to permanently reestablish 14 positions used to perform reimbursable audits of all entities claiming Transportation Development Act (TDA) funds—principally cities, counties, and transit operators. The positions would also be used to conduct audits of county trust funds where TDA monies are deposited prior to payment of claims, and of Regional Transportation Planning agencies (RTPA's), which administer the fund at the local level.

The Controller's TDA audit workload is neither guaranteed nor constant from year-to-year. The workload depends on the number of local agencies that elect to contract with the Controller for audits required by the Transportation Development Act. Some audits are annual, others triennial. All claimants of TDA funds are audited annually, but transit operators and RTPA's also are the subject of triennial performance audits. In addition, required audit completion dates vary from 90 days to one year after the close of the prior fiscal year.

We believe the 14 positions are justified on a workload basis for the budget year. Because of the uncertainty of contract renewals and the irregular workload, however, we recommend that they be reestablished on a 2 year limited-term basis, rather than permanently as the budget proposes. This will enable the Legislature to review the continuing need for these positions in connection with the 1986–87 budget.

County Cost Allocation Plans Do Not Receive Adequate Review

We recommend that the Legislature adopt supplemental report language requesting the Controller to pursue the study recommended by the Task Force on Indirect Costs. We further recommend that the Controller present to the Legislature at the time of budget hearings a detailed plan and timetable for the study.

Each county must annually prepare a countywide cost allocation plan (CAP) in order to receive federal reimbursement for indirect and central support service costs related to federally supported programs. These plans are also used in the determination of costs chargeable to many state-supported programs. In essence, a cost allocation plan identifies the amount of county overhead which qualifies under the federal guidelines, and allocates this cost to all of the county's programs. The cost allocated to a specific program represents that program's share of the cost of maintaining county support services. In cases where the county administers

STATE CONTROLLER'S OFFICE—Continued

state or federal programs, the amount allocated also represents a cost which can, at least partially, be charged to the state and federal governments.

The federal Department of Health and Human Services (DHHS) has delegated to the Controller the authority to issue supplemental instructions and procedures to counties, review the plans, negotiate changes, and approve such plans. The Controller has established the Bureau of County Cost Plans (BCCP) to carry out these duties.

The BCCP conducts a desk review of all 58 CAPs, and may also conduct a field review to examine working papers or supporting documents. The reviews ensure that: (1) the basis for each allowable cost is fully explained, (2) the CAP reconciles with the financial statements presented in the budget, and (3) the allocation methodology and statistics adhere to federal and state guidelines.

In our *Analysis of the 1983–84 Budget Bill,* we indicated that there were several problems with the state's review of county cost plans. Most significantly, the current review process does not insure that the state pays only its fair share of allowable local governments costs. The BCCP does not ensure that costs charged against state and federal programs can be traced back to the CAP. Instead, it seeks primarily to ensure that allowable overhead costs and central support services are identified, accumulated, and allocated correctly. In essence, the BCCP review concentrates on adherence to the established guidelines and the mathematical correctness of the CAP.

Given the opportunities for abuses in the current system, we recommended that the Legislature request the Controller to convene a task force to study these issues and recommend a procedure for reconciling the allowable amount of indirect costs contained in county cost allocation plans with the amount charged to the state government. In response to our recommendations, the Legislature adopted language in the *Supplemental Report of the 1983 Budget Act* that required the Controller and other state agencies to develop a procedure for reconciling county overhead costs charged to the CAPs with costs charged to the state, and to report to the Legislature with recommendations to improve the accounting and reconciliation of these costs no later than December 31, 1983.

Task Force Recommends Further Study

The Controller convened a task force of representatives from six state agencies to respond to the language adopted in the *Supplemental Report of the 1983 Budget Act.* This task force, however, did not develop a procedure to reconcile the allocation of overhead costs. Instead, the task force decided there was insufficient data to justify, on a cost/benefit basis, establishing new review procedures for reconciling county overhead costs. The task force has prepared a "preliminary" report that proposes a special study of the overhead cost accounting methods of six counties to quantify the extent of the problems that exist in the CAP review process. The task force intends to use this information to determine which, if any, of several new review procedures it has considered will be justified on a cost/benefit basis.

The task force's preliminary report estimates that six person/years of effort will be required to complete the special study. The agencies serving on the task force have agreed to contribute resources, but at the time this analysis was prepared, no work had begun on the special study. The preliminary report suggests that the special study be completed no later than August 31, 1984, to provide the full task force with enough time to develop final recommendations to the Legislature by October 15, 1984.

Information developed by the task force to date indicates that this is an area where additional review is appropriate. In fact, the discussions which took place seem to confirm our suspicion that the state's financial interests are not served adequately by the present system. In order that the Legislature have some better idea of how extensive the problem is so that it can decide whether corrective action is necessary, we recommend that the Legislature adopt the following supplemental report language requesting the Controller to pursue the study recommended by the task force:

> "The Controller shall, in conjunction with the representatives of other affected state agencies, undertake a special study to determine the extent to which problems exist in the present methods for review and payment of county overhead costs charged to state programs. The Controller shall submit the report of the task force to the fiscal committees of the Legislature no later than December 1, 1984."

We further recommend that the Controller's office present to the Legislature during the budget hearings a detailed plan and timetable for the study, and that it obtain a commitment from the task force members on funding and staffing for the study.

Workload Effect of AB 800 is Uncertain

We recommend that six new positions requested for the Senior Citizens' Property Tax Postponement program be approved for a two-year limited term. We also recommend that the Legislature adopt supplemental report language directing the Controller to report to the Legislature by November 30, 1985 regarding the impact of AB 800 (Ch 1051/83) on workload under the program.

The Senior Citizens' Property Tax Postponement program allows eligible homeowners to defer payment of all or a portion of the property taxes on their residences. The state puts a lien on the property to assure that the taxes are paid when the property is transferred to heirs or sold, and the state charges interest on the full amount deferred.

To be eligible, persons must be 62 years of age or older, own and occupy a house, condominium, or mobilehome and qualify under one of two income limits.

Assembly Bill 800 (Ch 1051/83) made several changes to the Senior Citizens' Property Tax Postponement program. Specifically, this act:

- Expanded eligibility to include mobilehome owners whose homes are located on rented or leased property;
- Established two income eligibility limits, $34,000 for claimants who qualified during or before 1983, and $24,000 for those who qualify in 1984 or thereafter; and
- Provided for a variable interest rate on taxes deferred. Interest will be tied to the yield of the Pooled Money Investment Fund.

Workload Resulting From AB 800 Cannot be Estimated. The budget requests six new positions to handle the additional workload that is expected to result from AB 800. These positions would be established on a permanent basis.

Our analysis indicates that additional workload will result from AB 800. At the present time, however, we are not able to determine the extent of this additional workload, for the following reasons.

STATE CONTROLLER'S OFFICE—Continued

- *Estimates of the number of senior citizens who own mobilehomes vary considerably.* In preparing its budget, the Controller relied on figures from the Department of Housing and Community Development, which indicated that senior citizens may occupy 64,000 to 85,000 mobilehome units in California. The census data unit in the Department of Finance, however, estimates that the number is more like 151,000 units.
- *The Controller has not determined how many senior citizen mobilehome owners will be eligible to participate.* The legislation requires that senior citizens have incomes below $24,000 in order to qualify for the program. The Controller has made no estimates of how many mobilehome owners have incomes of less than $24,000.
- *The estimated participation rate of eligible mobilehome owners is questionable.* The Controller estimates that 10 percent of the *total* number of mobilehome owners will participate in the program, compared with a 2 percent participation rate for owners of conventional homes. The Controller's office anticipates a higher rate of participation for mobilehome owners on the basis of several behavioral assumptions.
- *Workload Requirements are Uncertain.* AB 800 creates a new set of administrative requirements for the Property Tax Postponement Program. The Controller's office does not know how much effort will be required to comply with these requirements.

Thus, in addition to uncertainty regarding the *number* of new claimants, there is uncertainty regarding the amount of time necessary to process each new claimant, the complications resulting from the variable interest rate, and the process by which liens for mobilehome owners will be filed.

Given these uncertainties, we conclude that there is not sufficient justification to establish positions for this program on a permanent basis. Therefore, we recommend that the positions be approved for a limited term, to permit legislative review in the future.

We further recommend that the Legislature adopt supplemental report language requesting the Controller's office report to the Legislature on the implementation of AB 800. Specifically, we recommend adoption of the following language:

"The State Controller shall submit to the fiscal committees of the Legislature by November 30, 1985, a report on participation in the property tax deferral program for Senior Citizen mobilehome owners. This report shall also include information as to the Controller's expenditures for implementing the program, as well as the expected ongoing administrative costs associated with the program."

Sufficient Workload Exists for Only One Actuary

We recommend (1) approval of one actuary position for review of public retirement systems, and (2) reduction of $50,000 requested in Item 0840-001-001 for consulting services which would duplicate the services which the actuary is intended to provide.

AB 727 (Ch 928/77) required the Controller's office to review the actuarial valuations of state and local retirement systems on a triennial basis. It was the intent of the Legislature in enacting AB 727 to safeguard the solvency of all public retirement systems and funds by subjecting each one to a periodic, independent analysis of its financial condition by the Controller's office.

According to the Controller's office, the triennial valuation cycle requires that 25 plans per year be reviewed to comply with the mandate of AB 727. The Controller, however, has not had available the actuarial expertise needed to review the valuation of public retirement systems on a triennial basis. Since 1980, the office has contracted with a private actuarial consulting firm to assist it in complying with the requirements of AB 727. This firm has reviewed five plans each year since 1980, at an annual cost to the state of $50,000.

One Actuary Can Handle All Workload. The Controller estimates that one actuary employed by the state could review 25 plans per year, at a General Fund cost of $46,000. Information provided by the consultant shows that one actuary would require approximately 1,450 hours to review the financial plans of 25 retirement systems. This approximates the workload standards in the budget proposal, which allow 1,422 hours for review of 25 plans, and 360 hours to conduct other work that will be necessary for the review process. The total—approximately 1,800 hours—is the budgeted equivalent of one personnel year. On this basis, we recommend that one actuarial position be established in the Controller's office for review of the triennial valuations of public retirement systems.

Consultants Will No Longer Be Necessary. The budget for the Controller's office includes $50,000 to continue an existing contract with a consulting actuary. The consultant would review the larger and more complex retirement systems in California.

The Controller has provided no evidence that an in-house actuary would be incapable of reviewing the larger systems. In fact, the Controller's own workload estimates indicate that one actuary can review 25 retirement systems per year, including the larger, more complex systems.

The Controller also recommends retaining the consultant to provide assistance to the in-house actuary in the event any special problems are encountered. While we acknowledge the possibility that special problems may be encountered that require outside advice, we believe that the Controller should contract for such advice on an as-needed basis.

In sum, given the new actuary position, we see no justification for continuing the Controller's existing contract with the private consultant. Accordingly, we recommend that the amount budgeted for consulting and professional services—external in 1984–85 be reduced by $50,000.

Systems Development

The Systems Development program is responsible for (1) development and maintenance of computer programs utilized by the employment history and payroll systems, (2) all other programming functions of the State Controller's office, and (3) other Systems Development users. Table 7 provides a summary of the personnel-years and expenditures for two elements of this program.

Table 7
Systems Development
Summary by Element
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
1. Systems maintenance support	73.3	67.4	67.4	$3,484	$3,794	$3,913
2. Systems development support	38.1	36.4	36.1	1,446	1,492	1,559
Totals	111.4	103.8	103.5	$4,930	$5,286	$5,472

STATE CONTROLLER'S OFFICE—Continued

UNCLAIMED PROPERTY

Through the Unclaimed Property program, the Controller (1) collects unclaimed property from holders of such property (financial institutions, corporations, and others) and (2) attempts to return the property to owners or heirs. If the owners cannot be found, the property escheats to the state. Table 8 summarizes expenditures by Unclaimed Property Division under its two program elements, abandoned property and estates with unknown heirs.

Table 8
Unclaimed Property
Program Summary
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
1. Abandoned property	79.1	77.0	77.0	$3,019	$3,352	$3,465
2. Estates of deceased persons	5.1	4.7	4.8	208	170	192
Totals	84.2	81.7	81.8	$3,227	$3,522	$3,657

Reduction in the Advertising Period

We recommend approval.

The budget proposes enactment of legislation to shorten from four weeks to two weeks the length of time during which the names of owners of unclaimed property are published. Because this change will result in a $10,000 decrease in the cost of the advertising program, and have little effect on the number of unclaimed property owners who respond to the advertising effort, we recommend that this legislation be enacted.

ADMINISTRATION

The Administration program provides executive direction, policy guidance, management, and support services to the operating divisions. Table 8 shows the expenditures for each element of this program.

Table 9
Administration
Program Summary
(dollars in thousands)

	Personnel-Years			*Expenditures*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
1. Executive office	25.8	23.0	25.7	$2,551	$1,401	$1,422
2. Administrative services	55.0	49.4	47.9	600	2,124	2,230
3. Less amounts distributed to other divisions	−56.8	−49.4	−50.9	−2,097	−2,097	−2,222
Net Totals	24	23	22.7	$1,054	$1,428	$1,430

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds — Budget p. LJE 95

Requested 1984–85	$83,588,000
Estimated 1983–84	77,865,000
Actual 1982–83	70,832,000
Requested increase (excluding amount for salary increases) $5,723,000 (+7.3 percent)	
Total recommended reduction	3,402,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
0860-001-001—Support		General	$76,703,000
0860-001-022—Support		Emergency Telephone Number Special Account, General	89,000
0860-001-061—Support		Motor Vehicle Fuel Account, Transportation Tax	3,812,000
0860-001-064—Support		Motor Vehicle License Fee Account, Transportation Tax	1,060,000
0860-001-415—Support		Universal Telephone Service	91,000
0860-001-465—Support		Energy Resources Programs Account, General	70,000
0860-001-965—Support		Timber Tax	1,763,000
Total			$83,588,000

Rec. approval as funded

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Tax Returns. Augment Item 0860-001-001 by $227,000.*** Recommend addition of 15.7 positions for processing tax returns because they will produce additional revenues that are well in excess of their cost (Revenue Gain: $1.2 million). — 114
2. ***Delinquent Tax Collections. Augment Item 0860-001-001 by $501,000.*** Recommend addition of 26 positions for collection of delinquent sales taxes, because the positions will produce additional revenues well in excess of their cost (Revenue Gain: $2 million). — 116
3. ***Sales Tax Reimbursements. Reduce Item 0860-001-001 by $4,130,000.*** Recommend a reduction of $4,130,000 to correct underbudgeting of the amount local governments will pay for administration of the local sales and use tax. Further recommend adoption of Budget Bill language to preclude expenditure of sales tax reimbursements in excess of revised budget estimates. — 118
4. ***Legal Entity Ownership Program. Reduce Item 0860-001-001 by $110,000, augment Item 0860-001-064 by $110,000.*** Recommend that local governments be required to support 50 percent of the direct cost of the program, because they receive most of the benefits from the program. — 120

STATE BOARD OF EQUALIZATION—Continued

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 93 percent of the board's staff is devoted to the administration of the state and local sales tax and several other business taxes. Administration of these taxes includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 7 percent of its staff is engaged in those activities. The board's various responsibilities are described below.

Administration of Business Taxes. The board administers and collects the state's 4.75 percent sales and use tax, the local 1.25 percent sales and use tax, and a 0.5 percent transaction and use tax for seven local transit districts. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the surcharge on the consumption of electricity, (3) a telephone surcharge, which is used to fund the 911 emergency telephone systems, and (4) a pair of taxes on the generation and disposal of hazardous substances.

Local Property Taxes. The board surveys the operation of county assessor's offices, issues rules governing assessment practices, trains property appraisers, and provides technical assistance and handbooks to county assessors' staffs. The board also determines the value of public utility property and allocates assessed value to each local taxing jurisdiction in which such property is located. In addition, the board administers the timber yield tax.

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

The board has 2,837 authorized positions in the current year.

Revenues Administered by the Board

Table 1 shows estimated state and local revenue collections from programs administered by the board. Total revenues from these programs in 1984–85 are estimated at $15.0 billion, which is 10.6 percent above the estimated current-year level.

Table 1
State and Local Revenues
Collected by the Board of Equalization [a]
1982–83 through 1984–85
(in millions)

	Actual 1982–83	*Estimated 1983–84*	*Projected 1984–85*	*Change Amount*	*Change Percent*
State sales and use tax	$7,795	$8,734	$9,733	$999	11.4%
Local sales and use tax	2,460	2,756	3,072	316	11.4
Alcoholic beverage tax	136	137	137	—[b]	—
State cigarette tax	191	186	180	−6	−3.1
Local cigarette tax	81	79	77	−2	−3.1
Motor vehicle fuel tax (gasoline)	835	1,046	970	−76	−7.3
Use fuel tax (diesel)	93	128	127	−1	−0.8
Energy resources surcharge	31	30	30	—[b]	—
Emergency telephone users surcharge	23	28	34	6	21.1
Hazardous substance taxes	16	18	19	1	8.4
Insurance tax	737	442	615	173	39.1
Timber yield tax	10	12	12	—[b]	—
Private railroad car tax	4	8	6	−2	−17.0
Universal telephone service	—	—	30	30	—
Totals	$12,412	$13,604	$15,042	$1,438	10.6%

[a] Source: Department of Finance, Board of Equalization.
[b] Change of less than $500,000.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of $83,588,000 from various funds to support the State Board of Equalization in 1984–85. This is an increase of $5,723,000, or 7.3 percent, above estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increases approved for the budget year.

Total expenditures, including expenditures from reimbursements, are proposed at $109,517,000. This is an increase of $6,125,000, or 5.9 percent, above estimated current-year expenditures.

The budget requests a total of 2,855.4 authorized *positions* in 1984–85, an increase of 18.4 positions above the number authorized in the current year. The budget proposes a total of 2,751 *personnel-years* in 1984–85, an increase of 17.1 above the number authorized in the current year (personnel-years equal authorized positions minus salary savings.)

Table 2 summarizes the number of personnel-years and expenditures associated with each of the board's programs in the prior, current and budget years.

Significant Budget Changes

The budget proposes the following program changes in the budget year:

- Continuation of a program that monitors changes in ownership of legal entities for purposes of property tax administration, at a cost of $220,000. This program, mandated by Ch 1141/81 (AB 152), was established for a two-year period by the 1982 Budget Act.
- Implementation of various changes in the administration of the sales and use tax enacted in Ch 10x/83 (AB 28x), Ch 323/83 (AB 223) and Ch 600/80 (SB 1541), at a cost of $294,000.
- Implementation of the Universal Telephone Service Tax, pursuant to Ch 1143/83 (AB 1348), at a cost of $91,000, funded through redirection of existing resources.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization Budget Summary
1982–83 through 1984–85
(dollars in thousands)

	Personnel-Years			Expenditures		
	Actual 1982–83	Estimated 1983–84	Proposed 1984–85	Actual 1982–83	Estimated 1983–84	Proposed 1984–85
County Assessment Standards	94.4	89.9	89.3	$4,028	$4,226	$4,440
State Assessed Property	91.4	89.3	89.3	3,577	3,858	4,073
Timber Tax	38.0	37.3	37.3	1,578	1,676	1,763
Sales and Use Tax	2,255.0	2,345.5	2,361.2	77,421	85,729	90,890
Hazardous Substance Tax	6.2	8.1	8.1	237	331	346
Alcoholic Beverage Tax	24.4	24.5	24.5	692	781	826
Cigarette Tax	11.9	11.9	11.9	1,601	1,636	1,782
Motor Vehicle Fuel License Tax	12.6	12.2	11.7	490	513	523
Use Fuel Tax	91.6	89.3	89.3	2,949	3,149	3,289
Energy Resources Surcharge	1.6	1.8	1.8	54	78	70
Emergency Telephone Users Surcharge	2.3	2.4	2.4	69	83	89
Insurance Tax	1.6	1.6	1.6	67	76	80
Universal Telephone Service Tax	—	—	2.5	—	—	91
Appeals from other Governmental Programs	20.0	20.1	20.1	903	1,002	1,058
Administration (undistributed)	5.6	—	—	303	254	197
Totals	2,656.6	2,733.9	2,751.0	$93,969	$103,392	$109,517
Reimbursements	—	—	—	−23,137	−25,527	−25,929
Net totals	2,656.6	2,733.9	2,751.0	$70,832	$77,865	$83,588

The budget also proposes the following changes to fund the cost of continuing the current level of services in the budget year and to delete one-time expenditures:

- Full-year funding for a staff salary increase that took effect on January 1, 1984, at a cost of $1,892,000.
- Merit salary adjustments, at a cost of $1,195,000.
- Staff benefit increases, at a cost of $906,000.
- Inflation adjustments for operating expenses, at a cost of $1,701,000.
- Additional staff to support increased workload in processing sales and use tax returns, at a cost of $330,000.
- Deletion of one-time data processing expenditures for administration of new transit district taxes, for a savings of $249,000.

Table 3 summarizes all of the proposed changes to the budget.

Table 3
Board of Equalization
Proposed 1984–85 Budget Changes
(in thousands)

	Changes	Totals
1983–84 Revised Budget		$77,865
A. Changes to maintain current program		
1. Full-year funding, salary increase	$1,892	
2. Merit salary adjustments	1,195	
3. Staff benefits	906	
4. Price increase, operating expenses	1,701	
5. Sales tax return processing	330	

6. Department of Housing and Community Development, contract	44	
7. Department of Motor Vehicles, contract	76	
8. Increased reimbursements	−444	
Total		$5,700
B. Limited-term activities		
1. Transit district taxes	−249	
2. Gasoline tax increase (SB 215)	−12	
3. Change of ownership activity (AB 152)	−230	
Total		−$491
C. Program Change Proposals		
1. Sales and Use Tax Legislation (AB 28x, AB 223, SB 1541)	294	
2. Change of ownership activity (AB 152)	220	
3. Universal phone service tax (AB 1348)	(91)[a]	
Total		$514
Total, 1984–85 Budget Request		$83,588

[a] Funded through redirection of existing resources.

ANALYSIS AND RECOMMENDATIONS

SALES AND USE TAX PROGRAM

The budget proposes expenditures of $90.9 million for administering the sales and use tax program, which includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. This is $5.2 million, or 6.0 percent, more than estimated current-year expenditures for the program.

More Staff Needed to Implement Recent Sales Tax Legislation

We recommend approval.

The budget proposes to add 15 new positions to implement recent legislation affecting the sales and use tax program, at a General Fund cost of $294,000. Ten of the positions are requested to accommodate increased returns processing and collections workload associated with the enactment of Ch 10x/83 (AB 28x) and Ch 323/83 (AB 223). The other five positions are needed to accommodate increased collections workload associated with new federal and state laws governing bankruptcy filings and tax liens.

New Tax Provisions. AB 28x accelerated the prepayment of sales and use taxes due from retailers in the second quarter of each calendar year, in order to achieve one-time revenue gains in 1982–83. Under prior law, certain retailers were required to make two prepayments in the second quarter, based on 90 percent of their estimated tax liability in April and May. AB 28x increased the prepayment amount to 95 percent of tax liability and extended the second prepayment period to cover the first fifteen days in June.

Both AB 28x and AB 223 modified the procedures used to calculate interest amounts owed to or by the state on the underpayment or overpayment of the sales and use tax, use fuel tax, motor vehicle fuel license tax, insurance tax, cigarette tax, alcoholic beverage tax, energy resources surcharge, emergency telephone users surcharge and the two hazardous substances taxes. Under prior law, interest was charged at a fixed rate computed on a simple daily basis. Under AB 28x, the interest rate after July 1, 1983 is established by the Franchise Tax Board for a six-month period, based on the average prime lending rate over a specified six-month period. Also, interest paid by the state or a taxpayer after July 1, 1983, must

STATE BOARD OF EQUALIZATION—Continued

be compounded daily. AB 223 modified these provisions to specify that daily compounding applies only to the Personal Income Tax, the Bank and Corporation Tax and the Sales and Use Tax. It also specified that compound interest calculations are based on the amount of tax error, interest, and penalties.

Bankruptcy and Tax Lien Changes. In 1983, the U.S. Supreme Court issued rules that significantly reduce the amount of time creditors have to file claims in bankruptcy proceedings. Prior to the court ruling, creditors had approximately seven months after the date of petition to file a claim with the bankruptcy court. Effective August 1, 1983, creditors are permitted only four months following the date of petition in which to file claims. This ruling substantially reduces the amount of time the board has to identify potential tax debtors who have filed for bankruptcy, audit their accounts, and prepare claims to be filed with the courts.

The board's compliance program has also experienced increased workload due to enactment of Ch 600/80 (SB 1541), which requires the board to release tax liens within 40 days after payment of the tax liability. At the board's current level of staffing, liens are not released until 100 days after payment, and there is a substantial backlog of releases to be processed.

Positions are Justified. Our analysis indicates that the 10 positions requested for implementing the business tax provisions of AB 28x and AB 223, and the five positions requested for accommodating the new bankruptcy and tax lien rules, are justified. The recently enacted changes in prepayment procedures and in the method for calculating interest amounts have led to an increase in the number of errors on returns filed by taxpayers, and have complicated the board's responsibilities for processing returns and collecting delinquent taxes. Complying with the requirements of the Supreme Court ruling and SB 1541 will result in significant workload increases for the board's tax compliance program.

Without the additional positions, the board would be able to adapt to the increased workload only by reducing the number of tax returns processed on a monthly basis and increasing the number processed on a quarterly basis. This would delay the deposit of sales tax receipts submitted by retailers, and therefore would result in a loss of interest revenue to the state. We estimate that this revenue loss in 1984–85 would be approximately $1.1 million. In order to facilitate the timely processing of tax returns under the requirements of the new legislation, we recommend approval of this request as budgeted.

Processing Business Tax Returns Rec. approval as funded

We recommend an augmentation of $227,000 and 15.7 positions for processing additional sales tax returns, because these positions will produce additional state revenues well in excess of their cost (Revenue gain: $1.2 million).

The budget proposes total expenditures of $23,007,000 for processing sales tax returns, sales tax prepayment statements, motor vehicle fuel tax returns and use fuel tax returns in 1984–85. This is an increase of $1,359,000, or 6.3 percent, above estimated current-year expenditures. Of this amount, $330,000 represents a request to establish 15.4 new positions to accommodate a projected increase in the number of tax returns.

Table 4 shows that the board processed 3,329,000 returns in 1982–83. The board estimates that it will process 3,468,000 returns in the current year, and projects a total of 3,606,000 returns in 1984–85, an increase of 4.0 percent above current-year workload.

Table 4
Board of Equalization
Tax Return Processing Workload
1982–83 through 1984–85

	Number of Returns			*Change*	
Type of Return	*1982–83*	*1983–84*	*1984–85*	*Amount*	*Percent*
Sales Tax	2,586,000	2,689,000	2,796,000	107,000	4.0%
Sales Tax Prepayment	544,000	566,000	589,000	23,000	4.1
Motor Vehicle Fuel Tax	6,000	7,000	7,000	—	—
Use Fuel Tax	193,000	206,000	214,000	8,000	3.9
Totals	3,329,000	3,468,000	3,606,000	138,000	4.0

Tax Return Processing Underbudgeted. In spite of the proposed new positions, our analysis indicates that the level of resources requested by the board is not adequate to process the workload anticipated in 1984–85. The 15.4 new positions would be sufficient to process the workload increase projected in 1984–85—138,000 additional tax returns. They would not be sufficient, however, to eliminate a backlog of 139,000 returns that is accumulating in the *current* year. This backlog has occurred because the number of tax returns to be processed has exceeded the number estimated in last year's budget projections.

The board has accommodated this unanticipated workload by reducing the number of returns it processes on a monthly basis (from 79,550 in June 1982 to 58,066 in December 1983) and increasing the number it processes on a quarterly basis without prepayments. Current law permits the board to require retailers with tax liabilities of less than $1,000 per month to file returns either on a monthly or quarterly basis. The number of monthly accounts has declined because the board has changed the reporting basis for many retailers and assigned its new accounts to a quarterly reporting basis. We estimate this practice has resulted in losses of interest income to the state of approximately $1.2 million. The new positions proposed by the budget will prevent this revenue loss from increasing in 1984–85, but the additional resources are not adequate to reduce it.

Our analysis indicates that an investment in additional personnel for processing tax returns would be in the state's financial interest. In order to eliminate the backlog of returns that is accumulating in the current year, we estimate the board would require 15.7 new positions in addition to those requested, at a General Fund cost of $227,000. These additional resources would permit the board to increase the number of returns it processes on a monthly basis. More timely processing of tax returns would result in additional interest income to the state of $1.2 million annually.

For these reasons, we recommend that the board's budget be augmented by $227,000 and 15.7 positions.

Audit Selection Procedures Show Marked Improvement

The budget proposes expenditures of $42.4 million for auditing the accounts of firms subject to the sales and use tax. This is an increase of $2.3 million, or 5.7 percent, above estimated current-year expenditures for the audit program. The increase consists entirely of various adjustments reflecting the increased cost of supporting the same number of auditors in 1984–85 as in the current year. The budget proposes no additional audit staff and does not propose to maintain a given level of audit coverage in the face of additional workload.

Legislative Policy on Audit Selection. In the Budget Acts of 1981, 1982, and 1983, the Legislature directed the board to select sales tax accounts for audit and to allocate its audit resources solely on the basis of the marginal net tax assessments the audits can be expected to produce. This requires the board's audit staff to rank all eligible sales tax accounts into groups based on the auditor's expectation regarding the amount of deficiencies an account would yield if audited. The auditors would then audit those accounts for which the expected net assessments per dollar of audit cost was the greatest. This policy, if properly implemented, would maximize the productivity of the board's audit program.

Over the past several years, the Legislature has criticized the board for failing to implement audit selection and resource allocation policies strictly on the basis of the marginal net assessment criterion. In the past, the board's auditors ranked accounts based on their judgment of the *likelihood* that an audit would be productive, rather than the *extent to which* they thought an audit would be productive. This policy did not adequately distinguish between sales tax accounts with different dollar amounts at stake, and resulted in the selection of accounts for audit where the expected return to the state was smaller than that for other available accounts that were not audited.

The board also failed in the past to allocate its audit resources solely on the basis of marginal net assessments. For example, the board repeatedly requested the Legislature to authorize new audit positions based on the board's desire to maintain a given level of audit coverage in the face of increasing workloads. The Legislature rejected these requests because the board did not produce reliable evidence indicating the extent to which the return to the state in additional tax assessments would exceed the cost of the auditors.

The Board's New Policies. The board has implemented new audit selection policies in the current year. For the first time, the board has instructed its auditors to rank eligible accounts on the basis of the expected *degree* of productivity, not merely the likelihood that the account would be productive. The board will also be collecting data from its field offices measuring the impact of this change.

In our judgment, this new policy should result in immediate increases in the productivity of the audit program. Further, analysis of the new data should provide a more rational basis for the board to allocate its existing audit resources and for the Legislature to evaluate the board's requests for additional auditors. These data will take about two years to collect and analyze. Thus, they should be available to the Legislature when it considers the staffing requirements for the board's audit program in 1986–87.

Delinquent Tax Collections Underbudgeted—Major Revenue Loss Results

We recommend an augmentation of $501,000 and 26 positions for the collection of delinquent sales and use taxes, because these positions will produce additional state revenues well in excess of their cost (Revenue Gain: $2 million).

Account Backlog Continues to Grow. For several years, the board has been unable to keep pace with increases in the number of sales tax accounts which become delinquent each year. Table 5 shows that the backlog of accounts receivable is projected to grow from 32,600 at the beginning of 1980–81 to an estimated 55,100 at the end of 1983–84. In the same period, the amount of delinquent taxes owed the state is projected to grow from $69.1 million to $147.4 million.

Table 5
Sales Tax Compliance Program
Delinquent Tax Collections
Revenues and Number of Accounts
1980–81 through 1984–85
(dollars in thousands)

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Beginning Inventory					
Revenues	$69,060	$77,211	$97,198	$117,173	$147,402
(Accounts)	(32,588)	(34,401)	(41,612)	(45,400)	(55,089)
Additions					
Revenues	$117,061	$173,054	$166,062	$183,022	$201,801
(Accounts)	(92,786)	(114,736)	(118,014)	(123,915)	(130,110)
Deletions:					
Accounts Paid					
Revenues	–$100,194	–$143,973	–$135,029	–$141,735	–$148,892
(Accounts)	(–88,323)	(–104,109)	(–108,443)	(–108,443)	(–108,443)
Account Write-offs					
Revenues	–$8,716	–$9,094	–$11,058	–$11,058	–$11,058
(Accounts)	(–2,650)	(–3,416)	(–5,783)	(–5,783)	(–5,783)
Ending Inventory					
Revenues	$77,211	$97,198	$117,173	$147,402	$189,253
(Accounts)	(34,401)	(41,612)	(45,400)	(55,089)	(70,973)

As we noted in the 1983–84 *Analysis,* an increasing backlog of delinquent sales tax accounts has a major adverse fiscal impact on the state. The state *loses* revenues it otherwise would receive, because more accounts fail to receive attention, become uncollectible, and have to be written off. An increasing backlog also *delays* the receipts of taxes that are eventually collected, but because taxpayers are charged interest at current prime lending rates, the delay itself does not result in a significant revenue loss to the state, unless it results in the accounts becoming uncollectible. The delay does, however, deny the state the use of tax revenues on a timely basis, and may increase the state's short-term borrowing needs.

In the 1983 Budget Act, the Legislature augmented this program by $420,000 and 24 positions, which was sufficient to maintain the backlog at its July 1982 level. The Governor, however, vetoed the funds. In his veto message, the Governor expressed his belief that the board could increase collections by "reevaluating priorities and redirecting the efforts of existing staff." Our analysis indicates that no significant productivity improvements have been made. *We estimate that the deletion of these positions by the Governor has denied the state the use of $20 million in revenues in the current year and has resulted in a direct revenue loss of $1 million,* as accounts which otherwise would have been collectible are being written off.

Proposed Resources Are Inadequate. The budget proposes expenditures of $10,541,000 for collecting delinquent sales and use tax revenues in 1984–85. This is an increase of $697,000, or 7.1 percent, above estimated

STATE BOARD OF EQUALIZATION—Continued

current-year expenditures. This increase consists primarily of adjustments reflecting the increased cost of the current level of services. The budget proposes no new positions to support increased workload or to reduce the size of the backlog of delinquent accounts.

In our judgment, the proposed level of funding is inadequate to accommodate the additional workload anticipated in 1984–85. The board estimates that the backlog of delinquent accounts will increase from 55,100 at the end of the current year to 70,100 at the end of the budget year. It estimates that the amount of delinquent taxes owed the state will increase from $147.4 million to $189.3 million. Our analysis indicates that the board's projections probably overstate the number of new delinquent accounts and thus the additions to the value of accounts receivable in 1984–85, given the effects of the current economic recovery. Even if there is *no* growth in new accounts or in the value of accounts receivable, however, the backlog would still increase from 55,100 at the end of 1983–84 to 64,800 at the end of the budget year. This is because the board's current level of staffing for collections activities is insufficient to keep pace with the *current* number of additions to the inventory of delinquent accounts. The amount of delinquent taxes owed the state would increase from $147.4 million to $170.5 million.

Because the amount of delinquent taxes is growing so rapidly, it would be in the state's financial interest to expand the number of collections personnel. We believe that, at a minimum, the board should be provided with sufficient staff to prevent the inventory of delinquent accounts from growing above the level that existed at the start of the current year (45,400 accounts). To accomplish this objective, the board would need 26 additional positions (16 business taxes representatives and 10 clerical), at a cost of $501,000. (These figures are based on the more conservative estimates of the growth in delinquent accounts.) With these resources, the General Fund would realize a cash-flow gain of $25 million in 1984–85. Additionally, the state would realize a direct revenue gain of $2.0 million from the collection of taxes which otherwise would have to be written off. On this basis, we recommend that the Legislature augment the board's budget by $501,000 and 26 positions.

Local Reimbursements Are Underestimated

We recommend a reduction of $4,130,000 to correct for underbudgeting of reimbursements that will be available to finance the administration of the local sales and use tax. We further recommend that the Legislature adopt Budget Bill language requiring that any reimbursements in excess of the amount scheduled in the budget be used to supplant General Fund support of the program.

In addition to administering the 4.75 percent state sales and use tax, the board administers the 1.25 percent local sales tax for cities and counties and the optional 0.5 percent transactions and use tax for local transit districts. Before the board subvenes these revenues to local agencies, it deducts an amount to cover a portion of its administrative costs. This amount is equal to a fixed percentage of the *revenues* that local agencies receive. Revenue and Taxation Code Section 7204.3 requires the board to charge cities and counties an amount equal to 0.82 percent of local sales and use tax revenues. Similarly, Revenue and Taxation Code Section 7273 requires the board to charge local transit districts an amount equal to 1.64

percent of transactions and use tax revenues.

The budget estimates that the amount of local revenues withheld from local agencies (reflected as a reimbursement in the board's budget) will total $24,793,000 in the current year. This figure is based on the board's estimate that sales tax revenues to cities and counties will be $2,158 million in 1983–84 and that transactions and use tax revenues to transit districts will be $432 million. Based on projections of taxable sales made by the Department of Finance, however, we estimate that local sales and use tax revenues will be $2,298 million in 1983–84 and that transactions and use tax revenues will be $458 million.

Using these revenue figures, we estimate that the board will charge local governments a total of $26,355,000 for administration of the local sales tax in 1983–84—$1,562,000 more than the amount reflected in the budget. Any expenditure of these additional reimbursements which results in an increase in the board's aggregate level of expenditures would be subject to the notification provisions of Section 28 of the 1983 Budget Act.

The budget estimates that reimbursements in 1984–85 will total $25,234,000, which would offset 28 percent of the total cost of the sales and use tax program to the state. As in the current year, we find that the board has significantly underestimated these reimbursements. The board estimates that local sales tax revenues to cities and counties will be $2,202 million in 1984–85, and that transactions and use tax revenues to transit districts will be $438 million. We estimate, however, that local sales tax revenues will be $2,561 million, and that transit districts will receive $510 million. Using the higher revenue forecasts, we estimate that reimbursements for the sales and use tax program in 1984–85 will be $29,364,000, which is $4,130,000 more than the amount budgeted. To accurately reflect the level of reimbursements anticipated in the budget year, we recommend that Item 0860-001-001 be reduced by $4,130,000.

We also recommend that the Legislature adopt Budget Bill language requiring that any reimbursements exceeding the amount scheduled in the budget be used to supplant General Fund support for the sales and use tax program. Specifically, we recommend adoption of the following language:

"The Director of Finance shall reduce the amount appropriated in Item 0860-001-001 by the amount of total charges levied pursuant to Section 7204.3 of the Revenue and Taxation Code which exceeds $21,000,000 and the amount of total charges levied pursuant to Section 7273 of the Revenue and Taxation Code which exceeds $8,364,000."

Universal Telephone Service Act Implementation

We recommend approval.

In 1983, the Legislature enacted the Moore Universal Telephone Services Act (Ch 1143/83, AB 1348). This act imposes a tax on suppliers of intrastate telecommunication services, measured as a fixed percentage of the gross revenues received from services provided on or after July 1, 1984. The tax rate, which may not exceed 4 percent of gross revenues, is to be established annually by the Public Utilities Commission (PUC). The proceeds of the taxes are available to pay telephone companies for the costs they incur in providing universal telephone service pursuant to rules promulgated by the PUC, and to support the program's administrative costs.

The budget proposes to redirect 2.0 *existing* positions costing $66,000 and various staff overhead costing $25,000 to implement the universal

STATE BOARD OF EQUALIZATION—Continued

telephone service tax in 1984–85. The total cost—$91,000—would be shifted from the General Fund to the Universal Telephone Service Fund. The staff will be responsible for promulgating tax regulations, registering approximately 90 suppliers of intrastate telecommunication services, processing quarterly tax returns, auditing taxpayer accounts, collecting delinquent taxes, and transmitting the tax collections to the State Treasurer. The board estimates that it will collect approximately $30 million in taxes in 1984–85.

We have reviewed the information submitted by the board and have concluded that the resources requested to implement Ch 1143/83 are reasonable. Accordingly, we recommend approval of the request as budgeted.

COUNTY ASSESSMENT STANDARDS PROGRAM

Review of Legal Entity Ownership Program

We recommend that counties be required to share in the cost of the Legal Entity Ownership program, for a General Fund savings of $110,000.

Article XIIIA of the California Constitution (Proposition 13) generally limits the annual growth in assessed valuation to the rate of inflation, not to exceed 2 percent. Properties that change ownership, however, are reassessed at full market value as of the date of transfer. Chapter 1349, Statutes of 1980 (AB 2777) extended the definition of a change in ownership to include changes in control of legal entities (primarily corporations and partnerships) that own real property in the state.

Chapter 1141, Statutes of 1981 (AB 152), requires the Board of Equalization to help county assessors identify changes in control that affect the assessed valuation of property located in each county. The board established the Legal Entity Ownership program (LEOP) in 1982 to conduct these activities. The program's goal is to increase property tax revenues available to local governments and to reduce the state's cost for supporting K–14 education. The LEOP seeks to achieve this objective by identifying those corporations and partnerships which change control, determining if they own real property in the state, and notifying county assessors that certain entities owning property in their respective counties may have changed control.

Program Activities. The board administers the program with assistance from the Franchise Tax Board (FTB). The FTB has placed questions on bank and corporation tax return forms which ask legal entities whether they own property in the state and whether a change of control occurred during the past tax year. The board scans the tax returns and sends the Board of Equalization a computer tape containing the names and addresses of those corporations and partnerships that answered either question affirmatively. The BOE sends these entities a questionnaire asking various questions about their property holdings and the nature of the change of control. The staff analyzes the responses and determines whether or not a change in ownership of the property, as defined by Chapter 1349, is likely to have occurred. The board then sends county assessors lists of the names and addresses of the entities it identifies that may have undergone a change of control. The counties are responsible for identifying the property owned by the entities, determining whether a change in ownership has in fact occurred, reassessing the property, correcting the assessment and tax rolls, and billing and collecting back taxes.

Program Funding. The program was first funded by the 1982 Budget Act for a two-year period through June 30, 1984. In the current year, the program has 8.0 authorized positions, at a General Fund cost of $215,000. The FTB incurs minor costs in analyzing the tax returns and preparing the computer tape for the board. It absorbs these costs within its existing resources.

The budget proposes to continue the program indefinitely beyond the June 30, 1984 scheduled termination date. It requests 7.5 positions for the program, at a General Fund cost of $220,000.

Program Performance. Preliminary data submitted by the board indicate that additional property tax revenues attributable to LEOP substantially exceed the program's cost. In 1982–83, the program reported to counties that 3,090 parcels statewide were owned by legal entities that had changed control in the 1981 tax year. Counties have reported to the board that 1,422 of these parcels have been reappraised, adding $294 million to the 1983–84 assessment roll. The actual figure is probably higher, because Los Angeles, Orange, San Diego, Santa Clara and Fresno counties, among others, have not reported the actions they have taken in response to the notifications from LEOP. At a minimum, however, it appears that $2.9 million in increased 1983–84 property tax revenues can be attributed to LEOP. The program's activities in 1982–83 will also result in revenue gains in future years. The size of these gains is difficult to estimate, however, because it is difficult to predict when these properties will be reappraised in the future.

Even though LEOP appears to pay for itself, there are still lengthy delays in properly assessing property owners. For example, assume that a corporation filing tax returns on a calendar year basis changed control on July 1, 1983. The corporation would file its tax return for 1983 in April 1984. The FTB would analyze the return, and send BOE the firm's name and address. Under FTB's current procedures, the computer tape would be sent in October 1984. Depending on the speed of the entity's response and the complexity of the transaction, the information may not reach the assessor until as much as two and one-half years after the change in control occurs. Reassessing the property, correcting the tax roll, and collecting back taxes requires additional time. While this process may take less time in some cases, correction of the tax rolls in less than two years following a change of control occurs is rare.

These delays do not result in direct revenue losses to local governments because taxpayers are charged interest on back taxes. Delays in the receipt of taxes nevertheless represent a loss from a cash-flow perspective, and may increase local government's borrowing needs. More importantly, the delays probably cause the revenue increases attributed to LEOP to be overstated. This is because county assessors eventually learn of some changes in control, even without a simple discovery mechanism such as a deed or assistance from LEOP.

Another difficulty encountered by LEOP is that changes in control can escape detection altogether if the entity does not respond to the questions on the tax return.

The board recognizes the difficulties inherent in LEOP's approach to identifying changes in control. The board plans to supplement its current activities with searches of various financial publications (for example, Moody's and the Wall Street Journal) to identify changes in control. It is too early to determine whether these new activities will reduce the amount of time needed to notify county assessors of ownership changes or to identify ownership changes that otherwise would escape detection.

Local Government Should Share In Cost. Most of the gain in property tax revenues attributed to LEOP accrues to cities, counties and special districts. These agencies receive approximately 63 percent of any increase in property tax collections resulting from the identification of changes in control. School districts receive the remaining 37 percent, but these funds do not result in a net increase in revenues because the state automatically decreases aid provided to school districts by the amount of any increase in the districts' property tax revenues. Hence, local governments receive 63 percent of LEOP revenue benefits and the state receives 37 percent.

We see no reason why a program that primarily benefits local government agencies should be supported entirely by the state General Fund. We recommend, instead, that this program be funded on the same basis as the County Surveys element of the County Assessment Standards program. Fifty percent of that program's direct costs are supported by the General Fund and 50 percent is provided through reductions in vehicle license fee (VLF) subventions to local governments. If this same funding formula were used for LEOP, local governments would share in the program's cost, although their share would still be less than their share of program benefits.

Accordingly, we recommend that Item 0860-001-001 be reduced by $110,000 and that Item 0860-001-064 be augmented by $110,000. We recommend further that the budget act language currently authorizing the use of VLF funds to support the County Surveys program be amended to include LEOP as well. Specifically, we recommend adoption of the following language:

"The $1,170,000 appropriated from the Motor Vehicle License Fee Account, Transportation Tax Fund, shall be allocated as follows:

a. $1,060,000 for funding 50 percent of the direct cost of local property tax monitoring and assessment practices survey activities.
b. $110,000 for funding 50 percent of the direct cost of the Legal Entity Ownership Program.

The State Controller shall deduct the amount appropriated in Item 0860-001-064 from the amount allocated to cities and counties pursuant to Section 11005 of the Revenue and Taxation Code."

County Surveys Program

Language adopted in the *Supplemental Report of the 1983 Budget Act* directed the Board of Equalization to submit to the Joint Legislative Budget Committee (JLBC) by October 1, 1983 a report which outlines a plan for modifying certain aspects of the County Surveys element within the County Assessment Standards program. The language also directs the Legislative Analyst to comment on the board's plan in his analysis of the 1984–85 budget.

Program Activities. The County Surveys program reviews the property tax assessment practices of approximately one-fifth of the state's county assessors each year. Consequently, every county is reviewed once over a five-year period. The reviews consist of two primary activities—a sample appraisal and a management audit. The board's staff selects a sample of about 235 properties from each county's assessment roll. It conducts independent appraisals of these properties to determine whether all changes in ownership have been identified, whether the value of construction has been added to the property's assessed valuation, and generally whether the properties have been assessed at the full amount allowed by law.

This sample appraisal identifies properties which have been incorrectly assessed and identifies assessment practices that do not conform to state property tax law. It is the responsibility of the county, however, to correct errors on the assessment rolls, collect back taxes or pay refunds, and to modify any assessment practices that do not conform to state law.

The management audits, rather than focusing on the results of assessment, focus on the assessment process. The audits deal with assessors' office organization, staffing, equipment, and procedures. The results of both the sample appraisal and management audit are combined into an Assessment Practices Survey report. This report contains the board's finding and recommendations and the county assessor's response.

Legislative Review. Language in both the 1982 and 1983 supplemental reports directed the board to analyze the feasibility of the following two modifications to the county surveys program:

- The relative advantages of making the surveying cycles more flexible. Under one alternative, for example, the board could replace the current fixed five-year cycle of review with a variable cycle, whereby certain counties would be reviewed more frequently and other less frequently. Under another alternative, the fixed five-year review cycle would continue, but the intensity and scope of the board's review would vary, depending upon the preliminary results of each review.
- The advisability of continuing the management audits. This issue arose because the fiscal subcommittees expressed their intent that the program's resources be targeted on activities having the greatest revenue-producing consequences.

The 1982 language requested only an analysis of these issues, while the 1983 language requested a plan to modify the program.

Board Has Initiated Program Restructuring. On September 30, 1983, the board submitted a plan to the JLBC and fiscal committees outlining several basic modifications to the program. These include:

- Establishment of a so-called "variable intensity" approach to county surveys. Beginning in July 1984, the board will conduct limited sample appraisals on a fixed-cycle basis. Only if the board determines that a full survey is warranted would it conduct a full scale review based on a larger sample of properties. For those counties where a large-scale survey is not conducted, the board would not conduct any management audit and would not publish a written report.
- Beginning in the current year, the board has shifted staff from management audits to the sample appraisals. The board has increased the number of appraisers conducting the sample assessment program from 16 to 21 and has reduced the number of personnel-years devoted to conducting management audits from 12.5 to 7.5.

Changes Generally Conform to Legislative Intent. The program restructuring initiated by the board appears to conform generally with the requirements of the 1983 supplemental report. The use of the "variable intensity" policy should permit the board to target its efforts only on those counties where the preliminary sample indicates that their assessment practices deviate substantially from the requirements of state property tax law. Further, diverting resources from management audits to the sample

STATE BOARD OF EQUALIZATION—Continued

appraisals will enhance those activities most directly related to property tax revenue gains and will allow the board to increase the number of properties it appraises on a sample basis. We note, however, that:

- Government Code Section 15642 requires the board to conduct management audits in each county. The board has not proposed that this section be amended.
- The board has not developed any objective measures or guidelines to distinguish between those counties that will be subject only to a preliminary review from those which will be subject to an in-depth review. Rather, the board's staff will make the decision based on their subjective judgment of which counties should receive intensive review.

STATE BOARD OF EQUALIZATION—CAPITAL OUTLAY

Item 0860-301 from the General Fund, Special Account for Capital Outlay — Budget p. LJE 120

Requested 1984–85	$129,000
Recommended reduction	84,000
Recommendation pending	45,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend deletion of $84,000 requested to modify the second floor data processing office at the Board of Equalization's Sacramento headquarters because a need for the project has not been demonstrated.

recommend ***We ~~withhold recommendation of $45,000~~ for modifications to the per-***
$15,000 ***sonnel office on the first floor, pending receipt of detailed cost information.***

The budget proposes $129,000 from the General Fund, Special Account for Capital Outlay, for two minor capital outlay projects (less than $200,000 per project) for the State Board of Equalization's Sacramento headquarters office building.

The first project ($84,000) contains three segments involving modifications to the data processing office on the second floor. The segments include (1) modifications to the computer's electrical facilities ($24,700), (2) a new security system for the data processing division ($56,600), and (3) installation of a new computer floor ($2,700).

The board has indicated that the electrical modifications are needed because contracts covering the present computer will expire in April 1985 and the board anticipates purchasing a new computer. According to the board, the old and new computers must coexist together for an unspecified time, which *could* create difficulties for the present electrical system. There is no information, however, to substantiate that there is any problem with the electrical system. Lacking such justification, we recommend that this portion of the data processing project be deleted.

The data processing division currently has no physical security to prevent unauthorized access by persons not employed by the Board of Equalization. This situation has been cited as an area of concern by the Office of the Auditor General and the board's internal audit staff. The board proposes to install a security access control system on doors in the data processing division, using a centrally controlled card/key type system on entry doors. The cost of such a system is estimated to exceed $50,000. Our analysis indicates that this segment of the proposal is excessive and should be deleted. No evidence has been presented that such an elaborate security system is warranted and would be any more beneficial than a conventional lock and key system.

The third segment of the proposal requests funds to repair the computer floor. No justification has been presented for this segment of the project and accordingly we recommend that funds for it be deleted.

The second project ($45,000) is for alteration of approximately 2,500 square feet of existing open office landscape space on the first floor that houses the personnel department. The proposal would provide a conventional fixed-wall office configuration to allow for privacy and confidentiality in personnel matters. In addition, the board intends to install in this space CRT equipment which would display classified personnel information, further indicating the need for privacy.

Our analysis indicates that the need for the project is valid. At the present time, however, the cost estimates available for the project are not adequate to substantiate the amount requested. Consequently, we withhold recommendation on the project, pending receipt of detailed cost information.

SECRETARY OF STATE

Item 0890 from the General Fund

Budget p. LJE 120

Requested 1984–85	$13,482,000
Estimated 1983–84	12,607,000
Actual 1982–83	11,958,000
Requested increase (excluding amount for salary increases) $875,000 (+6.9 percent)	
Total recommended reduction	60,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Ballot Pamphlet Printing. Recommend the Department of Finance report to the fiscal committees at the time of budget hearings on the adequacy of the proposed allowance for printing the statewide ballot pamphlet. 127
2. ***On-line Computer System. Reduce Item 0890-001-001 by $60,000.*** Recommend reduction because the need for an on-line computer system has not been substantiated. 128
3. Uniform Commercial Code (UCC) Backlog. Recommend the Legislature adopt supplemental report language requiring the Secretary of State to submit quarterly reports on the status of processing backlogs. 129
4. Reduction of Funds. Recommend the Department of Finance explain to the fiscal committees why funds were redi- 130

SECRETARY OF STATE—Continued

rected to the Uniform Commercial Code program without prior notice as required by Section 6.5 of the 1983 Budget Act.

5. Unfunded Legislation. Recommend the Department of Finance submit information to the fiscal committees by March 15, 1984, regarding why the Budget Bill does not include an appropriation to reimburse local mandated costs for voter registration file purge. 131

GENERAL PROGRAM STATEMENT

The Secretary of State performs numerous duties prescribed in the Constitution. In addition, the Secretary has statutory responsibility for specified financial statements and corporate-related documents, statewide elections, campaign disclosure documents, notaries public and the state archival function. Activities necessary to carry out these responsibilities are conducted in seven program units: (1) Corporate Filing, (2) Elections, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, (6) Archives, and (7) Limited Partnerships.

The Limited Partnership program, originally mandated by Ch 807/81 (AB 362), was scheduled to begin January 1, 1983, but was postponed, first by Ch 997/82 (AB 2544) and later by Ch 1223/83 (AB 1184). The scheduled effective date for the program is now July 1, 1984. The Secretary of State, however, will incur some program start-up costs in 1983–84.

The Secretary of State is authorized to have 345 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $13,482,000 from the General Fund to support the Office of the Secretary of State in 1984–85. This is $875,000, or 6.9 percent, more than estimated expenditures in the current year. The increase will grow by the amount of any salary or staff benefit increase approved for the budget year.

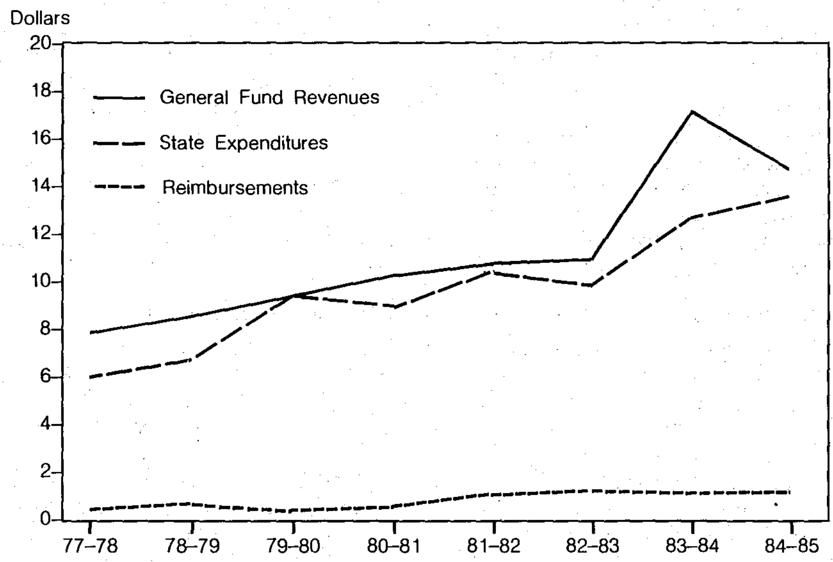
In addition to the amount requested in this item, the Secretary of State anticipates receiving reimbursements of $1,269,000 in special handling fees and $560,000 from the Political Reform Act. Thus, the Secretary of State proposes a total expenditure plan of $15,311,000 for 1984–85. This is $950,000, or 6.6 percent, above the current-year level.

The increase in expenditures for the budget year is attributable to salaries and wages for 16.6 additional personnel-years ($451,000), higher operating expenses as a result of inflation ($50,000), merit salary adjustments and staff benefit increases ($365,000), and special items of expense related to elections ($84,000).

The Secretary of State's programs are expected to generate $14,988,000 in revenues to the General Fund in the budget year. This amount is $2,073,000, or 12 percent, *less* than anticipated current-year revenues, but $4,158,000, or 38 percent, *above* actual revenues in 1982–83. The projected increase in revenues for the current and budget year is due to the scheduled implementation of the Limited Partnership program and the initial large volume of transition filings that are expected to occur.

Chart 1 illustrates the office's actual and anticipated revenues, expenditures (state operations), and reimbursements (excluding the amount from the Political Reform Act). The chart indicates that General Fund revenues are projected to exceed program costs in the current and budget year, as they have done in past fiscal years.

Chart 1
Secretary of State
Program Revenues Exceed Costs (in millions)



ANALYSIS AND RECOMMENDATIONS

State Voter Pamphlet—Printing Costs Appear to be Understated

We recommend that the Department of Finance report to the fiscal committees at the time of budget hearings on the adequacy of the proposed allowance for printing the ballot pamphlet.

The budget proposes $1,399,000 for printing and $1,077,000 for mailing the state voter pamphlet for the November 1984 General Election. The total, $2,476,000, is $193,000, or 8.5 percent, above estimated current-year expenditures to print and mail the June 1984 statewide primary election ballot.

Our analysis of information provided by the Secretary of State and the Office of State Printing, however, indicates that printing costs for the ballot pamphlet will be approximately $1,568,000. This is $169,000, or 7 percent, *more* than the amount proposed in the budget. In light of this projected shortage of funds in the budget, we recommend that the Department of Finance report to the fiscal committees at the time of budget hearings on the adequacy of the proposed printing allowance in the Secretary of State's budget.

SECRETARY OF STATE—Continued

Registration by Mail

We recommend approval.

Chapter 704, Statutes of 1975, restructured the voter registration program to provide for "self-registration" through the use of postage-paid registration cards. The budget provides a total of $873,000 for the cards in 1984–85, consisting of $347,000 for printing and $526,000 for postage. This is a decrease of $109,000, or 11 percent, below estimated current-year expenditures. When the current year and the budget year are put on a comparable basis by adjusting for a larger-than-anticipated current-year order from Los Angeles County, the 1984–85 request is only $36,000, or 4 percent, below what current-year expenditures would have been otherwise. The decrease reflects an increase in printing costs ($29,000) offset by lower postage costs ($65,000).

Limited Partnership Program to be Operational on July 1, 1984

The budget proposes $1,175,000 and 30 authorized positions to activate the Limited Partnership program in 1984–85. The amount is $340,000, or 41 percent, above estimated expenditures for the program in the current year. The increase reflects the difference between partial-year and proposed full-year funding of the program.

The Limited Partnership program, established by Ch 807/81 (AB 362), was to have been operational January 1, 1983, but was subsequently postponed by Ch 997/82 (AB 2544), pending resolution of certain tax issues by the Internal Revenue Service. Chapter 1223, Statutes of 1983 (AB 1184), again postponed the operational date of the program, and also deleted provisions which would have repealed the existing Uniform Partnership Act. Consequently, there are now *two laws* governing limited partnerships: (1) the Uniform Partnership Act, and (2) the California Limited Partnership Act.

As of July 1, 1984, all existing and newly formed limited partnerships must file Certificates of Limited Partnership with the Secretary of State, thereby creating a complete central file of California limited partnerships. Amendments and documents concerning the dissolution of partnerships will also have to be filed. Existing limited partnerships which filed certificates and other related documents with various county recorders under the Uniform Partnership Act will have the option of operating under that law if they so choose, even though Ch 1223/83 requires that they refile with the Secretary of State.

The Secretary of State estimates that there are 100,000 existing limited partnerships statewide. Of these, the Secretary of State anticipates that approximately 75,000 will refile during the March 1 to June 30, 1984 transition period established by the bill. An estimated $5.3 million in General Fund revenue will be collected during this period. In 1984–85, the Secretary of State expects the remaining 25,000 existing limited partnerships to file, in addition to 25,000 newly formed limited partnerships, generating approximately $3.2 million in General Fund revenue.

Need for On-Line Computer System Has Not Been Substantiated

We recommend a reduction of $60,000 from Item 0890-001-001, because the need for an on-line computer system in the Limited Partnership program has not been substantiated.

The budget proposes expenditures of $158,000 for data processing (EDP) in support of the Limited Partnership program for 1984–85. On a full-year basis, this amount is $60,000, or 61 percent, more than what is estimated to be spent for this purpose in 1983–84. Table 1 shows 1983–84 estimated and 1984–85 proposed funding on a comparable basis. According to the Secretary of State, the increase in proposed expenditures reflects a fundamental change in the office's data processing approach from what originally was proposed. The program was to have a hybrid-system approach, with information regarding limited partnerships being kept manually in addition to being stored in a master tape file and computer updated, using a batch mode. The program proposed for 1984–85, however, includes funds for an on-line computer system in which information on limited partnerships could be stored, retrieved, or updated instantaneously.

Table 1
Secretary of State
Limited Partnership Program
Proposed EDP Expenditures
1983–84 through 1984–85

Category	*Hybrid System 1983–84*	*On-line System 1984–85*	*Percent Change*
Programming	$34,000	$36,000	5.8%
Data Processing	64,000	104,000	67.2
EDP Equipment	—	18,000	N/A
Totals	$98,000	$158,000	61.2%

No documentation for the change in approach has been provided to the Legislature through the budget change process. Consequently, we have no information on which to base an evaluation of the relative costs and benefits of implementing the on-line computer system instead of the hybrid computer system. Furthermore, the Secretary of State does not have a comprehensive information systems plan which addresses the needs of this program in particular or the needs of her office in general.

For these reasons, we recommend that the Legislature reduce funding for EDP-related expenditures of the Limited Partnership program by $60,000. The remaining $98,000 will permit full implementation of the hybrid computer system in the budget year.

Uniform Commercial Code Backlog

We recommend that the Legislature adopt supplemental report language requiring the Secretary of State to submit quarterly reports on the status of processing backlogs.

The Secretary of State is required by the Uniform Commercial Code, Government Code, Code of Civil Procedures and the Uniform Federal Tax Lien Registration Act to accept, as a public record, various financing and tax documents which assure security interests in personal property. This duty is performed by the Secretary of State, Uniform Commercial Code (UCC) program which, for a fee, files, receives amendments to, and provides certifications and copies of financing statements (94 percent of total program workload). In addition, the program files and provides information relating to notices of federal tax liens against partnerships and corporations, state tax liens and attachment liens against personal proper-

SECRETARY OF STATE—Continued

ty, and judgment liens (6 percent of total program workload). The fees charged to provide these various services are set in statute, and generally range from 50 cents to $5, depending on the type of request, type of document, and the number of pages.

The California business and financial communities are the primary users of the services provided by the Secretary of State. Specifically, the UCC program affords a secured creditor some protection against debtor bankruptcy, insolvency or default, and, in addition, provides a prospective lender or seller the means to determine if there are any previously filed security interests involving certain personal property. As such, delays in filing and responding to information requests by the Secretary of State's office can and do materially affect business decisions.

In the current year, staffing for the Uniform Commercial Code program totals 53.7 personnel-years. This includes 5.7 personnel-years which were administratively established and funded by a redirection of the savings resulting from the delayed implementation of the Limited Partnership program. For 1984–85, the budget proposes to staff the UCC program with 57.8 personnel-years, which is 4.1 above the current-year level, as administratively adjusted, and 9.8 percent more than what was originally authorized for the current year.

According to the Secretary of State, the increased personnel-years in the current and budget years are needed to handle workload increases. Our analysis of the workload data indicates that the request for the additional positions is reasonable and consistent with the increasing workload trend during the last six years in this program area.

Further review of the UCC program, however, indicates that large processing backlogs have developed for various reasons, including the Governor's hiring freeze, staff turnover and workload increases. Currently, the time it takes to process various documents ranges from eight to 25 working days.

To keep the Legislature informed of the progress which is being made to eliminate this backlog, we recommend that the Legislature adopt supplemental report language requiring the Secretary of State to provide quarterly reports on the status of the processing backlog and delays in responding to information requests. Specifically, we recommend adoption of the following supplemental language:

"The Secretary of State shall provide quarterly reports to the Joint Legislative Budget Committee (JLBC) and the fiscal committees on the status of processing backlogs of UCC filings. When preparing the report, the Secretary of State shall indicate the quantity of UCC filings on hand, by type, and the median number of workdays it takes to process them.

Redirection of Funds Under Section 6.5

We recommend that the Department of Finance explain to the fiscal committees during the budget hearings why funds were redirected to the Uniform Commercial Code program without prior notification, to the Legislature as required by Section 6.5 of the 1983 Budget Act.

In the 1983 Budget Act, the Legislature appropriated funds to the Secretary of State to implement the Limited Partnership program. Chapter 1223, Statutes of 1983 (AB 1184), postponed the effective date of this new program to July 1, 1984. As a result, the cost of the program in 1983–84 will be $391,000, or 32 percent, less than originally anticipated. Discussions with the Department of Finance and the Secretary of State's office indicate that $150,000, or 38 percent, of the savings have been redirected to fund additional positions for the Uniform Commercial Code (UCC) program, data processing support without prior notice being given to the Legislature as required by Section 6.5 of the 1983 Budget Act.

Control Section 6.5 of the 1983 Budget Act provides that the Department of Finance may authorize an augmentation of the amount available for expenditure for a category, program, or project designated in any schedule set forth for such appropriation by transfer from any of the other designated categories, programs, or projects within the same schedule. The director, however, must notify the fiscal committees and the Joint Legislative Budget Committee, in writing, 30 days prior to authorizing the expenditure of funds for these purposes.

The merits of the specific activities involved and the expenditure of state funds for these activities is not at issue. Neither do we question the legal authority of the Director of Finance to authorize changes in the budget plans of the Secretary of State. At issue is a process in which the Legislature was not given prior notice of changes in the approved budget, in the manner prescribed by law. We believe the failure to notify the Legislature could result in a weakening of legislative control over how state funds are spent. We therefore recommend the Department of Finance explain to the fiscal committees during budget hearings why funds were redirected to the Uniform Commercial Code program without prior notification, as required by Section 6.5 of the 1983 Budget Act.

Legislative Mandates

We recommend that the Department of Finance submit information to the fiscal committees by March 15, 1984, regarding why the Budget Bill does not include an appropriation to reimburse local agencies for the costs mandated by Chapter 1401/76, Chapter 780/77 and Chapter 3/78.

Chapter 820, Statutes of 1983, changes existing law to require a single voter registration file purge method, known as the *residency confirmation and outreach procedure* (RCOP), be used by counties. This method involves sending voters a non-forwardable postcard *address correction requested* notice *preceding* each direct primary election and *after* each general election.

Chapter 1401/76, Chapter 780/77 and Chapter 3/78 require that the state reimburse counties up to 10 cents per registered voter of the net costs of using voter registration file purge methods other than what is known as the *positive purge method.* The net costs of using alternate methods are determined on a two-year cycle. This is because the cost to counties to implement an alternate method may be greater than the cost of the positive purge method in those years containing a primary election and less in those years containing a general election. Thus, reimbursement to counties is budgeted for a two-year period and made on a two-year basis.

The budget proposes no funding for these mandated costs in 1984–85. Given the *constitutional* requirement that the state reimburse local agencies for mandated costs, the budget should include funds for the costs. For this reason, we recommend that the Department of Finance submit information to the fiscal committees by March 15, 1984, regarding the lack of funding for this mandate.

SECRETARY OF STATE—Continued

Chapter 454, Statutes of 1974 and Chapter 704, Statutes of 1975

We recommend approval.

Chapter 454, Statutes of 1974, waives the requirement for a filing fee when a candidate for public office files a petition signed by a specified number of registered voters in the area to be represented. The 1984–85 budget proposes $430,000 to fund costs incurred by counties pursuant to this mandate. This amount is more than current-year funding ($24,000) because filings for statewide election are budgeted in alternate years. We recommend approval of the greater amount.

Chapter 704, Statutes of 1975, requires counties to provide for voter "self-registration" through the use of postage-paid registration cards. Chapter 704 also requires the Secretary of State to adopt regulations directing each county to design and implement programs to identify and register qualified electors who are not registered voters. Proposed budget-year funding for this mandate is $748,000, the same amount as estimated expenditures in the current year. We recommend approval of the amount requested.

STATE TREASURER

Item 0950 from the General Fund — Budget p. LJE 128

Requested 1984–85	$3,360,000
Estimated 1983–84	3,271,000
Actual 1982–83	2,112,000
Requested increase (excluding amount for salary increases) $89,000 (+2.7 percent)	
Total recommended reduction	34,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Bond Counsel Expenditures. Recommend that the Treasurer's Office report during budget hearings on the cost of bond counsel services. Further recommend that the Legislature adopt supplemental report language directing the Treasurer to report these and all other bond-related costs to the Legislature on an annual basis. 133
2. ***Management fees for Local Agency Investment Fund. Reduce Item 0950-001-001 (General Fund) by $27,000 and increase reimbursements by a corresponding amount.*** Recommend full amount of reimbursements anticipated in the budget year be used to support Treasurer's management of the fund. 135
3. ***Equipment Expenditures. Reduce Item 0950-001-001 by $5,000.*** Recommend reduction because need for certain items of equipment has not been demonstrated. 137
4. ***Salaries. Reduce Item 0950-001-001 by $2,000.*** Recommend reduction to correct for overbudgeting. 138

GENERAL PROGRAM STATEMENT

The State Treasurer has a number of different responsibilities. Specifically, he has the responsibility to:

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

These responsibilities are carried out through the six program elements displayed in Table 1.

The State Treasurer has 143.4 authorized positions in the current year. An additional position has been established administratively, bringing total staffing for the Treasurer's office to 144.4 positions in the current year.

Table 1
State Treasurer
Budget Summary 1982–83 through 1984–85
(dollars in thousands)

	Personnel-Years			*Expenditures*		
Program	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Bond Sales and Services	22	26.3	26.3	$750	$936	$975
Investment Services	9	8.3	8.3	558	664	696
Paying and Receiving	52.4	57.5	56.5	1,845	2,126	2,202
Trust Services	19.1	18.9	17.9	822	933	949
District Securities Division	7	6.5	6.5	339	377	387
Administration (distributed to other programs)	—	—	—	(667)	(849)	(883)
Administration (undistributed)	20.3	21.0	21.0	210	217	225
Totals	129.8	138.5	136.5	$4,524	$5,253	$5,434
Reimbursements	—	—	—	2,412	1,982	2,074
General Fund	—	—	—	2,112	3,271	3,360

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of $5,434,000 from the General Fund and reimbursements to support the State Treasurer's office in 1984–85. This is $181,000, or 3.4 percent, more than estimated total expenditures for the current year. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The budget request consists of (1) $3,360,000 from the General Fund, which is $89,000, or 2.7 percent, more than the estimated General Fund expenditures in the current year; and (2) $2,074,000 in reimbursements, which is $92,000, or 4.6 percent, more than anticipated reimbursements in the current year.

The Legislature Needs Information on the Total Cost of Issuing State Bonds

We recommend that the State Treasurer report during budget hearings on its expenditures for bond counsel services. We further recommend that the Legislature adopt supplemental report language directing the Treasurer to report these and all other bond-related costs to the Legislature on an annual basis.

STATE TREASURER—Continued

The State Treasurer is responsible for issuing, selling, servicing, and redeeming the state's general obligation and revenue bonds. The budget proposes expenditures of $975,000 for bond sales and services in 1984–85, which is $39,000 more than the estimated expenditure level for these activities during the current year. Of the budget-year request, $581,000 will be financed from individual revenue bond funds through reimbursements, and the balance—$394,000—is from the General Fund.

Table 2 shows the Treasurer's bond marketing workload for the three years covered by the budget. As shown in the table, the Treasurer plans to sell approximately $2.6 billion in state general obligation and revenue bonds during the current year and $2.8 billion during the budget year.

The marketing of the state's general obligation bonds and revenue bonds depends on the combined efforts of the issuer, the state's financial advisors, and bond counsel. The *issuer* is the state itself. The state issues and sells bonds and notes in order to borrow money needed to finance various state programs or meet the state's general cash needs. The *financial advisor* provides the issuer with advice as to the structure, timing, term, and other features of a specific debt issue. The *bond counsel* insures that the bonds are issued in accordance with all applicable legal requirements.

The Treasurer's office normally performs the duties of the issuer and the financial consultant in connection with the state's debt marketing activities (particularly with respect to general obligation bonds). The costs of these activities are included in the budget totals as expenditures for bond sales and services. For bond counsel services, the Treasurer retains a private law firm with specialized knowledge and expertise. For 1983–84, up to $110,000 will be spent from bond proceeds for bond counsel services. These expenditures are made from a special revolving fund and do *not* appear in the budget totals.

We believe that the Legislature needs information on the cost of bond counsel, so that it can monitor the *total costs* of issuing state bonds. Accordingly, we recommend that the Treasurer report during budget hearings on its expenditures for bond counsel and other bond-related activities that are not reflected in the budget totals. We further recommend that the Legislature adopt supplemental report language directing the Treasurer to report these and all other costs to the Legislature on an annual basis.

Table 2

Treasurer's Bond Marketing Activities [a]

General Obligation Bonds	*Actual 1982–83*	*Estimated 1983–84*	*Projected 1984–85*
Number of Issues	12	18	12
Value of Bonds Sold (millions)	$635.0	$1,050.0	$835.0
Revenue Bonds			
Number of Issues	62	55	72
Value of Bonds Sold (millions)	$1,960.9	$1,500.1	$1,955.0

[a] Source: State Treasurer's revised schedule (January 1984) of bond sales.

Earnings From Pooled Money Investments on the Rise

The Treasurer is responsible for investing temporary surplus cash in the General Fund, other state funds, and the Local Agency Investment Fund. His objective in doing so is to maximize the earnings of these funds while complying with statutory limitations and the policies adopted by the Pooled Money Investment Board. Most of this surplus cash is invested in certificates of deposit, commercial paper, and notes and securities issued by government agencies.

The earnings from investments managed by the State Treasurer are summarized in Table 3. It shows that interest income declined steadily between 1979–80, when $895 million was earned, and 1982–83. In 1982–83, interest earnings were $548 million. This downward trend reflected declines in both interest rates and the amount of idle funds available for investment.

We expect interest earnings to improve in the current and budget year, mainly as a result of the improved fiscal condition in which the state and local agencies find themselves. This improvement will result in more funds being available for investment purposes. The Treasurer recently reported that PMIA earnings in October 1983 amounted to $51.3 million, which is $6.3 million higher than the amount earned during the same month in the previous year. For 1983–84, total PMIA earnings are estimated at $680 million.

Table 3
Investment Earnings
Pooled Money Investment Account
1973–74 through 1983–84
(in millions)

	Average Daily Investment Balance	*Earnings*	*Percent Yield*
1973–74	$2,587.2	$231.2	8.94%
1974–75	2,740.1	236.3	8.62
1975–76	3,209.1	204.3	6.37
1976–77	4,460.5	261.7	5.87
1977–78	6,843.9	458.6	6.70
1978–79	8,123.0	692.4	8.52
1979–80	8,286.0	895.0	10.54
1980–81	7,298.7	786.9	10.78
1981–82	5,234.6	632.0	12.07
1982–83	5,252.0	547.5	10.45
1983–84 [a]	6,800.0	680.0	10.00

[a] Legislative Analyst's office estimate.

Estimated Level of Management Fees is Unrealistically Low

We recommend a reduction of $27,000 in the amount requested from the General Fund, and a corresponding increase in reimbursements, in order to reflect a more realistic estimate of management fees to be collected by the State Treasurer.

The Local Agency Investment Fund (LAIF) was created in 1976 as a means for enabling the State Treasurer to invest the surplus funds of *local* agencies in government securities, commercial deposits, and other authorized securities. The fund's earnings are distributed to the participating

STATE TREASURER—Continued

agencies on a quarterly basis by the State Controller. The cost of administering the fund is covered by a management fee of up to one-fourth of 1 percent of the fund's earnings.

Prior to January 1, 1984, the revenue collected from the management fee was deposited in the General Fund and then appropriated to the State Treasurer and Controller through the budget process. This method of funding the LAIF administrative expenses was changed by Ch 751/83 (SB 1010). Beginning on January 1, 1984, fee revenues, which are deducted from earnings, are retained by the Treasurer and the Controller as *reimbursements* for administrative expenses rather than deposited in the General Fund.

This change in the method of funding should have no net impact on the General Fund. The amount of reimbursements retained by the Controller and the Treasurer should be offset by a corresponding reduction in General Fund expenditures to support these offices. For example, the Treasurer's budget for the current year, as revised, reflects a General Fund reduction of $15,000 in General Fund expenditures, and a corresponding increase in reimbursements that otherwise would have been deposited in the General Fund. For the budget year, reimbursements have been increased, and General Fund expenditures have been reduced, by $30,000.

Our analysis suggest that the budget understates the amount of reimbursement that the Treasurer will receive in 1984–85. In 1982–83, the Treasurer's share of the management fees imposed on the LAIF amounted to $57,000—$27,000 *more* than the level included in the 1984–85 budget.

The Treasurer's office believes that reimbursements in the budget year will be lower than in 1982–83 because it expects that higher interest rates will cause many local agencies to withdraw from the fund and invest their idle cash balances in securities with higher yields. This expectation however, is not consistent with the expectation for interest rates in the Governor's Budget for 1984–85. The budget assumes that interest rates will *fall* in 1984 and 1985. While it is certainly possible that the budget's forecast for interest rates will not hold up, we doubt that interest rates will rise enough to cause the level of local government participation in the LAIF to drop appreciably. In fact, the improved economy has left most local agencies with *more* funds to invest. For this reason, we expect that the amount of LAIF fees generated in 1984–85 will exceed the level included in the budget.

In order to more realistically account for the fees likely to be earned by the Treasurer for managing the LAIF program in 1984–85, we believe the Budget Bill should be amended to reflect the level of fees actually achieved in 1982–83. Specifically, we recommend that $27,000 be deleted from Item 0950-001-001, and that a corresponding increase in reimbursements be approved. Approval of this recommendation would not reduce the amount available to the Treasurer to finance his operations, but would increase the amount available in the General Fund to meet other legislative priorities.

Administrative Activities

The Treasurer's executive office staff and the general services section provide budgeting, personnel, and accounting services for the Treasurer's office. In addition, they provide these services on a reimbursable basis to nine authorities and commissions, all of which are chaired by the State Treasurer. The Treasurer's budget includes $225,000 in reimbursements to cover the cost of providing these services in 1984–85. Table 4 shows the agencies that will receive these services. It also indicates that most of the agencies were established during the past five years, and that these agencies will spend approximately $2,628,000 during the current year.

Table 4
Commissions and Bond Authorities Chaired by the State Treasurer

Authority or Commission	*Year Established*	*1983–84 Estimated Expenditures*
California Pollution Control Financing Authority	1973	$500,000 [a,b]
California Educational Facilities Authority	1973	115,000 [a,b]
California Health Facilities Authority	1979	270,000 [a,b]
Commission on State Finance	1979	519,000
California Alternative Energy Source Financing Authority	1980	123,000
California Industrial Development Financing Advisory Commission	1980	226,000
California Student Loan Authority	1981	250,000 [a,b]
California Debt Advisory Commission	1981	625,000
California Rail Passenger Financing Commission	1982	[c]
Total		$2,628,000

[a] Supported by funds which are continuously appropriated and thus are not included in the Budget Bill.
[b] Estimated by Legislative Analyst.
[c] No expenditure data are available for this commission.

Withdrawn because additional justification provided.

Part of the Equipment Request Has Not Been Justified

We recommend a deletion of $5,000 for miscellaneous equipment expenditures because they have not been adequately justified.

The Treasurer's budget for 1984–85 includes $24,000 for equipment. The largest item of expense is a new office copier ($10,000). The remaining funds would be spent on furniture, typewriters, and other items of equipment. As shown in Table 5, the budget identifies only $19,000 in equipment to be acquired in 1984–85. The balance of the request, $5,000, is for "miscellaneous" equipment which has not been identified or justified. Accordingly, we recommend that this amount be deleted from the Treasurer's budget.

Table 5
State Treasurer's Office
Proposed Expenditures for Equipment
1984–85

	Equipment Expenditures		
Program	*Identified*	*"Miscellaneous"*	*Total*
Bond Sales and Services	$700	$1,000	$1,700
Trust Services	700	1,000	1,700
Investment Services	1,900	1,000	2,900
District Securities Division	700	—	700
Paying and Receiving	5,000	1,000	6,000
Administration	10,000	1,000	11,000
Total	$19,000	$5,000	$24,000

STATE TREASURER—Continued

New Positions for IHSS Warrant Processing are Justified

We recommend approval.

The State Treasurer provides banking services for state agencies. These services include depositing state funds, redeeming warrants issued by the Controller and other state agencies, and providing information to the Investment Division on the state's daily cash position. In the current year, the Paying and Receiving Division will process an estimated 60 million warrants. This division is the largest within the State Treasurer's office.

The budget proposes expenditures of $2,202,000 in 1984–85 for these activities, which accounts for 41 percent of the State Treasurer's total budget request.

The budget requests two additional positions to process warrants drawn by the State Controller's office (SCO) for the In-Home Supportive Services (IHSS) program. The IHSS program is administered by the Department of Social Services (DSS), and provides domestic and personal services to eligible aged, blind, and disabled persons.

In the past, the providers of these services were paid with checks drawn on commercial banks. Since December 1983, however, the checkwriting function has been handled by the SCO. This has increased the Treasurer's workload, since the State Treasurer is responsible for redeeming the checks. During the current year, two positions have been added to process the warrants for the December–June period, at a cost of $29,000. The budget proposes to continue these two positions, at a cost of $45,000, to process these warrants, estimated at 1.8 million in 1984–85. The cost of these positions will be funded through reimbursements obtained from DSS.

Our analysis indicates that the request is justified on a workload basis, and accordingly we recommend approval.

Salaries and Wages Are Overbudgeted

We recommend reduction of $2,000 from the General Fund to correct for overbudgeting.

The Treasurer's office budget includes a *net* reduction of one authorized position. The changes to the budget to reflect this reduction do not take account of the 6 percent general salary increase provided to state employees on January 1, 1984. As a result, salaries and wages are overbudgeted by approximately $2,000. Accordingly, we recommend that this amount be deleted, for a corresponding savings to the General Fund.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0970 from the California Debt Advisory Commission Fund — Budget p. LJE 132

Requested 1984–85	$661,000
Estimated 1983–84	625,000
Actual 1982–83	470,000
Requested increase (excluding amount for salary increases) $36,000 (+5.8 percent)	
Total recommended reduction	4,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Notification Fees. Recommend legislation be enacted to reduce the level of the CDAC notification fee. Further recommend that this legislation require the commission to report annually to the Legislature on the amount of fees collected during the prior fiscal year.	140
2. Special Assessment District Bonds. Recommend that the Legislature adopt Budget Act language directing the commission to require that issuers of special assessment district bonds notify it of all planned issuances.	141
3. ***Salaries. Reduce Item 0970-001-171 by $4,000.*** Recommend reduction to correct for overbudgeting.	143

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 (AB 1192) to provide advisory assistance on bond issues to state agencies and local governments, and to provide other assistance to state and local governments in the general areas of financial and debt management. The commission has nine members, including the State Treasurer, who serves as chairperson, the Governor or Director of Finance, the Controller, two local government finance officers appointed by the State Treasurer, two members of the Assembly, and two members of the Senate.

The specific responsibilities of the commission include:

- Assisting the housing bond credit committee and all state financing authorities and commissions involved with bonding activities;
- Upon request, assisting any state or local government unit in the planning, preparation, marketing, and sale of new debt issues, with the goal of reducing debt costs and protecting the issuer's credit standing;
- Collecting, maintaining, and providing data on state and local debt authorizations;
- Improving the market for government debt issues by maintaining contact with state and local bond issuers, underwriters, credit rating agencies, and investors;
- Preparing studies on methods to reduce the costs and improve the credit ratings of state and local debt issues; and
- Recommending changes in state laws and local practices to improve the salability and servicing of state and local debt issues.

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

The general activities of the commission are supported by fees payable from the proceeds of debt issues. In the past, these fees were paid by the issuers of the bonds. Beginning in 1984, however, the fees will be paid by the lead underwriter or purchaser of the bonds, pursuant to the terms of Ch 293/83 (SB 146). The fee amount equals one-fortieth of 1 percent of the principal amount of the bond issue, up to a maximum fee of $5,000 per issue.

The commission has 11 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $661,000 from the California Debt Advisory Commission Fund for support of the commission in 1984-85. This is an increase of $36,000, or 5.8 percent, over estimated expenditures for the current year. No additional positions are proposed for the budget year. The increase in the commission's budget will grow by the cost of any salary or staff benefit increase approved for the budget year.

Fee Revenues Significantly Exceed Commission Expenses

We recommend that legislation be enacted to reduce the size of the notification fee charged by the commission. We further recommend that this legislation require the commission to report annually to the Legislature on the amount of fees collected during the prior fiscal year.

During 1984-85, the commission estimates that the fees it charges the lead underwriter or purchaser of bonds will generate $900,000 in revenues. In addition, fees charged by the commission for financial consulting services provided to specific state and local government units are expected to yield $19,000 in reimbursements during the budget year.

Table 1 displays the revenues and expenditures for the CDAC fund in the prior, current, and budget years. It shows that the commission expects to receive $1,000,000 in notification fee revenues during the current year and $900,000 during the budget year. The decrease in fee revenues is based on the commission's expectation that the expiration of the federal tax exemption for interest earned on home mortgage bonds and proposed federal restrictions on industrial development bonds will cause sales of these bonds to decline.

We believe, however, that the actual level of fee revenues in these years may be higher than the commission's estimates. First, there are strong indications that Congress will reinstate the federal tax exemption for interest earned on home mortgage bonds. Second, the commission's estimates do not reflect the recent uptrend in the issuance of public debt by California public agencies. Public agencies are increasingly turning to creative debt financing techniques to finance public projects. In addition, steady or even declining interest rates have made debt issuance less costly, and the overall economic recovery has made debt-financed projects more economically viable.

Finally, the commission has *substantially* underestimated the amount of revenues generated by the fee in prior years. Last year CDAC estimated that $570,000 would be received from fees in 1982-83. However, as shown in the 1984-85 budget document, $1,368,000 was actually received during that year.

The amount of revenues generated by the fees charged to underwriters and purchasers should be compared with the cost of those commission activities for which the fees are charged. As Table 1 shows, the commission's estimate of fee revenues—which we believe is too low—exceeds CDAC's expenses for each of the three years by a wide margin. As a result, the ending balance in the CDAC fund will increase by a minimum of 20 percent if CDAC's fee revenue estimates hold, and by far more if our analysis of these estimates proves to be accurate.

We can find no justification for maintaining a fund balance beyond what is needed as a reasonable reserve for unanticipated revenue shortfalls or expenditure increases. Accordingly, we recommend that legislation be enacted to *lower* the amount of the fee levied on debt issues. We believe that a sufficient amount of revenues to support the commission's activities could be generated by fees equal to one-half the current amount (that is, one-eightieth of 1 percent, not to exceed $2,500 per issue). We further recommend that this legislation require the commission to report annually to the Legislature on the amount of fees collected during the prior fiscal year. This report should include information as to the number of issues on which the maximum fee was paid, no fee was paid, or a fee below the maximum amount was paid. This report should be submitted to the Legislature by December 1 of each year.

Table 1
California Debt Advisory Commission Fund
1982–83 Through 1984–85
(in thousands)

	1982–83	*1983–84*	*1984–85*
Beginning Balance	$325	$1,196	$1,661
Fee Revenues	1,368	1,000	900
Interest Earnings	67	90	100
Total Resources	$1,760	$2,286	$2,661
Total Expenditures	564	625	661
Ending Balance	$1,196	$1,661	$2,000

Source: Governor's Budget, p. LJE 133

Special Assessment Bonds Not Covered by Reporting Requirement

We recommend that the Legislature adopt Budget Act language directing the commission to require all issuers of special assessment district bonds to notify the commission of all planned issuances.

The CDAC collects data on the amount, types, and characteristics of debt issued by state agencies, local governments, school and special districts, and other public agencies authorized to issue tax-exempt bonds. Its efforts are facilitated by a statutory requirement that the commission be notified of all proposed tax-exempt bond issues prior to the scheduled date of sale. The information collected by CDAC is reported regularly in CDAC's two publications—*Debt Line* and *Calendar*—which were first issued in April 1982.

Issuers of one specific type of local debt instrument—special assessment district bonds—are exempt from CDAC's notification requirement. These bonds are issued under the Improvement Bond Acts of 1911 and 1915, and are sold by cities, counties, and special districts to finance public works projects, such as streets and sewers, which benefit particular properties that can be specifically identified. Assessments are then levied on the affected properties to generate the revenues needed to service the bonds.

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

In June 1982, the commission passed a resolution to *exempt* special assessment bonds from all reporting and fee requirements. According to the resolution, these bonds were exempted because they are secured by liens on property (rather than taxes) and thus the issuing authorities are not liable if the bonds default.

Our analysis indicates that information on special district assessment bonds should be provided to the Legislature, and hence that the exemption granted to issuers of these bonds should be removed. The basis for our conclusion is as follows:

- ***Special assessment bonds are issued by public agencies.*** Under the provisions of existing state law, the commission is responsible for collecting information on all *public debt activities* in California. Since special assessment bonds are issued by cities, counties, and other public entities for public works and improvements, we believe that collecting information on these bonds would help the Legislature monitor the market for public debt.
- ***The bonds are tax-exempt.*** As with most public debt, the interest earned on special assessment bonds is exempt from federal and state income taxes. Consequently, these bonds compete with other public debt instruments—including those issued by the state—in the tax-exempt securities market. For the Legislature to effectively monitor this market, it needs information on *all* tax-exempt securities, including special assessment bonds.
- ***The bonds represent an alternative method of funding public projects.*** Because of the property tax limits imposed by Proposition 13, local governments have been unable to rely on the traditional source of funding—general obligation bonds, secured by property tax revenues—for public facilities improvements. As a result, many local governments have turned to other sources of financing, including special assessment bonds, for these projects. In light of the growing concern over the condition of California's public facilities (the "infrastructure problem"), we anticipate that information on assessment bonds will be needed to help policymakers address this issue.

In sum, we believe that collecting data on special assessment bonds will help fill a significant gap in the information now provided by the commission to the Legislature. Accordingly, we recommend that the Legislature adopt the following Budget Bill language requiring the commission to adopt regulations that require all issuers of special assessment district bond issues to notify the commission of each planned issuance.

"The California Debt Advisory Commission shall not exempt special assessment district improvement bonds from the debt issue reporting requirements as provided under Section 8855 of the Government Code."

Because a fee is assessed on the principal amount of the bonds subject to the notification requirement, adoption of this language would generate approximately $37,500 in revenues to the CDAC fund.

Studies Undertaken by the Commission

The CDAC conducts research studies related to the issuance of public debt and the use of funds raised in this manner. During the past and current year, the commission has sponsored research on methods of classifying and analyzing public debt, the current trend in the volume and purposes of debt financing, and alternative methods of infrastructure financing. For 1984–85, the CDAC plans to conduct studies on the debt-related activities of redevelopment agencies (as required by Ch 1123/83) and the effects of overlapping and multiple jurisdictions issuing debt for the same purposes. The budget requests $31,000 for these studies, which is $26,000 less than the amount included for the current year.

Savings in Salaries and Wages

We recommend a reduction of $4,000 from the California Debt Advisory Commission Fund (Item 0970-001-171) to correct for overbudgeting.

CDAC currently is authorized a Career Executive Assignment (CEA) position to manage the policy development and financial advisory assistance functions of the commission. Originally, this position was authorized at Level II, and the 1984–85 budget request includes personal services costs of approximately $46,000 for the position. However, at its October 18, 1983 meeting, the State Personnel Board *reduced* the CEA position from Level II to Level I. As a result, the cost of the position in 1984–85 will be approximately $42,000, or $4,000 less than the amount included in the budget. Accordingly, we recommend deletion of this amount.

State and Consumer Services Agency

MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General Fund — Budget p. SCS 1

Requested 1984–85	$6,944,000
Estimated 1983–84	4,884,000
Actual 1982–83	3,864,000
Requested increase (excluding amount for salary increases) $2,060,000 (+42.2 percent)	
Total recommended reduction	322,000
Recommendation pending	1,484,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Museum Operating Costs. Recommend Legislature adopt supplemental report language directing the museum to study alternatives to the current method of funding and managing the museum. 146
2. Compensation of Museum Staff. Recommend that the museum and the Department of Finance justify the dual compensation arrangement provided the museum's top administrators. 147
3. Contractual Agreements. Recommend adoption of Budget Bill language requiring notification to the Legislature before the museum enters into certain real estate contracts. 149
4. ***Electronic Security System. Reduce Item 1100-001-001 by $322,000.*** Recommend funding for proposed electronic security system be deleted, because the expenditure consti- 151