

21 percent of the amount which California is assessed by the center. This assessment is based on the state's population. The \$50,000, in contrast, represents approximately 2 percent of the membership fees collected by the center from all states.

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 17

Requested 1986-87	\$6,365,000
Estimated 1985-86	5,423,000
Actual 1984-85	5,080,000
Requested increase \$942,000 (+17.4 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 an annual salary of \$49,100.

The Governor's office has 83 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$6,365,000 from the General Fund for support of the Governor's office in 1986-87. The proposed amount is \$942,000, or 17.4 percent, greater than estimated current-year expenditures. Table 1 provides a summary of the budget for the Governor's office in the past, current, and budget years.

Most of the increase requested for 1986-87 would be used to establish overseas offices in London and Tokyo, at a total cost of \$700,000. This proposal is discussed below. In addition, \$202,000 would be used to cover the cost of employee compensation increases. These increases are consistent with those negotiated for most nonexempt state employees during last year's collective bargaining process. The balance of the increase—\$40,000—will help finance the second-year of the Governor's office automation project (\$30,000) and cover the increased cost of membership dues in the National Governor's Association (\$10,000).

GOVERNOR'S OFFICE—Continued

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

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Percent Change From 1985-86</i>
Personal Services	\$3,444	\$3,796	\$3,998	5.3%
Operating expenses and equipment....	1,581	1,572	1,612	2.5
Special items of expense	55	55	755	+1,273.3
Totals	\$5,080	\$5,423	\$6,365	+17.4%

Overseas Offices. The budget proposes \$700,000 as a special item of expense to fund new offices abroad. Specifically, the funds would be used to establish overseas representation for the State of California in Tokyo and London. The Governor's Budget states that these offices will (1) promote California exports, (2) establish new agricultural markets, (3) attract greater direct foreign investment in California, and (4) bring more tourists to the state. The budget further indicates that the establishment of these overseas offices is consistent with recommendations contained in a study prepared by the California State World Trade Commission pursuant to Chapter 1569, Statutes of 1984. This study is discussed in our analysis of the budget of the California State World Trade Commission, (Item 0585).

Governor's Office

SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General

Fund

Budget p. LJE 18

Requested 1986-87	\$758,000
Estimated 1985-86	721,000
Actual 1984-85	632,000
Requested increase \$37,000 (+5.1 percent)	
Total recommended reduction	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0510-001-001—Support	General	\$737,000
Reimbursements	—	21,000
Total		\$758,000
0510-495—Reversion	General	(\$23,000)

GENERAL PROGRAM STATEMENT

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

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

The agency has 12 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$737,000 from the General Fund for support of the State and Consumer Services Agency in 1986-87. This is \$36,000, or 5.1 percent, more than estimated current-year expenditures.

Total agency expenditures in 1986-87, including expenditures from reimbursements, are budgeted at \$758,000, an increase of \$37,000, or 5.1 percent, from current-year expenditures. The \$37,000 increase results primarily from increased salaries and associated staff benefits.

The budget does not include full funding for merit salary adjustments or inflation adjustments to operating expenses and equipment, which amount to \$11,000. We estimate that the department will have to absorb approximately \$7,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed expenditures for the agency appear to be warranted.

Reversion (Item 0510-495)

We recommend approval.

Chapter 1453, Statutes of 1984, established a Food Bank Advisory Committee and provided \$25,000 from the General Fund to the agency for per diem payments to committee members. The committee was required to review the federal Temporary Emergency Food Assistance Program and report its recommendations to the agency. In performing its duties, the committee expended only \$2,000. Consequently, the budget's proposed reversion of the unexpended balance of \$23,000 to the General Fund is appropriate.

Governor's Office
SECRETARY FOR BUSINESS, TRANSPORTATION AND
HOUSING

Item 0520 from various funds

Budget p. LJE 19

Requested 1986-87	\$1,934,000
Estimated 1985-86	2,416,000
Actual 1984-85	1,128,000
Requested decrease \$482,000 (-19.9 percent)	
Total recommended reduction	61,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0520-001-001—Support	General	\$381,000
0520-001-044—Support	Motor Vehicle Account	628,000
Chapter 438, Statutes of 1985	Special Account for Capital Outlay	500,000
Reimbursements	—	425,000
Total		\$1,934,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *Salary Savings. Reduce Item 0520-001-001 by \$23,000, and Item 0520-001-044 by \$38,000. Recommend reduction to correct for underestimated salary savings.*

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GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing, one of five agency secretaries in the Governor's Cabinet, supervises the activities of 14 departments and administrative bodies. These entities can be divided into three general groupings, as follows:

Business and Regulatory Agencies

Department of Alcoholic Beverage Control
 State Banking Department
 Department of Corporations
 Department of Commerce
 Department of Insurance
 Department of Real Estate
 Department of Savings and Loan
 Stephen P. Teale Consolidated Data Center

Transportation Agencies

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

Housing Agencies

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 total expenditures of \$1,934,000 to support the agency's activities in 1986-87. This is \$482,000, or approximately 20 percent, less than estimated total expenditures in 1985-86.

The agency's proposed expenditures would be funded, in part, from two appropriations totaling \$1,009,000—\$381,000 from the General Fund and \$628,000 from the Motor Vehicle Account in the State Transportation Fund. These appropriations represent an increase of \$3,000, or 0.3 percent,

above the amount appropriated from these sources in the current year. In addition, the agency anticipates expenditures during 1986-87 of (1) \$500,000 from the Special Account for Capital Outlay, appropriated by Ch 438/85 but not expended in 1985-86, and (2) \$425,000 in reimbursements.

The net decrease in proposed expenditures for 1986-87—\$482,000—primarily is due to the reduction in expenditures under Chapter 438. Chapter 438 appropriated \$1.5 million for development and operation of California's pavilion at the 1986 World Exposition in Canada, of which \$1 million will be spent in the current year and \$500,000 will be spent in 1986-87.

Agency staffing is proposed to continue at the current-year level of 19 personnel-years.

Table 1 shows the agency's expenditures and funding sources for 1984-85 through 1986-87, as proposed.

Table 1
Secretary for Business, Transportation and Housing
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Program	Expenditures			Percent Change From 1985-86
	Actual 1984-85	Est. 1985-86	Prop. 1986-87	
Administration	\$1,128	\$2,416	\$1,934	-19.9%
Funding Source				
General Fund	334	371	381	2.6
Motor Vehicle Account	476	635	628	-1.1
Special Account for Capital Outlay	—	1,000	500	-50.0
Reimbursements	318	410	425	3.7
Personnel-years	16	19	19	—

ANALYSIS AND RECOMMENDATIONS

Salary Savings Too Low

We recommend a reduction of \$61,000 to correct for underestimated salary savings. (Reduce Item 0520-001-001 by \$23,000 and Item 0520-001-044 by \$38,000.)

The agency projects salary savings equivalent to two personnel-years for 1986-87. This represents a 9.5 percent vacancy rate for all budgeted positions. Past experience, however, indicates that the department is likely to experience an even higher rate of turnover, and therefore, a higher vacancy rate. Table 2 shows both the authorized positions and actual personnel-years expended for 1982-83 through 1986-87.

Table 2
Secretary for Business, Transportation and Housing
Authorized and Filled Positions
1982-83 through 1986-87

Positions	1982-83	1983-84	1984-85	Est. 1985-86	Prop. 1986-87
Authorized	23.0	22.0	21.0	21.0	21.0
Actually filled	14.7	16.6	16.0	19.0	19.0
Vacant	8.3	5.4	5.0	2.0	2.0
Vacancy rate	36.1%	24.6%	23.8%	9.5%	9.5%

SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING—Continued

For the period 1982–83 through 1984–85, the vacancy rate averaged 28 percent. This resulted in salary savings levels exceeding 20 percent of authorized salaries and wages annually. The budget provides for salary savings equivalent to 4.5 percent of all salaries and wages in 1986–87. Based on past experience, we think the budgeted salary savings rate should be at least 10 percent. Using this rate, which is well below the rates experienced in recent years, we find the agency's personal services requirements in 1986–87 to be \$1,012,000. This is \$61,000 less than the amount requested. Accordingly, we recommend a total reduction in personal services of \$61,000, including \$23,000 from Item 0520-001-001 and \$38,000 from Item 0520-001-044.

Governor's Office
SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General

Fund	Budget p. LJE 20
Requested 1986–87	\$1,803,000
Estimated 1985–86	1,907,000
Actual 1984–85	5,175,000
Requested decrease \$104,000 (–5.5 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,468,000
Reimbursements	—	335,000
Total		\$1,803,000

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. The Secretary also is responsible for the operations and sound fiscal management of the following departments and offices:

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

The 1985 Budget Act authorized 25 positions to assist the Secretary in performing his policy formulation and oversight responsibilities.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes the expenditure of \$1,803,000 from the General Fund and reimbursements to support the Secretary for Health and Welfare in 1986-87. This is a decrease of \$104,000, or 5.5 percent, from estimated current-year expenditures. The decrease is due to an interagency agreement between the Secretary and the Department of Developmental Services (DDS) reassigning to the department certain responsibilities related to the Early Intervention Services Act.

Table 1 presents a summary of program expenditures and funding sources for the agency during the past, current, and budget years. Table 2 identifies the changes in the Secretary's budget proposed for 1986-87.

Table 1
Secretary for Health and Welfare
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

<i>Program</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Percent Change from 1985-86</i>
Secretary's Office.....	\$1,679	\$1,742	\$1,803	3.5%
Early Intervention Services Act	19	165	—	-100.0
Multipurpose Senior Services Program	3,477	—	—	—
Totals.....	\$5,175	\$1,907	\$1,803	-5.5%
<i>Funding Source</i>				
General Fund	\$3,063	\$1,586	\$1,468	-7.4%
Reimbursements	2,112	321	335	4.4

When the agency's expenditures in 1985-86 are adjusted to exclude spending under the Early Intervention Services Act, the funding request for 1986-87 actually represents an increase of \$61,000, or 3.5 percent. The additional funds will be used for employee compensation increases approved during the last round of collective bargaining.

Table 2
Secretary for Health and Welfare
Proposed Budget Changes
1986-87
(dollars in thousands)

	<i>General Fund</i>	<i>Reimbursements</i>	<i>Totals</i>
1985-86 expenditures (revised)	\$1,586	\$321	\$1,907
1. Cost adjustments			
a. Employee compensation adjustment	47	14	61
2. Program change proposals			
a. Early Intervention Services Act—interagency agreement with DDS	-165	—	-165
1986-87 expenditures (proposed)	\$1,468	\$335	\$1,803
Change from 1985-86:			
Amount	-\$118	\$14	-\$104
Percent	-7.4%	4.4%	-5.5%

SECRETARY FOR HEALTH AND WELFARE—Continued

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the agency will have to absorb approximately \$32,000 in such costs.

Governor's Office
SECRETARY FOR RESOURCES

Item 0540 from the General
Fund and Environmental
License Plate Fund Budget p. LJE 22

Requested 1986-87	\$1,438,000
Estimated 1985-86.....	1,367,000
Actual 1984-85	1,502,000
Requested increase \$71,000 (+5.2 percent)	
Total recommended reduction	None
Recommendation pending	100,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0540-001-001—Agency support	General	\$1,273,000
0540-001-140—CTRPA activities	Environmental License Plate	143,000
Reimbursements	—	22,000
Total		\$1,438,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis*
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31

1. CTRPA-Related Costs. Withhold recommendation on \$100,-000 requested in Item 0540-001-140 for administration of CTRPA activities, pending receipt of more complete information on the number of permits which must be monitored in the budget year.

GENERAL PROGRAM STATEMENT

The Secretary for Resources is the administrative head of the Resources Agency. The Secretary is a member of the Governor's cabinet and is responsible directly to the Governor for the management, preservation, and enhancement of California's natural, recreational, and wildlife resources. The Resources Agency is composed of the following departments and organizations:

Conservation	Colorado River Board
Fish and Game	Energy Resources Conservation and Development Commission
Forestry	Santa Monica Mountains Conservancy
Parks and Recreation	State Coastal Conservancy
Boating and Waterways	California Tahoe Conservancy
Water Resources	State Lands Commission
Air Resources Board	State Water Resources Control Board
California Coastal Commission	California Waste Management Board
California Conservation Corps	

In practice, however, the Air Resources Board, the California Waste Management Board, and the 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, also are budgeted in the Resources Agency. In addition, the agency (1) serves as 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 the preparation of environmental impact reports (EIRs), and (4) designates the classes of activities exempted from the preparation of EIRs.

The agency has 20.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling \$1,416,000 for the Resources Agency in 1986-87. This amount consists of (1) \$1,273,000 from the General Fund for direct support costs and (2) \$143,000 from the Environmental License Plate Fund (ELPF) which will be used (a) to carry out the agency's responsibilities as the successor to the deactivated California Tahoe Regional Planning Agency (CTRPA) and (b) for the acquisition of computer equipment to monitor ELPF-funded activities. When combined with estimated reimbursements of \$22,000, the agency's total expenditure plan for the budget year is \$1,438,000. This is \$71,000, or 5.2 percent, more than estimated total current-year expenditures.

The proposed increase of \$71,000 reflects:

- Employee compensation increases totaling \$57,000 from the General Fund.
- A decrease of \$25,000 in the amount of funds provided from the ELPF for CTRPA activities.
- An additional \$40,000 from the ELPF to cover pro rata charges for central administrative services during past years.
- Net miscellaneous adjustments to operating expenses of -\$1,000 (including a one-time allotment of \$3,000 for computer equipment).

The amount proposed for 1986-87 does not include any additional funds for Merit Salary Adjustments or inflation adjustments to Operating Expenses. Presumably, these costs will be financed by diverting funds budgeted for other purposes. We estimate that the agency will have to absorb approximately \$12,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

CTRPA-Related Costs Are Uncertain

We withhold recommendation on \$100,000 requested from the ELPF (Item 0540-001-140) for CTRPA-related activities, pending the receipt of more complete information on the number of development permits which must be monitored in the budget year.

Chapter 1612, Statutes of 1982, authorizes the Secretary for Resources to serve as legal successor to CTRPA for purposes of concluding any regulatory or administrative matters which were still pending at the time of CTRPA's deactivation in April 1984. The budget includes \$100,000 from

SECRETARY FOR RESOURCES—Continued

the ELPF to pay the cost of administering CTRPA-related activities in 1986-87. These funds will be used to contract with the bi-state Tahoe Regional Planning Agency (TRPA) to (1) monitor and enforce permit conditions for building permits which were issued by CTRPA, (2) administer surety deposits related to the permits, and (3) verify compliance with mitigation requirements or settlement agreements related to the permits.

The amount included in the budget is based on the TRPA's estimate of CTRPA-issued building permits which still will be active in 1986-87. The TRPA estimates that it will have to monitor activities and administer surety deposits for 600 outstanding permits. The Resources Agency, however, indicates that this estimate may be high because of the number of expiring permits and completed projects. Consequently, the funding requirement in the budget year probably will be less than \$100,000. A revised estimate of the number of active permits should be available at the time of budget hearings. Therefore, we withhold recommendation on the \$100,000 requested for CTRPA-related activities, pending receipt of the agency's revised estimate of active building permits.

Governor's Office
**SECRETARY FOR YOUTH AND ADULT CORRECTIONAL
AGENCY**

Item 0550 from the General

Fund

Budget p. LJE 23

Requested 1986-87	\$910,000
Estimated 1985-86.....	861,000
Actual 1984-85	687,000
Requested increase \$49,000 (+5.7 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 Authority, and the Narcotic Addict Evaluation Authority. The agency has 10.3 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$910,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1986-87. This is an increase of \$49,000, or 5.7 percent, above estimated current-year expenditures. The requested increase in the agency's budget results primarily from salary and staff benefit increases.

The agency proposes to extend for one additional year the position of undersecretary for new prison construction and two related support posi-

tions. The undersecretary position, which is responsible for the coordination and oversight of construction and inmate work issues between the Department of Corrections and other state departments, was established as a one-year limited-term position in the current year, making the Youth and Adult Correctional Agency the only state agency with two undersecretaries. Two positions directly support the undersecretary: a staff services analyst and an executive secretary II. These positions are funded in the Department of Corrections' budget, rather than in the agency's budget.

Agency staff maintain that all three positions must be continued in their present capacities because of the need to oversee and monitor the new prison construction program. The administration's plans call for seven new prisons to be under construction during 1986-87.

Given the problems that the administration has encountered in managing the new prison construction program to date, we concur in the need for continued oversight and coordination at the agency level. Accordingly, we recommend that the positions be approved for one additional year.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General

Fund	Budget p. LJE 24
Requested 1986-87	\$263,000
Estimated 1985-86.....	252,000
Actual 1984-85	236,000
Requested increase \$11,000 (+4.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Office of California-Mexico Affairs (OCMA), established on January 1, 1983, by Ch 1197/82, is the successor to two state agencies: the Commission of the Californias and the Southwest Border Regional Conference. Under Ch 1197/82, the purposes, staff, and resources of the two predecessor entities were consolidated into two organizational units within OCMA.

The primary function of the 18-member Commission of the Californias is to promote economic, cultural, educational, and scientific relations with the regional Mexican governments of Baja California and Baja California Sur. The Governor serves as chairman of the California delegation to the commission; the Lieutenant-Governor serves as vice-chairman.

The OCMA also provides staff support for California's participation in the Southwest Border Regional Conference. The conference is composed of the Governors of California, Texas, Arizona, and New Mexico, and representatives of six Mexican border states. Its purpose is to promote international cooperation in economic, cultural, and environmental exchange across the U.S.-Mexican border.

The office currently has four authorized positions.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS—Continued**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The budget proposes General Fund expenditures of \$263,000 to support the activities of the OCMA in 1986–87.

This is an increase of \$11,000, or 4.4 percent, over the current year.

Although the office received \$16,000 in federal funds in 1985–86, the budget does not anticipate the receipt of any federal support in 1986–87. Consequently, total expenditures are proposed to decrease from \$268,000 to \$263,000—a reduction of \$5,000, or 1.9 percent.

The growth in the office's budget is due entirely to increased salary levels. The budget does not include additional funds for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the OCMA will have to absorb approximately \$4,000 in such costs.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General
Fund and the California State
World Trade Commission
Fund

Budget p. LJE 25

Requested 1986–87	\$1,376,000
Estimated 1985–86	1,270,000
Actual 1984–85	716,000
Requested increase \$106,000 (+8.3 percent)	
Total recommended reduction	100,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0585-001-001—Support	General	\$1,126,000
0585-001-981—Trade promotion	California State World Trade Commission	250,000
Total		\$1,376,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. *Trade Negotiation Funds. Reduce Item 0585-001-001 by \$100,000.* Recommend deletion because activity can be performed with existing resources. 37
2. *Trade promotion.* Recommend that, prior to budget hearings, the commission report on how proposed trade promotion expenditures are consistent with a consultant's study. 37

GENERAL PROGRAM STATEMENT

The California State World Trade Commission (WTC) was created by Chapter 1526, Statutes of 1982 (AB 3757), to promote international trade, tourism 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 (now called the Department of Commerce), effective January 1, 1983.

The 15-member commission is composed of government and business leaders, and is chaired by the Secretary of State. It serves as the official state representative 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 WTC is authorized to have an advisory council of 20-40 members, representing the diverse nature of the state's economy.

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

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1,376,000 (\$1,126,000 from the General Fund and \$250,000 from the California State World Trade Commission Fund) to support the programs of the commission during 1986-87. This amount is \$106,000, or 8.3 percent, above the estimated current-year expenditures.

The budget proposes to increase General Fund support by \$11,000, or 1 percent. This small increase is misleading, however, as current-year spending includes \$150,000 in one-time expenditures. Disregarding these expenditures, the General Fund increase proposed by 1986-87 is \$161,000, or 14.4 percent. The budget also proposes expenditures of \$250,000 from the California State World Trade Commission Fund in 1986-87, an increase of \$95,000, or 61 percent, over current-year expenditures.

Table 1
California State World Trade Commission
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Category	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change From 1985-86	
				Amount	Percent
Personal Services	\$340	\$451	\$471	\$20	4.4%
Operating Expenses and Equipment	376	819	905	86	10.5
Totals	\$716	\$1,270	\$1,376	\$106	8.3%
Funding Source					
General Fund	\$733	\$1,115	\$1,126	\$11	1.0%
California State World Trade Commission Fund.....	-17 ^a	155	250	95	61.3
Export Finance Fund	(2,000) ^b	—	—	—	—
Personnel-years	7.5	8.9	8.9	—	—

^a This unexpended amount was carried forward to 1985-86.

^b Chapter 1693, Statutes of 1984 (SB 1196), provided a one-time, \$2 million General Fund appropriation to the Export Finance Fund for insuring and/or guaranteeing export finance loans made by participating commercial banks.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

Table 1 summarizes the commission's budget for the prior, current and budget years.

Table 2 shows the changes in the budget proposed for 1986-87. These changes include two one-time adjustments for legislation enacted in 1985: (1) a \$100,000 allocation made by Chapter 438, Statutes of 1985 (AB 1450), to fund the commission's participation in the Asia and Pacific International Trade Fair held in Beijing during November 1985; and (2) a \$50,000 appropriation in Chapter 1240, Statutes of 1985 (AB 668), for a study of trade barriers affecting the export of California agricultural commodities.

The table also reflects a requested increase in expenditure authority of \$95,000 in the California State World Trade Commission Fund for additional trade promotional activities. These activities are financed entirely from fees charged by the WTC for exhibit space and promotional services used by firms participating in trade missions, shows and other promotional functions organized by the commission. In the budget year, the commission anticipates increases in both the number of promotional activities and participation by companies.

Table 2
California State World Trade Commission
Proposed 1986-87 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>CSWTC Fund^a</i>	<i>All Funds</i>
1985-86 Expenditures (Revised)	\$1,115	\$155	\$1,270
<i>Baseline Adjustments</i>			
Cost-of-Living Salary and Related Benefit Increases....	\$20	—	\$20
One-Time Appropriation by Ch 438/85 (AB 1450)	-100	—	-100
One-Time Appropriation by Ch 1240/85 (AB 668)	-50	—	-50
Net Change in Operating Expenses and Equipment Costs ^b	41	—	41
Subtotal, Baseline Adjustments	(-\$89)	—	(-\$89)
<i>Program Changes</i>			
Multilateral Trade Negotiations	\$100	—	\$100
Trade Promotion	—	\$95	95
Subtotal, Program Changes	(\$100)	(\$95)	(\$195)
1986-87 Expenditures (Proposed)	\$1,126	\$250	\$1,376
Change from 1985-86:			
Amount	\$11	\$95	\$106
Percent	1.0%	61.3%	0.3%

^a The California State World Trade Commission Fund.

^b Consists of increased expenditures for general and in-state travel expenses, partially offset by a \$25,000 reduction in equipment costs.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the commission will have to absorb approximately \$39,000 in such costs.

ANALYSIS AND RECOMMENDATIONS**Funds for Trade Negotiations Not Justified**

We recommend that \$100,000 requested from the General Fund to support the commission's cost of monitoring trade negotiations be deleted because the activity can be performed with existing resources (Reduce Item 0585-001-001 by \$100,000).

The budget proposes to spend \$100,000 in 1986-87 for the purpose of analyzing and monitoring negotiations under the General Agreement on Tariffs and Trade (GATT). These multilateral trade negotiations take place periodically among the representatives of about 90 member-nations, including the United States, for the purpose of expanding international trade through the reduction of tariffs and other trade barriers. The upcoming negotiations are scheduled to start sometime in late 1986 in Geneva, Switzerland, and may continue for several years.

According to the information provided by the WTC staff, the commission proposes to contract with a private consultant to: (1) review past negotiations, in order to evaluate the concessions gained or lost by California; (2) develop California's "positions" for the upcoming negotiations; (3) communicate California's positions to our federal negotiators in Washington; and (4) monitor the negotiations in Geneva.

Our analysis indicates that this proposed expenditure is not justified for the following reasons:

- First, the information supplied by the WTC staff regarding the nature of the analytical and monitoring work to be provided does not indicate a need for a special consultant. Our analysis indicates that the proposed work could be accomplished by existing commission staff, which contains several trade specialists.
- Second, developing the state's "positions" for the negotiations is the responsibility of the commission, not of a private consultant. Our analysis indicates that the membership of the current commission, together with the membership of its advisory council, has the background and expertise needed to develop such positions.
- Third, the state's "positions" regarding these negotiations could be communicated to the appropriate federal officials more directly and effectively by the Governor and members of the Legislature than by a private consultant. According to the staff of the United States Trade Representative, state input for the upcoming negotiations could best be provided by specific state representatives, such as WTC members and staff. Toward that end, the Trade Representative is in the process of gathering such input, and has scheduled to meet with the commission and its staff in late January 1986 for that purpose.
- Finally, the information we received about this request does not indicate how a private consultant—who is not part of a negotiating team and not even an official state representative—could monitor the negotiations more effectively than commission members or staff.

For these reasons, we recommend that the \$100,000 budgeted for multilateral trade negotiations not be approved, for a General Fund savings of \$100,000.

More Information Needed Regarding Establishment of Overseas Offices

We recommend that, prior to budget hearings, the commission report to the Legislature on how the overseas office proposal, in combination with existing commission programs, will promote foreign investment in the state and California exports.

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

Chapter 1569, Statutes of 1984 (AB 3313), required the California State World Trade Commission to study the feasibility and desirability of establishing one or more overseas trading offices. The commission was directed to submit a report to the Legislature by June 30, 1985, containing the following:

- Recommendations on the functions of an overseas office;
- At least three options for establishing overseas offices and a discussion of the merits of establishing such offices versus conducting and participating in trade shows and missions;
- The costs to the state of implementing each option; and
- A timetable for implementing the options.

The commission's report, which was prepared by a private consultant, concludes that California's current efforts to promote direct investment in the state and to promote California exports are inadequate. The report recommends a three-phase program to promote foreign investments and the export of California products. The program would initially cost about \$2 million, and grow to a level of \$6 million by the fourth year of operation. The program would include (1) augmentation of the Sacramento international promotional activities, (2) enhancement of services in the Los Angeles and San Francisco area, and (3) establishment of a network of four or five overseas offices.

The proposed budget for the Governor's office includes \$700,000 to establish overseas trade offices for California in Tokyo and London. The budget document states that these offices would (1) promote California exports, (2) establish new agricultural markets, (3) attract greater direct foreign investment in California, and (4) bring more tourists to the state.

Our analysis of this report identifies several flaws in the basis for the administration's proposal to establish two overseas offices.

First, although the report indicated that overseas offices should be an integral part of an overall program to promote foreign investment in the state, it recommended that, before such offices are established, the state should expand *existing*, in-state trade promotional programs. The report concluded that "only after this base has been established should activities be entered into through overseas offices." There is no indication that existing programs have been expanded or that the "base" has been established.

Second, in establishing criteria for the report, the Legislature directed the commission to discuss the merits of establishing overseas offices versus conducting and participating in trade shows and missions. The report did not comply with this directive.

Third, the report identifies only one option for establishing overseas offices, even though Chapter 1569 indicated that three options should be presented, including the use of a part-time office.

In order for the Legislature to fully understand the administration's proposal, we recommend that, prior to budget hearings, the commission report to the Legislature on: (1) how expenditures proposed in the budget (in both the commission and Governor's office items) are consistent with the consultant's report, and (2) the information requested by Chapter 1569 which has not been provided to date.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund

Budget p. LJE 28

Requested 1986-87	\$3,751,000
Estimated 1985-86	3,855,000
Actual 1984-85	3,448,000
Requested decrease \$104,000 (-2.7 percent)	
Total recommended reduction	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0650-001-001—Support	General	\$3,685,000
0650-001-890—Support	Federal Trust	(475,000)
0650-101-890—Local assistance	Federal Trust	(150,000)
Reimbursements	—	66,000
Totals		<hr/> \$3,751,000

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.

The office is organized into six units:

1. **Education Planning and Policy.** This unit has five positions in the current year 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 assists local governments with planning matters, reviews general plans developed by local governments, analyzes legislation pertaining to local government issues, and provides liaison between the Governor and local agencies.

3. **Permit Assistance.** This unit, with 22 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 eight positions in the current year, and is fully supported by federal funds.

5. **Community Relations.** Staffed with 11 positions in the current year, 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 22 positions in the current year that provide general policy direction and administrative and support services to other OPR units. In the current year the unit

OFFICE OF PLANNING AND RESEARCH—Continued

also provides various administrative services to the Office of California-Mexico Affairs.

The OPR has 83 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$3,685,000 from the General Fund for support of the Office of Planning and Research (OPR) in 1986-87. This is an increase of \$21,000, or less than 1 percent, above estimated current-year expenditures.

Total expenditures from all sources in 1986-87 are proposed at \$5,196,000, including \$3,685,000 from the General Fund, \$66,000 from reimbursements, and \$1,445,000 from federal funds. This represents an increase of \$636,000, or 14 percent, above estimated current-year expenditures.

The increase in total expenditures proposed for 1986-87 reflects (1) the availability of \$780,000 in federal funds appropriated from the Petroleum Violations Escrow Account in Ch 1604/85 to OPR for a loan program intended to assist low-income fishing operators conserve fuel, and (2) a reduction of two positions, which the budget suggests is possible due to increased efficiencies. One of these positions is in the Office of Permit Assistance, and the other one is in the Executive Office.

The OPR indicates that a third position, which currently is vacant, will be eliminated from the Energy Extension Service. The budget proposes to reallocate the savings from eliminating this position to local assistance.

The budget proposes a total of 80 positions for OPR in 1986-87. Table 1 shows the budget for OPR for the past, current, and budget years.

Table 1
Office of Planning and Research
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

<i>Program</i>	<i>Act. 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Percent Change From 1985-86</i>
1. Education Planning and Policy	\$302	\$296	\$303	2.4%
2. Local Government Affairs	705	841	803	-4.5
3. Permit Assistance	1,089	1,158	1,144	-1.2
4. Energy Extension Service	650	739	1,445	95.5
5. Community Relations.....	469	651	665	2.2
6. Executive Office and Support Services.....	883	875	836	-4.5
Total, Expenditures	\$4,098	\$4,560	\$5,196	13.9%
Funding Source				
<i>General Fund</i>	\$3,351	\$3,664	\$3,685	0.6%
<i>Federal Trust Fund</i>	650	705	1,445	105.0
<i>Reimbursements</i>	97	191	66	-65.4
Totals	\$4,098	\$4,560	\$5,196	13.9%
Personnel-years	76.8	83	80	-3.6%

The Governor's Budget proposes to finance three programs which will be administered by the OPR from the Petroleum Violation Escrow Account Special Deposit Fund, at a projected cost of \$12 million in 1986-87. These include Native American Community Energy Services, Small Busi-

ness Energy Accounting Incentives, and Regional Energy Management/Energy Education Centers for K-12 Schools. We discuss these proposals in our analysis of Item 9895.

Governor's Office
OFFICE OF EMERGENCY SERVICES

Item 0690 from the General
Fund and Natural Disaster As-
sistance Fund

Budget p. LJE 32

Requested 1986-87	\$17,190,000
Estimated 1985-86.....	20,661,000
Actual 1984-85	21,147,000
Requested decrease \$3,471,000 (-16.8 percent)	
Total recommended reduction	None
Total recommended transfer to General Fund	16,500,000
Recommendation pending	136,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0690-001-001—Support	General	\$8,540,000
0690-001-029—Support	Nuclear Planning Assessment Special Account	300,000
0690-001-890—Support	Federal Trust	(4,281,000)
0690-101-029—Local Assistance, Plans and Preparedness	Nuclear Planning Assessment Special Account	600,000
0690-101-890—Local Assistance, Disaster Assistance	Federal Trust	(38,013,000)
Continuous Appropriation—Local Assistance	Public Facilities Account, Natural Disaster Assistance	3,843,000
Continuous Appropriation—Local Assistance	Street and Highway Account, Natural Disaster Assistance	3,500,000
Reimbursements	—	407,000
Total, State Funds		\$17,190,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|---|--------------------------|
| | <i>Analysis
page</i> |
| 1. Public Facilities Account. Recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the state's ability to provide disaster assistance within the amount budgeted for that purpose. | 44 |
| 2. <i>Street and Highway Account. Transfer \$16,500,000 to the General Fund.</i> Recommend that funds not needed for disaster assistance be transferred in order to increase the Legislature's fiscal flexibility. | 46 |
| 3. Hazardous Materials Training. Withhold recommendation on \$136,000 requested to establish two hazardous materials program positions, pending receipt of a revised master plan which addresses specific issues related to hazardous materials training efforts. | 47 |

OFFICE OF EMERGENCY SERVICES—Continued

4. Disaster Response—Emergency Operations Account. 49
 Recommend that the Department of Finance report to the fiscal committees prior to budget hearings on its guidelines and criteria for allocating funds from the Disaster Response—Emergency Operations Account.

GENERAL PROGRAM STATEMENT

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from natural or other disasters. These responsibilities are administered through four programs—Mutual Aid Response, Plans and Preparedness, Disaster Assistance, and Administration/Executive.

Mutual Aid Response. This program provides for the planning, coordination, and use of intergovernmental resources during disaster situations.

Plans and Preparedness. The objective of the program is to improve statewide emergency planning by developing and implementing emergency plans, and providing training and technical assistance to state and local agencies.

Disaster Assistance. This program provides both state (Natural Disaster Assistance Act) and federal (Federal Disaster Relief Act) aid to local agencies for disaster recovery.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$17,190,000 from state funds for the Office of Emergency Services in 1986–87. This is \$3,471,000, or 16.8 percent, less than estimated state expenditures during the current year.

Table 1
Office of Emergency Services
Funding Sources
1984–85 through 1986–87
(dollars in thousands)

<i>Category/Source of Funds</i>	<i>Actual 1984–85</i>	<i>Est. 1985–86</i>	<i>Prop. 1986–87</i>	<i>Percent Change from 1985–86</i>
State Operations				
General Fund	\$7,503	\$9,037	\$8,540	–5.5%
Federal Funds	3,880	4,147	4,281	3.2
Nuclear Planning Assessment	285	300	300	—
Reimbursements	449	312	407	30.4
Subtotals	\$12,117	\$13,796	\$13,528	–1.9%
Local Assistance				
General Fund ^a	(\$11,635)	—	—	—
Federal Funds	52,642	53,013	38,013	–28.3%
Nuclear Planning Assessment	432	600	600	—
Natural Disaster Assistance Fund:				
Public Facilities Account	8,023	7,000	3,843	–45.1
Street and Highway Account	199	3,500	3,500	—
1983 Natural Disaster Account	4,301	135	—	–100.0
State Highway Account ^b	–45	–223	—	–100.0
Subtotals	\$65,552	\$64,025	\$45,956	–28.2
Totals	\$77,669	\$77,821	\$59,484	–23.6%

^a Amount represents funds transferred to the Public Facilities Account in the Natural Disaster Assistance Fund.

^b Loan repayment from local agencies per Chapter 1064, Statutes of 1983.

The budget proposes *total* expenditures of \$59,484,000 by the office in 1986-87. This is \$18,337,000, or 23.6 percent, less than estimated current-year expenditures.

The decline in expenditures proposed for the budget year is due to the anticipated reduction in the amount of disaster assistance that the office will distribute to local governments in the budget year. The budget anticipates that \$42.2 million in federal and state disaster assistance will be distributed in 1986-87—significantly below the \$60.5 million distributed in 1985-86. Expenditures in the current year reflect the unusually high level of fire activity in the state last summer. The budget, is assuming that 1986-87 will be a more “normal” year. This may or may not be the case. That is because the amount of disaster assistance budgeted for 1986-87 is merely an *estimate*; the actual level will depend on the cost of repairing damage caused by natural disasters.

If the proposed budget for 1986-87 is adjusted to eliminate the effect of changes in disaster assistance funding, the level of expenditures is \$45,000, or less than 1 percent, below estimated expenditures in the current year.

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

Table 2
Office of Emergency Services
Program Summary
1984-85 through 1986-87
(dollars in thousands)

<i>Program Expenditures</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Percent Change from 1985-86</i>
Fire and Rescue, Mutual Aid	2,785	2,780	2,874	3.4%
Law Enforcement, Mutual Aid	657	674	726	7.7
Emergency Communication Systems.....	1,914	2,189	1,955	-10.7
Plans and Preparedness.....	1,279	1,611	1,650	2.4
Earthquake Preparedness	1,323	1,643	1,145	-30.3
Training	1,449	1,804	1,961	8.7
Hazardous Materials and Radiological Plan- ning	1,422	1,712	1,776	3.7
Technical Assistance	1,160	1,376	1,419	3.1
Disaster Assistance	65,725	64,255	45,978	-28.4
Emergency Management Assistance	(3,765)	(3,732)	(3,747)	0.4
Disaster Relief	(61,960)	(60,523)	(42,231)	-30.2
Administration (distributed)	(1,449)	(1,475)	(1,626)	10.2
Loan Repayment Program	-45	-223	—	-100.0
Totals	\$77,669	\$77,821	\$59,484	-23.6%
<i>Personnel-Years</i>				
Fire and Rescue	20.8	23.1	25.0	8.2%
Law Enforcement	5.9	5.8	5.8	—
Emergency Communication Systems.....	14.1	14.4	15.3	6.3
Plans and Preparedness	16.7	19.2	19.5	1.6
Earthquake Preparedness	10.5	10.7	10.7	—
Training	1.9	23.0	23.0	—
Hazardous Materials and Radiological Plan- ning	16.5	16.8	17.8	6.0
Technical Assistance	16.3	17.7	17.7	—
Disaster Assistance	11.8	12.9	12.9	—
Administration	28.8	29.3	29.0	-1.0
Loan Repayment Program	—	—	—	—
Totals	143.3	172.9	176.7	2.2%

OFFICE OF EMERGENCY SERVICES—Continued

As can be seen in Table 1, the costs of state operations are proposed to decrease by \$268,000, or 1.9 percent, in the budget year. This decrease is primarily the result of operating expense and equipment reductions totaling \$797,000, which include several one-time expenses in the current year. Partially offsetting these reductions are various workload, administrative, and employee compensation adjustments which are proposed for the budget year.

The 28.2 percent decrease in local assistance reflects the anticipated decline in disaster relief expenditures, mentioned above. This amount is \$18,069,000 *below* estimated current-year expenditures for local assistance.

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant program changes which are not discussed elsewhere in the analysis:

- An augmentation of \$60,000 to establish one fire coordinator position to meet additional workload responsibilities,
- An increase of \$55,000 to establish a position to provide computer programming services for the office,
- An increase of \$55,000 to continue the orthomapping program, which provides a uniform system of photographic maps for emergency operations planning and response, and
- The purchase and repair of additional equipment at a cost of \$121,000.

Inadequate Disaster Assistance Funding From the Public Facilities Account

We recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the state's ability to provide disaster assistance to local governments within the amount budgeted for that purpose.

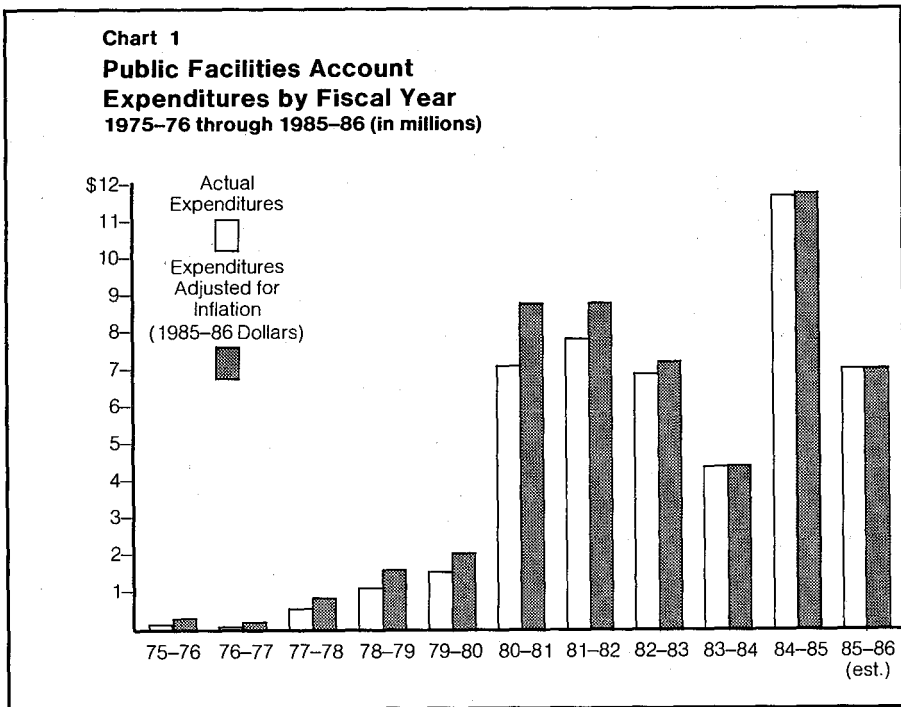
Under the provisions of the Natural Disaster Assistance Act, the OES administers a program of aid to local agencies for the repair and restoration of public real property, such as buildings or sewer systems, which are damaged by natural disasters. Local agencies are eligible for funding under the program if a local emergency is declared and the director of OES concurs with the declaration.

Under this program, restoration of public facilities (other than streets and highways) is funded by a continuous appropriation from the Public Facilities Account, Natural Disaster Assistance Fund. The account receives its revenue from periodic General Fund appropriations and interest earned on the investment of these monies.

Public Facilities Account is Underfunded. The administration does not propose a General Fund appropriation to the Public Facilities Account in 1986–87. The budget estimates that \$3,843,000 will be available in the

account to fund disaster assistance in the budget year. We believe this amount is unlikely to meet local governments' disaster assistance needs.

Specifically, our analysis indicates that the average annual expenditure from the Public Facilities Account (in inflation adjusted dollars) has been approximately \$7.1 million—\$3.3 million more than the amount that the administration proposes to make available for disaster assistance in 1986–87. Chart 1 shows disbursements from the Public Facilities Account for 1985–86 and the preceding 10 years. As the chart illustrates, disbursements remained at a relatively low level through 1979–80. Since 1980–81, however, expenditures from the Public Facilities Account for disaster assistance have been substantially higher. The OES advises that this is due to two factors: a greater incidence of disasters, and a reduction in the federal contribution to recovery work.



In addition, OES staff indicate that they anticipate expenditures of approximately \$7 million from the Public Facilities Account in 1986–87.

We conclude that a General Fund appropriation to the Public Facilities Account of approximately \$3.3 million would be needed to ensure a reasonable level of funding for disaster assistance in the budget year. While these funds undoubtedly will be requested by the administration once the need for them is apparent, failure to request the funds in the budget creates two potential problems. First, it could temporarily disrupt the state's ability to provide disaster assistance to local governments. Second, it gives the Legislature a false impression of how much will be available

OFFICE OF EMERGENCY SERVICES—Continued

in the Reserve for Economic Uncertainties and therefore disrupts the Legislature's fiscal planning.

For these reasons, we recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the state's ability to finance anticipated disaster assistance expenditures from the Public Facilities Account within the amount available for that purpose.

Street and Highway Account Reserve Should Be Reduced

We recommend that the Legislature adopt Budget Bill language transferring \$16,500,000 from the Street and Highway Account because this money will not be needed in the budget year, for a General Fund savings of \$16,500,000.

Under the Natural Disaster Assistance Act, funding for the repair or restoration of streets, highways, and bridges is provided from the Street and Highway Account within the Natural Disaster Assistance Fund. The account was created by Chapter 290, Statutes of 1974, and is comprised of money originally transferred from the Street and Highway Disaster Fund, reimbursements from local agencies, and income from interest earned on the account's assets. If the funds in the account are not needed for the immediate repair or restoration of streets, roads and bridges, the law authorizes the Director of Finance to transfer funds in the account to the State Highway Account in the State Transportation Fund for construction of state highways.

The budget proposes expenditures of \$3,500,000 from the Street and Highway Account for 1986-87. This is the same amount proposed every year since 1982-83.

Our analysis indicates that in recent years, the budget has consistently overstated expenditures from the Street and Highway Account. As shown in Table 3, expenditures have been overestimated by amounts ranging from 9.8 percent of the amount budgeted in 1981-82 to 94 percent in 1984-85! Although the budget estimates that expenditures from the Street and Highway Account will be \$3.5 million in the current year, the OES indicates that only \$408,000 was expended during the first six months of the year. At this rate, a total of only \$816,000 will be disbursed during 1985-86.

Table 3
Street and Highway Account Expenditures
1979-80 through 1984-85
(dollars in thousands)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	Annual Average	Annual Average Adjusted for Inflation
Budgeted Expenditures..	\$1,000	\$1,500	\$1,500	\$3,500	\$3,500	\$3,500	\$2,417	\$2,626
Actual Expenditures.....	851	529	1,353	3,084	323	199	1,057	1,192
Amount Overbudget- ed	\$149	\$971	\$147	\$416	\$3,177	\$3,301	\$1,360	\$1,434
Percent Overbudget- ed	14.9%	64.7%	9.8%	11.9%	90.8%	94.3%	56.3%	54.6%
Reserve for Contingen- cies	\$19,554	\$21,201	\$21,776	\$20,091	\$20,908	\$21,665	\$20,866	\$23,680

The table also indicates that the reserve in the Street and Highway Account is six times larger than the largest amount spent from the fund during the past six years. In fact, revenues to the account have exceeded expenditures in five of those six years.

This leads us to conclude that the budget overestimates the level of expenditure from the Street and Highway Account in the budget year, and that the projected reserve is far in excess of the amount needed to provide adequately for the state's disaster assistance needs.

On this basis, we recommend the adoption of Budget Bill language transferring those monies in the Street and Highway Account not needed in 1986-87 in order to provide funding for legislative initiatives or augment the Reserve for Economic Uncertainties. We estimate that \$16.5 million of the \$22.9 million expected to be available in the account at the beginning of the budget year can be transferred. Approval of this transfer would leave approximately \$6.4 million in the account to cover (1) \$2.8 million in encumbrances, (2) \$1.7 million in 1986-87 disbursements, and (3) maintain \$1.9 million as a reserve for economic uncertainties. To permit the transfer of these funds, we recommend the inclusion of the following language in the Budget Bill:

"The sum of \$16,500,000 is hereby appropriated from the Street and Highway Account, Natural Disaster Assistance Fund to the Controller for allocation pursuant to Section 2126 of the Streets and Highways Code during the 1986-87 fiscal year, and the sum of \$16,500,000 of the appropriation made pursuant to Section 2 of Chapter 1600 of the Statutes of 1985 is hereby reverted to the General Fund."

Hazardous Materials Training Initiative May Be Premature

We withhold recommendation on \$136,000 requested to expand the OES hazardous materials program, pending receipt of a revised three-year master plan which address specific issues related to hazardous materials emergency response training efforts (Item 0690-001-001 and Reimbursements).

The budget proposes an increase of \$136,000 from the General Fund and reimbursements to provide for expansion of hazardous materials programs at the OES. Specifically, the budget requests \$94,000 in reimbursements to establish one position to coordinate and conduct hazardous materials training at the California Specialized Training Institute (CSTI), and \$42,000 from the General Fund to establish an additional position, whose duties would include coordination of local agency hazardous materials training.

The OES indicates that existing hazardous materials training efforts overlap and fail to address important emergency response issues. Staff suggest that the requested positions would provide greater consistency between existing hazardous materials training programs. It would do so by utilizing OES resources to conduct and coordinate training sessions for state and local hazardous materials emergency response personnel and disseminate information on hazardous materials training programs. Further, the OES maintains that these positions will help establish OES as the *primary agency* responsible for coordinating hazardous materials emergency response training throughout the state.

Background. The need to better coordinate hazardous materials training programs has been recognized for some time. In a 1982 report

OFFICE OF EMERGENCY SERVICES—Continued

entitled "Opportunities to Strengthen the State's Systems for Responding to Emergencies Involving Hazardous Materials," the Auditor General concluded that (1) local agency response personnel required more training in hazardous materials emergencies, (2) existing training programs were inadequate, and (3) duplication existed between training programs. The Auditor General recommended that the OES establish a framework for coordinating hazardous materials response training programs to ensure a more consistent and standardized approach.

The Legislature has also recognized the need to improve state and local response to hazardous materials emergencies. In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the Toxic Substances Control Division within the Department of Health Services and the OES to jointly develop guidelines for a three-year master plan to improve state and local government response to releases of hazardous substances.

In the master plan submitted to the Legislature in March 1984, the departments outlined a number of objectives to improve coordination of hazardous materials response efforts. Several of these objectives involved hazardous materials response training. For example, the master plan concluded that the quality of existing training courses was extremely variable and that there was no central clearinghouse to disseminate information on hazardous materials training. Further, the master plan indicated that training for first responders (firefighters, police, hospital and ambulance personnel, etc.) was lacking in terms of both the number of available training programs and the consistency between such programs.

To address these problems, the master plan proposed establishment of a task force to (1) develop training standards for first responders and other response personnel, (2) examine the need for a certification program for individuals who respond to hazardous materials incidents, and (3) work to develop curricula to achieve the training standards.

Master Plan Training Objectives Have Not Been Met. Our analysis indicates that the objectives of the master plan training component have not been met. According to OES staff, the task force has never been fully established and the training standards have not been developed. Certain agencies, such as the State Fire Marshal and local environmental health directors, have independently developed model curricula. According to OES, however, there still has been no formalized effort to establish the training standards envisioned in the master plan.

We recognize the critical role which training plays in assuring that the state can respond adequately to hazardous materials incidents, and the importance of providing coordination between training programs. Further, the OES, because of its statutory responsibility for coordinating emergency activities, may be best qualified to assume primary responsibility for hazardous materials training. However, the ability of the OES to successfully coordinate hazardous materials training programs depends, in part, on the development of standards for such training. Consequently, it is premature to establish positions for coordinating hazardous materials training when the objectives outlined in the master plan to assure such coordination have not yet been fully addressed.

Accordingly, we withhold recommendation on the \$136,000 requested for these two positions, pending receipt of a revised master plan which (1) proposes a timetable for the formation of the task force and development of training standards, and (2) outlines future plans for hazardous materials training, including a description of the office's role in coordinating and

delivering state and local hazardous materials emergency response training.

Legislature Creates New Disaster Account

We recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the guidelines and criteria for allocating funds from the Disaster Response—Emergency Operations Account.

Chapter 1562, Statutes of 1985 (SB 1473), established the Disaster Response—Emergency Operations Account within the Reserve for Economic Uncertainties, and appropriated \$20 million from the Reserve to this new account. This money can be allocated to state agencies for costs incurred in responding to emergencies declared by the Governor. The measure indicates that such emergencies could include fires, floods, storms, earthquakes, or other *public calamities*.

The money in the new disaster account will be allocated to state agencies by the Director of Finance, upon an order of the Governor. The measure further specifies that no funds may be allocated sooner than 30 days after written notification is filed with the chairpersons of the Joint Legislative Budget Committee and the fiscal committees in each house.

Funds in the new account could be used to supplement, or avoid the need for, a deficiency appropriation to those agencies which incur costs for emergencies. The Governor, in fact, reduced an appropriation in Chapter 1425, Statutes of 1985 (AB 2007), which was intended to pay emergency costs incurred by the Department of Forestry, on the basis that the new account would be the appropriate source to fund the balance of the department's deficiency. In addition, the administration has indicated that the new account would also be the proper source of funds to provide reimbursement to various *local agencies* for the costs they incurred as a result of the extraordinary fire season.

Although DOF staff have indicated that the new disaster account will address a portion of the Department of Forestry's deficiency needs, the DOF has yet to develop guidelines or criteria which (1) describe the type of "emergencies" for which agencies can incur costs and be eligible for reimbursement, (2) identify what specific state or local government emergency costs are eligible for recovery, and (3) outline a procedure for approving and disbursing funds from this account. Accordingly, we recommend that the Department of Finance report to the fiscal committees prior to budget hearings on its guidelines and criteria for allocating funds from the Disaster Response—Emergency Operations Account.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General

Fund

Budget p. LJE 41

Requested 1986-87	\$1,504,000
Estimated 1985-86	1,445,000
Actual 1984-85	1,268,000
Requested increase \$59,000 (+4.1 percent)	
Total recommended reduction	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,441,000
Reimbursements	—	63,000
Total		\$1,504,000

GENERAL PROGRAM STATEMENT

The Lieutenant Governor assumes the responsibilities of chief executive in the absence of the Governor. He also serves as the presiding officer of the Senate, voting only in the case of a tie vote. In addition, the Lieutenant Governor serves on numerous commissions and boards, performs such special tasks as the Governor may assign him.

The Lieutenant Governor's office is authorized 22 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$1,504,000 (\$1,441,000 from the General Fund and \$63,000 from reimbursements) for the support of the Lieutenant Governor's office during 1986-87. This is an increase of \$59,000, or 4.1 percent, over estimated expenditures during the current year.

Table 1
Office of the Lieutenant Governor
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Category	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Percent Change from 1985-86
Personal Services:				
Salaries and Wages	\$709	\$805	\$847	5.2%
Staff Benefits	120	168	177	5.3
Subtotals, Personal Services	(\$829)	(\$973)	(\$1,024)	(5.2%)
Operating Expenses and Equipment	\$439	\$472	\$480	1.7
Total Expenditures	\$1,268	\$1,445	\$1,504	4.1%
Funding Sources				
General Fund	\$1,205	\$1,382	\$1,441	4.3%
Reimbursements	\$63	\$63	\$63	—
Personnel-Years	22.8	23.0	23.0	—

Table 1 summarizes the past-, current- and budget-year requirements of the office. It shows that, of the proposed 4.1 percent, or \$59,000, increase in expenditures, \$51,000 is for salary adjustments (\$42,000) and related increases in benefit costs (\$9,000). The only proposed change in operating expenses is an increase of \$8,000 to cover increased office rent and maintenance costs.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the office will have to absorb approximately \$43,000 in such costs.

Our analysis indicates that the expenditures proposed for the office are reasonable, and we recommend approval of the budget as submitted.

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds

Budget p. LJE 42

Requested 1986-87	\$204,618,000
Estimated 1985-86.....	176,572,000
Actual 1984-85	151,132,000
Requested increase \$28,046,000 (+ 15.9 percent)	
Total recommended reduction	124,000
Recommendation pending	11,905,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0820-001-001—Support	General	\$132,130,000
0820-001-012—Antitrust	Attorney General's Anti-trust Account, General	406,000
0820-001-014—Toxic substance	Hazardous Waste Control Account, General	370,000
0820-001-017—Fingerprints	Fingerprint Fees, General	10,014,000
0820-001-036—Support	Special Account for Capital Outlay, General	9,449,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	13,643,000
0820-001-455—Toxic substance	Hazardous Substance Account, General	476,000
0820-001-460—Handgun control	Dealers Record of Sale Special Account, General	876,000
0820-001-469—Law enforcement	Narcotics Assistance and Relinquishment by Criminal Offender	478,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	493,000
0820-001-890—Support	Federal Trust	(7,547,000)
0820-101-469—Local assistance	Narcotics Assistance and Relinquishment by Criminal Offender	500,000

DEPARTMENT OF JUSTICE—Continued

Reimbursements	—	29,450,000
Political Reform Act	—	310,000
Total, Budget Bill Appropriations		\$198,595,000
Chapter 1234, Statutes of 1985	General	6,000,000
Chapter 1396, Statutes of 1985	General	23,000
Total State Funds		\$204,618,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Civil Law Workload. Withhold recommendation on 30.6 positions and \$1,800,000 (Item 0820-001-001), pending receipt of information reconciling budgets for legal services. 55
2. Criminal Law Workload. Withhold recommendation on 59.5 positions and \$3,405,000 (Item 0820-001-001), pending receipt of workload projections. 56
3. Medi-Cal Fraud. Withhold recommendation on 20 positions and \$1,200,000 (Item 0820-001-001) proposed for the San Diego Office, pending information on the effect of the Expanded Choice Pilot program on department workload. 57
4. Court-Awarded Attorney Fees. Recommend that prior to budget hearings, the Department of Justice report on the fiscal impact of its new policy relating to attorney fees. 58
5. Charitable Trust Funding Shift. Recommend that prior to budget hearings, the Department of Justice report on its plan to finance the cost of the Charitable Trust Unit by charging fees to charities. Further recommend that the Department of Finance report to the fiscal committees how this unit will be financed if legislation authorizing new fees is not enacted. 59
6. Automated Fingerprint Systems. Withhold recommendation on \$5,500,000 (Item 0820-001-036) requested to assist local agencies to buy remote access equipment, pending receipt of the information needed to evaluate a less-costly alternative. 60
7. *Subsidy to Special Funds. Reduce Item 0820-001-001 by \$87,000 and increase various other items by \$87,000.* Recommend a shift in funding source for various activities in order to eliminate a General Fund subsidy for special fund programs. 61
8. *Technical Recommendation. Reduce Item 0820-001-001 by \$101,000 and various other items by \$23,000.* Recommend reduction to eliminate overbudgeting. 62

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 700 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 Public Rights 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 is the department's largest and has an authorized staff of approximately 1,770 positions. 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 to have a total of 3,134.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of \$204,618,000 from the General Fund and various special funds for support of the Department of Justice in 1986-87. This is an increase of \$28,046,000, or 16 percent, over estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1986-87 total \$138,463,000. This is \$12,704,000, or 10 percent, more than estimated General Fund expenditures in 1985-86.

When expenditures from special funds, federal funds, and reimbursements are added to those financed by the General Fund, total expenditures from all sources reach \$212,165,000. This is \$28,629,000, or nearly 16 percent, more than estimated total expenditures in 1985-86.

Table 1 summarizes the department's spending program for 1986-87, by fund source, and Table 2 presents a summary of the department's total expenditures, by program.

Table 1
Department of Justice
Funding Source Summary
1984-85 through 1986-87
(dollars in thousands)

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Percent</i> <i>Change From</i> 1985-86
1. General Fund	\$107,200	\$125,759	\$138,463	10.1%
2. Attorney General's Anti-Trust Account (General Fund)	—	418	406	-2.8
3. Hazardous Waste Control Account	—	351	370	5.4
4. Fingerprint Fees Account	6,633	8,170	10,014	22.6
5. Special Account for Capital Outlay	—	—	9,449	100.0
6. Motor Vehicle Account (State Transportation Fund)	11,559	12,990	13,643	5.0
7. Hazardous Substance Account	—	453	476	5.1
8. Dealers Record of Sale Account	756	845	876	3.7
9. NARCO Fund Account	—	967	978	1.1
10. Gaming Registration Account	426	448	493	10.0
11. Reimbursements	24,558	26,171	29,450	12.5
13. Federal Trust Fund	5,584	6,964	7,547	8.4
Total Funding	\$156,716	\$183,536	\$212,165	15.6%

DEPARTMENT OF JUSTICE—Continued

funds. For 1986–87, the department proposes 15 additional attorneys, 3 legal analysts, and 12.6 clerical positions to meet projected workload increases. The total cost of these positions is \$1.8 million.

When the department provides services to state agencies supported by special funds, it records the time spent and bills the agencies for the service they receive. This is done to assure that the General Fund does not subsidize the special funds. Each special-fund-supported client agency must request money to pay for the cost of Attorney General services in its budget.

One way to evaluate the need for additional positions in the Civil Law Division, is to verify that the amount of legal services which the department claims it will provide to state agencies corresponds to the amounts of legal services which the various special-fund client agencies have budgeted for. In the past, there have been large discrepancies between these amounts.

Because of this, the Legislature has directed the Department of Finance to prepare annually a schedule reconciling the amount and cost of legal services which each state entity is budgeted to receive from the Attorney General, with the amount and cost of legal services which the Attorney General is budgeted to provide. In the *Supplemental Report of the 1982 Budget Act*, the Legislature directed the Department of Finance to prepare this reconciliation as part of its annual budget development process and to complete it prior to when the Governor's Budget is submitted.

At the time this analysis was prepared, the reconciliation had not been submitted to the Legislature. Pending receipt of this report, we withhold recommendation on the \$1.8 million requested for workload increases in the Civil Law Division.

Insufficient Evidence for Adding New Criminal Law Attorneys

We withhold recommendation on the request for \$3,405,000 from the General Fund and 59.5 new positions for the Criminal Law Division, pending receipt of traditional workload projections.

Background. At the request of the Attorney General, the Legislature augmented the 1985–86 budget for the Criminal Law Division by \$3,162,000 from the General Fund for 65.7 new positions (38.7 attorneys and 27 clerical positions). These positions were requested to handle increased workload in appeals and prison litigation cases. The Attorney General's office used a newly revised staffing formula to determine the specific number of new positions it needed.

Because the revised formula had not been documented, the Legislature approved the additional positions for one year only. It also included language in the *Supplemental Report of the 1985 Budget Act* directing the Department of Justice to conduct a study of the workload standards used to determine the need for attorney positions in the Criminal Law Division. The study was due to the Legislature by December 1, 1985.

Subsequently, the Governor vetoed 50 percent of the augmentation, leaving \$1,581,000 from the General Fund and 32.9 positions (19.4 attorney and 13.5 clerical positions) in the budget.

New Staffing Formula. On November 29, 1985, the Department of Justice submitted a report to the Legislature proposing new workload standards. These standards projected a need for 83.5 new attorney positions in 1986–87, including the 19.4 attorney positions that had been authorized for 1985–86 only.

Under the traditional formula relied on by the department, staffing needs were projected for workload involving appeals, writs, and trials using caseload projections and a productivity standard expressed as the number of cases that could be handled by one attorney. The new system uses a larger number of work categories, and projects workload for the new categories using the most recent data available on attorney hours worked, rather than caseload.

Based on the findings set forth in the report, the department requested 83.5 new attorney positions plus related clerical support in its 1986-87 budget submission. The Governor chose to request a smaller augmentation: 35 attorney positions plus 24.5 clerical support positions, at a cost of \$3,405,000 to the General Fund. The 35 attorney positions include 18 positions for appeals and writs, 4 positions for trials and investigations limited to 1986-87 only, and 13 positions for prison litigation cases. The Department of Finance advises that it did not use the new staffing formula proposed by the Department of Justice, but instead used a variation of the traditional staffing formula to arrive at the staffing levels proposed in the budget.

Problems With the Budget Proposal. Our analysis indicates that the new staffing formula proposed by the Department of Justice overstates workload and should not be used to project staffing needs without further revision. The department is aware that the formula needs further refinement, and it intends to modify the formula prior to submitting its budget requests for 1987-88.

At the time this analysis was prepared, the data upon which the proposed staffing augmentation was based was not available to us. Consequently, we are unable to recommend approval of the augmentation. We withhold recommendation on 59.5 new positions and \$3,405,000 requested from the General Fund pending receipt of the workload projections on which the budget request is based.

Pilot Project May Reduce Medi-Cal Fraud Workload

We withhold recommendation on 20 positions and \$1,200,000 budgeted for the San Diego office of the Medi-Cal Fraud program, pending receipt of additional information on the Expanded Choice Pilot Program in the Department of Health Services and its effect on Department of Justice workload.

The Bureau of Medi-Cal Fraud was established within the department in accordance with federal requirements that the department act as the state's criminal enforcement agent under the federal Medicaid program. The bureau is intended to prevent fraud and abuse in the expenditure of state and federal funds for health care. It receives federal funding assistance for 75 percent of eligible costs; the state is required to provide matching funds for the remaining 25 percent. The bureau currently is authorized 99 positions, including attorneys, investigators, and supporting staff. The budget proposes to continue the existing level of service, at a cost of \$6.1 million in 1986-87.

The budget for the Department of Health Services (Item 4260) includes funds for a new Medi-Cal pilot project in San Diego County that would allow beneficiaries to choose between two or more competing prepaid health plans. The state will contract with these health plans to provide or arrange for the Medi-Cal-covered health services needed by the beneficiary. These plans will provide services in lieu of fee-for-service providers.

DEPARTMENT OF JUSTICE—Continued

The Department of Health Services is proposing a reduction of one position and \$30,000 because implementation of the pilot project is expected to reduce the provider fraud caseload. Because the department refers all criminal provider fraud cases to the Department of Justice, a reduction in the number of cases referred should result in a reduced workload for the Department of Justice. The budget, however, does not reflect this reduction.

At the time this analysis was prepared, the Department of Justice advised us that it was not sufficiently familiar with the details of the budget proposal to reduce workload in the Department of Health Services, and was unable to estimate what impact the project would have on its own workload. Pending further information on criminal provider fraud cases in San Diego, we withhold recommendation on 20 positions and \$1,200,000 proposed for the Medi-Cal Fraud Bureau's San Diego Office.

Attorney General's Policy on Payment of Court-Awarded Attorney Fees

We recommend that prior to budget hearings, the Department of Justice report to the fiscal committees on the fiscal impact of its new policy relating to court-awarded attorney fees.

The Legislature has established a policy limiting the amount that the state will pay for court-awarded attorney fees authorized under the Code of Civil Procedure Section 1021.5. The Attorney General frequently represents the state in cases where an award of such fees is requested. We are concerned that the Attorney General's policy regarding these claims is contrary to the Legislature's policy and will result in higher state costs for attorney fees.

Legislative Policy. In the absence of statutory provisions to the contrary, the generally-accepted rule regarding the payment of attorney fees is that (1) attorney fees are not chargeable against the losing party to a lawsuit, and (2) the level of fees is established by mutual agreement between an attorney and client.

The Legislature has enacted a number of statutes which require the state to pay attorney fees to parties who prevail in lawsuits against the state, and which establish the level of such fees. Payment of attorney fee awards typically are paid out of a department's individual support appropriation or other special appropriations approved by the Legislature.

The Legislature, however, also has provided for special procedures governing the payment of attorney fees by the state pursuant to awards made under the provisions of Section 1021.5 of the Code of Civil Procedure. (Section 1021.5 provides that a court may award attorney fees to a successful party in any legal action which has brought about the enforcement of an important right and has resulted in a significant benefit to the public.) Since 1982, the Legislature has included in the annual Budget Act an appropriation of \$400,000 from the General Fund, special funds, and non-governmental cost funds to pay fees awarded under the provisions of 1021.5. Provisions of the budget limit payments from the appropriation to (1) a maximum hourly rate of \$90 and (2) a maximum of \$100,000 for any single action.

In approving the 1985 Budget Bill, the Legislature also expressed its intent to limit payment of attorney fees awarded by *federal* courts to a maximum hourly rate of \$90 and a maximum payment of \$100,000 for a single claim.

Attorney General's Policy. In August 1985, the Attorney General sent a memorandum to all attorneys in the office, establishing policies for attorney's fees awarded pursuant to the Code of Civil Procedure Section 1021.5, the federal Civil Rights Act and any similar statutes concerning federal attorney's fees. The memorandum contains 14 individual statements of policy specifying what the staff may or may not challenge in court regarding the number of hours and the hourly rate claimed by an attorney suing the state.

In one area, the policy set forth in the memorandum appears to be at odds with the policy approved by the Legislature. The memorandum states that in determining the hourly rate to be utilized in calculating an attorney's fee award, the office will use the criteria set forth in a federal case, *National Association of Concerned Veterans v. Secretary of Defense*. This case establishes guidelines for calculating fees that rely on the pertinent prevailing private practice market rates in the community. In numerous communities, these prevailing rates exceed the \$90 per hour limit set by the Legislature.

The Attorney General's memorandum further states that "in proceedings relating to the determination of an attorney's fee application, this office will not seek to limit the amount of an attorney's fee award based on restrictions on payment set forth in language in the annual Budget Act. In all cases, however, the office will advise the court and the parties of any such restrictions and their potential applicability *when payment of the award is sought*." In addition, the office will defend the constitutionality of appropriate limitations imposed by the Legislature on the attorney's fee judgment.

We believe the Attorney General's policy will result in a greater number of attorney fee awards exceeding the limits set forth in the Budget Act. This is because the Attorney General's staff no longer will attempt to limit awards to the Budget Act maximums during the trial.

For this reason, we recommend that prior to budget hearings, the Attorney General report to the fiscal committees on (1) the extent to which his policy regarding court-awarded attorney fees is consistent with the policy set forth in state law, and (2) the probable impact of his policy on the size of awards.

Funding Shift for Charitable Trust Unit

We recommend that prior to the budget hearings, the Department of Justice report to the fiscal committees on its plan for financing the Charitable Trust Unit from fee revenue. We further recommend that the Department of Finance report to the fiscal committees on how it intends to finance the Charitable Trust Unit if legislation authorizing new fees is not enacted by the Legislature.

The Charitable Trust Unit in the Attorney General's office is responsible for the supervision and enforcement of trusts created for charitable purposes. The unit contains the Registry of Charitable Trusts which registers and maintains current financial reports for over 43,000 charities operating in California.

Currently, this unit is financed from the General Fund. The budget proposes to begin financing the unit through fees charged to charitable trusts, for a General Fund savings of \$1.9 million in 1986-87. The budget indicates that legislation authorizing the department to charge these fees will be introduced.

The Department of Justice provided us with a draft of proposed legisla-

DEPARTMENT OF JUSTICE—Continued

tion requiring charitable trusts to pay fees. Under the proposal, the amount of the fees would be based on each trust's annual gross revenues. No fee would be charged if a trust's revenues were less than \$25,000. The fee would be (1) \$100, if a trust's revenues were between \$25,000 and \$100,000; (2) \$200, if revenues were between \$100,000 and \$1 million; and (3) \$300, if revenues were \$1 million or more.

The department estimates that this fee structure would produce \$3.6 million annually. This is \$1.7 million more than the \$1.9 million needed to fund the program at its current level. At the time this analysis was prepared the department had not provided us with specific information on how the excess funds would be used.

In our judgment, the proposal to charge fees to pay for regulatory activities appears to be consistent with existing state policy in other areas, such as the regulatory programs of the Department of Consumer Affairs. In addition, the proposal provides a benefit to the state by relieving the General Fund from the burden of financing the Charitable Trust Unit. For these reasons, we recommend approval of the concept of charging fees to support the program.

The budget proposal, however, would seem to depend on swift enactment of the needed authorizing legislation and prompt implementation of the fee program. If this does not occur, the department probably will request support from the General Fund in order to continue the existing program in 1986-87.

With this in mind, we recommend that prior to the budget hearings, the Department of Justice report to the fiscal committees on the status of its plan to finance the Charitable Trust Unit from fees. We further recommend that the Department of Finance report to the fiscal committees on how it intends to provided financing for the Charitable Trust Unit if legislation authorizing new fees is not enacted.

Local Assistance for Access to Automated Fingerprint System

We withhold recommendation on \$5,500,000 requested from the General Fund, Special Account for Capital Outlay, General Fund, to assist local law enforcement agencies purchase equipment needed to access the CAL-ID automated fingerprint system pending the receipt of additional information.

In the Budget Act of 1984, the Legislature authorized funding for the California Identification System (CAL-ID). This project provides for automating and combining the existing name index, fingerprint file, and latent data base into one automated system. The department anticipates that the system will be fully automated during calendar year 1987.

One component of the CAL-ID system that was not considered in initial estimates of project cost is the Remote Access Network (RAN). The RAN gives local law enforcement agencies direct access to the Department of Justice services. Last year the department indicated that \$20.6 million would be required to purchase the equipment needed by the local agencies to access the system.

The \$20.6 million would be used as follows:

- \$1.7 million would be for "Verification-Only Terminals" in the smaller counties. These terminals would allow an agency to retrieve fingerprint images from the state data base, but they would not allow an agency to input the data necessary for a latent print search.

- \$5 million would be used to purchase 27 "Local-Input Terminals" for the larger counties. These terminals would provide local agencies complete access to the state system, giving them the ability to make latent print searches.
- \$12 million would be used to purchase equipment for five "Full-Use Access Agencies" (FUAAs). This equipment would provide the same full access to the state data base as provided by the Local-Input Terminals. In addition, it would allow local agencies to create their own fingerprint files apart from the state system.
- \$1.9 million would be used to purchase miscellaneous other equipment.

Last year, the department sponsored legislation to appropriate \$15 million from the General Fund, and to subsidize local governments for 70 percent of their equipment cost. The Legislature enacted Chapter 1234, Statutes of 1985, which appropriated \$7 million from the General Fund for this purpose, with the funds to be available for expenditure through June 30, 1987. Chapter 1234 further directed the department to develop a master plan recommending the type, number, and location of equipment necessary to implement RAN and to make annual status reports beginning January 1, 1987. At the time this analysis was prepared, none of the \$7 million had been expended.

The budget requests \$5.5 million from the Special Account for Capital Outlay to expand the program begun by Chapter 1234. The department indicates that it will request another \$2.5 million in 1987-88 to fully fund the state's share of the program costs.

Our analysis indicates that it is not necessary for the state to spend \$15 million in order to implement the RAN program. The department's proposal would provide for the purchase of expensive equipment that is not needed to provide local agencies with full access to the CAL-ID. Rather than use state funds to subsidize the purchase of equipment for five FUAAs, the state funds could be used to help finance the purchase of Local-Input Terminals at a less cost. This approach would still provide all local agencies with full access to the state system.

We withhold recommendation on the \$5.5 million augmentation requested for the CAL-ID program in 1986-87, pending review of the data necessary to estimate the cost of funding Local-Input Terminals in place of the five FUAAs.

Eliminate General Fund Subsidy for Special Fund Programs

We recommend that the Legislature eliminate the General Fund subsidy for various special fund programs by (1) reducing the General Fund appropriation in Item 0820-001-001 by \$87,000, and (2) increasing various special fund and federal fund appropriations and reimbursements by the same amount.

The budget requests \$275,000 from the General Fund to meet increased workload and expand services in various programs that serve department-wide interests. The components of the increase include (1) staffing for personnel transactions (\$50,000), (2) staffing for workload in the accounting office (\$125,000), and (3) increased automated legal research services for the law libraries (\$100,000).

The budget proposes that these services be financed entirely from the General Fund, even though many of the programs that will benefit from these activities are financed from special funds, federal funds, and reimbursements. For instance, a portion of the staffing increase in the account-

DEPARTMENT OF JUSTICE—Continued

ing office is for workload related to the billing and collection of reimbursements for legal services from state special-fund agencies. Under these circumstances, established state policy calls for the other funding sources to share in the cost of services from which they benefit.

Accordingly, we recommend that the General Fund appropriation in Item 0820-001-001 be reduced by \$87,000 and that appropriations from various special funds and federal funds, as well as reimbursements, be increased by the same amount. If this recommendation is approved, there would be no reduction in budgeted programs or services.

Technical Recommendation

We recommend that the General Fund appropriation be reduced by \$101,000 (Item 0820-001-001) and that various other appropriations be reduced by \$23,000 to eliminate overbudgeting.

The department included \$248,000 in its proposed equipment schedule to provide computer workstation furniture for 150 new computer terminals being requested as part of the Integrated Office Systems project. The Governor's Budget proposes funding for only 75 new terminals in 1986-87, but the equipment schedule was not changed accordingly.

STATE CONTROLLER

Item 0840 from the General
Fund and various other funds

Budget p. LJE 64

Requested 1986-87	\$78,235,000
Estimated 1985-86	71,931,000
Actual 1984-85	60,573,000
Requested increase \$6,304,000 (+8.8 percent)	
Total recommended reduction	600,000
Recommendation pending	2,135,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001—State Controller, support	General	\$56,965,000
0840-001-041—State Controller, support	Aeronautics Account, State Transportation	274,000
0840-001-061—State Controller, support	Motor Vehicle Fuel Account, Transportation Tax	2,490,000
0840-001-739—State Controller, support	State School Building Aid	359,000
0840-001-890—State Controller, support	Federal Trust	(1,242,000)
0840-001-903—State Controller, support	Assessment	150,000
0840-001-942—State Controller, support	Bank of America Unclaimed Property Litigation Fund, Special Deposit	2,080,000
0840-001-988—State Controller, support	Retail Sales Tax	149,000
Reimbursements	—	15,768,000
Total		\$78,235,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
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|--|----|
| 1. <i>Oil and Gas Royalty Audits.</i> Recommend that 13.0 expiring limited-term positions be approved on a one-year limited-term basis only. | 66 |
| 2. <i>Unclaimed Property Program.</i> Withhold recommendation on \$2,080,000 from the Bank of America Litigation Fund and 11.5 positions pending receipt of additional information. | 68 |
| 3. <i>Estate Tax Collectors.</i> Withhold recommendation on \$55,000 (2.0 positions) requested from the General Fund for estate tax collection, pending receipt of information regarding the age of delinquent inheritance and gift tax accounts. | 70 |
| 4. <i>Teale Data Center Charges.</i> Recommend that, prior to budget hearings, the Department of Finance (a) reconcile the amount proposed in the Controller's budget for 1986-87 Teale Data Center (TDC) charges with the TDC estimate of its 1986-87 billings to the Controller, and (b) present its plan for funding any identified shortfall in the Controller's budget for TDC charges. | 70 |
| 5. <i>Office Automation. Reduce Item 0840-001-001 by \$600,000.</i> Recommend reduction to eliminate funds for office automation project because (a) no plan for expenditure of the funds has been presented and (b) the estimated costs and benefits of the project have not been revised. | 72 |

GENERAL PROGRAM STATEMENT

The State Controller is a constitutional officer whose 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 Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

The Controller has 1,268.9 authorized positions in the current year. In addition to these positions, the Controller has administratively established 38.1 positions during the current year, bringing the total number of positions to 1,307.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$62,467,000 from the General Fund and various special funds to support the Controller's office in 1986-87. This is an increase of \$4,641,000, or 8.0 percent, above current-year expenditures as estimated in the budget.

The Controller also expects to receive and spend \$15,768,000 in reimbursements and \$1,242,000 in federal funds during 1986-87, resulting in total budget-year expenditures of \$79,477,000. This is \$6,376,000, or 8.7 percent, more than estimated 1985-86 expenditures from all funding sources. Table 1 identifies the proposed level of expenditures and person-

STATE CONTROLLER—Continued

nel-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
1984-85 through 1986-87
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1985-86
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
Fiscal Control	888.4	998.5	1,029.3	\$46,158	\$56,497	\$61,881	9.5%
Tax Administration	78.6	66.4	68.7	3,966	3,215	3,289	2.3
Administration							
Distributed to Other Programs	(75.1)	(68.9)	(68.9)	(1,966)	(2,635)	(2,635)	—
Undistributed	250.1	176.8	170.5	11,026	13,389	14,307	6.9
Totals	1,217.1	1,241.7	1,268.5	\$61,150	\$73,101	\$79,477	8.7%
Funding Source							
General Fund	—	—	—	\$46,210	\$53,802	\$56,965	5.9%
Motor Vehicle Fuel Account, Transportation Tax Fund	—	—	—	2,069	2,493	2,490	—
Bank of America Unclaimed Property Litigation Fund	—	—	—	—	652	2,080	219.0
Federal Trust Fund	—	—	—	577	1,170	1,242	6.2
State School Building Aid Fund ..	—	—	—	322	344	359	4.4
Aeronautics Account, State Trans- portation Fund	—	—	—	240	258	274	6.2
Assessment Fund	—	—	—	121	128	150	17.2
Retail Sales Tax Fund	—	—	—	142	149	149	—
Olympic Reflectorized License Plate Account, State Trans- portation Fund	—	—	—	15	—	—	—
Reimbursements	—	—	—	11,454	14,105	15,768	11.8%

Table 2 identifies the significant changes in the Controller's budget proposed for 1986-87.

The budget proposes the establishment of 103 new positions in 1986-87. Of these, 64.6 currently are filled and are either limited-term positions scheduled to expire on June 30, 1986 or positions that were administratively established during the current year. The Controller requests that 57.5 of the 103 new positions be established on a limited-term basis; the remaining 45.5 are proposed to be permanent.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. At the time this analysis was prepared, no estimate of the amount of such costs that the Controller's office will have to absorb was available.

Table 2
State Controller's Office
Proposed 1986-87 Budget Changes
(dollars in thousands)

	General Fund	All Other Funds	Reimburse- ments	Total
1985-86 Expenditures (Revised)	\$53,802	\$5,194	\$14,105	\$73,101
Proposed changes:				
1. Fiscal Control				
a. Staff for reimbursable audit workload increase	—	—	741	741
b. Staff for property tax audits (Ch 564/85)	139	—	—	139
c. Data entry equipment replacement	277	—	—	277
d. Accounting staff increase	382	—	—	382
e. New personnel/payroll system (CAPPS) development	1,600	—	—	1,600
f. Full-year funding of unclaimed property pro- gram expansion	—	1,428	—	1,428
g. Staff for voluntary desegregation audits (Ch 180/85)	138	—	—	138
2. Tax Administration—Staff for estate tax collec- tion	55	—	—	55
3. Administration				
a. Full-year funding for office consolidation	348	—	—	348
b. Office automation	600	—	—	600
c. Full-year funding of state lottery workload....	—	—	230	230
d. Accounting equipment replacement	72	—	—	72
Baseline and Miscellaneous Adjustments	-448	122	692	366
Total, 1986-87 Expenditures (proposed)	\$56,965	\$6,744	\$15,768	\$79,477
Change from 1985-86:				
Amount	\$3,163	\$1,550	\$1,663	\$6,376
Percent	5.9%	29.8%	11.8%	8.7%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes proposed for 1986-87 which are not discussed elsewhere in this analysis:

- **Financial Accounting.** The budget proposes a General Fund increase of \$382,000 (eight positions) to handle additional workload in the Accounting Division. According to staff of the Controller's office, the additional positions will enable the office to (1) issue the State Controller's Annual Report on a more timely basis, and (2) meet statutory deadlines for making local government shared revenue apportionments.
- **Personnel/Payroll System Development.** The budget requests \$1.6 million from the General Fund for consulting services related to the continued development of a new state personnel/payroll data processing system, known as CAPPS.
- **Vision Plan Program (VPP).** The budget proposes an increase of \$195,000 in reimbursements and four positions for additional payroll and disbursement workload associated with the VPP, an employee benefit program available to all unrepresented employees (approximately 25,000), and all rank and file employees represented by the California State Employees Association (CSEA) (approximately 83,000). Costs for the VPP are recouped by a service charge on vision care providers.
- **State Lottery Act Responsibilities.** The budget proposes to increase reimbursements by \$1,810,000 and 30.0 positions for workload associated with (a) the disbursement of funds to Lottery winners,

STATE CONTROLLER—Continued

school districts and public higher education, and (b) quarterly and annual postaudits of the California State Lottery Commission's accounts and transactions.

- **Property Tax Apportionment Audits.** The budget proposes a \$139,000 General Fund increase and 3.0 positions to audit the apportionment and allocation of property tax revenues by counties, as required by Ch 564/84 (SB 418).
- **Women, Infants and Children (WIC) Food Program Audits.** The budget requests \$281,000 in reimbursements to re-establish 6.0 positions on a two-year limited-term basis for audits of vendors participating in the WIC food program administered by the Department of Health Services (DHS). The DHS contracts with the Controller for audits of more than 6,800 merchants participating in the program to determine if their prices and inventories are consistent with the vouchers submitted for redemption.
- **Welfare Third-Party Contracts Audits.** The budget proposes \$142,000 to re-establish 2.0 one-year limited-term positions to perform audits of contracts between the counties and proprietary service providers, as required by the Department of Social Services' Title XX Block Grant Plan.
- **Voluntary Desegregation Claims Field Audits.** The budget proposes a General Fund increase of \$138,000 and 3.0 positions to audit school districts' claims for reimbursement of voluntary desegregation costs incurred pursuant to Ch 180/85 (AB 38).
- **Departmental Accounting Automation.** The budget requests \$72,000 from the General Fund to replace an obsolete bookkeeping machine with an automated microcomputer system for the Controller's internal accounting functions.
- **Foster Care/Refugee Assistance Audits.** The budget proposes an increase of \$741,000 in reimbursements and 15.0 positions to perform audits of foster care rate setting programs and refugee assistance contracts administered by the Department of Social Services (DSS). The audits are to be performed under an Interagency Agreement with DSS, which has had the audit responsibility for these programs in the past.

Oil and Gas Royalty Audits Program

We recommend that 13 expiring limited-term positions requested for oil and gas royalty audits be approved on a one-year limited-term basis only so that the Legislature will have an opportunity to review the need for these positions in the 1987-88 budget.

The budget requests \$872,000 to reestablish on a permanent basis 13.0 expiring limited-term positions needed to conduct oil and gas royalty audits. The budget proposes to split the cost of the oil and gas audit program equally between the General Fund and the Federal Trust Fund.

Background. Under the terms of a 1982 agreement with the U.S. Department of Interior (DOI), the Controller is empowered to audit federal oil and gas royalties paid by companies with leases in California. California is entitled to 50 percent of these royalties under federal law. Pursuant to a February 1985 amendment to this agreement and the federal Minerals Act of 1982, the Controller is entitled to federal reimbursement for 100 percent of the *direct* costs incurred in conducting the royalty audits, and the state is entitled to receive 50 percent of all collections

resulting from the audits. Prior to February 1985, the Controller was entitled to federal reimbursement for only 50 percent of direct audit costs.

In approving funding for oil and gas royalty audits in the 1984 Budget Act, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* requiring the Controller to report on the increase in revenues due the state as a result of the audits. In its report, issued in November 1984, the Controller stated that between July 1, 1983, and August 30, 1984, the state had recovered \$1,565,000 as a result of audit findings. According to the report, another \$1.4 million in underpayments and accrued interest charges would be collected in the 1984-85 fiscal year. The report also stated that collections involving reporting errors identified by the audits should not be difficult. It anticipated that \$11.8 million in findings related to reporting errors and submission of payment from leaseholders to the DOI would be turned over to the DOI by June 30, 1985.

Audits Have Not Lived Up to Expectations. Through November 1985, the Controller had completed audits covering 38 of the 84 companies subject to audit (45 percent). According to the most recent information available from the Controller, these audits have identified \$10.7 million in payments due the state and DOI for the period 1977 through 1983. The state's share of these funds plus interest assessed by the federal government would amount to \$7.6 million—\$4.2 million less than the Controller indicated in its November 1984 report to the Legislature.

Furthermore, as of January 1, 1986, the state had actually received only \$1.7 million in audit recoveries and interest payments. This is \$1.2 million, or 41 percent, less than what the Controller expected to collect through June 30, 1985. According to staff in the Controller's office, audit findings involving an additional \$1.8 million have been issued to the DOI and the oil companies. The state's share of this amount would be \$900,000.

Information from the Controller's office indicates that \$1.4 million of the \$1.7 million collected to date was derived from a single audit. That audit, completed in 1983-84, identified royalty payments due the DOI which had been incorrectly counted as windfall profits tax payments by DOI. This is a fairly unique case, and probably is not typical of what future audits are likely to uncover.

In short, to date, the state has recovered only \$300,000 from first-time leaseholder audits initiated since July 1, 1982. During this same period of time, the Controller's office has spent approximately \$2 million on the oil and gas royalty audits program, of which over \$1.3 million has come from the General Fund (the remaining \$700,000 has been from federal reimbursements). Thus, while the audits have yielded a net revenue gain to the state, the results are hardly encouraging. Total costs of the audits, including the federal government's share, exceed recoveries. Moreover, General Fund costs would exceed General Fund revenues had it not been for the results of the special one-time audit mentioned above.

Federal Reimbursement Uncertain. Although the DOI agreed to fully reimburse all direct audit costs beginning in February 1985, the federal appropriation to DOI for audit activity under the 1982 Minerals Act is not sufficient to fund all participating states' audit programs. As a result, the Legislature, in the 1985 Budget Act, (1) split funding for the program evenly between the General Fund and the Federal Trust Fund, and (2) included language specifying that any federal funds exceeding 50 percent of program costs were to be used to reduce the General Fund participation in the program.

The budget proposes to continue this funding arrangement for 1986-87. It requests \$436,000 from the General Fund and an equivalent amount

STATE CONTROLLER—Continued

from the Federal Trust Fund. The Budget Bill also contains language providing that any federal funds in excess of \$436,000 received for the program are to be used to reduce the General Fund's participation.

At the time this analysis was prepared, staff of the Controller's office indicated that they expected to receive federal reimbursement for approximately 60 percent of their direct audit costs in 1985-86. Given the condition of the federal budget, the amount of federal reimbursement available in 1986-87 probably will not exceed the amount received in the current year, and in all likelihood will be significantly less.

Given (1) the fact that the oil and gas royalty audits to date appear to be only marginally productive, at best, and (2) the uncertainty regarding the continued availability of federal funding for these audits, it would be imprudent to *permanently* establish the 13 positions requested for oil and gas royalty audits. Accordingly, we recommend that the 13 positions be approved on a one-year limited-term basis.

Unclaimed Property Proposal

We withhold recommendation on \$2,080,000 requested from the Bank of America Litigation Fund for activity related to the location of owners of dormant Bank of America bank accounts. We recommend that, prior to budget hearings, the Controller report on (a) its plans for using the funds requested, (b) the total number of accounts that it expects to handle, and (c) the number of accounts with a value of \$50 or more.

The budget requests \$2,080,000 and 11.5 positions to fund the Controller's efforts to locate the owners of dormant Bank of America (BoA) accounts which were the subject of a lawsuit involving the Controller and the BoA.

Background. The Unclaimed Property Law requires the holders of abandoned property, such as unclaimed bank deposits, checks, securities, and the contents of safe deposit boxes, to turn that property over to the state after a seven-year dormancy period, if the holder is unable to locate the owner. The Controller's Division of Unclaimed Property (UCP) attempts to locate owners of such property by mailing notices to their last known addresses, by advertising in local newspapers, and by working with the Franchise Tax Board.

Bank of America Litigation. From 1959 to 1985 the BoA withheld service charges and discontinued applicable interest payments on dormant savings and checking accounts turned over to the state as escheated property. The Controller filed suit in 1981 contending that the bank was liable for interest payments on all accounts which had been subject to a service charge. In May of 1981, the superior court ruled that the BoA must pay over to the state a sum of money to distribute to persons who were not paid interest but instead were assessed service charges on their dormant bank accounts. On April 12, 1985, the superior court ordered the BoA to pay \$25.4 million into a special deposit fund, the BoA Litigation Fund (BALF), in partial settlement of its debt, and required the Controller to develop a plan for locating owners of the dormant accounts which were the subject of the suit.

In a subsequent settlement agreement, dated November 21, 1985, the court stipulated that funds in the BALF may be used only for the purposes of paying (a) the claims of dormant account owners, and (b) the Controller's costs of searching for the account owners. In addition, the Court

specified that the Controller's expenditure of BALF funds may not exceed \$3.4 million.

Current Efforts to Locate Unclaimed Property Owners. Existing provisions of the Unclaimed Property Law require the Controller to (a) mail a notice to the last known address of each owner of unclaimed property valued at \$25 or more, and (b) publish in a newspaper of general circulation the name and last known address (if available) of the owner of unclaimed property valued at \$50 or more. In addition to these statutorily required steps, the Controller also provides a computer tape listing of all accounts having social security numbers to the Franchise Tax Board (FTB) for possible matching with FTB's current address files.

Special Budget Provisions. The budget proposes to establish a special task force within the UCP dedicated to the location of owners of accounts covered by the BoA settlement. According to the Controller's staff, the 11.5 positions requested for this task force would be completely separate from the remaining UCP staff—most likely at a different site—because of the special nature of the location efforts and because the superior court requires that all funds related to the settlement be kept in a special account.

Extravagant Advertising Proposal. The budget requests \$1,575,000 for official advertising to publicize the BoA settlement. This amount would fund an advertising effort that far exceeds both what is required by statute and what is expended on other unclaimed property accounts. Furthermore, at the time this analysis was prepared, the Controller's office indicated that it was not certain exactly how it was going to use this advertising money, since the final order of the court had not been issued. Staff in the Controller's office indicate, however, that the information on individuals to be published will only be what existing law requires. The remainder of the advertising funds will be used for other types of media expenses, which may include some or all of the following:

1. Appearances by the Controller on selected radio and television news and talk shows to inform the public of the BoA settlement;
2. The hiring of a media consultant;
3. Thirty-second commercials to be aired around the 5:00 p.m. and 11:00 p.m. news in the state's major urban areas;
4. A toll-free number with four lines to assist owners in claiming their property; and
5. Tombstone and display announcements of the settlement to be placed in newspapers in each county and the Wall Street Journal.

To date, the Controller has provided no information to support either (a) establishing a separate unit for the administration of the BoA settlement accounts, or (b) the conduct of such an extensive advertising effort to locate the owners of dormant BoA accounts.

Lacking a specific proposal detailing the Controller's planned use of funds in the BALF, we have no analytical basis on which to make a recommendation to the Legislature regarding these funds. Accordingly, we withhold recommendation on the \$2,080,000 requested from the BoA Litigation Fund to the Controller, pending the receipt of information regarding (a) the total number of accounts to be handled, (b) the number of accounts valued at \$50 or more, and (c) a specific proposal outlining the types and cost of advertising to be conducted with the funds.

STATE CONTROLLER—Continued**Estate Tax Collectors**

We withhold recommendation on \$55,000 (2.0 positions) proposed from the General Fund for estate tax collection activities, pending receipt of information from the Controller's office regarding the age of delinquent inheritance and gift tax accounts receivable.

Proposition 6 on the June 1982 ballot abolished the state's Inheritance and Gift Tax (IGT) laws and established the new California Estate Tax. The Estate Tax is a "pickup" tax which simply transfers a portion of the federal government's estate tax revenues to California; it does not increase the taxpayer's total tax liability. The taxes become delinquent nine months following the date of an individual's death.

The budget requests \$55,000 from the General Fund for 2.0 positions to collect delinquent estate tax accounts receivable. These are accounts for which a final determination of the amount due has been made, and which have no legal issues or actions pending. As of November 1, 1985, there were 598 delinquent estate tax accounts receivable worth \$17.3 million.

Collection Accomplished by Redirection to Date. According to the Controller's office, one staff member has been redirected from IGT collection activity to estate tax collection activity in each of the past two years. In 1984-85, collection of \$12 million from 660 accounts could be attributed to this redirected position. The Controller's office anticipates similar results in the current fiscal year.

Staff of the Controller's office indicate that redirection of this position from IGT collection is no longer possible because it would jeopardize collection of \$120 million in delinquent accounts receivable from that tax.

Our analysis indicates that the amount which reasonably can be collected from delinquent IGT accounts receivable is substantially less than \$120 million. Many of these accounts have been carried on the Controller's books for several years, and might well have been in the hands of inheritance tax referees for a number of years prior to that. Thus, it appears to us that a large proportion of the delinquent IGT accounts receivable may actually be uncollectible.

Most businesses perform an "aging" of their delinquent accounts receivable as a means of determining which accounts are potentially collectible and which should be written off. The Controller's office indicates, however, that at present it has no automated means of sorting its delinquent IGT accounts by the date on which the tax liability became due or delinquent. Although it may be a difficult process for the Controller's office, conducting such an analysis would assist the Legislature in determining whether the staff increase requested by the Controller is warranted, or whether estate tax collection can continue to be funded through redirection of IGT collection personnel.

Accordingly, we withhold recommendation on the 2.0 positions and \$55,000 from the General Fund requested for estate tax collections, pending receipt from the Controller's office of an analysis of its delinquent IGT accounts receivable.

Controller's Teale Data Center Charges Not Fully Funded

We recommend that, prior to budget hearings, the Department of Finance (a) reconcile its estimate of 1986-87 charges to the Controller's office for Teale Data Center charges, and (b) present its plan for funding any identified shortfall in the Controller's budget.

The budget requests \$9,293,000 (\$8,266,000 from the General Fund and \$1,027 from reimbursements) for Teale Data Center (TDC) charges to be incurred by the Controller's office in 1986-87. This is \$1,549,000, or 20 percent, more than current-year TDC charges as estimated in the budget, and \$2.9 million, or 45 percent, more than actual 1984-85 charges.

These large increases notwithstanding, the TDC estimates that budget year charges to the Controller's office actually will be \$13,951,000. This is \$4,658,000, or 50 percent, more than the amount proposed in the budget. At the time this analysis was prepared it was not clear what the precise nature of the differences were between the TDC's estimate and the amount proposed in the budget. Nor was it clear whether (a) the administration intended to submit a Department of Finance budget change letter to fund this shortfall, or (b) the Controller would be expected to redirect funds from other programs to cover its budget-year TDC charges.

Because the apparent shortfall is so large, we recommend that, prior to budget hearings, the Department of Finance (a) reconcile its estimate of TDC budget-year charges for the Controller's office with that of the TDC, and (b) present its plans for funding any identified shortfall.

Office Consolidation

The budget proposes \$1,334,000 from the General Fund for the full-year costs of rental increases associated with the Controller's proposal to consolidate its operations in Sacramento.

Background. The Controller's office currently is housed in eleven locations in the downtown area containing 194,414 net square feet, at a rental cost of \$2 million annually. This includes approximately 10,000 net square feet of new office space which the Controller has occupied in the current year, at an annual cost of \$137,000, or \$1.14 per square foot per month. The average monthly rental on the Controller's existing space is approximately 85 cents per square foot.

Of the space currently occupied by the Controller, 58 percent is either state-owned or covered by leases extending through 1989/1991. The balance of the space is covered by short-term leases which probably can be extended.

Controller's Proposed Consolidation. In the current year, the Controller received a \$986,000 deficiency authorization from the Department of Finance in anticipation of a new five-year lease agreement providing 155,000 net square feet of office space. The Office of Space Management in the Department of General Services (DGS) estimated that this new space would carry an annual average rental rate of \$3,217,800, or \$1.73 per square foot per month. The proposed lease would (1) reduce the number of locations from eleven to three, (2) increase the amount of total office space occupied by the Controller from 194,414 to 225,877 net square feet (an increase of 16 percent), and (3) increase the annual rental cost by almost \$2.1 million, or 102 percent.

The \$986,000 authorized for current-year expenditure is intended to finance one month's rent at the higher rate (\$135,000), moving expenses (\$280,000), and the purchase of new furnishings and equipment (\$571,000). In late December 1985, however, the DGS rejected the sole bid received in the initial bidding process. Consequently, at the time this analysis was prepared, an executive order releasing the funds authorized for the current year had not been issued.

Need for Consolidation Asserted, Not Documented. Although the

STATE CONTROLLER—Continued

option of consolidating the Controller's operations merits legislative consideration, neither the Controller nor the Department of Finance has provided sufficient information to document the need for a consolidation effort of this scope. In its budget change proposal (BCP), the Controller notes that the numerous locations currently under lease tend to dilute managerial control, cause duplication of some functions, such as copy equipment and secretarial pools, and result in time delays necessitated by travel and communication between one location and another.

We do not quarrel with the notion that, all other things being equal, consolidation is preferable to the current dispersion of space. We do question, however, whether the benefits of consolidation outweigh the significant costs that would be incurred under the budget proposal. For example, it is not clear precisely what benefits would be derived—and at what cost those benefits would be realized—from consolidating the Controller's Local Government Fiscal Affairs and Personnel/Payroll Services divisions.

Consolidation Merits Legislative Consideration. In sum, the option of consolidating the Controller's Sacramento operations certainly warrants legislative consideration. We believe, however, that a consolidation of this magnitude and cost should proceed only after careful legislative review and approval. Specifically, in a consolidation of this size, we believe the Legislature must be provided with the information needed to intelligently (1) weigh the advantages of partial consolidation against the major costs associated with the proposal, (2) establish its priority for this consolidation relative to other proposed consolidations, such as those involving the Board of Equalization, the State Library and the Air Resources Board, and (3) determine the preferred financing scheme for the consolidation, such as long- or short-term lease, lease-purchase or capital outlay.

To date, neither the Controller nor the Department of Finance has presented such information.

We raised these same concerns in the current year with respect to the Controller's request for a deficiency authorization. Subsequently, the Joint Legislative Budget Committee has concurred in the proposed consolidation.

Office Automation

We recommend that Item 0840-001-001 be reduced by \$600,000 to eliminate funding for the Controller's office automation project because (a) no specific plan for the expenditure of the funds has been presented, and (b) the estimated costs and benefits of the project have not been revised to reflect the amount of funding requested.

The budget requests \$600,000 from the General Fund for the third year of an office automation project. This project originally was approved by the Office of Information Technology (OIT) within the Department of Finance in November 1984.

Background. The office automation project, as approved by OIT, was conceived as a three-year effort to install terminals, personal computers, word processing equipment and associated software, and to provide a communications network connecting the various equipment with the Teale Data Center. The Feasibility Study Report (FSR) approved by OIT called for personnel costs and first-year (1984-85) development costs to be funded through redirection. The FSR envisioned that the development

costs for the final two years of the project, 1985-86 and 1986-87, would be requested from the General Fund through budget change proposals (BCP).

The Legislature appropriated \$1,012,000 from the General Fund to the Controller in the 1985 Budget Act for development costs of the project in the second year. These funds were provided on the basis of the Controller's BCP which estimated that the cumulative benefits would exceed cumulative costs in the second-year of the project (1985-86).

Project Appears Off-Track. The costs and benefits of the automation project have been revised extensively since the original FSR was approved, and since the Legislature considered the project last year. For example, in April 1985, the Controller's office notified OIT that the project would cost \$395,000 more than had been anticipated in the FSR. The Department of Finance subsequently approved the redirection of \$325,000 (General Fund) previously budgeted for the Howard Hughes' inheritance tax case to partially fund the shortfall. In addition, the projected benefits for the first three years of the project (the implementation period) have been revised downward significantly.

Table 3 compares the estimated costs and benefits presented to the Legislature when funding was requested in 1985-86 with the most recent information available on the project.

Table 3
Comparison of Prior and Current Estimates
of the Costs and Benefits of the Controller's Office Automation Project
(dollars in thousands)

	<i>As Presented to Legislature Last Year</i>		<i>Most Recent Estimates</i>	
	<i>Costs</i>	<i>Benefits</i>	<i>Costs</i>	<i>Benefits</i>
1984-85	\$210	\$152	\$272	\$94
1985-86	1,312	2,129	1,668	1,224
1986-87	1,542	2,921	1,563	1,823
Ongoing	1,514	2,431	1,514	2,431

Current Year Funds Redirected Despite Shortfall. In addition to the cost increases noted above, staff in the Controller's office indicate that \$170,000 has been redirected away from the project in the current year. These funds have been used to establish a new Division of Technology Adaptation and Planning in the Controller's Office. The Controller's staff indicates that the new division is involved in *automation-related* activities. Nevertheless, a significant amount of the costs associated with the new division were not contemplated by the FSR.

According to staff in the Controller's office, the benefits to be derived from the project in 1986-87 and subsequent years, as shown in the table, are dependent on the "full funding" of the project in the budget year. The Controller's BCP for 1986-87 estimates that, due to higher-than-anticipated costs and slower-than-expected benefits, the cumulative benefits of the project will not exceed cumulative costs until 1987-88. Moreover, that BCP is predicated on the assumption that \$1,243,000 in additional General Fund money will be available in the budget year. The budget, however, requests only \$600,000.

No Plan for Use of Budget Year Funds. The Controller's BCP indicates that, of the \$600,000 requested, \$479,000 will be used for general expenses related to the project, and the remaining \$121,000 will be used

STATE CONTROLLER—Continued

for equipment purchases. At the time this analysis was prepared, the Controller's office had not prepared a more specific plan for use of the funds, nor had it revised its cost/benefit analysis for the project to reflect the reduced funding.

Given that (1) the costs and benefits of the project have changed extensively since the project was first presented to the Legislature, (2) the level of funding proposed in the Budget Act is less than half of what the Controller's office says is needed to secure the benefits from the project, and (3) there is no specific plan for the use of the requested funds, we have no basis for recommending approval of the funds requested in the budget. Therefore, we recommend that Item 0840-001-001 be reduced by \$600,000 to eliminate funding for the office automation project.

We acknowledge that a substantial amount has already been committed to this project. If the Controller's office is able to provide the Legislature with a revised estimate of costs and benefits and an expenditure plan covering all aspects of the project that are yet to be completed, we will reconsider this recommendation.

STATE CONTROLLER'S OFFICE—REVERSION

Item 0840-495 to the General
Fund

Budget p. LJE 65

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature (a) correct a technical drafting error in Item 0840-495, and (b) approve the proposed reversion in the amount of \$595,000, as of June 30, 1986.

The budget proposes that \$595,000 appropriated to the Controller by Item 0840-001-001 in the 1984 Budget Act be reverted to the General Fund as of June 30, 1985. The \$595,000 is part of a \$1.7 million appropriation originally provided for anticipated litigation costs associated with the Howard Hughes inheritance tax case, which subsequently was settled out of court.

The Department of Finance has indicated that the reference to June 30, 1985, is the result of a drafting error, and that the intended date of the reversion is June 30, 1986.

We recommend that the Legislature correct this technical drafting error, and approve the proposed reversion in the amount of \$595,000, as of June 30, 1986.

STATE BOARD OF EQUALIZATION

Item 0860 from the General

Fund and various funds

Budget p. LJE 79

Requested 1986-87	\$142,551,000
Estimated 1985-86.....	129,942,000
Actual 1984-85	117,221,000
Requested increase \$12,609,000 (+9.7 percent)	
Total recommended reduction	598,000
Recommendation pending	178,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0860-001-001—Support	General	\$95,734,000
0860-001-022—Support	State Emergency Telephone Number Special Account, General	154,000
0860-001-036—Support	Special Account for Capital Outlay	3,400,000
0860-001-061—Support	Motor Vehicle Fuel Account, Transportation Tax	4,597,000
0860-001-064—Support	Motor Vehicle License Fee Account, Transportation Tax	1,408,000
0860-001-415—Support	Universal Telephone Service	173,000
0860-001-465—Support	Energy Resources Programs Account, General	76,000
0860-001-965—Support	Timber Tax	2,123,000
Reimbursements	—	34,886,000
Total		\$142,551,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Update of Property Tax Cost Manuals. Augment Item 0860-001-001 by \$11,000.* Recommend that state employees, rather than a private consultant, update assessor's cost manuals, in order to minimize cost. 79
2. *Mail Order Legislation Lobbying Contract. Reduce Item 0860-001-001 by \$56,000.* Recommend deletion because the proposed expenditures are not justified. 86
3. *Information Processing Equipment. Reduce Item 0860-001-036 by \$621,000, and augment Item 0860-001-001 by \$187,000.* Recommend net reduction of \$434,000 because the procurement of information processing equipment is premature. Further recommend that the board report to the Legislature on information processing plan. 87
4. *Mail Processing Equipment. Reduce Item 0860-001-001 by \$107,000 and 2 personnel-years.* Recommend reduction to fully reflect the benefits of using the new equipment. 90
5. *Cigarette Tax Program.* Withhold recommendation on \$178,000 requested for additional stamps, pending data on current-year expenditures. 91

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 92 percent of the board's staff is devoted to the administration of the state and local sales tax and several other business taxes. Activities involved in the administration of these taxes include 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 8 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 transactions and use tax for six 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 program, (4) a pair of taxes on the generators of hazardous substances, and (5) a tax on suppliers of telephone services, which provides funding for the Universal Telephone Service program.

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. Finally, 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, it holds hearings to review local assessments of property owned by a city or county when these assessments are contested.

The board has 2,880.9 authorized positions in the current year.

Revenues Administered by the Board

Table 1 shows estimated state and local revenue collections under programs administered by the board. Total revenues from these programs in 1986-87 are estimated at \$17.1 billion, which is an increase of 7.2 percent above the estimated current-year level.

Table 1
State and Local Revenues
Collected by the Board of Equalization
1984-85 through 1986-87
(dollars in millions)^a

	<i>Actual</i> 1984-85	<i>Estimated</i> 1985-86	<i>Projected</i> 1986-87	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State sales and use tax.....	\$9,667	\$10,275	\$11,095	\$820	8.0%
Local sales and use tax	2,330	3,236	3,536	300	9.3
Alcoholic beverage tax	136	139	142	3	2.2
State cigarette tax.....	185	175	175	— ^b	—
Local cigarette tax	79	75	75	— ^b	—
Motor vehicle fuel tax (gasoline)	1,028	1,037	1,043	6	0.6
Use fuel tax (diesel).....	131	132	139	7	5.3
Energy resources surcharge.....	34	36	38	2	5.6
Emergency telephone users surcharge.....	36	32	35	3	9.4
Hazardous substance taxes	23	29	40	11	37.9
Insurance tax	643	680	714	34	5.0
Timber yield tax	13	13	13	— ^b	—
Private railroad car tax	3	5	5	— ^b	—
Universal telephone service.....	69	80	40	-40	-50.0
Totals	\$14,377	\$15,944	\$17,090	\$1,146	7.2%

^a Sources: Department of Finance and Board of Equalization.

^b Change of less than \$500,000.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of \$107,665,000 from various funds to support the State Board of Equalization in 1986-87. This is an increase of \$12,021,000, or 12.6 percent, above estimated current-year expenditures.

Total expenditures, including expenditures financed through reimbursements, are proposed at \$142,551,000. This is an increase of \$12,609,000, or 9.7 percent, above estimated current-year expenditures.

The budget requests a total of 2,947.4 authorized *positions* in 1986-87, an increase of 2.4 percent over the number *authorized* in the current year. The budget proposes a total of 2,857.7 *personnel-years* in 1986-87, an increase of 3 percent above the number authorized in the current year (personnel-years equal authorized positions minus salary savings.)

The budget does not include sufficient additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately \$2,279,000 in such costs.

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.

STATE BOARD OF EQUALIZATION—Continued

Table 2
Board of Equalization Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1985-86
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
County Assessment Standards.....	89.3	86.3	85.8	\$4,589	\$4,855	\$5,251	8.2%
State Assessed Property	88.1	87.5	87.5	4,230	4,520	4,834	6.9
Timber Tax.....	36.3	37.8	37.0	1,814	2,030	2,123	4.6
Sales and Use Tax.....	2,356.3	2,366.6	2,458.0	97,592	108,084	119,435	10.5
Hazardous Substance Tax.....	9.6	33.8	27.7	290	1,400	1,095	-21.8
Alcoholic Beverage Tax	25.6	25.6	25.6	894	984	1,053	7.0
Cigarette Tax.....	11.7	11.6	11.6	1,712	1,903	2,168	13.9
Motor Vehicle Fuel License Tax ..	12.2	12.1	11.4	598	638	652	2.2
Use Fuel Tax	85.6	84.8	83.8	3,498	3,752	3,945	5.1
Energy Resources Surcharge.....	1.6	1.6	1.6	70	73	76	4.1
Emergency Telephone Users Sur- charge	2.3	2.5	3.4	89	96	154	60.4
Insurance Tax	1.8	1.8	1.8	89	95	102	7.4
Universal Telephone Service Tax..	1.7	1.8	2.7	72	105	173	64.8
Appeals from other Governmental Programs.....	25.8	19.8	19.8	1,281	1,186	1,269	7.0
Administration (undistributed)	3.5	—	—	403	221	221	—
Totals	2,751.6	2,773.6	2,857.7	\$117,221	\$129,942	\$142,551	9.7%
Funding Source							
General Fund.....				\$79,489	\$87,598	\$95,734	9.3%
State Emergency Telephone Number Special Account.....				89	96	154	60.4
Special Account for Capital Outlay				—	—	3,400	100.0
Motor Vehicle Fuel Account				4,096	4,390	4,597	4.7
Motor Vehicle License Fee Account.....				1,256	1,352	1,408	4.1
Universal Telephone Service Fund				72	105	173	64.8
Energy Resources Programs Account				70	73	76	4.1
Timber Tax Fund				1,814	2,030	2,123	4.6
Reimbursements				-30,335	-34,298	-34,886	1.7

Table 3 summarizes all of the proposed changes in the board's budget for 1986-87.

Table 3
Board of Equalization
Proposed 1986-87 Budget Changes
(dollars in thousands)

	Changes	Totals
1985-86 Expenditures (Revised)		\$95,644
A. Baseline Adjustments:		
1. Changes to Maintain Current Programs:		
a. Salary increase	\$5,498	
b. Staff benefits	280	
c. Pro rata assessments	37	
d. Rate increases related to fixed costs.....	1,465	
e. Increased reimbursements	-588	
f. Department of Motor Vehicles workload growth	371	
Subtotal, funded base adjustments	\$7,063	

2. Redirections Required to Accommodate Underfunding of Mandatory Workloads:	
a. Merit salary adjustments	\$2,023
b. Operating Expenses and Equipment	256
c. Sales tax registration workload growth	519
Subtotal, unfunded base adjustments	\$2,798
Total, baseline adjustments	\$9,861
B. Limited-term activities:	
1. One-time costs reflected in 1985-86 base	-\$1,328
2. Department of Personnel Administration funding adjustment	-40
3. Fair Labor Standards Act cost adjustment	-81
Total, limited-term activities	-\$1,449
C. Budget Change Proposals:	
1. Reduction in audit staff necessary to fund redirections	-\$2,798
2. Funding for additional auditors	4,703
3. Contract for mail order lobbying	56
4. Automation related to return processing	616
5. Computer Assisted Retrieval system	360
6. Call management system	223
7. Word Processing for audit section	65
8. Additional cigarette stamp funding	178
9. Contract for cost manual update	100
10. Telephone tax audits	106
Total, program changes	\$3,609
1986-87 Expenditures (proposed)	\$107,665
Change from 1985-86:	
Amount	\$12,021
Percent	12.6%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program change, not discussed elsewhere in this analysis:

- **Telephone Tax Audits.** The budget proposes an appropriation of \$106,000 from the General Fund, and 2.0 positions, to accommodate additional audit workload associated with the taxes on telephone suppliers.

COUNTY ASSESSMENT STANDARDS

Contract for Cost Manual Updates Unlikely to Produce Savings

We recommend that Item 0860-001-001 be augmented by \$11,000, and that \$100,000 requested for consulting fees instead be used to support two limited-term positions, because it would be less costly for the board to update the property tax cost manuals using its own staff.

The board works with the county assessors to ensure that taxable real property (that is, land and buildings) is uniformly assessed throughout the state. To that end, the board publishes "cost manuals," in which the current costs of construction for various types of property are listed. The costs listed in these manuals become the basis for the assessment of property by county assessors statewide.

In the past, the board has not been able to commit sufficient resources to this program to ensure that the costs for certain types of commercial property reflect current market conditions. County assessors, recognizing the obsolescence of the manuals, have made their own adjustments to the costs listed in the manuals to bring them in line with current market conditions. Because the assessor's adjustment practices vary, the state can no longer ensure that property, particularly commercial property, is assessed uniformly.

STATE BOARD OF EQUALIZATION—Continued

The obsolete manuals also affect state and local revenues. According to the board, the assessors tend to make conservative adjustments to the cost manuals, and this results in *undervalued* property. Consequently, local property tax revenues were an estimated \$2 million lower than they should have been in 1985–86. Because General Fund costs for school apportionments vary inversely with the level of local property tax revenues, the state's costs were an estimated \$800,000 *higher* than they would have been if the correct adjustments had been available to the assessors.

The budget proposes an appropriation of \$100,000 to pay a consultant to update the cost manuals. The board's estimate of what the contract will cost is based on a study of how much it would cost to update the manuals *in-house*. That study indicates that the complete update would cost \$111,000, and would require two full-time journeymen appraisers.

The board has presented no evidence that a private consultant can perform the comprehensive update of the manuals for the lower amount. In fact, board staff indicate that the \$100,000 requested for the proposed contract may only be sufficient to pay for the *collection of data* necessary for the update. This would mean that the board would need additional funds for further research, documentation and other production costs. In that event, the total cost of the project would exceed \$111,000 and it would be less costly for board staff to do the work itself.

On this basis, we recommend that the Legislature delete the \$100,000 proposed for the consulting contract and appropriate \$111,000 for two additional state employees to carry out the project.

SALES AND USE TAX PROGRAM

The budget proposes expenditures of \$119.4 million for administering the sales and use tax program, which includes registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. This is \$11.4 million, or 10.5 percent, more than estimated current-year expenditures. These expenditures represent 84 percent of the board's proposed budget, and 86 percent of its personnel-years. Within this program, the 4.75 percent state sales and use tax, the 1.25 percent local sales and use and the 0.5 percent sales and use tax for local transit and transportation districts are collected and monitored.

Budget Math: Two Plus Two Equals Five

The budget does not contain sufficient funds to fully cover the higher costs that the board will incur during 1986–87. Instead, it suggests that the board will "absorb" these higher costs. This, however, will prevent the board from doing some of the things that the budget claims the board will do in 1986–87. Consequently, the program described in the budget cannot be achieved given the funding proposed for the board.

The underfunding shows up in the following three areas:

Mandatory Registration Workload Growth. The number of new business accounts processed by the board has been increasing steadily for the last several years. Data through December 1985 suggests that during the current year, this workload will grow at a rate of between 5 percent and 8 percent. Using the bottom of this range for both the current and budget years, we estimate that an additional 11,200 accounts will have to be registered during the 1986–87 fiscal year.

The budget for 1986–87 requests no funds to accommodate this growth in workload. In past years, the budget has consistently provided adequate funding for this workload growth. Because this registration activity is

mandatory, the board will have to redirect resources away from its *discretionary* activities (such as audits and collections) in order to accommodate the additional workload. The board indicates that these activities will have to give up 22.5 personnel-years in the budget year.

Operating Expense and Equipment (OE&E) Price Increases. The budget does not directly fund the estimated \$1.7 million in price increases associated with the board's OE&E. This reflects the administration's policy requiring agencies to "absorb" these costs.

The budget does, however, provide \$1.4 million in "special funding considerations" for rate increases related to fixed costs. This is simply an inflation adjustment with a different name. It will cover most (but not all) price increases associated with rent, travel/per diem, membership fees, and communication costs.

After accounting for these special funding considerations, we estimate that the board's OE&E base will be underfunded in the budget year by \$256,000. To the extent that the board is unable to achieve these savings by delaying purchases or other cost control measures, it would be required to redirect up to 8.6 personnel-years away from other discretionary activities.

Merit Salary Adjustments (MSAs). The board's budget contains no funding for the \$1.9 million in Merit Salary Adjustments it will provide to its employees in the budget year. This will make it necessary for the board to redirect 48.8 personnel-years away from discretionary activities.

In sum, because the budget fails to provide adequate funding for these uncontrollable expenses, the board will have to cut up to 79.9 personnel-years from discretionary programs such as audits and collections. This, in turn, will reduce General Fund revenues. The budget, however, gives no recognition to these consequences.

Sales Tax Audit Selection Program

Prior to 1983-84, the board selected accounts for audits based on the likelihood that the audit would be productive. The board, however, did not attempt to prioritize the accounts so that the most productive accounts, in terms of the *amounts* likely to be recovered, would be selected first. As a result, there was no guarantee that the accounts which were selected for audit had the highest expected return to the state.

Recognizing the inefficiency of this selection procedure, the Legislature has sought to preclude its use. It has adopted language in each of the last five years directing the board to select audits solely on the basis of the audit's expected net deficiency (amount of additional tax assessments). This directive requires the board to rank accounts by their expected net deficiency based on historical data, and then select for audit those accounts for which the expected net deficiency per dollar of cost is greatest. When properly applied, this audit selection procedure:

- Maximizes the productivity of *existing staff*, by ensuring that staff is directed toward those accounts with the highest return to the state; and
- Provides a measure of the likely effect of *additional auditors*, based on the results of audits performed on the "last" group of accounts selected for audit.

In 1981-82, the board adopted procedures designed to bring its selection process into conformity with the Legislature's directive. Briefly, the board divides all accounts eligible for audit into 16 *cells*. Accounts placed in cells one through five are accounts most likely to generate the highest net deficiency, and the board audits all of these accounts on a three-year cycle. Accounts placed in cell 16 are used for audit training purposes. Each of the

STATE BOARD OF EQUALIZATION—Continued

board's 17 audit districts is then given a quota of accounts within each cell to audit, and the principal auditor in each district selects the actual accounts to be audited.

Beginning in 1983–84, the district principal auditors were required to review each account selected for audit within each cell, and, according to their perception of its expected net deficiency, place it into one of five *recovery groups*, labeled A through E. Those accounts placed in the E group are accounts with the lowest expected net deficiency and represent audits which would not be performed at lower staffing levels. The audits performed in the E group, because they are the last accounts to be audited, are considered the “incremental,” or “marginal,” audits.

Estimates of the Marginal Net Deficiency. Our analysis of the data from 1983–84 audits (the only data available that is statistically significant) indicates that, generally speaking, the board's auditors have some ability to select, within each cell, the most productive accounts for audit from the accounts which are eligible for audit. Moreover, the data provides a basis for estimating the net deficiency resulting from audits at the margin. Using the data, the board estimated that, on an hourly basis, an additional audit will generate \$115.50 in net deficiencies. Since estimated costs were \$43.68 per hour, the cost-benefit ratio for additional auditors was found to be 2.6 to 1. This estimate is based on the *average* net deficiency for *all* accounts placed in the E recovery group.

Our review of the data indicates that the board's estimate is too high. This is because it has included data from cells one through five in its calculation. These are the cells with the highest expected net deficiency. Additional audit resources would not be used to perform audits of accounts within these cells because *all* eligible accounts in these cells are *currently* being audited. Accounting for these differences, we estimate that the net deficiency of the marginal accounts amounts is \$86.16 per hour, and the cost is \$19.73 per hour, yielding a 4.4 to 1 benefit-cost ratio.

The use of the available data is likely to *understate* the estimated value of the marginal audit for two reasons:

1. The data measures the *1983–84 tax value* of audited accounts. Because the value of sales tax accounts generally will have risen between 1983–84 and 1985–86, the value of audited accounts is likely to be higher. On the other hand, the cost of these audits will also be higher, due to cost-of-living adjustments provided to state employees.

2. The data reflects the *use of audit resources in 1983–84*. Because the audit staff will be more experienced with the selection procedures in 1986–87, we expect that it will be better able to select the most productive accounts, and accordingly, that the likely marginal value of an audited account will exceed the value indicated by our estimates.

We have no analytical or statistical basis, however, for adjusting the estimate to compensate for this downward bias. While the estimate does appear conservative, it does provide a reasonable basis to conclude that additional auditors will produce revenues in excess of their cost.

Budget Math: Two Plus Two Equals Three

The budget proposes an appropriation of \$4.7 million for 129 auditors to “enhance revenue collections.” The Department of Finance estimates that these auditors will yield \$30 million in additional General Fund revenues during 1986–87. The board's budget presentation indicates that the revenue gain will be \$24 million.

Our analysis indicates that the effect of these auditors on General Fund revenues will be *significantly less* than the amount reflected in the budget,

for two reasons. First, most of the "new" auditors are not really new; they will simply replace resources diverted away from the audit program. As we noted above, the board will be required to redirect 79.9 existing personnel-years from discretionary activities, such as auditing, because the budget has been shortchanged. For this reason, we estimate that only 49.1 of the 129 "new" auditors (38 percent) will be available for *additional* audits.

Second, while an additional auditor is likely to produce \$86.16 in additional net deficiencies per hour, not all of the identified deficiencies are likely to be collected. Using historical data, we find that the state ultimately collects about 89 percent of all identified net deficiencies. Of this amount, about 92 percent is collected in the year in which the deficiency is identified.

According to the board, 49.1 new (as opposed to "new") auditors will provide 78,560 additional audit hours. We estimate that these additional auditors will generate approximately \$6 million in revenues.

While our analysis indicates that the revenue effect of the funded level of audit resources will be significantly *lower* than that proposed in the budget, we recommend approval for the following reasons:

- Audit staff has been reduced through redirection in each of the last five years (from 753 in 1981-82 to 715 in the current year). This represents a 5 percent reduction in audit staff, despite increasing workload and the increasing value of audited accounts.
- Additional staff will increase the number of accounts audited, thereby increasing the level of field audit "presence." As discussed in the Little Hoover Commission's report on the underground economy, an increase in field presence may improve the level of voluntary compliance.
- The net revenue effect of the additional auditors will exceed the cost.

Report on Collections Program Inadequate

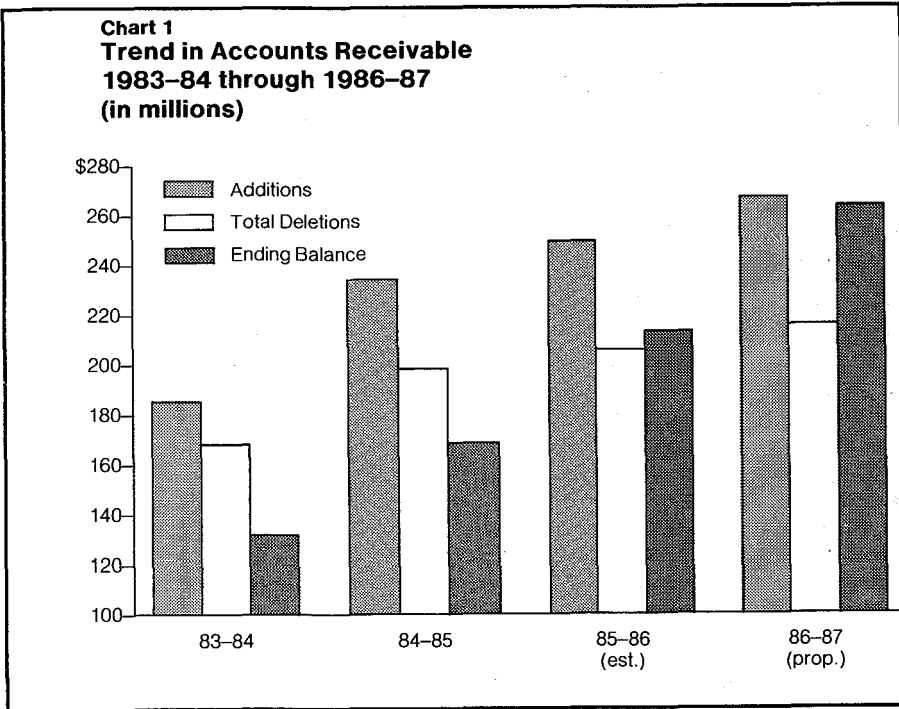
Language contained in the *Supplemental Report of the 1985 Budget Act* directed the board to report to the Joint Legislative Budget Committee and the fiscal committees on the potential for implementing a program to improve the productivity of collection activities. This report is intended to address the increasing number of accounts receivable.

Inventory of Accounts Receivable Continues Upward Trend. As displayed in Table 4, the inventory of accounts receivable is projected to grow from 34,401 accounts at the beginning of the 1981-82 fiscal year to 49,359 accounts at the end of the current fiscal year. This represents a 43 percent growth rate. The inventory has grown because the number of new accounts receivable has increased faster than both the number of existing accounts paid off by taxpayers, and the number of accounts which have been written off as uncollectible by the state. In addition, over the same period, the average *dollar value* of the accounts in inventory has grown from \$2.2 million to \$3.4 million. Thus, not only has the number of accounts increased during this period; the total tax revenue represented by the inventory has grown from \$77.2 million to \$167.7 million—an increase of 117 percent.

The board expects that the number of additions will rise by about 7 percent over the next two years. At the same time, neither the 1985-86 budget nor the 1986-87 budget has provided additional personnel to accommodate the increasing workload. As a result, the board expects the inventory to grow to \$264 million by the end of the budget year, with the

STATE BOARD OF EQUALIZATION—Continued

average value of these accounts climbing to \$4.6 million. Chart 1 displays the trends in additions to, deletions from, and ending balances of accounts receivable for 1983–84 through the budget year.



Implications of the Growing Inventory. As we have noted in past *Analyses*, the growing inventory of accounts receivable has two important fiscal implications. First, it further delays the Legislature's timely use of the tax revenues that ultimately are collected, thereby increasing the state's short-term borrowing needs. Second, the growing inventory makes it more unlikely that some of these accounts will ever be collected, thereby reducing tax revenues. For example, the board knows that in the case of certain types of retailers, the state generally has less than 24 hours from the time the account becomes delinquent to act before the account becomes uncollectible. In 1985–86, an estimated \$14.3 million in delinquent accounts will be written-off as uncollectible.

Management of the Inventory. It is important for the board to select the most productive accounts in the inventory for collections activity. The available data, however, suggests that the productivity of the staff committed to clearing accounts receivable has declined over time. This may be the result of an increase in the complexity of the cases handled, management deficiencies, or a variety of other factors. Whatever the reason, the data lead us to conclude that the problem is getting worse, and the board's ability to deal with it is deteriorating rather than improving.

Table 4
Board of Equalization
Sales Tax Compliance Program
Delinquent Tax Collections
1981-82 through 1986-87
(dollars in millions)

	<i>Actual</i> 1981-82	<i>Actual</i> 1982-83	<i>Actual</i> 1983-84	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87
Beginning Inventory						
Revenues	\$77,211	\$97,198	\$117,173	\$132,142	\$167,682	\$211,987
Accounts	34,401	41,612	45,400	48,483	49,359	52,415
Average value	\$2.24	\$2.34	\$2.58	\$2.73	\$3.40	\$4.04
Additions:						
Revenues	\$173,054	\$166,062	\$183,119	\$234,286	\$250,474	\$267,781
Accounts	114,736	118,014	113,983	121,085	123,265	125,483
Deletions:						
Accounts Paid						
Revenues	-\$143,973	-\$135,029	-\$162,085	-\$184,440	-\$191,863	-\$201,474
Accounts	-104,109	-108,443	-109,351	-117,204	-117,204	-117,204
Account Write-offs						
Revenues	-\$9,094	-\$11,058	-\$6,066	-\$14,306	-\$14,306	-\$14,306
Accounts	-3,416	-5,783	-1,549	-3,005	-3,005	-3,005
Ending Inventory						
Revenues	\$97,198	\$117,173	\$132,141	\$167,682	\$211,987	\$263,988
Accounts	41,612	45,400	48,483	49,359	52,415	57,689

Source: Board of Equalization

Report Deficient. Because the board's ability to manage a growing number of accounts receivable has a direct impact on sales tax revenues, the Legislature directed the board to study alternatives for improving the management of this inventory. The report was to address the potential for automating the process and for improving the process through which accounts are selected for staff attention.

In December 1985, the board presented its report to the Legislature. Our review finds the report deficient in three respects.

1. **The discussion of automation is vague.** The report mentions recent automation projects, but does not assess the effectiveness of these projects. In discussing future applications, the report does not provide sufficient information regarding (1) hardware and software requirements, (2) required lead times for implementation, and (3) appropriate measures of expected benefits. The board staff was unable to supply this information at the time we prepared this analysis. Without such information, we are unable to evaluate the utility of current or potential automation applications.

2. **The potential for improving account selection is not evaluated.** The report states that a system could be developed which would improve the selection of accounts for collection activity. Such a system would collect data pertinent to the accounts receivable inventory and identify accounts with the greatest expected net recovery. However, board staff assert that such a system would not be cost-effective relative to the current selection process. No evidence has been supplied to support this assertion. Pending such evidence, we cannot assess the potential for improving the performance of the board's collections staff. As a result, we are unable to

STATE BOARD OF EQUALIZATION—Continued

determine the potential effects of automation on collections staffing requirements.

3. *The report does not address other opportunities for improving productivity.* According to board staff, the most critical factor in improved collections would be a rewrite of the board's mainframe computer program for accounts receivable. However, no information is provided as to the specific improvements which would stem from this rewrite. The report concludes by saying that "to achieve maximum benefit from automation efforts, we must consider collections as an element of the entire [compliance] system." Again, the report fails to offer any examples of improvements which could be made through an integrated approach to the problem.

Dubious Benefits From Lobbying for Mail Order Legislation

We recommend that Item 0860-001-001 be reduced by \$56,000 because the proposed expenditures are not justified.

State law imposes either the sales or use tax on the final transfer of personal property. Sellers operating in California are liable for the state sales tax. In contrast, buyers are liable for the use tax on property purchased from an out-of-state seller, if the property is consumed in-state. The rate for both taxes is the same. The distinction regarding liability exists because federal court decisions have prohibited the state from taxing retailers who do not have a "taxable business presence" (such as a branch office or sales staff) in the state. The U.S. Supreme Court has specifically ruled that a state may not "impose the duty of use tax collection and payment upon a seller whose only connection with customers in the State is by common carrier or the United States mail." (*National Bellas Hess v. Illinois Department of Revenue*, 1967) As a consequence, the state cannot require a retailer who *merely solicits* in the state (through advertisements, for instance) to collect the California use tax.

Existing state law requires that the tax on goods purchased from an out-of-state retailer be paid by the consumer directly to the Board of Equalization. In practice, however, it is next to impossible to collect this tax from consumers because it is difficult to identify when sales take place and it is inordinately expensive to assess and collect the tax from individuals. Very few consumers voluntarily pay the tax to the board.

The board estimates that in calendar year 1984, the state and local governments experienced a revenue loss of \$120 million due to unpaid use taxes on mail-order purchases.

Pending state and federal legislation (AB 1544 and HR 3459) would attempt to reverse, or limit, the federal court decision, by broadening the definition of a taxable business presence. The Legislature has passed a resolution (AJR 17) requesting Congress to enact legislation allowing the state to require mail-order houses to collect the use tax. Because the court's decision was based on the provisions of the Commerce Clause in the U.S. Constitution, however, the constitutionality of these measures as they apply to mail-order houses is open to serious question.

Proposed Contract. The budget requests \$50,000 to continue a contract initiated in the current year with the state's Washington, D.C.-based lobbyist, and \$6,000 for travel by board officials to testify at hearings on HR 3549. According to the board, a well-coordinated and intensive effort is necessary to persuade Congress to enact the measure, and the direct

involvement of this state is an integral part of that effort. The board also indicates that it is attempting to generate active support for the measure on the part of California's local governments and other interested organizations. Several national tax organizations, to which the board belongs and pays membership fees, also are lobbying for similar legislation on the national level.

We tend to agree that the logic of the Supreme Court's decision in the *Bellas Hess* case is seriously flawed. The court apparently based its decision, at least in part, on the notion that the collection of state and local sales taxes involving a variety of rates, exemptions, and recordkeeping requirements, would entangle the interstate mail-order business in a "virtual welter of complicated obligations to local jurisdictions. . . ." The decision concludes that the very purpose of the Commerce Clause was to prevent such entanglements. This, however, ignores the fact that a large number of national chain stores conducting mail-order businesses are *now* required to collect these taxes by virtue of the fact that they also have retail outlets in a number of states. These chains do not appear to be operating at any significant competitive disadvantage on this account.

In our view, however, this does not justify the board's request for \$56,000 to lobby the issue before the Congress. There is no evidence to suggest that the board's lobbying efforts are needed, given the efforts of so many national organizations, or that favorable legislation would be able to overturn the Supreme Court's ruling. On this basis, we recommend that the \$56,000 proposed for this effort be eliminated.

Information Processing Equipment at the Board

We recommend that Item 0860-001-036 be reduced by \$621,000 and that Item 0860-001-001 be augmented by \$187,000 and 11.4 positions, for a net reduction of \$434,000, in order to eliminate funding for the procurement of certain automation equipment which is premature. We further recommend that the board present, at the time of the budget hearings, (1) a schedule for developing a comprehensive information processing plan, and (2) an estimate of the costs which would be incurred in hiring an outside consultant to assist it in development of such a plan.

In the current year, the board has proceeded with several information processing projects which are intended to improve the efficiency and productivity of existing staff. (Information processing includes data and word processing, as well as other automation technologies.) The most significant of the board's projects, the procurement of a new mainframe computer, should be completed in the latter half of the year. The new mainframe could serve as the foundation for an integrated, board-wide information processing system.

In addition to its mainframe procurement effort, the board has established a users' group charged with identifying and developing potential computer applications, and to write programs for those applications. The users' group concentrates its efforts on applications for personal computers.

Our review indicates that additional information processing equipment certainly is needed to improve the board's overall administrative performance. For example, greater use of information processing could improve audit selection and compliance efforts by (1) improving data capture and retrieval, (2) providing inventory and assignment controls, and (3) reducing the number of forms processed manually. In addition, we believe significant efficiencies could be gained through greater use of computers

STATE BOARD OF EQUALIZATION—Continued

for information sharing both among board offices and program units, as well as between the board and other agencies.

Update on the Replacement of the Mainframe. Last year, the board sought funding for the first year of a five-year procurement contract. At the time of the budget hearings, however, the board had not put the project out for bid, and was unable to provide the Legislature with sufficient detail on the project's costs. As a consequence, the budget included an amount for the board's estimate of first-year costs, but stipulated that no contract for the procurement may be issued sooner than 30 days after the Director of Finance submits notification of his intention to do so to the Joint Legislative Budget Committee. The proposed budget includes an appropriation for the second year of the contract.

The board has delayed the bid opening date from early 1985 until January 1986. It did so in order to rewrite its request for bids so that the costs associated with converting the board's current computer programs so they can run on the new mainframe system will be addressed by the proposals. These "conversion costs" should be covered by the bid because they represent a significant cost of implementation.

Once on line, the replacement computer will significantly increase the board's computer storage capacity and processing speed. In addition, the replacement project will support additional access for three types of terminals: system ("smart"), inquiry/response ("dumb"), and multifunction (PC). The board indicates, however, that before the replacement can provide additional access by terminal, a substantial effort for converting the old system to the new will be undertaken. It expects, therefore, that for at least the first 18 months after the replacement is delivered, the new machine will not provide *additional* capability to the board. More importantly, the ultimate use, or allocation, of the additional capacity throughout the board has not yet been determined.

Budget Proposals. In addition to the appropriation for the second year of the procurement contract, the budget proposes an expenditure of \$844,000 for the purchase of additional information processing equipment. The board estimates that the proposed systems will enhance productivity among existing staff to such an extent that the board will be able to eliminate 20.9 personnel-years, for a budget-year savings of \$485,000, and thereby reduce the net cost of the automation projects to \$359,000. Specifically, the budget proposes the following:

- An upgrade to the Business Tax Division's information processing system for both adding workstations and expanding the division's data processing capabilities. The current workstations are essentially dedicated word processors and cannot accommodate the division's heavy load of data processing duties. Currently, the division must either write specialized data processing programs for its word processors, or the data work must be done outside the division. As a result, the division indicates that completion of its data processing workloads take an inordinate amount of time. The upgrade would reduce the board's existing staff levels by 4.1 personnel-years, for a savings of \$61,000. The budget proposes a net expenditure of \$9,000 for this upgrade.
- An upgrade of the Audit Section's word processing system for additional dedicated word processing stations to accommodate the planning and evaluation unit's extensive word processing workloads.

While the section's existing system can support a maximum of eight workstations, the section has identified a need for 12 stations. By upgrading its system, the audit section expects to increase productivity among evaluation and planning analysts, and reduce its existing clerical staff by 1.3 personnel-years, for a savings of \$23,000. The budget proposes a net expenditure of \$64,000 for this upgrade.

- The procurement of the Central File Unit's computer-assisted retrieval (CAR) system would permit limited on-line access to taxpayer returns. Under the current system, the board keeps the taxpayers' actual returns for three years. Maintaining these files is expensive because it is both labor- and space-intensive. The proposed CAR system would reduce these overhead costs by allowing the board to microfilm most returns, and store a facsimile of the return in the CAR system's computer. The facsimile could be accessed at a remote video terminal. The budget assumes that the system would reduce the board's existing staff levels by six personnel-years and \$103,000. The budget proposes a net expenditure of \$361,000 for this procurement.
- The procurement of the Occasional Sales Unit's call management system would provide the resources for reducing the inventory of accounts receivable in a cost-effective manner. The computer system dials a taxpayer's telephone number, waits for the call to be answered, and routes the call to an available business tax representative. In this way, the system increases the percentage of time a tax representative actually spends working delinquent accounts. With this system, the board will accommodate workload which otherwise would require 9.5 personnel-years and \$298,000. The budget proposes an expenditure of \$223,000 for this procurement.

Evaluation of Proposals. Since July 1985, the board has been testing the proposed call management system. During this pilot program, the board has evaluated alternative uses of the system, determined the necessary resource requirements, and assessed the use of this technology. The pilot has demonstrated that the system is distinct from other systems within the board, and that it will not require significant interaction with other aspects of the board's information processing system.

Other than this equipment, however, the other projects proposed in the budget and described above are premature at this time. These projects must be evaluated as a part of the board's overall information processing system. A meaningful evaluation of the proposals is hampered, however, because the board has no comprehensive plan for that system. Such a plan would help to answer the following questions about the proposals:

- Is the proposal duplicative of hardware or software being acquired as part of the mainframe procurement? If so, rather than acquiring specialized local systems, there may be efficiencies to be gained by using the mainframe terminals to store, transmit, and access data throughout the board.
- Do the proposed purchases provide for information and data transfer between board units? The proposed projects would allow such transfers among individual workstations *within* the units, but the board has not demonstrated that such transfers can be made between units on *separate* systems.
- How do the proposed systems fit into the board's long-term information processing strategy? The board expects to acquire additional automation equipment in the future, and that, inherently, some of these future procurements must interact with the equipment

STATE BOARD OF EQUALIZATION—Continued

proposed in the budget. Without a clear understanding of the specifications for these procurements, we are unable to evaluate whether the budget-year proposals will provide sufficient compatibility with them.

At the time we prepared this analysis, the board was considering the establishment of a task force to write a comprehensive information plan. To be effective, such a plan should do the following: (1) assess the board's information processing *needs*, (2) establish *priorities* for information processing projects, (3) determine the most *cost-effective means* for completing those projects, (4) provide an *implementation schedule*, and (5) provide *standards* for evaluating the board's progress in carrying out the plan. If done properly, a comprehensive plan would be useful for administrative purposes at the board, and would provide the Legislature with the information it needs to assess the level of resources committed to the board. Such a plan, however, could not be completed until late-1986, at the earliest.

Because we cannot document the adequacy of the proposals for procurement of the word processing upgrades and CAR system, we recommend that the Legislature delete the funding (\$621,000 from the board's SAFCO appropriation) requested for these items. We further recommend that the board's General Fund appropriation be increased by \$187,000 and the number of personnel-years authorized for the board be increased by 11.4, in order to accommodate workload which otherwise would have been absorbed by efficiencies gained through the introduction of this equipment.

We also recommend that, at the time of the budget hearings, the board (1) provide a schedule for developing a comprehensive information processing plan, and (2) report on the cost of hiring a consultant to assist the board in developing such a plan.

Savings from Mail Equipment Proposal Underbudgeted

We recommend that Item 0860-001-001 be reduced by \$107,000 and 2 personnel-years to fully reflect the personnel savings expected from the proposed purchase of mail processing equipment.

The budget proposes the expenditure of \$377,000 for the purchase of replacement equipment in the board's mail processing unit. Roughly 85 percent of this amount will be used to replace the board's existing bulk mailing equipment. The existing mailing equipment, which is used to send 4.2 million tax return forms and information from the board's headquarters, has become obsolete and unreliable. Procurement of new equipment is expected to reduce annual personnel and maintenance costs by an amount sufficient to more than offset procurement costs.

The balance of the funds will be used to purchase six high-speed mail extraction desks. This equipment is used to open tax return envelopes, sort checks, and begin the processing of the tax returns. According to the board's preliminary Feasibility Study Report (FSR), the equipment will significantly increase productivity, thereby reducing the number of positions committed to return processing, and could improve the state's cash flow by allowing the board to deposit tax payments more quickly.

According to the information contained in the budget change proposal, this equipment will allow the board, through improved work flow and increased efficiencies, to eliminate 2.7 personnel-years. Our analysis sug-

gests, however, that this equipment will produce even greater savings. Based on data contained in the preliminary FSR, which was not completed at the time the budget was prepared, we estimate that the equipment should reduce staffing requirements by an additional 2 personnel-years. Accordingly, we recommend that this item be reduced by \$107,000 and 2 personnel-years.

CIGARETTE TAX PROGRAM

Appropriation for Additional Cigarette Stamps May be Required

We withhold recommendation on the \$178,000 requested for the purchase of cigarette stamps, pending receipt of data on current-year expenditures.

Generally, the cigarette tax is imposed on distributors at the rate of 10 cents per 20-cigarette package. Revenue from this tax is deposited in the General Fund, and 30 percent of the revenue is allocated to the cities and counties. Until recently, distributors paid about 90 percent of the tax through the purchase of stamps, and the balance through the purchase of metered impressions. A General Fund appropriation is made annually through the budget process to finance the purchase of the stamps by the state.

In February 1985, the board determined that the existing metering devices could be used to evade the tax. In order to protect the revenue base, the board passed a resolution prohibiting the use of meters, beginning in May 1985. As a result of the board's resolution, the number of stamps used by distributors is expected to increase.

Potential Deficiency in Current Year. The board's budget for the current year did not anticipate the need for additional purchases of stamps, and as a result, it is likely to incur a deficiency. At the time of the analysis, the board did not have sufficient data to accurately estimate this deficiency, but it expects to have such data by the time budget hearings are held. Our analysis indicates that the current-year deficiency could run as high as \$150,000.

Appropriation for Stamps in the Budget Year. The budget proposes an appropriation of \$178,000 to purchase additional cigarette stamps in 1986-87. However, because the board does not have reliable current-year data on the number of additional stamps necessary to accommodate the board's February 1985, resolution, we are unable to estimate the budget-year costs. Consequently, we withhold recommendation on the proposed amount, pending the receipt of current-year data.

SECRETARY OF STATE

Item 0890 from the General
Fund

Budget p. LJE 102

Requested 1986-87	\$21,320,000
Estimated 1985-86.....	20,134,000
Actual 1984-85	17,219,000
Requested increase \$1,186,000 (+5.9 percent)	
Total recommended reduction	428,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$18,891,000
Transfer from Political Reform Act (Item 8640)—	General	624,000
Support		
Reimbursements	—	1,805,000
Total		\$21,320,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. *Limited Partnership Program. Reduce Item 0890-001-001 by \$205,000 and 8.2 personnel-years.* Recommend reduction because workload is overstated. 94
2. *Management Services. Reduce Item 0890-001-001 by \$158,000 and 4.1 personnel-years.* Recommend reduction to correct for overbudgeting. 95
3. *Equipment. Reduce Item 0890-001-001 by \$56,000.* Recommend reduction because expenditures have not been justified. 96
4. *Toll-Free Voter Registration Number. Reduce Item 0890-001-001 by \$9,000.* Recommend reduction to correct for overbudgeting. 96

GENERAL PROGRAM STATEMENT

The Secretary of State has statutory responsibility for examining and filing for public record specified financial statements and corporate-related documents. The Secretary also administers and enforces election law, and campaign disclosure requirements. In addition, the Secretary appoints notaries public and manages the state archival function. The 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 Secretary of State is authorized to have 398.1 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$18,891,000 from the General Fund to support the Secretary of State in 1986-87. In addition to these funds, the Secretary of State anticipates receiving reimbursements of \$1,805,000 from special handling fees and \$624,000 under the Political Reform

Act. Thus, the Secretary of State proposes total expenditures of \$21,320,000 for 1986-87. This is \$1,186,000, or 5.9 percent, above the current-year level. Table 1 displays the Secretary of State's actual, estimated, and budgeted funding and staffing for the three-year period, 1984-85 through 1986-87.

Table 1
Secretary of State
Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
Corporate filing	109.7	118.2	117.2	\$4,642	\$6,575	\$6,350	-3.4%
Limited partnership	26.6	29.1	28.9	1,147	1,424	1,450	1.8
Elections	13.0	14.3	14.4	5,509	5,178	5,959	15.1
Political Reform	15.6	14.9	14.9	600	724	697	-3.7
Uniform Commercial Code	55.7	60.2	64.7	2,355	2,739	3,168	15.7
Notary Public	13.5	14.3	14.2	1,019	1,124	1,206	7.3
Archives	16.9	17.4	18.2	895	1,081	1,223	13.1
Administration (undistributed) ..	11.4	12.6	13.7	4,425	6,385	5,999	-6.0
Administration (distributed)	76.0	98.9	80.3	-3,373	-5,096	-4,732	-7.1
Totals	338.4	379.9	366.5	\$17,219	\$20,134	\$21,320	5.9%
Funding Source							
General Fund				\$15,013	\$17,858	\$18,891	5.8%
Transfer from Political Reform Act (General Fund)				560	605	624	3.1
Reimbursements				1,646	1,671	1,805	8.0

The increase in expenditures is attributable to increases in the following categories: special items of expense related to elections (\$717,000); the second-year costs of the employee compensation package approved in 1985 (\$442,000); data processing costs for the corporate filing automation project (\$660,000); personal services for 6.1 additional personnel-years in Management Services (\$195,000); other program changes (\$352,000); and increased reimbursements (\$134,000). In addition, the budget proposes \$85,000 to reflect full-year funding of the archives' oral history program. These increases are offset by baseline adjustments which delete one-time costs associated with the corporation automation project (\$1,260,000), funds transferred from the Political Reform Act (\$624,000), and a collective bargaining fee (\$5,000). Table 2 displays these changes.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately \$286,000 in such costs.

SECRETARY OF STATE—Continued

Table 2
Secretary of State
Proposed Budget Changes
(dollars in thousands)

		<i>Totals</i>
1985-86 Expenditures (Revised)		\$18,463
Baseline Adjustments:		
Allocation for employee compensation	442	
Delete collective bargaining fee	-5	
Delete one-time costs for corporate filing automation project	-1,260	
Special items of expense relating to elections	717	
Full-year funding of archive's oral history program	85	
Increase reimbursements	-134	
Subtotal: Baseline Adjustments		-155
Program changes:		
Corporate filing		
—automation project	660	
—equipment replacement	49	
Uniform Commercial Code workload	123	
Archives microfilm project	58	
Notary Public—newsletter	55	
Elections—toll-free number	50	
Management Services	195	
Limited Partnership—equipment replacement	17	
Subtotal: Program Changes		1,207
Eliminate Transfer from Political Reform Act		-624
1986-87 Expenditures (Proposed)		\$18,891
Change from 1985-86:		
Amount		\$1,638
Percent		9.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes which are not discussed elsewhere in this analysis:

- **Uniform Commercial Code Staffing Increase (\$123,000).** The budget requests five new positions to handle increased workload.
- **Notary Public Newsletter (\$55,000).** These funds would be used for a periodic educational newsletter sent to the state's notaries public.
- **Archives Staffing Increase (\$24,000).** The budget requests one additional position because of an increased workload in microfilm processing.
- **Management Services Staffing Increase (\$26,000).** The budget requests one additional position to provide administrative support for the California State World Trade Commission (CSWTC). This position is to be funded by reimbursements from CSWTC.

Limited Partnership Program Overstaffed

We recommend that Item 0890-001-001 be reduced by \$205,000 and 8.2 personnel-years to reflect a more-reasonable estimate of projected workload in the Limited Partnership program.

The budget proposes \$1,450,000 and 28.9 personnel-years to operate the Limited Partnership program in 1986-87. This amount is \$26,000, or 1.8 percent, more than the amount estimated to be expended in the current year.

The Limited Partnership program, established by Ch 807/81, requires limited partnerships to file Certificates of Limited Partnership with the Secretary of State. Previously, limited partnerships filed certificates and other related documents with county recorders. The purpose of Ch 807/81 was to create a complete central file of all California limited partnerships.

The Limited Partnership program was to have become operative on January 1, 1983, but was postponed by Ch 997/82 (AB 2544) and Ch 1223/83 (AB 1184). Chapter 1223 specified that after July 1, 1984, all new limited partnerships must file Certificates of Limited Partnership with the Secretary of State. The act established a transition period for existing limited partnerships to refile with the Secretary of State.

Previous Workload Projections Were Too High. The Secretary of State estimated that 75,000 existing limited partnerships would refile during the March 1-to-June 30, 1984, transition period established by Chapter 1223. The actual number of refilings processed during that period, however, was 11,715. In 1984-85, the Secretary projected that 132,000 documents would be processed and \$7,410,000 in General Fund revenue would be collected. Instead, the limited partnership program processed only 104,000 documents and collected a total of \$2,305,000 in General Fund revenue.

Given the difficulties encountered by the Secretary of State in projecting workload and revenue estimates, the Legislature adopted language in the supplemental report to the 1985 Budget Act requiring the Secretary to submit quarterly progress reports to the Legislature on workload and revenues.

Projected Workload Is Overstated. The transition period for the limited partnership program expired on June 30, 1985. Consequently, the current year marks the first year in which only new filings are being accepted. The budget request for the limited partnership program is based on the assumption that 33,844 new limited partnerships will file in both the current year and the budget year.

Our analysis of the limited partnership program's workload data for 1985-86 indicates that the program is overstaffed and that program revenues have been overstated. Based on workload data for the first six months of the current-year, we anticipate that only 16,300 new limited partnerships will file each year, roughly one-half the number projected by the Secretary. Consequently, General Fund revenues from the Limited Partnership program have been overstated by approximately \$1.2 million in both the current and budget years.

On this basis, we recommend a reduction of \$205,000 and 8.2 personnel-years in the Limited Partnership program to reflect what we believe is a more realistic projection of workload in the budget year.

Management Services Are Overbudgeted

We recommend that Item 0890-001-001 be reduced by \$158,000 and 4.1 personnel-years to correct for overbudgeting.

The budget proposes \$5,999,000 and 94 positions to support Management Services for the Secretary of State in the budget year. Included in the total are six additional positions requested to support the Uniform Commercial Code. The Secretary of State has submitted justification for only two of these positions. These two positions are needed to handle the increased data processing workload in the Uniform Commercial Code program. We recommend approval of these two additional positions, but that the amount budgeted for these positions in Item 0890-001-001 be reduced by \$5,000 to correct for overbudgeting.

SECRETARY OF STATE—Continued

The Secretary of State has provided no justification for the other four new positions in Management Services. The positions are requested for the proposed Uniform Commercial Code automation project. Although the Secretary of State has submitted a feasibility study report for this project to the Department of Finance, the project has not yet received approval. Nor are any funds for this project specifically requested in the budget. In the absence of justification for these positions, we recommend that Item 0890-001-001 be reduced by \$153,000 and 4.1 personnel-years.

Equipment Expenses Are Not Justified

We recommend a reduction of \$56,000 for equipment because the proposed expenditures are not justified.

The budget proposes \$129,000 for equipment in the budget year. The Secretary of State has provided adequate justification for \$73,000 of the proposed expenditures. The remainder of the funds—\$56,000—would be used to buy equipment for the state archives and the limited partnership program. The Secretary has provided no description of the particular equipment that is needed or how the funds would be spent. Accordingly, we recommend deletion of \$56,000 requested for equipment expenditures which have not been justified.

TECHNICAL BUDGET ISSUES**Toll-Free Voter Registration Number Is Overbudgeted**

We recommend that Item 0890-001-001 be reduced by \$9,000 to correct for overbudgeting.

The budget includes \$50,000 for the Secretary of State to maintain a toll-free voter registration phone service. The Secretary conducted such a service in the two months prior to the November 1984 general election. During this period, the Secretary received 26,858 phone calls requesting 40,867 voter registration cards.

The system operates on five incoming lines which are machine-answered. The information on the tapes is then transcribed onto address labels for use in mailing the voter registration cards. The budget requests 0.2 personnel-years and \$12,000 for temporary help to monitor the answering machine. The \$12,000 requested for this purpose translates into a full-year equivalent salary of \$60,000. We believe that \$3,000 represents a more accurate estimate of the cost for temporary help needed to monitor the answering machines. Accordingly we recommend that Item 0890-001-001 be reduced by \$9,000 to correct for overbudgeting.

STATE TREASURER

Item 0950 from the General
Fund

Budget p. LJE 108

Requested 1986-87	\$8,117,000
Estimated 1985-86	7,685,000
Actual 1984-85	6,614,000
Requested increase \$432,000 (+5.6 percent)	
Total recommended reduction	None
Recommendation pending	481,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0950-001-001—Support	General	\$4,918,000
Reimbursements	—	3,199,000
Total		\$8,117,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Information Systems Plan. Withhold recommendation on \$481,000 requested for the Treasurer's strategic information systems plan, pending completion of pending reports.

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GENERAL PROGRAM STATEMENT

The State Treasurer has a number of different responsibilities related to the management of the state's financial assets. His specific responsibilities include:

- Providing custody for all money and securities belonging to or held by the state;
- Investing temporarily idle funds;
- Paying warrants and checks drawn by the State Controller;
- Preparing, selling, and redeeming the state's general obligation and revenue bonds; and
- Preventing the issuance of unsound securities by irrigation, water storage, and certain other districts.

The State Treasurer has 178.4 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$8,117,000 from the General Fund and reimbursements from other agencies to support the State Treasurer's office in 1986-87. This amount is \$432,000, or 5.6 percent, more than estimated total expenditures for the current year. The increase is due largely to increased costs for salaries and staff benefits (\$415,000), in accordance with the second year of the employee compensation package approved in 1985.

The budget request includes \$4,918,000 from the General Fund, which is \$181,000, or 3.8 percent, more than estimated General Fund expenditures in the current year. It also includes \$3,199,000 in reimbursements, which is \$251,000, or 8.5 percent, more than the amount of reimbursements expected for the current year.

Table 1 provides information on the level of expenditures and person-

STATE TREASURER—Continued

nel-years for each of the major programs administered by the State Treasurer's office during the prior, current, and budget years. As the table shows, Trust Services Division activities account for the largest single portion of the office's budget (39 percent of the budget request). These activities include selling and servicing the state's general obligation and revenue bonds, bond registration, and the safekeeping of securities owned by or pledged to the state. The second largest component (33 percent) is the budget for the Administration division, which provides general services in support of the office's programs and the various authorities and commissions which are chaired by the State Treasurer. These include such services as budgeting, personnel, data processing and information systems, and centralized banking services. The remainder of the budget finances ongoing programs for investing the state's idle cash (Investment Services Division), evaluating securities issued by water and irrigation districts (District Securities Division), and, in conjunction with the State Controller's Office, monitoring the state's daily cash flow (Cash Management Division).

Table 1
State Treasurer Budget Summary
1984-85 through 1986-87
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change from 1985-86
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
Investment Services.....	7.5	7.2	7.2	\$835	\$887	\$933	5.2%
Cash Management	16.6	17.5	17.5	593	864	925	7.1
Trust Services	50.5	55.7	55.7	2,643	2,953	3,127	5.9
District Securities Division	6.4	6.6	6.6	378	412	438	6.3
Administration (undistributed)	65.6	83.5	83.5	2,165	2,569	2,694	4.9
Administration (Distributed to other programs)	—	—	—	(1,110)	(1,458)	(1,531)	5.0
Totals	146.6	170.5	170.5	\$6,614	\$7,685	\$8,117	5.6%
Funding Source							
General Fund	—	—	—	\$3,571	\$4,737	\$4,918	3.8%
Reimbursements	—	—	—	3,043	2,948	3,199	8.5

The budget presentation for the State Treasurer's office has been reorganized to reflect the current program and administrative structure of the office. The principal changes include the combination of the Bond Sales and Services program with the Trust Services program, and the enlargement of the Administration division to include banking services and data processing. According to the office, these changes are necessary to provide a more accurate representation and accounting of the total costs for administering its various programs.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the office will have to absorb approximately \$180,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

Information Systems Plan

We withhold recommendation on the \$481,000 requested for support of the State Treasurer's strategic information systems plan, pending receipt of the office's report on cost allocations and the Department of Finance's proposals for continued development and implementation.

The State Treasurer's office currently is engaged in a project to upgrade its information systems. This project was initiated in response to a recent study, which concluded that the current system was outdated and inefficient in many areas. To overcome the deficiencies in the current system, the office has begun a three-year effort to develop a more efficient and effective information system that uses up-to-date electronic data processing technology and techniques. The Legislature has provided the State Treasurer's office with \$452,000 (including \$316,000 from the General Fund and \$136,000 in reimbursements) in the current year to support the development of a new information system. These funds are being used to prepare feasibility study reports (FSRs), develop requests for proposals, perform other activities associated with the initial development of the new system, and to make minor improvements to the current system. The budget includes approximately \$481,000 (\$331,000 from the General Fund and \$150,000 in reimbursements) in funding to continue the developmental efforts that have started in the current year.

When the Legislature approved the current year funding for the system, it also adopted language in the *Supplemental Report of the 1985 Budget Act* requesting the office to report to the Legislature by December 31, 1985, on the costs of the plan and how these costs would be allocated among the various agencies and programs under the State Treasurer's supervision that will receive the benefits. At the time this analysis was prepared, however, the office had not yet submitted its report. The budget request is predicated on the assumption that the various agencies and programs should bear a proportionate share of the costs attributable to the new information systems. We believe that the information in the report should provide a more reasonable basis for evaluating the costs and the appropriate sources of funding for the State Treasurer's new information system.

In addition, we note that the budget currently does *not* include any additional funding or propose other changes to account for *subsequent* stages of the office's strategic information system's plan. The Department of Finance has indicated to us that it plans to propose additional budget-year funding for this purpose. Until we have had the opportunity to review both the office's report on the cost allocations for the new information system and the department's proposal for expanding the system, we withhold recommendation on the \$481,000 requested for it.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California
Debt Advisory Commission
Fund

Budget p. LJE 111

Requested 1986-87	\$806,000
Estimated 1985-86.....	794,000
Actual 1984-85	626,000
Requested increase \$12,000 (+1.5 percent)	
Total recommended reduction	403,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|--|-----|
| 1. Reduce Item 0956-001-171 by \$403,000. Recommend deletion of funding and related language requested for the last six months of 1986-87 because the commission's statutory authority lapses on January 1, 1987. | 101 |
| 2. Transfer of commission's responsibilities. Recommend enactment of legislation authorizing the State Treasurer's office to carry out the commission's information collection and other activities. | 102 |

GENERAL PROGRAM STATEMENT

The California Debt Advisory Commission (CDAC) was established by Ch 1088/81 (AB 1192) to provide advisory assistance to state agencies and local governments in the areas of debt issuance and 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 rating;
- 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 marketability and servicing of state and local debt issues.

The general activities of the CDAC are supported by notification fees paid from the proceeds of bond sales. Under the terms of Ch 293/83 (SB 146), the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the fee is set at one-eightieth (1/80) of 1 percent of the principal amount of the bond issue, up to a maximum fee of \$2,500. Short-term

debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$125 per issue, while debt issues of less than \$1 million are exempted from the fee requirement. The revenues from the fees are deposited into the CDAC fund.

The commission has 11 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$806,000 from the California Debt Advisory Commission Fund for support of the commission in 1986-87. This is an increase of \$12,000, or 1.5 percent, over estimated expenditures in the current year. No additional positions are proposed for the budget year.

The increase in the commission's budget is the net effect of two changes: (1) a \$40,000 increase needed to fund the second-year pay and benefit raises provided for by the employee compensation package approved in 1985, and (2) a \$28,000 decrease in Operating Expenses and Equipment (OE&E). The reduction in OE&E expenditures is due mainly to reduced charges for general administrative services (pro rata).

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the commission will have to absorb approximately \$22,000 in such costs.

The commission projects that during the 1986-87 fiscal year, notification fees will generate approximately \$1 million in revenues, the same level estimated for the current year. When added to a projected \$300,000 in interest income, this will provide the commission with revenues totaling \$1,300,000 in 1986-87. This is \$494,000 more than the CDAC's proposed expenditures. We understand that the commission is examining options for lowering the notification fee.

Unless the commission acts to reduce the fee level, the reserve in the CDAC fund will grow from \$3.2 million to \$3.7 million during the budget year.

ANALYSIS AND RECOMMENDATIONS

The Commission's Statutory Authority Lapses on January 1, 1987

We recommend the deletion of \$403,000 (and related language) requested for support of CDAC during the second half of 1986-87 because under existing law the commission will have no authority to spend these funds.

The provisions of current law which authorize the CDAC sunset on January 1, 1987. The budget, however, requests full-year funding for the commission in 1986-87. The Budget Bill contains language which would make the allocation of funding for the second half of the fiscal year contingent upon the enactment of legislation extending the commission's sunset date.

Generally, it has been the Legislature's policy to consider funding requests for new or extended programs in connection with legislation authorizing the expenditure of the funds. This policy enables the Legislature to determine funding requirements at the same time it determines an agency's statutory responsibilities.

Without knowing what the CDAC's responsibilities will be after January 1, 1987, it would be premature to appropriate funds for the commission beyond this date. For this reason, funding for the CDAC should be considered in connection with any legislation that would extend the commission's existence. Accordingly, and without prejudice to the CDAC, we

CALIFORNIA DEBT ADVISORY COMMISSION—Continued

recommend deletion of \$403,000 proposed for support of the commission during the second half of the fiscal year. If the Legislature approves this recommendation, it should also delete the Budget Bill language which makes the allocation of second-half funding contingent upon enactment of legislation extending the commission.

Is a Separate Commission Needed to Carry Out the Functions Assigned to the CDAC?

We recommend that the Legislature enact legislation transferring to the State Treasurer's office responsibility for the commission's information collection and other activities.

In deciding whether to extend the commission beyond January 1, 1987, the Legislature should consider the following two issues:

Has the commission been successful in achieving its statutory responsibilities? The CDAC has three primary responsibilities: collecting and disseminating information on the issuance of public debt in California, providing technical assistance to state and local agencies on debt management matters, and conducting research studies on public debt.

In our view, the commission's major accomplishment to date has been the development of a system for collecting information on debt issuance. The information collected by the CDAC is reported in *Debt Line* and has been widely utilized. Prior to the creation of the CDAC, it was difficult—if not impossible—to obtain complete information on the annual sales of tax-exempt debt and the purposes for which the debt was being issued.

The Legislature also assigned to the CDAC the responsibility for collecting and analyzing information on the usage of specific types of debt instruments. For example, Ch 1399/84 (AB 4025) directed the commission to survey issuers of mortgage revenue bonds to find out how the bond proceeds are being used. Similarly, Ch 1033/85 (AB 2544) requires the CDAC to collect information as to the reasons local agencies have chosen to issue refunding bonds on a negotiated, as opposed to public sale, basis.

With regard to technical assistance, the commission's original objective was to provide specific financial consulting services to individual state and local agencies which issue or manage debt. Subsequently, however, the commission determined that it was neither practical nor appropriate for it to offer such services, since they are widely available to debt issuing agencies from bond underwriters, financial advisors, bond counsel, and others in the private sector. Instead, the commission has chosen to work toward this objective by conducting seminars for, and providing general information to, issuers of public debt.

Finally, with regard to research activities, the commission has undertaken or sponsored a number of studies on debt management and policy issues over the past three years. These include analyses of methods for classifying debt, infrastructure financing in California, and a study of the impact of redevelopment agency activities.

Is there a need for a separate commission to continue these activities? In our judgment, there is a need for the state to continue collecting information on, and monitoring the activities of issuers of public debt. It is not apparent, however, why a *separate state commission* is needed to conduct these activities. The "commission" form of organization is justified when an entity takes action that requires a broad array of viewpoints. The CDAC responsibilities, however, do not fit this description. It does not

issue debt or provide financial assistance to state or local agencies; it has no authority to approve the issuance of debt; and it has no direct responsibility to promulgate regulations with regard to public debt management in California.

Data collection and research, in contrast, can be conducted by an office with a single head. (The Office of Planning and Research is a case in point.) Accordingly, we conclude that the CDAC does not have the statutory responsibilities to justify its status as a separate commission. This conclusion is supported by the fact that the commission has met infrequently over the past three years.

We find the commission's information, research and technical assistance responsibilities could be performed or managed just as effectively by the State Treasurer's office. Moreover, assigning these functions to the Treasurer would permit the state to realize savings in administrative costs. These savings would stem from the fact that the state would not have to support a separate commission.

Accordingly, we recommend that legislation be enacted to transfer the commission's functions to the State Treasurer. If the Legislature enacts such legislation, our analysis suggests that approximately \$300,000 would have to be added to the State Treasurer's budget for the second half of 1986-87. This would permit savings of approximately \$200,000 annually.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the General
Fund

Budget p. LJE 112

Requested 1986-87	\$135,000
Estimated 1985-86.....	126,000
Actual 1984-85	52,000
Requested increase \$9,000 (+7.1 percent)	
Total recommended reduction	16,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Consultant Study. Reduce Item 0959-001-001 by \$16,000.* 104
Recommend deletion because need for the study has not been established.

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established in 1984 through a proclamation issued by the Governor, in order to ensure the state's compliance with the federal Tax Reform Act of 1984. This act imposed limits on the amount of tax-exempt "private activity" bonds which may be issued in a state during a given year. "Private activity bonds" generally include bonds issued for private industrial and commercial development projects, for-profit hospitals and educational facilities, and student loans.

Under the Tax Reform Act, the volume of these bonds that may be

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE—Continued

issued may not exceed an amount equal to \$150 per resident of the state. For 1985, the ceiling was \$3.8 billion. This year (1986), the ceiling is expected to be \$3.9 billion.

The CDLAC is responsible for allocating borrowing authority within the ceiling among the state and individual local agencies. In addition, the CDLAC reviews (1) requests by local authorities for a portion of the state's borrowing authority and (2) applications submitted by state agencies to use part of this authority.

The CDLAC is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance), and the State Controller. The committee has two staff positions, and receives administrative support from the State Treasurer's office and the California Debt Advisory Commission.

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes an appropriation of \$135,000 from the General Fund for support of the CDLAC during 1986-87. This is an increase of \$9,000, or 7.1 percent, over estimated expenditures for the current year. The increase reflects two changes in the CDLAC's budget: (1) an increase of \$5,000 in salaries and staff benefits for the second year of the employee compensation package approved in 1985, and (2) an increase of \$4,000 to reflect the elimination of budgeted salary savings.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the committee will have to absorb approximately \$3,000 in such costs.

ANALYSIS AND RECOMMENDATIONS**Need for Consultant Study Has Not Been Established**

We recommend deletion of \$16,000 requested for a consultant's study, because the need for the study has not been adequately demonstrated.

The CDLAC's budget request includes \$16,000 for external consultant studies. The committee proposes to use the funds to hire a private consultant to develop a method for evaluating the economic benefits of projects that receive a part of the state's allocation for private activity bonds. According to the CDLAC, the committee needs such a method in order to decide which projects should receive a share of the state's allocation.

This study is not needed. Currently, the debt limit itself does not force the CDLAC to choose which projects should proceed and which should be denied a portion of the state's allocation. Rather, the existing allocation method forces this decision, as much of the limit is allocated to entities which fail to use it. For example, in 1984 the ceiling on private activity bonds was \$3.8 billion, yet bonds totaling only \$1.3 billion were actually issued. Likewise, during the first eleven months of 1985, approximately \$1.1 billion in bonds were issued against the \$3.8 billion ceiling. This amounts to only about 30 percent of the limit.

Since the CDLAC does not have to "ration" the state's debt limit, it does not need a method for determining the economic effects of competing projects. Accordingly, we believe that the \$16,000 requested for a consultant study to develop such a method is not justified at this time, and recommend that the funds be deleted.

It is possible that the federal government will place tighter restrictions

on the use of private activity bonds. If this happens, the CDLAC may need a procedure to ensure that the projects receiving allocations are those that produce the greatest public benefits. It is also possible, however, that the Congress will eliminate the need for the state to support a debt allocation system (such an option is now under consideration).

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 0965 from the Industrial
Development Fund

Budget p. LJE 113

Requested 1986-87	\$302,000
Estimated 1985-86	315,000
Actual 1984-85	247,000
Requested decrease \$13,000 (-4.1 percent)	
Total recommended reduction	151,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Reduce Item 0965-001-215 by \$151,000.* Recommend elimination of funds and related budget language requested to support the commission after its statutory authority lapses on January 1, 1987 because funding for the commission should be considered in connection with legislation extending its termination date.

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GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74) for the purpose of evaluating industrial development bonds (IDBs). IDBs are issued by local development authorities, and the proceeds of the bonds are used to assist private businesses construct or purchase certain industrial facilities. Current state and federal regulations provide a tax-exemption for the interest on IDBs, which allows businesses to obtain financing for qualified projects at below-market rates. The maximum amount of IDBs which may be issued by local agencies is \$250 million per year.

The CIDFAC is responsible for reviewing all proposed IDB issues to ensure that they comply with disclosure regulations, have proper security, and satisfy certain public policy requirements. The commission consists of the State Treasurer, the State Controller, the Director of Finance, the Director of the Department of Commerce, and the Commissioner of Corporations. It has four authorized positions in the current year.

The commission's activities are funded from fees that are charged to applicants which submit IDB issues for review. Currently, the fee is set at \$2,500 for each application, plus an amount equal to one-half of 1 percent of the total face value of the proposed issue. The fee revenues, which are estimated at \$1 million in 1986-87, are deposited into the Industrial Development Fund.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$302,000 from the Industrial Development Fund for support of the CIDFAC in 1986-87. This is a decrease of \$13,000, or 4.1 percent, from estimated current-year expenditures. The decrease is the net effect of two changes in the commission's budget: a reduction of \$22,000 in charges for central administrative services, and an increase of \$9,000 for the second year of the employee compensation package approved in 1985.

The budget does not include any additional funding for the estimated amount of Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the commission will have to absorb approximately \$13,000 in such costs.

ANALYSIS AND RECOMMENDATIONS**No Statutory Authority for the Commission Beyond January 1, 1987**

We recommend that \$151,000 requested to support the commission beyond its scheduled January 1, 1987 termination date, be deleted.

Title 10 of the Government Code authorizes the issuance of IDBs and provides the statutory authority for the CIDFAC. This title is repealed, effective January 1, 1987. The Governor's Budget requests full-year funding for the commission in 1986-87. The Budget Bill contains language which would make the allocation of funding for the second half of the fiscal year (\$151,000) contingent upon legislative action to extend the sunset date of the commission.

Generally, it has been the Legislature's policy to consider funding requests for new or extended programs in connection with legislation authorizing the expenditure of the funds. This policy enables the Legislature to determine funding requirements at the same time it determines an agency's statutory responsibilities.

Without knowing what the CIDFAC's responsibilities will be after January 1, 1987, it would be premature to appropriate funds for the commission beyond this date. For this reason, funding for the CIDFAC should be considered in connection with any legislation that would extend the commission's existence. Accordingly, and without prejudice to the CIDFAC, we recommend deletion of \$151,000 proposed for support of the CIDFAC during the second half of the fiscal year. If the Legislature approves this recommendation, it should also delete the Budget Bill language which makes the allocation of second-half funding contingent upon the enactment of legislation to extend the commission.

Legislative Review of Program Is Needed

The scheduled termination of the state's IDB financing program provides the Legislature with the opportunity to review the effectiveness and administration of this method for subsidizing private borrowing. Whether the state should continue to authorize the issuance of IDBs is an important policy question—one that is beyond the scope of this *Analysis*. If, however, the Legislature decides to continue the IDB program, it may wish to consider changing the *administration* and *funding* of the program. In this regard, we believe that the following questions warrant legislative consideration:

What type of state-level review activities are appropriate? The CIDFAC is responsible for approving the issuance of IDBs by local development authorities. The approval process utilizes various public policy and financial criteria that are specified in law.

To date, approximately 260 applications for IDB issuances have been received by the commission. Of these, 215 have been approved, representing about \$900 million in tax-exempt financing for industrial development projects. As of December 1985, \$650 million of the bonds approved by the commission had been issued.

From a financial perspective, the CIDFAC's review process appears to be adequate. So far, none of the issuers have defaulted on the bonds. From a public policy perspective, the adequacy of the process is less clear. We do not know the extent to which the IDB-financed projects have achieved their original objectives, such as the creation of new jobs. The commission is not specifically required to conduct a follow-up review of the projects. Expansion of the commission's responsibilities in this area may be warranted to ensure that the public as a whole benefits from the issuance of tax-exempt IDBs.

How would federal and state legislation affect the CIDFAC's workload? The commission's future workload could be significantly affected by enacted or pending legislation. At the federal level, the principal tax reform proposals being considered by the Congress and the Reagan Administration would significantly restrict the use of IDBs. Presumably, this would reduce the commission's workload. At the state level, the Legislature recently has enacted legislation which authorizes the use of IDBs for tourism facilities (Ch 1087/85, AB 1792) and by businesses that operate in state-designated "enterprise zones" (Ch 44/85, AB 514). In addition, legislation has been enacted (Ch 1166/84, SB 2047) authorizing the CIDFAC to issue bonds for small-business financing.

The net effect of these changes on the commission's activities cannot be determined at this time, but this issue ought to be considered by the Legislature in reviewing the structure and funding of the commission.

Is the current fee level too high? During 1986-87, the CIDFAC estimates that the fees it charges to bond applicants will generate \$1 million in revenues—the same amount anticipated in the current year. (As the Governor's Budget acknowledges, the actual level of revenues for 1986-87 will depend on pending federal tax reform legislation, which could place restrictions on the issuance of IDBs.) The commission also estimates that it will receive \$160,000 in interest income, which brings to \$1,160,000 the total to be received for the budget year.

Table 1 displays the revenues and expenditures for the Industrial Development Fund in 1983-84 through 1986-87. As the table shows, fee revenues exceed by a wide margin the commission's expenses for each of the four years. As a result, the ending balance in the CIDFAC fund is projected to increase from \$2,363,000 in 1985-86 to \$3,221,000 in 1986-87. This is more than 10 times what the commission will spend in the budget year.

The large surplus in the Industrial Development Fund indicates that the current fee level is too high, given the commission's *existing* program activities. Given the possibility of significant changes in the CIDFAC's workload, however, this may not be true to the same extent in the future. Clearly, in evaluating the appropriateness of the current fee level, the Legislature should take into account the future workload and responsibilities of the commission.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

Table 1
Industrial Development Fund ^a
1983-84 through 1986-87
(dollars in thousands)

	1983-84	1984-85	1985-86	1986-87
Beginning Balance	—\$6	\$403	\$1,548	\$2,363
Fee Revenues	732	1,301	1,000	1,000
Interest Earnings	21	91	130	160
Total Resources	\$747	\$1,795	\$2,678	\$3,523
Total Expenditures	344 ^b	247	315	302
Ending Balance	\$403	\$1,548	\$2,363	\$3,221

^a Source: Governor's Budget, page LJE 114.

^b Includes \$139,000 loan repayment to California Pollution Control Financing Authority Fund for startup expenses.

In summary, the sunset of the Industrial Development Bond Financing program in 1986-87 will make it necessary for the Legislature to evaluate the need for continuing this program in the future. If it decides to continue providing subsidies for these projects, the Legislature should also consider (1) changing the current process used to approve and monitor IDB-financed projects, and (2) adjusting the fee charged to IDB applicants.

Business, Transportation and Housing Agency

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE

Item 0968 from the General
Fund, Mortgage Bond Allocation Fee Account

Budget p. LJE 115

Requested 1986-87	\$15,000
Estimated 1985-86	15,000
Actual 1984-85	6,000
Requested increase: None	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Fund Surplus. We recommend the enactment of legislation placing a limit on the size of surplus which may be maintained in the Mortgage Bond Allocation Fee Account.

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GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee (CMBAC) was established by Ch 1097/81 in order to assure that the state complies with the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1980. The CMBAC is responsible for allocating among state and local governments the amount of tax-exempt mortgage revenue bonds that may be issued in California to finance loans for owner-occupied housing. Such an allocation is necessary because the federal government has imposed a ceiling on the volume of mortgage revenue bonds that may be issued to finance owner-occupied housing in any one calendar year. For 1985, the ceiling on issuances within California was \$2.483 billion. During that year, bonds with a face value of approximately \$2.38 billion, or 96 percent of the ceiling amount, were issued.

The committee anticipates that the state's ceiling in 1986 will be approximately \$3.8 billion.

The MBAC budget is entirely supported by application fees deposited in the Mortgage Bond Allocation Fee Account. These fees, currently set at \$300 per application, are collected from the state and local bond-issuing entities which seek CMBAC authorization to sell bonds.

The seven-member committee is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance), the State Controller, the Directors of the Department of Housing and Community Development and the California Housing Finance Agency, and two local government representatives. The committee receives staff assistance from personnel in the Treasurer's office.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$15,000 from the Mortgage Bond Allocation Fee Account in the General Fund for support of the committee in 1986-87. This is the same amount that CMBAC received for support of its activities in each of the last three fiscal years.

To date, however, the committee has spent only a small portion of the amounts appropriated to it.

ANALYSIS AND RECOMMENDATIONS

Committee Fails to Reduce Fund Surplus

We recommend that the Legislature enact legislation limiting the surplus in the Mortgage Bond Allocation Fee Account.

During budget hearings in 1985, the Legislature expressed concern about the unnecessarily large surplus in the committee's fee account. At that time, the surplus at the end of 1985-86 was estimated at \$30,000. Accordingly, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* stating its intent that the committee limit the surplus in the Mortgage Bond Allocation Fee Account to an amount not to exceed estimated current-year expenditures.

The 1986-87 budget indicates that instead of reducing the fund surplus, the committee plans to let it *increase to \$60,000*. Furthermore, based on information provided in the budget, it appears that no action is planned in either the current or budget year to rectify the situation. Committee staff has informed us that the CMBAC may consider lowering application fees at its February 1986 meeting.

The large surplus exists because the committee has set application fees at a level that far exceeds what is necessary to support its costs. Given the

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE—Continued

committee's failure to comply with legislative intent as expressed in the supplemental report, we recommend that the Legislature enact legislation placing a limit on the size of surplus which may be maintained in the fee account.

**CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING
AUTHORITY**

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 115

Requested 1986-87	\$146,000
Estimated 1985-86	141,000
Actual 1984-85	56,000
Requested increase \$5,000 (+3.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority was created by Ch 908/80 for the purpose of issuing up to \$200,000,000 of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydroelectric projects, as well as energy conservation projects that will reduce the use of fossil and nuclear fuels.

The authority consists of five state officers: the State Treasurer, who is chairman, the Director of Finance, the Chairman of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. The authority began operation in 1981 and has two authorized staff positions.

Chapter 908 appropriated to the authority \$200,000 from the Energy Resources Conservation and Development Special Account in the General Fund (which received its revenue from the surcharge on electricity sales) as a loan to cover the authority's initial start-up expenses. Ongoing support is provided from the California Alternative Energy Authority Fund (CAEAF), which derives its revenue from application and other fees paid to the authority by those businesses receiving funds from the authority.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$146,000 from the Alternative Energy Authority Fund for support of the authority in 1986-87. This is an increase of \$5,000, or 3.5 percent, over estimated current-year expenditures of \$141,000.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

In the *Supplemental Report of the 1983 Budget Act*, the Legislature directed the authority to determine what level of fees is necessary to (1) cover the authority's operating costs, (2) establish a prudent reserve, and (3) repay the \$200,000 start-up loan over a reasonable time period. The Legislature anticipated that the authority would adjust its fees based on the findings in its report.

As of December 1985, the authority had not complied with the Legislature's directive to prepare a financial plan. Nor had the authority repaid any portion of the \$200,000 start-up loan. The budget does not propose any repayment in 1986-87.

At the present time, it may not be feasible for the authority to formulate a long-range financial plan. The U.S. Congress is considering legislation that might eliminate the federal tax exemption for bonds issued to finance certain nongovernmental activities, such as the development of private alternative energy sources. If this legislation is enacted, the authority may not be able to issue additional bonds and might have to cease operations.

For this reason, we recommend that the Legislature approve the amount requested for the authority, notwithstanding the absence of a long-range financial plan. We note that the requested appropriation is entirely from fees collected by the authority, so that funding will be available only to the extent that the authority receives fees from project proponents.

Given the uncertainty surrounding the authority's ability to operate in the future, the \$66,000 surplus projected for CAESFA in 1986-87 is highly speculative.

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

Item 0974 from the Hazardous
Waste Reduction Incentive
Account, General Fund

Budget p. LJE 117

Requested 1986-87	\$169,000
Estimated 1985-86.....	—
Actual 1984-85	—
Total recommended reduction	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0974-101-489—Financial assistance for hazardous waste control projects	Hazardous Waste Reduction Incentive Account, General	\$169,000

GENERAL PROGRAM STATEMENT

The California Pollution Control Financing Authority was created by Ch 277/73 in order to provide a source of low-cost financing for pollution control projects. The authority raises funds to provide this financial assistance by issuing tax-free revenue bonds. It pays off these bonds and finances its operating costs using loan repayments and fees received from

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY—Continued

sponsors of assisted projects.

The authority has sold over \$1.1 billion in bonds since its inception in 1973, the proceeds of which have been used to assist over 180 pollution control projects.

Hazardous Waste Reduction Incentive Program. Chapter 1435/85 (SB 59) created the Hazardous Waste Reduction Incentive Account (HWRIA) in the General Fund and transferred \$2.6 million to the account from the General Fund. The act appropriated the \$2.6 million to the authority to facilitate the financing by private firms of hazardous waste recycling, disposal, and treatment projects. This financial assistance can include letters of credit or credit insurance, interest-rate buy-downs, and payments to offset the authority's costs of issuing bonds for eligible projects. Interest earned on funds in the HWRIA and principal and interest payments to the authority from recipients of HWRIA financing are deposited in the account and are available for appropriation by the Legislature in the annual Budget Act.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$2,769,000 for financial assistance to hazardous waste control projects in 1986-87, as authorized by Ch 1435/85. This amount consists of the full \$2.6 million appropriated by that act, none of which has been spent to date, plus \$169,000 of estimated accrued interest in the HWRIA. The budget document indicates that the Hazardous Waste Reduction Incentive Program has been gearing up during the current year, and that expenditure of funds in the HWRIA will not begin until 1986-87.

ANALYSIS AND RECOMMENDATION

We recommend approval.

The appropriation of the \$169,000 in accrued interest for financial assistance to hazardous waste control projects is consistent with existing legislation. We therefore recommend that the request be approved as budgeted.
