

**State and Consumer Services Agency  
MUSEUM OF SCIENCE AND INDUSTRY**

Item 1100 from the General  
Fund

Budget p. SCS 1

Requested 1986-87 .....	\$8,307,000
Estimated 1985-86.....	7,936,000
Actual 1984-85 .....	7,111,000
Requested increase \$371,000 (+4.7 percent)	
Total recommended reduction .....	62,000
Recommendation pending .....	276,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,288,000
Reimbursements	—	19,000
Total		\$8,307,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. Parking Lot Operations. Withhold recommendation on (a) \$276,000 requested for administrative costs and (b) an unspecified amount requested for parking lot operations, pending receipt of additional information. 116
2. *Afro-American Museum Librarian. Reduce Item 1100-001-001 by \$46,000.* Recommend that a proposed position be eliminated because it will not be needed in budget year. 117
3. Museum Contracts. Recommend adoption of Budget Bill language requiring notification of the Legislature prior to approval of certain museum contracts. 117
4. *Technical Reductions. Reduce Item 1100-001-001 by \$16,000.* Recommend reduction to eliminate funding for overbudgeted items. 117

**GENERAL PROGRAM STATEMENT**

The Museum of Science and Industry (MSI) is an educational, civic, and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor. The museum's programs and exhibits are designed to stimulate the public's interest in and knowledge of science, economics, and industry. A portion of the program is financed by the Museum Foundation Fund, which is supported by private contributions. Several of the museum's facilities are available to public and private groups for various functions.

The museum also owns and operates 26 acres of public parking which are made available for the use of its patrons, as well as patrons of the adjacent coliseum, sports arena, and swimming stadium. These facilities are all located in Exposition Park, which is owned by the state and maintained through the museum. In addition to providing security for its own facilities, the museum is responsible for security in Exposition Park.

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture (MAHC). The MAHC was established

**MUSEUM OF SCIENCE AND INDUSTRY—Continued**

by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board.

The museum has 132.6 authorized positions in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$8,288,000 from the General Fund to support the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1986-87. This is \$371,000, or 4.7 percent, more than estimated current-year expenditures.

The General Fund request includes \$1,243,000 for support of the Museum of Afro-American History and Culture (including the museum's share of administrative costs) in 1986-87. This is an increase of \$109,000, or 9.6 percent, over estimated current-year expenditures.

The budget proposal does not include full funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the museum will have to absorb approximately \$55,000 of these costs.

In addition to the \$8.3 million requested from the General Fund, the museum proposes to spend \$19,000 in reimbursements and an estimated \$705,000 to be provided by the California Museum Foundation of Los Angeles in 1986-87. Table 1 shows the museum's expenditures for the past, current, and budget years.

**Table 1**  
**Museum of Science and Industry**  
**Budget Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Programs	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change from 1985-86</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	
<b>Education:</b>							
Museum Operations .....	91.2	79.3	79.3	\$4,718	\$4,835	\$5,157	6.7%
Science Workshop .....	—	—	—	30	59	58	-1.7
Aerospace Science Museum ....	1.0	1.0	3.0	168	256	332	29.7
Afro-American Museum .....	5.1	4.8	6.7	530	788	877	11.3
Hall of Economics and Finance	3.3	3.9	3.9	146	263	281	6.8
Subtotals, Education .....	(100.6)	(89.0)	(92.9)	(\$5,592)	(\$6,201)	(\$6,705)	(8.1%)
<b>Administration:</b>							
Administrative Services .....	20.8	23.6	23.6	\$874	\$909	\$960	5.6%
Parking Lot Operations .....	13.6	3.8	3.8	370	480	276	-42.5
Afro-American Museum .....	7.1	8.1	8.1	275	346	366	5.8
Subtotals, Administration .....	(41.5)	(35.5)	(35.5)	(\$1,519)	(\$1,735)	(\$1,602)	(-7.7%)
<b>Totals.....</b>	<b>142.1</b>	<b>124.5</b>	<b>128.4</b>	<b>\$7,111</b>	<b>\$7,936</b>	<b>\$8,307</b>	<b>4.7%</b>
<b>Funding Source</b>							
General Fund .....				\$7,102	\$7,917	\$8,288	4.7%
Reimbursements .....				9	19	19	—
Foundation .....				(1,707)	(798)	(705)	(-11.7%)

The \$371,000 increase in General Fund expenditures proposed for 1986-87 reflects several workload and program changes, as well as baseline adjustments needed to maintain the museum's current level of activity. These changes are detailed in Table 2.

**Table 2**  
**Museum of Science and Industry**  
**Proposed 1986-87 Budget Changes**  
**(dollars in thousands)**

	<i>General Fund</i>
1985-86 Expenditures (Revised) .....	\$7,917
<i>Baseline Adjustments</i>	
Salary and Benefit Increases .....	215
Salary Savings Adjustment .....	-6
Current-Year Deficiency Adjustment, FLSA .....	-63
Contracts for Exhibit and Plant Maintenance .....	58
Miscellaneous Adjustments .....	40
Subtotal, Baseline Adjustments .....	(\$244)
<i>Workload Changes</i>	
Administrator, Aerospace Science .....	63
Temporary Help, Curatorial .....	18
Subtotal, Workload Changes .....	(\$81)
<i>Program Changes</i>	
Senior Librarian, Afro-American Museum .....	46
1986-87 Expenditures (Proposed) .....	\$8,288
Change from 1985-86:	
Amount .....	\$371
Percent .....	4.7%

## ANALYSIS AND RECOMMENDATIONS

### Museum Foundation Undertaking Second Major Fund Drive

Prior to the 1984 Olympic Games, the nonprofit California Museum Foundation of Los Angeles conducted a private fund-raising effort on behalf of the Museum of Science and Industry. The museum used the \$36 million raised by the foundation to construct the Mark Taper Hall of Economics and Finance; complete the Museum of Aerospace Science, including the adjoining Air and Space Garden and IMAX Theater; remodel the existing Armory Building; renovate and replace exhibits in the main building and Hall of Health; and build a pedestrian mall next to the main building.

In October 1985, the foundation initiated a second major fund drive, with a goal of raising \$20 million by the end of 1987. Among other things, the funds would be used to:

- Complete all current projects, including the financing of existing exhibits and the improvement of new exhibits;
- Complete the Hall of Health and related exhibits, and the exhibits in the Mark Taper Hall of Economics and Finance;
- Construct new exhibits on chemistry, biology, physics, computers, and California wine, and improvements to the IMAX theater;
- Expand the natural resources exhibit to include sections on earthquakes and pollution;

**MUSEUM OF SCIENCE AND INDUSTRY—Continued**

- Install rockets in the outdoor Air and Space Garden;
- Remodel the Armory to allow expansion of aerospace exhibits; and
- Create a reserve for general operating funds, which could be used in part to defray maintenance costs.

As of January 1986, the foundation had received approximately \$1 million in donations in conjunction with this effort.

While these various capital outlay and exhibit-related projects would be financed through private contributions, they would directly affect the future level of the museum's state-financed operating costs related to plant maintenance, security, and general administration.

**Status of Parking Lot Operations Remains Unclear**

*We withhold recommendation on (1) \$276,000 in museum administration expenditures and (2) an unspecified amount in external consulting funds requested for parking lot operations, pending receipt of additional information on how these services will be provided in the current and budget years.*

Last year, the budget for the museum requested \$265,000 to fund a contract providing for parking lot operations in Exposition Park during 1985–86. The Legislature approved this amount but required the museum to continue operating the parking lot using museum employees. Of the amount appropriated, \$200,000 was intended to support 14.4 temporary positions and \$65,000 was for a contract with the state police to provide parking lot security services. The Governor approved the \$265,000, but vetoed the 14.4 positions and instructed the museum to use the funds to contract for the operation of the parking lots.

The museum has administratively established positions so that it could continue to operate the parking lots. At the time this analysis was prepared, however, the museum was planning to enter into a contract with the Los Angeles Memorial Coliseum Commission to operate the lots, beginning about February 1986.

The action being contemplated by the museum would be contrary to the Legislature's intent, and would appear to violate Government Code Section 13332.15, which specifies that "no appropriation may be . . . used . . . to achieve any purpose which has been denied by any formal action of the Legislature." Should the museum enter into any such contract during the current year, it will have to first provide a 30 days' advance notice to the Legislature, in accordance with the Budget Act of 1985.

The 1986–87 Governor's Budget assumes that the proposed contract will be continued in the budget year. The museum also proposes to spend \$276,000 in order to administer certain parking lots.

We have several concerns regarding the proposals. First, we do not know the details—including the cost—of the proposed contract. Second, we believe that the museum's plan to finance the contract directly from parking lot revenues, instead of through an appropriation, would weaken the Legislature's ability to monitor and control the museum's operations. Finally, we had not received enough information on the proposed \$276,000 to justify that request.

Until we receive additional information on the details of the proposed contract, and on the nature and extent of the museum staff's involvement in parking lot operations, we withhold recommendation on this request.

**Library Position for Afro-American Museum Should Be Shelved**

*We recommend the elimination of \$46,000 requested for a senior librarian in the Afro-American Museum because the proposal is premature.*

The budget proposes to add the position of senior librarian to the staff of the Afro-American Museum in 1986-87. The librarian would staff the museum's library facility, assist in the preliminary preparation of exhibits, and contribute to the museum's educational activities and programs.

Currently, the museum has space reserved for a library, but the specialized shelving needed to accommodate book donations has not yet been acquired. Nor does the Governor's Budget propose any support or capital outlay funding for such shelving in 1986-87. This shelving is estimated to cost \$195,000.

As there is no need to staff a facility that is not operational, we recommend that the \$46,000 and 1.0 personnel-year budgeted for a senior librarian position be deleted.

**Budget Act Provision Should Be Retained**

*We recommend that the Legislature amend the Budget Bill to include language contained in each of the last three budget acts requiring the museum to report on proposed contracts.*

In every year since 1983, the Budget Act has included language which requires the museum to notify the Legislature prior to signing certain contracts. This language, however, was not included in the 1986 Budget Bill. In light of the museum's proposal to contract for parking lot operations (see above), we believe the language is needed to facilitate legislative oversight. Consequently, we recommend that the Legislature amend the Budget Bill to include the following language:

2. The Director of General Services may not approve a contract, permit, or lease agreement by the museum (excluding those for museum exhibits), which reduces state revenues or increases state costs by \$25,000 or more, unless, not sooner than 30 days prior to giving his or her approval, the director submits in writing to the Chairperson of the Joint Legislative Budget Committee notification of the director's intent to approve such contract, permit, or lease, or not sooner than such lesser time as the chairperson may in each instance determine.

**Technical Recommendations**

*We recommend a reduction of \$16,000 in order to eliminate overbudgeted funds in the following areas:*

- **Computer Purchase.** The museum proposes to purchase an IBM PC XT and software in 1986-87 to replace obsolete equipment used in the business office for accounting and bookkeeping. The museum supports its request for this equipment by citing the potential savings in clerical support and overtime that the equipment will make possible. Our analysis indicates that the computer purchase is warranted. The budget, however, should reflect the savings cited by the department. Accordingly, we recommend a reduction of \$13,000, the purchase cost of the computer system, in personal services.
- **Elevator Maintenance.** The 1986-87 budget proposes a General Fund augmentation of \$7,000 for maintenance contracts on two new elevators, one in the Aerospace Museum and the other in the Hall of Economics and Finance. The warranties on these elevators have expired, requiring additional funds to maintain them adequately. Based

MUSEUM OF SCIENCE AND INDUSTRY—Continued

on information provided by the State Architect's Office, service for this type of elevator can be provided for approximately \$2,000 per year, per elevator. Accordingly, we recommend a reduction of \$3,000 to correct for this overbudgeting.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY

Item 1100-301 from the General  
Fund, Special Account for  
Capital Outlay

Budget p. SCS 4

Requested 1986-87 .....	\$376,000
Recommended reduction .....	316,000
Recommendation pending .....	60,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
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- 1. Asbestos Ceiling Removal. Withhold recommendation on Item 1100-301-036(1). Recommend that the Department of Finance allocate funds to develop plans and a cost estimate for removing the asbestos prior to budget hearings. 118
- 2. Minor Capital Outlay. Reduce Item 1110-301-036(2) by \$316,000. Recommend deletion of two minor capital outlay projects because neither the need nor the cost has been substantiated. 119

ANALYSIS AND RECOMMENDATIONS

The budget proposed \$376,000 for the museum's capital outlay program in 1986-87. This includes one major project—a study and preliminary plans to remove asbestos—and two minor projects.

Asbestos Removal Should Be Funded This Year

*We withhold recommendation on \$60,000 requested for a study and preliminary plans for asbestos removal at the museum because this project can proceed without further study. We recommend that, prior to budget hearings, the Department of Finance allocate funds available in the current year to permit the preparation of plans and a cost estimate for the Legislature's consideration.*

The budget proposes \$60,000 to finance a study and develop preliminary plans for removing asbestos from the east wing of the museum. The proposed study would investigate the cost efficiency and health implications of removing asbestos in several phases, rather than one phase. The Budget Bill also includes language stating that the museum project would be eligible for unallocated funds proposed under Item 9860-301-036. The use of these funds would be contingent on the Department of Finance approving the plans for and cost of the asbestos removal. There would be no further review of the project by the Legislature.

Our analysis indicates that little will be gained by the proposed study.

Last year, the Office of State Architect contracted for a study of the asbestos problem at the museum. The study, completed in March 1985, indicates that airborne asbestos in the east wing of the museum reach 60 percent of the Cal-OSHA allowable level during peak museum hours. The consultants estimate that removing the asbestos in a single phase would require closing the east wing for 60-70 days. Dividing the task into phases would require closing only a portion of the wing at a time, but it would increase the hazard of exposing museum visitors and exhibits to asbestos particles. Phasing the project also would cost about \$95,000 more.

Given the documented conditions at the museum, we see no reason to continue to study the situation and delay removal of the asbestos. Consequently, we urge the Department of Finance to immediately transfer available funds to the Office of State Architect for preparation of plans and a cost estimate for removing the asbestos at the museum. This information should be available prior to budget hearings to allow the Legislature to consider appropriating funds for working drawings and construction in the budget year.

Pending receipt of the plans and cost estimate, we withhold recommendation on the \$60,000 requested under this item.

#### **Minor Capital Outlay**

*We recommend deletion of Item 1100-301-036(2), minor projects, for a savings of \$316,000 because the projects are not justified.*

The budget provides \$316,000 for two fire safety projects. The first project is to install fire sprinklers in the basement of the Armory Building (\$133,000) and a portion of a room in the Aerospace Building (\$20,000). The second project is to put an automated fire and smoke detection system in the entire museum complex (\$163,000).

We recognize the necessity of meeting fire code requirements in state buildings, however, the museum has been unable to provide any data to substantiate the need for or cost of these projects. The information submitted is simply a brief description outlining the desire to make the subject installations. Consequently, we have no basis to recommend approval of either minor capital outlay project. If, prior to hearings, the museum submits additional information detailing any fire safety deficiencies and how these projects would correct these problems, we will review the information and prepare a supplemental analysis.

#### **Supplemental Report Language**

For purposes of project definition and control, we recommend that supplemental report language be adopted by the fiscal subcommittees which describes the scope of each of the capital outlay projects approved under this item.

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

Items 1110-1655 from various  
funds

Budget p. SCS 4

Requested 1986-87 .....	\$118,108,000
Estimated 1985-86 .....	115,060,000
Actual 1984-85 .....	98,866,000
Requested increase \$3,048,000 (+2.6 percent)	
Total recommended reduction .....	570,000
Recommendation pending .....	1,182,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1110-401—Departmental Control Provision		0
1120-001-704—Board of Accountancy	Accountancy	\$2,742,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	1,708,000
1140-006-001—State Athletic Commission	General	663,000
1140-006-492—State Athletic Commission	Boxer's Neurological Examination Account	488,000
1150-008-128—Bureau of Automotive Repair	Automotive Repair	7,471,000
1150-008-420—Bureau of Automotive Repair	Vehicle Inspection	26,980,000
1160-010-713—Board of Barber Examiners	Barber Examiners	788,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	809,000
1180-014-717—Cemetery Board	Cemetery	278,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	673,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjustor	2,854,000
1230-020-735—Contractors State License Board	Contractors' License	20,034,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	3,133,000
1260-024-741—Board of Dental Examiners	State Dentistry	2,265,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	635,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,174,000
1300-030-180—Bureau of Personnel Services	Personnel Services	646,000
1320-034-745—Board of Dry Cleaning and Fabric Care	Dry Cleaning and Fabric Care	959,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	518,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	203,000
1350-040-001—State Board of Guide Dogs for the Blind	General	27,000
1360-042-752—Bureau of Home Furnishings	Bureau of Home Furnishings	2,024,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	292,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	14,195,000
1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	165,000



1400-048-108—Board of Medical Quality Assurance	Acupuncturists	437,000
1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	200,000
1420-052-759—Board of Medical Quality Assurance	Physical Therapy	324,000
1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	313,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	578,000
1450-058-310—Board of Medical Quality Assurance	Psychology	885,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	590,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	209,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	301,000
1480-064-763—Board of Optometry	State Optometry	381,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	2,664,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners	112,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	3,443,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	4,917,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	253,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	2,036,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	102,000
1540-076-406—Tax Preparers Program	Tax Preparers	339,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	604,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	93,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	2,214,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	489,000
1640-086-001—Division of Consumer Services	General	1,333,000
1640-086-702—Division of Consumer Services	Distributed	(763,000)
1650-088-001—Consumer Advisory Council	General	113,000
1655-090-702—Administrative Services	Consumer Affairs	1,648,000
1655-090-702—Administrative Services Reimbursements	Distributed	(12,405,000)
		<u>1,806,000</u>
Total State Funds Requested		\$118,108,000

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Division of Administration. Recommend the adoption of supplemental report language continuing the depart-

*Analysis*  
*page*

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**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

- ment's special computer task force to guide implementation of the advanced computer project.
2. **Division of Administration. Reduce Item 1655-090-702 by \$138,000.** Recommend reduction to correct for over-budgeting of Teale Data Center services. 125
  3. **Potential Fund Deficiencies.** Recommend that by March 15, 1986, six boards (see Table 3 for a listing of these boards) report to the fiscal committees on steps they are taking to assure sufficient surpluses in their respective funds. 127
  4. **Excessive Fund Surpluses.** Recommend that by March 15, 1986, the Respiratory Care Examining Committee, the Structural Pest Control Board, and the Tax Preparers Program report to the fiscal committees on their plans for reducing excessive surpluses in their respective funds. 128
  5. **Board of Accountancy.** Withhold recommendation on \$119,000 in Item 1120-001-704 for an automated telephone answering system pending further information from the board as to the costs and benefits of the system. 128
  6. **State Athletic Commission. Reduce Item 1140-006-492 by \$100,000.** Recommend a reduction to correct for over-budgeting. Further recommend that the Athletic Commission report to the fiscal committees prior to budget hearings on its progress in establishing an assessment rate and collecting assessments from matches since January 1, 1986. 129
  7. **Bureau of Automotive Repair.** Recommend adoption of supplemental report language requiring the bureau, in coordination with the Department of Motor Vehicles, to investigate the lack of public compliance with state smog inspection requirements and report to the Legislature regarding potential solutions by December 1, 1986. 130
  8. **Bureau of Automotive Repair.** Recommend enactment of legislation amending Biennial Vehicle Inspection Program procedures to accommodate high technology vehicles. 130
  9. **Contractors State License Board. Reduce Item 1230-020-735 by \$265,000.** Recommend reduction of amount requested for automated telephone answering equipment because the request is premature. 131
  10. **Contractors State License Board. Reduce Item 1230-020-735 by \$67,000.** Recommend reduction of funds proposed for electronic data processing contractual services because the request has not been justified. 132
  11. **Board of Funeral Directors and Embalmers.** Withhold recommendation on \$522,000 in Item 1330-036-750 pending information from the board as to how it will eliminate the fund deficiency in 1986-87. 132
  12. **Board of Medical Quality Assurance.** Recommend that four limited-term program technician positions be extended to June 30, 1987, rather than be made permanent. 133
  13. **Board of Professional Engineers and Land Surveyors.** Withhold recommendation on \$541,000 in Item 1500-068- 133

770 for implementation of the soil engineer licensing program pending information from the board as to how it will eliminate the fund deficiency in 1986-87.

### GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Ch 1394/70) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

The department has four major components: (1) the 41 regulatory agencies, which include boards, bureaus, programs, committees and commissions; (2) the Division of Administration; (3) the Division of Investigation; and (4) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only the five bureaus and one program are under the direct statutory control of the director.

Each of the 41 agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations.

*The Division of Administration* provides centralized fiscal, personnel, legal, and building maintenance support services, on a pro rata basis, to all of the constituent agencies.

*The Division of Investigation* provides investigative and inspection services to most constituent agencies. A few boards and bureaus, however, have their own inspectors and investigators.

*The Division of Consumer Services* is responsible for statewide consumer protection activities, which include research and advertising compliance, representation and intervention, and consumer education and information. This division also prepares consumer protection legislation.

The department is authorized 1,640.2 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget requests \$116,302,000 from various funds for support of the department and its constituent agencies in 1986-87. This is \$3,038,000, or 2.7 percent, more than estimated expenditures from these funds in the current year.

The budget also proposes expenditures of \$1,806,000 from reimbursements, raising total expenditures to \$118,108,000 in 1986-87. This is \$3,048,000, or 2.6 percent, more than estimated total expenditures from all sources in the current year.

Of the \$118,108,000 that the department proposes to spend in 1986-87, \$16,406,000 would be used to support the department. This amount consists of \$2,122,000 for the support of the Division of Consumer Services, \$8,960,000 for the Division of Administration, and \$3,676,000 for the Division of Investigation, and \$1,648,000 for building and maintenance costs. The remaining \$101,702,000 would be spent for support of the various boards and bureaus. Table 1 presents the department's total expenditures, by division, during the three-year period ending 1986-87.

## DEPARTMENT OF CONSUMER AFFAIRS—Continued

**Table 1**  
**Department of Consumer Affairs**  
**Budget Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Division	Personnel-Years			Expenditures			Percent Change From
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
Consumer Services .....	36.9	37.0	37.0	\$1,776	\$1,963	\$2,122	8.1%
Administration .....	138.8	143.8	144.8	7,503	8,523	8,960	5.1
Investigation .....	65.2	67.6	66.6	3,325	3,760	3,676	-2.2
Building and Maintenance .....	—	—	—	1,633	1,737	1,648	-5.1
Totals .....	240.9	248.4	248.4	\$14,237	\$15,983	\$16,406	2.6
Funding Source							
General Fund .....				\$1,133	\$1,228	\$1,333	8.6
Consumer Affairs Fund .....				2,274	2,446	2,411	-1.4
Distributed to other programs .....				10,614	12,036	12,405	3.1
Reimbursements .....				216	273	257	-5.9

**ANALYSIS AND RECOMMENDATIONS****DIVISION OF ADMINISTRATION****Continuation of Special Computer Task Force is Needed**

*We recommend that the Legislature adopt supplemental report language to (1) continue the special computer task force created in the current year to guide the Department of Consumer Affairs in managing and implementing its advanced computer project and (2) require periodic reports on the progress of the project (Item 1655-090-702).*

The 1985 Budget Act appropriated \$587,000 to the department for Phase I of its advanced computer project. This is a departmentwide project that is intended to provide support services for the department's constituent bureaus and licensing agencies. Implementation of this system has been a long-term goal of the Legislature.

The department's project consists of four phases. The first phase would automate the license and registration renewal processes over a two-year period, at a total cost of \$1.5 million. In accordance with the Legislature's directive, the project is overseen by a task force and is managed by experienced data processing personnel. The task force consists of representatives of the department, the Office of Information Technology, Franchise Tax Board, and the Teale Data Center.

A data processing policy and procedures committee also has been formed by the department to review and prioritize the needs of the various boards and bureaus which will be utilizing the system. This committee consists of 12 members from the department's Division of Administration and staff from some of the larger boards.

It appears that the project is being effectively managed and is making significant progress. Nevertheless, we believe that continuation of the task force is desirable until all four phases of the project have been implemented successfully. This is a complex undertaking which needs the oversight, control and technical expertise that the task force can provide. To assure that the task force is continued, we recommend that the Legislature adopt the following supplemental report language:

**"Advanced Computer Project.** The Department of Consumer Affairs shall continue a special task force through 1986-87 to guide the department's project to upgrade and expand its computer system. At a minimum, the special task force shall consist of (1) the department's data processing manager, (2) a representative of the Office of Information Technology (OIT), (3) a representative of the Teale Data Center, and (4) a representative of the Franchise Tax Board's data processing center. The task force shall submit to the chairpersons of the fiscal committees and the Chairman of the Joint Legislative Budget Committee, the following reports:

- a. Feasibility study reports for each phase of the project.
- b. Quarterly project progress reports including associated expenditures."

### **Teale Data Center Services Are Overbudgeted**

*We recommend that the Legislature reduce the amount requested for Teale Data Center services by \$138,000 to correct for overbudgeting (Item 1655-090-702).*

Included in the department's request for implementation of the advanced computer system is \$416,000 for services to be provided by the Teale Data Center (TDC). The department's supporting information, however, shows that the use of second shift processing at a discounted rate will reduce Teale service costs to \$278,000. Accordingly, we recommend that the Legislature reduce the amount by \$138,000.

### **CONSUMER ADVISORY COUNCIL**

*We recommend approval.*

The Consumer Advisory Council was established by the 1970 Consumer Affairs Act to (1) study consumer issues, (2) conduct hearings, and (3) make recommendations to the Governor, Legislature, and department concerning various issues. The council consists of seven members appointed by the Governor, and two ex-officio members appointed by the Chairman of the Senate Rules Committee and the Speaker of the Assembly.

The department is requesting \$113,000 to support the council's activities in 1986-87. This is an increase of \$11,000, or 10.8 percent, over current year expenditures. This increase results, in part, from Ch 502/85 (AB 857), which provides \$50 per day per diem for the members of the council. Previously, the members were reimbursed for their actual travel expenses.

### **BOARDS AND BUREAUS**

#### **Boards, Bureaus and Committees Whose Budgets Contain No Significant Issues**

Our analysis indicates that the proposed 1986-87 budgets for a number of boards, bureaus, and committees raise no significant fiscal issues that warrant separate write-ups in this analysis. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases which our review show to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted. This table also reflects the following major budget adjustments:

- **Bureau of Home Furnishings**—A \$123,000 increase, or 6.5 percent, over current-year expenditures. The increase is primarily due to a

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

\$99,000 increase in workload.

- **Respiratory Care Committee**—A \$44,000 increase, or 7.7 percent, over current-year expenditures. The increase reflects various workload adjustments.
- **Polygraph Examiners Board**—A \$20,000 increase, or 22 percent, over current-year expenditures. The increase reflects workload adjustments.
- **Board of Optometry**—\$182,000, or 32 percent, decrease from the current-year level. The decrease results from a one-time increase in the current-year budget to cover the costs of processing a backlog in its enforcement workload. The board is requesting an increase of \$42,000 over its baseline budget for continued processing of the backlog in 1986-87.

Based on our review, we recommend that the Legislature approve of the budgets proposed for the boards, bureaus, and committees listed in Table 2.

**Table 2**  
**Department of Consumer Affairs**  
**Boards, Bureaus, and Committees**  
**Recommend Approval as Budgeted**  
**(dollars in thousands)**

Item	Description	Personnel-Years			Expenditures <sup>a</sup>			Percent Change From 1985-86
		Actual 1984-85	Est. 1985-86	Prop. 1986-87	Actual 1984-85	Est. 1985-86	Prop. 1986-87	
1130	Board of Architectural Examiners	15.1	15.9	15.9	1,464	1,637	1,713	4.6%
1160	Board of Barber Examiners .....	12.9	13.4	13.4	674	729	789	8.2%
1170	Board of Behavioral Science Examiners <sup>b</sup> .....	12.8	14.3	12.6	790	900	835	-7.2%
1180	Cemetery Board.....	4.1	4.0	3.9	239	292	278	-4.8%
1200	Bureau of Collection and Investigative Services:							
	(1) Collection agencies .....	9.3	10.3	10.3	540	632	677	7.1%
	(2) Private investigators .....	41.2	45.8	45.8	3,081	3,833	3,892	1.5%
1240	Board of Cosmetology .....	39.9	41.1	40.3	2,697	3,016	3,154	4.6%
1260	Board of Dental Examiners <sup>b</sup> .....	27.4	31.1	29.8	1,886	2,287	2,276	-0.5%
1270	Board of Dental Examiners—Dental Auxiliary.....	8.2	8.3	8.3	495	624	639	2.4%
1280	Bureau of Electronic and Appliance Repair <sup>b</sup> .....	15.1	15.2	14.5	980	1,126	1,174	4.3%
1300	Bureau of Personnel Services.....	7.2	7.3	7.3	586	636	646	1.6%
1320	Board of Dry Cleaning and Fabric Care <sup>b</sup> .....	10.8	10.0	10.0	858	975	959	-1.6%
1340	Board of Registration for Geologists & Geophysicists.....	3.2	3.0	3.0	168	197	203	3.0%
1350	State Board of Guide Dogs for the Blind .....	0.3	0.3	0.3	16	26	27	3.8%
1360	Bureau of Home Furnishings .....	23.9	24.8	24.5	1,502	1,901	2,024	6.5%
1370	Board of Landscape Architects ..	2.2	2.8	2.7	234	278	292	5.0%
1390-047	Dispensing Opticians .....	1.0	1.0	1.0	90	150	165	10.0%
1400	Acupuncturists .....	5.7	7.5	7.5	322	465	437	-6.0%
1410	Hearing Aid Dispensers .....	1.7	1.9	2.2	149	184	204	10.9%
1420	Physical Therapy .....	3.1	3.1	3.1	275	329	340	3.3%
1430	Physicians Assistant .....	3.1	3.3	3.3	234	300	316	5.3%

1440	Podiatry .....	3.4	3.6	3.6	302	594	582	-2.0%
1450	Psychology .....	7.1	7.7	7.7	645	1,020	902	-11.6%
1455	Respiratory Care <sup>c</sup> .....	6.5	7.9	5.7	487	572	616	7.7%
1460	Speech Pathology & Audiology Examining Committee .....	3.2	3.1	3.1	172	198	209	5.6%
1470	Board of Examiners of Nursing Home Administrators .....	3.6	3.5	3.5	234	297	302	1.7%
1480	Board of Optometry .....	5.2	4.4	4.4	330	569	387	-32.0%
1490	Board of Pharmacy .....	31.8	33.8	33.3	2,317	2,572	2,698	4.9%
1495	Polygraph Examiners Board <sup>b</sup> .....	0.9	1.5	1.8	54	92	112	21.7%
1510	Board of Registered Nursing .....	57.8	59.9	58.9	4,345	5,062	4,995	-1.3%
1530	Structural Pest Control Board <sup>c</sup> ..	24.5	26.5	26.5	1,654	2,033	2,140	5.3%
1540	Tax Preparers Program <sup>c</sup> .....	5.1	5.2	5.2	311	347	354	2.0%
1560	Board of Examiners in Veterinary Medicine: <sup>b</sup>							
	(1) Veterinarians .....	4.9	4.2	3.9	540	611	616	0.8%
	(2) Animal health technicians ....	1.0	1.4	1.4	64	94	93	-1.1%
1590	Board of Vocational Nurse and Psychiatric Technician Examin- ers:							
	(1) Vocational Nurse .....	21.8	25.0	24.7	1,673	2,137	2,230	4.4%
	(2) Psychiatric Technician .....	2.6	3.9	3.9	388	489	489	—

<sup>a</sup> The expenditure amounts include reimbursements.

<sup>b</sup> The bureau and the boards face potential fund balance problems in 1986-87.

<sup>c</sup> The program and boards will have large surpluses in their funds in 1986-87.

### Potential Fund Deficiencies

*We recommend that by March 15, 1986, specified boards and bureaus report to the fiscal committees on the steps they are taking to assure sufficient surpluses in their respective funds.*

Generally, special funds that derive revenues from licensing activities should maintain a surplus equal to about three months' operating expenses (25 percent of annual expenditures). Our analysis indicates that some of the special funds established for the various boards and bureaus are likely to have fund balances during 1986-87 that fail to meet this standard.

**Table 3**  
**Department of Consumer Affairs**  
**Boards and Bureaus With**  
**Potential Fund Deficiencies in 1986-87**  
**(dollars in thousands)**

Item Number	Board/Bureau	Fund Balance		Total Proposed Expenditures 1986-87 <sup>a</sup>	1986-87 Fund Balance as a Percent of Total 1986-87 Expenditures
		1985-86	1986-87		
1170-012-773	Behavioral Science Examiners	\$293	\$146	\$809	18.0%
1260-024-741	Dental Examiners <sup>b</sup> .....	189	122	2,265	5.4
1280-028-325	Electronic and Appliance Re- pair <sup>b</sup> .....	210	34	1,174	2.9
1320-034-745	Dry Cleaning and Fabric Care	465	138	959	14.4
1495-067-297	Polygraph Examiners .....	—	2	112	1.8
1560-078-777	Examiners in Veterinary Medi- cine <sup>b</sup> .....	441	45	604	7.5

<sup>a</sup> Total expenditures are net of reimbursements.

<sup>b</sup> Currently, some of the board's fees are set at less than the statutory maximum.

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate surpluses. We recommend that these boards and bureaus report to the fiscal committees on steps they are taking to assure that the balances in their funds will be sufficient to meet their cash flow needs during 1986-87.

**Excessive Fund Surpluses**

*We recommend that by March 15, 1986, the Respiratory Care Examining Committee (Item 1455-059-319), the Structural Pest Control Board (Item 1530-074-775) and the Tax Preparers Program (Item 1540-076-406) report to the fiscal committees on their plans for reducing the surpluses in their respective funds to more reasonable levels.*

Section 128.5 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered funds in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Our analysis indicates that the following funds will have surpluses on June 30, 1986 which exceed projected disbursements for two years:

- The Respiratory Care Examining Committee (excessive surplus of about \$1.9 million).
- The Structural Pest Control Board (\$4.5 million).
- The Tax Preparers Program (\$697,000).

Accordingly, we recommend that the Respiratory Care Examining Committee, the Structural Pest Control Board, and the Tax Preparers Program report to the fiscal committees by March 15, 1986 on their plans for reducing the excessive surpluses in their funds.

**BOARD OF ACCOUNTANCY**

The Board of Accountancy regulates certified public accountants and public accountants. The budget request for the board in 1986-87 seeks an increase of \$285,000 or 11.5 percent, above current-year expenditures. This increase consists of (1) a \$47,000 increase for salary and benefit adjustments and (2) a \$238,000 for various workload adjustments and equipment.

**Telecommunications Upgrade Lacks Justification**

*We withhold recommendation on \$119,000 for support of an automated telephone answering system and a reduction of 1.1 personnel-years pending further information from the board as to the costs and benefits of the system (Item 1120-001-704).*

The board is requesting an augmentation of \$119,000 for an automated telephone answering system. In anticipation of the system the board also is proposing a reduction of 1.1 personnel-years.

The board indicates it has an increasing telephone workload and has received complaints about the inefficiency of its existing system. The board's current system consists of three phones with six local lines and a toll free line from the Los Angeles area. The majority of its inquiries come from the Los Angeles area.

The system proposed by the board would provide the board with the ability to make recorded messages that can answer informational requests.



This information would be available 24-hours a day so that individuals can take advantage of the lower telephone rates that prevail after 5 p.m. Although it appears that the board may be in need of this equipment, it has not provided sufficient information on the benefits of the project in order to justify the cost of the systems. Accordingly, we withhold our recommendation on the \$119,000 for the system, pending receipt of information from the board as to the costs and benefits of the system.

### **ATHLETIC COMMISSION**

The Athletic Commission regulates boxing and full-contact karate participants and exhibitions. The commission is requesting \$1.2 million from the General Fund for support and neurological exams in 1986-87. This is \$528,000, or 85 percent, over estimated expenditures in the current year. This increase consists of (1) \$40,000 for salary and workload adjustments, and (2) \$488,000 for neurological exams and other operating expenses.

#### **Cost of Neurological Exams are Overestimated**

*We recommend that the Legislature reduce by \$100,000, the amount requested by the State Athletic Commission for neurological exams. We further recommend that the commission report to the fiscal committees prior to budget hearings on its progress in establishing an assessment rate and collecting assessments from matches since January 1, 1986 (Item 1140-006-492).*

Chapter 1242/85 (AB 240) requires professional boxing applicants and licensees, upon license renewal, to complete a neurological exam. The costs associated with this requirement are to be supported by assessments levied on promoters of professional boxing matches starting January 1, 1986. The proceeds from these assessments are to be deposited in the Boxers Neurological Examination Account in the General Fund.

At the time this analysis was prepared, the commission had not made any assessments pursuant to Chapter 1242. In fact, it had not even established an assessment rate.

The commission is requesting an augmentation of \$488,000 and 0.5 personnel-years, in order to implement Ch 1242/85. Of the total, \$477,000 is for neurological exams. Supporting information provided by the commission, however, indicates that the cost of 755 exams given in 1986-87 will be \$377,500, at a cost of \$500 per exam. This is approximately \$100,000 less than the amount requested. Consequently, we recommend the commission's budget be reduced by \$100,000. We further recommend that prior to budget hearings the commission report to the fiscal committees on its progress in establishing an assessment rate and collecting the assessments from promoters of matches that have been held since January 1, 1986.

### **BUREAU OF AUTOMOTIVE REPAIR**

The Bureau of Automotive Repair (BAR) is responsible for (1) the registration of automotive repair dealers, (2) the licensing of official lamp and brake inspection stations, (3) the protection of consumers through a program of inspection and complaint handling, and (4) a major automobile exhaust emissions inspection program that is designed to reduce the level of pollutants emitted by motor vehicles registered in California.

The bureau is requesting \$34.5 million for support of its programs in 1986-87. This is \$529,000 less than current-year expenditures. Specifically, the budget requests \$7.5 million from the Automotive Repair Fund for support of the automotive repair program and \$27.0 million from the

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

Vehicle Inspection Fund for support of the Biennial Vehicle Inspection Program (BVIP) in 1986-87. The budget proposes an increase of \$303,000 in the automotive repair program consisting of (1) \$280,000 for salary and benefit adjustments, and (2) \$23,000 for workload adjustments. The increase is offset by a decrease of \$832,000 in the BVIP which reflects (1) a \$611,000 increase in personal services and (2) a \$1.4 million decrease in operating expenses.

**Biennial Vehicle Inspection Program (BVIP)**

Pursuant to Chapter 892/82 (SB 33), the bureau administers the Biennial Vehicle Inspection Program (BVIP). This program is intended to satisfy air quality requirements set forth by the Federal Clean Air Act of 1977.

Under the Act, periodic inspections of vehicle emissions are required in "nonattainment areas" throughout the state. Nonattainment areas are those areas in which federal air quality standards are not being met. The bureau operates this program in seven areas of the state: (1) South Coast Air Basin (Log Angeles), (2) San Francisco Bay Area, (3) San Diego area, (4) Sacramento area, (5) Ventura-Santa Barbara area, (6) Fresno area, and (7) Kern County.

**Lack of Public Compliance with Smog Inspection Requirements**

*We recommend that the Legislature adopt supplemental report language requiring the Bureau of Automotive Repair, in cooperation with the Department of Motor Vehicles, to investigate the lack of public compliance with state smog inspection requirements and report to the Legislature by December 1, 1986, on potential solutions to this problem (Item 1150-008-420).*

With the cooperation of the Department of Motor Vehicles (DMV), the bureau administers the BVIP. Recently, DMV has reported that the number of incomplete vehicle registrations has been on the rise. This increase is illustrated by the buildup in fee revenues held in DMV's Uncleared Collections Account. These revenues have grown from \$80 million in January 1983 to \$221 million in September 1985. The DMV attributes most of this increase to the failure of many motorists to complete smog inspections either when vehicle ownership changes or when they are required to obtain smog checks under the BVIP.

Our reading of the data suggests that the problem of motorists' failure to satisfy smog inspection requirements is widespread. So that the Legislature will have better information on the extent of the problem and possible solutions to it, we recommend that the Legislature adopt the following supplemental report language requiring BAR and DMV to investigate the lack of public conformance with smog inspection laws.

*"Smog Inspections.* The Bureau of Automotive Repair, in coordination with the Department of Motor Vehicles, shall investigate the lack of public compliance with state smog inspection requirements and report to the Legislature by December 1, 1986 on alternative ways to successfully address this problem."

**High Technology Vehicles**

*We recommend that the Legislature enact legislation changing Biennial Vehicle Inspection Program procedures to accommodate high technology vehicles by the start of the 1988 model year.*

In recent years, manufacturers have introduced cars with computerized fuel-mixture control and diagnostic systems that tune the engine while it is running for optimum performance and low emissions. When such a high technology system malfunctions, however, it can result in a large increase in emissions without giving the vehicle operator any indication that a problem exists. The complexity of these systems makes proper diagnosis and repair very difficult.

The Air Resources Board (ARB) recently approved a regulation requiring that all 1988 vehicles have on-board diagnostic systems that will alert the motorist and the mechanic when these systems are not working properly. The board expects that many vehicle owners will seek immediate repairs in response to these alerts.

The BVIP smog inspection procedures may need revisions to accommodate the large increase in high technology cars, beginning in 1988. The new testing procedures promise to be more efficient and less costly to the motorist. Accordingly, we recommend that legislation be enacted to change BVIP inspection procedures so as to accommodate high technology cars.

### **CONTRACTORS STATE LICENSE BOARD**

The Contractors State License Board (CSLB) is responsible for licensing and regulating individuals in the construction industry. The budget requests \$20,034,000 from the Contractors License Fund for support of the board and its operations in 1986-87. This is an increase of \$1,382,000, or 7.4 percent over estimated expenditure in the current year. This increase includes (1) a \$1.0 million increase in personal services for workload and salary adjustments, and (2) \$367,000 for operating expenses and equipment.

#### **Interim Computer System**

The 1985 Budget Act appropriated \$400,000 to fund development of an interim computer system for the board's use until the Department of Consumer Affairs fully implements its advance computer system. Our analysis indicates that the board is making good progress on this project and its feasibility study report (FSR) probably will be approved soon. The proposed system will provide the board's headquarters and 24 field offices with on-line access, through the Teale Data Center, to contractor license files and enforcement actions. Full implementation of the system is planned in 1986-87.

#### **Automated Phone Answering Equipment**

*We recommend that the Legislature delete \$265,000 requested for automated telephone answering equipment because the request is premature (Item 1230-020-735).*

The board is requesting \$265,000 for an automated phone answering system. This system would consist of three automated phone centers located in Sacramento, San Jose, and Los Angeles providing 24-hour service.

The board indicates that the new system will enable it to (1) provide more current information to the public, licensees, and governmental entities and (2) handle a growing workload of calls.

Our analysis indicates that an automated answering system should not be procured until (1) a feasibility study report for the system is completed and (2) the board's interim computer system is fully implemented and its information inquiry workload is better distributed among the board's of-

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

fices. At that time, the board's needs for an automated answering system can be determined. Accordingly, we recommend that the Legislature delete \$265,000 requested for automated telephone answering system.

**EDP Contractual Services**

*We recommend that the Legislature delete \$67,000 requested for EDP contractual services because the request has not been justified adequately (Item 1230-020-735).*

The board is requesting \$67,000 to purchase consulting services for two electronic data processing projects:

- \$39,000 to study connection of six local building departments to the CSLB computer system or the Teale Data Center;
- \$28,000 for the computerized enforcement system.

**Connection to Local Building Departments.** This project would provide six county building departments with licensing information on contractors. Currently, the board has a pilot project underway which provides the County of Sacramento with licensing information that is updated daily.

It is evident that the six local building departments will be the beneficiaries of this project. Accordingly, it is reasonable for them to reimburse the board for the cost of obtaining technical expertise. On this basis, we recommend that the Legislature delete \$39,000 requested for this project.

**Computerized Enforcement System.** The board is requesting \$28,000 to make further improvements to the computerized enforcement element in its interim computer system. This system will be fully operational in 1986-87. The request has not been justified adequately, and may duplicate funds already available in the current year for implementation of the interim system. On this basis, we recommend that the Legislature delete \$28,000 requested for this project.

**BOARD OF FUNERAL DIRECTORS AND EMBALMERS**

The Board of Funeral Directors and Embalmers is requesting \$522,000 from the Funeral Directors and Embalmers Fund and reimbursements for support in 1986-87. This is an increase of \$17,000, or 3.4 percent, over current year expenditures. The increase reflects (1) a \$13,000 increase in salary and benefit adjustments and (2) \$4,000 in operating expenses.

**Serious Funding Deficiency**

*We withhold recommendation on \$522,000 for the Board of Funeral Directors and Embalmers pending information from the board as to how it will eliminate the \$191,000 fund deficit in 1986-87 (Item 1330-036-750).*

Our analysis of the Funeral Directors' and Embalmers Fund status indicates that the fund will be facing a \$191,000 deficit in 1986-87. The board's licensing fees are currently at their statutory maximum. The board has attempted to increase its licensing fees by introducing Assembly Bill 1804 which was passed by both houses in September 1985 but was subsequently vetoed by the Governor on September 30, 1985. Accordingly, we withhold recommendation on the board's proposed budget pending further information from the board as to how it will eliminate the \$191,000 deficit in 1986-87.

**BOARD OF MEDICAL QUALITY ASSURANCE**

The Board of Medical Quality Assurance licenses and regulates physicians and surgeons. The budget requests \$14.9 million from the Contingent Fund of the Board of Medical Quality Assurance, distributions, and reimbursements for support of the board's operations in 1986-87. This is a \$745,000, or 5.3 percent, increase over current year expenditures. The increase consists of (1) \$554,000 in workload and salary adjustments, and (2) \$191,000 for contractual services, travel, and other operating costs.

**Licensing Workload for Foreign Medical Graduates**

*We recommend that the four limited-term positions be extended to June 30, 1987 rather than be made permanent.*

The board is requesting \$116,000 to convert four limited-term positions, which are scheduled to terminate on June 30, 1986, to permanent status. These program technician positions review and process applications for licensure.

Information provided by the board indicates that applications processed on behalf of foreign medical graduates constitute about 50 percent of the board's application processing workload.

Chapter 1176, Statutes of 1985 (AB 1859), requires that, effective June 1, 1986, foreign medical graduates, be certified by the Educational Commission for Foreign Medical Graduates in order to take the Federation Licensing Exam (FLEX). Our analysis indicates that Chapter 1176 should serve to reduce the number of applications which the commission receives from foreign medical graduates and, thus, should reduce the number of exams that the board must administer.

Consequently, we recommend that these four limited-term positions be extended to June 30, 1987, rather than be made permanent. Limiting the positions will allow the Legislature to review the workload impact of Chapter 1176 next year and determine at that time if the positions should be made permanent.

**BOARD OF PROFESSIONAL ENGINEERS AND LAND SURVEYORS**

The Board of Professional Engineers and Land Surveyors is responsible for regulating the various branches of the engineering practice. The board is requesting \$3.4 million from the Professional Engineers' and Land Surveyor's Fund in 1986-87. This is an increase of \$502,000, or 17 percent, over current year expenditures. The increase consists of (1) an \$80,000 increase for salary and benefit adjustments, and (2) a \$422,000 increase in operating expenses for workload adjustments.

**Fund Deficit**

*We withhold recommendation on the board's request for \$541,000 for support of its soil engineering program pending further information from the board as to how it will eliminate the projected fund deficit in 1986-87 (Item 1500-068-770).*

The board is requesting an augmentation of \$541,000, including a reduction of 0.4 personnel-years, to implement its soil engineering licensing program. The board anticipates receiving 400 exam applications and grandfathering 5,000 engineers into the program in 1986-87. It also anticipates receiving a number of appeals to the grandfathering process, some of which may reach the state supreme court.

Our review of the status of the Professional Engineers' and Land Sur-

**DEPARTMENT OF CONSUMER AFFAIRS—Continued**

veyor's Fund indicates that there will be a deficit of \$313,000 by the end of 1986-87. Consequently, we withhold our recommendation on the \$541,000 for support of its soil engineering program pending further information from the board as to how it will eliminate the fund deficiency.

**CERTIFIED SHORTHAND REPORTERS BOARD***We recommend approval.*

The Certified Shorthand Reports Board is requesting \$254,000 from the Shorthand Reporters Fund and reimbursements in 1986-87. This is a decrease of \$322,000, or 55.9 percent, from current year expenditures. This decrease reflects the sunset of the Transcript Reimbursement Fund program. This program reimburses applicants for the cost of court transcripts for cases involving low income litigants. Such cases are normally funded by license fees paid by Certified Shorthand Reporters. Legislation (AB 380) was introduced and passed by both houses in the current session to repeal the sunset provision. The Governor vetoed the bill September 28, 1985. Accordingly, we recommend approval of the board's proposed budget.

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**State and Consumer Services Agency**
**DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING**

Item 1700 from the General

Fund and Federal Trust Fund

Budget p. SCS 81

Requested 1986-87 .....	\$10,609,000
Estimated 1985-86.....	10,046,000
Actual 1984-85 .....	9,464,000
Requested increase \$563,000 (+5.6 percent)	
Total recommended reduction .....	7,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1700-001-001—Support	General	\$10,609,000
1700-001-890—Support	Federal Trust	(\$2,066,000)

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**
*Analysis  
page*

1. Rent Shortfalls. Recommend department report at budget hearings on the discrepancy between funds budgeted for rent and projected rental costs. 136
2. Distribution of Office Workload. Recommend that the department report at budget hearings on how it will eliminate the wide disparities in district office case inventories and close all cases within the statutory time limit. 137
3. *Training Equipment. Reduce Item 1700-001-001 by \$7,000.* 138  
Recommend the deletion of funds because existing equipment is adequate to meet the department's training needs.

### GENERAL PROGRAM STATEMENT

The Department of Fair Employment and Housing enforces laws which promote equal opportunity in housing, employment, and public accommodations. These laws prohibit discrimination on the basis of race, religion, creed, national origin, ancestry, sex, marital status, physical handicap, medical condition, and age.

During the past year, the department consolidated its three program divisions into two divisions:

- **The Enforcement Division** is responsible for investigating and enforcing the state's anti-discrimination statutes relating to employment, housing and public accommodations.
- **The Administrative Services Division** provides administrative support to the department, including accounting, budget, personnel and legal services. This division also is responsible for the development of policy, educational programs, and legislative affairs.

The department has 255.3 authorized positions in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of \$10,609,000 from the General Fund for support of the Department of Fair Employment and Housing (DFEH) in 1986-87. This is \$563,000, or 5.6 percent, more than estimated current-year expenditures. The budget proposes total expenditures from all sources, including federal funds and reimbursements, of \$12,675,000 in 1986-87. This is \$563,000, or 4.6 percent, more than estimated current-year expenditures. The growth is due entirely to cost-of-living increases for salary and benefits (about \$510,000) and to a \$54,000 increase for rent.

Table 1 presents a summary of the department's expenditures, by program and funding source, for the three-year period ending June 30, 1987.

**Table 1**  
**Department of Fair Employment and Housing**  
**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	
Enforcement .....	203.9	210.5	210.5	\$9,487	\$10,030	\$10,493	4.6%
Administrative Services .....	40.8	37.9	37.9	1,969	2,082	2,182	4.8
Totals .....	244.7	248.4	248.4	\$11,456	\$12,112	\$12,675	4.6%
Funding Source							
General Fund .....				\$9,464	\$10,046	\$10,609	5.6%
Federal Trust Fund .....				1,835	2,066	2,066	0.0
Reimbursements .....				157	—	—	—

Table 1 indicates that the General Fund appropriation finances approximately 84 percent of the department's expenditures, while the Federal Trust Fund appropriation supports the remaining 16 percent. Federal support of the state's anti-discrimination activity in employment is linked to an ongoing "work-sharing agreement" between the DFEH and the

**DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued**

federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are subject to the jurisdiction of the EEOC. The reimbursement covers only those cases which are filed pursuant to federal law. In 1985–86, the reimbursement rate is \$422 per EEOC case; the rate is expected to be reduced to \$410 in 1986–87.

The department also maintains a work-sharing agreement with the federal Department of Housing and Urban Development (HUD) under similar terms for enforcement of fair housing standards. In October 1985, HUD raised the reimbursement rate from \$500 per case to \$600 per case.

The budget proposal does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses. We estimate that the department will have to absorb approximately \$200,000 in such costs. According to the department, about \$110,000 of this cut is reflected in the amount budgeted for staff benefits.

**ANALYSIS AND RECOMMENDATIONS****Rental Allowances May Leave DFEH Out in the Cold**

*We recommend that the department report at budget hearings on the discrepancy between the amount budgeted for rent and projected rental costs.*

The department's only request for additional funding in 1986–87 seeks \$54,000 to cover an expected increase in the rent for its Sacramento offices.

We agree that the department will need additional funds for rent in the budget year. The amount requested, however, may fall short of the amount needed. In fact, information provided by DFEH indicates that, even if the \$54,000 augmentation is approved, the department may be short of the amount needed in 1986–87 by at least \$63,000.

This is the second year in a row the amount proposed in the budget for rent has had little to do with the department's needs. For 1985–86, the Legislature augmented the department's rent budget by \$70,000 in order to correct for this underbudgeting. The augmentation, however, is not reflected in the budget for 1986–87.

In order for the Legislature to have an accurate picture of what the department's expenses will be in the budget year, we recommend that the DFEH report at budget hearings on what its rental costs will be in 1986–87 and how it plans to fund any shortfall caused by underbudgeting.

**DFEH Again Plans to Relocate Legal Office**

During the latter part of the 1985 budget hearings, DFEH informed the Legislature that it intended to move its San Francisco legal office (consisting of five staff attorneys) to Sacramento. In response, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* directing the DFEH not to move the office in 1985–86.

The department now plans to move the legal office to its headquarters in Sacramento, effective July 1, 1986. The department estimates that the planned move would result in a *one-time* cost of—at most—\$68,000, which would be offset by savings of \$57,000 in the budget year and \$99,000 annually thereafter.

Our analysis indicates that the costs, which are related primarily to personnel relocation expenses, would be no greater than, and probably much less than, the amount estimated by the department. The DFEH,



however, has grossly overstated the benefits from the move. The department would save money by reducing the amount of space rented in San Francisco, and moving the legal staff into *existing* space in Sacramento. We estimate the savings, however, at about \$34,000 in the budget year and \$56,000 annually thereafter. In any event, from a fiscal perspective the relocation of the legal staff makes sense.

### District Office Workload

*We recommend that the department report at budget hearings on what actions it will take to eliminate the wide disparities in district office case inventories and to ensure that all cases are closed within the statutory deadline.*

The main work of the department—investigating discrimination complaints—is performed by “consultants.” Table 2 shows the average consultant workload in the current year, by district office. It indicates, for example, that each consultant in the Ventura office will: (1) start the current year with an inventory of 42 cases, (2) receive 60 new cases in 1985–86, (3) close 92 cases during the current year, and (4) have a year-end inventory of 10 cases.

**Table 2**  
**Department of Fair Employment and Housing**  
**Consultant Workload**  
**1985–86**

District	Beginning Inventory	Pending Cases Per Consultant		End-of-Year Inventory
		Number of New Cases <sup>a</sup>	Number of Cases Closed <sup>a</sup>	
Oakland.....	60	119	80	99
Bakersfield.....	65	119	108	76
Sacramento.....	58	110	97	71
Fresno.....	53	99	82	70
San Francisco.....	45	114	96	63
San Diego.....	53	89	96	46
Los Angeles.....	58	71	90	39
Santa Ana.....	47	79	91	35
San Jose.....	39	109	118	30
San Bernardino.....	41	71	92	20
Ventura.....	42	60	92	10

<sup>a</sup> Estimates, based on five months of actual data in 1985–86.

We have two major concerns about the information reflected in Table 2. First, it indicates that there is a wide disparity in the case inventories of consultants throughout the state. These disparities mean that an individual filing a complaint in Oakland, Bakersfield or Sacramento will have to wait much longer to have the matter resolved than a person filing a case in Ventura or San Bernardino. There is no reason why such variations should exist.

Second, the table shows that by June 30, 1986 the inventory in the Oakland office could reach such a level (99 cases per consultant) that the department would not be able to close all cases within one year, as it is required to do by existing law. The office's already-large beginning inventory would grow throughout the current year because new cases are coming in at a rate faster than the office can dispose of them.

In light of these concerns, we recommend that the department report

**DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued**

at budget hearings on what actions it will take during the budget year to:

- (1) eliminate the wide disparities in district office case inventories, and
- (2) ensure that all cases—especially those filed in the Oakland office—are closed within the statutory deadline.

**VCR Request Shows Too Much Vision**

*We recommend that \$7,000 requested for equipment purchases be deleted, because the desired level of training can be provided within existing resources. (Reduce Item 1700-001-001 by \$7,000.)*

The budget requests \$7,000 to purchase six video cassette recorders (VCRs) and six monitors, in order to support staff training. The department already has this type of equipment in four of its district offices; with this augmentation, every office would have a VCR and monitor.

Our analysis indicates that the proposed augmentation is unnecessary, because the existing equipment can easily handle the department's training needs. The four sets of equipment, if placed around the state and moved when necessary, can address the department's training needs. Accordingly, we recommend the deletion of the proposed VCR equipment, for a General Fund savings of \$7,000.

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**State and Consumer Services Agency**  
**FAIR EMPLOYMENT AND HOUSING COMMISSION**

Item 1705 from the General  
Fund

Budget p. SCS 83

Requested 1986-87 .....	\$812,000
Estimated 1985-86 .....	770,000
Actual 1984-85 .....	652,000
Requested increase \$42,000 (+5.5 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. In-House Hearing Officers. Recommend that the Legislature adopt supplemental report language directing the Fair Employment and Housing Commission and the Office of Administrative Hearings to take specific action to reduce duplication in writing decisions.

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**GENERAL PROGRAM STATEMENT**

The Fair Employment and Housing Commission establishes overall policies for implementing the state's anti-discrimination statutes. State law prohibits discrimination in employment, housing, and public accommodations on the basis of race, religion, creed, color, national origin, sex, marital status, physical handicap, medical condition, and age.

The commission, which is composed of seven members appointed by the Governor to four-year terms, carries out its statutory mandate through five functions:

- (1) **Adjudicatory Proceedings.** The commission hears, through the Office of Administrative Hearings, formal accusations filed by the Department of Fair Employment and Housing, and issues decisions in these cases.
- (2) **Judicial Reviews of Commission Decisions.** Commission staff assist the Attorney General when commission decisions are appealed to the superior and appellate court.
- (3) **Investigation Hearings.** The commission conducts fact-finding hearings on selected matters involving illegal discriminatory activity.
- (4) **Regulatory Hearings.** Section 12935 of the Government Code authorizes the commission to promulgate regulations and standards to implement the state's anti-discrimination statutes.
- (5) **Amicus Curiae Activity.** The commission prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

Prior to January 1982, funding for the commission was provided through the Department of Fair Employment and Housing. Chapter 625, Statutes of 1981, established the commission as an independent entity.

The commission has 12.5 authorized positions in the current year.

#### OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$812,000 from the General Fund to support the Fair Employment and Housing Commission (FEHC) in 1986-87. This is an increase of \$42,000, or 5.5 percent, over estimated current-year expenditures. The increase is due primarily to a \$31,000 inflation adjustment for staff salaries and benefits, and a \$9,000 increase for printing (\$2,000), and training and travel (\$7,000).

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 \$10,000 in such costs.

#### ANALYSIS AND RECOMMENDATIONS

##### In-House Hearing Officers

In last year's *Analysis* (please see pages 150-152), we recommended that the commission establish *in-house* hearing officers to conduct hearings on discrimination accusations and write proposed decisions, in lieu of using administrative law judges (ALJs) employed by the Office of Administrative Hearings (OAH). In recent years, commission legal staff have been *rewriting* the vast majority of the proposed decisions written by these ALJs. Our recommendation was intended to save money by eliminating unnecessary duplication.

In response, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* requiring the commission to report on the fiscal and policy implications of converting to an in-house hearing system.

The FEHC submitted the required report in December 1985. The commission estimates that, to implement an in-house hearing system, it would need four ALJs, and an increase in operating expenses to cover the cost of at least one new regional office. These costs would be offset by savings since the reduction in case rewriting would allow the commission to eliminate one staff attorney.

**FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued**

Our estimates show that, overall, the FEHC proposal would result in *additional* costs, not savings, to the General Fund. This is because the FEHC appears to have greatly overestimated the costs and underestimated the savings from the proposed conversion.

We reevaluated the commission's needs and determined that the FEHC would need a maximum of two, not four, in-house ALJs, and that the FEHC would be able to eliminate at least two attorney positions after converting to in-house ALJs. Under these assumptions, conversion to in-house hearing officers might result in minor savings to the General Fund.

From a fiscal perspective, then, the transfer of the hearing function from OAH to the commission would not generate the level of savings which we had envisioned last year. This is due primarily to the fixed costs FEHC would incur in establishing an in-house process for what is a relatively small caseload.

**Alternative Methods of Reducing Hearing Costs**

In the course of discussing this issue with the FEHC and OAH, we identified several options which could reduce the rewriting of OAH proposed decisions by commission staff. For example:

- The FEHC could document and periodically update "policy guidelines" describing a preferable format of case analysis and methods by which precedents could be recommended and used by OAH ALJs.
- The OAH could designate that a pool of six to 10 of its ALJs be assigned to FEHC hearings so that they would develop a more in-depth knowledge of civil rights laws.
- The Legislature could amend the Administrative Procedure Act to allow FEHC attorneys more flexibility in modifying OAH proposed decisions; then, the FEHC's attorneys would not have to reject the OAH proposals as a whole and entirely rewrite them.
- The FEHC and OAH could meet regularly throughout each year to discuss the commission's reasons for overturning OAH proposals and other areas of disagreement.

If these alternatives were successful in reducing unnecessary duplication, the commission could either reduce existing legal resources or redirect them to other activities. In order to help avoid unnecessary duplication, we recommend that the Legislature adopt the following supplemental report language:

The Legislature finds that the number of OAH proposed decisions being rewritten by commission legal staff is unnecessarily high. It is the intent of the Legislature that the commission and the OAH cooperatively take whatever actions are possible to eliminate this unnecessary duplication. The Legislature directs: (1) the FEHC to document and periodically update "policy guidelines" describing a preferable format of case analysis and methods by which precedents could be recommended, understood, and used by OAH ALJs; (2) the OAH to consider designating a pool of six to 10 ALJs to preside at FEHC hearings; and (3) the FEHC and OAH to meet regularly throughout each year to conduct discussions on the commission's reasons for overturning OAH proposals and other areas of disagreement.

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

Item 1710 from the General  
Fund and various funds

Budget p. SCS 84

Requested 1986-87 .....	\$9,802,000
Estimated 1985-86.....	8,915,000
Actual 1984-85 .....	8,167,000
Requested increase \$887,000 (+9.9 percent)	
Recommended reduction .....	None
Recommendation pending .....	598,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1710-001-001—SFM, support	General	\$4,461,000
1710-001-198—SFM, support	California Fire and Arson Training	1,334,000
1710-001-199—SFM, support	California Fireworks Licensing	314,000
1710-001-209—SFM, support	Hazardous Liquid Pipeline Safety	647,000
1710-001-995—SFM, support	Reimbursements	3,046,000
Total		\$9,802,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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- |  |     |
|--|-----|
| 1. Fireworks Fund Budget. We withhold recommendation on \$314,000 requested from the California Fireworks Licensing Fund, pending receipt of additional information.   | 142 |
| 2. State Building Inspection Operating Expenses. Withhold recommendation on \$284,000 requested from the General Fund for operating expenses associated with 11 new positions, pending receipt of preliminary cost accounting data.        | 143 |
| 3. State Building Inspection Program. Recommend that the Legislature adopt supplemental report language directing the office to submit reports to the Legislature on the implementation of its enhanced State Building Inspection program. | 143 |

**GENERAL PROGRAM STATEMENT**

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

- Developing, maintaining and enforcing safety standards for all state owned/occupied structures, all educational and institutional facilities, public assembly facilities, organized camps, and buildings over 75 feet in height.
- Developing, maintaining and enforcing controls for portable fire extinguishers, explosives, fireworks, decorative materials, fabrics, wearing apparel and hazardous liquid pipelines.

The office is authorized to have 158 positions in the current year.

**OFFICE OF THE STATE FIRE MARSHAL—Continued****OVERVIEW OF THE BUDGET REQUEST**

The budget proposes expenditures of \$9,802,000 for support of the Office of the State Fire Marshal in 1986-87. This is an increase of \$887,000, or 9.9 percent, over estimated current-year expenditures. General Fund expenditures will account for \$4,461,000 of the total, with the remaining \$5,341,000 to come from three special funds and reimbursements.

The budget provides for the following changes which would result in a net cost to the General Fund of \$203,000:

- Eliminate the High-Rise program because localities have assumed responsibility for inspecting these buildings. Increase staffing for the State Building inspection program from 4 to 15. (Net cost to the General Fund: \$767,000.)
- Transfer four positions from the Pipeline Fund to other programs and reduce Pipeline reimbursements by \$294,000 to reflect current estimate of costs. (Net cost to General Fund: \$77,000.)
- Change funding source for three positions to the Fireworks Fund. Reduce fireworks reimbursements by \$130,000 to reflect current estimate. (Net cost to the General Fund: \$41,000.)
- Change funding source for six positions from the General Fund to the Fire and Arson Training Fund. (General Fund savings: \$404,000.)
- Change funding source for six administrative positions and related expenses from General Fund to reimbursable programs. (Net General Fund savings: \$278,000.)

**ANALYSIS AND RECOMMENDATIONS**

The proposed budget reflects substantial and commendable efforts by the State Fire Marshal to align program cost with the appropriate funding source and to redirect staff to the highest priority programs.

The proposed budget:

- shifts funding of 14 positions from the General Fund to special funds. Each of these positions is performing work which appropriately should be charged to the respective special fund;
- corrects overestimates of revenue to two funds;
- provides resources to greatly increase the number of fire safety inspections of state facilities.

**General Fund Cost Increase**

*We withhold recommendation on \$314,000 requested from the California Fireworks Fund, pending receipt of information detailing why changing the funding source for two positions from the General Fund to the Fireworks Fund should cost the General Fund \$41,000.*

The budget reflects a lower estimate of revenues to the Fireworks Fund by \$130,000 and proposes to redirect the cost of two positions from the General Fund to the Fireworks Fund. The source of funding for the positions would be changed because the positions perform work that should appropriately be charged to the Fireworks Fund.

Information provided by the Department of Finance and the Office of the State Fire Marshal indicates that these charges will have a net cost to the General Fund of \$41,000. We have been unable to substantiate this cost. Based on the available information, however, it appears that General Fund support should be reduced by at least \$23,000.

We have asked the State Fire Marshal's office to clarify this matter. To date, we have not received the necessary data. Normally, based on available information, we would recommend a reduction of \$23,000 to the Fire Marshal's budget request. Given the extensive work undertaken by the office in preparation of its 1986-87 budget request and the explanation of other budget changes, we trust that the office can, prior to budget hearings, verify the effect on the General Fund. Under the circumstances, we withhold recommendation on the fireworks portion of the State Fire Marshal's budget, pending receipt of (1) the calculations showing how the office arrived at the increase in costs and (2) information identifying the portion of overhead costs to be distributed to each fund and reimbursement.

#### **Operating Expenses In State Building Inspection Program**

*We withhold recommendation on \$284,000 requested from the General Fund proposed for operating expenses and equipment associated with 11 new positions in the State Building Inspection program, pending receipt of preliminary cost accounting data from the State Fire Marshal.*

The budget provides \$284,000 from the General Fund for operating expenses and equipment costs associated with 11 new positions.

The State Fire Marshal lacks a program-based cost accounting system, and therefore has been unable to substantiate the need for the additional \$284,000. The State Fire Marshal has been developing such a system, and preliminary data for a six-month period will be available prior to budget hearings. Consequently, we withhold our recommendation until the necessary data has been developed.

#### **Report Needed On the State Building Inspection Program**

*We recommend that the Legislature adopt supplemental report language directing the Office of the State Fire Marshal to report on its progress in implementing the proposed enhanced inspection schedule for state buildings.*

The State Fire Marshal's State Building Inspection program currently has two limited-term and two contract positions assigned to inspect 1,400 state-owned or state-leased facilities each year. The office proposes to increase its State Building Inspection program to ensure that all 15,380 state-owned or leased facilities are inspected on a one, three or 5-year schedule, based on occupancy and relative fire risk. Under this enhanced program, fairs, residential, and institutional buildings where fire risk is relatively greater will be inspected annually. Colleges and some businesses will be inspected every three years. Other state-occupied facilities would be inspected every five years.

To accomplish this level of inspection, the budget proposes seven new positions, extends the two limited-term positions, and redirects four positions from the High-Rise program to the State Building Inspection program. The net cost to the General Fund for these changes is \$767,000.

The workload measures used to justify the new positions are based on a two-year audit of the existing four-person inspection staff. This audit information is the best data available, but it represents extremely limited information extrapolated to a more-intense inspection program. The office needs experience under the new program to ascertain the workload after inspectors become familiar with the facilities and less time has elapsed since the last inspection. In addition, it may be possible to concentrate inspections in small geographical regions, thereby reducing travel

**OFFICE OF THE STATE FIRE MARSHAL—Continued**

time. These and other factors could affect the staffing level and/or the frequency of inspections and the relative success of the program.

Consequently, to help the Legislature monitor and assess this new emphasis in inspecting state buildings, we recommend that the Legislature adopt the following supplemental report language:

“The State Fire Marshal shall report to the Legislature by November 1, 1986 and annually thereafter until 1990, on its state building inspection program. At a minimum, the report shall include (1) the building inspection schedule for the coming year, (2) the number and categories of inspections conducted during the previous year, and (3) a statement of the program’s income and expenses.”

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**FRANCHISE TAX BOARD**

Item 1730 from the General

Fund and various special  
funds

Budget p. SCS 88

Requested 1986–87 .....	\$143,970,000
Estimated 1985–86.....	129,007,000
Actual 1984–85 .....	113,165,000
Requested increase \$14,963,000 (+ 11.6 percent)	
Total recommended reduction .....	None
Recommendation pending .....	999,000

**1986–87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1730-001-001—Support	General	\$139,192,000
8640-001-001—Support	General (Political Reform Act)	1,084,000
1730-001-200—Support	Fish and Game Preservation	17,000
1730-001-800—Support	U.S. Olympic Committee	17,000
1730-001-803—Support	State Children’s Trust	18,000
1730-001-905—Support	California Election Campaign	15,000
1730-001-983—Support	California Seniors	16,000
Reimbursements	—	3,611,000
Total		\$143,970,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

Analysis  
page

1. *Baseline Adjustments. Reduce Item 1730-001-001 by \$89,000 and increase reimbursements by \$132,000.* Recommend changes to account for the costs of Merit Salary Adjustments and inflation adjustments to Operating Expenses and Equipment that will be funded by reimbursements from other agencies rather than by the General Fund.

149



2. Tax Return Estimates. Withhold recommendation on \$999,000 requested to accommodate workload growth, pending review of revised estimates of return volumes for the budget year. 150
3. False W-4 Program. Recommend that 30 positions requested for this program be limited in term for two years. 152
4. Telephone Information Center. Recommend adoption of supplemental report language (1) instructing the Department of Finance to include the access rate as a performance measure in the budget for this program, and (2) requiring the Franchise Tax Board to prepare a feasibility study report on the use of automated systems of recorded tax information as a means of responding to taxpayer inquiries. 153
5. Fees for Tax Documents. Recommend enactment of legislation requiring the FTB to charge fees in order to offset the cost of providing certain documents requested by taxpayers. (Potential General Fund savings of \$150,000). 155

### GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT) law, Bank and Corporation (B&C) tax law, Senior Citizens Property Tax Assistance Law, and the Political Reform Act audit program. The board consists of the Director of Finance, the Chairman of the State Board of Equalization, and the State Controller.

An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board.

The PIT and B&C tax programs administered by the board account for over 55 percent of total General Fund revenue. In 1986-87, these taxes are projected to produce \$17.1 billion, which is nearly \$1.6 billion more than the current-year amount. Approximately \$16.3 billion of these revenues are collected as the result of voluntary self-assessments by taxpayers, while the remaining \$800 million will be raised from assessments issued by the board's audit, collections, and filing enforcement programs.

The FTB has 3,011.4 personnel-years authorized for the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$139,192,000 from the General Fund for support of the Franchise Tax Board in 1986-87. This amount is an increase of \$14,855,000, or 12.0 percent, more than estimated General Fund expenditures for the current year.

During 1986-87, the board also expects to receive \$3,611,000 in reimbursements, \$1,084,000 under the Political Reform Act, and \$83,000 from various special funds. Thus, total expenditures proposed for the FTB during the budget year are projected at \$143,970,000, which is \$14,963,000, or 11.6 percent, more than current-year expenditures.

The budget request includes funding for 3,163.6 personnel-years in 1986-87. This is 152.2 personnel-years, or 5 percent, more than the number authorized for the current year.

Table 1 summarizes the level of expenditures and personnel-years for each of the FTB's major programs in the prior, current, and budget years.

**Source of Funds.** The FTB receives direct support from the General Fund for the PIT, B&C, and Homeowners and Renters Assistance programs. The funding for the board's Political Reform Act audit program

**FRANCHISE TAX BOARD—Continued**

is provided under a separate budget item (Item 8640). Contract expenditures are paid from reimbursements charged to other government agencies. In addition, the FTB budget includes funding from the California Election Campaign Fund, the U.S. Olympic Committee Fund, the California Seniors Fund, the Fish and Game Fund, and the Children's Trust Fund. These funds are provided to the board in order to cover its costs for processing voluntary contributions made by taxpayers to special programs supported by these funds.

**Table 1**  
**Franchise Tax Board**  
**Program Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Program	Personnel-Years			Expenditures			Percent Change from 1985-86
	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Actual 1984-85	Est. 1985-86	Prop. 1986-87	
Personal Income Tax .....	1,972	1,896	2,042	\$76,444	\$85,318	\$95,828	12.3%
Bank & Corporation Tax.....	705	748	791	30,311	37,457	41,695	11.3
Homeowners and Renters Assistance.....	41	39	40	1,566	1,715	1,818	6.0
Political Reform Act.....	18	17	17	821	1,042	1,084	4.0
Contract Work .....	122	104	90	4,023	3,475	3,545	2.0
Administration Distributed.....	217	207	204	(8,835)	(9,614)	(9,738)	1.3
Totals .....	3,075	3,011	3,164	\$113,165	\$129,007	\$143,970	11.6%
Funding Source							
General Fund.....	2,935	2,885	3,052	\$108,085	\$124,337	\$139,192	12.0%
Reimbursements .....	122	104	90	4,229	3,541	3,611	2.0
Political Reform Act (General Fund) .....	18	17	17	821	1,042	1,084	4.0
Fish and Game Fund.....	—	1	1	7	17	17	—
U.S. Olympic Committee Fund .....	—	1	1	3	17	17	—
State Children's Trust Fund....	—	1	1	8	18	18	—
Federal Trust Fund .....	—	—	—	—	4	—	—
California Election Campaign Fund .....	—	1	1	10	15	15	—
California Seniors Fund.....	—	1	1	2	16	16	—

**General Fund Expenditures.** Over 95 percent of the FTB budget is funded from the General Fund. Table 2 summarizes the General Fund expenditures proposed by FTB for the budget year.

As Table 2 shows, the PIT program accounts for over two-thirds of what the board proposes to spend from the General Fund in 1986-87. Most of the remaining expenditures are attributable to the B&C tax program. Table 2 also shows how much FTB plans to spend for various functions. About 36 percent of the board's budgeted General Fund expenditure is for processing tax returns and providing assistance to taxpayers, while 36 percent is for audits and 22 percent is for tax collection activities.

**Table 2**  
**Franchise Tax Board**  
**Program Functions Supported by the General Fund**  
**1986-87**  
**(dollars in thousands)**

Function	PIT Program		B&C Program		HRA Program		Total	
	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total
Processing/Taxpayer Assistance ....	\$39,618	41.4%	\$8,277	19.9%	\$1,818	100.0%	\$49,713	35.7%
Audit .....	25,975	27.1	23,483	56.3	—	—	49,458	35.5
Collections .....	22,471	23.5	7,732	18.6	—	—	30,203	21.7
Filing Enforcement .....	7,681	8.0	936	2.2	—	—	8,617	6.2
Exempt Corporations .....	—	—	1,267	3.0	—	—	1,267	0.9
Administration (Distributed) .....	(1,851)	—	(2,643)	—	(140)	—	(4,634)	—
Totals .....	\$95,745	100.0%	\$41,695	100.0%	\$1,818	100.0%	\$139,258 <sup>a</sup>	100.0%
Percent of General Fund Expenditures .....	68.8%		29.9%		1.3%		100.0%	

a. This amount is \$66,000 higher than the General Fund appropriation (\$139,152,000) because it reflects \$66,000 in reimbursements from the contract work program for general administrative expenses.

Abbreviations:

PIT = Personal Income Tax

B&C = Bank and Corporation Tax

HRA = Homeowners and Renters Assistance Program

**FRANCHISE TAX BOARD—Continued**

Finally, Table 2 shows the relative importance of the various functions for each of the three major programs administered by FTB. Return processing and taxpayer assistance account for over 41 percent of total General Fund expenditures under the PIT program, but only 20 percent of expenditures under the B&C program. In contrast, audit activities account for 56 percent of expenditures under the B&C program, but only 27 percent of expenditures under the PIT program.

**Table 3**  
**Franchise Tax Board**  
**Proposed 1986-87 Budget Changes**  
**(dollars in thousands)**

	<i>General Fund</i>	<i>Reimbursements, Transfers and Special Funds</i>	<i>Total</i>
1985-86 Current Year Estimated.....	\$124,337 <sup>a</sup>	\$4,670	\$129,007
Baseline Adjustments			
Personal Services			
Salary Increases .....	4,907	224	5,131
Staff Benefits.....	235	13	248
Merit Salary Adjustments .....	1,336	—	1,336
OE&E Price Increase.....	1,348	—	1,348
Elimination of Limited-Term Positions .....	-712	—	-712
Elimination of One-Time Costs and other adjustments .....	-3,012	-411	-3,423
Full-Year Costs .....	2,625	—	2,625
Other .....	-4	—	-4
Subtotal, Baseline Adjustments .....	6,723	-174	6,549
Workload Adjustments			
Return Processing and Taxpayer As- sistance .....	3,443	282	3,725
Program Changes			
False W-4 Program .....	938	—	938
Audit Workplan .....	2,301	—	2,301
Enforcement Workplan .....	1,713	—	1,713
Elimination of Managerial Supervisory Positions .....	-263	—	-263
Subtotal, Program Adjustments .....	4,689	—	4,689
1986-87 Budget Request .....	\$139,192	\$4,778	\$143,970
Change from 1985-86			
Amount .....	\$14,855	\$108	\$14,963
Percent.....	12.0%	2.1%	12.0%

<sup>a</sup> Excludes amount funded under the Political Reform Act. This funding is included as a transfer.

**Proposed Changes to the Budget.** Table 3 identifies the changes that account for the proposed increase of \$14,963,000 in the FTB's budget. As the table shows, nearly one-half of the increase can be attributed to *baseline adjustments* for the costs of salary and staff benefits increases, merit salary adjustments, price increases, and the full-year costs of programs started in the current year. These cost increases will be partially offset by reductions reflecting the elimination of limited-term positions and certain one-time costs.

The second largest category of budget increases includes *program changes*. Among these changes are augmentations of \$2.3 million for additional audits, \$1.7 million for additional collection activities, and \$938,000 to continue the program for identifying taxpayers who avoid withholding

by filing false W-4 statements. In addition to these changes, the budget also reflects an *administrative reduction* of \$263,000, due to the elimination of managerial and supervisory positions (6 personnel-years) pursuant to a directive by the Department of Finance. (The budget also provides \$2.7 million for "revenue enhancements," but these funds will be used to finance baseline adjustments for MSA and OE&E cost increases).

The other significant change to FTB's budget is the increase of \$3,725,000 for *workload growth*. Among other factors, this increase reflects the added costs of processing an increased number of returns expected to be filed with FTB in 1986-87.

### **Impact of the Governor's 1985 Vetoes**

The Legislature approved a total of \$120,264,000 from the General Fund for support of the FTB during 1985-86. This amount reflected several important changes to the budget proposed by the Governor, including augmentations of \$1,526,000 for additional audits, \$1,037,000 for workload growth, and \$100,000 for the board's toll-free telephone information service.

The Governor vetoed the funding appropriated by the Legislature for additional audits and the telephone information service. We estimate that the veto of the additional \$1.5 million appropriated by the Legislature for audits will result in a *\$10 million revenue loss to the General Fund in the current year*. Similarly, the veto of the \$100,000 legislative augmentation for the information center will prevent the board from answering an additional 48,000 phone calls from taxpayers needing help.

## **ANALYSIS AND RECOMMENDATIONS**

### **A Budget Shell-Game**

*We recommend that Item 1730-001-001 be reduced by \$89,000 and that reimbursements be increased by \$132,000, to account for the costs of Merit Salary Adjustments and inflation adjustments to Operating Expenses and Equipment that will be funded by reimbursements from other agencies rather than by the General Fund.*

The budget includes \$2,684,000 for support of various "revenue enhancement" activities. The administration claims that these activities will generate \$18.9 million in revenues to the General Fund during 1986-87.

Our review of this proposal raises questions regarding the purpose for this request, the amount of revenue that can be attributed to it, and the amount of funding needed to accomplish the administration's objectives. In particular, our analysis indicates that:

1. *The additional funds are apparently intended to compensate for the fact the board's baseline budget has been shortchanged.* The administration's general policy is *not* to provide state agencies and departments with the full amount of funding they need in order to pay for Merit Salary Adjustments (MSAs) and inflation adjustments to Operating Expenses and Equipment (OE&E) in 1986-87. In FTB's case, the shortfall amounts to \$2,684,000—\$1,336,000 for MSAs and \$1,348,000 for OE&E price increases. Interestingly, the administration has requested an augmentation to the board's budget for "revenue enhancements" amounting to \$2,684,000! In fact, the types of expenditures that are to be paid for with these funds—such as increased postage and printing costs due to price changes and merit salary increases—are precisely the types of costs that normally are funded through adjustments to the board's base budget. Thus, there is nothing "additional" in the additional funding for revenue enhancements. The "augmentation" simply backfills for cuts elsewhere in the FTB's budget.

**FRANCHISE TAX BOARD—Continued**

2. *The “additional” revenue attributed to the “augmentation” is not new revenue.* The budget claims that the requested funding for revenue enhancements will generate \$18.9 million in 1986–87. These funds, however, do *not* represent an addition to the General Fund; it simply replaces the revenue that is lost as a result of the administration’s decision not to provide the board with the funds necessary to cover the cost of MSAs and OE&E price increases. The loss occurs because, without adequate funding for these costs, the board would have to redirect funds away from other programs, particularly audits and collection, which generate revenue to the General Fund.

3. *The amount requested from the General Fund is overstated.* The budget proposes to increase the FTB’s General Fund appropriation in Item 1730 by \$2,684,000—presumably to pay the costs of MSAs and OE&E price increases. Our analysis indicates, however, that \$132,000 of these costs are attributable to the FTB’s contract work program, which is funded through reimbursements charged to other agencies rather than to the FTB’s direct appropriation from the General Fund. In addition, \$43,000 of the overbudgeted General Fund amount should be charged to the board’s appropriation under Item 8640 for its Political Reform Act (PRA) activities. Accordingly, we recommend the deletion of ~~\$89,000~~ (\$132,000 less \$43,000) from FTB’s General Fund appropriation in Item 1730 and an increase of \$132,000 from reimbursements.

**Return Processing Workload Estimates Should Be Updated**

*We withhold recommendation on \$999,000 requested for workload growth, pending review of revised estimates of the returns to be processed during the budget year.*

The proposed 1986–87 budget for FTB includes an increase of \$3,725,000 to accommodate the workload growth for various return processing, taxpayer assistance, and other tax administrative activities. Of this amount, \$1,968,000 will be used to replace or upgrade data processing systems and equipment, \$358,000 will cover certain increased costs for the board’s Telephone Information service, and \$400,000 will cover the costs to relocate several district offices and other administrative expenses. The remaining \$999,000 reflects the estimated increase in the volume of tax returns to be processed.

The amount that FTB is requesting for workload growth is based, in part, on the estimated volume of tax returns to be received and processed during the budget year. The board projects that it will process approximately 13.8 million returns during 1986–87, as shown in Table 4. This is an increase of 313,000 returns, or 2.3 percent, over the estimated volume for the current year.

The FTB’s projections are based primarily on estimates of various economic and demographic variables that are believed to affect the total volume of returns filed by California taxpayers. Given the timing of the budget process, the board had to develop these projections using economic data available during July 1985. Since then, however, the economic outlook has changed, and current projections for certain variables differ from those used by FTB to estimate tax return volumes. Based on the economic assumptions in the budget, the volume of returns could be 60,000 less than the amount that was used to develop the board’s budget request.

**Table 4**  
**Franchise Tax Board**  
**Tax Return Volumes**  
**1984-85 to 1986-87**  
**(in thousands)**

Type of Returns	Number of Returns			Change from	
	1984-85 Actual	1985-86 Estimated	1986-87 Projected	1985-86 Number	Percent
Personal Income Tax .....	11,976	12,646	12,964	318	2.5%
Bank and Corporation .....	468	498	521	23	4.6
Homeowners and Renters.....	331	300	272	-28	-9.3
Totals.....	12,775	13,444	13,757	313	2.3%

The FTB has indicated that it plans to revise its estimates of return processing workload for 1986-87 to account for more recent economic information. Until we have had the opportunity to review the board's revised estimates of tax return volumes, we withhold recommendation on the \$999,000 included in the budget request for workload growth.

#### **Administration Realizes that Additional Audits are a Good Investment**

##### ***We recommend approval.***

The FTB conducts an extensive program for auditing personal income tax and bank and corporation tax returns. The board's audit program is intended to protect these important components of the state's revenue base, which together account for over one-half of total General Fund revenue.

Pursuant to the Legislature's directive, the FTB (1) uses the cost-effectiveness criterion of net assessments per dollar of cost in its audit selection and resource allocation processes, and (2) selects audits and allocates audit resources on the basis of the marginal net assessments expected to be produced. Under this approach, audits with a higher ratio of marginal audit revenue to audit cost are more likely to be conducted than audits with a lower ratio. The ratio of audit revenue to cost also reflects the degree of audit coverage, in terms of the number of returns that the FTB will audit. For a given amount of resources, the board will conduct audits of all accounts with a revenue-to-cost ratio of higher than a certain amount. The *lower* the ratio, therefore, the *greater* the degree of audit coverage.

The budget requests \$49.5 million and 976 personnel-years for the FTB's audit program in 1986-87. This will allow the board to conduct approximately 2.3 million audits and levy net assessments of \$618 million. The proposed funding level includes an *augmentation* of \$2,301,000 and 75.6 personnel-years, which is estimated to generate revenue of \$6.8 million in 1986-87 and \$23.3 annually thereafter. According to the FTB's audit plan, the increased funding will enable the board to perform audits of all returns with a potential revenue-to-cost ratio greater than \$5 to \$1. By comparison, during the current year the FTB is budgeted to conduct two million audits, which have a revenue-to-cost ratio of \$8 to \$1 or greater.

The additional audit resources included in the budget for the FTB would be a good investment for the state. The proposed augmentation also is consistent with previous actions taken by the Legislature, which we recommended, to increase the FTB's audit program. In the past, however,

**FRANCHISE TAX BOARD—Continued**

augmentations have been vetoed by the Governor, even though audit coverage has been on the decline due to funding cutbacks and the additional audits would have produced revenues well in excess of what they would have cost.

On this basis, we recommend approval of the administration's request to increase funding for audits.

**Collections and Filing Enforcement**

*We recommend that the 30 positions proposed to continue the False W-4 program be limited-in-term to two years.*

Through its filing enforcement program, the FTB identifies individuals and businesses who have tax liabilities but have not filed returns. The board's budget request includes \$8,617,000 and 154.3 personnel-years for its PIT and B&C filing enforcement activities in 1986-87. Through the collections program, the board works to collect unpaid liabilities resulting from three types of assessments: audits, filing enforcement actions, and taxpayer self-assessments. The budget includes \$30,203,000 and 615.9 personnel-years for collection activities in the budget year.

The FTB's method for allocating these resources generally is the same as its method for allocating audit resources. That is, the board selects filing enforcement and collection actions based on the estimated revenue that can be produced per dollar of costs. For the current year, the FTB is budgeted to process accounts with an estimated revenue-to-cost ratio of \$10 to \$1 or greater.

**Budget Year Augmentation.** The budget proposes to add \$2,651,000 and 86.5 personnel-years to the FTB's filing enforcement and collections programs. Of this amount, \$1,713,000 will allow the board to process collection accounts with a revenue-to-cost ratio of \$5 to \$1 or greater.

The remaining resources—\$938,000 and 30 positions—will be used to continue implementation of the False W-4 program. The W-4 form is a statement used by taxpayers to claim exemptions from state and federal income tax withholding. A large number of individuals have been able to avoid paying taxes by claiming a false number of exemptions on the W-4 form and then failing to file a tax return. The board uses data from the federal Internal Revenue Service and other sources to identify these individuals.

**Funding for Increased Collections is Cost-Effective** We believe the \$1,713,000 requested for the FTB's collections and filing enforcement program can be used effectively. Based on the 1986-87 workplan, these resources should produce \$17.5 million in revenue to the General Fund in 1986-87, and \$26.2 million on an ongoing basis. The additional expenditures also will help to counter an alarming increase in the incidence of fraudulent reporting, tax protest, and unreported income. For these reasons, we believe the \$1,713,000 request is justified.

**Positions for the W-4 Program Should be Limited-Term.** The funding proposed for the False W-4 program will allow the board to assess and collect penalties and delinquent taxes, and to develop programs with employers to prevent taxpayers from filing false W-4 forms. The FTB projects that the W-4 program will generate approximately \$10.5 million in 1986-87 and \$13.5 million annually thereafter. Because the program has yet to be fully implemented and tested, however, no information is available to document these estimates. Thus, we are not able to determine at



this time whether the expenditure of these funds will be cost-effective, relative to other collections and audit programs. Accordingly, we recommend that the Legislature approve the proposed funding and positions on a two year limited-term basis. Careful monitoring of this program should produce the information necessary to determine whether it is needed on an ongoing basis.

### **Taxpayer Services Program**

*We recommend that the Legislature adopt supplemental report language (1) instructing the Department of Finance to use the access rate as a performance measure for this program, and (2) requiring the Franchise Tax Board to prepare a feasibility study report on the use of an automated system of recorded tax information to respond to taxpayer inquiries.*

The FTB maintains an extensive program for assisting taxpayers. The three principal components of the program are: (1) telephone assistance provided on a toll-free basis from the Telephone Information Center in Sacramento; (2) written assistance from a correspondence unit (also in Sacramento), and (3) counter assistance at 16 districts located throughout the state.

Table 5 provides workload information for the board's taxpayer services program for the past, current, and budget years. As the table shows, the Information Center is the largest component of the program, handling 56 percent of the requests for assistance. In the current year, the center expects to respond to over 1.9 million phone calls.

**Table 5**  
**Franchise Tax Board**  
**Taxpayer Services Program**  
**Volumes and Types of Assistance**  
**1984-85 to 1986-87**

Type of Assistance	Actual 1984-85	Estimated 1985-86	Projected 1986-87
Telephone Assistance .....	1,775,000	1,896,000	1,929,000
Written Correspondence .....	849,000	1,002,000	918,000
Field Office Contacts .....	551,000	584,000	592,000
Total .....	3,175,000	3,482,000	3,439,000

Approximately 45 percent of the telephone inquiries are requests for forms and information about the PIT, B&C, and HRA programs. The remaining phone calls come mainly from taxpayers who have received audit, collections, and other types of notices from the board. In many cases, the taxpayer is able to resolve his or her questions over the telephone, largely because the staff who handle the calls have "on-line" computerized access to the taxpayer's records and account.

Despite the large number of telephone contacts, the volume of calls *answered* is less than the number of calls actually *placed*. One measure of the service provided by the center is the "access rate"—the percentage of calls that are answered. In recent years, the access rate has declined from 65 percent to approximately 58 percent. This decline has occurred because (1) there has not been an increase in the level of funding for the program, despite the increase in telephone rates, and (2) the board has redirected funds from the Telephone Center to fund other departmental cost increases.

**Funding Changes for Information Center.** The budget includes a

**FRANCHISE TAX BOARD—Continued**

total of \$7,289,000 in funding for the Information Center in 1986-87. This is an increase of \$1,046,000 over the estimated level of expenditures for the current year. The increased funding, however, will *not* provide for a higher level of service. Rather, it will be used to cover salary increases and higher phone rates, and to acquire more long-distance lines needed to accommodate the increase in service demands from taxpayers in the southern part of the state.

***Budget Should Display Information on Access Rate.*** The budget includes a variety of workload and performance measures for the FTB's programs. It shows, for example, the number of tax returns to be processed and the volumes and cost-benefit ratios for audits and collections activities. The statistic used to measure the performance of the Information Center is the total number of telephone calls answered.

In our view a *more appropriate* measure of the center's performance is the access rate. This indicator allows the Legislature to compare the volume of calls answered by the board with the number of calls attempted by taxpayers. Similarly, it provides a summary measure of how the budgeted level of assistance compares to the overall demand for the service. Thus, while the volume of calls is useful for judging the program's *workload*, we believe the access rate provides a better measure of its *performance*. Accordingly, we recommend that the Legislature adopt the following supplemental report language which directs the Department of Finance to add the "access rate" as a performance measure for the FTB's Telephone Information Center:

"It is the intent of the Legislature that the Department of Finance shall include, in the Governor's Budget, the access rate as a performance measure for the Franchise Tax Board's Telephone Information Center."

***Recorded Information Could Improve Productivity and Lower Costs.*** Approximately 30 percent of the calls handled by the Information Center are requests for information on specific tax laws and regulations. Currently, these calls are handled by FTB personnel who rely upon various tax reference materials to answer taxpayers' questions.

The federal Internal Revenue Service (IRS), which also has a telephone information system, relies upon recorded messages, rather than taxpayer representatives, to answer questions about federal tax law. Currently, the IRS has recorded tax information on about 150 topics, which taxpayers can gain access to by dialing specific numbers that are listed in the federal tax booklet. This program is known as Tele-Tax. According to a recent study, the Tele-Tax program has reduced the cost of handling phone requests for tax information. The costs for each automated call is \$1.36, compared with a cost of \$2.33 for each personally assisted call, resulting in a savings of over 40 percent. (The FTB's average cost per call is about \$3.00.)

Given the IRS' experience, we believe the FTB should explore the feasibility of using an automated system of recorded tax information to improve the productivity and lower the costs of its Telephone Information Center. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

"The Franchise Tax Board shall prepare a feasibility study report during the 1986-87 fiscal year on the costs and benefits of implementing an automated system which uses recorded information to respond to telephone inquiries by taxpayers for information needed to file self-assessed returns and claims."

**Board Should Charge for Tax Documents**

*We recommend that the Legislature enact legislation requiring the Franchise Tax Board to charge fees to cover the costs of providing tax documents.*

The FTB often receives requests from individuals and businesses for certain types of tax documents. These include requests for photocopies of tax returns, certificates of tax clearance, and letters of good standing. The documents usually are needed by the taxpayer for purposes such as qualifying for a personal loan or reviving a corporation.

Although existing state statutes generally authorize the FTB to charge fees for these services, the board charges only for copies of B&C tax returns. More of these tax documents should be provided on a fee-for-service basis, however, since the documents generally are used for private business purposes benefiting an individual taxpayer or corporation, rather than the general public.

We note that other state agencies, such as the Secretary of State, charge fees for similar documents, and the IRS charges a fee (\$4.25) for a copy of a taxpayer's federal return. The FTB should do the same. Accordingly, we recommend that the Legislature enact legislation *requiring* the FTB to charge fees to offset the cost of providing tax documents in those cases where the documents are not required by the taxpayer in order to satisfy a state tax liability. Based on the existing volumes of these documents processed by the board, we estimate that the charges would generate revenue in the range of \$150,000 per year.

**State and Consumer Services Agency  
DEPARTMENT OF GENERAL SERVICES**

Item 1760 from various funds Budget p. SCS 99

Requested 1986-87 .....	\$379,890,000
Estimated 1985-86.....	365,119,000
Actual 1984-85 .....	303,612,000
Requested increase \$14,771,000 (+4.0 percent)	
Total recommended reduction .....	8,551,000
Recommendation pending .....	9,549,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations.	General	\$9,021,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by the state.	General (Property Acquisition Law Account)	733,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Money Account)	2,320,000

**DEPARTMENT OF GENERAL SERVICES—Continued**

1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	516,000
1760-001-022—Telecommunications Division. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	896,000
1760-001-026—Departmentwide. For payment of claims resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	6,488,000
1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	3,440,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	3,252,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program	State School Building Lease-Purchase	3,786,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	40,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	76,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,233,000
1760-001-494—Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for state managers.	Various special	130,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	15,101,000
1760-001-066—Departmentwide. For provision of goods and services to agencies.	Service Revolving	278,851,000
1760-001-688—Office of Procurement. For support of Surplus Personal Property program.	Surplus Personal Property Revolving	2,509,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	802,000
1760-001-890—Office of Small and Minority Business. For support of minority business program.	Federal Trust	50,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	405,000
1760-001-988—Office of Insurance. For allocation by Department of Finance to various state agencies to pay for life insurance benefit for state managers.	Various nongovernmental cost	109,000
1760-011-066—Departmentwide. Provides authority whereby funds appropriated for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund, which finances the department's carpool and reproduction services.	Service Revolving	N/A
1760-021-001—Office of Insurance. For allocation by Department of Finance to various state agencies to pay life insurance benefits for state managers.	General	225,000

1760-101-001—Telecommunications Division. For transfer to the State Emergency Telephone Number Account to meet the account's cash-flow needs.	General	(12,838,000)
1760-101-022—Telecommunications Division. For reimbursement of local costs of implementing Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General (State Emergency Telephone Number Account)	49,907,000
Total		\$379,890,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. **Office of State Architect. Reduce Item 1760-001-602 by \$740,000.** Recommend that the Legislature delete \$740,000 requested for consulting services to be provided by the Office of State Architect, in accordance with the action taken by the Legislature in approving the 1985 Budget Act. 165
2. **Capital Outlay Control Unit. Create Item 1760-011-602 and augment by \$740,000.** Recommend that the Budget Bill provide for a new Capital Outlay Control Unit needed to improve the state's capital outlay project delivery system. Further we recommend that budget language be adopted requiring the Director of General Services to establish the unit. 165
3. **Office of State Architect.** Recommend that, prior to budget hearings, the department report to the Legislature on the specific actions it has taken to provide adequate fiscal controls on individual capital outlay projects. 168
4. **Office of State Architect.** Recommend that the Legislature adopt Budget Bill language requiring the department to provide a quarterly report to the Legislature on the appropriations and expenditures for each project assigned to the department. 168
5. **Office of State Architect.** Recommend that, prior to budget hearings, the Departments of Finance and General Services explain to the Legislature how the increased workload associated with the anticipated increase in hospital construction will be handled. 169
6. **Office of Buildings and Grounds.** Recommend adoption of Budget Bill language requiring that janitorial services to be provided on a contractual basis meet or surpass the level of services that the Office of Buildings and Grounds provides. 170
7. **Office of Buildings and Grounds.** Withhold recommendation on \$161,100 requested for three special repair projects to state office buildings, pending receipt of additional information. 172
8. **Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$684,376.** Recommend that funds requested for 19 projects to repair new state buildings be deleted because the work is the responsibility of either project contractors or consulting architects. 173

**DEPARTMENT OF GENERAL SERVICES—Continued**

9. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$293,000.* Recommend funds requested to modernize the San Francisco McAllister Street elevators be deleted because the project should be included in the capital outlay project to remodel the building. 174
10. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$513,097.* Recommend funds for three projects be eliminated because the department has not substantiated the need for or cost of the projects. 174
11. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$1,600,000.* Recommend deletion of funds requested for alterations to the Los Angeles State Building HVAC system because the project should be deferred until the building is remodeled. 174
12. *Office of Buildings and Grounds.* Recommend that, prior to budget hearings, the Director of the Department of General Services report on the state's liability for all special repair projects identified in the department's five-year schedule which are intended for new buildings. 175
13. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$55,000.* Recommend reduction in funds for new equipment items because the department should purchase these items, on a priority basis, using funds in its normal equipment budget. 175
14. *Office of Local Assistance.* Withhold recommendation on the office's budget (\$5,060,000), pending receipt of (a) the department's study on implementation of new workload standards, and (b) a final feasibility report on office automation. 176
15. *Office of Energy Assessment.* Withhold recommendation on the proposed \$3,167,000 budget for the Office of Energy Assessment, pending receipt of the office's annual expenditure report. 177
16. *Building Rental Account. Reduce Item 1760-001-666 by \$6,242,000.* Recommend that the lease-purchase payments and maintenance/janitorial costs associated with the new San Francisco State Office Building be removed from the Building Rental Account and paid by the occupying agency, the Public Utilities Commission. Statewide rental rate should be reduced accordingly. 178
17. *Building Rental Account. Reduce Item 1760-001-666 by \$3,700,000.* Recommend that the \$3.7 million accumulated surplus in the Building Rental Account be transferred to the General Fund. 180
18. *Funding for Managers' Insurance Benefits. Delete Items 1760-001-494 (\$130,000), 1760-001-988 (\$109,000), and 1760-021-001 (\$225,000).* Recommend deletion of these items because funding for ongoing insurance benefits should be included in departmental budgets (total savings of \$464,000). 181
19. *Office of Procurement.* Withhold recommendation on \$1,161,000 budgeted for additional staff and operating expenses in the Office of Procurement, pending receipt and 182

- analysis of consultant's report on the proposed expenditures.
20. Records Storage Facility. Recommend adoption of Budget Bill language to ensure that the Director of General Services selects the most economical method of financing the acquisition and use of additional storage space for the Office of Records Management. 183
  21. Statewide Telephone Acquisition. Recommend adoption of Budget Bill language directing the department to purchase telephone equipment on behalf of those state agencies which fail to initiate this action themselves. 185
  22. *Statewide Telephone Acquisition. Increase Item 1760-001-666 by \$5 million.* Recommend increased spending authority in order to provide the department with the resources it may need to achieve savings through the purchase of telephone equipment. 186
  23. Statewide Telephone Acquisition. Recommend adoption of supplemental report language requiring the department to provide a quarterly report to the Legislature on the department's progress in reducing the amount of telephone equipment leased by state agencies. 186
  24. Office Automation Project. Recommend adoption of Budget Bill language in order to ensure that funds budgeted for an automation project in the Office of Administrative Services will not be spent until the project has been approved by the Department of Finance. 187
  25. Emergency Telephone Program. Recommend deletion of proposed Budget Bill language which would provide blanket authority to the Director of Finance to transfer General Fund money to the program in the budget year, because the need for the language has not been established. 189

### GENERAL PROGRAM STATEMENT

The Department of General Services (DGS) was established to increase the overall efficiency and economy of state government operations. It does this by: (1) providing support services on a centralized basis to operating departments at a lower cost than what these departments otherwise would have to pay if they attempted to secure these services individually; (2) performing management and support functions as assigned by the Governor and as specified by statute; and (3) establishing and enforcing statewide administrative policies and procedures.

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

The department has authorization for 4,046 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$379,890,000 from various funds to support activities of the Department of General Services in 1986-87. This is \$14,771,000, or 4 percent, more than estimated current-year expenditures.

**DEPARTMENT OF GENERAL SERVICES—Continued****Departmental Expenditures by Program**

Table 1 presents the total expenditures of the department, by program element, during the three-year period ending 1986–87. The largest departmental programs, in terms of budget-year expenditures, are Telecommunications (\$106.5 million), Buildings and Grounds (\$60.1 million), Building Rental (\$51.3 million), Procurement (\$40.0 million), and State Printing (\$38.6 million).

**Table 1**  
**Department of General Services**  
**Distribution of Program Expenditures**  
**1984–85 through 1986–87**  
**(dollars in thousands)**

Program	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86	
				Amount	Percent
<b>Property Management Services:</b>					
Architectural consulting and construction services .....	\$15,691	\$20,452	\$23,220	\$2,768	13.5%
Building rental .....	38,926	43,810	51,252	7,442	17.0
Building standards .....	459	470	490	20	4.3
Buildings and grounds .....	48,138	56,812	60,122	3,310	5.8
Energy assessments .....	898	3,144	3,167	23	0.7
Facilities planning and development .....	893	1,009	989	–20	–2.0
Local assistance .....	2,675	4,283	5,060	777	18.1
Real estate services .....	3,611	3,812	4,017	205	5.4
Space management .....	3,512	3,833	4,152	319	8.3
Subtotals, Property Management Services .....	(\$114,803)	(\$137,625)	(\$152,469)	(\$14,844)	(10.8%)
<b>Statewide Support Services:</b>					
Administrative hearings .....	\$4,388	\$4,955	\$5,051	\$96	1.9%
Fleet administration .....	21,321	21,967	23,715	1,748	8.0
Insurance and risk management .....	7,873	8,990	8,953	–37	–0.4
Legal services .....	1,191	1,345	1,329	–16	–1.2
Management technology and planning .....	6,981	8,124	8,508	384	4.7
Procurement .....	35,766	38,657	39,977	1,320	3.4
Records management .....	1,908	1,952	2,239	287	14.7
Small and minority business .....	1,306	1,273	1,308	35	2.7
State police .....	17,721	21,269	23,003	1,734	8.2
State printing .....	35,369	38,026	38,567	541	1.4
Support services .....	11,626	12,361	12,737	376	3.0
Telecommunications .....	81,641	109,945	106,470	–3,475	–3.2
Subtotals, Statewide Support Services .....	(\$227,091)	(\$268,864)	(\$271,857)	(\$2,993)	(1.1%)
<b>Administration:</b>					
Administrative services .....	\$3,082	\$3,102	\$3,528	\$426	13.7%
Executive .....	1,649	1,603	1,660	57	3.6
Fiscal services .....	4,662	5,245	5,501	256	4.9
Subtotals, Administration .....	(\$9,393)	(\$9,950)	(\$10,689)	(\$739)	(7.4%)
<b>Emergency Telephone Number Program (Local Assistance) ...</b>	<b>(\$34,980)</b>	<b>(\$48,885)</b>	<b>(\$49,907)</b>	<b>(\$1,022)</b>	<b>(2.1%)</b>
<b>Totals, All Programs .....</b>	<b>\$351,287</b>	<b>\$416,439</b>	<b>\$435,015</b>	<b>\$18,576</b>	<b>4.5%</b>
<b>Distribution of Intrafund Services .....</b>	<b>47,675</b>	<b>51,320</b>	<b>55,125</b>	<b>3,805</b>	<b>7.4</b>
<b>Totals, Net Expenditures .....</b>	<b>\$303,612</b>	<b>\$365,119</b>	<b>\$379,890</b>	<b>\$14,771</b>	<b>4.0%</b>



The budget proposes several major increases in program expenditures, including increases for Local Assistance (18.1 percent), Building Rental (17.0 percent), Records Management (14.7 percent), Administrative Services (13.7 percent), and Architectural Consulting and Construction Services (13.5 percent).

### Funding Sources for Departmental Expenditures

The department is funded by direct support appropriations and appropriations from revolving funds. Direct support represents funds appropriated for specific purposes (for example, maintenance and security for the Capitol complex). Revolving fund appropriations, on the other hand, permit the department to expend specified amounts from revenues it "earns" by providing services and products to client agencies. These revenues are budgeted initially for operating expenses within the support budgets of the state agencies which purchase goods and services from the Department of General Services. The department then pays its personnel costs and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2 presents a summary of the department's total expenditures, by source of funds, for the three-year period ending 1986-87. The table shows that 78 percent of the department's costs are supported from earned revenues (flowing into revolving funds), while 22 percent are funded by direct support.

**Table 2**  
**Department of General Services**  
**Total Expenditures, By Source of Funds**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Funding Source	Actual 1984-85	Estimated 1985-86	1986-87 Proposed	
			Amount	Percent of Total
<b>Direct Support:</b>				
General Fund .....	\$6,625	\$9,502	\$9,246	2.4%
General Fund (Special Accounts) .....	43,950	59,861	60,860	16.0
Architecture Public Building Fund .....	3,950	5,380	6,692	1.8
California State Police Fund .....	—	40	40	— <sup>a</sup>
Energy Resources Programs Account .....	1,048	1,173	1,233	0.3
Seismic Gas Valve Certification Fund .....	—	75	76	— <sup>a</sup>
State School Building Aid Fund .....	668	664	802	0.2
State School Building Lease-Purchase Fund ..	1,711	3,204	3,786	1.0
State School Deferred Maintenance Fund ....	246	358	405	0.1
Federal Trust Fund .....	63	75	50	— <sup>a</sup>
Unidentified Special Funds .....	—	130	130	— <sup>a</sup>
Unidentified Nongovernmental Cost Funds ..	—	109	109	— <sup>a</sup>
Subtotals, Direct Support .....	(\$58,261)	(\$80,571)	(\$83,429)	(22.0%)
<b>Revolving Funds:</b>				
Architecture Revolving Fund .....	\$10,061	\$13,465	\$15,101	4.0%
Service Revolving Fund .....	233,295	268,470	278,851	73.4
Surplus Personal Property Revolving Fund ..	1,993	2,613	2,509	0.6
Subtotals, Revolving Funds .....	(\$245,349)	(\$284,548)	(\$296,461)	(78.0%)
<b>Total Expenditures .....</b>	<b>\$303,612</b>	<b>\$365,119</b>	<b>\$379,890</b>	<b>100.0%</b>

<sup>a</sup> Less than 0.05 percent.

**DEPARTMENT OF GENERAL SERVICES—Continued**

The budget proposes \$9,246,000 in General Fund expenditures for direct support of departmental activities in 1986-87. This is a reduction of \$256,000, or 2.7 percent, from current-year expenditures. The department's General Fund appropriation pays for maintenance and security within the Capitol complex, a small portion of the architectural consulting and local assistance programs, security for the Governor, and the costs of printing the Governor's Budget. The reduction in General Fund expenditures between the current year and the budget year reflects primarily the impact of a one-time \$1 million appropriation in 1984-85 to improve Capitol security. These funds were spent by the department over a two-year period.

**Program Distribution of Departmental Personnel**

Table 3 identifies the allocation of staff among departmental functions over the three-year period ending 1986-87. As the table indicates, 4,108.4 personnel-years are proposed for the budget year—a net increase of 62.0 personnel-years from the current-year level. The table also shows that in

**Table 3**  
**Department of General Services**  
**Distribution of Personnel-Years, By Program**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Program	Personnel-Years			Percent of Total 1986-87
	Actual 1984-85	Estimated 1985-86	Proposed 1986-87	
<b>Property Management Services:</b>				
Architectural consulting and construction services .....	251.0	298.8	346.6	8.4%
Building standards .....	6.5	6.7	6.7	0.2
Buildings and grounds .....	1,221.2	1,215.6	1,226.2	29.8
Energy assessments .....	11.9	10.5	10.5	0.3
Facilities planning and development .....	14.3	15.2	15.2	0.4
Local assistance .....	56.9	95.5	95.5	2.3
Real estate services .....	55.8	55.1	56.0	1.4
Space management .....	67.4	67.1	67.1	1.6
Subtotals, Property Management Services ..	(1,685.0)	(1,764.5)	(1,823.8)	(44.4%)
<b>Statewide Support Services:</b>				
Administrative hearings .....	62.8	66.4	65.4	1.6%
Fleet administration .....	150.8	147.9	147.9	3.6
Insurance and risk management .....	20.1	19.8	19.8	0.5
Legal services .....	19.2	19.5	19.5	0.5
Management technology and planning .....	127.9	138.0	138.0	3.4
Procurement .....	262.2	261.2	263.9	6.4
Records management .....	37.0	37.3	37.3	0.9
Small and minority business .....	20.7	20.0	20.0	0.5
State police .....	375.4	386.5	386.0	9.4
State printing .....	446.0	436.2	429.6	10.4
Support services .....	196.2	190.9	190.9	4.6
Telecommunications .....	308.3	345.5	351.7	8.6
Subtotals, Statewide Support Services .....	(2,026.6)	(2,069.2)	(2,070.0)	(50.4%)
<b>Administration:</b>				
Administrative services .....	70.2	64.5	65.5	1.6%
Executive .....	21.6	21.9	21.9	0.5
Fiscal services .....	120.7	126.3	127.2	3.1
Subtotals, Administration .....	(212.5)	(212.7)	(214.6)	(5.2%)
<b>Totals .....</b>	<b>3,924.1</b>	<b>4,046.4</b>	<b>4,108.4</b>	<b>100.0%</b>

1986-87, about 44 percent of the department's staff are budgeted in property management services, about 50 percent are budgeted in statewide support services, and the remainder are in administration.

The department proposes only three major staff increases in 1986-87: (1) the addition of 63 personnel-years in the Office of State Architect to conduct inspections of state prison construction sites, (2) an increase of 20.9 personnel-years in the architect's office to address increased workload involving checking school plans for structural safety, and (3) the establishment of 13.1 personnel-years in the Office of Procurement to implement a private consultant's recommendations regarding various operations within the office, as well as to meet workload growth attributable to the state's Prison Construction program.

The department is proposing major personnel-year reductions on the basis of decreased workload in the Surplus Personal Property program within the Office of Procurement (14.2) and in the Office of State Printing (6.6).

### Proposed Budget-Year Changes

**Table 4**  
**Department of General Services**  
**Proposed 1986-87 Budget Changes**  
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds<sup>a</sup></i>	<i>Revolving Funds<sup>b</sup></i>	<i>Total</i>
1985-86 Expenditures (Revised) .....	\$9,502	\$70,960	\$284,657	\$365,119
<i>Baseline Adjustments:</i>				
Salary increase adjustment .....	\$213	\$453	\$4,188	\$4,854
Capitol security improvements .....	-714	—	—	-714
Pro rata charges .....	—	-57	433	376
Miscellaneous adjustments .....	-442	-1,658	-16,189	-18,289
Subtotals, Baseline Adjustments .....	(-\$943)	(-\$1,262)	(-\$11,568)	(-\$13,773)
<i>Workload Changes:</i>				
Building rental (debt service) .....	—	—	\$5,111	\$5,111
Fleet administration (legislative vehicles) .....	\$411	—	1,335	1,746
Local assistance (automation) .....	—	\$572	—	572
Procurement (automation project) .....	—	—	500	500
Procurement (material purchases) .....	—	—	900	900
Procurement (staff increase) .....	—	—	204	204
Records management (warehouse) .....	—	—	217	217
Special repairs (statewide) .....	70	—	9,761	9,831
State architect (capitol outlay unit) .....	—	—	740	740
State architect (prison inspection) .....	—	—	3,213	3,213
State architect (structural safety) .....	—	1,454	—	1,454
State police (communications) .....	198	—	—	198
State printing (various workload) .....	—	—	-341	-341
Telecommunications (equipment) .....	—	—	1,315	1,315
Telecommunications (planning unit) .....	—	—	314	314
Telecommunications ("911" costs) .....	—	2,459	—	2,459
Miscellaneous increases .....	8	—	103	111
Subtotals, Workload Changes .....	(\$687)	(\$4,485)	(\$23,372)	(\$28,544)
1986-87 Expenditures (Proposed) .....	\$9,246	\$74,183	\$296,461	\$379,890
<i>Change from 1985-86:</i>				
Amount .....	-\$256	\$3,223	\$11,804	\$14,771
Percent .....	-2.7%	4.5%	4.1%	4.0%

<sup>a</sup> Includes \$50,000 in expenditures from federal funds.

<sup>b</sup> Includes the Architecture Revolving Fund, the Service Revolving Fund, and the Surplus Personal Property Revolving Fund.

**DEPARTMENT OF GENERAL SERVICES—Continued**

Table 4 shows the changes in the proposed 1986–87 budget resulting from baseline adjustments and workload changes. The table indicates that nearly all of the proposed budget increases are the result of workload changes. The major baseline *increase* is funding for salary increases; these increases are completely offset by baseline reductions throughout the department involving one-time costs in the current year.

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 \$10.1 million in such costs.*

**ANALYSIS AND RECOMMENDATIONS****PROPERTY MANAGEMENT SERVICES****OFFICE OF STATE ARCHITECT**

The Office of State Architect (OSA) provides two basic services. First, OSA provides architectural/engineering (A/E) services and construction inspection services for all state construction projects, as required by law. Second, OSA provides plan checking and inspection services pursuant to (a) the Physically Handicapped Building Access law, (b) the Field Act for school buildings (earthquake safety), (c) hospital seismic safety, and (d) the Essential Services Building Act (state-owned or leased fire stations, police stations, and emergency communication centers).

The budget proposes a total of \$23,220,000 for support of the office's activities in 1986–87. This is an increase of \$2,768,000, or 13.5 percent, over estimated current-year expenditures. The proposed increase reflects (a) an increase of \$1,035,000, associated with plan checking services for structural safety (\$975,000) and handicapped access (\$60,000), (b) an increase of \$2,524,000 in construction inspection services for the Department of Corrections' prison construction program, (c) an increase of \$88,000 for consultant service functions within the OSA, (d) an increase of \$28,000 for new land surveying equipment, and (e) a decrease of \$907,000 to reflect reduced administrative costs and one-time costs for automated equipment and services purchased in 1985–86.

We recommend approval of the following changes to the OSA budget that are not discussed elsewhere in the analysis:

- An increase of \$28,000 for equipment used by OSA field survey personnel, including a four-wheel drive vehicle and electronic measuring gear.

- An increase of \$2,524,000 for additional construction inspection services personnel (48.3 personnel-years) to meet the projected workload requirements of the Department of Corrections' Prison Construction Program.
- An increase of \$1,035,000 for plan checking services, consisting of (1) \$975,000 to fund 15.7 personnel-years to meet projected workload increases associated with school construction plan checking and (2) \$60,000 (1.0 personnel-years) for plan checking related to compliance with handicapped access requirements.

**Positions Deleted by the Legislature are Reestablished by the Director of Finance**

*We recommend that the Legislature delete from Item 1760-001-602, a total of \$740,000 and 14 positions proposed for consulting services in the OSA.*

*Further, we recommend that the Legislature (1) appropriate \$740,000 and 14 positions in Item 1760-011-602, and (2) adopt Budget Bill language which requires the Director of General Services to immediately establish a Capital Outlay Control Unit which reports directly to the Director and is independent of the Office of State Architect.*

**Background.** In acting on the 1985 Budget Bill, the Legislature provided for a new system to manage the design and engineering work on state capital outlay projects. Specifically, it deleted from the 1985 Budget Bill \$652,000 and 14 positions which the administration had requested for the OSA's Consultant Services Unit in 1985-86. In an attempt to improve the state's capital outlay project delivery system, the Legislature augmented the budget for the Department of Finance by \$652,000 and 14 positions in order to staff a Capital Outlay Control Unit (unit).

As envisioned by the Legislature, the State Architect would select the projects that the OSA could accomplish within the time frames established for 1985-86, given the staff assigned to basic architectural and engineering services as specified by the Budget Act. The Capital Outlay Control Unit, in consultation with the State Architect, would then determine which projects the OSA would design using its in-house professional staff. For each project assigned to the OSA, the unit would negotiate a fee and enter into an interagency agreement for services with the State Architect. This agreement would set forth the project schedule and the fees for each phase of the project in the same way as the contracts that OSA enters into with private architectural/engineering firms. The unit would then make progress payments to the OSA, based on the actual work completed.

After selecting the projects to be completed by the OSA, the unit would then select private architectural/engineering firms to undertake the remaining projects. While the use of private firms for projects not designed by the OSA is normal, these firms would be responsible directly to the unit, not to the OSA.

The new process established by the Legislature would have improved the capital outlay delivery system. It would have done so by establishing accountability where now there is none, and by providing incentives for the OSA to improve its performance. The OSA would have had to comply with the provisions of the interagency agreement setting forth the project budget and establishing a time frame for the completion of a project, or it would not be paid. Thus, the OSA would have to perform in much the same manner that private firms under contract to the state must perform.

The Governor vetoed the funds and positions added to the Department

**DEPARTMENT OF GENERAL SERVICES—Continued**

of Finance's budget by the Legislature. In his veto message, the Governor indicated that "to insure that the Capital Outlay Project estimating (sic) process function is performed, I am recommending that the Legislature authorize urgency legislation to re-establish the \$652,000 and 14 positions within the Department of General Services." Rather than secure legislative approval for the proposed action, however, the administration instead chose to reestablish the 14 positions unilaterally. Thus, in August 1985, the Director of Finance authorized an *emergency* deficiency expenditure of \$652,000 for the Department of General Services to support the vetoed positions.

**Proposed Budget for 1986-87.** The budget proposes to permanently reestablish the consulting services unit within the OSA, at a cost of \$740,000—\$88,000 (13.5 percent) more than the budget for this unit in the current year.

**Projects Delivery System Still is Not Adequate.** Our review of the OSA's project delivery system reveals that the system continues to be plagued by problems involving the timing and cost of projects. For example, we find that:

- Two projects at the Veterans' Home that were funded in the 1985 Budget Act are approximately five months behind schedule.
- While the *working drawings* for improvements to the CTW Building at Metropolitan State Hospital were to have been completed by November 15, 1985, the *preliminary plans* for this project were not completed until December 27, 1985.
- The preliminary plans for many of the projects funded by the Governor's 1986-87 Budget had not been completed when this analysis was prepared, despite legislative instructions to the contrary, leaving the Legislature without the information it needs to properly review capital outlay projects. This includes projects such as: the office buildings at Atascadero State Hospital; improvements to the R & T Building and laundry at Metropolitan State Hospital; improvements to Units 11-15 and the boiler replacement at the Camarillo State Hospital; and a water system study at Fairview State Hospital.
- The cost of two projects at the Veterans' Home—Wards 1, 2, and 3A and Wards 2, 3E, and Administration—which were funded in the 1985 Budget Act are now expected to exceed what the Legislature approved by more than \$950,000, or 21 percent.
- A project to reconstruct the infirmary at the Preston School of Industry is expected to cost 16 percent more than the amount approved by the Legislature.
- The project to replace the barracks at the Youth Authority's Fenner Canyon Camp, which was supposed to cost \$12,000 per bed, is now expected to cost \$17,200 per bed—more than 43 percent greater than the amount the Legislature intended.

Under existing law, most departments are *required* to obtain architectural/engineering services from the OSA, regardless of the cost, timeliness or quality of the work provided by the office. In effect, these departments must either accept what the OSA offers on the office's terms or risk losing the project altogether. And when a project is delayed or is overdesigned to the point where it is too costly to the client department, the department—not the OSA—suffers.

**The State's Project Delivery System Should Be Altered.** During the

past several years, the OSA's performance has deteriorated to the point where we believe it is necessary to make major changes in the state's capital outlay project delivery system. We continue to believe that a Capital Outlay Control Unit along the lines approved by the Legislature in the 1985-86 Budget Bill would help reverse the downward trend in performance, and recommend that the Legislature once again establish such a unit. We recommend, however, that the unit be placed in the Department of General Services, and both physically and organizationally separate from the OSA rather than in the Department of Finance, and that it report directly to the Director. The physical and organizational separation of the unit from the OSA should provide for the controls and incentives envisioned by the Legislature last year.

Accordingly, we recommend that the Legislature (1) delete the \$740,000 requested for the OSA's consulting services unit, and (2) add a new item to the Budget Bill appropriating \$740,000 to the Department of General Services and containing the following budget language:

"1760-011-602—For support of the Department of General Services, for activities other than the Office of State Printing or the Office of State Architect, for transfer to 1760-001-666, payable from the Architecture Revolving Fund ..... \$740,000.

Provisions:

1. The Director of General Services shall immediately establish a Capital Outlay Control Unit in the Department of General Services. This unit shall report directly to the Director; it shall not report to, or be responsible in any way to the State Architect. None of these funds or positions shall be transferred to the Office of State Architect.
2. The Capital Outlay Control Unit, in consultation with the Office of State Architect, shall determine which projects the Office of State Architect will design using in-house professional staff. The projects shall be selected taking into consideration the projects which the State Architect determines the office can accomplish within the time frames established for 1986-87 and the professional staff assigned to basic and nonbasic architectural and engineering services by Item 1760-001-602 of this act.
3. The Capital Outlay Unit shall negotiate a fee for services with the Office of State Architect for each project assigned to that office. The unit shall enter into an interagency agreement with the office which sets forth the project schedule and the fees for each phase of the project. The unit shall make progress payments to the office, based on a set percentage completion of each phase of each project. Prior to any payment to the office, the Department of General Services shall review and concur in the percentage of project completion used as the basis for payment. The interagency agreement and payment schedule for each project shall be similar to those negotiated with private architectural/engineering consulting firms.
4. The Capital Outlay Control Unit shall be responsible for contracting with private sector firms to undertake work on the capital outlay projects assigned to the Department of General Services. After establishing the projects to be undertaken by the Office of State Architect, the unit shall immediately begin the process of selecting private architectural/engineering consulting firms to undertake the remaining projects.
5. The Director of the Department of General Services shall, by No-

**DEPARTMENT OF GENERAL SERVICES—Continued**

venember 1, 1986, report to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the legislative fiscal committees on the status of each project under the jurisdiction of the Capital Outlay Control Unit. The report shall identify, for each project, the project's status, the project's status compared to the original schedule, interagency/contractual fees and any anticipated cost savings or overruns."

**Auditor General Reports the Architectural Revolving Fund Deficit Is Increasing**

*We recommend that, prior to budget hearings, the OSA report to the Legislature on the specific steps it has taken to provide adequate project-by-project fiscal controls governing capital outlay projects.*

*Further, we recommend that the Legislature adopt Budget Bill language which requires the Director of General Services to provide a quarterly report on appropriations and expenditures for each project assigned to the department.*

The 1985-86 budget requested \$3,343,000 to rectify an accounting error which resulted in a \$4.5 million deficit in the Architectural Revolving Fund (ARF). According to the department, this error caused the amount of fees earned over a seven-year period to be overstated.

The Legislature did not approve the request. Instead, it adopted language in the *Supplemental Report of the 1985 Budget Act* requesting that the Auditor General conduct a cash-flow analysis of the ARF and report on (a) the projected condition of the fund during the 1986-87 fiscal year, and (b) the need for appropriations to cover projected cash shortfalls in the fund. The Legislature also asked the Auditor General to review and report on the accounting system used to monitor activities supported through the ARF.

January 6, 1986, the Auditor General completed the specified report. His report indicates that:

- The fund's cash balance is adequate to meet its cash needs without an additional appropriation in the foreseeable future.
- Although the fund's accounting system provides information that is adequate to meet the financial reporting requirements prescribed by the State Administrative Manual and generally accepted accounting principles, the department does not always use the information appropriately.

**Cash-Flow Projections.** The Auditor General reported that the OSA has incurred costs that are higher than the amounts appropriated for some projects. As a consequence, the cash balance is not adequate to complete all projects assigned to the OSA. The Auditor concluded, however, that as long as the OSA is assigned new projects and receives funds for these projects in advance, the ARF cash balance will not require an additional appropriation to its cash needs.

**OSA Should Tighten Accounting Controls for Projects.** If the OSA spends less than the amount appropriated for a capital outlay project (including augmentations by the State Public Works Board), the unused balance is returned to the fund from which the appropriation was made. If, however, the OSA spends more than the amount appropriated for a project, it may be unable to recover the excess costs. The Auditor General's report indicated that although the accounting system for the ARF meets generally accepted accounting principles, the system often



causes there to be an overstatement of the actual costs recovered by the OSA.

The OSA has indicated that in February 1984 it adopted a policy requiring the office to stop work on projects before spending more than the amount authorized for the project. The Auditor's report, however, reveals that this new policy is not honored consistently. The OSA still incurs expenses without regard to the amount of funds remaining in the appropriation to which the expenses will be charged. According to the report, as of June 30, 1985, expenditures on 200 OSA projects exceeded the amount of cash advanced by a total of \$7.8 million. The report estimates that of this amount, \$1.9 million was spent on projects for which the OSA probably will not receive any additional funding.

In view of these problems, the Auditor General indicates that the OSA needs to provide and maintain fiscal controls for capital outlay projects on a *project-by-project* basis. This can be done with the information provided by the existing accounting system. In fact, the Department of General Services currently prepares monthly and weekly expense reports, *by project*, for the OSA. Thus, there is no reason why the OSA could not monitor and control expenses on a project-by-project basis.

We recommend that the OSA advise the Legislature what steps are being taken to implement the Auditor General's recommendations and to monitor and control the expenses incurred on individual capital outlay projects. We further recommend that the Legislature adopt the following Budget Bill language requiring the Director of General Services to report to the fiscal committees and the Joint Legislative Budget Committee, on a quarterly basis, the fund status of individual capital outlay projects:

"The Director of General Services shall report to the fiscal committees and the Joint Legislative Budget Committee, on a quarterly basis, the fund status of capital outlay projects for which the department provides services. The report shall include the project name, work order code, the appropriation by phase, and the expenditures to date on each of the phases of each active project serviced by the department."

Since this information is already being compiled by the department on a regular basis, the requirement should not create a burden for the department.

#### **Department of Finance Should Resolve Discrepancy in Projected Value of Hospital Construction Workload**

*We recommend that, prior to budget hearings, the Departments of Finance and General Services explain to the Legislature how the increased workload associated with the anticipated increase in hospital construction will be handled.*

The workload for school and hospital facility plan checking and field supervision activities is based on the projected construction value of schools and hospitals. As shown in Table 5, the department anticipates workload associated with hospitals having a construction value of \$606 million in 1986-87. This is 5 percent *more* than the *estimated* construction value in the current year, but 5 percent less than the level *budgeted* for 1985-86. This suggests that the current staffing level for hospital-related workload is adequate. On December 27, 1985, however, the Department of Finance approved an emergency authorization increasing the 1985-86 budget for the Office of Statewide Health Planning and Development (OSHPD) because OSHPD anticipates a dramatic increase in 1985-86

**DEPARTMENT OF GENERAL SERVICES—Continued**

hospital construction. The letter from OSHPD requesting this authorization estimated that hospital project workload for the OSA in 1985-86 will be \$950 million. Using this estimate and the OSA's accepted workload standards, the structural safety section is *not* staffed adequately.

In view of this discrepancy, the Departments of Finance and General Services should, prior to budget hearings, explain to the Legislature how, and in what time frame, the increased workload resulting from more hospital construction will be handled.

Table 5

**Office of State Architect  
Structural Safety Section  
Hospital and School Plan Checking Workload Projections  
1985-86 and 1986-87**

Source	1985-86 Budget	Construction Value (in millions)	
		1985-86 Revised	1986-87
Hospital Construction (hospitals) .....	\$638	\$577	\$606
State Allocation Board (schools) .....	257	340	350
Local School Districts (schools) .....	—	249	249
California School Finance Authority (schools) .....	—	—	80
Totals .....	\$895	\$1,589	\$1,679

**OFFICE OF BUILDINGS AND GROUNDS**

The Office of Buildings and Grounds (OBG) is responsible for maintaining state office buildings and grounds under the jurisdiction of the Department of General Services. In addition, the department provides custodial and maintenance services, as requested, in buildings owned by other agencies.

The budget proposes total expenditures of \$60,122,000 for support of the OBG in 1986-87. This is an increase of \$3,310,000, or 5.8 percent, above estimated current-year expenditures.

The proposed increase reflects:

- An increase of 14.5 personnel-years to provide trades and grounds maintenance at the new Franchise Tax Board building.
- A decrease of \$1,578,000 to reflect direct payment of janitorial and utility costs by the Franchise Tax Board in its new Sacramento building.
- A one-time increase totaling \$5,221,000 which includes funds to cover special repair costs (\$4,956,000), the purchase of equipment (\$178,000) and an office automation project (\$87,000).
- A reduction of 3.2 personnel-years to reflect increased efficiencies achieved through automation.

**Franchise Tax Board Building**

*We recommend that the Legislature adopt Budget bill language stating that janitorial services provided on a contractual basis should meet or surpass the level of services that would be provided by OBG.*

The 1985 Budget Bill, as passed by the Legislature, included funds and authorization for 71.5 personnel-years to provide janitorial services for three new facilities: the Franchise Tax Board (FTB) building in Sacramento, the Public Utilities Commission building in San Francisco, and the Van Nuys state office building. These funds were accompanied by language *prohibiting* the expenditure of the funds to contract for janitorial services. The Governor vetoed this language in signing the Budget Act.

The OBG has received 15 bids on a contract to provide janitorial services to the Franchise Tax Board building. The lowest bid was \$1,148,961 for a three-year period. The OBG estimates that its costs to provide the same services would be \$1,897,242. On this basis, the OBG proposes to contract for janitorial services for the FTB facility.

On the other hand, the OBG received only one legal bid for trades and crafts maintenance at the FTB. This bid was \$107,399 *over* the OBG's estimate of its cost to provide the same services. Furthermore, no private firm submitted a bid on the groundskeeping work at the new building. The contractors contended that the FTB facility and its landscape differed substantially from other buildings they maintained, making it difficult for them to estimate costs. For these reasons, the OBG proposes to provide trades and crafts maintenance and groundskeeping using OBG staff. The budget provides for 14.5 new positions to provide these services.

Based on this analysis, we recommend approval of the OBG's proposal to contract for janitorial services and to provide groundskeeping and trades and crafts maintenance at the FTB with 14.5 new OBG staff.

In order to insure that the quality of janitorial services provided on a contractual basis at the FTB buildings is adequate, we recommend that the Legislature adopt the following Budget Bill language:

"Provided that the Director of General Services certifies to the Joint Legislative Budget Committee at least 10 days before signing a contract with a private firm to provide janitorial services that the level of janitorial services to be provided by the private firm will meet or surpass the standards applied for a state office building maintained by OBG janitors."

### Special Repairs

The budget includes \$5,500,000 for 61 special repairs projects to be undertaken by the Office of Buildings and Grounds during the budget year. Special repairs are those which continue the usability of a facility at its original designed level of service. (In contrast, capital outlay projects include new construction, alterations and extensions or batterments of existing structures.) The amount proposed for special repairs is \$4,956,000 more than the office's normal annual special repair budget (\$544,000).

### A. Projects for Which We Recommend Approval

*We recommend approval of \$2,248,772 in Item 1760-001-666 requested for 34 projects outlined in Table 6.*

**Table 6**  
**Department of General Services**  
**Office of Buildings and Grounds**  
**1986-87 Special Repair Projects**  
**Projects for Which We Recommend Approval**

<i>Type of Project</i>	<i>Number of Projects</i>	<i>Department Request and Analyst's Recommendation</i>
1. Elevator Modernizations.....	3	\$1,042,755
2. Roofs.....	4	322,000
3. Building Systems.....	12	491,907
4. Sidewalks.....	3	21,500
5. Painting and Refinishing .....	3	50,560
6. Miscellaneous .....	9	320,050
Totals .....	34	\$2,248,772

DEPARTMENT OF GENERAL SERVICES—Continued

B. Projects for Which We Withhold Recommendation

We withhold recommendation on \$161,100 in Item 1760-001-666 requested for the three projects outlined in Table 7, pending receipt of additional information.

The department has not provided sufficient information to establish the need for or cost of the following three projects:

- \$4,500 to replace resilient tile in the basement and the men's rooms of the Oakland State Building. While replacement of the tile is justified, the department has provided no explanation for the basis of the requested amount.
- \$126,600 to conduct an infrastructure study of the Oakland State Building. Prior to hearings, the department should submit its criteria for selecting the Oakland building for study and the basis for the cost estimate.
- \$30,000 to repair chillers in the Fresno State Building. From the information submitted by the department, it appears that replacing the chillers would have a payback of less than five years. Consequently, the department should explain its decision to repair rather than replace these chillers.

Table 7  
Department of General Services  
Office of Buildings and Grounds  
1986-87 Special Repair Projects  
Projects for Which We Withhold Recommendation

Type of Project	Building	Amount	Pending
1. Replace Resilient Tile.....	Oakland	\$4,500	Cost Estimate
2. Infrastructure Study .....	Oakland	126,600	Department's criteria for selection of buildings for such studies and explanation of cost estimate.
3. Repair Chillers .....	Fresno	30,000	Life-cycle cost analysis of repairing versus replacing chillers.
Total .....		\$161,100	

C. Projects for Which We Recommend Deletion

We recommend deletion of funds for 27 projects totaling \$3,090,473, as summarized in Table 8, because either (1) the project appears to be a design error in a new building and the department has not determined who is liable for the cost of rectifying it, (2) sufficient information for the project is lacking, (3) the project is premature or (4) the project should be funded as a capital outlay request. A discussion of each of these projects follows.

Table 8

**Department of General Services  
Office of Buildings and Grounds  
1986-87 Special Repair Projects  
Projects for Which We Recommend Deletion**

<i>Category</i>	<i>Building</i>	<i>Amount</i>
1. Design/Construction Errors .....	Various	\$684,376
2. Modernize Elevators .....	San Francisco	293,000
3. Moisture Barrier Replacement.....	San Diego	275,000
4. Elevators.....	San Diego	225,000
5. Condensate Tank .....	1020 "N" Street	13,097
6. Heating, Ventilating and Air Conditioning Alterations.....	Los Angeles State	1,600,000
Total .....		\$3,090,473

**Nineteen Projects to Correct Design/Construction Errors in New Buildings**

*We recommend deletion of the \$684,376 in Item 1760-001-666 requested for 19 projects because the problems addressed by these projects result from design or construction errors and should be remedied at no cost to the state.*

The department's request includes funding for 19 projects, costing \$684,376, to correct design/construction errors in various new buildings. Funding for seven of these projects was included in the department's special repair proposal last year.

When a basic building design or construction error causes a need for repairs to be made, the cost of the repair is the responsibility of the contractor or architectural/engineering firm, not the state. Recognizing this, the Legislature deleted funds requested for seven of these projects last year. It also directed the Department of General Services to immediately establish whether the state or the consulting contractor or architect is liable for the cost of correcting these design and/or construction deficiencies. To date, the department has not made this determination.

Given the above, we recommend deletion of funds for the seven projects listed below:

***Energy Commission Building, Sacramento***

- Damage to carpet and electrical equipment resulting from drainage problems in the building (\$220,000).
- Replace the lighting system (\$21,750).
- Inadequate air dryer for pneumatic system (\$1,650).
- No hand rails on dock area (\$5,000).
- Lack of emergency power for freight elevator (\$1,600).

***Gregory Bateson Building, Sacramento***

- 44 windows in atrium area have cracked and pose a safety problem (\$92,000).

***Justice Building***

- Roof repair (\$4,000).

The remaining 12 projects also involve repairs to relatively new buildings and are similar to the projects listed above. The department has not submitted any information to establish the state's liability for these projects. On this basis, we recommend deletion of funds for the following 12 projects:

***Energy Commission Building***

- Repair Roof (\$30,000).
- Cover plates over expansion joints throughout the building to eliminate tripping hazard (\$7,200).

**DEPARTMENT OF GENERAL SERVICES—Continued**

- Replace nonfunctional photo cells and uneven floor (\$231,000).
- Install additional sensing points for the energy management system at the Energy Commission Building and Office Building 1 (\$12,236).

**San Jose Building**

- Install window wall flashing to stop rain leakage (\$4,000).

**Santa Rosa Building**

- Install signs (\$10,165).
- Install additional heating (\$4,000).

**Water Resources Control Building**

- Relocate chilled water valves (\$16,174).

**Site 3, Employment Development Department Building**

- Install flow control valves to correct chilled water balance (\$4,601).

**Justice Building**

- Recoat cafeteria patio deck (\$12,000).
- Recoat gun range roof (\$2,500).
- Repair heating system (\$4,500).

**San Francisco Elevator Modernization**

*We recommend deletion of \$293,000 requested to modernize the San Francisco McAllister Street elevators because the project should be included in the capital outlay project to remodel the building.*

The budget provides for \$293,000 to modernize the San Francisco (McAllister Street building) elevators.

This building is scheduled for major remodeling. The 1985 Budget Act included \$4.6 million for the initial phase of remodeling plus \$222,000 for working drawings on the second phase. The budget proposes \$3.3 million, under Item 1760-301-036, for construction of the second phase. Modernizing the elevators should be incorporated within this major remodeling project. Consequently, we recommend deletion of the funds requested for this work under special repairs.

**Three Projects Lack Sufficient Information**

*We recommend deletion of \$275,000 requested to replace a moisture barrier, \$225,000 to modernize elevators and \$13,097 to replace a condensate tank because the department has not substantiated the need for or cost of these projects, for a total reduction of \$513,097 under Item 1760-001-666.*

The department requests \$275,000 to replace the moisture barrier in the San Diego State Building, \$225,000 to modernize elevators in the San Diego State Building and \$13,097 to replace the condensate tank at 1020 "N" Street in Sacramento. In each case, the department has failed to provide sufficient information to substantiate the need for or cost of the projects.

**Los Angeles Heating, Ventilating and Air Conditioning (HVAC) System**

*We recommend deletion of \$1,600,000 requested in Item 1760-001-666, for HVAC system alterations in the Los Angeles State Building because the project should be deferred until the building is remodeled.*

Last year the Legislature appropriated \$71,000 for preliminary plans to alter the HVAC system at the Los Angeles State Building. To date, the

Office of State Architect has not set a schedule or begun preliminary plans for this project.

A new Los Angeles State Building is scheduled to be complete by July, 1989. At that time, old Los Angeles State Building will be substantially remodeled for new occupants.

Our analysis indicates that HVAC renovation should be postponed until this remodeling occurs. This will allow the new HVAC system to be designed in such a way as to meet the new tenant's needs. Appropriate HVAC design depends on a variety of factors, including office layout, machinery use and number of people. Since these factors cannot be anticipated at this time, there is a high probability that changes made now to the HVAC system would be revised when the building is remodeled for new occupants. Consequently, we recommend that funding for this project be postponed until the building is remodeled for new occupants.

#### **Study Needed to Establish Liability for Special Repairs**

*We recommend that, prior to budget hearings, the department report to the Legislature on all projects scheduled in its five-year special repair plan which are intended for buildings first occupied on or after 1982.*

The department's master plan for special repairs calls for appropriations totaling \$17.7 million from 1986-87 to 1989-90. Of this amount, \$1,345,375 (31 projects) is for repairs that appear to have resulted from design and/or construction errors. The Legislature deleted funding for ten of these 31 projects from the department's 1985-86 special repair request because the department had not established responsibility for the problems and had not attempted to correct the problem at no cost to the state.

As discussed above, the Legislature directed the department to immediately determine liability for its 1985-86 special repair projects. The department has not done so. We recommend that the department make this determination for these and all similar projects in the five-year master plan, and submit its findings to the Legislature prior to budget hearings.

#### **Major Increase in Equipment Purchases**

*We recommend deletion of \$55,000 in Item 1760-001-666 requested for various equipment items because the department should purchase this equipment on a priority basis, using funds in its equipment budget.*

The OBG has a normal budget of \$123,000 for purchasing tools and other necessary equipment. This year, the budget proposes a one-time augmentation of \$178,000—an increase of 145 percent—to purchase 40 items.

Only one of the equipment items identified by the OBG—replacement of an electric roof carriage for window washing (\$123,000)—is an unusually expensive item which cannot easily be purchased from the annual equipment budget. This purchase is needed and given the cost of the carriage, an augmentation of the normal annual amount to finance the purchase is necessary.

The remaining 39 items include equipment such as a calculator, drills, a date stamp, that represent ordinary equipment purchases which the department's annual budget is designed to cover. Thus, we recommend that the department fund these items, on a priority basis, from its annual equipment budget of \$123,000.

In summary, we recommend approval of \$123,000 to replace the electric roof carriage in Los Angeles. This would give the department \$246,000 for replacement equipment in 1986-87—a 100 percent increase over its annual equipment budget.

**DEPARTMENT OF GENERAL SERVICES—Continued****OFFICE OF LOCAL ASSISTANCE**

The Office of Local Assistance (OLA) is the administrative arm of the State Allocations Board. It is primarily responsible for administering a series of programs which provide funding to local school districts for the acquisition and development of school sites, construction, reconstruction or maintenance of school buildings and the placement of portable classrooms.

The budget requests \$5,060,000 for the OLA in 1986–87. This amount is 18 percent greater than estimated 1985–86 expenditures, and includes a one-time increase of \$580,000 to finance an office automation project.

**Reports On Workload Standards and Office Automation Needed**

*We withhold recommendation on \$5,060,000 included in the budget for support of the Office of Local Assistance, pending receipt of (1) the Department of General Services' report on the office's implementation of workload standards and procedural improvements, and (2) the final feasibility report for the office automation system.*

**Workload Standards.** The Legislature, through the *Supplemental Report of the 1984 Budget Act*, directed the Department of General Services to review the OLA's workload standards and report the results of its review to the Legislature by November 1, 1984. The report was to include an analysis of how new workload standards would affect the office's staffing level.

The department's initial response to this request did not address potential changes to practices and procedures which could improve the efficiency of the office.

Subsequently, in April 1985, the department submitted an *Operational Review of the Office of Local Assistance* which contained 19 recommendations for improving the office's procedures. This included a work process study that indicated how applications could be processed more efficiently and suggested new workload standards for the OLA. In order to establish whether the suggested workload standards were appropriate, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* directing the Department of General Services to report on the OLA's progress in implementing the 19 recommendations. The department was directed to submit an initial report no later than December 1, 1985, and a second report by March 1, 1986. These reports were to document the actual hours required to process applications through each phase of the emergency portables program, new construction, and reconstruction. Pending receipt of the March report, we withhold recommendation on the amount requested for the OLA.

**Office Automation.** The department proposes to automate the review, preparation and checking of OLA data, including the preparation of reports to the State Allocation Board. In addition, the system would automate the (1) accounting procedures, (2) inventory for portable classrooms and furnishings, and (3) schedules for periodic maintenance/inspections of state-owned equipment. Currently, the OLA performs all of these functions manually.

The development of this system parallels the development of the school facilities inventory which is required by current law (AB 2743—Chapter 1680, Statutes of 1984). This inventory will enable the OLA to monitor



facility utilization and to project school facility needs. Both systems will be developed for the department by a contractor who will provide (1) a detailed feasibility report scheduled for completion in March 1986, (2) the system design, and (3) a request for proposals to provide and install the systems. The OLA has estimated the cost of the office automation proposal for the 1986-87 fiscal year to be \$580,000. Of this amount, \$450,000 is for development and equipment and \$130,000 is for consultant services provided by the Office of Management Technology and Planning.

We conclude that there is a need to automate the OLA's procedures. At this time, however, we have no basis for analyzing the department's cost estimate. The feasibility report scheduled for completion in March 1986, should provide the information needed to substantiate a budget request. Consequently, we withhold recommendation on the proposed office automation system pending receipt of the final feasibility study report.

### **School Facilities Management**

The *Supplemental Report of the 1985 Budget Act* (Item 6100-001-344) requires the Legislative Analyst to contract for a management study of the activities conducted by the School Facilities Planning Unit in the Department of Education and the Office of Local Assistance. Among other things, this study will yield recommendations regarding the appropriate division of responsibilities between the School Facilities Planning Unit and the Office of Local Assistance. A final report on the findings from this study will be submitted to the Legislature by March 1, 1986. If this report indicates the need for changes in the program or budget of the OLA, we will prepare a supplemental analysis setting forth our recommended changes.

### **OFFICE OF ENERGY ASSESSMENTS**

#### **Report to the Legislature on Office of Energy Assessments Due March 1, 1986**

*We withhold recommendation on the budget proposal for the Office of Energy Assessment, Item 1760-001-465 pending receipt of the office's annual expenditure report.*

The Office of Energy Assessments is responsible for improving the efficiency of state operations by developing cost-efficient energy programs. The budget proposes \$3,167,000 for support of the office in 1986-87, consisting of \$896,000 from the General Fund, Energy Resources Program Account and \$2,271,000 from the Service Revolving Fund. This is an increase of \$17,000 (2 percent) and \$6,000 (0.3 percent) respectively over current-year estimated expenditures. This increase is attributable to increases in salaries and wages.

The Budget Act of 1985 directs the Department of General Services to submit an annual report, beginning March 1, 1986, on the actual and projected expenditures of the Office of Energy Assessments. In addition, the report is to identify personal service costs and operating expenses for each of the office's energy projects, including third-party financed projects. The Legislature took this action in order to improve the office's accountability for the expenses and revenues involved in third-party agreements. Pending receipt of this report, we withhold recommendation on the office's budget.

**DEPARTMENT OF GENERAL SERVICES—Continued****BUILDING RENTAL ACCOUNT**

The Building Rental Account is a self supporting account which pays the maintenance, repair, utilities and other costs associated with state buildings under the jurisdiction of the Department of General Services. The Building Rental Account raises its funds by charging rent to agencies occupying state office or storage space.

The budget proposes total expenditures of \$51,252,000 for the building rental account in 1986–87. This is an increase of \$7,442,000, or 17 percent, above current-year expenditures. This increase reflects two new costs: (1) \$6.2 million in debt payment, insurance and maintenance costs for the new office building in San Francisco and (2) a \$3 million net increase in Office of Buildings and Grounds charges for building maintenance.

In order for the account to have sufficient funds to cover these expenses, the Department of General Services proposes to increase rent charged to agencies occupying state space by 18.4 percent. This increase raises the statewide office monthly rental rate from 76 cents per square foot to 90 cents. Storage space is increased from 19 cents per square foot to 23 cents.

**The PUC Should Pay the Full Cost of Occupying the New Building**

*We recommend that Item 1760-001-666 be reduced by \$6,242,000 to reflect payment of the full cost of the new San Francisco State Office Building to be occupied by the Public Utilities Commission. We further recommend that the statewide rental rate be reduced accordingly.*

The Public Utilities Commission (PUC) will soon move from the old San Francisco State Building on McAlister Street, to the new San Francisco Building on Van Ness Street. Construction of this new building was financed by issuing debt instruments known as certificates of participation, which are very similar to bonds. The first payment to bondholders is due in the budget year. The combined cost of bond payments, insurance and related costs in the budget year is \$5,111,000. In addition, maintenance and utilities for the new San Francisco building are budgeted at \$1,131,000. These costs, totalling \$6,242,000 for 1986–87, are proposed to be paid through the Building Rental Account.

Financing the building through the Building Rental Account allows the PUC to pay just \$2,268,000 (36 percent) of the total cost of financing and maintaining the building in 1986–87. The balance (\$3,974,000) is paid by all other agencies occupying state space—about 70 percent of which are funded primarily from the General Fund. This cost shifting occurs because all expenses charged to the Building Rental Account are divided equally among all agencies occupying state space.

**Background**

Construction of state office buildings generally has been financed through a lump sum appropriation as part of the state's capital outlay program. The only annual costs budgeted for buildings financed through capital outlay are the cost to clean, maintain and provide utilities. These costs are funded by the Building Rental Account.

The method used to finance the annual payment for major buildings under lease-purchase arrangements has not been a matter of concern in recent years. This is because the state has not used lease-purchase arrangements to finance major building for some time.

Over 20 years ago, the state used a form of lease-purchase financing to construct eight multi-agency buildings. The annual cost of these buildings is included in the Building Rental Account. The proposed 1986-87 budget for the Building Rental Account includes \$739,000 in debt payments for these lease-purchase buildings.

Recently, however, two major office buildings have been constructed using lease-purchase financing: the Franchise Tax Board (FTB) facility in Sacramento and the office building in San Francisco. Because the Department of General Services considered the FTB facility to be a special purpose building, the annual costs of the building (approximately \$4 million in rent and \$1.8 million in maintenance) are *not* included in the Building Rental Account. The FTB pays the \$5.8 million out of its support budget.

On the other hand, the Department of General Services considers the new San Francisco facility to be a "general purpose office building," and is proposing to fund the \$6.2 million annual cost of this building out of the Building Rental Account. The costs of the new building will be spread among agencies occupying state space.

### Analysis

We recommend that lease-purchase payments on behalf of new office buildings be financed from the occupying agency's support budget. If the annual payments for purchases of state buildings are spread across agencies in rent increases, the cost of constructing and financing a new state facility is hidden. By funding lease-purchase payments made through the occupying agency's budget, the Legislature would provide an accurate reflection of the annual cost of purchasing the facility.

Furthermore, when the cost of maintenance, utilities and debt payment for a special fund agency's building far exceed these same costs for the rest of the agencies in the Building Rental Account, the special fund agency is effectively subsidized. This would be the case for the PUC if the budget proposal discussed here is approved. The average maintenance, utilities and debt payments cost for all other agencies in the Building Rental Account is 82 cents per square foot. The average cost for the PUC is \$2.47 per square foot. Funding the PUC's building cost through the Building Rental Account results in a subsidy of \$3,974,000—nearly 6.9 percent of the commission's proposed 1986-87 budget—from the rest of the Building Rental Account agencies to the commission. This subsidy undermines the Legislature's stated intent that the PUC be supported by user fees levied on transportation carriers and public utilities.

Consequently, we recommend that the full \$6,242,000 cost of the PUC building be deleted from the Building Rental Account. The Department of General Services estimates that this would reduce the monthly Building Rental Account office rental rate from 90 cents per square foot to 82 cents. This would also require that the PUC's budget be augmented by \$3,974,000 (6.9 percent). This increase, together with the \$2,268,000 which the PUC has budgeted for Building Rental Account rent, will be sufficient for the commission to:

- make lease-purchase payments, including those needed to cover bond insurance and trustee costs;
- contract with Office of Buildings and Grounds for full maintenance services; and
- pay utilities.

**DEPARTMENT OF GENERAL SERVICES—Continued****\$3.7 Million Surplus in the Building Rental Account**

*We recommend that Item 1760-001-666 be reduced by \$3,700,000 to reflect the transfer of the Building Rental Account surplus to the General Fund. We also recommend that the Legislature adopt budget language directing the State Controller to transfer any year-end surplus in the Building Rental Account to the General Fund.*

The department indicates that approximately \$3.7 million has accumulated in the Building Rental Account during the past three years because rental payments have exceeded expenses. The department has not transferred these funds to the General Fund, pursuant to Section 16422 of the Government Code, citing an ambiguity in the definition of "surplus funds." Consequently, we recommend that the Legislature adopt the following budget language:

"Notwithstanding Section 16422 of the Government Code, on July 1, 1986, the State Controller shall transfer \$3.7 million from the Service Revolving Fund, Building Rental Account to the General Fund."

In addition, we recommend that the Legislature ensure that any surplus in the Service Revolving Fund at the end of the 1986-87 fiscal year also be transferred to the General Fund, by adopting the following budget language:

"Notwithstanding Section 16422 of the Government Code, the balance of any rental receipts paid into the Building Rental Account of the Service Revolving Fund remaining after the payment of rental and of the cost of maintaining, operating, and insuring building space shall be accounted for to the Controller, and paid into the Treasury and credited as General Fund revenue no later than September 30, 1987. The accumulative surplus or cash surplus of the Service Revolving Fund, as determined by the Director of Finance and reported to the Joint Legislative Budget Committee, shall be transferred by the Controller to the General Fund no later than September 30, 1987."

Alternatively, because many departments were not budgeted for any increase in state rent this year, the Legislature may wish to use some of the accumulated surplus to offset rent increases. Our analysis indicates that the statewide rental rate could be reduced 6 cents if the Legislature directs the Department of General Services to use \$3.35 million (90.5 percent) of the accumulated surplus for 1986-87 Building Rental Account expenses. In addition, if the Legislature adopted the recommendation to charge the PUC its full cost and directed the Department of General Services to use \$3.35 million of the accumulated surplus for this year's Building Rental Account expenses, our analysis indicates that:

- No increase in statewide rental rates would be needed for 1986-87.
- \$350,000 could be transferred to the General Fund.

**STATEWIDE SUPPORT SERVICES**

The statewide support services program consists of 12 program elements. These elements, and the expenditures and staffing proposed for each, are listed in Table 1 and Table 3, respectively.

**Department Responds to Legislative Directives**

The Legislature directed the Department of General Services to prepare several reports for submission to the Legislature in 1985-86. The department's responses relating to its statewide support services program are summarized below.

**Radio Technician Productivity.** In the *Supplemental Report of the 1985 Budget Act*, the Legislature directed the department to prepare a specified report regarding the Office of Telecommunications' computerized system for monitoring radio technician productivity. The report was submitted on December 2, 1985. Our review of the report indicates that the department has taken steps to improve its ability to manage radio technicians.

**Telecommunications Consultants.** The *1985 Supplemental Report* also required the department to report to the Legislature on a quarterly basis regarding its use of private-sector telecommunications consultants. The first of these reports (dated October 23, 1985) indicates that the department did not retain any telecommunications consultants during the first quarter of 1985-86. The department indicates, however, that it has prepared a master list of consultants in various telecommunications specialties who might be retained in the remainder of the current year.

**OFFICE OF INSURANCE AND RISK MANAGEMENT**

The Office of Insurance and Risk Management provides insurance procurement and consulting services to state agencies, and centrally administers the state's Motor Vehicle Liability Self-Insurance, and Workers' Compensation and Safety programs. In the current year, the office has a budget of \$9.0 million (of which \$8.3 million is for the payment of insurance premiums and claims) and authorization for 20 personnel-years.

**Appropriation Items for Managers' Insurance Benefits Are Not Needed**

*We recommend the deletion of Items 1760-001-494 (\$130,000), 1760-001-988 (\$109,000), and 1760-021-001 (\$225,000), because these items are not needed in the Budget Act (total reduction: \$464,000).*

Under existing law, the Department of Personnel Administration is authorized to develop and implement discretionary employee benefit programs for state employees who are not represented in the collective bargaining negotiation process. At the end of 1983-84, the department implemented a program which provides group life insurance (with a death benefit of up to \$50,000) to state managers, supervisors, and certain other "nonrepresented" employees. This program is administered by the Department of General Services' Office of Insurance and Risk Management.

In the past and current years, the program was funded by three appropriations in the DGS budget, with language providing the Director of Finance the authority to allocate these funds to state agencies for the payment of managers' life insurance premiums. The 1986-87 budget proposes to provide this funding in the same manner, and requests appropriations totaling \$464,000 through the following items:

- Item 1760-001-494, which appropriates \$130,000 from various special funds;
- Item 1760-001-988, which appropriates \$109,000 from various nongovernmental cost funds; and
- Item 1760-021-001, which appropriates \$225,000 from the General Fund.

**DEPARTMENT OF GENERAL SERVICES—Continued**

There is no apparent need for the Legislature to appropriate these funds. In 1984-85, despite the availability of \$442,000 for this program, the Department of Finance allocated only \$88,000. In 1985-86, \$464,000 was made available for this program, but to date the Department of Finance has not allocated any of these funds. Moreover, it has no specific plans to do so during the remainder of the current year.

We see no reason to appropriate moneys in the budget year for these "placeholder" items. If an agency needs additional funding to pay this benefit, the Department of Finance should request the funds in the appropriate Budget Bill items. This would be in keeping with the state's long-time practice of funding the ongoing costs of employee benefits in departmental budgets. Consequently, we recommend the deletion of Items 1760-001-494 (\$130,000), 1760-001-988 (\$109,000), and 1760-021-001 (\$225,000), for a total savings of \$464,000.

**OFFICE OF PROCUREMENT**

The Office of Procurement purchases equipment and supplies on behalf of most state agencies, and provides various services relating to the storage and distribution of materials needed in the operation of state programs. In the current year, the office has a budget of \$38.7 million and authorization for 261 personnel-years.

**Consultant Studies the Office of Procurement**

Pursuant to a directive in the 1984 Budget Act, the department contracted with a private consultant to perform a detailed management study of the Office of Procurement. The consultant's final report, which was completed and transmitted to the Joint Legislative Budget Committee (JLBC) in March 1985, contained over 100 recommendations regarding the office's operations.

In response, the Legislature added language to the 1985 Budget Act authorizing the department to implement the consultant's recommended changes in the Office of Procurement during 1985-86. In December 1985, the administration notified the Legislature that the DGS plans to spend \$696,000 from the Service Revolving Fund in the current year to address operational problems identified by the consultant. Of this amount, \$500,000 is for the estimated first-year cost of replacing the computer system used by the Office of Procurement to support its purchasing and related operational activities, and \$196,000 would be for the half-year costs of eight new positions.

The department's current-year budget also includes \$25,000 for the purpose of retaining a consultant to perform a follow-up study regarding the department's implementation of the previous consultant's recommendations.

**Consultant's Follow-up Study Not Yet Completed**

*We withhold recommendation on the request for \$1,161,000 in additional spending authority from the Service Revolving Fund (Item 1760-001-666), pending receipt and analysis of a consultant's report on recent and proposed changes in the Office of Procurement.*

The budget proposes *additional* funding of \$1,161,000 to continue implementation of the consultant's recommendations. Specifically, the budget proposes to:

- Continue the eight positions added in the current year and add six new positions in the budget year (\$661,000),
- Redirect two *existing* temporary help positions (\$43,000), and
- Continue funding for the replacement of the office's computer system (\$500,000).

In general, the DGS's response to the procurement consultant's recommendations appears to be reasonable. The department is attempting to address the major areas of concern identified by the consultant: general purchasing, acquisition of electronic data processing and telecommunications equipment, bid specifications and quality control, and material services (warehouse-related activities).

The department has indicated that the procurement follow-up study will be completed in March 1986. At that time, the consultant is expected to transmit to the department a written evaluation of the department's budget-year proposals for additional procurement staff and operating expenses. Accordingly, we withhold recommendation on the total request of \$1,161,000, pending receipt and analysis of the consultant's report.

#### **OFFICE OF RECORDS MANAGEMENT**

The Office of Records Management (ORM) assists state agencies in the design and management of official written forms, coordinates the state's paper recycling program, and provides records storage and disposition services on a fee-reimbursement basis. In the current year, the office has a budget of \$2.2 million and authorization for 37 personnel-years.

#### **Storage Facilities Running Out of Room**

*We recommend that the Legislature adopt Budget Bill language to accompany Item 1760-001-666, in order to ensure that the Director of General Services selects the most economical method of financing the acquisition and use of additional storage space for the Office of Records Management.*

The ORM operates four records storage facilities statewide with a total capacity of 531,498 cubic feet. Three of these facilities are located in West Sacramento and the fourth one is located in the Los Angeles area. The state owns one of the facilities in West Sacramento and leases the other two from private owners. The ORM projects that *all* of its facilities will be filled to capacity by the end of 1986-87.

The budget proposes to expand the state's storage capacity by replacing the two leased storage facilities in West Sacramento with a new storage facility which could accommodate the projected growth in records of 22,000 cubic feet per year for the next 10 years. The department plans to contract for a 100,000 square foot "build-to-suit" facility in West Sacramento which it would lease (presumably for 10 years) from the owner of the property beginning in January 1987.

The budget requests \$217,000 in additional operating expenses to fund the first-year cost of this proposal. Of this amount, \$120,000 is for additional building lease costs in 1986-87, while the remaining \$97,000 represents *one-time* moving costs.

There appears to be adequate justification for the ORM to replace its two leased facilities in West Sacramento with a new leased facility that can accommodate the projected growth in demand for records storage space. It is not clear to us, however, what would be the most economical method

**DEPARTMENT OF GENERAL SERVICES—Continued**

of financing the new warehouse facility. The state generally has found that *owning*, rather than leasing, is the most cost-effective way to provide facilities for ongoing program operations. The department, however, maintains that the proposed lease arrangement would in fact be in the state's financial interest during the life of the agreement.

In order to ensure that the department *considers* a variety of financing alternatives prior to entering into a long-term contractual agreement for a new storage facility, we recommend that the Legislature adopt the following Budget Bill language:

The Director of General Services, acting on behalf of the Office of Records Management, may enter into a lease with a purchase option agreement, or a lease-purchase agreement, for the purpose of providing adequate storage facilities for the Office of Records Management. Prior to entering into any contractual agreement for a new storage facility, the Director must employ a competitive bidding process to solicit offers to provide a storage facility under a variety of payment arrangements, which include, but are not limited to, the use of a lease, a lease with a purchase option, or a lease-purchase agreement. Within 30 days of completing his evaluation of the bids received, the Director shall provide the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the legislative fiscal committees with a report which includes a cost-benefit analysis of each bid received and a justification for selecting the bid which the Director deems the most cost-beneficial.

**TELECOMMUNICATIONS DIVISION**

The Telecommunications Division (TD) provides state agencies with a variety of services related to facilitating communications between state personnel and facilities through the use of telephone, teletype, and microwave radio technologies. In the current year, the division has a budget of \$106.5 million (which includes \$49.9 million in local assistance expenditures related to the Emergency Telephone Number program) and authorization for 352 personnel-years.

**The Division's Telephone Equipment Purchase Program**

The state currently uses approximately 240,000 telephones. In the *Analysis of the 1985-86 Budget Bill* (please see pages 197-198), we reported that the state was *leasing* about 85 percent of these telephones, despite the fact that the state potentially could save several million dollars annually by purchasing this equipment. This is because telephone purchase costs generally can be recouped within a period of months through the savings in lease payments which otherwise would continue indefinitely.

In response to our recommendation that the department expedite the purchase of leased telephones, the Legislature augmented the spending authority of the Service Revolving Fund (Item 1760-001-666) by \$4.6 million in the 1985 Budget Act, and directed the department to use these funds as needed to provide agencies with *loans* to finance the purchase of telephone equipment.

According to the department, it has initiated its telephone purchase program in the current year by:

- Requesting the company from whom the state leases its telephones (American Telephone & Telegraph) to provide an inventory of all leased equipment,



- Assisting agency telephone coordinators in obtaining the necessary training needed to evaluate and address their agencies' particular telephone-related needs, and
- Responding, on a case-by-case basis, to individual agency requests for assistance in the telephone equipment acquisition process.

The department also has coordinated at least two large-scale telephone equipment purchases through which several state agencies have replaced their leased equipment. As of January 1986, the department had provided loan funds (\$44,000) to only one agency (the Department of Transportation) in order to finance telephone purchases.

For 1986-87, the budget provides no spending authority to the TD to continue the telephone purchase program.

### **The State Still Leases Too Many Telephones**

Our analysis indicates that the state is moving too slowly to *reduce* the number of telephones leased by state agencies. At the time this *Analysis* was prepared, the state was continuing to lease about 70 percent of the telephones used by state agencies. This is a rough estimate, however, because the department has not yet obtained an inventory of all leased equipment. As a result, it does not know either (1) the total number of telephones used by state agencies, or (2) the number of telephones leased by state agencies. Even without this information, it is clear that as the state further delays its effort to buy telephones, the state *loses* opportunities to save millions of dollars over the next few years.

According to the DGS, there are three reasons why the telephone equipment purchase program has not moved more quickly:

- First, it took a considerable amount of time in the current year for the Telecommunications Division to develop a training manual for agency personnel who are responsible for managing their agency's telephone systems;
- Second, many agencies have not taken the initiative to plan their telephone systems or, alternatively, to simply buy the telephone equipment they currently lease; and
- Third, until the DGS receives an inventory of leased telephones, it does not know with precision which agencies lease telephones, how many instruments are involved, or where the equipment is located. Apparently, the absence of this information makes it difficult for the department to target any effort to encourage agencies to purchase telephones.

We believe the DGS should already have developed its own inventory of telephone equipment used by state agencies. As the state's *lead* agency for the overall management of state telecommunications activities, the department should be responsible for maintaining basic information regarding the telecommunications resources used in state operations. It is not clear to us, however, why a lack of information regarding the telephone equipment currently leased by state agencies should prevent the department from expediting the purchase of telephone systems statewide.

### **Stronger Action Needed To Increase Telephone Equipment Ownership**

*We recommend that the Legislature adopt Budget Bill language directing the Department of General Services to purchase telephone equipment on behalf of those state agencies which fail to initiate this action themselves.*

**DEPARTMENT OF GENERAL SERVICES—Continued**

*We further recommend: (1) that the spending authority of the DGS budget be increased by \$5 million (Item 1760-001-666), in order to provide the department with the resources it may need to purchase telephone equipment; and (2) the adoption of supplemental report language requiring the department to report to the Legislature on a quarterly basis regarding its progress in reducing the amount of telephone equipment leased by state agencies.*

We believe that in order to realize *major* savings in state communications costs, the DGS must play a *stronger* role in the telephone equipment acquisition process. Therefore, we recommend that the Legislature direct the department in the Budget Act to unilaterally purchase telephone equipment on behalf of those state agencies which fail to initiate this action themselves. To accomplish this objective, we recommend that the Legislature adopt the following Budget Bill language in Item 1760-001-666:

The Director of General Services shall, to the extent feasible, act on behalf of state agencies by purchasing either the telephone equipment leased by those agencies, or comparable replacement equipment that is available at less cost. The Director, at his discretion, may exempt from this action those agencies which, by October 1, 1986, have either terminated all telephone equipment leases or have notified the Director in writing of their intention to do so by December 31, 1986. The Director is hereby authorized to establish monthly charges to be paid by those agencies for whom the department purchases telephone equipment, and to continue collecting those charges until the agency has fully reimbursed the department for the cost of purchasing the equipment.

In order to provide the department with the financial resources it may need to conduct a more centralized and expedited telephone purchase program, we further recommend that the DGS's spending authority be increased by \$5 million (Item 1760-001-666). This is the maximum amount the department would need for both equipment and consultant services expenses in order to implement the Legislature's directive. The DGS's costs would be reimbursed by state agencies using funds already budgeted for communications expenses. A significant percentage of these budgeted resources could be "recovered" in future years through the elimination of telephone equipment lease expenses in the state agencies' budgets.

We also recommend that the Legislature adopt the following supplemental report language, which would require the department to keep the Legislature fully informed throughout 1986-87 on the department's efforts to eliminate the use of leased telephone equipment by state agencies:

The Director of General Services shall report quarterly in 1986-87 to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the legislative fiscal committees regarding: (1) the specific actions taken as part of the telephone equipment purchase program, (2) the state agencies for whom telephone equipment has been purchased, (3) the amounts expended for both equipment and consultant services, and (4) the loan repayment terms established in each case where equipment has been purchased on behalf of a state agency.

**ADMINISTRATION**

The administration program contains the executive management, fiscal, and personnel functions which support the department's line programs. The department also provides accounting, budgeting, and personnel serv-

ices to a number of small state entities on a reimbursable basis.

The budget proposes to spend \$10,689,000 on these activities in 1986-87, an increase of 7.4 percent over estimated current-year expenditures. This program accounts for 2.5 percent of the department's total budget.

### **OFFICE OF ADMINISTRATIVE SERVICES**

The Office of Administrative Services provides personnel, training, and labor relations services for the entire department. In addition, the office offers contract personnel services to relatively small state agencies on a fee-reimbursement basis. In the current year, the office has a budget of \$3.1 million and authorization for 65 personnel-years.

#### **Office Automation Request Appears Sound**

*We recommend that the Legislature adopt Budget Bill language in order to ensure that funds budgeted for office automation will not be spent until the project has been approved by the Department of Finance.*

The budget proposes the expenditure of \$299,000 in 1986-87 for the purchase of a minicomputer-based system that would provide extensive word processing, filing, and data base management capability to the Office of Administrative Services. Specifically, the request includes funds for the purchase of one minicomputer, four personal computers, additional display screens, and related equipment and services. A feasibility study report on the project is scheduled for completion and transmittal to the Office of Information Technology in the Department of Finance during January 1986.

The proposed automation project for the office appears to be soundly conceived. If designed and implemented properly, it would:

- Address the office's current and projected workload growth in a timely and cost-effective manner,
- Reduce significant filing backlogs that have developed,
- Improve the office's ability to manage personnel information, and
- Save considerable clerical time (the office estimates it will be able to eliminate six positions over a three-year period).

In summary, this project involves activities for which automation seems highly appropriate, and should lead to significant savings and improved service delivery. Accordingly, we recommend approval of the \$299,000 in proposed funding for the project.

In order to provide the Legislature with the assurance that these funds will not be spent by the department until the project has been fully reviewed and approved by the Office of Information Technology, we further recommend that the Legislature adopt the following Budget Bill language in Item 1760-001-666:

Of the funds appropriated in this item, \$299,000 for office automation in the Office of Administrative Services shall not be available for expenditure until a feasibility study report for the project has been approved by the Department of Finance.

### **EMERGENCY TELEPHONE NUMBER PROGRAM—LOCAL ASSISTANCE**

The State Emergency Telephone Number Account (the "911" account) receives revenues from a telephone users' surcharge, and uses these funds to reimburse local governments for the costs of installing and operating emergency telephone systems. The surcharge rate currently is set at 0.5 percent of each telephone billing for intrastate services; the Department

**DEPARTMENT OF GENERAL SERVICES—Continued**

of General Services is authorized by law to raise the rate to a maximum of 0.75 percent.

**"911" Account Calls In Loans From The General Fund**

The budget proposes to spend \$51.0 million from the "911" account in 1986-87, an increase of \$974,000, or 1.0 percent, over the current-year amount. The proposed expenditures include both local assistance and state administration. As Table 9 shows, expenditures from the account have exceeded or are projected to exceed annual revenues in the past, current, and budget years.

**Table 9**  
**"911" Account: Revenues and Expenditures**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Estimated</i> 1985-86	<i>Projected</i> 1986-87
Surcharge Revenues .....	\$30,190	\$32,500	\$34,800
Expenditures .....	35,607	49,983	50,957
Annual Deficit .....	\$5,417	\$17,483	\$16,157

The 1984-85 deficit and a small part of the current-year deficit were covered by the surplus in the "911" account. Most of the 1985-86 shortfall, however, is being covered by \$14.5 million that the 1985 Budget Act transferred from the General Fund to the "911" account. This transfer constitutes the first installment toward the repayment of loans totaling \$68.8 million which the "911" account made to the General Fund in 1982 and 1983. The administration will request an additional \$764,000 General Fund transfer in the current year to keep the fund solvent.

For 1986-87, the budget proposes another transfer from the General Fund—\$12.8 million—to cover the gap between estimated expenditures and surcharge revenues. (The difference between the budget-year deficit estimate shown in Table 9—\$16.2 million—and the requested transfer amount is due to an accrued carryover surplus.)

**Legislative Options Regarding "911" Deficit**

There are three options available to the Legislature for covering the projected cash shortfall in the "911" account:

- Direct the DGS to raise the "911" surcharge to its maximum level in 1986-87. This action would generate additional revenue in the range of \$10.2 million to \$14.5 million, possibly enough to cover the entire projected cash shortfall.
- Approve the proposed transfer of funds (\$12.8 million).
- Rely on a *combination* of the two preceding options and approve both a General Fund transfer and an increase in the surcharge rate.

We recommend that the Legislature approve the proposed transfer of \$12.8 million from the General Fund to the State Emergency Telephone Number Account as proposed in Item 1760-101-001. In our view, it would not be appropriate to raise the fee paid by telephone subscribers until the loans to the General Fund have been fully repaid.

**Blanket Transfer Authority Is Not Needed**

*We recommend that the Legislature delete the Budget Bill language proposed in Item 1760-101-001, because the need for the language has not been established.*

The budget also proposes language in Item 1760-101-001 which would authorize the Director of Finance to make *additional* General Fund transfers to the "911" account in 1986-87 if such funds are needed to meet the cash-flow requirements of the "911" program.

The *specific* need to provide the Director of Finance with "blanket" authority to make General Fund transfers to the "911" account in 1986-87 has not been established. To the extent that the "911" account experiences further cash-flow problems in the budget year, it would be more appropriate for such shortfalls to be resolved with direct participation by the Legislature, as would be the case if the administration relies on the deficiency process or special urgency legislation, rather than blanket authority, to deal with the problem.

Accordingly, we recommend that the Legislature delete the proposed Budget Bill language in Item 1760-101-001.

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**DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY**

Item 1760-301 from the General  
Fund, Special Account for  
Capital Outlay

Budget p. SCS 119

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Requested 1986-87 .....	\$4,587,000
Recommended approval .....	222,000
Recommended reduction .....	4,365,000

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

- |   |     |
|---|-----|
| 1. Replacement of PCB-Contaminated Equipment. Recommend that the Department of General Services explain to the Legislature (a) why there have been delays in the program, and (b) what steps it has taken to ensure that further delays do not occur. | 190 |
| 2. Replacement of PCB-Contaminated Equipment. We recommend that the department provide the Legislature with a copy of its five-year plan for replacing PCB-contaminated equipment.  | 190 |
| 3. <i>San Francisco State Building Backfill. Reduce Item 1760-301-036(1) by \$3,339,000.</i> Recommend deletion because the request for construction funds is premature.  | 191 |
| 4. San Francisco State Building Backfill. Recommend that the Department of General Services explain to the Legislature, prior to budget hearings, why there have been delays in the project.  | 191 |
| 5. <i>Franchise Tax Board, Phase II. Reduce Item 1760-301-036(3) by \$988,000.</i> Recommend deletion because pre-  | 192 |

**DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued**

liminary plans will not be completed this year.

6. **Statewide Space Planning. Reduce Item 1760-301-036(5) 192**  
by \$10,000. Recommend deletion of planning services at the San Francisco State Building because these services have already been provided.
7. **Minor Capital Outlay. Reduce Item 1760-301-036(6) by 193**  
\$28,000. Recommend deletion of one minor capital outlay project because neither information describing the work to be done nor justification for the amount requested has been provided.

**ANALYSIS AND RECOMMENDATIONS**

The budget proposes \$4,587,000 from the General Fund, Special Account for Capital Outlay, for three major capital outlay projects and two minor projects (\$200,000 or less per project) for the Department of General Services (DGS).

**PCB Program Still Experiencing Delays**

*We recommend that the department (1) explain to the Legislature why there have been further delays in the PCB program, and (2) describe the steps it has taken to ensure that further delays do not occur.*

*We further recommend that, prior to budget hearings, the department provide the Legislature with a copy of its five-year plan for replacing PCB-contaminated equipment.*

**Background.** PCBs (Polychlorinated Biphenyls) are insulating fluids which have been used in electrical transformers and capacitors as a dielectric fluid. The PCB substances have been found to be highly toxic and can seriously harm the health of human beings if certain concentrations are ingested over a period of time. Consequently, the use, storage, and disposal of the PCB substances are strictly controlled by regulations administered by the Environmental Protection Agency (EPA) of the federal government. No health hazard exists when the electrical equipment encasements are tightly sealed; problems arise when PCB-containing substances begin leaking from the encasements.

The Legislature appropriated \$3,647,000 in the 1981 Budget Act to replace all leaking, hazardous or PCB-contaminated equipment that had been identified in a study prepared by a private consultant under contract to the Office of State Architect (OSA). The department spent \$501,000 in 1981-82 to replace PCB-contaminated equipment that the department felt posed a risk to food or feed products, and for the preparation of plans to replace other leaking or hazardous installations. Expenditure of the remaining funds (\$3,146,000) was deferred and the funds later were reverted when the Legislature provided \$3,147,000 in the 1982 Budget Act to complete the work that originally was to have been completed in 1981-82. Specifically, funds were provided to replace leaking or hazardous transformers in nonfood handling areas, and to store the old transformers in temporary facilities constructed especially for that purpose.

In 1983-84, the Legislature appropriated an additional \$1,806,000 for the program, this time for the sampling, disposal and replacement of PCB-contaminated equipment. The department indicates that Phase I of this work was completed in June 1985. Phase II will be completed no later than June 1986.

In the 1984 Budget Act, the Legislature appropriated (1) \$2,333,000 to replace electrical transformers containing PCB fluids located in mechanical equipment/switchgear rooms that are near building ventilation systems, and (2) \$580,000 to replace and repair 18 electrical transformers (\$480,000) and construct PCB storage facilities (\$100,000) at the Sierra Conservation Center, the Northern California Youth Center, the Fred C. Nelles School, and San Francisco State University. The use of funds appropriated for the replacement of PCB-contaminated equipment and mechanical equipment/switchgear rooms was restricted to expenditures needed to comply with final regulations adopted by the EPA.

The final EPA regulations were not issued until July 1985. Consequently, the department could not proceed with this portion of the project in 1984-85 and the funds were reappropriated in the 1985 Budget Act. According to the department, funds for these projects still have not been fully expended. The department indicates that *preliminary plans* for the \$2.3 million appropriated for replacement of PCB-contaminated equipment will be completed in June 1986. Preliminary plans for the project to replace and repair transformers (\$480,000) were approved by the state Public Works Board in June 1985, but the project has not yet gone to bid. Given the department's latest schedule for completion of preliminary plans, *funding for the projects in this program may have to be reappropriated again.*

The department indicates that, as a consequence of the new EPA regulations, it has begun to develop a five-year plan for PCB-contaminated transformer replacement. The five-year plan will provide the basis for additional future funding requests.

We recommend that, prior to budget hearings, the department report to the Legislature (1) why there have been additional delays in the PCB program, (2) what steps it has taken to ensure that further delays will not occur, (3) what PCB equipment is to be replaced using the funds appropriated to date, and (4) what the current schedule is for each phase of replacing the contaminated equipment.

Further, we recommend that, prior to budget hearings, the department provide the Legislature with a copy of the five-year plan for replacing PCB-contaminated transformers. The plan should include a list of individual projects, the criteria used to select these projects, the criteria used to set priorities for replacing the transformers, and a schedule for replacing them.

#### **San Francisco Office Building Backfill Project Delayed**

*We recommend deletion of \$3,339,000 requested in Item 1760-301-036 (1) because the request for construction funds is premature.*

*We further recommend that the department explain to the Legislature, prior to budget hearings, why the project has been delayed.*

The budget requests \$3,339,000 from the Special Account for Capital Outlay to remodel 105,000 square feet of space in the existing San Francisco State Building. This space will be vacated by the Public Utilities Commission when the new San Francisco State Office Building is occupied in early 1986. A total of \$393,000 has been appropriated for preliminary plans and working drawings for this project.

Although funds needed to prepare preliminary plans were appropriated in the 1984 Budget Act, the department has not completed the plans. Consequently, it is not clear when working drawings will be completed. At the time funds for working drawings were approved in the 1985 Budget

**DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued**

Act, the department's schedule called for the drawings to be completed by March 1986. The department, however, indicates that the working drawings will not be completed until October 1986. This date, however, may be optimistic, given that preliminary plans have not been completed.

In any case, because the preliminary plans have not been completed, the Legislature has no information upon which to evaluate the proposed alterations and associated costs. Thus, we recommend that the funding requested for construction be deleted. If preliminary plans are completed prior to hearings on the department's budget, we will reconsider our recommendation. Further, we recommend that the department explain to the Legislature, prior to budget hearings, why there have been delays in the project.

**Franchise Tax Board, Phase II**

*We recommend deletion of \$988,000 requested under Item 1760-301-036(3) for the Franchise Tax Board, Phase II facility, because preliminary plans will not be completed this fiscal year.*

The department requests \$988,000 to prepare working drawings for Phase II of the Franchise Tax Board facility. The project provides for a 385,000 gross square foot facility, including space for buildings and grounds personnel (10,000), document destruction (7,500), warehouse (40,000), data storage and retrieval (277,500) and offices (50,000). Funds for preliminary planning (\$841,000) were provided in the 1985 Budget Act. The estimated future cost of the facility is \$24,540,000.

The department indicates that preliminary plans for this facility will not be completed in the current year. Consequently, we have no basis on which to evaluate the amount requested by the department. Under these circumstances, we recommend deletion of the requested funds.

**Statewide Space Planning**

*We recommend deletion of \$10,000 requested for statewide space planning under Item 1760-301-036(5) because these services have already been provided.*

The department requests \$158,000 for space planning activities associated with the new San Francisco State Building, the new Los Angeles State Building, and the Franchise Tax Board, Phase II facility. These funds will be spent for space planning and coordination at the Los Angeles State Building and the Franchise Tax Board, Phase II building. Services are to be provided to the new San Francisco State Building for preparation of as-built drawings, area calculations for billing purposes, and space assignments.

The department's request includes funding for services at the San Francisco State Building *which have already been performed*. The requirement for as-built drawing normally is the responsibility of the consulting architect, as part of the state's contractual agreement. The department has not indicated why the consulting architect's as-built drawings are not adequate. Moreover, the rental payments for the building are included in the department's calculations for the statewide Building Rental Account. Consequently, area calculations for rental purposes, and the assignment of space have already been completed. We therefore, recommend deletion of the \$10,000 requested for the San Francisco building.



**Minor Projects**

*We recommend that \$28,000 requested for alterations to the Sacramento garage in Item 1760-301-036(6) be deleted because no information has been provided to describe the work or justify the cost.*

The budget requests \$102,000 for two minor projects: (1) loading dock alterations at the San Francisco State Building (\$74,000), and (2) handicapped ramps at the Sacramento Garage (\$28,000).

The San Francisco State Building project was funded for \$35,000 in the 1984 Budget Act but the funds were not sufficient to bid the contract. The \$74,000 requested should be sufficient for this purpose and the project is justified. Thus, we recommend approval of the requested amount.

The project at the Sacramento garage would install a handicapped ramp, widen doors and modify public restroom facilities to accommodate the mobility impaired. The department indicates that (1) the existing restroom facilities are not accessible by the mobility impaired and (2) the proposed alterations will enable the Office of Fleet Administration to hire mobility impaired individuals to work in the garage office. We support the intent of this proposal. The department, however, has not provided any information (1) identifying the work that would be performed to make the facilities and work area accessible, or (2) that substantiates the amount requested. Consequently, we cannot, at this time, recommend approval of the requested amount. If the department submits additional information clarifying these matters, we will provide the Legislature with a supplemental analysis of the project.

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**State and Consumer Services Agency  
STATE PERSONNEL BOARD**

Item 1880 from the General  
Fund

Budget p. SCS 120

Requested 1986-87 .....	\$24,656,000
Estimated 1985-86.....	25,106,000
Actual 1984-85 .....	24,737,000
Requested decrease \$450,000 (-1.8 percent)	
Total recommended reduction .....	17,000
Recommendation pending .....	659,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1880-001-001—Support	General	\$21,176,000
Reimbursements	—	3,480,000
Total		\$24,656,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. Staff Reductions. Recommend that, prior to budget hearings, the Department of Finance and the State Person-

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**STATE PERSONNEL BOARD—Continued**

- nel Board report on the impact that proposed personnel reductions would have on the board.
2. **Facilities Operation.** Recommend that, prior to budget hearings, the SPB and the Department of Finance report on the board's rental needs. Pending receipt of such information, we withhold recommendation on \$659,000 budgeted for facilities operation. 197
  3. **Technical Reduction.** *Reduce Item 1880-001-001 by \$17,000.* Recommend deletion of funds to account for reduced operating expenses. 197

**GENERAL PROGRAM STATEMENT**

The State Personnel Board (SPB) is a constitutional body consisting of five members appointed by the Governor for 10-year terms. The board has authority under the State Constitution and various statutes to adopt state civil service rules and regulations.

An executive officer, appointed by the board, is responsible for administering the merit aspects of the state civil service system. (The Department of Personnel Administration (DPA), which was established effective May 1, 1981, is responsible for managing the nonmerit aspects of the state's personnel systems.) The board and its staff also are responsible for establishing and administering, on a reimbursement basis, merit systems for city and county welfare and civil defense employees, to ensure compliance with federal requirements.

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

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

The board has been authorized 351.2 personnel-years in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$21,176,000 from the General Fund for support of the State Personnel Board in 1986-87. This is \$566,000, or 2.6 percent, less than estimated expenditures for the current year. In addition, the budget proposes to reduce SPB staffing by 14.5 percent in the budget year.

In addition to the \$21.2 million requested from the General Fund, the board proposes to spend \$3.5 million in reimbursements in 1986-87. Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the past, current, and budget years.

The baseline adjustments, workload changes and program changes proposed for the budget year are displayed in Table 2. The major changes are: (1) a reduction of 55 positions and \$1.7 million made possible by decentralization of the examination process (\$733,000 of the \$1.7 million reflects staffing reductions begun in the current year), and (2) an increase of \$594,000 to pay for salary and benefit increases.

**Table 1**  
**State Personnel Board**  
**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	
Merit System Administration.....	234.4	226.0	179.9	\$20,459	\$21,707	\$21,049	-3.0%
Appeals .....	40.7	39.6	40.6	2,354	2,460	2,662	8.2
Local Government Services.....	47.3	—	—	1,810	842	842	—
Administrative Services .....	89.8	85.6	79.9	3,597	4,103	4,355	6.1
Distributed Administrative Services .....	(89.8)	(85.6)	(79.9)	-3,483	-4,006	-4,252	6.1
Totals .....	412.2	351.2	300.4	\$24,737	\$25,106	\$24,656	-1.8%
Funding Source							
General Fund .....				\$20,678	\$21,742	\$21,176	-2.6%
Reimbursements .....				3,363	3,364	3,480	3.4
Cooperative Personnel Services Revolving Fund.....				696	—	—	NA

**Table 2**  
**State Personnel Board**  
**Proposed 1986-87 Budget Changes**  
**(dollars in thousands)**

	General Fund	Reim- bursements	Total
1985-86 Expenditures (Revised) .....	\$21,742	\$3,364	\$25,106
<i>Baseline Adjustments</i>			
Salary and Benefit Increases .....	\$594	\$9	\$603
Operating Expenses .....	-104	—	-104
Career Opportunities Development .....	423	107	530
Other Adjustments .....	248	—	248
Subtotals, Baseline Adjustments .....	(\$1,161)	(\$116)	(\$1,277)
<i>Workload Changes</i>			
Reduction in Administrative Support Due to Increased Efficiencies (6 positions) .....	-\$143	—	-\$143
Increase in Appeals Program (1 position) .....	74	—	74
Subtotals, Workload Changes .....	(-\$69)	(—)	(-\$69)
<i>Program Changes</i>			
Reductions Attributed to Decentralization of Departmental-Specific Selection (26.6 per- sonnel-years) .....	-\$733	—	-\$733
Reductions Attributed to Further Decentrali- zation (20 positions) .....	-925	—	-925
Subtotal, Program Changes .....	(\$1,658)	(—)	(\$1,658)
1986-87 Expenditures (Proposed) .....	\$21,176	\$3,480	\$24,656
Change from 1985-86:			
Amount .....	-\$566	\$116	-\$450
Percent .....	-2.6%	3.4%	-1.8%

**STATE PERSONNEL BOARD—Continued****ANALYSIS AND RECOMMENDATIONS****Budget Proposes Further Decentralization of Employee Selection Program**

*We recommend that, prior to budget hearings, the board and the Department of Finance report on the impact of proposed staff reductions.*

**Background.** Since 1981, the SPB has been implementing a decentralized employee selection program (DESP). Under this program, the line agency—rather than the SPB—administers the entire civil service selection process in filling its vacancies. The advantage of this program is that a department can administer the selection process faster than the SPB.

After a department has been selected for participation in the program and has successfully completed a probationary period (usually up to one year), it becomes eligible to receive the examining resources previously budgeted for SPB. Currently, the DESP is limited to *departmental-specific* civil service classes (that is, those positions used solely within an individual department). The SPB, however, is conducting a pilot project to test the feasibility of decentralized selection among *servicewide* classes (that is, those used throughout state government).

The 1985–86 budget proposed to accelerate and expand the DESP, thereby making possible the elimination of all SPB resources associated with the employee selection program—42.1 personnel-years and \$1,237,000—by June 30, 1985.

Concerned that the DESP was being implemented too hastily, the Legislature restored the 42.1 personnel-years and \$1,371,000 for the program in 1985–86. The Governor, for the most part, accepted the logic of the Legislature's action. In signing the Budget Bill, he approved the restoration of 26.6 of the 42.1 personnel-years in order to allow for the "orderly phaseout" of the DESP.

As of November 1985, 19 of the 64 departments participating in the DESP had completed their probationary period. The board expects that all but seven of the remaining agencies will complete their probationary period during the current year.

**Budget Proposal for 1986–87.** The budget proposes reductions of 19.1 personnel-years and \$925,000 in the employee selection program, and 5.7 personnel-years and \$143,000 in administrative services distributed to the selection program. These reductions are *in addition to* the 26.6 personnel-years funded in the 1985 Budget Act which are being phased out in the current year. The board intends to accomplish the proposed reductions through *further* decentralization of departmental selection, decentralization of some servicewide selection, and anticipated program efficiencies.

We have identified several problems with the budget's proposal to further decentralize personnel activities.

- **The Basis for the Proposed Staffing Reduction is Unclear.** The board is unable to explain exactly what activities will be shifted to line agencies in 1986–87, or where "increased efficiencies" will be realized.
- **New Participants in the Program May Not All Receive Additional Staffing or Funding.** The budget does not propose additional resources for some departments that would have to conduct the selection process on their own in 1986–87. These departments would have to absorb the costs, probably by cutting back other legislatively-approved activities.

- **Staffing Reductions are Premature.** The results from the SPB's pilot project on decentralizing *servicewide* exams will not be available until June 1986. Consequently, neither the board nor the Legislature will be able to determine to what extent decentralization of service-wide selection should be implemented and what effect this would have on board staffing, prior to that time.

With this in mind, we recommend that, prior to budget hearings, the board and the Department of Finance report on (1) the specific selection activities which will be shifted from SPB to other departments in 1986-87; (2) how the individual departments will fund the cost of activities shifted to them; and (3) the status of the *servicewide* decentralization pilot project and the likelihood that this program can be implemented in 1986-87.

#### **Shrinking Staff Should Need Less Space**

*We recommend that, prior to budget hearings, the board and the Department of Finance report on SPB's space needs in 1986-87. Pending receipt of such information, we withhold recommendation on \$659,000 requested for rental expenses.*

If the proposed budget is approved, the SPB would lose over 50 positions between July 1, 1985, and July 1, 1986. These staff cuts should translate into a substantial reduction in the amount of rental space that the board needs in 1986-87. The SPB indicates, however, that it plans to occupy the *same* amount of space in the budget year as it is occupying in the current year. Furthermore, complicating the picture, the budget provides \$659,000 for facilities operation in 1986-87, yet the board projects that its existing rental space would cost \$886,000.

Given these major inconsistencies, we recommend that, prior to budget hearings, the board and the Department of Finance report on SPB's actual space requirements in 1986-87. Pending receipt of this information, we withhold recommendation on the \$659,000 budgeted for facilities operations.

#### **Technical Budgeting Issue**

*We recommend a reduction of \$17,000 in order to correct for overbudgeting of operating expenses. (Reduce Item 1880-001-001 by \$17,000.)*

The budget proposes a \$25,000 reduction in operating expenses associated with the elimination of 15 positions, or approximately \$1,700 per position. A similar reduction, however, is not proposed with respect to another 10 positions proposed for elimination. Consequently, we recommend a General Fund reduction of \$17,000 to correct for this overbudgeting.

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**State and Consumer Services Agency**  
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Item 1900 from the General  
 Fund, Public Employees'  
 Retirement Fund, and other  
 funds

Budget p. SCS 127

Requested 1986-87 .....	\$39,118,000
Estimated 1985-86 .....	36,316,000
Actual 1984-85 .....	33,426,000
Requested increase \$2,802,000 (+7.7 percent)	
Total recommended reduction .....	183,000
Recommendation pending .....	621,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1900-001-001—Social Security Administration	General	\$65,000
1900-001-815—Retirement Administration	Judges' Retirement	194,000
1900-001-820—Retirement Administration	Legislators' Retirement	121,000
1900-001-830—Retirement Administration	Public Employees' Retirement	34,796,000
1900-001-950—Health Benefit Administration	Public Employees' Contingency Reserve	2,727,000
1900-001-962—Retirement Administration	Volunteer Firefighters' Length of Service Award	53,000
Ch 674/84—Current-Year Balance Available for Retirement	Public Employees' Retirement	127,000
Reimbursements		1,035,000
Total		\$39,118,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. Salary Savings. Recommend that the Department of Finance describe for the Legislature how the PERS will meet its budgeted salary savings requirement. 201
2. Investment Services. Withhold recommendation on \$621,000 budgeted for additional investment services, pending receipt and analysis of an approved expenditure plan. 202
3. *Audio-Visual Production Funds. Reduce Item 1900-001-830 by \$108,000.* Recommend deletion because the need for these funds has not been shown. 202
4. *Technical Budgeting Issue. Reduce Item 1900-001-830 by \$75,000.* Recommend deletion to correct for overbudgeting of external consultant and professional services. 203

**GENERAL PROGRAM STATEMENT**

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit programs that serve over one million active and retired public employees. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California

public employees whose employers elect to contract for the benefits available through the system.

The PERS also administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program (Social Security), which is now mandatory for state employees and is available to those local public workers whose employers elect such coverage.

The system administers a number of alternative retirement plans, through which the state and contracting agencies provide their employees with a variety of benefits. The costs of these benefits are paid from employer and employee contributions equal to specified percentages of each participating employee's salary. These contributions are designed to finance the long-term, actuarial cost of the various benefits provided.

The PERS' health benefits program offers state employees and other public employees a number of basic and major medical plans, on a premium-sharing basis.

The PERS is managed by a 13-member Board of Administration, the members of which are appointed, elected by specified membership groups, or assigned by statute.

In the current year, the PERS staff consists of 712 personnel-years.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$39,118,000 (including \$1,035,000 in reimbursements) from various funds for the administrative support of the PERS in 1986-87. This is \$2,802,000—or 7.7 percent—more than current-year expenditures.

Table 1 shows the past-, current- and budget-year requirements of the PERS.

**Table 1**  
**Public Employees' Retirement System**  
**Budget Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Program	Expenditures			Change	
	Actual 1984-85	Est. 1985-86	Prop. 1986-87	From 1985-86 Amount	Percent
Retirement .....	\$29,490	\$31,878	\$34,601	\$2,723	8.5%
Social Security .....	643	674	709	35	5.2
Health Benefits .....	2,682	2,692	2,701	9	0.3
Redesign Project .....	611	1,072	1,107	35	3.3
Administration (Distributed to other programs) .....	(15,539)	(18,158)	(20,375)	(2,217)	(12.1)
Totals .....	\$33,426	\$36,316	\$39,118	\$2,802	7.7%
Funding Source					
General Fund .....	\$58	\$64	\$65	\$1	1.6%
Public Employees' Retirement Fund .....	29,343	32,161	34,923 <sup>a</sup>	2,762	8.6
Public Employees' Contingency Reserve Fund .....	2,657	2,731	2,727	-4	-0.1
Legislators' Retirement Fund .....	156	124	121	-3	-2.3
Judges' Retirement Fund .....	220	196	194	-2	-1.0
Volunteer Firefighters Length of Service Award Fund .....	—	48	53	5	10.4
Reimbursements .....	992	992	1,035	43	4.3
Personnel-years .....	714.4	711.9	706.9	-5	-0.7

<sup>a</sup> Includes \$127,000 from the amount appropriated by Ch 674/84 (AB 529) for administration of the "Two-Tier" retirement program.

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

Table 2 summarizes the significant changes proposed in the PERS budget for 1986-87. Significant *baseline adjustments* include (1) nearly \$1.1 million for salary increases, (2) over \$1 million in reductions to account for expiring limited-term positions and one-time expenditures, and (3) \$420,000 for increased pro rata charges, due primarily to increases in the PERS-related workload of the Controller and Treasurer.

As the table shows, *program changes* account for over 90 percent of the total growth in the system's expenditures. The two most significant changes are (1) \$1,675,000 for a new "stand-alone" data processing system to be located in the new PERS headquarters building, and (2) \$678,000 for continued office automation and other data processing expenditures.

The budget does not include additional funding for merit salary adjustments or inflationary adjustments to operating expenses and equipment. We estimate that the PERS will have to absorb approximately \$615,000 in such costs.

**Table 2**  
**Public Employees' Retirement System**  
**Proposed 1986-87 Budget Changes**  
**(dollars in thousands)**

	<i>All Funds<sup>a</sup></i>
1985-86 Expenditures (Revised) .....	\$36,316
<i>Baseline Adjustments</i>	
Salary Increase Adjustment .....	\$1,061
Adjustments for Deleted Limited-Term Positions and One-Time Expenditures .....	-1,036
Increased Pro Rata Charges .....	420
Increased Salary Savings Requirement .....	-302
Subtotal, Baseline Adjustments .....	(-\$143)
<i>Workload Changes</i>	
Increased Retirement Program Workload .....	\$361
Reduction in Management Positions .....	-264
Reduction in Funding of Management Study Recommendations .....	-124
Continued Funding of Headquarters Relocation Staff .....	63
Increased Operating Expenses .....	67
Subtotal, Workload Changes .....	(\$103)
<i>Program Changes</i>	
New Computer Facility .....	\$1,675
Office Automation and Other Data Processing Expenditures .....	678
Audio-Visual Program for Employer Training .....	128
Newsletter for Active PERS Members .....	75
Subtotal, Program Changes .....	(\$2,556)
1986-87 Expenditures (Proposed) .....	\$39,118
Change from 1985-86	
Amount .....	2,802
Percent .....	7.7%

<sup>a</sup> Over 90 percent of total PERS expenditures are from the Public Employees' Retirement Fund. The totals, however, also include expenditures from the Public Employees' Contingency Reserve Fund, the Legislators' and Judges' Retirement Funds, the Volunteer Firefighters' Length of Service Award Fund, the General Fund and reimbursements.



## ANALYSIS AND RECOMMENDATIONS

### **The Budget Assumes that the Employers' Contribution Rates Will Be Reduced**

The PERS employer rates are set in statute, although they are subject to change each year, based on recommendations made by the PERS Board of Administration.

The budget proposes that the PERS employers' contribution rate for all membership categories be reduced by approximately 15 percent in 1986-87. According to the budget document, these reductions are warranted by anticipated changes in actuarial assumptions.

Since state agencies have already budgeted for PERS contributions at *current-year* rates, the savings resulting from the expected rate reductions are proposed for recapture through Control Section 3.60 of the 1986 Budget Bill.

We discuss this issue in detail as part of our analysis of Control Section 3.60.

### **Excessive Salary Savings Requirement Continued**

*We recommend that prior to the budget hearings, the Department of Finance report to the Legislature: (1) how the PERS will meet its proposed salary savings requirement and (2) the programmatic impact if the requirement is not met through normal turnover and attrition.*

In last year's *Analysis* (please see p. 222), we advised the Legislature that the budget called for excessive salary savings (9.7 percent of salaries and wages) by the PERS during 1985-86. In response, the Legislature augmented the PERS budget to reduce the salary savings requirement to 5 percent, a level that is consistent with actual salary savings in recent years. In signing the 1985 Budget Act, the Governor deleted much of the legislative augmentation, providing the PERS with sufficient funds to maintain a salary savings level of 7.7 percent.

For 1986-87, the budget again proposes to *increase* the PERS salary savings requirement—this time to 8.7 percent. Once again, the budget offers no reason for the increase. In our view, this is not a technical issue. The administration, in effect, is proposing an unallocated reduction in PERS operations. To the extent that the system does not realize this projected level of savings through normal attrition and turnover, the salary savings requirement probably will make it necessary for the system to cut member services—PERS' major program activity.

Given the Legislature's desire to improve the quality and timeliness of PERS service to members, we recommend that prior to the budget hearings, the Department of Finance advise the Legislature (1) how the system will meet its proposed salary savings requirement and (2) the programmatic impact if this requirement is not realized.

### **PERS To Receive Its Own Data Processing Facility**

The PERS requests \$1,675,000 from the Public Employees' Retirement Fund to acquire and install its own "in-house" computer system during 1986-87, in order to reduce future data processing costs. This project has been approved by the Department of Finance's Office of Information Technology (OIT).

The PERS proposes to purchase a new, "fourth-generation" computer system (with supporting software) for installation in its new headquarters building during the first half of 1986-87. Following a trial period, all of the PERS data processing activities are scheduled to be moved from the Teale

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued**

Data Center (TDC) to the new facility, effective July 1, 1987.

The proposed budget-year augmentation of \$1,675,000 consists of: (1) \$1,366,000 for acquisition (first-year payment on a five-year installment purchase plan) and installation of hardware and related software, and (2) \$309,000 for a staff of 19 positions to operate the new facility. These funds are in addition to the funds currently budgeted for TDC services (\$2.9 million). The latter funds will be needed in 1986–87, because data processing services will continue to be provided by the TDC while the new system is being brought on line. In subsequent years, however, installment purchase payments and operating costs would be funded entirely from within the existing amounts budgeted for data processing.

According to the PERS feasibility study, estimated total hardware costs of \$3.4 million (including maintenance and interest) over the five-year purchase period will be completely repaid by 1990 from savings. The study also projects that by 1994, the PERS is expected to realize total net savings of \$7.6 million from this “in-house” data processing facility. Pursuant to State Administrative Manual requirements, the PERS must file quarterly progress reports on this project with the OIT and the office of the Legislative Analyst. Upon completion of the project, it also must submit a post-implementation evaluation report.

**No Approved Plan for Spending Investment Office Funds**

*We withhold recommendation on \$621,000 requested from the Public Employees' Retirement Fund (Item 1900-001-830) for the PERS investment office, pending receipt and analysis of an approved expenditure plan.*

The budget includes \$621,000 for the PERS to implement a revised investment strategy and make related changes in investment personnel. This is the same amount approved in the 1985 Budget Act for a PERS-proposed, in-house staff of 12 positions (and associated operating expenses) assigned to carry out the system's revised investment strategy. The new strategy called for increased emphasis to be put on equity and real estate investments, in order to take advantage of projected favorable long-term yields in these sectors.

The PERS was required to obtain approval of the proposed positions and salary levels from the Department of Personnel Administration (DPA). Although the PERS submitted its request for approval to DPA in September 1985, as of mid-January 1986 it had not received a response to its request. Without such approval, the PERS cannot start implementing its proposal during the current year and cannot provide an official expenditure plan for the budget year. The DPA informed us that a response to the PERS proposal will be forthcoming soon.

Pending DPA's action on the PERS request and receipt of a detailed expenditure plan for the budget year, we withhold recommendation on the \$621,000 proposed for the PERS investment office.

**Proposal for Audio-Visual Materials Lacks Justification**

*We recommend that the Legislature delete \$108,000 requested for producing audio-visual programs for contracting agencies because the need for these additional training resources has not been shown. (Reduce Item 1900-001-830 by \$108,000).*

The budget proposes the expenditure of \$128,000 to provide: (1) \$108,-

000 for production of audio-visual aids (such as video tapes and slide shows) by outside consultants and (2) \$20,000 for travel and other related operating expenses for PERS training personnel. These resources would be used to train personnel of local agencies which contract with PERS for its retirement programs, in order to reduce contribution and service reporting errors. The PERS indicates that by reducing the incidence of these errors, this additional training could result in significant administrative savings for PERS and the affected agencies.

The system currently has about 20 positions throughout the state that provide information to, and hold training seminars and one-on-one training sessions for, local agency personnel. In addition, the PERS has \$16,000 budgeted for audio-visual aids (video, slide shows and overhead projectors). The PERS already has made available to contracting agencies one video cassette which provides general information about the system, the benefits available and services provided.

Our analysis indicates that the proposed augmentation has not been justified adequately.

First, it is unclear to us why audio-visual materials would be better training tools than existing methods. The technical nature of the information being conveyed would seem to lend itself more effectively to the more personal, face-to-face sessions now provided by PERS staff. Second, the PERS has no information as to how many of the local agencies even have the equipment (such as projectors, video recorders and televisions) needed to show these audio-visual aids. Finally, the budget already includes \$16,000 which the system can use to supplement its use of audio-visual aids for training.

For these reasons, we recommend that the Legislature disapprove the \$108,000 budgeted for production of audio-visual materials. We recommend approval, however, of the \$20,000 budgeted for additional travel and other related operating expenses for PERS training personnel.

#### **Technical Budgeting Issue**

*We recommend that the Legislature delete \$75,000 requested from the Public Employees' Retirement Fund (Item 1900-001-830) to eliminate the following overbudgeting:*

- **Actuarial Services.** The PERS has budgeted \$50,000 under external consultant and professional services for actuarial services. This amount is in addition to ongoing funding for the system's in-house actuaries and special funding of quadrennial actuarial services. At the time this analysis was written, the PERS was not able to identify the actuarial services to be provided with these funds. Therefore, we recommend deletion of this item in order to eliminate overbudgeting, for a savings of \$50,000.
  - **EDP Staff Reorganization.** The system has budgeted \$25,000 for a private consultant to study and make recommendations about organization of the staff in the Office of Information Systems and Services. Our analysis indicates that this study would duplicate the work already being performed by management consultants to implement organizational changes proposed by a 1984 management study. Consequently, we recommend deletion of those funds, for a savings of \$25,000.
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**State and Consumer Services Agency**  
**STATE TEACHERS' RETIREMENT SYSTEM**

Item 1920 from the State Teachers' Retirement Fund and other funds

Budget p. SCS 134

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Requested 1986-87 .....	\$19,405,000
Estimated 1985-86.....	15,413,000
Actual 1984-85 .....	13,380,000
Requested increase \$3,992,000 (+ 25.9 percent)	
Total recommended reduction .....	396,000

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**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	\$19,007,000
Education Code Section 24701—COLA administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity administration	Teacher Tax-Sheltered Annuity	62,000
Reimbursements	—	239,000
Total		\$19,405,000

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. **On-Line Information System.** Recommend that the Legislature adopt supplemental report language directing the STRS to provide the Legislature with reports on its progress in completing the on-line information system. 207
2. **Member Mailing List. Reduce Item 1920-001-835 by \$189,000.** Recommend deletion of funds budgeted for printing and distributing written materials through the use of an active member mailing list, because the need for such a list has not been justified adequately. 208
3. **Video Tape Development. Reduce Item 1920-001-835 by \$42,000.** Recommend deletion of funds budgeted for the development of informational video tapes, because the request is premature. 208
4. **County-Based Member Services. Reduce Item 1920-001-835 by \$129,000.** Recommend that two-thirds of the funding proposed for a county-based services pilot program be deleted, which would leave the STRS with enough funds (\$65,000) to conduct a pilot program on a more appropriate scale. 209
5. **Field Office Relocation. Reduce Item 1920-001-835 by \$36,000.** Recommend deletion of funds budgeted for the cost of moving the system's field office in 1986-87, because the proposed move is premature. 210

## GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 406,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

The primary responsibilities of the STRS include: (1) maintaining a fiscally sound plan for funding approved benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups. In addition to having overall management responsibility for the STRS, the board has the authority to review applications for benefits provided by the system.

Our analysis of funding requirements for the *benefits* provided through the STRS appears under Item 6300—"Contributions to the State Teachers' Retirement Fund." This analysis (Item 1920) covers funding requirements for the *support* of the system.

The STRS has authorization for 301 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The budget requests \$19,405,000 from the State Teachers' Retirement Fund, two other special funds, and reimbursements for administrative

Table 1  
State Teachers' Retirement System  
Budget Summary  
1984-85 through 1986-87  
(dollars in thousands)

Program	Actual 1984-85	Estimated 1985-86	Proposed 1986-87	Change From 1985-86	
				Amount	Percent
Administration:					
Accounting .....	\$1,275	\$1,321	\$1,494	\$173	13.1%
Executive office.....	586	805	634	-171	-21.2
Legal office.....	610	593	628	35	5.9
Management services.....	2,762	3,361	5,231	1,870	55.6
Program and policy .....	269	377	392	15	4.0
Subtotals, Administration .....	(\$5,502)	(\$6,457)	(\$8,379)	(\$1,992)	(29.8%)
Investment services .....	\$494	\$554	\$603	\$49	8.8%
Operations:					
Administration .....	400	553	583	30	5.4
Data processing .....	2,059	2,528	3,394	866	34.3
External operations .....	1,165	1,329	1,867	538	40.5
Member services .....	3,758	3,992	4,578	586	14.7
Subtotals, Operations .....	(\$7,382)	(\$8,402)	(\$10,422)	(\$2,020)	(24.0%)
Total Expenditures .....	\$13,378	\$15,413	\$19,404	\$3,992	25.9%
Reimbursements .....	269	308	239	-69	-22.4
Total Net Expenditures.....	\$13,109	\$15,105	\$19,165	\$4,060	26.9%
Funding Source:					
Teachers' Retirement Fund.....	\$13,065	\$15,043	\$19,104	\$4,061	27.0%
Retirees' Purchasing Power Protection Account, Teachers' Retirement Fund .....	97	97	97	0	—
Teacher Tax-Sheltered Annuity Fund.....	46	62	62	0	—
Personnel-years .....	287.3	301.2	302.3	1.1	0.4%

**STATE TEACHERS' RETIREMENT SYSTEM—Continued**

support of the STRS in 1986-87. This is an increase of \$3,992,000, or 26 percent, over estimated current-year expenditures.

Total STRS expenditures, by program, for the past, current, and budget years are shown in Table 1. As the table illustrates, the largest programs of the system, in terms of budget-year expenditures, are management services (\$5.2 million), member services (\$4.6 million), and data processing (\$3.4 million). Table 1 also indicates that the STRS proposes to fund 302.3 personnel-years in the budget year—a net increase of 1.1 personnel-years from the current-year level.

Table 2 summarizes the major changes proposed in the STRS's budget for 1986-87. The table indicates that various *baseline adjustments* account for over three-fifths of the proposed budget changes. The most significant baseline adjustment would fund a \$1,886,000 increase in statewide pro rata charges. This increase, which would more than *double* the amount budgeted for pro rata charges, is due to two factors: (1) there was a significant underestimate of pro rata charges in the past year, which will be "carried over" into the budget year; and (2) there has been a major increase in workload performed on behalf of the STRS by the State Controller and the State Treasurer.

**Table 2**  
**State Teachers' Retirement System**  
**Proposed 1986-87 Budget Changes**

	<i>State Teachers'</i> <i>Retirement Fund</i>	<i>Reim-</i> <i>bursments</i>	<i>Totals</i>
1985-86 Expenditures (Revised) .....	\$15,105,000	\$308,000	\$15,413,000
<i>Baseline Adjustments:</i>			
Salary increase adjustment .....	\$566,000	—	\$566,000
Equipment .....	337,000	—	337,000
Miscellaneous adjustments .....	204,000	—	204,000
Pro rata charges .....	1,886,000	—	1,886,000
Decreased reimbursements .....	—	—\$69,000	—69,000
Legislation (one-time appropriations) .....	—392,000	—	—392,000
Subtotals, Baseline Adjustments .....	(\$2,601,000)	(—\$69,000)	(\$2,532,000)
<i>Workload Changes:</i>			
Data processing (emergency back-up service) ..	\$146,000	—	\$146,000
Data processing (on-line system consulting) .....	749,000	—	749,000
Member services (rehabilitation services) .....	104,000	—	104,000
Subtotals, Workload Changes .....	(\$999,000)	(—)	(\$999,000)
<i>Program Changes:</i>			
Client information .....	\$231,000	—	\$231,000
Field office services .....	230,000	—	230,000
Subtotals, Program Changes .....	(\$461,000)	(—)	(\$461,000)
1986-87 Expenditures (Proposed) .....	\$19,166,000	\$239,000	\$19,405,000
Change from 1985-86:			
Amount .....	\$4,061,000	—\$69,000	\$3,992,000
Percent .....	26.9%	—22.4%	25.9%

About one-quarter of the changes in the system's budget involve *workload increases*, the largest of which is a proposed \$749,000 augmentation

to provide consultant services for the system's on-line computer project.

The remaining budget changes are *program*-related and deal with client information (\$231,000) and field office services (\$230,000). Both of these changes are discussed below.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the system will have to absorb approximately \$340,000 in such costs.

## ANALYSIS AND RECOMMENDATIONS

### Claims Processing and On-Line System Problems Continue

*We recommend that the Legislature adopt supplemental report language directing the STRS to provide regular reports on the system's progress in completing its on-line information system.*

**Background.** In both the *Analysis of the 1984 Budget Bill* (please see page 284) and the *Analysis of the 1985 Budget Bill* (please see page 230), we reported that the STRS has had serious difficulty in meeting its 45-day deadline for processing *final* service retirement payments. According to STRS staff, the system *continues* to experience backlogs and delays in processing these final retirement payments. In 1984-85, for the second consecutive year, the system met the processing standard less than 30 percent of the time. These delays not only cause financial hardship for STRS members (or their beneficiaries); they also can result in additional costs to the STRS because of the interest penalties for late payments required by existing law. In 1984-85, the STRS incurred about \$105,000 in penalties for late payments.

The STRS indicated last year that these processing backlogs would be alleviated by the implementation of a new on-line information system. This system was scheduled to begin operating in November 1985, but it has been delayed until at least December 1988. It will fully automate most claims-processing and benefit-calculating procedures.

**Budget Proposal.** The budget proposes \$271,000 for a one-year extension of eight limited-term positions which are due to expire on June 30, 1986. These positions were added by the 1984 Budget Act, and extended by the 1985 Budget Act, in order to address the increased workload and persistent processing delays in service retirement and death benefit claims. In addition, the budget proposes the expenditure of \$749,000 for consultant services to obtain the equivalent of eight full-time computer programmers who would provide the expertise needed to complete the on-line project.

Our analysis indicates that a one-year extension of the STRS's eight staff positions is warranted. Without these resources, the system's problems in meeting deadlines and avoiding penalty payments would only worsen.

While the on-line system has been designed to address the problems identified in claims processing, it, too, has had trouble meeting its own deadlines. The project, which was initiated in 1981-82, originally was planned to be fully operational in 1984-85. Given the STRS's "track record" with respect to this project, we find it difficult to have much confidence in the STRS's December 1988 target date for system completion.

One of the key reasons for the delay in completing the on-line system is the STRS's lack of experience with complex, large-scale computer projects. The proposed consulting funds would allow the STRS to obtain the personnel resources it needs to complete the on-line project. Accord-

**STATE TEACHERS' RETIREMENT SYSTEM—Continued**

ingly, we recommend approval of the proposed consulting funds.

Given the significant delays that the STRS has encountered to date, however, we believe the STRS should provide the Legislature with regular reports on its progress in completing the on-line system. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

The State Teachers' Retirement System shall provide the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the legislative fiscal committees with reports which: (1) identify all actions taken by the staff of the on-line information system project and the project consultants to rectify the system's design and operating problems, and (2) provide a realistic assessment of the probability that the on-line system will be fully operational by the revised deadline of December 1988. The system shall submit two such reports: one by December 31, 1986, and one by June 30, 1987.

**MEMBER SERVICES**

The STRS generally has relied on local school districts to provide information and assistance to the system's members. To supplement this assistance, the STRS has:

- Conducted group workshops and provided individual retirement counseling,
- Prepared and distributed various informational brochures and newsletters, and
- Instituted a toll-free telephone service to handle direct member inquiries.

Despite these efforts, the Legislature has expressed concern about the adequacy of the services provided to the STRS membership. Chapter 1532, Statutes of 1985 (AB 1923), directs the Legislative Analyst to select a consultant to conduct a study on the system's member service activities. The consultant, whose final report is due to the Legislature on December 1, 1986, will be required to analyze and make recommendations on various alternative methods—including those now used—for delivering services to the STRS's members.

For 1986-87, the system requests the following augmentations to its budget in support of new member-service activities:

- \$231,000 for a new client information program,
- \$194,000 for a new county-based counseling pilot program, and
- \$36,000 to enlarge and relocate the system's one field office.

These three proposals are discussed below.

**A. New Client Information Program Emphasizes Multimedia Approach**

*We recommend that the Legislature delete: (1) \$189,000 requested for printing and distributing written materials using an active member mailing list, because the need for developing and using such a list has not been justified adequately; and (2) \$42,000 requested for the development of informational video tapes, because it is premature to budget funds for this purpose until the use of such tapes has been evaluated. (Reduce Item 1920-001-835 by \$231,000.)*

The budget requests \$231,000 to cover the cost of:

- Printing and mailing two bulletins and one annual account statement



*directly* to the active members, instead of providing this information to members via local employer agencies (\$106,000);

- Printing and distributing updated STRS informational brochures to members and employers (\$83,000); and
- Hiring a consultant to prepare video tapes corresponding to each of the new informational brochures (\$42,000).

***Distribution of Written Materials.*** Last year, the Legislature *rejected* a proposal that would have provided the STRS with \$174,000 for use in developing an active member mailing list, and for covering the cost of printing and postage associated with using the mailing list to distribute written material. Notwithstanding the Legislature's action, the system has taken initial steps *in the current year* to develop a member mailing list. The budget proposes \$189,000 to fully fund the project in 1986-87.

At the same time it rejected funding for this project in 1985-86, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* directing the STRS to report to the Legislature by December 1, 1985, regarding the system's need for a member mailing list. In its report, the STRS asserts that it cannot ensure that the account statements and other information sent to members are distributed efficiently and, in the case of the account statements, without any violation of member privacy. The STRS, however, did not document the extent to which these problems have arisen to date. Nor did the report indicate: (1) how the benefits from the project would exceed the costs, and (2) whether there were alternative methods for improving the existing system.

In short, no new information has been presented to the Legislature indicating a need for it to reverse its decision of last year. Accordingly, we recommend that the Legislature again delete the funds proposed for printing and distributing materials through the use of an active member mailing list, for a savings of \$189,000.

***Video Tape Development.*** The STRS plans to prepare video tape versions of each informational brochure that it revises. These tapes would be made available to television stations, cable television systems, and local agencies which employ STRS members.

Even though the Legislature has *not* had an opportunity to review the STRS's video tape proposal, the system has already developed one video tape, which a public television station in the Los Angeles area has agreed to show in May 1986.

The use of video tapes may in fact be an effective way to distribute information about the STRS's benefit programs. It is premature, however, to budget for the *ongoing* cost of preparing these tapes *prior to* evaluating (1) the results of the test broadcast, and (2) the way in which this activity "fits in" with the system's overall approach to providing member services. The latter will be addressed by the study that is to be conducted by the AB 1923 consultant. Accordingly, we recommend the deletion of \$42,000 proposed for the development of video tapes in the budget year.

## **B. County-Based Pilot Program Takes Off Too Fast**

***We recommend that the Legislature delete \$129,000 requested for a proposed pilot program because the pilot can be tested on a smaller scale. (Reduce Item 1920-001-835 by \$129,000.)***

The budget requests \$194,000 which the STRS would use to:

- Contract with seven local employer agencies (six county offices of education and one individual school district) for retirement counsel-

**STATE TEACHERS' RETIREMENT SYSTEM—Continued**

- ing and group workshops serving STRS members (\$171,000), and
- Purchase microcomputers and develop related software for use in the local facilities, in conjunction with retirement counseling sessions (\$23,000).

The STRS maintains that the proposal constitutes a *pilot program* that, if successful, would be implemented on a statewide basis to provide a full range of services to all of the STRS membership.

Our analysis indicates that the proposed pilot makes good sense because it:

- Recognizes the general responsibility of the employer to inform and advise employees on all aspects of their compensation,
- Makes services available to STRS members in a convenient setting, and
- Provides an improved level of service to members in a manner which potentially could be highly cost-effective.

Although the proposed county-based program is intended to be a pilot, the participants would include seven local employer agencies covering many of the state's largest school districts. In fact, we estimate that about *one-half* of the state's certificated school personnel currently are employed by districts and other offices within these seven areas.

In our view, it makes greater sense to explore a new service delivery mechanism such as the one proposed by the STRS on a much smaller scale and at far less cost. If a subsequent evaluation finds the new mechanism to be cost-effective, the pilot could then be expanded statewide. We believe that a pilot program about *one-third* the size of the proposed pilot, involving two or three local employer agencies, would provide the STRS with sufficient experience to judge the value of expanding this service delivery approach. Accordingly, we recommend that the Legislature (1) delete \$129,000 requested in the proposed budget for the STRS, and (2) approve \$65,000 in order to fund a county-based services pilot program on a more appropriate scale.

**C. Proposed Field Office Move Is Premature**

*We recommend that the Legislature delete \$36,000 budgeted for the cost of relocating the system's field office in 1986-87, because the proposed move is premature.*

The budget requests \$36,000 to relocate and expand the STRS's southern California field office. For the past 11 years, the office, which currently is located in Santa Ana, has provided retirement counseling, conducted group workshops in the field, and responded to inquiries from members and employers in the southern California area.

According to the STRS, this field office stopped performing its traditional activities in the current year, and is now preparing to become a regional training and coordinating center for the county-based member services pilot program which the system proposes to initiate in the budget year.

Our analysis indicates that the current-year activities and the proposed relocation of the STRS's field office are based on the assumption that (1) the pilot program—if approved by the Legislature—will be successful in the budget year, and (2) the study to be conducted by the AB 1923 consultant will confirm the appropriateness of the new role and location of the office.

We conclude that it is premature to budget funds in 1986-87 for office relocation until these evaluations are completed. Accordingly, we recommend that the Legislature delete \$36,000 budgeted for the cost of moving and expanding the system's field office in 1986-87.

**State and Consumer Services Agency**  
**DEPARTMENT OF VETERANS AFFAIRS AND VETERANS'**  
**HOME OF CALIFORNIA**

Items 1960-1970 from the Gen-  
eral Fund

Budget p. SCS 139

Requested 1986-87 .....	\$48,085,000
Estimated 1985-86.....	45,296,000
Actual 1984-85 .....	40,586,000
Requested increase \$2,789,000 (+6.2 percent)	
Total recommended reduction .....	221,000
Recommendation pending .....	928,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
1960-001-001—Departmental support	General	\$2,616,000
1960-001-592—Departmental support	Cal-Vet Farm and Home	981,000
1960-101-001—Local assistance	General	1,000,000
1970-011-001—Veterans Home	General	22,390,000
1970-011-890—Veterans Home	Federal Trust	(13,719,000)
Reimbursements	—	5,578,000
Total, Budget Bill Appropriations		\$32,565,000
Continuing Appropriation—Administration	Cal-Vet Farm and Home	\$15,156,000
Continuing Appropriation—Administration	Cal-Guard Farm and Home	230,000
Chapter 553, Statutes of 1985	—	134,000
Total		\$48,085,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

Analysis  
page

1. *Educational Benefits. Reduce Item 1960-001-001 by \$221,000.* 214  
Recommend deletion of overbudgeted funds.
2. *Equipment. Withhold recommendation on \$814,000 re-* 215  
requested for equipment, pending receipt of information on  
what the department intends to purchase with the funds.
3. *Laundry Service Contract with Prison Industries Authority.* 215  
Withhold recommendation on laundry services proposal,  
pending the receipt of information on various matters.

## DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

### GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services to California veterans and their dependents, and to eligible members of the California National Guard, through five programs:

1. **Cal-Vet Farm and Home Loan.** This program provides low-interest farm and home loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds.

2. **Veterans Claims and Rights.** This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. **The Veterans' Home.** The Home provides approximately 1,400 California war veterans with several levels of medical care, rehabilitation services, and residential services.

4. **Cal-Guard Farm and Home Loan.** This program provides low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds.

5. **Administration.** This program provides for the implementation of policies established by the California Veterans Board and the department director.

The department has 1308.1 authorized positions in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$48,085,000 from various state funds for support of the Department of Veterans Affairs and the Veterans' Home of California in 1986-87. This is an increase of \$2,789,000, or about 6.2 percent, above estimated current-year expenditures.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including expenditures for loans, debt service, and taxes under the Cal-Vet and Cal-Guard loan programs. As shown in the table, the budget proposes total expenditures of \$1,198 million in 1986-87. This is an increase of \$61 million, or 5.4 percent, over estimated current-year expenditures from all sources. The increase reflects the following changes:

- An increase of \$1,361,000, or 5.5 percent, in *General Fund* support for (1) departmental administration and (2) the Veterans' Home. This primarily reflects increased state costs for salary and benefit adjustments.
- An net increase of \$57,674,000 in *special funds*. This includes an increase of \$60,488,000, or 5.6 percent, in the Cal-Vet loan program, primarily to reflect increased costs and new loan activity. The special fund request also reflects a decrease of \$2,814,000, or 27.5 percent, in the Cal-Guard loan program because of a reduction in available loan funds.
- An increase in *federal funds* of \$566,000, or 4.3 percent, primarily to reflect (1) additional Medicare reimbursements to the Home for costs it incurs in providing services to members, and (2) the cost of equipment proposed for the acute care facility.
- An increase in reimbursements of \$1,278,000 or 30 percent, primarily to reflect members' fees, and Federal aid-in-attendance payments to Veterans requiring special attendants.

**Table 1**  
**Department of Veterans Affairs**  
**Summary of Expenditures and Funding Sources**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Act.</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Percent</i> <i>Change From</i> 1985-86
<i>General Fund</i>				
Departmental Administration/Claims and Rights.....	\$1,949	\$2,559	\$2,750	7.5%
Veterans Service Offices.....	996	1,000	1,000	—
Veterans' Home .....	19,413	21,220	22,390	5.5
Totals, General Fund.....	\$22,358	\$24,779	\$26,140	5.5
<i>Cal-Vet Farm and Home Fund</i>				
Loan Program Administration.....	\$14,047	\$15,979	\$16,137	1.0
Loans, Debt Service, Taxes .....	985,689	1,068,519	1,128,849	5.6
Totals, Cal-Vet Fund .....	\$999,736	\$1,084,498	\$1,144,986	5.6
<i>Cal-Guard Farm and Home Fund</i>				
Loan Program Administration.....	\$289	\$238	\$230	-3.4
Loans, Debt Service, Taxes .....	9,711	10,189	7,383	-27.5
Total, Cal-Guard Fund .....	\$10,000	\$10,427	\$7,613	-27.0
Federal Trust Fund Veterans' Home .....	\$12,241	\$13,153	\$13,719	4.3
<i>Reimbursements</i>				
Departmental Administration .....	\$140	\$142	\$148	4.2
Veterans' Home .....	3,752	4,158	5,430	30.6
Totals, Reimbursements .....	\$3,892	\$4,300	\$5,578	29.7
Totals, Expenditures.....	\$1,048,227	\$1,137,157	\$1,198,036	5.4%

Table 2 summarizes the department's expenditures, by program, for the past, current, and budget years. The budget proposes an increase of \$158,000, or 1 percent, in the amount spent to administer the Cal-Vet program and an increase of about \$60 million, or 5.6 percent, in loans, debt service, and taxes.

In addition, the budget proposes a decrease in departmental support (\$8,000) and a decline in loans, debt service, and taxes (\$2,806,000) under the Cal-Guard loan program. These changes primarily reflect an expected decrease in the level of funding for loans and loan processing.

The budget also proposes an increase of \$3,048,000, or about 8 percent, in expenditures for the Veterans' Home. The major reasons for the increase are increased operating expenses and expenditures due to the recent addition of a new acute care facility at the Home, and increased salaries and wages.

Table 2 also shows that the budget proposes reductions totaling 13.4 personnel-years, or 1 percent, in staffing for the department's programs. This decrease primarily reflects two factors: a proposed laundry servicing agreement, and a new loan application process.

# DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued

**Table 2**  
**Department of Veterans Affairs**  
**Program Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Act.</i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Prop.</i> <i>1986-87</i>	<i>Percent</i> <i>Change From</i> <i>1985-86</i>
<b>Expenditures</b>				
Cal-Vet Farm and Home Loan				
Program Administration .....	\$14,047	\$15,979	\$16,137	1.0%
Loans, Debt Service and Taxes .....	985,689	1,068,519	1,128,849	5.6
Cal-Guard Farm and Home Loan				
Program Support .....	289	238	230	3.4
Loans, Debt Service, and Taxes .....	9,711	10,189	7,383	-27.5
Veterans Claims and Rights .....	2,398	2,972	3,129	5.3
Veterans Home .....	36,093	39,260	42,308	7.8
Administration (distributed) .....	(1,573)	(1,727)	(1,810)	4.8
Totals .....	\$1,048,227	\$1,137,157	\$1,198,036	5.4%
<b>Personel-years</b>				
Cal-Vet Farm and Home Loan .....	262.6	283.7	279.3	-1.6%
Veterans Claims and Rights .....	33.8	36.2	36.2	—
Veterans Home .....	930.2	926.0	917.0	-1.0
Cal-Guard Farm and Home Loan .....	4.2	4.2	4.2	—
Administration (distributed) .....	(33.6)	(35.2)	(35.2)	—
Totals .....	1,230.8	1,250.1	1,236.7	-1.1%

## ANALYSIS AND RECOMMENDATIONS

### Education Benefits Overbudgeted

*We recommend that the Legislature reduce the General Fund appropriation by \$221,000 to correct for overbudgeting of educational benefits (Item 1960-001-001).*

The Department of Veterans Affairs provides various educational benefits to dependents of California veterans who meet certain eligibility criteria. These benefits cover a portion of the students' living expenses and tuition payments. For the budget year, the department requests \$459,000 to fund the benefits for this program.

Our review indicates that the department has overbudgeted funds for educational benefits.

Table 3 compares estimated and actual expenditures for recent years. It indicates that the department's budget has consistently overestimated the amount of funding needed for educational benefits.

**Table 3**  
**Department of Veterans Affairs**  
**Educational Payments to Veterans' Departments**

	<i>Budgeted</i>	<i>Expended</i>	<i>Percent</i> <i>Expended</i>
1982-83 .....	\$548,000	\$376,000	69%
1983-84 .....	459,000	290,000	63
1984-85 .....	459,000	219,000	48
1985-86 .....	459,000	225,000 <sup>a</sup>	49

<sup>a</sup> Although the Governor's Budget estimates that \$459,000 will be expended in the current year, more recent information from department staff indicate that only \$225,000 will be expended.

The department advises us, under the provisions of existing law, only \$238,000 of the \$459,000 requested for 1986-87 will be needed for educational benefits. Accordingly, we recommend that the Legislature reduce the appropriation for benefits by \$221,000. The remaining amount (\$238,000) is consistent with recent expenditure patterns.

#### **More Information Needed on Equipment Proposal**

*We withhold recommendation on \$814,000 requested from various funds for equipment at the Veterans' Home, pending receipt of a list showing what equipment the department intends to purchase.*

The budget requests \$814,000 from various funds for equipment at the Veterans' Home. At the time this analysis was written, the department had not provided us with a list of the proposed equipment purchases or justification for the amount requested.

The State Administrative Manual requires departments to prepare a budgetary plan for equipment needs, including a supplementary schedule of equipment, and encourages departments to provide a brief justification of each major item. The department advises that it is unable to provide this information because it is still in the process of determining which equipment it intends to purchase with the requested funds.

Accordingly, we withhold recommendation on \$814,000 requested for equipment at the Veterans' Home, pending receipt of a detailed listing of the equipment to be purchased with the funds, and a brief justification for each item.

#### **Laundry Service Proposal**

*We withhold recommendation on the funds requested for a proposed laundry services contract between the Veterans' Home and the Prison Industries Authority. We recommend that prior to budget hearings, the department provide additional information concerning the proposal.*

The budget requests an increase of \$114,000 to fund a contract with the Prison Industries Authority (PIA) under which PIA would provide laundry services to the Veterans' Home. The amount requested reflects (1) \$393,000 for the PIA contract and linen inventory, and (2) savings of \$279,000 in staff and operating expense at the Veterans' Home.

**Background.** The department submitted a similar proposal to the Legislature as part of the Governor's Budget for 1985-86. In our *Analysis of the 1985-86 Budget Bill*, we noted that (1) the price for laundry services had not been established, (2) the new PIA laundry facilities might not be ready in time to provide laundry services in 1985-86, due to potential delays in construction, and (3) linen inventory needs were unclear. Subsequently, the administration withdrew the request because of delays in completing the proposed prison laundry facility.

**Key Issues Still Unresolved.** The budget proposal for 1986-87 fails to address several of the issues which we raised last year. In particular, the following issues make it difficult for the Legislature to review the proposed contracting arrangement.

1. **Cost.** The budget indicates that the Home will be charged 20 cents per pound for laundry service. However, it does not indicate how the price was determined, or whether the 20-cent-per-pound charge will cover all PIA costs, including transportation, or just the cost of processing. Nor does the budget identify PIA's costs to provide the laundry services or its profit margin. Both of these issues were of concern to the Legislature when it reviewed of a similar proposal for the Department of Developmental Services last year.

**DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA—Continued**

2. **Timing.** The PIA indicates that it will begin processing the additional laundry in October 1986, and will be providing full service to the Veterans' Home by July 1987. The PIA, however, indicates that the proposed implementation schedule is subject to adjustment because one of three different prisons may provide laundry services to the Home, depending on when the necessary prison facilities are completed.

3. **Linens.** The budget again requests \$168,000 for extra linen, on the assumption that laundry turnaround time will be longer. The proposal does not indicate the basis for this assumption or what the additional processing time will be.

**Analyst's Recommendation.** The proposed laundry services arrangement could result in savings to the Home and increase the PIA's ability to provide appropriate work opportunities for prison inmates. Without more information on the terms and cost of the laundry contract, however, we cannot confirm that these benefits will be realized. Accordingly, we withhold recommendations on \$114,000 proposed for the PIA laundry services contract.

To assure that the Legislature has the information it needs in order to evaluate the department's proposal, we recommend that the PIA and the department resolve the issues noted above and report to the Legislature prior to budget hearings.

**Cal-Vet Loan Processing Backlog**

**Department Reports on Status of Backlog.** *The Supplemental Report of the 1985 Budget Act* requires the Department of Veterans Affairs to reduce the time it takes to approve a Cal-Vet loan to no more than 90 days from the receipt of a completed loan application. It also required the department to report by December 15, 1985 on (1) the actions taken to reduce the backlog in the Cal-Vet program and the success of those actions, (2) the success of the department in meeting the 90-day processing standard, including the percentage of applications processed within that time frame, (3) the workload standards adopted by the department, and (4) the specific measures the department has taken to ensure that the processing standard is met for each step in the process, and the actions it will take to reduce processing time if those standards are not met.

**Backlog Reduction Efforts.** In a report submitted in January 1986, the department identified specific actions it has taken to reduce loan processing time. The department indicates that it now provides support to district offices experiencing excessive workload by (1) utilizing teams of department employees who travel to field offices to assist in loan processing as needed, (2) using independent appraisers to reduce the appraisal workload of existing staff, and (3) hiring temporary staff to assist with loan processing.

In addition, the department identified three information processing strategies it has adopted to help reduce loan processing backlog. These include (1) using telephone answering machines to provide better information to all parties involved in the loan application process, (2) providing district offices with an upgraded management information system to track loan applications, and (3) replacing certain manual procedures with an automated property purchase system.



**Success of Backlog Reduction Efforts.** According to the report, the department took an average of 105 days to process loans in May 1985. By November 30, 1985, the department had reduced processing time by 10 days, to an average of 95 days. The department advised that as of mid December, 50 percent of all completed loans were processed within the 90-day time limit specified by the Legislature and the department expected to process all new loans within this limit by January 27, 1986.

**Workload Standards.** The workload standards developed by the department allow between 75 and 89 days to process a loan application, depending on the type of loan. For existing homes, the processing standard is 75 days when funds are available and 80 days when no funds are available. For new construction, the established processing standards are 84 and 89 days respectively, depending on the availability of funds.

**Steps to Ensure Standard is Met.** The report identifies two steps taken by the department to ensure that the standards are met. The department has established procedures for identifying loans where processing standards are not being met, thereby triggering corrective action by department staff. It has also established a management information system to monitor loan processes at the district office level, thereby enabling these offices to develop strategies for corrective action and to monitor the success of corrective efforts.

**Governor's Budget Proposal.** The department proposes 10 positions for the current year and 7.5 positions in the budget year to reduce existing and expected processing backlogs, and to implement department policies designed to meet acceptable time standards for loan processing and related functions. In addition, the department proposes to reduce staff in the budget year by 6 positions and rely on outside appraisers to handle a portion of the department's appraisal workload.

#### **Auditor General Reports on Department Operations and Management**

The *Supplemental Report of the 1985 Budget Act* also required the Auditor General to conduct an audit of operations and management in the Department of Veterans Affairs by December 1, 1985, and to make recommendations for improvement. The report is summarized below.

**Findings of the Report.** The report concluded that the department (1) typically takes longer than comparable private entities to process loans, respond to delinquent accounts, and repossess property, in part because no time standards exist, and (2) does not have adequate systems to monitor the progress of applications, repossessions, and delinquent accounts.

**Recommendations.** Among its various findings, the report recommends that the department (1) monitor district offices and develop time standards for loan processing, responding to delinquent accounts, and repossessing property, (2) implement a statewide management information system to monitor loan processing, and (3) periodically review local offices to ensure compliance with department standards.

**Department Response.** The department indicates that it recently adopted time standards to ensure that it will process Cal-Vet loan applications within 90 days after receipt of full documentation from veterans. In addition, it is implementing a new automated loan system throughout all district offices. Finally, the department has taken various steps to standardize the policies and procedures of district offices, monitor loan processing time, and respond to the concerns raised by the Auditor General.

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**DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY**

Item 1970-301 from the General  
Fund, Special Account for  
Capital Outlay and the Fed-  
eral Trust Fund

Budget p. SCS 150

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Requested 1986-87 .....	\$13,902,000
Recommended approval .....	3,585,000
Recommended reduction .....	867,000
Recommendation pending .....	9,450,000

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. Federal Funding. Recommend that, prior to budget hearings, the department advise the Legislature (a) what the maximum amount of federal funding is for which California could be eligible, and (b) how much federal funding will be available from the Veterans' Administration for 1985-86 and 1986-87 projects. 219
2. Withhold recommendation on 13 major capital outlay projects and \$9,268,000 (see Table 2 (p. 221) for a listing of the projects), pending receipt of additional information. 221
3. *Remodel Section A (Domiciliary)—Equipment. Reduce Item 1970-301-036(1) by \$79,000 and Item 1970-301-890(1) by \$147,000.* Recommend deletion because the requested equipment is not necessary. 222
4. *Remodel Section C (Domiciliary)—Equipment. Reduce Item 1970-301-036(2) by \$87,000 and Item 1970-301-890(2) by \$161,000.* Recommend deletion because the requested equipment is not necessary. 222
5. *Remodel Section D (Domiciliary)—Equipment. Reduce Item 1970-301-036(3) by \$75,000 and Item 1970-301-890(3) by \$140,000.* Recommend deletion because the requested equipment is not necessary. 222
6. *Minor Projects. Reduce Item 1970-301-036(5) by \$178,000.* Recommend reduction to eliminate three projects which are not justified and/or are inappropriately budgeted. 223
7. Withhold recommendation on one minor capital outlay project and \$182,000, pending receipt of additional information. 223

**ANALYSIS AND RECOMMENDATIONS**

The budget requests \$13,902,000 from the General Fund, Special Account for Capital Outlay (\$5,239,000), and the Federal Trust Fund (\$8,663,000) for 20 major capital outlay projects and three minor projects at the Veterans' Home in Yountville.

**Overview of the Master Plan**

The Department of Veterans Affairs' facility in Yountville provides long-term care to qualified California veterans. In 1979, the department prepared a master plan for correcting identified code and certification deficiencies at the Veterans' Home and renovating the facilities. Chapter 1106, Statutes of 1984, requires construction and reconstruction projects at

the Veterans' Home to be accelerated, and it directs the department to revise the master plan in order to reflect this acceleration.

As revised, the master plan calls for new and renovated space to provide the following levels of care:

- **Acute Care.** An addition to Holderman Hospital, which has been funded for construction, will house 56 acute care beds, surgery, laboratory, radiology, pharmacy, and a major portion of the outpatient clinic services. Other acute care support facilities will be retained in the existing hospital.
- **Skilled Nursing.** The remaining portion of Holderman Hospital would be renovated to provide space for 307 skilled nursing beds. Modifications would meet code, privacy and space requirements.
- **Intermediate Care.** The two annexes to the hospital and the Section B building would be remodeled to provide a total of 282 intermediate care beds. The proposed work would correct code deficiencies and meet privacy and space requirements.
- **Residential and Domiciliary Care.** Eleven buildings would be renovated to provide 1,055 beds for residential and domiciliary care for Home members. The renovations would correct code deficiencies and provide one-, two-, and three-bed rooms to meet privacy and space requirements.

According to the department's new construction schedule, the completion of the master plan construction projects during the next five years will result in the remodeling of 169 beds in 1986, 402 beds in 1987, 504 beds in 1988, 486 beds in 1989, and 117 beds in 1990. This schedule, however, assumes (1) the appropriation of sufficient funding by the Legislature and the U.S. Congress, and (2) the timely completion of preliminary plans and working drawings by the Office of State Architect (OSA). These assumptions are open to question.

In addition to renovating the facilities as discussed above, the master plan also proposes major improvements to other facilities. Included in the overall plan are modifications to the laundry building, boiler plant (undertaken through a third-party cogeneration agreement), main kitchen and dining room, maintenance shop, central warehouse, members' workshops, recreation/theatre building and the administration building.

The total cost of renovations and improvements included in the master plan exceeds \$30 million.

**Availability of Federal Funding.** Chapter 1106, Statutes of 1984, specifies that "no contract for construction of any project related to the master plan shall be entered into prior to the department's obtaining a written commitment from the federal government to fund either 65 percent of the projected cost, as approved by the federal government, or the maximum amount available to the state." The department has indicated that the U.S. Veterans' Administration (VA) will provide funds to cover 65 percent of the total cost of implementing the master plan. The state's share of these costs is provided under Item 1970-301-036 and the federal government's share is provided under Item 1970-301-890.

#### **Federal Funding for Projects May be in Jeopardy**

*We recommend that, prior to budget hearings, the department advise the Legislature (1) what the maximum amount of federal funding is that California could be eligible to receive for Veterans' Home projects, and (2) how much will be available from the U.S. Veterans' Administration for projects funded in 1985-86 and proposed for funding in the 1986-87 budget.*

The Gramm-Rudman Balanced Budget Amendment, enacted in De-

**DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**

cember 1985, may affect the availability of federal funding for projects at the Veterans' Home. At the time this analysis was prepared, U.S. Veterans' Administration staff did not know the status of its proposed budget for federal fiscal years 1986 and 1987 (October 1, 1985 through September 30, 1987). In the event that funding for the Veterans' Administration state facility construction grant program is reduced, it could have an adverse effect on the projects proposed at the Veterans' Home. As indicated above, Chapter 1106 requires that Veterans' Home projects receive 65 percent federal funding or the maximum share allowable. Thus, if federal funding for projects at the Home is reduced or becomes unavailable, either the state's cost would be increased or the projects would have to be deferred.

In federal fiscal year (FFY) 1986, the department expects to receive federal funds to remodel Section D (\$2,117,000), remodel Hospital Wards 1, 2 and 3A (\$118,000), remodel Section B (\$2,179,000), and remodel Section E (\$1,729,000). The federal government, however, is only permitted to grant a limited amount of funds to an individual state. Consequently, the U.S. Veterans' Administration staff has advised that if the bids for construction of these projects exceed the budgeted amount, some projects may have to be dropped from the FFY 86 budget.

The department has already seen project costs rise as a result of the Office of State Architect's designs for Sections A, C, and D. If costs continue to escalate, the cost of the Home's projects may exceed the maximum grant available to California.

Under these circumstances, we recommend that, prior to budget hearings, the department advise the Legislature (1) what the maximum amount of federal funding is that California could be eligible to receive for Veterans' Home projects in the FFY 86 and FFY 87, and (2) how much will be available from the Veterans' Administration, by project, in the FFY 86 and FFY 87. The list of proposed projects should include the project title, the estimated federal matching share, and the year for which the federal grant is scheduled.

**Major Capital Outlay****A. Projects Recommended for Approval**

*We recommend approval of \$1,224,000 under Items 1970-301-036(4), (18), (19), and (20), and \$2,361,000 under Item 1970-301-890(4) for four major capital outlay projects at the Veterans' Home in Yountville.*

Table 1  
Department of Veterans' Affairs  
1986-87 Major Capital Outlay  
Projects Recommended for Approval  
Items 1970-301-036 and 1970-301-890  
(dollars in thousands)

Project Title	Number of Remodeled		Budget Bill Amount		Est. Future Cost <sup>b</sup>
	Beds	Phase <sup>a</sup>	State	Federal	
Correct Code Deficiencies in Section F.....	114	c	\$1,032	\$2,361	—
Remodel Hospital Wards 1, 2 and 3C .....	66	p	45	—	\$2,012
Annex I (ICF) .....	102	p	80	—	4,026
Remodel Section G (Domiciliary) .....	116	p	67	—	3,884
Totals .....	398		\$1,224	\$2,361	\$9,922

<sup>a</sup> Phase symbols: p = preliminary planning; c = construction.

<sup>b</sup> Office of State Architect budget estimate of total cost (state and federal).

We recommend approval of the \$3,585,000 requested in state (\$1,224,000) and federal (\$2,361,000) funds for construction and the preparation of preliminary plans for four projects. Table 1 summarizes the budget proposal and shows the estimated future costs for the project.

#### **B. Projects for Which Recommendation is Withheld**

*We withhold recommendation on \$3,414,000 requested under Item 1970-301-036 and \$5,854,000 under Item 1970-301-890 for 13 major capital outlay projects at the Veterans' Home in Yountville, pending receipt of additional information.*

These projects, together with our reasons for withholding recommendation on them, are identified in Table 2.

**Table 2**  
**Department of Veterans' Affairs**  
**1986-87 Major Capital Outlay Projects for Which The**  
**Legislative Analyst is Withholding Recommendation**  
**Items 1970-301-036 and 1970-301-890**  
**(dollars in thousands)**

Project/Title	Phase <sup>a</sup>	Budget Bill Amount		Est. Future Cost <sup>b</sup>	Reason for Withholding Recommendation
		State	Federal		
Renovate Hospital Support Services .....	w	65	—	\$946	Pending receipt of (1) a detailed description of the work, (2) completed preliminary plans, and (3) an explanation of the relation of this project to the other support services project.
Remodel Hospital Wards 1, 2 and 3A	c	523	1,200	—	Pending receipt of a written explanation for a 16 percent increase in total estimated project cost over amount approved by the Legislature in the 1985 Budget Act.
Remodel Section B (Intermediate) .....	c	948	2,179	—	Pending receipt of completed preliminary plans.
Primary Electrical Service .....	w	26	—	427	Pending receipt of (1) completed preliminary plans, and (2) discussions with the department and the OSA regarding the plans.
Remodel Hospital Wards 1, 2 and 3B	w	103	—	1,886	Pending receipt of completed preliminary plans.
Remodel Hospital Wards 2, 3E and Administration .....	w	175	—	3,342	Pending receipt of completed preliminary plans.

**DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**

Annex II (ICF) .....	w	170	—	3,253	Pending receipt of completed preliminary plans.
Remodel Section E (Domiciliary) .....	c	833	1,843	—	Pending receipt of completed preliminary plans.
Correct Code Deficiencies in Section H.....	w	63	—	1,129	Pending receipt of completed preliminary plans.
Correct Code Deficiencies in Section J.....	w	66	—	1,171	Pending receipt of completed preliminary plans.
Correct Code Deficiencies in Section K.....	w	50	—	781	Pending receipt of completed preliminary plans.
Correct Code Deficiencies in Section L.....	w	51	—	890	Pending receipt of completed preliminary plans.
Renovate Hospital Support Services, Wing A .....	wc	341	632	—	Pending receipt of (1) a detailed description of the work, (2) completed preliminary plans, and (3) an explanation of the relation of this project to the other support services project.
Totals .....		\$3,414	\$5,854	\$13,825	

<sup>a</sup> Phase symbols indicate: p = preliminary planning; w = working drawings; and c = construction.

<sup>b</sup> Department's estimate of total cost (state and federal).

**C. Recommended Reductions/Deletions**

Our analysis indicates that \$689,000 requested for three major capital outlay projects proposed by the Department of Veterans' Affairs should be deleted from the Budget Bill. These projects, together with our recommendations on each, are summarized in Table 3.

**Table 3**  
**Department of Veterans' Affairs**  
**1986-87 Major Capital Outlay**  
**Legislative Analyst's Recommended Changes**  
**Items 1970-301-036 and 1970-301-890**  
**(dollars in thousands)**

Project Title	Phase	Budget Bill Amount		Analyst's Recommendation
		State	Federal	
Remodel Section A—Equipment .....	e	\$79	\$147	—
Remodel Section C—Equipment .....	e	87	161	—
Remodel Section D—Equipment .....	e	75	140	—
Totals .....		\$241	\$448	—

<sup>a</sup> Phase symbols indicate: e =equipment.

The budget proposes a total of \$689,000 in state (\$241,000) and federal

(\$448,000) funds for equipment to furnish three domiciliaries at the Home which are being renovated and are scheduled for occupancy in the budget year. The request includes funds for beds, mattresses, night stands, chairs, lamps, tables, lounges, washers and dryers, desks, credenzas, bookshelves, window coverings, lockers, and miscellaneous items.

In effect, this proposal seeks funds to *replace* existing furniture. The Home's support budget includes funds for the replacement of furnishings as part of the Home's ongoing annual expenses. Consequently, any of the items that warrant replacement can be financed on a priority basis from the Home's support/operations budget. The balance of the furnishings can continue to be used.

On this basis, we recommend deletion of the \$689,000 requested for equipment to furnish Sections A, C and D.

We note that when the Legislature appropriated funds to remodel these facilities, the department estimated that there would be *no* future cost for equipment. It is not clear why, less than one year later, the department now believes that existing furnishings are inadequate.

#### **D. Minor Capital Outlay**

*We recommend that Item 1970-301-036(5) be reduced by \$178,000 to eliminate funding for two projects which either are not justified or are inappropriately budgeted as capital outlay.*

*We withhold recommendation on a request to replace the fire alarm system pending receipt of additional information.*

The budget proposes \$360,000 for three minor capital outlay projects (\$200,000 or less per project) for the Department of Veterans' Affairs.

**Install Sprinkling System and Backflow Protection.** The budget requests \$157,000 in working drawings (\$7,000) and construction (\$150,000) for this project. A total of \$23,000 was provided for preliminary plans and working drawings in the 1985 Budget Act. Neither the preliminary plans nor the working drawings have been submitted. Consequently, there is no information indicating either the work to be accomplished or the basis for the requested amount. Moreover, the department indicates that the estimated total project costs are \$499,000. If this is the case, the project is inappropriately budgeted under the minor capital outlay program.

In any case, the department has provided no information to substantiate the request. Under the circumstances, we recommend deletion of the requested amount. If the estimated total project cost exceeds \$200,000, the department should resubmit the proposal for legislative consideration under the major capital outlay program when the preliminary plans are completed.

**Emergency Water Pumping System.** The budget proposes \$21,000 to install a 50-horsepower pump and valve system to increase water pressure at the Home. According to the department, the water pressure in the top floors of the hospital drops below the minimum requirements of 15 pounds per square inch approximately four hours each day during the summer because of the Home's irrigation schedule. The department, however, has provided no information to substantiate any problems with the main pumps or with the water pressure. Moreover, it is not clear why, if there is a pressure problem, the Veterans' Home cannot reschedule irrigation to off-peak water use periods of the day. With this in mind, we recommend deletion of the requested amount.

**Withhold Recommendation on Replacing Fire Alarm System.** The budget proposes \$182,000 for preliminary plans (\$22,000) and construction

**DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued**

(\$160,000) to replace the existing fire alarm system throughout the Veterans' Home facility. The department indicates that the existing system is 36 years old and is malfunctioning, but has not provided any information detailing the problems or why the system cannot be maintained. Moreover, the department has provided no information regarding the proposed new system or the basis for the estimated cost of \$182,000. If the proposed project did not involve fire safety, we would recommend deletion of the requested amount. Prior to budget hearings, the department should provide data which documents the problems with the system and a basis for the amount requested. If the data are provided on the proposed system and the budget amount, we will prepare a supplemental analysis of the project. Otherwise, we will recommend deletion of the proposal.

Consequently, due to the absence of information to substantiate the problems of the existing alarm system and a description and cost estimate of the proposed system, we withhold recommendation of the requested \$182,000.

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**Business, Transportation and Housing Agency**
**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

Item 2100 from the General

Fund

Budget p. BTH 1

Requested 1986-87 .....	\$18,773,000
Estimated 1985-86.....	17,756,000
Actual 1984-85 .....	16,089,000
Requested increase \$1,017,000 (+5.7 percent)	
Total recommended reduction .....	130,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. *Technical Recommendations. Reduce Item 2100-001-001 by \$130,000 and increase reimbursements by \$40,000.*  
Recommend reduction to eliminate overbudgeting for various items.

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**GENERAL PROGRAM STATEMENT**

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, has the exclusive power, in accordance with laws enacted by the Legislature, to license the manufacture, importation, and sale of alcoholic beverages in California, and to collect license fees. The department is given discretionary power to deny, suspend, or revoke licenses for good cause.

The department maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 361.7 positions in the current year.