

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.

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.

225

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.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a total spending plan of \$18,773,000 for support of the Department of Alcoholic Beverage Control in 1986-87. This amount consists of \$18,182,000 from the General Fund and \$591,000 in reimbursements. The total amount provided for support of the ABC in 1986-87 is \$1,017,000, or 5.7 percent, above estimated current-year expenditures.

The proposed increase of \$1,017,000 reflects:

- Salary and benefit increases totaling \$892,000.
- \$60,000 for in-state travel to pay costs associated with increased levels of training for staff,
- A \$35,000 reduction in operating expenses and equipment to adjust for one-time costs which will not be incurred after the current year,
- \$70,000 in overtime funds needed to reduce the department's compliance investigations backlog, and
- \$30,000 for a personnel assistant I position to meet increased workload demands.

Table 1 provides a summary of expenditures and personnel-years for the department's three programs.

Table 1
Department of Alcoholic Beverage Control
Program Summary
1984-85 through 1986-87
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change</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>	<i>from</i>
							<i>1985-86</i>
Licensing	197.0	206.1	205.1	\$10,629	\$11,509	\$12,085	5.0%
Compliance	99.4	103.4	103.4	5,460	6,247	6,688	7.1
Administration (distributed)	41.4	41.8	42.8	(1,968)	(2,229)	(2,366)	6.1
Totals	337.8	351.3	351.3	\$16,089	\$17,756	\$18,773	5.7%

ANALYSIS AND RECOMMENDATIONS

Technical Recommendations

We recommend a General Fund reduction of \$130,000, and an increase in reimbursements of \$40,000, to eliminate overbudgeting, as follows:

- Our review of budget data from 1979-80 to 1984-85 indicates that the department historically underestimates the amount of reimbursements it receives. To adjust for this problem in the budget year, reimbursements should be increased by \$40,000, allowing a corresponding reduction in support from the General Fund.
- The department requests \$70,000 in overtime funding to pay for the equivalent of 1.3 personnel-years of staff to conduct additional compliance investigations. Although the request is justified on a workload basis, our analysis indicates that permanent positions can be established to handle this workload for \$51,000—at a General Fund cost that is \$19,000 less than what the department proposes.
- The department expects turnover of 28 positions in its investigative and administrative classes during the budget year. Our analysis indicates that unbudgeted savings will accrue to the department as higher-paid employees leave during the budget year and are replaced

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

with new employees who are paid entry-level salaries. To account for these savings, the department's budget should be reduced by \$69,000.

General Fund Revenues Projected to Increase

The Department of Alcoholic Beverage Control is supported by the General Fund and produces revenue for the General Fund. It collects license fees, as well as various other fees and charges, according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund.

Table 2 provides a summary of actual, estimated, and proposed revenues, by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of \$30,769,000 in 1986-87. This is an increase of \$735,000, or 2.4 percent, from estimated current-year revenues. The increase is largely attributable to the projected growth in the number of active licenses.

Table 2
Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
1984-85 through 1986-87
(in thousands)

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87
Out-of-state beer certificates.....	\$11	\$11	\$11
Original license fees	2,754	2,904	3,104
Transfer fees	4,017	4,100	4,100
Special fees.....	329	330	331
Service charges	244	250	250
Annual fees and offers in compromise.....	18,645	19,140	19,625
Ten percent surcharge on annual fees.....	1,676	1,714	1,760
Caterer's authorization, permits, and manager's certificates	549	550	550
Surcharge on annual fees for administrative hearings	670	685	703
Modification of conditions	—	30	15
Penalty assessments	318	320	320
Miscellaneous income	10	—	—
Totals.....	\$29,223	\$30,034	\$30,769

**Business, Transportation and Housing Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**

Item 2120 from the Alcoholic
Beverage Control Appeals
Fund

Budget p. BTH 4

Requested 1986-87	\$388,000
Estimated 1985-86.....	396,000
Actual 1984-85	326,000
Requested decrease \$8,000 (-2.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by an amendment to the State Constitution in 1954. Upon request, the board reviews decisions of the Department of Alcoholic Beverage Control (ABC) relating to the assessment of fines or to the issuance, denial, transfer, suspension, or revocation of any alcoholic beverage license. The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal.

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members meet once each month, alternating between Los Angeles and San Francisco. The members are reimbursed for expenses and receive a per diem of \$100 for each day the board meets. In the current year, the board's three-person staff consists of two attorneys and one clerical employee.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$388,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1986-87. This amount is \$8,000, or 2.0 percent, less than estimated current-year expenditures for support of the board.

The proposed decrease is due to the \$40,000 reduction in pro rata charges that the board must pay for central administrative services, which is offset partially by an increase of \$32,000 for employee compensation and inflation adjustments.

Surcharge May Be Lowered Again

Existing law requires the board to establish a surcharge on annual liquor license fees that is sufficient to provide the revenue needed to support the activities of the board. Revenues from the surcharge are deposited in the Alcoholic Beverage Control Appeals Fund.

When the surcharge was established in 1983, the rate was set at the maximum allowable level of 3 percent. The level of revenue generated by this surcharge has been sufficient both to fund the ongoing support of the board and to repay a General Fund loan made to the fund in 1982-83. The board made its final payment on the loan in 1984-85 and subsequently lowered the surcharge rate to 2.2 percent. This rate has produced sufficient revenues to support the activities of the board and maintain a reserve for economic uncertainties amounting to \$236,000, or 60 percent of

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

the board's current-year expenditures.

The board indicated that it will review the adequacy of the surcharge rate at its February meeting. At the time this analysis was prepared, board staff indicated that it might be possible to reduce the rate further, to 2.0 percent. If the rate is reduced to this amount, the reserve would fall to \$208,000 by the end of the budget year. A reserve of this size, which represents approximately six months of program expenditures, should be sufficient.

**Business, Transportation and Housing
STATE BANKING DEPARTMENT**

Item 2140 from the State Bank-
ing Fund

Budget p. BTH 6

Requested 1986-87	\$11,527,000
Estimated 1985-86.....	9,104,000
Actual 1984-85	8,409,000
Requested increase \$2,423,000 (+26.6 percent)	
Total recommended reduction	1,809,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2140-001-136—Support	State Banking Fund	\$11,355,000
2140-001-240—Administration of Local Agency Se- curity	Local Agency Deposit Secu- rity	72,000
Reimbursements	—	100,000
Total		\$11,527,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **Office Automation Project. Reduce Item 2140-001-136 by \$1,560,000.** Recommend reduction because the department has not justified full-scale implementation of the project. 230
2. **Office Relocation. Reduce Item 2140-001-136 by \$249,000.** 232
Recommend reduction because the department's proposed office relocation results in excessive *net* costs and is premature.

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from losses that result when a bank or trust company fails. Because banks have the option of being regulated by either the state or federal government, not all banks in California are subject to regulation by this department.

As of September 30, 1985, there were 288 state-chartered banks doing

business in California. The combined assets of these banks were \$80 billion. There also were 168 federally chartered banks with assets of \$206 billion doing business in California.

The department also regulates companies that sell money orders and travelers checks, either for domestic use or for purposes of transmitting money abroad.

In addition, the department licenses and regulates Business and Industrial Development Corporations (BIDCOs). Federal law requires state licensure of BIDCOs before they can receive loan guarantees from the Small Business Administration.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to state law, the superintendent is designated as the "administrator of local agency security," and acts as an agent for approximately 1,500 local treasurers in supervising the handling of public funds by depository banks.

The department is headquartered in San Francisco, with branch offices in Los Angeles, Sacramento, and San Diego. It is authorized to have 178 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$11,355,000 from the State Banking Fund and \$72,000 from the Local Agency Deposit Security Fund for support of the State Banking Department in 1986-87. This is \$2,423,000, or 27 percent, more than estimated expenditures from these funding sources in the current year.

Table 1 shows expenditures and personnel-years for the department's programs in the past, current, and budget years.

Table 1
State Banking Department
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	
Licensing and supervision of banks and trust companies	164.6	170.0	170.0	\$8,182	\$8,852	\$11,250	27.1%
Payment instruments	4.0	4.0	3.4	137	149	160	7.4
Certification of securities	0.2	0.3	0.3	11	15	21	40.0
Supervision of California Business and Industrial Development Corporations ..	0.4	0.5	0.5	64	69	72	4.4
Administration of local agency security ..	2.4	2.9	2.8	15	19	24	26.3
Departmental administration	(34.0)	(35.5)	(35.5)	(1,493)	(1,735)	(3,405)	96.3
Totals	171.6	177.7	177.0	\$8,409	\$9,104	\$11,527	26.6%
Funding Source							
State Banking Fund				\$8,230	\$8,935	\$11,355	27.1
Local Agency Deposit Fund				64	69	72	4.4
Reimbursements				-115	-100	-100	—

In addition, the department anticipates receiving reimbursements of \$100,000 during the budget year, resulting from fees charged for (1) examining trust companies, and (2) conducting special examinations of banks.

STATE BANKING DEPARTMENT—Continued

Thus, the budget proposes total expenditures of \$11,527,000 in 1986-87.

Table 2 shows the budget changes proposed for 1986-87.

Table 2
State Banking Department
Proposed Budget Changes
1986-87
(dollars in thousands)

	State Banking Fund	Local Agency Deposit Security Fund	Reimburse- ments	All Funds
1985-86 Expenditures (Revised)	\$8,935	\$69	\$100	\$9,104
Baseline Adjustments, 1986-87:				
1. Employee compensation adjustment	357	3	—	360
2. Increase to offset inflation	464	—	—	464
3. Pro rata increase	32	—	—	32
4. Delete limited term positions	-98	—	—	-98
Program Change Proposals				
1. Office automation system	1,560	—	—	1,560
2. Additional legal positions	105	—	—	105
1986-87 Expenditures (Proposed)	\$11,355	\$72	\$100	\$11,527
Change from 1985-86:				
Amount	\$2,420	\$3	—	\$2,423
Percent	27.1%	4.4%	—	26.6%

ANALYSIS AND RECOMMENDATIONS**Office Automation Project Has Not Been Sufficiently Justified**

We recommend the deletion of \$1,560,000 requested for an office automation system because the department has not sufficiently justified full-scale implementation of the project. (Reduce Item 2140-001-136 by \$1,560,000)

The department is requesting \$1,560,000 to start implementation of a new office automation system in the budget year. This represents 14 percent of the department's budget request for 1986-87.

Table 3
State Banking Department
Proposed Office Automation Project
Estimated 1986-87 and Ongoing Costs

Category of Cost	Project Costs By Year			Ongoing
	1986-87	1987-88	1988-89	
Equipment and Software	\$1,259,200	—	—	—
Equipment Maintenance	116,160	116,160	116,160	116,160
Data Communication	30,000	45,000	60,000	75,000
Personnel Costs (a)	76,800	83,644	86,292	45,734
Facility Preparation	60,000	—	—	—
Supplies	24,000	12,000	12,000	12,000
Data Terminal Stands	15,541	—	—	—
Training	25,000	—	—	—
Data Conversion	30,000	—	—	—
Totals	\$1,636,701	\$256,804	\$274,452	\$248,294

Note: The department proposes to redirect existing staff to implement the project. Hence, personnel costs will be funded from the department's existing budget.

Implementation of the system will span three fiscal years and cost an estimated \$2.2 million. Ongoing costs of \$250,000 annually are anticipated to operate and maintain the system. Table 3 provides a three-year schedule of the one-time and ongoing costs associated with implementation of the proposed system.

According to the department, the proposed system will give it greatly increased capability to oversee and examine banks, particularly "problem banks" which should be monitored more frequently and to a greater extent.

In-House Automated Office System Selected. The department indicates that it considered four alternative means to increase its oversight of banks. Specifically, the alternatives the department considered were: (1) adding additional staff; (2) purchasing stand-alone personal computers and word processing equipment; (3) utilizing an integrated office automation system, known as "PROFS," which is available through the Teale Data Center; and (4) implementing an in-house integrated office automation system.

According to the department, the fourth alternative was selected because it would enable the department's four regional offices to function independently and interactively. This would be accomplished by having sophisticated word processing, computing and data base capabilities in each of its offices. The offices would be linked by dial-up modems using public access telephone lines. All department personnel would eventually be users of the system.

Analysis. In *The 1985-86 Budget: Perspectives and Issues*, we discussed how the Legislature could assure that proposed automation projects are soundly conceived and implemented. Specifically, we pointed out that, while no single approach will assure success of an automation project, success is more likely if:

1. The department undertaking the project has a strategic plan;
2. Departmental management is involved in the project;
3. Departmental users are involved in the project;
4. A rigorous feasibility study report (FSR) has been prepared and reviewed;
5. The department has adequate staff to carry out a project; and
6. A pilot project precedes full-scale implementation.

Applying these criteria to the department's proposed office automation system, we find that both management and users have been involved in the project and that a strategic plan has been prepared. We find, however, that (1) the department has not conducted a rigorous feasibility study report; (2) the department lacks adequate staff to carry out the project; and (3) a pilot project has not been done prior to full-scale implementation.

1. Feasibility Study Report. Although the Office of Information Technology has approved the department's feasibility study report, we find that it is not comprehensive and rigorous. Specifically, we find that the department has:

- Failed to include the costs and benefits of each alternative it considered;
- Failed to indicate what type of local computer it will use to link its

STATE BANKING DEPARTMENT—Continued

network of personal computers and word processors;

- Failed to correctly calculate and document the costs and benefits of the selected alternative.
- Rejected an alternative for invalid reasons. Specifically, in rejecting the PROFS office automation system, the department failed to recognize that the Teale Data Center will substantially upgrade the PROFS system capability by September 1986—the same month the department envisions implementing its own system.

2. **Staffing.** Successful implementation of an automated system requires both adequate staffing and a proper mix of experienced and skilled personnel. We find the department has neither. It has redirected two of its senior examiners familiar with bank EDP systems to oversee project implementation. But there are no other qualified electronic data processing personnel on its staff. We find this to be a serious deficiency, given that the system would completely alter the department's bank examination reporting process.

3. **Pilot Project.** The department has failed to conduct a pilot project as a necessary first step in developing computing equipment requirements and other resource needs for the full-scale system.

Recommendation. We recognize that integrated office automation systems can greatly improve information handling efficiencies. Based on our analysis, however, we find that full-scale implementation of the department's proposed office automation system has not been sufficiently justified to proceed in the budget year. Consequently, we recommend deletion of the \$1,560,000 requested for this project.

San Francisco Office Relocation Results in Excessive Costs

We recommend a reduction of \$249,000 in the amount requested for facilities operation because the department's proposed relocation would result in excessive net lease costs and is premature. (Reduce Item 2140-001-136 by \$249,000)

The department is requesting an additional \$249,000 to relocate and expand by 3,000 square feet its San Francisco office in the budget year. Relocation costs would be \$35,000 and expansion costs would be \$214,000.

The office currently occupies 13,000 square feet in the Russ Building, renting for \$1.09 per square foot through November 1988. The annual lease costs are \$170,000. According to the Department of General Services, 16,000 square feet of suitable space is available elsewhere at \$2 per square foot. Hence, the department is proposing total lease expenditures of \$419,000 (that is, \$249,000 plus \$170,000) for its San Francisco office in the budget year.

According to the department, the relocation is necessary and would be beneficial because: (1) installation of the proposed office automation system will crowd existing staff; (2) \$60,000 of future equipment relocation costs can be avoided; and (3) lease costs for comparable office space may be higher in 1988 when the department's current lease expires.

Our field examination of the department's office indicates that sufficient space presently exists for installation of the office automation system. Furthermore, the department's proposed move results in excessive net lease costs equal to \$492,000 over the life of its current lease, as shown in Table 4.

On this basis, we recommend deletion of \$249,000 for the proposed office relocation and expansion in 1986-87.

Table 4
State Banking Department
Comparison of Proposed and Current Lease Expense
Through November 1988
(dollars in thousands)

<i>Budget Year</i>	<i>Proposed</i>	<i>Current</i>	<i>Difference</i>
1986-87	\$419 ^a	\$170	\$249
1987-88	384	170	214
1988-89 (5 months)	160	71	89
Anticipated savings	<u>-60</u>	<u>—</u>	<u>-60</u>
	\$903	\$411	\$492

^a Includes one-time relocation costs of \$35,000.

Business, Transportation and Housing Agency
DEPARTMENT OF CORPORATIONS

Item 2180 from the General
Fund

Budget p. BTH 11

Requested 1986-87	\$18,532,000
Estimated 1985-86	17,572,000
Actual 1984-85	15,392,000
Requested increase \$960,000 (+5.5 percent)	
Total recommended reduction	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2180-001-001—Support	General	\$8,957,000
Reimbursements		<u>9,575,000</u>
Total		\$18,532,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Knox-Keene Health Care Service Program. Recommend adoption of supplemental report language directing the department to (1) take specified actions to improve the quality of its medical audits; and (2) submit to the Legislature by October 1, 1986, a report on its progress in doing so.

235

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, fraudulent sale of securities and franchises, and improper business practices by certain entities that lend or hold money in trust. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary, and (3)

DEPARTMENT OF CORPORATIONS—Continued

health care service plans. The cost of administering the department is prorated among these three programs.

Under the *Investment program*, the department approves securities and franchises offered for sale, and conducts investigations to enforce the various laws administered by the department. The department also reviews license applications submitted by prospective securities broker-dealers and investment advisors.

The *Lender-Fiduciary program* licenses and examines lender-fiduciary institutions regulated by the department, including check sellers, credit unions, escrow offices, industrial loan companies, consumer and commercial finance lenders, and trading stamp companies.

The *Health Care Service Plan program* is responsible for regulating health care service plans under the Knox-Keene Health Care Service Plan Act of 1975, and for administering the charitable trust statutes as they relate to health care service plans.

The department is administered by the Commissioner of Corporations. Its headquarters is in Sacramento, and it has branch offices in San Francisco, Los Angeles and San Diego. In the current year, the department is authorized 360 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$8,957,000 from the General Fund for support of the department in 1986-87. This is an increase of \$360,000, or 4.2 percent, above estimated General Fund expenditures in the current year.

Additionally, the department anticipates that, during the budget year, it will receive reimbursements of \$9,575,000 in the form of fees charged for examining the financial records of licensees. This is \$600,000, or 6.7 percent, above anticipated reimbursements in the current year. Thus, the budget proposes total expenditures of \$18,532,000 in 1986-87. This is \$960,000, or 5.5 percent, more than total estimated expenditures in the current year.

The department anticipates that its programs will generate General Fund revenues of \$14,681,000 in 1986-87. This reflects an increase of \$1,804,000, or 14 percent, above what is estimated for the current year.

Table 1 shows staffing and expenditure data for the department covering the past, current, and budget years.

Table 1
Department of Corporations
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	
Investment	154.1	166.1	166.1	\$7,914	\$8,430	\$8,821	4.6%
Lender-Fiduciary	113.7	126.7	126.7	5,519	7,039	7,465	6.1
Health Care Service Plans	33.8	35.1	35.1	1,959	2,103	2,246	6.8
Administration	18.1	18.3	18.3	(890)	(955)	(1,009)	5.7
Totals	319.7	346.2	346.2	\$15,392	\$17,572	\$18,532	5.5
Funding Source							
General Fund				\$7,443	\$8,597	\$8,957	4.2%
Reimbursements				7,949	8,975	9,575	6.7

Table 2 displays adjustments to the department's budget for the current year, as well as the changes proposed for 1986-87.

Table 2
Department of Corporations
Proposed Budget changes
(dollars in thousands)

	<i>General Fund</i>	<i>Reimbursement</i>	<i>All Funds</i>
1985-86 Expenditures (Budget Act)	\$8,143	\$8,172	\$16,315
Adjustments:			
Allocation for Employee Compensation	390	421	811
Deficiency Appropriation from Item 9840-001-001	60	-60	—
Postage Rate Increase	4	—	4
Contract with DOJ	—	243	243
Increases to Offset the Effects of Inflation	—	101	101
Merit Salary Adjustments.....	—	98	98
1985-86 Expenditures (Revised)	\$8,597	\$8,975	\$17,572
Baseline Adjustments:			
Full-Year Cost 1985-86 Employee Compensation Ad- justment	360	439	799
Increase Salary Savings.....	—	-185	-185
Increases to Offset the Effects of Inflation	—	88	88
Merit Salary Adjustments.....	—	258	258
1986-87 Expenditures (Proposed)	8,957	9,575	18,532
Change from 1985-86	360	600	960
Percent	4.2%	6.7%	5.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval. The department's 1986-87 budget proposes *no* program changes. We recommend approval of the following baseline changes which are not discussed elsewhere in this analysis:

- \$799,000 to fund the full-year cost of the 1985-86 employee compensation adjustment;
- \$185,000 for increased salary savings;
- \$88,000 to offset the effects of inflation on the department's operating expense budget; and
- \$258,000 for merit salary adjustments.

Knox-Keene Program

We recommend that the Legislature adopt supplemental report language which (1) directs the department to take specified actions in order to improve the quality of its medical audits; and (2) requires the department to submit to the Legislature by October 1, 1986, a progress report on what steps have been taken to implement this directive.

The budget requests \$2,246,000 for support of the department's Health Care Services Plan (HCSP) program in 1986-87. This is \$146,000, or 6.8 percent, more than estimated expenditures in the current year. The increase reflects increased personal services and operating expenses resulting from salary and inflation adjustments.

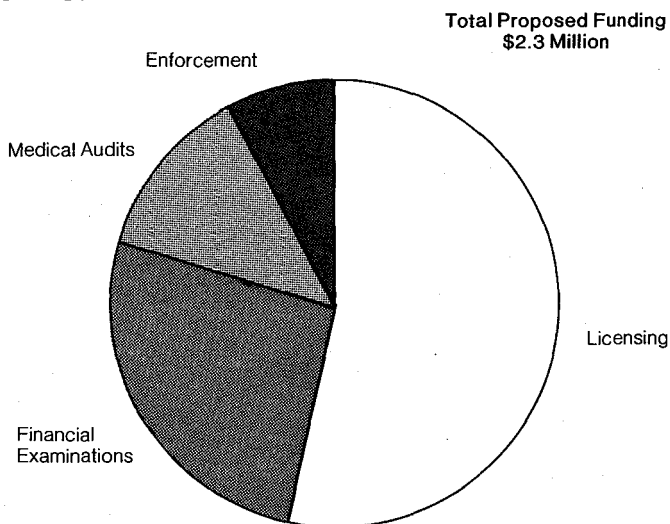
The HCSP program is responsible for regulating health care service

DEPARTMENT OF CORPORATIONS—Continued

plans pursuant to the Knox-Keene Health Care Service Plan Act of 1975. These plans provide health care services to their members for a prepaid or periodic charge. The types of service provided to members can include (1) physician services; (2) hospital inpatient and ambulatory care services; (3) diagnostic laboratory services; (4) home health services; (5) preventive health services; and (6) emergency services. Health care service plans which (1) are *multiple-employer trusts*, or (2) serve to *substantially indemnify* plan members, are *not* subject to licensure under the provisions of the Knox-Keene Act.

The regulatory workload of the HCSP program is divided among four separate program activities: licensing, financial examinations, medical audits, and enforcement. Chart 1 shows the funding level of each of these activities as a percent of total proposed funding for this program in 1986-87.

Chart 1
Department of Corporations
Proposed Funding for Knox-Keene Program Activities
1986-87^a



^a Source: Governor's Budget 1986-87.

Legislature Identifies Program Deficiencies. The department is statutorily required to conduct a medical audit of every licensed health plan at least once each five years. In our *Analysis of the 1984-85 Budget Bill*, we pointed out that the department had discontinued conducting these audits. At that time, we also pointed out that the department's proposed procedural changes would have (1) reduced the number of days spent conducting on-site medical audits and (2) discontinued reviews of

patient medical records to test if the medical quality assurance system was, indeed, working. In response, the Legislature required the department to provide for in-depth, on-site medical audits which are based upon reviews of patient records. Such reviews were to ensure patient confidentiality.

Medical Audits Continue to Be Deficient. We have completed a review of several medical audit reports prepared by the department. We also have monitored a medical audit of a licensed health plan. Our analysis indicates that the department's medical audits continue to be deficient in four ways.

1. ***The Department's Audit Guidelines Are Outdated.*** The Knox-Keene program's medical audit guidelines provide the step-by-step questions and procedures that medical audit teams use when auditing a health plan. The department has not revised these guidelines as the Legislature directed. It continues to use the old guidelines which it acknowledges do not reflect medical standards in the community.

2. ***Not Enough Time Is Allotted for Medical Audits of Large Providers.*** Medical audits are limited to three days, regardless of how many enrollees and providers there are in the plan. Because of this, some plans are reviewed very closely while others are not. Our review of several medical audit reports indicates that the time allotted to conduct medical audits is not sufficient for large plans under which a large number of enrollees receive medical services.

3. ***Statistically Significant Samples of Patient Records Are Not Taken In All Cases.*** Our findings indicate that the audit teams do not always select a statistically valid sample of patient records. Generally, the audit team samples 30 patient records, regardless of the plan's size. While 30 records may be valid for a plan with a small number of enrollees, it may not be a reliable basis on which to judge the quality of care delivered by large plans. This is because the proportional size of the sample to the number of plan enrollees is an important factor used in determining the confidence level which can be attached to the statistical results. The smaller the sample, the lower the confidence level.

4. ***Random Follow-Up Audits Are Not Conducted.*** The program sends a confidential copy of its audit report to a health plan prior to releasing it publicly. This allows the plan time to explain its corrective actions. If the plan's response is adequate, mention of a deficiency is deleted from public copies of the audit report. Random follow-up visits, however, are not conducted to ensure that the deficiency, indeed, has been corrected. Thus, it is not surprising that no formal actions against health plans have been taken within the last several years.

Recommendation. Based on our findings, we believe the department's medical audits need to be improved. Accordingly, we recommend that the Legislature adopt the following supplemental language:

"The Department of Corporations is directed to take the following actions to improve the quality of medical audits under its Knox-Keene program:

- Revise its medical audit guidelines to ensure that a health plan's medical quality assurance system is actually working.
- Select a statistically valid number of patient records to determine the quality of medical services provided. In determining this number, the department shall consider the total number of enrollees in the health plan to be audited.
- Conduct random follow-up visits to health plans to ensure that deficiencies reported in the medical audits have been corrected.

DEPARTMENT OF CORPORATIONS—Continued

The department shall submit, by October 1, 1986, to the chairman of the Joint Legislative Budget Committee and the chairs of the fiscal committees, a progress report on actions taken to improve the quality of its medical audits."

DEPARTMENT OF COMMERCE

Item 2200 from the General
Fund and various funds

Budget p. BTH 17

Requested 1986-87	\$21,894,000
Estimated 1985-86.....	21,653,000
Actual 1984-85	17,103,000
Requested increase \$241,000 (+1.1 percent)	
Total recommended reduction	2,081,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2200-001-001—Support (includes transfers to other funds)	General	\$18,601,000
2200-001-535—Support	Main Street Fund	(252,000)
2200-001-890—Support	Federal Trust Fund	(386,000)
2200-001-922—Office of Local Development, Local Assistance	Economic Development Grant and Loan	3,200,000
Reimbursements	—	93,000
Total		\$21,894,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Tourism Marketing Program.** Reduce Item 2200-001-001 by \$2 million. Recommend deletion because proposed expansion of program is not justified. 241
2. **Small Business Development Center Consulting Contract.** Reduce Item 2200-001-001 by \$60,000. Recommend deletion of funds requested to support Small Business Development Center consultant. 242
3. **Small Business Conferences.** Reduce Item 2200-001-001 by \$21,000. Recommend reduction to correct for overbudgeting. 243

GENERAL PROGRAM STATEMENT

The principal mission of the Department of Commerce is to promote business development in the state. Its specific responsibilities include:

1. Coordinating federal, state, and local economic development policies and programs;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies to implement state economic development plans;

4. Advising the Governor regarding his annual Economic Report;
5. Providing information and statistics on the state's economy, products, tourism, and international trade; and
6. Promotion of filmmaking in California.

The department is headed by a director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross section of the state's economy. The department has 100.7 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests appropriations of \$18,601,000 from the General Fund and \$3,200,000 from the California Economic Development Grant and Loan Fund for support of the Department of Commerce in 1986-87. This is \$1,082,000, or 5.2 percent, over estimated expenditures from these sources in the current year.

Table 1
Department of Commerce
Summary of Budget Requirements
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	
Business Development.....	21.3	28.2	19.9	\$2,997	\$3,464	\$2,968	-14.3%
California Film Office	-2.0	5.7	5.7	416	469	434	-7.5
Marketing and Communications.....	—	—	4.6	—	—	239	NMF ^a
Tourism	9.9	10.5	9.6	5,799	6,754	7,918	17.2
Local Development	7.7	13.0	11.6	3,416	5,151	4,655	-9.6
Small Business	12.9	13.3	11.4	7,372	5,378	5,042	-6.2
Economic Research	8.9	11.0	11.0	965	1,348	1,024	-24.0
Administration (distributed)	18.3	19.0	19.0	(1,058)	(1,160)	(1,157)	-0.3
Totals	81.0	100.7	92.8	\$20,965	\$22,564	\$22,280	-1.3
Funding Source							
General Fund				\$15,374	\$17,519	\$18,601	6.2%
Olympic ReflectORIZED License Place Account				29	—	—	—
Federal Trust Fund.....				3,862	911	386	-58.0
Economic Development Grant and Loan Fund				939	3,200	3,200	—
Motion Picture Fees Account.....				78	—	—	—
Small Business Development Center Fund				-11	—	—	—
Reimbursements.....				694	934	93	-90.0

^a Not a meaningful figure

The budget also includes \$386,000 in federal funds and \$93,000 in reimbursements. Thus, the department proposes total spending of \$22,280,000 in 1986-87. This is a decrease of \$284,000, or 1.3 percent, below total estimated expenditures in the current year. The department's expenditures for the past, current, and budget years are summarized, by program, in Table 1.

The primary reason for the decrease in total expenditures is that the department receives federal grants throughout the year which are not

DEPARTMENT OF COMMERCE—Continued

anticipated when the budget is prepared. These grants are budgeted as reimbursements. For example, in the current year the department now estimates it will receive \$934,000 in reimbursements, yet only \$136,000 was initially reflected as reimbursements in the 1985 Budget Bill.

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 \$460,-000 in such costs.

Table 2 shows the changes in the department's expenditures for 1986-87.

Table 2
Department of Commerce
Proposed 1986-87 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>California Economic Development Grant and Loan Fund</i>	<i>Reim- burse- ments</i>	<i>Total</i>
<i>1985-86 Revised</i>	\$17,519	\$911	\$3,200	\$934	\$22,564
Baseline Adjustments					
Salary and Benefits Increase	196	—	—	—	196
Plant Closure Assistance (JTPA)	—	—	—	-287	-287
Employment Training Panel Grant	—	—	—	-200	-200
Hollywood Exposition—Phase II	-785	—	—	—	-785
Computerized Land Inventory Study	-58	—	—	—	-58
Small Cities Block Grant	—	—	—	-24	-24
Economic Development Data Base	—	—	—	-289	-289
Program Changes					
Tourism Marketing Program	2,000	—	—	—	2,000
Small Business Development Center	-429	-25	—	—	-454
Rural Component	60	—	—	-41	19
Small Business Conferences	67	—	—	—	67
Main Street Program	2	—	—	—	2
Plant Closure Assistance (SSED)	—	-500	—	—	-500
Administration Staffing In- crease	29	—	—	—	29
Totals	\$18,601	\$386	\$3,200	\$93	\$22,280
Change from 1985-86					
Amount	\$1,082	-\$525	—	-\$841	-\$284
Percent	6.2%	-58.0%	—	-90.0%	-1.3%

ANALYSIS AND RECOMMENDATIONS

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

- *California Main Street Program (\$252,000).* The budget contains

funds to continue the California Main Street program, which was established by Ch 1577/85 (AB 2483).

- **Small Business Development Center Program Deletion (-\$429,000).** The budget deletes funds for state support of the Small Business Development Center program. The program is recommended for elimination because funding for the federal share of support for the program is not anticipated in 1986-87.
- **Administration Staffing Increase (\$29,000).** The budget requests funding and the redirection of one position for an accountant position to meet increased workload demands.

Increased Funding for Tourism Advertising Not Justified

We recommend deletion of \$2 million proposed to augment tourism marketing and advertising activities (Reduce Item 2200-001-001 by \$2 million.)

The budget proposes to add \$2 million to the state's tourism advertising and promotion campaign. The Department of Commerce justifies this request on the basis of its evaluation of the existing tourism advertising and promotion campaign, which commenced in March 1985. The department plans to use the additional funds to expand media purchase for California state advertising.

Existing program has not been adequately evaluated. Chapter 309, Statutes of 1984 (SB 1061) requires the Office of Tourism to submit an annual report to the Legislature assessing the overall benefits and effectiveness of the tourism marketing program. The annual report is to document the benefits of the marketing program which are directly attributable to all of the following: (1) California's tourism industry; (2) employment in California; (3) state and local tax revenues; and (4) the state's lesser known and underutilized destinations. In addition, the report is to assess the impact of the marketing program in terms of California's share of the domestic and international tourism markets.

At the time this analysis was prepared, the department had not measured the impact of the marketing program by the criteria set forth in Chapter 309. The first report, which was due to the Legislature March 15, 1985, had not been submitted. The department provided a draft of the report to this office, however, it does not address the topics required by Chapter 309.

In documents accompanying the budget, the department justifies its request for additional funding by pointing to the growing number of inquiries received by the Office of Tourism since the advertising campaign began. Inquiries for the current year are estimated to be 268,800, up from 108,000 in 1984-85 (the first partial year of the campaign). The department is projecting that inquiries to the Office of Tourism will reach 325,000 in the budget year.

The level of consumer inquiries received by the Office of Tourism is not in itself an acceptable measure of the marketing program's effectiveness. These inquiries represent the public's response to the offers of free brochures and promotional material highlighted in the advertising. A more substantive measure of the program's effectiveness is the "conversion rate" of these inquiries, which is the percentage of inquiries which result in actual travel to the state. In the California Tourism Marketing Plan for 1985-86, the department set a goal of a 25 percent conversion rate from inquirer to traveler within 12 months of initial inquiry.

Our analysis indicates that even if the department achieves its goal of

DEPARTMENT OF COMMERCE—Continued

a 25 percent conversion rate in 1985–86, the marketing program will fail to achieve its goal of generating an additional \$9.1 million in state tax revenue in the current year. A 25 percent conversion rate, applied against the current-year estimate of inquiries to the Office of Tourism provided in the Governor's Budget (268,800), would result in an additional 67,200 travelers to the state in the current year. In 1984, the department estimated that each party traveling to the state spends \$835. Adjusting this estimate for inflation, and using the department's estimate that each travel dollar generates 3.9 cents in state tax revenue, we estimate that the state will receive an additional \$2.4 million in tax revenue. Thus, even if the department achieves its goal of a 25 percent conversion rate, it will fall far short of its goal of generating an additional \$9.1 million in state tax revenue. Further, the \$2.4 million in added state tax revenue does not justify the state's current \$5 million expenditure on advertising, much less an additional \$2 million. The department has not yet attempted to measure the conversion rate of inquiries, but it is planning a study on the subject for the spring of 1986.

Survey results inconclusive. The department also points to the results of two surveys conducted during the spring and fall of 1985 as further evidence of the marketing program's success. The surveys were designed to measure consumer recall of California state advertising as well as consumer perceptions of California as a travel destination.

The department agrees that the survey conducted for the first wave of advertising in the spring of 1985 showed no significant changes either in consumer awareness of California as a vacation destination or in any of the respondent's intentions to travel to the state. The department claims, however, that results from the survey conducted for the second advertising campaign point to the marketing program's success. The basis for this statement is that awareness of California state advertising increased from 19 percent of those surveyed before the campaign to 34 percent after the campaign. In addition, of those surveyed, 74 percent supplied favorable impressions of California prior to the advertising, compared to 78 percent after the advertising.

Our analysis indicates that the survey results provide no substantive justification for the tourism marketing program's effectiveness. The goal of the Office of Tourism's evaluation efforts should be to assess the economic impact of the tourism marketing program according to the criteria set forth in Chapter 309. The department has failed to do this. The marketing surveys conducted by the department which attempt to measure consumer attitudes about California are not an adequate substitute for the analysis required by the statute. Since the existing tourism marketing program has not been adequately evaluated, the proposed increase in the level of funding for this program is not justified. Accordingly, we recommend deletion of the \$2 million included in the budget for this purpose.

Small Business Development Center—Rural Component

We recommend deletion of \$60,000 budgeted for continuation of this program. (Reduce Item 2200-001-001 by \$60,000.)

The budget includes \$60,000 to continue funding of the rural component of the Small Business Development Center (SBDC) program within the Office of Small Business. Funding for the Small Business Development Center program itself is not included in the budget because the federal

Small Business Administration (SBA), which jointly funds the program, is not expected to support the program in the budget year. The rural component of the SBDC program, initiated in April 1985, consists of one full-time consultant who provides management and technical assistance to local government entities and private nonprofit organizations establishing small business assistance centers or comparable programs.

Since April 1985, the rural component of the SBDC program has assisted three rural areas to establish small business assistance centers. The department maintains that continued funding of the rural component is necessary to assist additional rural areas establish small business assistance centers in the budget year. Our analysis of the proposed \$60,000 expenditure questions the need for the consultant's services in the budget year. At the time this analysis was prepared, there was no indication that the federal funds which were used to fund the three small business assistance centers in 1985 will be forthcoming in 1986.

All of the three rural small business assistance centers established in 1985 received federal grants. The department administered one of these grants, which it awarded to the Butte County Economic Development Corporation. The department points out, as evidence of the demand for the rural component, that it received 17 applications for this grant. However, of these 17 proposals, 14 were from existing small business assistance programs wishing to expand their activities. Given the uncertainty over the number of small business assistance centers that will be established in the budget year in the absence of federal funds, it does not appear that the state should retain a full-time consultant for this purpose.

Our analysis further questions the need to retain a full-time consultant whose functions are very similar to those of existing department programs. In particular, the Office of Local Development (OLD), reflecting its statutory responsibilities, has ongoing programs to help local entities assess their economic development needs and strategies. Similarly, the Office of Small Business (OSB) provides a wide variety of services to the small business community, including management and financial assistance. Approximately 2,000 individuals per month receive assistance from the staff of OSB.

For these reasons, we believe that additional state support for the rural component of the SBDC program is not justified. Accordingly, we recommend a reduction of \$60,000 included in the budget for this purpose.

Small Business Conferences Overbudgeted

We recommend a reduction of \$21,000 for support of Small Business Conferences. (Reduce Item 2200-001-001 by \$21,000.)

The budget includes an increase of \$67,000 to support the OSB's Small Business Conference program. Of that amount, \$45,000 would be used to establish the position of small business conference coordinator, who would be responsible for scheduling the conferences and coordinating the activities of the conference sponsors. The remaining portion of the additional funds requested, \$22,000, would be used for operating expenses associated with the new position and for producing conferences of a specialized nature.

For the past seven years, OSB has been producing small business conferences which are co-sponsored by members of the Legislature and local Chambers of Commerce. The conferences bring together experts from business and government to provide management assistance to small business owners. The conferences also serve as a forum to promote the busi-

DEPARTMENT OF COMMERCE—Continued

ness assistance programs available to small businesses. Over the years, requests from the Legislature for these conferences have increased substantially. In addition, OSB received a \$10,000 augmentation in 1985-86 to produce a series of specialized conferences, directed at the business needs of women, minorities, and veterans. The OSB is requesting an additional position to handle the workload associated with the increase in business conferences.

The department requests one staff services manager II to serve as the small business conference coordinator. Currently, OSB assigns one associate development specialist to coordinate the conferences. According to the department, the associate development specialist performs his duties effectively, but can only manage about 25 to 30 conferences per year. The OSB plans on producing 30 to 40 conferences in 1986-87. It appears that an additional associate development specialist would be more than adequate to handle the workload involved with the conference program. The cost of hiring an associate development specialist would be approximately \$9,000 less than hiring a staff services manager II.

Similarly, the department's request for \$22,000 in additional operating expenses and equipment for the conference program is also overstated. Our analysis indicates that \$10,000 (in addition to the \$10,000 provided in 1985-86) should be adequate for this purpose. For these reasons we recommend that funding for the Small Business Conference program be reduced by \$21,000.

Business, Transportation and Housing Agency
DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT

Item 2240 from the General
Fund and various special
funds

Budget p. BTH 27

Requested 1986-87	\$78,982,000
Estimated 1985-86	74,043,000
Actual 1984-85	54,437,000
Requested increase \$4,939,000 (+6.7 percent)	
Total recommended reduction	2,600,000
Recommendation pending	20,408,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2240-001-001—Support	General	\$5,744,000
2240-001-245—Support	Mobilehome Parks Revolving	2,595,000
2240-001-451—Support	Manufactured Home License Fee Account	1,821,000

Item 2240

BUSINESS, TRANSPORTATION AND HOUSING / 245

2240-001-530—Support	Mobilehome Park Purchase	225,000
2240-001-635—Support	Rural Predevelopment Loan	198,000
2240-001-648—Support	Mobilehome-Manufactured Home Revolving	11,544,000
2240-001-813—Support	Self-Help Housing	154,000
2240-001-844—Support	Farm Labor Housing Rehabilitation Loan Account	30,000
2240-001-890—Support	Federal Trust	(1,260,000)
2240-001-929—Support	Housing Rehabilitation Loan	501,000
2240-001-936—Support	Homeownership Assistance	213,000
2240-001-938—Support	Rental Housing Construction	524,000
2240-001-942—Support	Special Deposit Fund—Senior Shared Housing	20,000
2240-001-980—Support	Urban Predevelopment Loan	182,000
2240-001-984—Support	Rural Communities Facilities	12,000
2240-001-985—Support	Emergency Housing Assistance	124,000
Subtotals, Support		(\$23,887,000)
2240-101-001—Local assistance	General	\$6,900,000
2240-101-530—Local assistance	Mobilehome Park Purchase	7,111,000 ^a
2240-101-635—Local assistance	Rural Predevelopment Loan	2,052,000 ^a
2240-101-813—Local assistance	Self-Help Housing	3,064,000 ^a
2240-101-843—Local assistance	California Housing Trust	19,000,000
2240-101-844—Local assistance	Farm Labor Rehabilitation Loan Account	970,000
2240-101-890—Local assistance	Federal Trust	(35,600,000)
2240-101-927—Local assistance	Farmworker Housing Grant	100,000 ^b
2240-101-929—Local assistance	Housing Rehabilitation Loan	1,392,000 ^a
2240-101-936—Local assistance	Homeownership Assistance	500,000 ^a
2240-101-938—Local assistance	Rental Housing Construction	2,881,000 ^a
2240-101-942—Local assistance	Special Deposit—Office of Migrant Services	941,000 ^a
2240-101-972—Local assistance	Mobilehome Recovery	300,000 ^a
2240-101-980—Local assistance	Urban Predevelopment Loan	2,618,000 ^a
Subtotal, Local Assistance		(\$47,829,000)
Reimbursements	—	7,266,000
Total		\$78,982,000

^a Spending authority provided through a continuous statutory appropriation.

^b A total of \$2,600,000 is appropriated from this fund, of which \$2,500,000 is included in the General Fund local assistance appropriation.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Housing Trust Fund. Withhold recommendation on the allocation of \$20,000,000 in new housing funds, pending receipt of additional information. 250
2. Mobilehome Park Purchase Program. Reduce Item 2240- 251

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

- 101-530 by \$2,500,000.* Recommend that a proposed transfer of funds to the program be deleted, as additional funds are not needed at this time.
3. Facilities Operation. Withhold recommendation on a proposed \$408,000 augmentation for a new building, pending receipt of additional information. 252
 4. Facilities Operation. Recommend adoption of Budget Bill language in order to ensure that the most economical method of financing the acquisition of a new building is selected. 252
 5. *Technical Overbudgeting. Reduce by \$100,000 (\$22,000 from the General Fund, \$58,000 from special funds and \$20,000 from reimbursements).* Recommend reduction to correct for overbudgeting. 253

GENERAL PROGRAM STATEMENT

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

1. To protect the public from the inadequate construction, manufacture, repair, or rehabilitation of residential buildings;
2. To promote, provide, and assist in the availability of safe, sanitary, and affordable housing; and
3. To identify and define problems in housing, and devise appropriate solutions to these problems.

The department carries out these responsibilities through four programs: (1) Codes and Standards, (2) Community Affairs, (3) Research and Policy Development, and (4) Administration.

The department has 554.8 personnel years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$115,842,000 from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1986-87. This is \$856,000, or 0.7 percent, *less* than estimated current-year expenditures. Excluding federal funds, expenditures in 1986-87 are budgeted at \$78,982,000, which is \$4,939,000, or 6.7 percent, *more* than estimated current-year expenditures.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1987. It indicates that the General Fund would finance about 11 percent of the department's total expenditures in the budget year, with the balance coming from special funds (51 percent), federal funds (32 percent), and reimbursements (6 percent).

The department anticipates receiving approximately \$37 million in federal funds during the budget year. Most of this funding—\$21.4 million—is associated with the department's management of the Small Cities portion of the federal Community Development Block Grant program. The HCD first assumed statewide management of the program in October 1982.

Table 1
Department of Housing and Community Development
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	
Codes and Standards	244.5	250.8	255.3	\$15,718	\$16,812	\$18,124	7.8%
Community Affairs	168.9	164.6	161.6	81,350	98,495	96,452	-2.1
Housing Policy Development	22.9	23.0	22.0	1,196	1,391	1,266	-9.0
Administration	111.2	116.4	115.9	(5,473)	(6,527)	(6,881)	5.4
Totals	547.5	554.8	554.8	\$98,264	\$116,698	\$115,842	-0.7%
Funding Sources							
General Fund				\$18,921	\$25,539	\$12,644	-50.5%
Mobilehome Park Revolving Fund				2,007	2,243	2,595	15.7
Manufactured Home License Fee Account				1,760	1,761	1,821	3.4
Mobilehome Park Purchase Fund				42	3,352	7,336	118.9
Rural Predevelopment Loan Fund				2,172	3,100	2,250	-27.4
Mobilehome-Manufactured Home Revolving Fund				10,228	10,384	11,544	11.2
Self-Help Housing Fund				(2,968)	152	3,218	2,017.1
California Housing Trust Fund				—	—	19,000	—
Farm Labor Rehabilitation Loan Account				—	—	1,000	—
Land Purchase Fund				3	—	—	—
Farmworker Housing Grant Fund				-41	347	100	-71.2
Housing Rehabilitation Loan Fund				5,100	3,472	1,893	-45.5
Homeownership Assistance Fund				1,759	696	713	2.4
Rental Housing Construction Fund				3,032	8,246	3,405	-58.7
Special Deposit Fund—Office of Migrant Services Account				800	900	941	4.6
Special Deposit Fund—Senior Shared Housing				-28	56	20	-64.3
Urban Predevelopment Loan Fund				2,422	4,105	2,800	-31.8
Rural Communities Facilities Fund				245	252	12	-95.2
Mobilehome Recovery Fund				—	200	300	50.0
Emergency Housing and Assistance Fund				4,164	1,744	124	-92.9
Subtotals, State Funds				(\$49,618)	(\$66,549)	(\$71,716)	(7.8%)
Federal Trust Fund				\$43,827	\$42,655	\$36,860	-13.6%
Reimbursements				4,819	7,494	7,266	-3.0
Totals, All Funds				\$98,264	\$116,698	\$115,842	-0.7%

Proposed Budget-Year Changes

Table 2 summarizes the significant changes in the department's budget proposed for 1986-87. The most significant baseline adjustment is a \$12.35 million reduction to take account of one-time appropriations in 1985-86 (including \$11.5 million appropriated in the 1985 Budget Act). The major

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

workload change is a decrease of \$9.9 million, reflecting reduced loan and grant activities between the current and budget years. The most significant program change proposed for the budget year is an increase of \$20 million for various low-income housing programs. These funds were appropriated by Chapter 1584, Statutes of 1985.

Table 2
Department of Housing and Community Development
Proposed 1985-86 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
1985-86 Expenditures (Revised) ..	\$25,539	\$34,167	\$42,655	\$7,494	\$109,855
<i>Baseline Adjustments:</i>					
Full-year Funding of Salary In- creases	\$254	\$713	\$47	\$257	\$1,271
Increase for Facilities Opera- tions	179	205	15	9	408
One-time Appropriations in 1985-86	-11,815	-135	-30	-370	-12,350
One-time Legislation—Ch 967/ 85 (for state-operated mi- grant farm labor camps)	-1,400	—	—	—	-1,400
Increased Pro-Rata Costs	—	270	—	—	270
Miscellaneous	-156	—	—	—	-156
Subtotals, Baseline Adjust- ments	(-\$12,938)	(\$1,053)	(\$32)	(-\$104)	(-\$11,957)
<i>Workload Changes:</i>					
Loan and Grant Activities (local assistance)	—	-\$4,025	-\$5,827	—	-\$9,852
Mobilehome Parks Program	-\$14	140	—	—	126
Mobilehome Park Purchase Program	-56	59	—	—	3
Occupational Licensing Pro- gram	—	76	—	-62	14
Subtotals, Workload Changes	(-\$70)	(-\$3,750)	(-\$5,827)	(-\$62)	(-\$9,709)
<i>Program Changes:</i>					
Employee Housing Program	\$113	—	—	-\$62	\$51
California Housing Trust Fund Programs	—	\$20,000	—	—	20,000
Occupational Licensing Pro- gram	—	37	—	—	37
Mobilehome Pilot Car Study	—	100	—	—	100
Micrographic File System	—	300	—	—	300
Subtotals, Program Changes	(\$113)	(\$20,437)	(—)	(-\$62)	(\$20,488)
1986-87 Expenditures (Proposed)	\$12,644	\$51,907	\$36,860	\$7,266	\$108,677
Change from 1985-86:					
Amount	-\$12,895	\$17,740	-\$5,795	-\$228	-\$1,178
Percent	-50.5%	51.9%	-13.6%	-3.0%	-1.1%

ANALYSIS AND RECOMMENDATIONS

Budget-Year Staffing Changes Proposed

For 1986-87, HCD proposes staffing changes affecting 10 of its programs and activities. These changes are summarized in Table 3. The table shows that HCD intends to reduce eleven positions in five programs and to redirect these positions to five other programs. These changes would increase total expenditures by \$204,000 and bring about significant shifts in terms of funding sources. The proposed changes result in *reduced* General Fund expenditures of \$14,000, *reduced* reimbursements of \$124,000, and *increased* special fund expenditures of \$342,000.

Table 3
Department of Housing and Community Development
Summary of Proposed Staffing Changes
1986-87
(dollars in thousands)

Program Reductions:	Activities Affected	Current Staffing Level (PYs)	Proposed Changes		
			Number of Positions	Amount	Funding Source
Century Freeway	Displace Contact, Tracking, & Counseling	76	4	\$124	Reimbursements
Codes and Standards	Clerical and Supervision	34	4.5	143	General, Special ^a
Housing Policy Development ..	Directorate-Special Project on Internal Assessment of Department	6	1	57	General
Special Housing Needs.....	Directorate-Special Project on the Homeless	1	1	56	General
Administration	General Administrative and Clerical Services	103	0.5	14	General
Totals, Staff Reductions			11	\$394	
<i>Program Increases:</i>					
Mobilehome Parks Program.....	Inspection of Mobilehome Parks	41	5	\$283	Special ^b
Occupational Licensing	Investigation of Manufactured Housing Complaints and Claims	22	2	113	Special ^a
Employee Housing	Identification & Inspection of Illegal Labor Camps	12	2	113	General
Farm Labor Rehabilitation Loan	Rehabilitation of Farmworker Housing	5	1	30	Special ^c
Housing Construction Finance	Conversion of Mobilehome Parks to Tenant Ownership	2.85	1	59	Special ^d
Totals, Staff Augmentations			11	\$598	

^a Mobilehome-Manufactured Home Revolving Fund.

^b Mobilehome Parks Revolving Fund.

^c Farm Labor Rehabilitation Account.

^d Mobilehome Park Purchase Fund.

Update on Century Freeway Housing Program

One of the most significant personnel changes the department proposes for 1986-87 is the elimination of four positions from the Century Freeway Housing Program (CFHP). This program implements the Amended Consent Decree which settled the *Keith v. Volpe* litigation involving tenants displaced by the construction of the highway linking the Los Angeles International Airport to the City of Norwalk (called Century Freeway).

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Under the decree, HCD must develop and manage a comprehensive program of relocation, rehabilitation, and/or replacement of housing units which have been, or will be, displaced by the freeway construction. The decree requires the replacement of 3,700 units by 1990.

The program received authorization for ten additional positions in 1985–86, boosting to 72 personnel-years the staffing resources dedicated to the CFHP. For the budget year, the department plans to eliminate four positions, due to a reduction in the workload of the Finance and Disposition unit.

Table 4 shows HCD's projected housing unit production levels, as estimated last year and as currently estimated. The table shows that the department has already fallen behind the schedule it presented to the Legislature one year ago.

Table 4
Century Freeway Housing Program
Housing Unit Production Levels
As Estimated in 1985 and 1986

	Yearly Production		Cumulative Production	
	1985 Estimate	1986 Estimate	1985 Estimate	1986 Estimate
1984–85.....	306	282 ^a	378	351 ^a
1985–86.....	825	282	1,203	633
1986–87.....	1,136	788	2,339	1,421
1987–88.....	1,143	708	3,482	2,129
1988–89.....	218	661	3,700	2,799
1989–90.....	—	532	—	3,331

^a Actuals

Housing Trust Fund: Major New Funding Source

We withhold recommendation on the allocation of \$20 million appropriated in Item 2240-101-843, pending the receipt of more information from the department.

Chapter 1584, Statutes of 1985, appropriates \$20 million in tidelands oil revenues to the newly established California Housing Trust Fund (CHTF). The funds are appropriated annually for three years, beginning in 1986–87, for housing programs serving low- and very low-income households. Chapter 1584/85 specifies that at least 20 percent, or \$4 million of the CHTF must be used to address the housing needs of rural communities, with at least \$1 million of this amount allocated to the newly established Farm Labor Rehabilitation Loan Program. Under this demonstration program, owners or operators of existing farmworker housing can receive 7 percent loans on up to one-half the amount needed to bring the housing into compliance with code standards. The remainder of the CHTF monies—\$19 million—must be allocated annually through the budget process.

The budget proposes to allocate this \$19 million to the following programs in 1986–87:

- **Rental Housing Construction Program (RHCP)—Capital Annuity Write-down Component (\$10 million).** This new RHCP component would guarantee an operating subsidy to a developer that is

sufficient to cover the cost of keeping rents on at least 30 percent of the units affordable to low- and very low-income households.

- **Emergency Shelter Program (\$4 million).** This program provides grants to localities and nonprofit organizations to shelter needy persons and families on an emergency basis. The grants are used primarily for rehabilitation of existing facilities, site acquisition, and equipment purchase.
- **California Self-Help Program (\$2 million).** This program provides (1) mortgage loans to low- and moderate-income families for the construction or rehabilitation of their homes, and (2) technical assistance grants to self-help housing organizations that train, supervise, and help package loans for self-help households.
- **Special User Housing Rehabilitation Program (\$2.5 million).** This program provides 3 percent, 30-year deferred-payment loans for acquisition and/or rehabilitation of facilities for use by elderly, handicapped, or low- and very low-income persons.
- **Senior Shared Housing Program (\$500,000).** This program provides grants to localities and nonprofit organizations for administration, operating expenses, and equipment purchases related to assisting senior citizens in finding other people with whom they can share existing housing units.

Table 5 summarizes the department's proposed allocation of the CHTF funds in 1986-87 and shows past-year expenditures for these programs.

Table 5
Proposed Allocation of California Housing Trust Fund and
Recent Program Expenditures
(in thousands)

Program	Program Expenditures from Prior Appropriations				CHTF Proposed Allocations 1986-87
	Actual 1983-84	Actual 1984-85	Est. 1985-86	Prop. 1986-87	
Rental Housing Construction.....	\$10,572	\$5,675	\$9,252	\$2,881	\$10,000
Emergency Shelter	2,468	4,101	6,626	—	4,000
California Self-Help Housing	—	2,800	2,000	3,064	2,000
Special User Housing Rehabilitation	—	3,537	4,480	—	2,500
Farm Labor Housing Rehabilitation	—	—	—	—	1,000 ^a
Senior Shared Housing	300	464	36	—	500

^a \$30,000 of this will be used for program administration.

We withhold recommendation on the proposed allocation of these funds, for two reasons. First, we need more information from the department regarding the proposed Rental Housing Construction Program component. This is a new, untested financing mechanism, and we have concerns regarding its effectiveness. Second, we need more information regarding how well the programs would leverage funding from other sources, especially the federal government.

Mobilehome Park Purchase Program Augmentation Is Unnecessary

We recommend that the Legislature delete the proposed \$2.5 million transfer to the Mobilehome Park Purchase Fund because additional funding for the program is not needed at this time. (Reduce Item 2240-101-530 by \$2,500,000.)

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The budget proposes to spend \$7,336,000 on the Mobilehome Park Assistance Program (MPAP) in 1986-87, an increase of \$3,094,000 or 119 percent, over estimated current-year expenditures. The MPAP's main activity is to provide loans to mobilehome park residents to help them purchase the parks in which they reside, thereby lowering the risk that elderly or low-income residents will be displaced involuntarily. The MPAP also provides technical assistance to mobilehome park residents who may be interested in converting a park to tenant ownership.

The budget proposes to fund 1986-87 expenditures from three revenue sources:

- **Chapter 555, Statutes of 1985.** This act raised by five dollars the annual fees paid by owners of mobilehomes and manufactured homes, and earmarked the additional revenues for the MPAP (through December 1988). This "surcharge" will generate about \$3.6 million (\$1.2 million carried over from the current year) for the Mobilehome Park Purchase Fund (MPPF) in 1986-87.
- **Loan repayments** (\$1 million).
- **Transfer from the Mobilehome-Manufactured Home Revolving Fund (MMHRF).** The budget also proposes to transfer \$2.5 million from the MMHRF to the MPPF, in order to fund additional loan activity.

Our analysis of the budget request indicates that the proposed \$2.5 million augmentation is not justified. First, even without this augmentation, the department will have \$4.6 million available from other sources to spend in 1986-87. This is 37 percent more than estimated expenditures in the current year. It is important to note, however, that the program has yet to make its first loan. Estimated 1985-86 expenditures are based solely on projected loan activity in the latter part of the current year. Consequently, at this time there is no data regarding: (1) how many mobilehome park residents have been or are at risk of being displaced, (2) whether the program addresses the perceived need, or (3) how the program is being administered.

Second, we see no reason why contributors to the MMHRF (mobilehome owners, builders and dealers), many of whom are already required to pay the special five dollar surcharge, should have to provide an additional subsidy to a specific group of individuals—those desiring to own the park in which they live.

Accordingly, we recommend that the proposed transfer from the MMHRF to the MPPF not be approved, for a revenue gain to the MMHRF and an expenditures savings to the MPPF of \$2.5 million.

Department Wants To Be Housed Under One Roof

We withhold recommendation on the \$408,000 augmentation requested for facilities operation, pending receipt of additional information. We further recommend that the Legislature adopt Budget Bill language in Item 2240-001-001 to ensure that the department selects the most economical method of financing the acquisition and use of a new building.

The Department of Housing and Community Development currently leases 76,000 square feet of office and storage space in five buildings in Sacramento. For 1986-87, the department proposes to consolidate these offices into one facility, by contracting for the construction of an 81,000

square foot "build-to-suit" structure. The budget requests an augmentation of \$408,000 to implement the proposal, consisting of \$117,000 for the one-time cost of relocating and purchasing partitions, and \$291,000 to cover the expected increase in rent.

Our review of the department's request indicates that the proposed consolidation of Sacramento space has merit. We have several concerns, however, about the specific budget request. First, the department justifies the move in part because of the savings in travel time, and in part because duplicative services (such as reproduction, supplies and clerical services) could be eliminated. The department, however, did not take these savings into account in preparing its budget request. Second, it is unclear to us whether HCD needs as much space as it is requesting. Not only would the proposed building provide an *additional* 5,000 square feet; it also would allow for a much more efficient use of the department's existing allocation of space. Finally, the department apparently has not considered alternatives to leasing the new structure. Traditionally, the state has found that *owning*, rather than leasing, is the most cost-effective way to provide facilities for ongoing program operations.

Until we receive additional information from the department which addresses these concerns, we withhold recommendation on the requested \$408,000 augmentation requested for facilities operation.

In addition, to ensure that the department considers a variety of financing alternatives prior to entering into a long-term contractual agreement for a new facility, we further recommend that the Legislature adopt the following Budget Bill language in Item 2240-001-001:

The Director of the Department of General Services, acting on behalf of the Department of Housing and Community Development, may enter into a lease with a purchase option agreement, or a lease-purchase agreement, for the purpose of providing adequate facilities for the Department of Housing and Community Development. Prior to entering into any contractual agreement for a new facility, the Director must employ a competitive bidding process to solicit offers to provide a 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. Following evaluation of the bids received and prior to entering into any agreement, the Director shall provide the Chairman of the Joint Legislative Budget Committee 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.

Technical Recommendations

We recommend the reduction of \$100,000 (\$22,000 from the General Fund, \$58,000 from special funds, and \$20,000 in reimbursements) to eliminate overbudgeting as follows:

Savings from Eliminated Staff Positions Underestimated. The department's estimates of the savings from eliminating 11 positions is understated by ~~\$45,000~~ (\$9,000 from the General Fund, \$16,000 from the Mobilehome-Manufactured Home Revolving Fund (MMHRF), and \$20,000 from reimbursements). This is because the department assumed that each of these positions was budgeted at the entry level; in fact, most of these positions are filled at higher levels.

Overbudgeted Office Rent. The department's office rent request is overbudgeted by \$31,000 (\$17,000 from Mobilehome Parks Revolving

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Fund, \$7,000 from the General Fund, and \$7,000 from the MMHRF), because it funds additional office space for redirected positions even though no new space is needed.

Overbudgeted Departmental Services. In redirecting positions, the department redistributed departmental services charges to various funds, but also *increased* the total charges by \$14,000. Since administrative support did not increase as a result of these redirections, there is no need to increase such charges. (Reduce Mobilehome Parks Revolving Fund by \$10,000, General Fund by \$4,000, and the MMHRF by \$4,000; increase Farm Labor Rehabilitation Loan Account by \$3,000 and Mobilehome Park Purchase Fund by \$1,000).

Overbudgeted Travel and Training. The budget requests \$9,000 (\$6,000 for travel and \$3,000 for training) for the one employee redirected to the Mobilehome Park Assistance Program. We estimate that \$4,000 (\$3,000 for travel and \$1,000 for training) would be more appropriate, given that the position will travel only about two days per month, and is likely to be filled by an employee currently trained by and working for HCD. Consequently, we recommend a reduction of \$5,000 from the Mobilehome Park Purchase Fund.

Overestimated Equipment Needs. The budget requests \$10,500 for the purchase of office furnishings for seven new inspectors in its Mobilehome Parks Program and Employee Housing Program. Our analysis indicates that the desired equipment could be purchased for half the cost, resulting in a savings of \$5,000. (Reduce MMHRF by \$3,000 and General Fund by \$2,000).

Business, Transportation, and Housing Agency
CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California
Housing Finance Fund

Budget p. BTH 45

Requested 1986-87	(\$8,807,000) ^a
Estimated 1985-86.....	(8,330,000) ^a
Actual 1984-85	(6,928,000) ^a
Requested increase \$477,000 (+5.7 percent)	

^a Appropriation authority provided pursuant to Section 51000 of the Health and Safety Code.

GENERAL PROGRAM STATEMENT

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low- and moderate-income residents. Funding for its programs is derived mainly from the sale of tax-exempt revenue bonds and notes, the proceeds from which are used to (1) make direct loans to developers of multifamily rental housing or (2) provide loans and insurance through private lenders to low- and moderate-income households for the purchase and/or rehabilitation of single-family housing units. Bond

proceeds are deposited in the California Housing Finance Fund and are continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

The agency's direct operating expenses are covered by a combination of (1) service fees charged to borrowers and lenders, (2) interest earnings on loans made out of bond proceeds, and (3) interest earnings on investments made using agency funds.

The agency is governed by an 11-member Board of Directors, and has 131.5 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

Under the provisions of Section 51000, funding for the agency's support budget is exempt from the annual budget review process. In lieu of the regular legislative budgetary review, Section 50913 of the Health and Safety Code requires CHFA to submit to the Business, Transportation and Housing Agency, the Director of Finance, and the Joint Legislative Budget Committee, on or before December 1, a *preliminary* budget for the ensuing fiscal year.

According to CHFA staff, final board action on the proposed budget for 1986-87 is not expected prior to March 1986. Unless the Legislature chooses to exercise its power to alter the CHFA's budget, the Board of Directors will determine how the agency will allocate its funds for programs and administrative support in the budget year.

Table 1
California Housing Finance Agency
Preliminary Support Budget^a
1984-85 through 1986-87
(dollars in thousands)

	<i>Actual</i> 1984-85	<i>Estimated</i> 1985-86	<i>Preliminary</i> 1986-87	<i>Change From</i> 1985-86	
				<i>Amount</i>	<i>Percent</i>
<i>Personal Services</i>					
Salaries and Wages	\$3,660	\$4,535	\$4,916	\$381	8.4%
Staff Benefits	1,093	1,216	1,278	62	5.1%
Subtotals, Personal Services	(\$4,753)	(\$5,751)	(\$6,194)	(\$443)	(7.7%)
<i>Operating Expenses and Equipment</i>					
General Expense	\$291	\$178	\$178	—	—
Communications	232	275	275	—	—
Insurance	34	157	157	—	—
Travel	304	352	352	—	—
Training	29	25	25	—	—
Facilities Operation	393	435	435	—	—
Consulting and Professional Services					
Interdepartmental	273	348	213	—	—
External	203	190	190	—	—
Data Processing	124	300	300	—	—
Central Administrative Charges	256	279	448	169	60.6%
Equipment	36	40	40	—	—
Subtotals, Operating Expenses and Equipment	(\$2,175)	(\$2,579)	(\$2,613)	(\$169)	(1.3%)
Totals	\$6,928	\$8,330	\$8,807	\$612	5.7%

^a The CHFA's preliminary budget for 1986-87 reflects only baseline adjustments to estimated expenditures in the current year. It makes no allowance for budget changes that may be approved by the Board of Directors in adopting a final budget.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

The agency's 1986–87 *preliminary* budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend \$8,807,000 in 1986–87, an increase of \$477,000, or 5.7 percent, over current-year expenditures. The increase will grow by the amount of any augmentations approved by the CHFA Board of Directors in the final budget.

Table 1 summarizes the agency's operating budget for the three-year period ending June 30, 1987. The table indicates that personal services are proposed to increase by 7.7 percent, due solely to baseline changes for salary increases and merit salary adjustments. The only increase proposed for operating expenses and equipment is for central administrative (or "pro rata") charges.

ANALYSIS**MORTGAGE REVENUE BONDS**

The California Housing Finance Agency, as well as local housing agencies and authorities, depend on the issuance of mortgage revenue bonds (MRBs) to finance housing activity. In the past year, there was much activity—at both the federal and state level—which had or could have a significant impact on the way MRBs are used. In this section, we briefly discuss:

- The impact of proposed federal tax law changes on MRBs;
- Recent state legislation dealing with MRBs; and
- The initial information produced by the state's MRB reporting requirement.

Proposed Federal Tax Law Changes

Under current federal tax law, there are basically no restrictions on the amount of *multifamily* MRBs which can be issued by state and local governments. Federal law, however, limits how much tax-exempt debt can be issued in each state to finance *single-family* housing. Moreover, the tax-exempt status of single-family issues is scheduled to "sunset" on December 31, 1987.

Both major tax reform proposals currently before the Congress—President Reagan's proposal (Treasury II) and Congressman Rostenkowski's HR 3838—would limit the use of tax-exempt debt to finance housing.

Treasury II. Under the President's proposal, there would be *no* tax exemption for housing-related bonds. The federal tax exemption would be reserved for "traditional" governmental purposes only, such as roads, prisons, and parks.

HR 3838. Under HR 3838, state and local governments would still be able to issue MRBs, but in much smaller amounts than what current law allows. Each state could issue "nontraditional" tax-exempt bonds—housing and nonhousing—in an amount not to exceed \$175 per capita (about \$4.6 billion in 1986 for California). The \$175 limit would be allocated as follows:

- \$25 to nonprofit organizations, such as hospitals and museums;
- A minimum of \$75 would be reserved for housing bonds, with one-third allocated to single-family bonds, one-third to multifamily issues and the remaining one-third left to the Governor's discretion.
- The remainder (up to \$75) could be allocated as the state sees fit.

The per capita limit would drop to \$125 in 1988, recognizing that state and local governments' authority to issue single-family MRBs lapses on December 31, 1988.

Either proposal would have a dramatic impact on the issuance of MRBs in California. In 1985, over \$6 billion of MRBs were issued in the state. Under Treasury II, of course, none could be issued. Under HR 3838, about \$2 billion of MRBs could be issued—a reduction of two-thirds from the 1985 level.

1985 State Legislation

The Legislature enacted several measures in 1985 relating to MRBs, especially those issued to finance multifamily housing. These laws generally addressed three aspects of the MRB program.

Bond Limits. Prior to 1985, cities and counties could not issue more than \$900 million in multifamily bonds in any one year. Chapter 40, Statutes of 1985 (AB 53), increased the limit to \$1.5 billion, and Chapter 325, Statutes of 1985 (AB 2052), further increased the limit for 1985 to \$2.8 billion (with the cap dropping back to \$1.5 billion in subsequent years). Local governments did, in fact, issue bonds almost up to the 1985 limit, as developers anxious about potential federal law changes acted quickly to start projects in 1985.

Assisted Units. Under prior law, projects receiving MRB financing had to reserve at least 20 percent of the units for low-income families (that is, those with incomes of less than 80 percent of the area median). Chapter 325 further requires city and county MRB developments to reserve one-half of those assisted units for very low-income families (those with incomes less than 50 percent of median). Chapter 1276, Statutes of 1985 (AB 1185), extended this requirement to MRBs issued by housing authorities and redevelopment agencies.

Reporting requirements. Under current law, local governments are required to report various information on their MRB-financed projects to the California Debt Advisory Commission (CDAC). Chapters 325 and 1276 put some "bite" into these provisions by requiring the State Treasurer, beginning January 1, 1986, to certify that local agencies had fulfilled this reporting obligation before allowing a bond issuance.

CDAC Report Information

Since January 1985, local governments have had to report information to the California Debt Advisory Commission (CDAC) on their MRB issuances. This requirement, which was added by Chapter 1399, Statutes of 1984 (AB 4025), was intended to give the Legislature better information as to how the MRB subsidy was being used. In October 1, 1985, the CDAC issued its first report on the use of MRB proceeds.

Unfortunately, this first report is of limited value, for several reasons. First, as the report could cover only issuances in the first half of 1985, it includes data on only 61 bond issues (52 multifamily and 9 single-family). Contributing to the problem of limited data was poor reporting compliance. Only 46 percent of total multifamily issuances during the reporting period, and 26 percent of single-family issuances, were covered by reports submitted to CDAC. Finally, because reports were submitted for projects which—for the most part—were not yet built, the data given CDAC consisted primarily of estimates.

There are, however, some findings of interest regarding multifamily issuances. First, the report indicates that, of the 16,807 units to be con-

CALIFORNIA HOUSING FINANCE AGENCY—Continued

structed, almost one-half—8,140—will be constructed in either Orange County or Sacramento County. Second, with regard to *assisted* units, over 98 percent will be either one- or two-bedroom units. Finally, the per unit cost of units being built with these MRB funds varied dramatically: between \$17,000 and \$161,000.

**Business, Transportation and Housing Agency
DEPARTMENT OF INSURANCE**

Item 2290 from the Insurance Fund		Budget p. BTH 46
<hr/>		
Requested 1986-87		\$24,721,000
Estimated 1985-86.....		22,818,000
Actual 1984-85		19,479,000
Requested increase \$1,903,000 (+8.3 percent)		
Total recommended reduction		72,000
<hr/>		

- | | |
|---|-----------------|
| SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS | <i>Analysis</i> |
| | <i>page</i> |
| 1. <i>Operating Expenses. Reduce Item 2290-001-217 by \$72,000.</i> | 260 |
| Recommend reduction to correct for overbudgeted operating and temporary help. | |

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is entirely regulated by the states, rather than by the federal government. In California, the Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers, in order to protect insurance policyholders. Currently, there are about 1,400 insurers licensed to do business in California. The department estimates that these insurers write policies in the state that carry premiums of approximately \$30 billion annually.

The department's *Regulation program* provides for: (1) the processing of inquiries and complaints from the public regarding the actions of insurance companies; (2) the examination and rating of insurers; (3) the examination of applicants seeking to be licensed as insurance agents or brokers; and (4) the investigation of complaints concerning insurance agents and brokers.

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

The Insurance Commissioner administers the department. The department maintains headquarters in San Francisco, and branch facilities in Los Angeles, San Diego and Sacramento.

The department is authorized to have 414 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$24,721,000 from the Insurance Fund for support of the department in 1986-87. This is an increase of \$1,903,000, or 8.3 percent, over estimated expenditures in the current year.

Table 1 displays staffing and expenditures for the department in the past, current, and budget years.

Table 1
Department of Insurance
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	
Regulation	365.9	387.9	391.8	\$18,440	\$21,692	\$23,494	8.3%
Fraud Control	16	19	19	882	953	982	3.0
Tax Audit	3	3	3	157	173	245	41.6
Administration	(77.8)	(85.7)	(85.7)	(4,905)	(4,059)	(5,152)	5.0
Totals	384.9	409.9	413.8	\$19,479	\$22,818	\$24,721	8.3%
Funding Source							
Insurance Fund				19,479	22,718	24,721	8.8
Financial Responsibility Penalty Account				—	100	—	-100.0

Table 2 displays changes proposed in the department's budget for 1985-86.

Table 2
Department of Insurance
Proposed 1986-87 Budget Changes
(dollars in thousands)

	Insurance Fund
1985-86 Expenditures (Revised)	\$22,818
Baseline adjustments, 1986-87	
1. 1985-86 salary and health benefit increase	1,019
2. Pro-rata adjustment	279
3. Price increase to offset inflation	87
4. Interest expense reduction	-200
5. Consulting services—external	-100
Program change proposals	
1. Add staff for implementation of year-round renewal	97
2. Conduct on-site expense rate examinations	112
3. Adjust facilities operation expense	460
4. Print additional consumer booklets	40
5. Adjust maintenance contract expense	65
6. Purchase new printing equipment	48
7. Increase travel per diem allotment	42
8. Delete administrative position	-46
1986-87 Expenditures (Proposed)	\$24,721
Changes from 1985-86	
Amount	\$1,903
Percent	8.3%

DEPARTMENT OF INSURANCE—Continued

Revenues deposited in the Insurance Fund are derived primarily from license fees and renewals and from insurance company examination fees. The insurance fund is expected to accrue revenues of \$26,935,000 in the current year, and \$26,024,000 in the budget year. This represents a decrease of \$911,000, or 3.4 percent. Even so, Insurance Fund reserves are expected to increase by \$1,303,000, or 15 percent—from \$8,781,000 in the current year to \$10,084,000 in the budget year. This increase is primarily attributable to implementation of year-round license renewal, as required by Chapter 770, Statutes of 1985. Year-round renewal will enable the department to collect revenues at an earlier date.

ANALYSIS AND RECOMMENDATIONS

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

- \$112,000 for on-site insurance rate examinations; and
- \$88,000 to print additional consumer information booklets and purchase new printing equipment.

We recommend a reduction of \$72,000 to correct for overbudgeted operating and temporary help expenses.

Our analysis indicates the department has overbudgeted for facilities operations, data processing and temporary help expenditures in the budget year.

Facilities Operations. The department is requesting \$408,000 to cover the cost of renewing its San Francisco office lease and expanding its floor space. The current lease expires on September 30, 1986. Specifically, the request includes: (1) \$240,000 to pay an increased rental rate; (2) \$133,000 for 4,710 square feet of additional floor space; and (3) \$35,000 for one-time alterations.

The amounts requested for the higher rental rate and the alterations appear to be justified. The Department of General Services indicates, however, that the additional floor space will cost \$102,000, rather than \$133,000 as requested by the department. Lacking justification for the difference, we recommend a reduction of \$31,000 to correct for overbudgeting.

Data Processing. The department states that it will terminate an \$8,000 contract for key data entry services at the end of the current year. Our analysis indicates, however, that the department has not reduced baseline expenditures by that amount. The department agrees this should be corrected. Accordingly, we recommend a reduction of \$8,000 in the amount requested for data processing.

Temporary Help. The department is requesting \$97,000 to convert temporary help positions to permanent staff to assist in the operation of the year-round license renewal process mandated by Ch 770/85. The department, however, has not reduced its temporary help blanket to reflect this conversion. Hence, we recommend a reduction of \$33,000 to correct for overbudgeted temporary help.

**Business, Transportation, and Housing Agency
DEPARTMENT OF REAL ESTATE**

Item 2320 from the Real Estate

Fund

Budget p. BTH 51

Requested 1986-87	\$22,255,000
Estimated 1985-86.....	20,669,000
Actual 1984-85	19,377,000
Requested increase \$1,586,000 (+7.7 percent)	
Total recommended reduction	152,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2320-001-317—Support	Real Estate	\$21,952,000
Reimbursements	—	303,000
Total		\$22,255,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. **Regulatory Program Staffing. Reduce Item 2320-001-317 by \$129,000 and five positions.** Recommend reduction because the department should fill vacant deputy commissioner positions before requesting new positions. 263
2. **Reimbursements. Reduce Item 2320-001-317 by \$223,000. Increase reimbursements by \$223,000.** Recommend reduction in appropriation to correct for underbudgeting of reimbursements from fingerprint fees. 264
3. **Technical Recommendation. Reduce Item 2320-001-317 by \$23,000.** Recommend reduction to correct for overbudgeting of personal services and operating expenses. 265

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for enforcing the Real Estate Law, and for protecting the public in connection with offerings of subdivided property, real property securities, and certain real estate transactions.

To carry out its responsibilities, the department administers four programs: (1) *licensing and education*, which conducts licensing examinations throughout the state and maintains ongoing real estate research projects and continuing education activities; (2) *regulatory and recovery*, which investigates violations of real estate law and may pursue formal proceedings and disciplinary action of licensees; (3) *subdivisions*, which administers the subdivision law and publishes annual public report filings with relevant information on subdivided property for sale; and (4) *administration*, which is the central management, administrative, and nontechnical support program of the department.

The department is headed by the Real Estate Commissioner. Its headquarters is in Sacramento, and it has district offices in San Francisco, Los Angeles, San Diego, Sacramento, Fresno, and Santa Ana. In the current year, the department is authorized 392 positions.

DEPARTMENT OF REAL ESTATE—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget requests \$21,952,000 from the Real Estate Fund for support of the department in 1986-87. This is \$1,586,000, or 7.8 percent, more than estimated expenditures from this source in the current year.

In addition, the department indicates that it will receive \$303,000 in reimbursements, primarily in the form of fingerprint fees paid by applicants. Thus, the budget proposes total expenditures of \$22,255,000 in 1986-87. This is \$1,586,000, or 7.7 percent, above estimated current-year expenditures.

Table 1 presents expenditure and staffing data for the department in the past, current and budget years.

Table 1
Department of Real Estate
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	
Licensing and Education	86.9	94.2	89.0	\$4,551	\$5,507	\$5,417	-1.6%
Regulatory and Recovery	170.9	177.4	177.0	9,927	9,958	11,366	14.1
Subdivision	92.6	92.4	90.1	4,899	5,204	5,472	5.2
Administration (distributed)	(57.3)	(56.3)	(54.3)	(3,510)	(3,980)	(4,108)	3.2
Totals	350.4	364.0	356.1	\$19,377	\$20,669	\$22,255	7.7%
<i>Funding Source</i>							
Real Estate Fund				\$18,928	\$20,366	\$21,952	7.8%
Reimbursements				449	303	303	—

Table 2 displays the changes proposed in the department's budget for 1986-87.

Table 2
Department of Real Estate
Proposed 1986-87 Budget Changes
(dollars in thousands)

	Real Estate Fund	Reim- bursements	All Funds
1985-86 Expenditures (Revised)	\$20,366	\$303	\$20,669
Baseline Adjustments, 1986-87:			
1. Adjust employee compensation	522	—	522
2. Delete limited-term positions—regulatory program	-99	—	-99
3. Adjust pro rata expense	-81	—	-81
4. Decrease operating expenses	-29	—	-29
5. Decrease salary savings	15	—	15
6. Delete funds for Chapter 716, Statutes of 1984	-183	—	-183
7. Increase personal services for new positions	13	—	13
Program Change Proposals:			
1. Add two positions—recovery program	54	—	54
2. Add five positions—regulatory program	129	—	129
3. Augment Recovery Fund	1,000	—	1,000

4. Upgrade minicomputer system	40	—	40
5. Add temporary help—exam proctors	76	—	76
6. Purchase optical character recognition devices	54	—	54
7. Add temporary help—course monitors.....	19	—	19
8. Delete two administrative positions.....	-54	—	-54
9. Increase printing allotment	110	—	110
1986-87 Expenditures (Proposed)	\$21,952	\$303	\$22,255
Change from 1985-86:			
Amount.....	\$1,586	—	\$1,586
Percent	7.8%	—	7.7

ANALYSIS AND RECOMMENDATIONS

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

- \$1,000,000 to augment the Recovery Account in order to pay judgments against licensees;
- \$110,000 to print increased numbers of real estate law and reference books;
- \$95,000 and 3.5 personnel-years for additional examination proctors and licensee education course monitors;
- \$54,000 for three optical character recognition devices for the department's Subdivisions Program; and
- \$54,000 and two positions to handle increased recovery account claims.

Complaint Investigation Workload

We recommend a reduction of \$129,000 and five positions because the department should fill 10 vacant deputy commissioner positions before requesting new positions. (Reduce Item 2320-001-317 by \$129,000.)

The department is requesting \$129,000 in the budget year to permanently establish five deputy real estate commissioner positions in its regulatory program. The Legislature approved these positions on a limited-term basis through 1985-86 and, at the same time, required the department to submit quarterly reports on its complaint handling backlog. In addition to the five limited-term positions, the department currently is authorized 100 permanent deputy positions.

The department's regulatory program is responsible for investigating complaints against real estate agents and brokers. The type of complaints investigated range from charges of dishonest dealing to negligence and misrepresentation. The program utilizes deputy real estate commissioners to (1) conduct its complaint investigations and (2) prepare and submit cases to counsel when findings justify further action, such as license suspension or revocation.

According to the department, additional deputies are needed on a permanent basis to handle all types of complaint investigations within four months. Moreover, the department indicates that the use of limited-term positions is inappropriate for the important responsibilities assigned to deputy real estate commissioners.

Our analysis indicates that making the five limited-term positions permanent is not warranted, for several reasons. *First*, as shown in Table 3, the number of complaint investigations opened involving real estate agents and brokers has consistently declined since 1982-83, and there is no basis for expecting this trend to reverse in 1986-87. In fact, it appears that the department should need fewer, rather than more, deputies to process

DEPARTMENT OF REAL ESTATE—Continued

its complaint investigations in the budget year. *Second*, program productivity has declined in recent years, even though the program staffing level has been increased.

Table 3 illustrates this decline in productivity by showing that the number of cases closed each year has diminished since 1982-83 even though staffing has been increased during the period.

Table 3
Department of Real Estate
Regulatory Program
Status of Complaint Investigations
1982-83 through 1985-86

		<i>Actual</i>		<i>Est.</i>
	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>
Beginning inventory	1,854	1,829	1,861	1,797
Cases opened	5,575	5,242	4,947	4,068
Cases Closed	5,600	5,210	5,011	4,370
Ending inventory	1,829	1,861	1,797	1,495
Staffing-personnel-years	147.5	139.4	150.5	156.5

Third, the department is expected to reduce the ending inventory of complaints in 1985-86, despite the fact that 10 *permanent* deputy positions have been vacant since July 1, 1985. The department should fill these positions first before any new permanent positions are added.

For these reasons, we recommend that the Legislature delete \$129,000 requested to make the five limited-term positions permanent in the budget year.

Reimbursements Underbudgeted

We recommend that the Legislature reduce the department's appropriation request by \$223,000 because reimbursements from fingerprint fees are underbudgeted. (Reduce Item 2320-001-317 and increase reimbursements by the same amount.)

The budget estimates that the department will receive \$303,000 in reimbursements during 1986-87. Of this amount, \$265,000 will result from the fees paid for fingerprinting license applicants. Fingerprint fees will be \$19.50 per print in the budget year.

Projected reimbursements from fingerprint fees in 1986-87 are \$123,000, or 32 percent, below the amount actually received in 1984-85. During that year, approximately 25,000 license applicants were fingerprinted at a charge of \$15.50 per print.

Our analysis indicates that reimbursements from fingerprint fees are underbudgeted in the budget year. The department estimates that approximately 25,000 agent and broker licenses will be issued in 1986-87. This would indicate that reimbursements from fingerprint fees should be \$488,000, rather than \$265,000. Thus, fingerprint reimbursements appear to be underbudgeted by \$223,000 in the budget year.

The principal consequence of underbudgeting reimbursements is to overstate the amount needed from the Real Estate Fund to support the various programs operated by the department. Consequently, we recommend a \$223,000 increase in reimbursements and a corresponding reduction in Item 2320-001-317.

Technical Recommendation

We recommend a reduction of \$23,000 to correct for overbudgeted personal services and operating expenses. (Reduce Item 2320-001-317 by \$23,000.)

Personal Services. Our analysis indicates the department has overbudgeted personal services by \$13,000 in the budget year. Specifically, the budget indicates that an increase of \$229,000 is needed to fund the new positions proposed for 1986-87. The department's supporting information, however, indicates that only \$216,000 is necessary to fund the positions. Accordingly, we recommend a reduction of \$13,000 to correct for overbudgeted personal services.

Operating Expense. The department is requesting \$40,000 to purchase an additional disc storage device for its computer system. The increased file storage capacity would enable the department to speed up the issuance of licenses by bringing its examination grading process in-house from the Teale Data Center.

Our analysis indicates that procurement of the additional disc storage device is justified. If however, the device is installed by January 1, 1987, it should cut the amount of data processing services purchased from the Teale Data Center by \$10,000.

**Business, Transportation and Housing Agency
DEPARTMENT OF SAVINGS AND LOAN**

Item 2340 from the Savings Association Special Regulatory Fund

Budget p. BTH 56

Requested 1986-87	\$8,859,000
Estimated 1985-86	6,395,000
Actual 1984-85	4,443,000
Requested increase \$2,464,000 (+38.5 percent)	
Total recommended reduction	637,000
Recommendation pending	1,676,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Application Approval Process Suspended. Recommend that during the budget hearings, the department advise the Legislature on when it will render decisions on pending applications for new savings and loan associations. 267
2. Regulatory Staff Increase. We withhold recommendation on \$1,676,000 and 45 positions requested to increase the department's regulatory staff, pending receipt of a formal staffing agreement between the department and federal authorities. 268
3. **Office Automation Project.** Reduce Item 2340-001-337 by \$637,000. Recommend reduction because the department has not justified full-scale implementation of the project. 268

DEPARTMENT OF SAVINGS AND LOAN—Continued

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for regulating the activities and practices of the state-licensed savings and loan associations in order to protect the public's interests.

Savings and loan associations doing business in California have the option of being regulated by either the state or federal government. As of December 31, 1985, there were 153 state-chartered savings and loan associations. These associations had total assets of \$110 billion. There also were 61 federally chartered savings and loan associations, with total assets of \$155 billion, doing business in California. Deposit insurance is provided to both state-chartered and federally chartered savings and loan associations by the Federal Savings and Loan Insurance Corporation (FSLIC).

The department is supported from the Savings Association Special Regulatory Fund, whose revenues are derived primarily from an annual assessment on the asset base of individual associations. The assessment rate levied against assets is set annually by the commissioner, in consultation with the savings and loan industry, at a level deemed sufficient to finance the department's operating costs and provide a reasonable reserve for contingencies.

The department is headed by the Commissioner of Savings and Loan. Its headquarters office is in Los Angeles. It also has a branch office in San Francisco. In the current year, the department is authorized 118 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$8,859,000 from the Savings Association Special Regulatory Fund for support of the department in 1986-87. This is \$2,464,000, or 38 percent, above estimated current-year expenditures.

Table 1 shows personnel-years and expenditures for the department in the past, current, and budget years.

Table 1
Department of Savings and Loan
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	
Examination	47.5	63.1	82.0	\$2,624	\$3,677	\$5,523	50.2%
Appraisal	7.0	15.6	17.2	465	951	1,264	32.9
Licensing	3.1	5.0	5.0	228	388	456	17.5
Administration	24.0	29.7	32.4	1,126	1,379	1,616	17.2
Totals	81.6	113.4	136.6	\$4,443	\$6,395	\$8,859	38.5%
Funding Source							
Savings Association Special Regulatory Fund				4,389	6,395	8,859	38.5%
Reimbursements				54	—	—	—

Table 2 displays the adjustments to the department's budget proposed for 1986-87.

Table 2
Department of Savings and Loan
Proposed 1986-87 Budget Changes
(dollars in thousands)

	<i>Savings Association Special Regulatory Fund</i>
1985-86 Expenditures Revised.....	\$6,395
Baseline adjustments 1986-87	
1. Increase salary and benefits	238
2. Workload Adjustments	-422
3. Increase operating expenses to adjust for price increases	47
4. Decrease salary savings	100
Program change proposals:	
1. Increase in-state travel allotment	76
2. Add leased space to Los Angeles office.....	112
3. Increase examination, appraisal, and clerical staff	1,676
4. Implement office automation system.....	637
1986-87 Expenditures (Proposed)	
Change from 1985-86:	
Amount	\$2,464
Percent	38.5%

ANALYSIS AND RECOMMENDATIONS

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

- \$76,000 for increased in-state travel; and
- \$112,000 for additional leased-space to be occupied by the department's Los Angeles office.

Application Approval Process Suspended

We recommend that during budget hearings, the department advise the Legislature on when it will render decisions on pending applications for new savings and loan associations.

The department is responsible for the review and approval of applications for charters submitted by new associations. This function is handled by the department's Facilities Licensing and Legal Assistance program. Proposed funding for this program in the budget year is \$456,000. This amount is \$68,000, or 17.5 percent, above anticipated current-year expenditures. The increase solely reflects baseline changes in the program, and would continue the five positions authorized for the program.

According to the department, a new savings and loan association must clear several "hurdles" prior to receiving a final certificate of authority to operate within the state. These requirements include (1) various state standards regarding minimum capitalization amounts, projected operating ratios and proposed investments; and (2) federal standards regarding the issuance of an association's deposit accounts. New associations must have state approval prior to submitting an application to the Federal Savings and Loan Insurance Corporation (FSLIC) for deposit insurance.

The department indicates that 147 associations within California are in the process of organizing. Of the total, 57 associations are awaiting state decision on their application. Fifty-one of these applications were filed

DEPARTMENT OF SAVINGS AND LOAN—Continued

during 1983–84, and the remaining six were filed during 1984–85. According to the department, work on these applications has been completed, but decisions on the applications have not been issued. The department has given us no clear explanation for its decision to suspend the application approval process for new saving and loan associations.

We recommend that the department advise the Legislature when it will render decisions on pending applications for new savings and loan associations.

Proposed Regulatory Staff Increase

We withhold recommendation on the proposed augmentations of \$1,676,000 and 45 examiner, appraisal and clerical positions, pending receipt of a formal staffing agreement between the state and federal authorities.

The department is requesting \$1,676,000 from the Savings Association Special Regulatory Fund in order to support 45 new positions for its regulatory program. This would increase the department's field examination and appraisal staff from 87 to 122 positions—an increase of 41 positions, or 40 percent, above the number authorized in the current year. The additional examiner positions include six positions made available in the current year contingent upon the development of workload. The department also is proposing to add four clerical positions.

The department states that its budget-year request is intended to accomplish two objectives: (1) accommodate an anticipated workload increase; and (2) comply with the terms of a revised memorandum of understanding (MOU) with the Federal Home Loan Bank Board (FHLBB). The department asserts that achieving the latter objective would assist in securing approval of deposit insurance for new associations, which has been stalled at the federal level. The memorandum sets forth the ratios of state-to-federal examiners and examiners-to-associations deemed appropriate for the examination and supervision of savings and loan associations.

The department indicates that the terms of the revised MOU continue to require a 50/50 ratio of state-to-federal for the joint examination of state-licensed savings and loan associations. The examiner-to-association ratio, however, would provide for 1 examiner to every 1.9 associations. This ratio is richer than the 1:2.4 ratio set forth in the current staffing agreement.

Staffing Agreement Not Yet Ratified. The department indicates that the revised MOU between state and federal officials has not yet been formally approved. Without a final agreement, the Legislature cannot be confident that approval of the department's proposed budget will provide a staffing level adequate to remove any federal roadblock in granting deposit insurance for new associations. Hence, we withhold recommendation on the proposed augmentations of \$1,676,000 and 45 examiner, appraiser, and clerical positions, pending receipt of a formalized staffing agreement with federal authorities.

Office Automation Project Has Not Been Justified

We recommend that the Legislature delete \$637,000 requested for an office automation system because the department has not sufficiently justified full-scale implementation of the project. (Reduce Item 2340-001-337 by \$637,000).

The department is requesting \$637,000 to start implementation of a new office automation system in the budget year. This represents 7 percent of the department's budget request for 1986-87. The department's system proposal is almost identical to a State Banking Department proposal for implementation of a new office automation project in 1986-87. (Please see our analysis of Item 2140 for further information the State Banking Department's budget request.)

Implementation of the system will span three fiscal years and cost an estimated \$1.1 million. Ongoing costs of \$163,000 annually are anticipated in order to operate and maintain the system. Table 3 provides a three-year schedule of the one-time and ongoing costs associated with implementation of the proposed system.

According to the department, the proposed system will greatly increase its capability to oversee and examine savings associations, particularly "problem associations" which should be monitored more frequently and to a greater extent. In addition, the department indicates that implementation of the system will shorten the time required to prepare and distribute examination reports.

Table 3
Department of Savings and Loan
Proposed Office Automation Project
Estimated 1986-87 and Ongoing Costs

Category of Cost	Project Costs by Year			
	1986-87	1987-88	1988-89	Ongoing
Personal Services ^a	\$100,000	\$105,000	\$110,250	\$110,250
Equipment Maintenance	37,000	37,000	37,000	37,000
Data Communication	5,000	5,300	5,600	5,600
Annual Purchase of Supplies	15,000	10,000	10,000	10,000
Purchase Hardware and Software	500,000	—	—	—
Site Preparation	30,000	—	—	—
Training	25,000	—	—	—
Data Conversion	25,000	—	—	—
Total Costs	\$737,000	\$157,300	\$162,850	\$162,850

^a The department proposes to redirect existing staff to implement the project. Hence, \$100,000 of personnel costs will be funded from the department's existing budget.

In-House Automated Office System Selected. The department indicates that it considered four alternative means to increase its oversight of savings and loan associations. Specifically, the alternatives the department considered were: (1) continuation of the current system without modification; (2) implementation of an automation system having one local computer which would support computing devices and printers in both its Los Angeles and San Francisco offices; (3) utilizing an integrated office automation system, known as "PROFS", which is available through the Teale Data Center; and (4) implementing an in-house integrated office automation system.

According to the department, the fourth alternative was selected because it would enable the department's four regional offices to function independently and interactively. This would be accomplished by having sophisticated word processing, computing and data base capabilities in each of its offices. The offices would be linked by dial-up modems using public access telephone lines. All department personnel eventually would be users of the system.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Analysis. In the 1985-86 Budget: Perspectives and Issues, we discussed how the Legislature could assure that proposed automation projects are soundly conceived and implemented. Specifically, we pointed out that, while no single approach will assure success of an automation project, success is more likely if:

1. The department undertaking the project has a strategic plan;
2. Departmental management is involved in the project;
3. Departmental users are involved in the project;
4. A rigorous feasibility study report (FSR) has been prepared and reviewed;
5. The department has adequate staff to carry out a project; and
6. A pilot project precedes full-scale implementation.

Applying these criteria to the department's proposed office automation system, we find that both management and users have been involved in the project and that a strategic plan has been prepared. We find, however, that (1) the department has not conducted a rigorous feasibility study report; (2) the department lacks adequate staff to carry out the project; and (3) a pilot project has not been done prior to full-scale implementation.

1. Feasibility Study Report. Although the Office of Information Technology has approved the department's feasibility study report, we find the FSR is not comprehensive and rigorous. Specifically, we find that the department has failed to include and document the costs and benefits of each alternative it considered. Hence, it is uncertain whether the department has selected the most cost-beneficial course of action.

2. Staffing. Successful implementation of an automated system requires both adequate staffing and a proper mix of experienced and skilled personnel. We find the department has neither. It has redirected three of its senior examiners familiar with savings and loan associations' EDP systems to oversee project implementation. But there are no other qualified electronic data processing personnel on its staff. We find this to be a serious deficiency, given that the system would completely alter the department's association examination reporting process.

3. Pilot Project. The department has failed to conduct a pilot project as a necessary first step in developing computing equipment requirements and other resource needs for the full-scale system.

Recommendation. We recognize that integrated office automation systems can greatly improve the department's information handling efficiencies. Based on our analysis, however, we find that full-scale implementation of the department's proposed office automation system has not been sufficiently justified to proceed in the budget year. Consequently, we recommend deletion of the \$637,000 requested for this project.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund

Budget p. BTH 59

Requested 1986-87	\$1,180,000
Estimated 1985-86.....	1,182,000
Actual 1984-85	1,002,000
Requested decrease \$2,000 (-0.2 percent)	
Total recommended reduction	66,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2600-001-042—Support	State Highway Account	\$125,000
2600-001-046—Support	Transportation Planning and Development Account	1,055,000
Total		\$1,180,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Commission's Effectiveness. Recommend legislation be enacted providing general guidelines for the commission to follow in preparing the annual Fund Estimate. Further recommend adoption of supplemental report language directing the commission to resolve issues on a more timely basis. 274
2. *Personal Services. Reduce Item 2600-001-046 by \$33,000.* Recommend reduction because amount needed for personal services is less than the amount requested. 274
3. *Consultant Services. Reduce Item 2600-001-046 by \$33,000.* Recommend reduction to reflect the need for these services in the past. 275
4. *Los Angeles Metro Rail.* Recommend the commission report to the Legislature by April 1 on the financial feasibility of the Metro Rail project and the commission's policies regarding state participation. 275

GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC) was created by Ch 1106/77 (AB 402) to replace the California Highway Commission, the California Toll Bridge Authority, the Aeronautics Board, and the State Transportation Board. The commission consists of nine part-time members, all appointed by the Governor. In addition, one member each from the State Senate and the State Assembly serve as ex officio members of the commission.

The commission's major responsibilities include (1) adopting a five-year State Transportation Improvement Program (STIP), (2) determining which transportation projects to fund from annual appropriations, (3) adopting and issuing one-year and five-year transportation revenue estimates for use by regional transportation planning agencies in developing regional transportation programs, (4) recommending to the Legislature funding priorities under the state's Mass Transportation program, (5) submitting to the Legislature an annual report on the policies and deci-

CALIFORNIA TRANSPORTATION COMMISSION—Continued

sions adopted by the commission, the major project allocations made in the previous year, and significant transportation issues, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues.

In the current year, the commission has 11 authorized staff positions, including an Executive Director appointed by the commission, 6 professional staff and 4 clerical positions.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$1,180,000 for support of the California Transportation Commission in 1986-87—\$125,000 from the State Highway Account and \$1,055,000 from the Transportation Planning and Development Account. The proposed budget is \$2,000, or less than 1 percent, lower than estimated expenditures in the current year.

Table 1 shows the commission's support level and funding sources from 1984-85 through 1986-87.

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

<i>Program</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Percent Change From 1985-86</i>
Administration.....	\$1,002	\$1,182	\$1,180	-0.2%
<i>Funding Source</i>				
State Highway Account	100	123	125	1.6
Transportation Planning and Development Account	902	1,059	1,055	-0.4
Personnel-years	10.6	11	11	—

The budget proposes to maintain staffing for the commission at the current-year level of 11 positions.

ANALYSIS AND RECOMMENDATIONS**I. Evaluation of the California Transportation Commission's Performance**

The commission's primary mission is to advise and assist the Legislature and the Secretary for Business, Transportation and Housing in formulating and evaluating state policies and plans for transportation programs in the state, in order to ensure a coherent state transportation program. This is to be accomplished through the adoption each year of a five-year State Transportation Improvement Program (STIP).

The commission conducts its business primarily through monthly public meetings, generally lasting for one day.

How Effective Is the Commission?

During the fall, we reviewed the commission's performance since it was established in 1977. Our principal findings, which are summarized below, indicate that it has not been as effective as it should be in carrying out its responsibilities and duties.

1. The Commission Performs More of an Executive, Than a Quasi-Legislative, Function. The commission was intended by the Legisla-

ture to perform a quasi-legislative function—preparing a transportation program, allocating funds among projects, mediating disagreements over priorities between local and state entities, setting transportation policies, evaluating the department's budget, and advising the Legislature on necessary action and transportation policies. Our review indicates, however, that the commission performs more of an executive/administrative role than a quasi-legislative role.

For instance, the commission does not appear to be an objective mediator when disputes over priorities arise between local entities and the state Department of Transportation. Instead, it often acts as the department's board of directors. Having the Director of Transportation sit at the dais during the monthly meetings also projects the image that the department is part of the decision-making body. This places local agencies at a disadvantage when they file appeals with the commission regarding specific projects and programs.

2. *The Commission Fails to Adopt a Realistic Fund Estimate.* As we have pointed out in past *Analyses*, the fund estimates adopted by the commission in recent years have been based on unrealistic assumptions. This results in delivery schedules that are unreasonably optimistic, and inflated expectations.

A good example of this problem occurred in August 1985, when the commission acted to defer projects from the 1985 STIP, which it *adopted* only two months earlier, because funds would not be available to finance these projects. The process of identifying projects to be deferred is disruptive at the state level, but even more so at the local level because project priorities have to be re-established.

Although the commission recognizes the upward bias in its estimating procedure, it has not acted to correct the problem.

3. *The Commission is Incapable of Making Timely Decisions.* Because members are part-time, and meet only one day a month, the commission often does not have time to discuss issues fully and consider all pertinent information. This frequently has made it necessary for the commission to defer decisions or actions for a month or more.

For instance, each year the commission is required to adopt a fund estimate by mid-November. The commission, however, did not do so in 1985. In fact, it only adopted *policies* for the fund estimate in mid-December. A set of projections were finally adopted in late-December. Subsequent to that, the commission revised its policy regarding the programming of certain federal funds in January. This, in turn, delays the timely planning and programming of transportation projects by the regional agencies, as well as by the department.

4. *Local Agencies Have Limited Opportunity to Influence Commission's Policies and Actions.* Current law provides local agencies with an opportunity to review and comment on both the Fund Estimate and the proposed STIP itself. Our review shows, however, that local agencies often do not receive the information they need to take advantage of this opportunity. For instance, information regarding the proposed Fund Estimate were not made available to local agencies and the public until immediately before the information was discussed at the commission's monthly meeting. This reflects inadequate planning on the commission's part.

In addition, the commission tends to prefer that local agencies speak "in one voice." Although this encourages local agencies to work toward a consensus, it neglects the diversity and inherent differences among regions.

CALIFORNIA TRANSPORTATION COMMISSION—Continued

5. *The Commission's Approach to Transportation Issues is Not Balanced.* As review of the agendas prepared for the commission's monthly meetings will show, the commission places undue emphasis on highway transportation capital projects. The time spent on other transportation modes is minimal. Similarly, *noncapital* outlay activities, such as highway maintenance and operations, appear to receive too little attention in the course of developing a balanced transportation program.

6. *The Commission is Not Performing its Budget Oversight Responsibility.* The commission is responsible for (a) independently evaluating the department's budget, and (b) reviewing and acting upon requests for fund transfers submitted by the department in order to accommodate unanticipated operational support needs. Our review indicates that the commission is not carrying out these responsibilities in a satisfactory manner. For example, the commission has approved requests for fund transfers submitted with little information or justification. Nor is it clear that the commission performs any independent evaluation of the adequacy of these funding needs. The commission has generally endorsed the department's budget request without recommending any changes in the funding of various activities, such as maintenance and operations.

Recommendation to Improve the Commission's Effectiveness

We recommend that the Legislature enact legislation providing general guidelines for the commission to use in preparing the annual Fund Estimate. We further recommend supplemental report language directing the commission to act on a more timely basis and to provide adequate opportunities for local involvement.

Our review shows that the AB 402 (STIP) process is, in general, a sound process for programming state transportation projects. In order for this process to achieve the goals established by the Legislature, however, the California Transportation Commission must improve its effectiveness.

In the *Perspectives and Issues*, which accompanies this *Analysis*, we discuss specific deficiencies in the STIP process, and recommend actions designed to improve the process. One such action would be for the Legislature to enact legislation providing clear guidelines for the commission to follow in preparing and adopting a fund estimate. (See *Perspectives and Issues*, Part III.)

In addition, in order to overcome some of the problems discussed above, we recommend that the Legislature adopt supplemental report language directing the commission to act on a more timely basis, and to provide greater opportunity for local involvement. This could be achieved by holding more frequent public meetings.

II. Budget Issues**Personal Services Overbudgeted**

We recommend a reduction of \$33,000 in the amount appropriated from the Transportation Planning and Development Account to correct for overbudgeting of personal services. (Reduce Item 2600-001-046 by \$33,000.)

The commission is requesting \$631,000 for personal services in 1986-87—an increase of 6 percent over estimated expenditures on personal services in the current year. Our review indicates that this amount is more than

the commission will need to support the 11 positions it is requesting. The budget assumes that the commission will fill positions that currently are vacant by hiring new staff *above* entry level. New staff, however, generally are budgeted for at the first step of the salary range. Accordingly, we find that total personal services expenditures in 1986-87 have been overestimated by \$33,000, and recommend that this amount be deleted from the budget.

Consultant Services Expenditures Should Be Justified

We recommend the reduction of \$33,000 from the Transportation Planning and Development Account for external consulting services, because the requested amount is not supported by past experience.

The commission contracts with the Department of Transportation, as well as with external consultants, for various studies on transportation issues. Table 2 shows the commission's expenditures for consulting and professional services since 1981-82.

Table 2
California Transportation Commission
External Consulting and Professional Services Expenditures
1981-82 through 1986-87
(dollars in thousands)

<i>Expenditures</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>Estimated 1985-86</i>	<i>Prop. 1986-87</i>
Authorized	\$226	\$245	\$217	\$234	\$200	\$188
Actual	91	238	63	179	117	
Unexpended Amount	\$135	\$7	\$154	\$55	\$83	
Percent	59.7%	2.9%	71.0%	23.5%	41.5%	

Table 2 shows that with the exception of 1982-83, the commission's expenditures on external consulting services during this period have been significantly lower than the amount budgeted. The expenditures have averaged \$137,000 during the past five years, or 61 percent of the average amount allocated.

For the budget year, the commission is requesting \$188,000 for external consulting services. The commission, however, could only identify expenditures totaling \$7,000 at the time this analysis was prepared. The commission contends that it needs the remaining \$181,000 in order to respond to unanticipated policy issues and legislative requests for information and studies.

We recognize that the commission needs a certain degree of flexibility. We believe, however, that the level of consultant expenditures in the past provides the best guide to how much the commission needs to achieve this flexibility. Consequently, we recommend that \$150,000 be approved for external consulting services in 1986-87, an amount that exceeds what the commission has spent for this purpose during the last two years combined.

Los Angeles Metro Rail Project

We recommend that the commission report to the Legislature by April 1 on the financial feasibility of the Los Angeles Metro Rail project and commission policies regarding state participation in the project.

The Los Angeles Metro Rail project, sponsored by the Southern California Rapid Transit District (SCRTD), was planned as an 18.6 mile, \$3.3 billion, subway running from Union Station in downtown Los Angeles to

CALIFORNIA TRANSPORTATION COMMISSION—Continued

a North Hollywood station in the San Fernando Valley. The project was intended to have 17 stations and serve the heavily congested Wilshire corridor.

In 1982, the commission committed \$400 million as the state's share of local matching funds necessary to secure federal funding for the Metro Rail project. In February 1984, the commission adopted a resolution setting forth the understandings, terms and conditions relating to the state's financial commitment. This included understandings relating to the project's:

- scope—18.6 miles, 18 stations.
- alignment—specified underground route, Union Station to North Hollywood.
- schedule—18.6 mile system operational in 1991.
- budget—\$3.3 billion.

In addition, the resolution stated the commission's policy that any costs in excess of the \$3.3 billion set forth in the district's financial plan would have to come from SCRTD—not the state. The maximum state commitment to the project was identified as \$361.2 million, not including \$45.2 million previously allocated.

Major Changes in Metro Rail Project. Since the commission adopted this resolution, there have been major developments affecting every one of the points outlined above. These developments have included:

- a decision by the Urban Mass Transportation Administration (UMTA) that federal resources were not adequate to fund the 8.8 mile minimum operable segment (MOS) initially identified by SCRTD in environmental documents, leading SCRTD to identify a 4 mile segment (MOS-1) for initial federal funding.
- opposition from UMTA to funding even MOS-1. This appears to have been overcome by Congressional action requiring UMTA to enter into such an agreement.
- Congressional action banning Metro Rail tunneling in areas designated by a Los Angeles city task force as potential risk areas following a methane gas explosion at a local clothing store. The task force concluded that the explosion resulted from accumulated methane gas which had seeped up into the store from underground natural gas pockets and, possibly, abandoned oil and gas wells. The Congressional ban affects several miles of the proposed system (beyond MOS-1) and will require either a rerouting of the project to an alignment outside the risk areas or an above-ground alignment through such areas.

In addition, the Legislature enacted Chapter 617, Statutes of 1984, requiring that construction begin on the San Fernando Valley segment of Metro Rail within one year following the commencement of construction on any portion of the project. Specifically, the statute requires that in any given year, the amount of funds spent on construction of the San Fernando Valley segment shall not be less than 15 percent of the nonfederal funds spent in the previous year to construct the Metro Rail project. This will mean that SCRTD will be required to start construction from the two ends of the line and work toward the middle.

Decisions Facing the Commission and the Legislature. The appropriations by the Legislature and the allocations by the commission to Metro Rail have assumed that the SCRTD could deliver the project as originally specified. It is now clear that substantial modifications to the

Metro Rail project will be necessary. Engineering and redesign costs, as well as project delays, necessitated by the realignment or rerouting of the proposed system are likely to increase the costs of the project by an unknown but sizeable amount. These changes will require the district to revise its estimates of the project's environmental impacts and cost effectiveness. Furthermore, the district has indicated that it may have to request increased state participation (beyond the \$400 million commitment) in the financing of Metro Rail.

In the face of these uncertainties regarding the project scope and costs, we think that the Legislature needs a clear statement of the CTC's current policies regarding Metro Rail. This statement should include a discussion of how changes in the project scope will affect these policies. Furthermore, the Legislature needs an assessment of the project's financial feasibility. Thus, we recommend that the commission report to the Legislature by April 1, on the financial feasibility of Metro Rail and the commission's policies relating to this project.

Business, Transportation and Housing Agency SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund

Budget p. BTH 61

Requested 1986-87	\$66,000,000
Estimated 1985-86	68,400,000
Actual 1984-85	78,630,000
Requested decrease \$2,400,000 (-3.5 percent)	
Total recommended reduction increase	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*
278

1. Technical Amendment. Delete appropriation of \$66 million and accompanying language in Item 2640-101-046 and adopt Budget Bill language appropriating to the program 60 percent of specified revenues deposited in the TP and D Account.

GENERAL PROGRAM STATEMENT

The Special Transportation Programs item consists of an appropriation to the Department of Transportation for the State Transportation Assistance (STA) program. This program provides capital and operating assistance to local transportation agencies for public mass transit systems and, in rural areas, for construction and maintenance of local streets and roads.

SPECIAL TRANSPORTATION PROGRAMS—Continued**OVERVIEW OF THE BUDGET REQUEST**

The department is requesting \$66 million for the STA program in 1986–87. This is \$2,400,000, or 3.5 percent, less than estimated current-year expenditures.

ANALYSIS AND RECOMMENDATIONS**Technical Amendment Needed to Reflect Current Law**

We recommend that the Legislature (1) amend Item 2640-101-046 to delete the specific appropriation and accompanying language for State Transportation Assistance and (2) adopt Budget Bill language appropriating to the program 60 percent of specified revenues deposited in the Transportation Planning and Development Account, as required by current law.

Existing law requires that 60 percent of the amount transferred to the Transportation Planning and Development (TP and D) Account from sales tax revenues and the General Fund be appropriated for the STA program. The budget estimates that these transfers will total \$110 million in 1986–87. Therefore, it requests the appropriation of 60 percent of this amount, or \$66 million for the STA program.

Our analysis indicates that the TP and D Account could receive more than \$110 million in transfers under current statutory formulas if economic conditions change. If this occurs, current law requires that an amount larger than what is proposed in the budget be appropriated for the STA program.

Therefore, we recommend that the Legislature delete the specific dollar amount of the appropriation and the accompanying language, and instead adopt the following Budget Bill language appropriating to the program 60 percent of the specified revenues to the Transportation Planning and Development Account, as required by existing law:

“For local assistance, Special Transportation Programs, there is hereby appropriated to the Department of Transportation from the Transportation Planning and Development Account in the State Transportation Fund, 60 percent of the revenues transferred into the Transportation Planning and Development Account in the State Transportation Fund pursuant to paragraphs (1) and (2) of subdivision (a) of Section 7102 of the Revenue and Taxation Code during the 1986–87 fiscal year for allocation in the 1986–87 fiscal year pursuant to Public Utilities Code Section 99312.”

Business, Transportation and Housing Agency
DEPARTMENT OF TRANSPORTATION—SUPPORT AND
CAPITAL OUTLAY

Items 2660 and 2660-301 from
various funds

Budget p. BTH 63

Requested 1986-87	\$2,960,653,000
Estimated 1985-86	2,843,024,000
Actual 1984-85	2,270,739,000
Requested increase \$117,629,000 (+4.1 percent)	
Total recommended reduction	186,329,000
Recommendation pending	106,932,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund "	Amount
2660-001-041—Aeronautics, support	Aeronautics Account	\$2,421,000
2660-001-042—Highway, support	State Highway Account	838,005,000
Mass Transportation, support		173,000
2660-001-045—Highway, support	Bicycle Lane Account	10,000
2660-001-046—Mass Transportation, support	Transportation Planning & Development Account	22,293,000
Transportation Planning, support		7,973,000
2660-001-047—Mass Transportation, support	Abandoned Railroad Account	57,000
2660-101-041—Aeronautics, local assistance	Aeronautics Account	200,000
2660-101-042—Highway—local assistance	State Highway Account	32,000,000
Mass Transportation—local assistance		31,920,000
2660-101-045—Highway, local assistance	Bicycle Lane Account	750,000
2660-101-046—Mass Transportation, local assistance	Transportation Planning & Development Account	20,700,000
Transportation Planning, local assistance		2,032,000
2660-301-042—Highway, capital outlay	State Highway Account	228,188,000
2660-301-046—Mass Transportation, capital outlay	Transportation Planning & Development Account	10,580,000
Total, Budget Act appropriations, State Funds		\$1,197,302,000
Prior Appropriations		
Toll Bridge Funds—Highway, support	Toll Bridge Funds	\$35,949,000
Statutory—Aeronautics, local assistance	General Fund	1,620,000
Statutory—Aeronautics, local assistance	Aeronautics Account	3,037,000
Statutory—Highways, support	General Fund	250,000
Statutory—Mass Transit, local assistance	General Fund	8,000,000
Statutory—Highways, capital outlay	General Fund	2,500,000
Budget Act of 1981—Highway, capital outlay	State Highway Account	400,000
Budget Act of 1982—Highway, capital outlay	State Highway Account	1,000,000
Budget Act of 1983—Highway, capital outlay	State Highway Account	2,000,000
Budget Act of 1984—Highway, capital outlay	State Highway Account	49,112,000
Budget Act of 1984—Mass Transit	Transportation Planning & Development Account	3,300,000
Budget Act of 1985—Highway, capital outlay	State Highway Account	90,171,000
Toll Bridge Funds—Highway, capital outlay	Toll Bridge Funds	22,263,000
Total, Prior appropriations, State Funds		\$219,602,000
Minus, Transfer to General Fund		8,000,000
Minus, Balance Available in Subsequent Years		115,435,000

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Minus, Unexpended Balance		36,135,000
Federal Funding ^b		
2660-001-890—Support	federal funds	(146,258,000)
2660-101-890—Local Assistance	federal funds	(278,034,000)
2660-301-890—Capital Outlay	federal funds	(980,078,000)
Reimbursements		298,949,000
Total, All Expenditures		\$2,960,653,000

^a All accounts are within the State Transportation Fund.

^b Net of prior appropriations, previous balances, and reversions.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Use of State Funds. Recommend that prior to budget hearings, the department and the California Transportation Commission advise the fiscal committees (1) how funding priorities for state-funded projects will be determined, and (2) how the use of \$200 million for these projects would affect the highway capital outlay program. 296
2. **Highway Capital Outlay. Reduce Item 2660-301-042 by \$18,900,000 and Item 2660-301-890 by \$146 million.** Recommend reduction because the amount requested is not realistic and exceeds the amount which is needed for projects, given available funds. 297
3. Capital Outlay Support. Recommend that prior to budget hearings, the department submit to the fiscal committees information on how it plans to complete project development work on all STIP projects given the amount of staff requested for 1986-87. 297
4. **Highway Design Manuals. Reduce Item 2660-001-042 by \$18,000.** Recommend reduction because the need for highway manuals is overstated. 299
5. Highway Contracting. Recommend the adoption of Budget Bill language directing the department to report by December 15, 1986 on the effectiveness of contracting for highway maintenance work. Further recommend adoption of supplemental report language directing the department to provide a plan for contracting. 299
6. Maintenance Management System. Recommend adoption of supplemental report language directing the department to compile data on maintenance work performed under contracts. 301
7. **Waste Site Investigation. Reduce Item 2660-001-042 by \$3 million.** Recommend reduction because proposed augmentation has not been justified. Further recommend adoption of supplemental report language directing the department to develop a workplan and criteria for ranking waste sites warranting investigation and cleanup. 301
8. **Sign Repair and Replacement. Reduce Item 2660-001-042 by \$510,000.** Recommend reduction because the department has failed to demonstrate that it can contract out for these services successfully. Further recommend that 303

prior to budget hearings, the department report to the fiscal committees on the amount of staff needed to reduce the repair and replacement backlog.

9. **Maintenance Inventory. Reduce Item 2660-001-042 by \$1,320,000.** Recommend reduction because work to be performed by contract has not been specified, and work would more appropriately be accommodated by additional departmental staff. 303
10. **Cash Overtime. Reduce Item 2660-001-042 by \$146,000.** Recommend reduction to correct for overbudgeting. 305
11. **Staff for Permit Issuance.** Recommend that prior to budget hearings, the department advise the fiscal committees on how it intends to staff its permits issuance function. 305
12. **Overtime for Maintenance. Reduce Item 2660-001-042 by \$1,678,000.** Recommend reduction because request for additional cash overtime is not justified. We further withhold recommendation on \$1,459,000 requested for contracted mowing. 306
13. **Preventive Maintenance. Reduce Item 2660-001-042 by \$2,496,000.** Recommend reduction because the department has failed to account for cost savings from increased preventive maintenance. 307
14. **Low Volume Roads. Reduce Item 2660-001-042 by \$3,500,000.** Recommend reduction because amount needed for low volume road maintenance has been overestimated. 307
15. **Scale and Inspection Facilities. Reduce Item 2660-001-042 by \$505,000.** Recommend reduction because department will not need to perform work which it proposes to contract out. 308
16. **Fleet Equipment. Reduce Item 2660-001-042 by \$1,942,000.** Recommend reduction because additional vehicles will not be needed. 308
17. **Nonexpendable Equipment. Reduce Item 2660-001-042 by \$80,000.** Recommend reduction because graphics workstation is not needed. 309
18. **San Diego Rail Improvement. Reduce Item 2660-301-046 by \$5,290,000 and increase reimbursement by \$5,290,000.** Recommend reduction in state funding and increase reimbursements for intercity rail capital improvements to conform with the California Transportation Commission's policy on project funding. Further recommend adoption of Budget Bill language requiring that funds for the San Diego intercity rail project not be allocated until specified agreements have been negotiated. 312
19. **Peninsula Commuter Service.** Withhold recommendation on \$33,632,000 in federal funds and \$15,170,000 in reimbursements for capital improvements to the Peninsula Commuter Service, pending adoption of transit capital improvement project priority list by the California Transportation Commission. 313
20. **Transit Capital Funding.** Withhold recommendation on \$20,700,000 (Item 2660-101-046) requested for the Transit Capital Improvement program and \$31,920,000 (Item 2660-101-042) requested for the Mass Transit Guideways (Arti- 314

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

- cle XIX) program pending receipt of the California Transportation Commission's recommended funding level.
21. **Station Improvement. Reduce Item 2660-301-890 by \$3,042,000 and reduce reimbursements by \$1,014,000.** 314
Recommend reduction because funds requested for station improvement are provided for in the current year.
 22. **Community Outreach. Reduce Item 2660-001-046 by \$85,000.** 314
Recommend reduction because funds for community outreach are double-budgeted.
 23. **Loans for Transit Cars.** 315
Withhold recommendation on \$3,700,000 in Item 2660-001-046 requested to repay local agencies for loans to purchase transit cars, pending action by the California Transportation Commission.
 24. **Station Maintenance and Utilities.** 315
Withhold recommendation on \$175,000 in state funds and \$176,000 in reimbursements (Item 2660-001-046) requested for increased station maintenance, pending receipt of further information from the department.
 25. **Computer Services Staff. Reduce Item 2660-001-042 by \$41,000.** 316
Recommend reduction because it should not cost the department more for staff hired directly than it costs for staff contracted from another state agency.
 26. **Automation Project. Reduce Item 2660-001-042 by \$2,052,000.** 316
Recommend reduction because the request to implement an accounting automation project is premature.
 27. **Joint Development of State Properties.** 317
Recommend that the Legislature enact legislation to provide the department and the California Transportation Commission with guidelines for leasing state-owned properties for commercial development.
 28. **Reversion. Revert \$18.7 million from Item 2660-301-042 of the 1985 Budget Act and \$212 million from Item 2660-301-890 of the Budget Act of 1985.** 319
(Item 2660-495). Recommend reversions because the capital outlay program for the current year has been reduced significantly.
 29. **Local Streets and Roads.** 319
Delete transfer of \$125 million from federal funds to the State Highway Account. (Item 2660-102-890.) Recommend deletion because funds may not be available for transfer.

GENERAL PROGRAM STATEMENT

The Department of Transportation is responsible for planning, coordinating and implementing the development and operation of the state's transportation system.

The department's responsibilities are divided among five programs. Three programs—*Highway Transportation*, *Mass Transportation* and *Aeronautics*—concentrate on specific transportation modes. *Transportation Planning* seeks to improve the planning for all travel modes. The fifth program, *Administration*, encompasses management of the department. Expenditures for this program are prorated among the four operating programs.

The department is authorized 14,965.1 personnel-years in the current year to perform its activities.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditure of \$2,960,653,000 by the Department of Transportation in 1986-87. This is \$117,629,000, or 4.1 percent, more than estimated current-year expenditures. Table 1 displays the expenditure and staffing levels for the department, by program, from 1984-85 through 1986-87.

Table 1
Department of Transportation
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	
Aeronautics	19.6	31.3	31.3	\$6,849	\$6,213	\$6,254	0.7%
Highway Transportation.....	14,110.6	13,114.7	13,081.1	2,112,341	2,583,837	2,755,780	0.7
Mass Transportation	225.1	206.4	202.5	136,500	232,066	177,445	-23.5
Transportation Planning	123.2	137.2	134.4	20,049	20,908	21,174	1.3
Administration (distributed) ^a	1,561.0	1,475.5	1,465.5	(111,881)	(102,980)	(115,666)	12.3
Totals.....	16,039.5	14,965.1	14,914.8	\$2,275,739	\$2,843,024	\$2,960,653	4.1%
Funding Source							
State Funds.....						\$1,257,334	—
Federal Funds						1,404,370	—
Reimbursements						298,949	—

^a Expenditures are distributed to other programs.

The expenditures proposed for the budget year will be financed with both state and federal funds, as well as with reimbursements.

State funds. The budget proposes total expenditures of \$1,257,334,000 from state funds for Department of Transportation programs and activities in 1986-87. This is \$11,878,000, or approximately 1 percent, above estimated expenditures in the current year. Of the total state funds proposed for expenditure, \$1,196,607,000 would be appropriated in the 1986 Budget Bill, and \$60,727,000 would be funded from prior appropriations.

Federal funds. The department proposes to spend \$1,404,370,000 in federal funds during 1986-87, including \$980,078,000 for capital outlay and \$424,292,000 for support and local assistance. The total is \$58,309,000, or 4.3 percent, over estimated expenditures from federal funds in the current year.

Reimbursements. The department's total proposed expenditures include \$298,949,000 financed with reimbursements from other agencies or individuals, an increase of more than 20 percent over current-year estimated expenditures from reimbursements.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued**Staffing**

In 1986–87, the administration once again proposes to *decrease* staffing for the department. The number of personnel-years would drop from 14,965.1 in the current year to 14,914.8, a decrease of 50.3 personnel-years, or 0.3 percent. This reduction reflects (1) a reduction of 50.4 personnel-years in managerial and supervisory staff from various program activities, (2) an increase of 4.0 personnel-years for computer operations (currently, the services of these persons are provided through a contract with the Teale Data Center), and (3) a reduction of 3.9 personnel-years for various mass transportation program activities.

Significant Program Changes

Table 2 compares the department's proposed expenditures from various funding sources in 1986–87 with expenditures in the current year. The budget proposes significant changes in the department's activities. Funding for Highway Transportation would increase by \$172.1 million. In contrast, funding for the Mass Transportation Program would be reduced by \$54.6 million.

Highway Transportation. Support of this program is proposed to increase by \$63.5 million. After adjusting for various one-time expenditures in the current year, this increase is primarily the result of a major expansion of the highway maintenance activities amounting to over \$33.3 million proposed for the budget year. The amount includes (1) \$20 million for preventive road maintenance, (2) \$3.5 million for maintenance of roads with low traffic volume, (3) \$3.8 million for maintenance of additional inventory of pavement and other facilities, and (4) \$4.1 million for cash payment of additional overtime maintenance activities.

The budget also requests \$5 million to fund contracts providing for inspection and investigation of hazardous waste sites in the highway right-of-way, and \$1.3 million for participation in the federal "Crescent Demonstration Project" to track truck traffic in six western states.

To facilitate various departmental activities, the budget also requests \$18.9 million for the continued expansion of computer use. This amount includes \$8.4 million to implement the next phase of the computer-aided design and drafting system, and \$10.5 million for various equipment. Data processing expenditures and various technical services are also proposed to be increased by about \$8 million.

Other proposed changes in support expenditures include (1) a reduction in managerial and supervisory staff of about \$2 million, (2) an increase of \$1 million to comply with the Fair Labor Standards Act, and (3) an addition of \$2.5 million for tort liability payments.

In addition, the budget proposes to increase local assistance for highway transportation by \$14.3 million, and capital outlay funding by \$94 million.

Mass Transportation. The department is proposing a reduction of \$3,056,000 in funding for state operations. After adjustments for one-time costs of \$5,946,000 in the current year, this includes an increase of \$3,700,000 to repay loans made by local agencies in the current year to purchase additional rail cars for the Peninsula Commuter Service, a reduction of \$1,017,000 in other Peninsula Commuter Service support costs, an increase of \$200,000 for rail marketing, an increase of \$158,000 for increased audit activities, and a net reduction of \$151,000 and 3.9 personnel-years.

Table 2
Department of Transportation
Proposed 1986-87 Budget Changes
(dollars in thousands)

	<i>Aero- nautics Account</i>	<i>State High- way Account</i>	<i>Transportation Planning & Development Account</i>	<i>Federal Funds</i>	<i>Reim- bursements</i>	<i>Other Funds</i>	<i>Total</i>
1985-86 Expenditures							
(Revised)	\$5,495	\$1,089,288	\$53,038	\$1,339,514	\$248,128	\$70,670	\$2,806,133
1. Cost Changes	124	28,739	1,016	6,547	605	6	37,037
2. Workload and Program Changes							
A. Aeronautics							
(1) State Operations	342	—	—	2	—	—	344
(2) Local Assistance	-303	—	—	—	—	—	-303
Subtotals	39	—	—	2	—	—	41
B. Highways							
(1) State Operations	—	54,652	—	7,647	244	975	63,518
(2) Local Assistance	—	1,000	—	13,200	—	130	14,330
(3) Capital Outlay	—	45,059	—	18,731	39,154	-8,995	93,949
Subtotals	—	101,061	—	39,578	39,398	-7,890	172,147
C. Mass Transportation							
(1) State Operations	—	11	-604	-1,265	-1,155	-43	-3,056
(2) Local Assistance	—	-92,970	-8,655	-2,000	-860	8,000	-96,485
(3) Capital Outlay	—	—	10,580	21,918	12,846	-424	44,920
Subtotals	—	-92,959	1,321	18,653	10,831	7,533	-54,621
D. Transportation Planning							
(1) State Operations	—	—	203	76	-13	—	266
(2) Local Assistance	—	—	—	—	—	—	—
Subtotals	—	—	203	76	-13	—	266
Total Proposed Workload and Program Changes	\$39	\$7,752	\$1,524	\$58,309	\$50,216	-\$357	\$117,483
1986-87 Expenditures							
(Proposed)	\$5,658	\$1,125,779	\$55,578	\$1,404,370	\$298,949	\$70,319	\$2,960,653
Change from 1985-86 Authorized Expenditures:							
Amount	163	36,491	2,540	64,856	50,821	-351	154,520
Percent	3.0%	3.4%	4.8%	4.8%	20.5%	-0.5%	5.5%

The budget reflects a reduction of \$96,485,000 in local assistance. This includes an adjustment of \$3,010,000 in one-time current-year expenditures for rail freight improvements and study of the San Diego to Los Angeles rail corridor. It also adjusts for allocations of \$146,095,000 in current-year local assistance funding under the Transit Capital Improvements and Article XIX Transit Guideway programs. After making these adjustments, the budget includes \$20,700,000 and \$31,920,000, respectively, under the Transit Capital Improvements and Article XIX programs.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

The department proposes to increase capital outlay expenditures by \$44,920,000 in the budget year. After adjusting for one-time capital expenditures in the current year of \$14,462,000, this includes \$10,580,000 in state funds for track and grade crossing improvements on the San Diegan rail service operating between San Diego and Los Angeles, and \$48,802,000 for improvements to the San Francisco Peninsula Commuter Rail Service.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following requests which are not discussed elsewhere in this analysis.

- The Aeronautics (\$6,254,000) and Transportation Planning (\$21,174,000) programs;
- \$2.5 million for increased tort liability payments;
- \$8.4 million to continue the expansion of the computer-aided drafting and design system;
- A \$2.7 million reduction to reflect cuts in managerial and supervisory staff;
- \$2.2 million for direct leasing and maintenance of computer systems;
- \$1.3 million for a "Crescent Demonstration Project" on truck traffic;
- \$2.6 million to continue installation of a telecommunications system.

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The State Transportation Improvement Program (STIP) is the basic plan for all state and federally funded transportation improvements in California. The STIP is required by Chapter 1106, Statutes of 1977, which specifies that the California Transportation Commission (CTC) shall adopt and submit a five-year transportation plan to the Legislature and the Governor by July 1 of each year.

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

In the *1986-87 Budget: Perspectives and Issues* (Part III), we point out that the STIP process has serious deficiencies and make recommendations for improving the effectiveness of that process.

Role of the Legislature

Through the Budget Act, the Legislature establishes maximum expenditure levels for the various components of the state's transportation program. The Budget Act also authorizes the department to transfer funds between programs if the CTC and the Department of Finance approve, provided that any decrease in authorized expenditures within a program element (such as Rehabilitation or Maintenance) does not exceed 10 percent.

Chapter 1106 prohibits the Legislature from identifying in the Budget Act specific capital outlay projects to be funded.

STIP Implementation

After the STIP is adopted by the commission, the department is responsible for implementing the STIP, consistent with (1) the allocations made to individual projects by the commission and (2) the funds appropriated in the Budget Act. Because many years are required to plan and fully implement most capital outlay projects, the department must accomplish during any one year planning and design work for improvements which are scheduled for succeeding years of the five-year STIP period or even beyond the STIP years.

1986 Fund Estimate

The California Transportation Commission adopted *policies* for the 1986 Fund Estimate (but not an estimate itself) in mid-December 1985. These policies provide guidelines for the department to use in making the final projections for the 1986 STIP.

The commission finally adopted a set of projections in late December. These projections encompass (1) the resources projected to be available for transportation activities, (2) projected levels of support and local assistance expenditures, (3) commitments for capital outlay expenditures made in previous STIPs, and (4) any remaining resources available for programming and funding additional projects.

Table 3 summarizes the resources and expenditures for the three largest transportation fund sources—the State Highway Account, the Transportation Planning and Development Account (TP and D), and federal highway funds—projected in the 1986 Fund Estimate for 1986–87 through 1990–91.

Table 3
Fund Estimate for the 1986 STIP
1986–87 through 1990–91
(dollars in millions)

	Total		Expenditures				Balance
	Carry-Over Balance	Revenues and Transfers	Total Resources	Support and Local Assistance	Capital Outlay	Total	
State Highway Account	\$462	\$5,163	\$5,625	\$4,913	\$1,008 ^a	\$5,921	—\$296
Federal highway funds	—	6,208	6,208	1,737	4,592	6,329	—121
TP and D Account	8	586	594	499	37	536	58
Totals	\$470	\$11,957	\$12,427	\$7,149	\$5,637	\$12,786	—\$359

^aIncludes \$544 million to match federal funds.

State Highway Account. The commission has adopted an estimate of State Highway Account receipts (revenues and transfers) totaling \$5,163 million for the five-year period. This amount is in addition to the \$462 million that is expected to be available in the account by the end of 1985–86. The account's primary revenue source—the motor vehicle fuel tax—is expected to yield \$3,020 million over the five-year period. Other revenues anticipated by the Fund Estimate include \$1,478 million in truck weight fees and \$650 million from interest and miscellaneous incomes.

Expenditures from the account are projected at \$5,921 million for the five-year period, including \$4,913 million for support and local assistance, and \$1,008 million for capital outlay (of which \$544 million would be used

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

to match federal funds).

For the five-year period, therefore, revenues and transfers are expected to fall short of expenditures by \$758 million. Part of this deficit would be funded using the \$462 million unexpended balance in the account on June 30, 1986. Thus, the Fund Estimate projects a cumulative shortfall in the State Highway Account of \$296 million for this period, with the shortfall first expected to materialize in mid 1989–90.

Transportation Planning and Development Account. As indicated in Table 3, the Fund Estimate projects account receipts of \$586 million and total expenditures of \$536 million during the period from 1986–87 through 1990–91. Over 93 percent of the expenditures projected from the account are for state transit assistance, departmental support, and rail operating subsidies. Only \$37 million are projected to be available for capital outlay. In fact, the Fund Estimate shows capital outlay expenditure commitments declining from approximately \$20 million in 1986–87 to \$2.2 million in 1989–90, and it projects *no* capital outlay expenditures in 1990–91. Including an approximately \$8 million balance from previous years, this leaves \$58 million available in the account for programming at a later date.

Federal Highway Funds. The amount of federal funds available to California are projected to total \$6,208 million for the five-year STIP period. This estimate is based on the *assumption* that California will receive its full apportionment of federal money, *plus* other allocations. The total includes \$1,864 million for interstate completion, \$1,603 million for interstate rehabilitation, restoration, resurfacing and reconstruction (4R), \$944 million of the primary system, \$500 million for the urban system, and \$739 million for bridge replacement, secondary system, and other categories of assistance. In addition, \$558 million is included as the allocation to bring the state's share of federal apportionments up to 85 percent of the state's percentage contribution to the Highway Trust Fund.

The Fund Estimate projects that there will not be sufficient federal funding to cover \$1,737 million in support and local assistance expenditures, and to fund \$4,592 million of capital outlay projects already committed in previous STIPs. Unless the federal government allows the state to spend more than its future apportionments, and draw down past apportionments currently estimated at approximately \$700 million—which have accumulated due to past obligational limits being less than apportionment levels, there would be a shortfall of \$121 million in federal funds.

Review of the 1986 Fund Estimate

Our review of the Fund Estimate focuses on two issues: (1) are the revenue projections reasonable? and (2) are there other expenditure proposals which would affect the condition of the state's transportation fund?

State Highway Account Could Incur a Deficit in 1986–87

We find that the State Highway Account could incur a deficit during the five-year STIP period of between \$403 million and \$794 million, as shown in Table 4. Moreover, under certain conditions, *the account could run a deficit of \$104 million in 1986–87.*

Revenues Appear Reasonable. Our review leads us to conclude that the projections made for most of the account's revenue sources are reasonable, with the following exceptions:

1. **Beginning Account Balance is Too High.** The budget estimates that at the end of 1985-86, the State Highway Account would have a balance of \$393.1 million. This is \$69 million lower than the balance assumed in the Fund Estimate.

2. **Truck Weight Fee Revenues Are Too Low.** Based on past rates of increase in the number of truck vehicles (approximately 4 percent annually during the last four years), we estimate that truck weight fee revenues will be higher than projected, and could add \$100 million to the account during the five years.

3. **Interest Income Will be Lower.** To the extent the expenditures discussed below occur, the department projects that the interest revenues shown will be \$90 million less than what is shown.

Taking these three factors together, the net result would be approximately \$60 million less for the State Highway Account over the five-year period.

Expenditures Are Understated. The 1986 Fund Estimate does not reflect several major expenditures proposed in the 1986-87 budget. These expenditures would adversely affect the condition of the State Highway Account, to the point where the account could incur a deficit by the end of 1986-87.

1. **Transfer to the Motor Vehicle Account.** The Governor proposes to transfer \$65.7 million from the State Highway Account to the Motor Vehicle Account, in order to cover a deficit in the Motor Vehicle Account of approximately \$48 million in 1986-87. This transfer would increase the cumulative shortfall projected for the State Highway Account, and cause it to materialize in 1988-89, rather than in 1989-90. As we discuss in the analysis of the budget proposed for the Department of Motor Vehicles, this transfer only serves to paper over the structural imbalance between expenditures and revenues to the Motor Vehicle Account.

2. **State Funds Used to Backfill Federal Funds.** As we discuss in a following section, the budget shows \$200 million being set aside in 1986-87 for "state-supported highway projects." These funds would be used to (1) contract for engineering and design work, and (2) backfill for any shortfall in federal funds relative to the full apportionment level. Our review shows that if this amount is expended in 1986-87, the State Highway Account will face a shortfall of about \$100 million in 1987-88.

3. **Loan for Local Streets and Roads.** The budget also proposes to loan up to \$125 million from the State Highway Account to support the construction and improvement of local streets and roads in California (Item 9675-101-042). This loan would provide the funds appropriated in the 1985 Budget Act from federal "8(g)" receipts (Section 8(g) of the Outer Continental Shelf Lands Act). If federal funds are received pursuant to Section 8(g) in 1985-86 and 1986-87, the budget proposes to transfer these funds (up to the amount loaned) to the State Highway Account (Item 9675-495 and Item 2660-102-890).

If these federal funds are not received in 1986-87, the \$125 million loan would put the State Highway Account in the red during 1986-87.

Table 4 shows the effect on the condition of the State Highway Account that these proposed expenditures would have. It shows that, if the budget is adopted and the \$125 million loan is not repaid within the year, the State Highway Account would incur a deficit of \$104 million in 1986-87.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

Table 4
Condition of State Highway Account
As Projected by 1986 Fund Estimate,
Adjusted To Reflect the Proposed 1986-87 Budget
1986-87 through 1990-91
(dollars in millions)

	1986-87	1987-88	1988-89	1989-90	1990-91
Fund Estimate year-end balance	\$394.0	\$240.7	\$141.2	-\$104.7	-\$295.9
Budget adjustment for 1986-87					
Lower 1985-86 year-end balance	-69.0	—	—	—	—
Higher department expenditures	-38.3	—	—	—	—
Adjusted year-end balance	\$286.7	\$133.4	\$33.9	-\$212.0	-\$403.2
Additional adjustments					
Transfer to MVA	-65.7	—	—	—	—
	\$221.0	\$67.7	-\$31.8	-\$277.7	-\$468.9
State-supported projects	-200.0	—	—	—	—
	\$21.0	-\$132.3	-\$231.8	-\$477.7	-\$668.9
Loans to local governments	-125.0	—	—	—	—
Final Balance	-\$104.0	-\$257.3	-\$356.8	-\$602.5	-\$793.9

Federal Highway Funds Overstated

Our review shows that the projection of federal funds in the Fund Estimate, including funds apportioned by formula as well as discretionary allocations, are very optimistic and unlikely to come true. Depending on actions by the President and Congress, the federal funds shown in the 1986 Fund Estimate could be overstated by more than \$200 million in 1986-87, and by more than \$1 billion for the five-year period. The reasons for this are as follows:

1. *"Obligational Authority" Will be Significantly Lower than the State's "Apportionment"*. The Fund Estimate projects \$5,171.2 million in total apportionments during the five-year period. Based on what is happening in the current year, however, the amount available for obligation (federal obligational authority) almost certainly will be significantly lower. For Federal Fiscal Year (FFY) 1986, obligations are limited to approximately 82 percent of the apportionment level. The ceiling could be lowered to 78 percent as a result of the Gramm-Rudman-Hollings Balanced Budget Amendment. If obligational authority is set at 80 percent of the apportionment throughout the five-year STIP period, the state would receive about \$1 billion less in expenditure authority.

2. *Extension of the 85 Percent Minimum Allocation is Uncertain*. The Fund Estimate also assumes that California will be allocated a total of \$558 million during the STIP period, (approximately \$100 million per year), as a result of the existing 85 percent minimum allocation provision. This provision, however, expired in October 1985, and it is highly uncertain whether it will be retained in the new 1986 transportation assistance authorization act.

3. *The Availability of Interstate Funds Beyond 1990 is Unknown*. Under current law, the interstate completion program is due to expire in 1990. Interstate funds are available for obligation a year in advance and are programmed accordingly in the STIP. The Fund Estimate therefore includes two years of interstate funding (1989-90 and 1990-91), totaling \$704 million, which may not be available.

As we point out in *The 1986-87 Budget: Perspectives and Issues* that accompanies this *Analysis*, this overly optimistic projection of federal funds causes the amount of capital outlay to be overprogrammed.

Transportation Planning and Development (TP and D) Account

Our review indicates that total resources available to the TP and D Account during the STIP period may be *understated* in the Fund Estimate by about \$7 million. If, however, the Legislature approves the department's proposal to spend \$10.6 million on intercity rail capital improvements, it would reduce the resources available for transit capital improvements (TCI) programming by the commission.

1. **Spillover Revenues Too Low.** The Fund Estimate shows the amount of retail sales tax revenues transferred to the account under the "spillover" formula to be \$65.3 million less during the first three years of the 1986 STIP period (1986-87 through 1988-89) than what the Department of Finance (DOF) projects. Under current law, however, the increased spillover would be partially offset by reduced transfers from other sources totaling \$56.5 million during this period, so that *net* revenues to the account would be only \$8.8 million above the STIP Fund Estimate if the DOF assumptions hold.

2. **Diesel Fuel Sales and Use Tax Revenues Overestimates.** The Fund Estimate's methodology *overestimates* the amount of diesel fuel sales tax revenue transferred to the account by \$64.6 million, because it fails to net out state and federal excise taxes in calculating taxable diesel fuel sales. On the other hand, the methodology *underestimates* the transfer of diesel fuel sales tax revenue in 1989-90 and 1990-91 by \$60 million, due to a misapplication of the "spillover" formula. The net effect is to *overestimate* revenues to the account by about \$4.6 million during the STIP period.

3. **The Budget Estimates a Higher Balance at the End of 1985-86.** The estimate of account balance available during the STIP period contained in the Fund Estimate is about \$2.8 million too low, based upon the estimate of 1985-86 retail sales tax revenues contained in the 1986-87 budget.

4. **Intercity Rail Capital Expenditures Not Reflected.** The Fund Estimate does not include \$10.6 million in capital expenditures on the San Diegan Intercity Rail Service proposed by the administration. If approved by the Legislature, these expenditures will reduce TP and D Account resources available for programming under the TCI program by \$10.6 million during the STIP period.

Lump-Sum Appropriations for Most Capital Outlay Expenditures

The Legislature has delegated to the CTC the authority to allocate funds to specific highway and transit capital outlay projects and transit services. Consequently, the department's budget requests lump-sum appropriations within specific categories such as New Facilities, Transit Capital Assistance and Bus and Rail Services, and the Legislature appropriates funds within these categories. The CTC then allocates the lump-sum amount to specific eligible projects. Table 5 indicates the lump-sum amounts requested by the department for 1986-87.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

Table 5
Requested Capital Outlay Appropriation
for Allocation by the CTC
1986-87
(dollars in thousands)

	State Funds	Federal Funds
Highway Transportation.....	\$228,188	\$1,032,054
Mass Transportation	10,580	33,632
Total.....	\$238,768	\$1,065,686

The department is requesting (1) \$238.8 million in state funds—\$228.2 million from the State Highway Account, and \$10.6 million from the Transportation Planning and Development Account; and (2) \$1,065.7 million in federal fund expenditure authority for its 1986-87 highway and mass transportation capital outlay program.

AERONAUTICS

We recommend approval.

The Aeronautics program contains three elements which are designed to improve the safety and efficiency of the California aviation system: (1) *Safety and Local Assistance*, (2) *Planning and Noise*, (3) *Reimbursed Work for Others*.

The budget proposes an appropriation of \$2,621,000 from the Aeronautics Account in the State Transportation Fund to support the program's activities in 1986-87. In addition, the program will receive statutory appropriations of \$3,037,000 from the Aeronautics Account and \$540,000 previously appropriated from the General Fund, bringing total state funding in 1986-87 to \$6,109,000. The department also will receive \$56,000 in federal funds for airport inspection work. Thus, the total program expenditures are proposed at \$6,254,000 in 1986-87, or \$41,000 (0.6 percent) more than in the current year.

The department proposes to increase state operations expenditures by \$344,000 (16 percent), and to reduce local assistance by \$303,000 (7.4 percent), from current year levels. The budget requests authorization to maintain the current year staffing level of 31.3 personnel years in the Aeronautics Program.

HIGHWAY TRANSPORTATION

The Highway Transportation program consists of seven elements: (1) *Rehabilitation*, (2) *Operational Improvement*, (3) *Local Assistance*, (4) *Program Development*, (5) *New Facilities*, (6) *Operations*, and (7) *Maintenance*. Each element, in turn, is subdivided into several components.

The 1986-87 budget proposes expenditures of \$2,756,475,000 for the Highway Transportation program. This is an increase of \$172,147,000, or 6.7 percent, above estimated expenditures in the current year. The budget proposes to reduce staffing for the program by 33.6 personnel-years (to 13,081.1).

Compared to current-year estimated expenditure levels, funding for *state operations* is proposed to increase by \$63.5 million (6.6 percent), and *capital outlay* expenditures are proposed to increase by \$94.3 million (7 percent) in 1986-87. The budget proposes a \$14.3 million (5.2 percent) increase in *local assistance* for 1986-87.

Table 6 shows proposed expenditures and funding sources for the Highway Transportation program in 1986-87. As Table 6 shows, the State Highway Account will finance \$1,094 million (40 percent) of total expenditures proposed for the Highway Transportation program. An additional \$1,336 million (48 percent) will be financed from federal funds. The remaining \$326 million (12 percent) will come from other state funds and reimbursements.

Table 6
Department of Transportation
Highway Transportation
Proposed Program Changes and Fund Sources
1986-87
(dollars in thousands)

	<i>Personnel- Years</i>	<i>State Operations</i>	<i>Local Assistance</i>	<i>Capital Outlay</i>	<i>Total</i>
1985-86 Expenditures (Estimated)	13,114.7	\$961,418	\$272,970	\$1,349,940	\$2,584,328
Proposed changes:					
Rehabilitation	-9.3	2,847	—	16,116	18,963
Operational improvements	-7.3	3,797	—	30,295	34,092
Local assistance	0.1	-63	14,330	-18,925	-4,658
Program development	0.1	2,056	—	—	2,056
New facilities	-15.8	6,034	—	66,813	72,847
Operations	0.2	2,985	—	—	2,985
Maintenance	-1.6	45,862	—	—	45,862
Subtotal, proposed change ..	-33.6	\$63,518	\$14,330	\$94,299	\$172,147
1986-87 expenditures (proposed) ..	13,081.1	\$1,024,936	\$287,300	\$1,444,239	\$2,756,475
Funding Source					
State Highway Account					\$1,094,381
Federal Funds					1,335,857
Other State Funds					61,722
Reimbursements					264,515
Total					\$2,756,475

Rehabilitation

The Rehabilitation element includes primarily those activities which extend the service life of the highway system through the restoration and reconstruction of facilities which have deteriorated due to age, use or disasters. This element also contains resources for the construction and improvement of district buildings and related facilities.

Excluding the amount requested for office building improvements, the department proposes total expenditures of \$329.5 million for highway rehabilitation in 1986-87, of which \$244.7 million is for *capital outlay* and \$84.8 million is for *support*. The total amount requested is \$18.9 million, or 6.1 percent, above current-year estimated expenditures of \$311.3 million.

The department is requesting a total of 1,203 personnel-years to support the rehabilitation element in 1986-87.

Operational Improvements

The Operational Improvements element encompasses activities and structural improvements designed to increase the capacity and efficiency of the existing highway system.

The budget proposes an expenditure of \$279.5 million in 1986-87 for the Operational Improvements element, including \$167.8 million for *capital*

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

outlay purposes, and \$111.7 million for *support*. The total amount requested is \$34.1 million, or 13.9 percent, above current-year estimated expenditures of \$245.4 million.

The department is requesting a total of 1,552 personnel-years to support the operation improvements element.

Local Assistance

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

Proposed expenditures in this element total \$321.2 million in 1986-87, including \$287.3 million in subventions, \$16.1 million in capital outlay and \$17.9 million for staff support. The total represents a decrease of \$4.7 million, or 1.4 percent, from current-year expenditures.

The department is requesting a total of 247.7 personnel-years to support the local assistance element.

Program Development

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

Expenditures for this element are budgeted at \$20.9 million in 1986-87 which is \$2 million (11 percent) above the estimated expenditure level of \$18.9 million in the current year. The department is requesting a total of 312.5 personnel-years, up 0.1 personnel-year from the current estimated level of 312.4 personnel-years.

New Facilities

The New Facilities element is *the largest*—in dollar terms—of the seven Highway Transportation program elements, and has two components: (1) new highway construction—new development along with additions to or the upgrading of existing facilities; and (2) new toll bridge construction—additions to existing toll bridges or the construction of new and replacement facilities.

The budget proposes total expenditures on new facilities construction of \$1,214.5 million in 1986-87. This is an increase of \$72.8 million, or 6.4 percent, over the estimated current-year level. Compared to actual expenditures in 1984-85, the proposed amount represents an increase of \$476.0 million (or 64.4 percent), including \$163 million to be reimbursed by Santa Clara County and \$233 million in additional capital outlay expenditures from federal funds, and approximately \$79 million in other state funded expenditures.

New highway construction will receive nearly all of the funds proposed for this element—a total of \$1,205.9 million. The remaining \$8.6 million is budgeted for toll bridge construction expenditures.

Of the amount requested for 1986-87, approximately \$1,014.9 million

will be spent on highway and toll bridge capital outlay projects, and the remaining \$199.7 million will be spent on the support of 2,827.5 personnel-years of staff.

Operations

Activities within the Operations element are designed to maintain roads, bridges, tunnels and associated facilities, and to improve the manner in which these facilities are operated. Expenditures in this element are proposed at \$75.1 million in the budget year, up \$3 million, or 4.1 percent, from the current-year level.

The budget requests a staffing level of 1,107.1 personnel-years for the Operations element in 1986-87—an increase of 0.2 personnel-years from the current-year level.

Maintenance

The Maintenance element, which the department has designated as its highest priority, includes six components: (1) roadbed—resurfacing and repair of flexible and rigid pavements; (2) roadside—litter removal, landscaping, vegetation control, roadside rests and minor damage repair; (3) structures—bridges, pumps, tunnels, tubes and vista points; (4) traffic control and service facilities—pavement markings, and electrical equipment; (5) auxiliary services—administration, training, maintenance stations and employee relations, and (6) snow and major damage—snow removal and emergency and maintenance work following major storms and other road damage.

Table 7 shows the expenditures and staffing level for the six maintenance components from 1984-85 through 1986-87. The budget proposes maintenance expenditures of \$514.9 million in 1986-87, which is an increase of \$45.9 million, or 9.8 percent, over the current-year estimated expenditure level of \$469 million. The increase includes (1) \$20 million for additional preventive maintenance, (2) \$9.2 million for maintenance of additional facilities and inventories, roads with low traffic volume, and other maintenance activities, (3) over \$4 million for cash payment of overtime work, and (4) equipment and cost increases.

The proposed amount will support 5,831.3 personnel-years, which is 1.6 personnel-years fewer than the current-year level.

Table 7
Department of Transportation
Staffing and Expenditures for Highway Maintenance
1984-85 through 1986-87
(dollars in thousands)

Component	Personnel-Year			Expenditures			Percent Change from 1985-86
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	
Roadbed	895.8	743.3	743.6	\$84,417	\$86,241	\$111,951	29.8%
Roadside	2,394.8	2,299.0	2,298.0	141,468	151,767	162,200	6.9
Structures	488.2	490.0	489.1	28,518	34,017	35,404	4.1
Traffic control	893.1	780.9	781.2	87,210	83,561	87,885	5.2
Auxiliary services	1,054.7	959.4	958.9	78,898	70,810	72,604	2.5
Snow and major damage	398.9	560.3	560.5	21,916	42,595	44,809	5.2
Totals	6,125.5	5,832.9	5,831.3	\$442,427	\$468,991	\$514,853	9.8%

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****Change in Use of State Funds Should be Reviewed by the Legislature**

We recommend that, prior to budget hearings, the department and the California Transportation Commission, submit to the fiscal committees information on (1) how funding priorities for "state-funded projects" would be determined, and (2) what the impact would be on the highway capital outlay program and future program financing of using \$200 million for these projects.

The budget for 1986–87 sets aside \$200 million from the State Highway Account for "additional expenditures for state supported projects". The *appropriation* of this amount, however, is not proposed in the Budget Bill. Instead, the department plans to request an amendment to the budget providing the authority for it to spend this amount at a later date.

It is not clear at this time how the moneys in the reserve would be used. Preliminary information from the department indicates that approximately \$20 million would be used to increase contracting for project design and engineering. The remainder would be used to "backfill" any funding gap which may be created when federal obligational authority falls below the full apportionment level projected in the Fund Estimate, and to ensure funding for primary system projects scheduled in the STIP. In fact, the California Transportation Commission has directed the department to prepare the 1986 Fund Estimate and the STIP based on the assumption that \$123 million of state funds will be used to backfill federal funds in 1986–87.

The proposed set-aside of state funds for state supported projects represents a *major* change in the state's policy for using funds in the State Highway Account. Currently, state funds are used primarily to match federal funds, which cover about 90 percent of project costs. Few projects are financed entirely out of state funds.

The budget's proposal to use state funds for state-supported projects raises two issues:

1. *Should the use of state funds for transportation projects be determined by a program designed to maximize the use of federal funds?* Currently, projects are programmed in the STIP so as to maximize the use of anticipated federal funds in various assistance categories. Because federal dollars tend to be concentrated on the interstate system, projects having a high *state* priority, such as primary system projects, may not be scheduled for funding on a timely basis, while lower priority projects on the interstate system are given priority.

This approach *may* make sense when the amount of federal money available can be projected with some certainty. It makes no sense, however, when federal funds disappear and the state must decide how available *state* funds can best be used. Put another way, projects programmed to maximize the use of federal funds should not necessarily be given a high-priority claim on state funds when the federal money dries up.

2. *What is the impact of using these funds on the fiscal condition of the State Highway Account?* The budget projects that, at the end of 1986–87, the State Highway Account will have a fund balance of \$221 million. Thus, using an additional \$200 million for state-supported projects would leave a year-end balance of \$21 million. Given monthly operating expenditures of approximately \$80 million in 1986–87, a \$21 million fund balance

appears to be too small and would leave the account in a precarious condition.

In addition, as indicated in Table 4, the use of \$200 million for state projects would hasten the time when the State Highway Account shows a deficit.

Analyst's Recommendation. Because the proposal to use \$200 million for state projects represents a major shift from current policy, we believe the Legislature needs to review the proposal carefully. To facilitate that review, we recommend that prior to budget hearings, the department and the commission provide the fiscal committees with information on (1) how funding priorities for state-funded projects would be determined, and (2) what the impact of the proposal would be on the highway capital outlay program and future program financing.

Capital Outlay Request Higher Than Needed

We recommend a reduction of \$18.9 million from the State Highway Account and \$146 million from federal funds because the requested amount for highway capital outlay is higher than needed, and that which can be funded with projected federal funds. (Reduce Item 2660-301-042 by \$18,900,000 and Item 2660-301-890 by \$146 million.)

Federal Funds. The budget proposes that the Legislature appropriate the state's full apportionment of federal highway funds. As we noted earlier, the amount of federal funds made available to California for obligation will almost certainly be lower than the full apportionment (which is what the STIP is based on). This exaggerates the size of the highway capital outlay program in 1986-87.

A more realistic estimate of federal funds availability would be 80 percent of the full apportionment, which is approximately the same obligational limit anticipated in 1985-86. Accordingly, we estimate that \$886 million, instead of \$1,032 million in federal funds, will be available for capital projects, and recommend that the Legislature reduce the department's expenditure authority by \$146 million.

If the department receives more federal money than what we project, it can request additional expenditure authority at that time.

State Funds. For 1986-87, the department requests an appropriation of \$228,188,000 from the State Highway Account for capital outlay. This is the estimated state share of costs for those projects to be delivered as scheduled in the adopted STIP.

Our review shows that this request is excessive. First, the amount needed to match federal funds will be less than the amount estimated. Second, discussions with the department indicate that even if all federal funds in the Fund Estimate become available, the latest STIP update shows the need for only \$209,288,000 in state funds during 1986-87. Accordingly, we recommend that the Legislature reduce the budgeted amount by \$18.9 million.

Adequacy of Capital Outlay Support is Still in Question

We recommend that prior to budget hearings, the department submit to the fiscal committees information on (1) how it intends to complete project development work on all STIP projects with the amount of staff requested for 1986-87, and (2) which projects will not be delivered because of staffing constraints.

A History of Underbudgeting. Since 1983-84, the department has expended more staff resources to perform project development work—

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

design and engineering—than what has been either proposed or authorized to deliver STIP projects. Table 8 shows that, in 1983–84, 171 additional personnel-years were expended. In 1984–85, the actual staffing level was 429 personnel-years higher than authorized.

Table 8
Authorized versus Actual
Capital Outlay Support Staff
1983–84 through 1985–86
(personnel-years)

	1983–84	1984–85	1985–86
Authorized staff	5,610	5,857	5,618
Actual	5,771	6,286	5,614.9 (est)
Amount Overexpended	171	429	–3.1

For both 1983–84 and 1984–85, the department requested a staff level that was less than what the department's automated personnel-years, project scheduling and cost analysis system (PYPSCAN) projected as being needed. It did so based on the assertion that it could achieve various efficiencies.

At the time, we indicated that the proposed efficiencies had not been identified, and consequently the Legislature would have to approve the departments' staffing request on the basis of faith. As Table 9 shows, the anticipated efficiencies did not fully materialize.

Current Year is No Different. For 1985–86, the department is authorized 5,618 personnel-years for project development work. In last year's *Analysis*, we pointed out that this staffing level was less than what is needed for the delivery of the 1985 STIP. In response, the Legislature directed the department to report by December 1985 on the staffing needs for project development, based on several sets of assumptions.

Table 9 summarizes the department's reported estimates for 1985–86. At the current-year level of 5,618 personnel-years, the department estimates it would have sufficient staff to deliver all projects in the 1985 STIP as scheduled, and perform additional development work on certain locally funded projects, *if* it achieves various efficiencies to increase productivity by the equivalent of 242 personnel-years. If these efficiencies are not realized, the level of staffing will be this much short of what is needed.

Table 9
Capital Outlay Staffing Needed^a
To Deliver 1985 STIP
Under Various Assumptions
1985–86

Scenarios	1985–86
A. Full federal apportionment plus allocations projected in 1985 STIP	5,765
B. Annual obligational authority at 90% apportionment, no 85% allocation beginning 1988–89	5,420
C. Full apportionment with adjustments for efficiencies	5,615
D. 90% obligational authority, no 85% allocations, and with adjustments for efficiency	5,270

^a Does not include an additional 300 personnel-years equivalent of cash overtime and 50 personnel-years of contracted student assistance.

Budget-Year Staffing Need. For 1986-87, the department is requesting 5,582 personnel-years—a further reduction of 36 personnel-years from the current level. The department's latest projections, however, show that it would need approximately 5,793 personnel-years in 1986-87 to deliver all projects currently scheduled in the 1985 STIP—211 personnel-years more than the number requested. Consequently, there will not be sufficient staff to perform the work needed to get all STIP projects ready for advertising and construction. We expect, therefore, that the 1986 STIP (to be proposed in March) will show that some of these projects have been slipped. When projects are delayed because of inadequate staffing levels, and then are slipped into subsequent years, the amount of staffing needed now naturally is lower. In other words, the lower staffing level becomes a self-fulfilling prophecy.

Contracting to be Proposed. The department has indicated that it will request a budget amendment in April authorizing it to contract for \$20 million in project development work.

Because the department's staffing level is not sufficient to deliver all 1985 STIP projects as scheduled, the Legislature should be told which projects will not have design and engineering work completed. In addition, the Legislature needs more complete information on the department's staffing requirements. Accordingly, we recommend that, prior to budget hearings, the department provide to the fiscal committees, an estimate of the staffing needed to carry out *all* projects programmed for delivery in the 1985 STIP, the amount of work which the requested level of staff will be able to produce, and the additional resources needed to develop an adequate volume of "shelf" projects.

Need for Highway Design Manuals Overstated

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$18,000 because the department's need for highway manuals is overstated. (Reduce Item 2660-001-042 by \$18,000.)

The department is requesting \$125,000 on a one-time basis to reprint and update its highway design manual. Manuals are used primarily by department engineers and highway designers, as well as by state and local government engineers. Private designers also make use of the manual.

The department estimates that 5,600 manuals will be needed for its own use. It also expects to sell 1,440 manuals to the public. The \$125,000 requested in the budget, however, would provide for the printing of 8,000 manuals—960 more than what is needed.

Because these manuals frequently are revised, and quickly become outdated, we can see no reason why the department needs to keep on hand more manuals than it needs. Accordingly, we recommend that the Legislature reduce the amount budgeted for manuals by \$18,000 (960 times \$18.75).

Information on Contracting Effectiveness Needed

We recommend that the Legislature adopt Budget Bill language directing the department to report by December 15, 1986, on the effectiveness of contracting, relative to increasing department staff, in meeting increased workload since 1983-84. In addition, we recommend the Legislature adopt supplemental report language directing the department to provide plans which identify the specific type and location of work to be contracted, as well as the departmental resources needed to program and administer contract work, when it submits requests for contracting funds.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY— Continued

In the past, most highway maintenance has been performed by department staff. Because the department's staffing has been held down in recent years, however, the department since 1983-84 has proposed to contract out an increasing amount of maintenance work in order to accommodate increased workload. For 1986-87, the department again proposes to contract for maintenance services, including sign repair and replacement, and maintenance of increased inventory.

During the past couple of years, the department consistently has failed to contract as much work as it originally proposed. Table 10 shows that only 45 percent of the \$2.2 million allocated for contract work in 1984-85 actually was spent. The table also shows that the department's contracting performance has not improved with either time or experience. For instance, during the first six months of the current year, the department spent only \$685,000 (or 18 percent) of the \$3.8 million made available by the Legislature for contracting. As a result:

- none of the \$632,000 available to fund contracts for mowing has been used;
- work scheduled in 1984-85 for relamping has yet to begin; and
- only \$21,000 of the \$677,000 allocated for contracts to replace signs has been spent.

Table 10
Department of Transportation
Contracting of Highway Maintenance Work

Item	1984-85		1985-86	
	Allocated	Contracted	Allocated	Contracted
Relamping	\$318,000	—	\$333,900	\$78,000
Loop detector repair	89,000	\$47,600	258,450	40,500
Raised pavement markers	1,402,000	767,650	1,472,100	484,400
Realign guardrail	430,000	180,085	451,500	61,175
Sign replacement	—	—	677,000	21,000
Mowing	—	—	632,000	—
TOTAL	\$2,239,000	\$999,335	\$3,824,950	\$685,075^a

^a Amount contracted as of January 1986. An additional \$1,384,000 in contracted project development is underway in the current year.

We question the department's ability to meet the projected workload for which contract funds have been earmarked.

Our analysis shows that the department's approach to contracting work out suffers from a lack of planning, as well as from a lack of internal support and coordination among functional units. Given its record, we see no reason why the Legislature should continue to appropriate moneys for contracted work without a reasonable assurance that intended services will be delivered.

To assure that the Legislature is informed about (1) what is actually being accomplished under contracts and (2) the relative effectiveness of contracting, we recommend that the Legislature adopt the following Budget Bill language directing the department to report by December 15, 1986, on its contracting experience.

"The department shall report to the Joint Legislative Budget Committee and the fiscal committees by December 15, 1986, on the effectiveness

of contracting and the department's experience since 1983-84. The report shall include, but not be limited to, the following information: (1) the appropriated amounts and actual amounts spent for contracting from 1983-84 through 1985-86 for identified activities in highway maintenance and project development, and (2) volume of work accomplished in each category of activities and the personnel-year equivalent of this work, had the department performed the work using its own staff."

In addition, we recommend that the Legislature adopt supplemental report language directing the department to provide a plan identifying the specific types and locations of the work to be contracted and the resources needed by the department to program and administer the contracts whenever it proposes to contract work out in future budgets.

Maintenance Management System Should Include Contracting Data

We recommend the Legislature adopt supplemental report language directing the department to systematically capture in its maintenance data base, comparable information for similar work performed by contract and department staff, in order to justify budget proposals to contract out work normally performed by department staff.

In 1984, the department began efforts to overhaul its maintenance management system and to develop a budget model for determining the amount of resources required to deliver a given level of service. For work performed by department staff, the model provides information in terms of both staffing and dollars, including the cost of labor, materials and equipment needed to maintain an item of inventory. When similar work is performed by contract, however, it either is recorded differently or is not captured in the department's maintenance data base. As a result, the department is unable to directly compare the cost and effectiveness of performing work using its own staff with the cost and effectiveness of contracting out for the work.

Because the department is increasing its use of contracting to accomplish work, the department's maintenance management system should capture comparable data on work performed by department staff and by contract. This would allow the Legislature to compare the cost-effectiveness of the two methods.

Accordingly, we recommend that the Legislature adopt the following supplemental report language: "The department shall maintain in its maintenance management system, information which allows for comparison of similar work performed by department staff and by contracting. This information is to be used in justifying future contracting proposals. The information collected should include, but not be limited to, comparable data on levels of service, units of production, and personnel, material, and other costs to perform work by contract or department staff."

Hazardous Waste Site Investigation Not Justified

We recommend that the Legislature delete the \$3 million augmentation requested from the State Highway Account for hazardous waste investigation because the increase has not been justified and there is no expenditure plan. We further recommend that the Legislature adopt supplemental language directing the department to develop criteria for ranking hazardous waste sites for investigation, based on their potential effect on both the delivery of STIP projects and the environment, and to utilize this plan to justify the activity level proposed for site investigations in its 1987-88 budget. (Reduce Item 2660-001-042 by \$3 million.)

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

The department proposes to spend \$5 million to contract for the investigation of hazardous materials on sites in highway rights-of-way. The requested amount is \$3 million, or 150 percent, *more* than the \$2 million approved in the current year for investigation of hazardous waste sites statewide. Current-year expenditures range from \$10,000 for a contract to remove asbestos to \$600,000 for hazardous waste management plans for 20 sites along the Century Freeway Corridor in Los Angeles.

The department estimates that 100 sites and parcels related to projects in the 1985 STIP are known to have or may have hazardous materials. The work to be performed at these sites includes waste site testing, sampling and evaluation, and preparing hazardous waste management plans for sites. The actual cleanup of hazardous material will be funded separately with capital outlay funds, as part of the capital cost of the highway project.

We fully support the objectives of this program. Our analysis indicates, however, that the department has not justified the size of the proposed program, nor has it provided criteria for determining the priority of investigating different sites.

1. *The Department Has Failed to Identify the Hazardous Waste Sites to be Investigated.* Instead of specifying sites to be investigated, the department has provided a list of project sites which either are known to have or may have hazardous wastes.

Despite the absence of specific workload information, the department somehow has determined that its needs in 1986–87 are significantly greater than what has been provided in the current year. The apparent absence of a workplan not only makes suspect the department's budget estimate; it leads us to conclude that the department has put little thought into its program for dealing with hazardous materials. Moreover, because it is not possible to track the department's total workload for hazardous materials or otherwise determine program accomplishment, the Legislature has no way of assuring that funds proposed for this purpose are spent appropriately.

2. *Potential Impact of Hazardous Waste Sites is Not Addressed.* It would be prudent to identify and investigate *first* those sites which pose the most serious threat to the completion of highway projects or to the surrounding community and environment.

Our review shows, however, that the department does not prioritize hazardous waste sites according to either their potential danger or their impact on the schedule of project delivery and construction.

Because the department (1) has not identified any sites for investigation beyond those identified for the current year, and (2) has not provided the information needed to justify an increase in the current funding level for hazardous waste investigation, such as the location of target sites, the type of waste to be investigated and the impact on state projects, we recommend that the investigation program be continued at the current-year level. Accordingly, we recommend that the Legislature reduce the department's request by \$3,000,000.

Furthermore, to keep the Legislature better informed of the need for hazardous waste site identification and cleanup, as well as of the department's plans for meeting these needs, we recommend that the Legislature adopt supplemental report language directing the department, in consultation with the appropriate state departments, to develop a plan for investigating hazardous waste sites on highway rights-of-way, and to develop

criteria in order to rank hazardous waste sites based on their potential effect on the completion of STIP projects and potential harm to the community and environment. This plan should be used to justify the funding and activity level proposed for site investigations in the 1987-88 budget.

Sign Repair and Replacement

We recommend that the Legislature delete \$510,000 requested from the State Highway Account for contract sign repair and replacement because the department has failed to demonstrate its ability to contract successfully for these services. We further recommend that, prior to budget hearings, the department submit to the fiscal committees an estimate of the staff resources needed to reduce the backlog of signs needing repair to a reasonable level. (Reduce Item 2660-001-042 by \$510,000).

In the current year, the department is authorized to spend \$677,000 on contracts providing for the repair or replacement of an estimated 5,000 highway signs. For 1986-87, the department requests \$510,000 to fund the repair of an additional 5,000 signs and to continue efforts to reduce the backlog of deficient signs which was estimated at 34,855 in 1985.

Contracting Ineffective. Our review shows that, to date, the department has contacted for the repair of exactly *one* large overhead sign, at a cost of \$21,000. Efforts to contract for the repair of *three* additional overhead signs has begun and additional sign contracts are being developed. These contracts are not expected to be awarded, however, until late in the current year.

According to the department, the delays in getting the contracting program off the ground are due to the department's lack of experience in performing this work through contract. Up until this year, sign repair work has been performed exclusively by using maintenance staff. By contracting the work out, the department puts project development staff in charge of drawing up repair contracts and specifications. Relative to other project design and engineering work, this work has a low priority.

The maintenance of signs makes an important contribution to motorist safety. Consequently, this work should not be assigned a low priority. Thus, we conclude that departmental management is not providing clear direction and adequate support to get the contracting program underway.

Because the department has not demonstrated that it can successfully contract for sign repair and replacement, we recommend that the Legislature delete \$510,000 requested for contracting. We further recommend that prior to budget hearings, the department (1) advise the fiscal committees how the repair work can be accomplished using its own staff, and (2) provide an estimate of the staff resources needed to reduce the backlog within a reasonable period of time. Based on that information, the Legislature could then consider augmenting the department's staff to reduce the backlog.

Increases in Maintenance Contracts Not Specific

We recommend that the Legislature (1) reduce by \$1,320,000 the funds budgeted for maintenance work and (2) augment staffing by 70.4 person-years because the department has failed to specify how the increased workload can be accommodated by contract. (Reduce Item 2660-001-042 by \$1,320,000.)

The department requests a budget augmentation of \$3,820,000 to contract for the maintenance of additional highway inventory. Most of the amount, \$2.8 million, will be used for the maintenance of landscaped areas

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

associated with new construction projects. Another \$239,000 will be used to maintain new pavements that will be constructed in the current and budget years.

As the department's maintenance inventory grows, additional resources are needed to keep pace with these increases. In the past, this increased workload had been met by hiring additional staff. The budget, however, proposes to meet the increased workload in 1986-87 by contracting for the equivalent of 70.4 personnel-years of maintenance work.

Our review indicates the department's contracting proposal is not justified, for the following reasons:

1. ***The Department Has Failed to Identify Whether the Increased Maintenance Projects Can Be Contracted.*** Unlike other contracting proposals submitted by the department, this proposal does not specify the work to be contracted. Thus, the Legislature cannot confirm that the proposed contracting for maintenance will prove feasible. The request indicates that all additional landscaped areas will be contracted out. Not all of the new areas, however, are clustered together. Other new areas are not distinct landscape areas so that they can be easily identified for contracting purposes. In our judgment, small and widely scattered acreages, as well as acreage which adjoin existing areas, would be more effectively maintained by department forces.

2. ***The Department Has Failed to Identify What Work Would Be Contracted.*** The contracting proposal would give the department free reign to contract for services, providing little opportunity for the Legislature to hold the department accountable for the expenditure of funds. The department has not formulated plans showing *how* it will contract to meet the projected increase in workload. It is not able to provide *specific* information regarding the location of planned contract work or the level of services to be provided. Consequently, the Legislature has no basis for determining the merits of the contracting proposal.

3. ***The Department's Ability to Successfully Contract Out This Work is Questionable.*** Given the department's track record with contracting, it is apparent that the department (a) has failed to anticipate the problems that arise when contracting work that normally is performed by maintenance staff, and (b) has done little, if any, advanced planning in preparation for the increased contracting effort.

4. ***Pavement Maintenance May be Double Budgeted.*** We question why \$239,000 is needed to maintain new pavements, given the significant increase in the budget for maintenance of all pavements.

For these reasons, we conclude the Legislature is afforded little assurance that the department can contract this workload increase. Accordingly, we recommend that the Legislature reject the department's proposal to contract work out. In order that adequate resources are available, to maintain additional facilities in 1986-87, we recommend the Legislature increase the department's staffing by 70.4 personnel-years, at an estimated cost of \$2,500,000, to provide the staff which the department projects it will need to maintain the additional inventory. Accordingly, we recommend a reduction of \$1,320,000 in the amount requested.

Error in Cash Overtime Increase

We recommend that the Legislature reduce by \$146,000 the amount budgeted from the State Highway Account to correct for overbudgeting. (Reduce Item 2660-001-042 by \$146,000).

The department indicates that it incorrectly calculated its need for cash overtime associated with major incidence response in its Los Angeles district. Accordingly, we recommend a reduction of \$146,000 to reflect the correct amount of cash overtime needed. The department concurs with this recommendation.

Staff Allocation For Permits Issuance Is Not Adequate

We recommend that prior to budget hearings, the department advise the fiscal subcommittees how it intends to staff its permits issuance function.

The department proposes to increase cash overtime for permits issuance by \$183,000 (5 personnel-years equivalent) in order to handle an increase in workload.

Our analysis indicates that the department has consistently underbudgeted resources for the processing of transportation and encroachment permits. As Table 11 indicates, from 1982-83 through 1984-85 actual staffing exceeded staff allocations for permits activity by a total of 54.6 personnel-years.

For the first five months of the current year, the department has overexpended its allocation for this function by 10.6 personnel-years. At this rate, we estimate that it will need over 25 personnel-years more than what has been allocated for 1985-86.

The department is implementing various automation and other efficiency improvements in the current year in order to increase staff productivity, but these efforts will not reduce the need for personnel-year increases until 1987-88.

Despite the request for an additional five personnel-years equivalent in cash overtime for 1986-87, we estimate that the shortage of staff in the permit issuance function will continue in the budget year. For this reason, we recommend that prior to budget hearings, the department explain to the fiscal subcommittees how it intends to meet the staffing shortfall in the current year and budget year.

Table 11
Department of Transportation
Permits Issuance
(1982-83 through 1985-86)

	1982-83	1983-84	1984-85	1985-86 (5 Months)
<i>Workload</i>				
Transportation	105,015	127,200	132,968	60,584
Encroachment	12,121	13,020	13,051	5,301
Total	117,136	140,220	146,019	65,885
<i>Personnel-Years^a</i>				
Budgeted	144.4	185.7	185.7	76.0
Actual	180.8	184.5	205.1	86.6
Amount Overexpended	(36.4)	1.2	(19.4)	(10.6)

^a Includes regular and cash overtime equivalent.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****Maintenance Cash Overtime**

We recommend that the Legislature reduce the amount budgeted from the State Highway Account for cash overtime by \$1,678,000 because the department's request for additional cash overtime is not justified. We further withhold recommendation on the request for \$1,459,000 in cash overtime for mowing pending additional information from the department. (Reduce Item 2660-001-042 by \$1,678,000.)

For the budget year, the department proposes to increase cash overtime for maintenance activities by \$4,132,000—an equivalent of 113.3 personnel-years (PYs)—in order to handle various increases in workload.

Our analysis of the department's request indicates that approximately three-fourths of the request is not justified, for the following reasons:

1. ***Needs for Additional Mowing Not Substantiated.*** The department requests 40 personnel-years equivalent of cash overtime (\$1,459,000) to mow an estimated 30,000 acres per year. This request is being made in response to a request from the Department of Forestry (DOF) to reduce fire hazards. The DOF has agreed to provide the department with maps outlining areas which are more susceptible to fires and, therefore, should receive increased mowing.

However, because the DOF has not identified the acreage to be mowed, we are unable to assess at this time the need for additional cash overtime for mowing. Accordingly, we withhold recommendation on the department's request for \$1,459,000 in cash overtime pending receipt of additional information to justify this request.

2. ***Adequate Resources Are Available for Storm and Snow Damage Activities.*** In the current year, 560.3 personnel-years are allocated for storm damage and snow removal work. In addition, 159.4 personnel-years equivalent in cash overtime is available for these activities. For the budget year, the department requests an increase in cash overtime for these activities that is equivalent to 31 personnel-years, at a cost of \$1,131,000.

Our analysis indicates that sufficient resources already are available for these activities. For instance, in 1984–85, the department used 121.1 personnel-years less than the number planned. Similarly, for the first five months of the current year, actual expenditures for snow and storm damage were 84.9 personnel-years less than anticipated. Moreover, since the department actually spent only 124 and 136 personnel-year equivalents of cash overtime in the past two years, respectively, it would appear that the current allocation of 159 personnel-year equivalents is adequate. Accordingly, we recommend that the Legislature reduce the amount budgeted for cash overtime by \$1,131,000.

3. ***Cash Overtime for Special Events Not Justified.*** The department proposes to increase cash overtime by \$547,000—an equivalent of 15 PYs—to handle special events in the metropolitan districts. Work activities in this category include lane and ramp closures and traffic guidance on state highways. The department, however, is unable to identify the additional number of special events for which additional maintenance staff would be needed in 1986–87. Accordingly, we cannot document the need for an increase and recommend that the Legislature reduce the amount budgeted for cash overtime by \$547,000.

Preventative Maintenance for Asphalt Roads

We recommend that the Legislature delete \$2,496,000 requested from the State Highway Account because the department has failed to recognize cost savings from the increased preventive maintenance effort. (Reduce Item 2660-001-042 by \$2,496,000.)

The department is requesting \$20 million to initiate a preventive maintenance program to slow pavement deterioration and extend the life of the state's asphalt paved roads.

The proposed program would apply various treatments to asphalt pavement, including a rubberized asphalt rock seal and other methods, to approximately 4,000 lane miles of pavement per year, at a cost of \$5,000 per lane mile. Not all asphalt paved roads, however, will receive treatment under this program. Pavements that are too deteriorated or pavements categorized as "class 3" roads (with low traffic volume) will not be treated. As a result, the department estimates that only one-half—or 16,000 lane miles—of all asphalt pavements are candidates for the preventive maintenance program. Because these treatments extend the pavements' serviceability by an estimated four years, the proposed program would allow the department to provide continuous treatment for 16,000 lane miles of asphalt roads over a four-year cycle.

Preventive Maintenance Fails to Provide Immediate Savings. The department indicates that even with the aggressive preventive maintenance effort, normal maintenance efforts and expenditures will not decrease for several years. Our analysis indicates otherwise. Because treatments extend the life of these roads, there should be annual savings in maintenance of \$624 per lane mile for about four years. At a treatment rate of 4,000 lane miles per year, the department should be able to reduce maintenance costs for asphalt pavement by \$2,496,000.

The department's budget, however, fails to account for these savings. Accordingly, we recommend that the Legislature reduce the amount budgeted for maintenance by \$2,496,000.

Expenditures for Low Volume Road Maintenance Overestimated

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$3.5 million because the department has overestimated the amount needed to maintain low-volume roads. (Reduce Item 2660-001-042 by \$3.5 million.)

The department reclassified the state's road system in 1984. This resulted in an increase in the number of low-volume roads by 2,237 lane miles, from 5,140 to 7,377, and a corresponding decrease in other classes of roads. Low-volume roads are roads with an average daily traffic volume of less than 1,000 vehicles, and are located mostly in rural and mountainous regions.

The department estimates that the additional 2,237 lane miles of reclassified roads will cost \$1,565 per lane mile to maintain. It is requesting an increase of \$3.5 million to maintain these roads.

Our analysis indicates that the requested amount will not be needed for the following reasons:

1. **Adequate Funds Currently Exist for These Roads.** The department's maintenance management system shows that, in 1984-85, the department spent \$16,085,000, or \$2,156 per lane mile, to maintain 7,460 lane miles of class 3 roads, including those roads that were reclassified. Thus, it appears that the department has adequate funds to maintain more miles

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

of class 3 roads at a *higher* cost than what is proposed for 1986–87.

2. *The Request Fails to Consider Funds Available To Maintain These Roads Prior to Their Being Reclassified.* In addition, the department's request fails to consider funds which were allocated to the maintenance of these roads *before* they were reclassified. The 2,237 lane miles of asphalt roads are not new additions to the system. Previously, they were maintained as class 1 and 2 roads.

For these reasons, we recommend that the Legislature deny the department's request for \$3,500,000.

Truck Scales and Inspection Facilities Maintenance

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$505,000 to correct for double budgeting of maintenance at truck scale and inspection facilities. (Reduce Item 2660-001-042 by \$505,000.)

The department is responsible for maintaining 54 truck scale and platform weigh-facilities throughout the state. These facilities are operated by the California Highway Patrol (CHP) as part of its truck weigh and inspection activities. They also function as offices for CHP officers on duty. The CHP indicates that the Department of Transportation has consistently maintained these facilities at a minimal level.

In the current year, the department has allocated \$504,700 and eight personnel-years to maintain these facilities. For 1986–87, the department requests an increase of \$600,000 which would be used to contract for the equivalent of 12 personnel-years of services to maintain the facilities. Although the department will continue to perform pavement and electrical work, routine station maintenance currently performed by department staff will, instead, be provided by contract. The budget, however, does not make a corresponding reduction in staff activities to reflect the contracting proposal. Accordingly, we recommend that the Legislature delete \$505,000 requested for maintenance activities to correct for double budgeting.

Fleet Equipment

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$1,942,000 because some of the additional vehicles for which funds have been requested are not needed. (Reduce Item 2660-001-042 by \$1,942,000.)

The department requests an increase of \$5,119,000 for the purchase of vehicles in the budget year. Of this amount, \$1,942,000 would be used to purchase 200 additional vehicles to accommodate an increase in construction activities planned for the budget year. The department plans to redirect 478 personnel-years from project design and engineering to construction activities, and it will need the additional vehicles for the additional personnel in construction.

Our analysis indicates that the department's request for these additional vehicles is not justified. For the budget year, approximately 1,500 personnel will require vehicles. The existing inventory of construction vehicles is 1,230 units, indicating a ratio of 1.2 personnel per vehicle. If an additional 200 vehicles are purchased, the ratio would be nearly one-to-one.

There is no need for every employee to have a vehicle dedicated to his

or her exclusive use. Moreover, construction personnel often work out of centralized regional offices, and thus can share the use of vehicles assigned to these offices. Accordingly, we recommend that the Legislature reduce the funds for new vehicles by \$1,942,000.

Nonexpendable Equipment Overbudgeted

We recommend that the Legislature delete \$80,000 requested from the State Highway Account for a graphics workstation because the equipment is not needed. (Reduce Item 2660-001-042 by \$80,000.)

The department is requesting \$1,360,000 for nonexpendable equipment, including \$80,000 for a graphics workstation. Our analysis indicates that the amount requested for the graphics workstation is premature, as it depends upon the outcome of a feasibility study report. Accordingly, we recommend that the Legislature delete the \$80,000. The department concurs with our recommendation.

MASS TRANSPORTATION

The Mass Transportation program contains several elements: (1) *Full Mobility Transportation*, (2) *Transit Operator Assistance*, (3) *Interregional and Intercity Public Transportation* (bus and rail transportation), (4) *Transfer Facilities and Services*, (5) *Transportation Demonstration Projects*, (6) *Work for Others*, and (7) *Ridesharing*.

The budget requests \$85,723,000 in state funds for the Mass Transportation program. This includes \$32,093,000 from the SHA, \$53,573,000 from the Transportation Planning and Development (TP&D) Account, and \$57,000 from the Abandoned Railroad Account. The budget also includes \$58,073,000 in federal funds and \$33,649,000 in reimbursements, for a total expenditure level of \$177,445,000. This is \$54,621,000, or 24 percent, less than estimated current-year expenditures.

The budget proposes a reduction of 3.9 personnel-years for the mass transportation program in 1986-87, which would bring total staffing down to 202.5 personnel-years.

Full Mobility Transportation

Activities in the Full Mobility Transportation element are intended to improve the accessibility and service level of transportation systems used by the low mobility population (the elderly and the disabled). The budget proposes expenditures of \$1,323,000 for this purpose in 1986-87. This is an increase of \$101,000, or 8.3 percent, above estimated expenditures of \$1,222,000 in 1985-86. The increase reflects (1) \$77,000 and 2.1 personnel years needed to administer federal funds provided for specialized equipment for the elderly and handicapped, (2) a reduction of \$38,000 and one personnel year, and (3) \$62,000 in other cost adjustments.

Overall, the budget proposes a net increase of 1.1 personnel years for this element, for a total of 25.5 personnel years.

Transit Operator Assistance

Both financial and technical assistance are provided to operators under the Transit Operator Assistance element. Major assistance programs include (1) the *abandoned railroad rights-of-way program* and (2) *capital assistance provided to transit services* pursuant to Ch 262/82 and Ch 322/82. Transit development programs and administration of federal and state assistance functions are among the other assistance activities provided by the department under this element.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

The department proposes expenditures of \$70,177,000 for this element in 1986–87. This represents a decrease of \$93,707,000, or 57 percent, below estimated current-year expenditures. The decrease reflects reductions of \$424,000 associated with one-time capital outlay expenditures in the current year and \$93,475,000 in local assistance, and an increase of \$192,000 in state operations. The proposed increase in state operation expenditures reflects \$158,000 for increased audit activities that are performed by the State Controller's office, a reduction of \$76,000 and two personnel-years for abandoned railroad right-of-way acquisition and transit capital improvement support, and \$110,000 in other cost adjustments.

The proposed staffing level for 1986–87 of 47 personnel-years is two personnel-years below the current-year level of staffing for this element.

Interregional Public Transportation

Activities in the Interregional Public Transportation element include (1) *the support and improvement of intercity and commuter rail and bus passenger service*, (2) *the implementation of the State Bus Plan*, and (3) *the update and implementation of the State Rail Plan for freight service*.

This element proposes expenditures of \$55,233,000 in 1986–87, an increase of \$20,117,000, or 57 percent, over estimated expenditures in 1985–86. After deducting one time current-year local assistance expenditures of \$3,010,000, the proposed increase reflects \$24,686,000 in increased rail related capital outlay expenditures for the Peninsula Commuter Service (\$14,106,000) and the San Diegan intercity rail service (\$10,580,000), and a reduction of \$1,559,000 in state operations.

After a reduction of \$5,800,000 for one-time equipment costs in the current year, the reduction in state operations expenditures reflects an increase of \$3,781,000 in Peninsula Commuter Service support costs, a reduction of two personnel-years and \$76,000 for railroad freight planning and bus transportation program activities, an increase of \$200,000 for rail service marketing and an increase of \$336,000 in other cost adjustments.

The budget proposes a reduction of 0.5 personnel-years, leaving a staffing level of 45.3 personnel-years for this element in 1986–87.

Farebox Ratio Waiver Request

Ch 1183/81 requires that fare revenues from the San Francisco Peninsula Commuter Rail Service must equal at least 40 percent of operating costs in order for the service to be eligible for state subsidies. The statute provides, however, that this requirement may be waived for up to three years by the CTC.

In 1983–84 and 1984–85, the Peninsula Commuter Service achieved a farebox ratio of 34.3 percent and 36.0 percent, respectively, and was granted a waiver of the farebox requirement. The department has indicated to the California Transportation Commission that it expects the commuter service to achieve a farebox ratio of 37.5 percent in 1985–86. It is requesting a third waiver of the farebox requirements so that the service can be funded in 1986–87. The commission has not yet acted on this request.

Transfer Facilities and Services

The department is authorized to construct, purchase, or lease, improve and operate rail passenger facilities which provide intermodal passenger services. The department also is required to evaluate proposed transfer facilities.

The budget proposes expenditures of \$38,117,000 for transfer facilities and services in 1986-87, which is \$19,311,000 or 103 percent, more than estimated current-year expenditures. The budget proposal reflects (1) a reduction of \$1,347,000 in state operations expenditures and (2) an increase of \$20,658,000 in capital outlay expenditures. Total capital outlay expenditures are proposed at \$34,696,000 in 1986-87.

The reduction in state operations expenditures consists of reductions in one-time current-year consulting costs (\$1,693,000), an increase in Peninsula Commuter Service station maintenance and utility and station acquisition and improvement costs (\$251,000), and an increase in other costs (\$95,000).

The staffing level proposed for this element—36.9 personnel-years—reflects a reduction of 2.5 personnel-years from the current-year level.

Transportation Demonstration Projects

The Transportation Demonstration Projects element includes technical studies and demonstration projects undertaken by the department to improve transit equipment and services. The budget proposes to spend \$494,000 for these projects in 1986-87, a reduction of \$360,000, or 42 percent, below estimated current-year expenditures. The proposed reduction reflects an adjustment for one-time costs incurred in the current-year. State funds will pay for \$190,000 (38 percent) of the expenses proposed for the budget year, and federal funds and reimbursements will pay the balance.

The budget proposes to maintain the current-year staffing level of 5 personnel-years for this element in 1986-87.

Work For Others

The Work for Others element includes work which the department performs at the request of local public agencies. The cost of this work, which is reimbursed by those requesting it, will amount to an estimated \$1,776,000 in 1986-87. This is an increase of \$18,000, or 1 percent, above estimated expenditures for reimbursed work in the current year.

The budget proposes to maintain the current year staffing level of 7.8 personnel years for this element in 1986-87.

Ridesharing

The Ridesharing element provides funds to increase the number of people who ride together in vehicles when commuting to work or taking recreational trips. Funds are used primarily to (1) match people traveling by motor vehicle to and from nearby locations and (2) encourage employers to establish ridesharing programs. The budget proposes to spend \$10,325,000 in 1986-87 for activities to promote ridesharing, a decrease of \$101,000, or 1 percent, from estimated current-year expenditures.

The budget proposes to maintain the current-year staffing level for ridesharing of 40.2 personnel-years in 1986-87.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****San Diegan Rail Capital Improvements Overfunded**

We recommend that the Legislature delete \$5,290,000 requested for intercity rail capital improvements, and increase reimbursements by \$5,290,000, to conform to current California Transportation Commission policies. (Reduce Item 2660-301-046 by \$5,290,000 and increase reimbursements by \$5,290,000.)

We further recommend that the Legislature adopt Budget Bill language requiring that funds for the San Diegan intercity rail project not be allocated by the commission until agreements are negotiated between all parties to achieve reduced running time for the service.

The department has requested \$10,580,000 for track and grade crossing improvements on the intercity rail line between San Diego and Los Angeles. Amtrak currently operates 7 roundtrip trains daily over this route. Under this agreement with Amtrak, the state funds 65 percent of the operating loss and 50 percent of equipment depreciation and interest costs on three of these trains.

The department indicates that the funds requested will be used to complete eight improvement projects designed to reduce running times for the trains by approximately ten minutes. This will reduce travel time for riders, improve on-time performance, and provide the scheduling flexibility necessary to allow for additional trains.

Our analysis indicates that the department's request is not consistent with the California Transportation Commission's policy of limiting state participation to 50 percent of the cost of capital improvements to intercity rail services. Since these improvements will benefit Amtrak, local agencies, and the rail corporation owning the right of way, the commission's policy appears reasonable. Therefore, we recommend that the state's share be limited to 50 percent of project costs, allowing a reduction of \$5,290,000 in state funding and requiring an increase in reimbursements of \$5,290,000.

Our analysis also indicates that the benefits cited as justification for this project will not materialize unless Amtrak and its contracted private operator agree to reduce running times and, if requested, add additional trains. To insure that such agreements are secured prior to state participation in the improvement projects, we recommend that the Legislature adopt the following Budget Bill language:

"No funds appropriated in this item shall be allocated by the California Transportation Commission to the Department of Transportation for track and grade crossing improvements on the San Diegan intercity rail service unless the commission determines that the department has negotiated agreements with all parties necessary to insure that such improvements will (1) result in reduced running times for the service and (2) insure that an additional train would be added to the service if requested by the department under Section 403 (b) of the National Rail Passenger Act."

Major Capital Improvements Proposed for the Peninsula Commuter Service

The department has requested \$48,802,000 in the budget year for capital improvements to the Peninsula Commuter Service. Under current law, the Legislature appropriates a lump sum from the Transportation Plan-

ning and Development Account to the California Transportation Commission for allocation under the Transit Capital Improvements Program. Peninsula Commuter capital projects are then ranked by the Commission against other transit capital projects in the state before funding allocations are made. Allocations from the TCI program to the department for capital outlay projects on the Peninsula Commuter Service appear as reimbursements in the budget, though the funds originate in the TP and D Account.

As shown in Table 12, the department's request includes \$11,370,000 in TP and D Account funds which the department hopes to receive as reimbursements through the TCI program, \$33,632,000 in matching federal funds and \$3,800,000 in reimbursements from local agencies.

Table 12
Peninsula Commuter Service
Proposed Capital Outlay Projects ^a
(dollars in thousands)

	1986-87			Total Project 1986-87 through 1989-90		
	TP and D	Federal	Local	TP and D	Federal	Local
Maintenance Facility	\$3,000	\$9,000	—	\$11,625	\$34,875	—
Track Improvements	421	1,685	—	2,521	10,085	—
Station Acquisition	—	—	\$3,500	—	—	\$3,500
San Jose Terminal						
Right-of-way	5,650	16,950	—	5,650	16,950	—
Design & Construction	675	1,125	300	7,275	19,800	6,600
Station Improvement						
Stations	1,014	3,042	—	1,014	3,042	—
Parking	610	1,830	—	2,210	4,800	—
Total	\$11,370	\$33,632	\$3,800	\$30,295	\$89,552	\$10,100

^a The 1986-87 amounts are based upon the Governor's Budget. Later-year amounts are from the Transit Capital Improvement applications submitted to the California Transportation Commission.

As the table also shows, the amounts requested in the current year are part of a multiyear program of capital improvements to the service. The total cost to complete these projects is estimated at \$129,947,000 including \$30,295,000 in Transportation Planning and Development Account funds and \$99,652,000 in federal and local funds to be made available through 1989-90. Of the \$30,295,000 TP and D Account funds required to complete the capital outlay program, \$6,970,000 is programmed in the 1985 Updated STIP (USTIP). The department anticipates requesting the balance—\$23,325,000—under the TCI program. This amount represents 40 percent of the \$58,127,000 in TP and D Account funds that the commission expects to be available for new programming during the five year period of the 1986 STIP.

Commission's Priority Rankings Are Needed

We withhold recommendation on \$33,632,000 in federal funds and \$15,170,000 in reimbursements requested for capital improvements to the Peninsula Commuter Service, pending adoption by the California Transportation Commission of the Transit Capital Improvements priority list. (Item 2660-301.)

As discussed above, the California Transportation Commission is required to rank Peninsula Commuter Service capital improvement projects along with other transit capital projects for funding under the TCI

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

program. The commission is required to report its rankings, in the form of a priority list of projects, to the Legislature by March 1, 1986, along with its funding recommendation for the TCI program in the Budget Bill. We withhold recommendation on \$48,802,000 requested for capital improvements to the Peninsula Commuter Service, pending the commission's action.

Transit Capital Funding

We withhold recommendation on \$20,700,000 requested for the Transit Capital Improvements program (Item 2660-101-046) and \$31,920,000 requested for the Mass Transit Guideways (Article XIX) program (Item 2660-101-042), pending receipt of the commission's recommended funding level for these programs.

The department is requesting \$20,700,000 from the TP and D Account to fund transit capital improvements through the TCI program and \$31,920,000 in State Highway Account funds for transit guideways under the Article XIX Transit Guideways program. These funds are appropriated in a lump sum to the California Transportation Commission for allocation to specific projects. The commission will be adopting a priority list of projects for both programs and will make its recommendations on the level of appropriation needed in the budget year by March 1, 1986. We withhold recommendation on the \$20,700,000 requested for transit capital improvements and the \$31,920,000 requested for transit guideways, pending receipt of the commission's recommendation.

Project Already Budgeted in the Current Year

We recommend that the Legislature reduce reimbursements by \$1,014,000 and federal funds by \$3,042,000 to delete funds requested for station improvements that were funded in the current year. (Reduce Item 2660-301-890 by \$3,042,000 and reduce reimbursements by \$1,014,000.)

Under the TCI program, the department is requesting \$3,042,000 in federal funds and \$1,014,000 in reimbursements from the TP and D Account for station improvements on the Peninsula Commuter Service.

Our analysis indicates, however, that the Legislature, in the 1985 Budget Act, appropriated \$1,014,000 in the department's support budget and \$3,042,000 in federal funds for the same purpose. Therefore, we recommend that the Legislature reduce reimbursements by \$1,014,000 and reduce federal funds by \$3,042,000.

Community Outreach Activities Budgeted Twice

We recommend that the Legislature delete \$85,000 requested for community outreach because this activity is double-budgeted. (Reduce Item 2660-001-046 by \$85,000.)

The department is requesting \$2,177,000 for marketing the state's three rail services—the Peninsula Commuter Service, and the San Joaquin and San Diegan intercity rail services—through a contract with a private marketing firm. This is an increase of \$200,000 over the current-year level. These contracts include provision for community outreach efforts as part of the overall marketing program.

Our analysis indicates that the department also is requesting an \$85,000 increase in support for the Peninsula Commuter Service for community

outreach. This request duplicates the activities which are proposed to be performed under contract. Therefore, we recommend that the Legislature delete the \$85,000 requested for outreach in order to correct for double budgeting.

Repayment of Local Agency Loans for Transit Cars

We withhold recommendation on \$3,700,000 in reimbursements requested to repay local agency loans for the purchase of transit cars for the Peninsula Commuter Service, pending action by the commission. (Item 2660-001-046).

The department has applied to the California Transportation Commission for \$3,700,000 in Transportation Planning and Development Account funds under the Transit Capital Improvement program in order to repay local agencies for loans advanced to purchase 10 additional rail cars for the Peninsula Commuter Service. At the time this analysis was prepared, the commission had not yet reviewed and approved this project. Accordingly, we withhold recommendation, pending action of the commission.

Station Maintenance and Utilities

We withhold recommendation on \$175,000 in state funds and \$176,000 in reimbursements requested to fund increased maintenance and utility costs for the Peninsula Commuter Service, pending the receipt of further information from the department. (Item 2660-001-046.)

The department is requesting \$351,000 for station maintenance and utility costs associated with the Peninsula Commuter Service. The department has not provided sufficient information to justify the increased costs of these services. Therefore, we withhold recommendation on this amount, pending receipt of further information from the department.

TRANSPORTATION PLANNING

We recommend approval.

The Transportation Planning program is responsible for coordinating and improving the quality of transportation planning in the state. The Transportation Planning program contains three elements: (1) *Statewide Planning*, (2) *Regional Planning*, and (3) *Work for Others*.

The budget proposes an expenditure of \$21,174,000 for transportation planning in 1986-87, including \$10.2 million for state operations and \$10.9 million for local assistance. This is an increase of \$266,000, or 1.3 percent over current-year estimated expenditures.

State operations expenditures are proposed to be funded by \$7,973,000 from the Transportation Planning and Development Account, \$1,484,000 from federal funds, and \$785,000 from reimbursements. Total state operations are budgeted to increase by \$266,000, or 2.7 percent, over current year expenditures.

Local assistance is proposed to remain at the current-year level of \$10.9 million, including \$2.0 million from the Transportation Planning and Development Account, and \$8.9 million in federal funds to be subvented to metropolitan planning organizations.

Transportation Planning staff is budgeted at 134.4 personnel-years, which is 2.8 personnel-years, or 2 percent, less than the current-year level. The proposed reduction is in management and supervisory staff.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued****ADMINISTRATION**

The Administration program contains the business, legal, management and other technical services necessary to support the department. This program has four elements: (1) *Program Administration*—budgeting, business and fiscal management, training and data processing; (2) *General Administration*—personnel, program evaluation, employee relations, public information and financial control; (3) *Legal Services*, and (4) *External Costs*—tort liability payments, pro rata charges and Board of Control claims. All expenditures in this program are distributed back to the four operating programs on a pro-rata basis.

The budget proposes an expenditure level of \$115.7 million for this element in 1986-87. This is an increase of \$12.7 million, or 12.3 percent, over estimated current-year expenditures. The increase reflects (1) \$2.4 million to automate accounting activities, (2) \$2.2 million to lease computer hardware, (3) a \$2.5 million increase in tort liability payments, (4) \$1 million for the increased cost of computer and management consultant services and training, (5) a \$2.7 million reduction in supervisory and management staff, (6) \$1.1 million to pay cash overtime departmentwide, as required by the Fair Labor Standards Act, and (7) various cost increases.

The budget proposes to reduce staffing for administration from the current-year level of 1,475.5 personnel-years to 1,465.5 personnel-years in 1986-87. The reduction—ten personnel-years—is almost all in supervisory and management staff (9.5).

Hiring Staff Directly Should Not Cost More

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$41,000 because the department overbudgeted for four personnel-years of staff it proposes to hire rather than contract for through the Teale Data Center. (Reduce Item 2660-001-042 by \$41,000.)

The department currently contracts with Teale Data Center for four personnel-years of computer operators. For 1986-87, the department proposes to hire, rather than contract for, the staff needed to provide these services. The department requests an increase of \$166,000 in personal services associated with the positions, but proposes a reduction of only \$125,000 in contract costs. Thus, it would seem that hiring is \$41,000 more costly than continuing to contract with the data center. We see no reason why this should be the case, and accordingly, recommend a reduction of \$41,000.

Accounting Automation Project Needs Pilot Testing

We recommend that the Legislature reduce the amount budgeted from the State Highway Account by \$2,052,000 because the request to implement an accounting automation project is premature and needs to be pilot-tested. (Reduce Item 2660-001-042 by \$2,052,000.)

In 1984, the department undertook a study of ways to improve accounting processes and services through automation. Subsequently, in August 1985, it completed a feasibility study report (FSR) for the automation of most account activities performed in the district offices. The department proposes to implement the automation project in 1986-87.

Pilot Testing. The feasibility study report, which currently is being reviewed by the Office of Information Technology (OIT), indicates that the project should be pilot tested to determine whether all districts' accounting processes can be automated. The pilot project, to begin in 1986-87, will last from six to nine months, and will be implemented in the San Francisco district and at the Sacramento headquarters.

In addition, discussions with OIT indicate that, rather than specifying the computer equipment to be procured, as proposed in the FSR, the department should request vendors to propose a solution and a configuration of equipment for the project, and then pilot test the proposal. This would permit an examination of the potential for upgrading existing computer capabilities—such as that provided by the computer-aided design and drafting system—to accommodate the project's objectives and workload. If upgrading is found to be feasible, it would avoid equipment redundancy and inefficient use.

The FSR also indicated the need for two computers to support the pilot. These computers would be acquired under an installment purchase arrangement, at a total cost of approximately \$283,000, and could be returned should the pilot evaluation lead to termination of the project.

Statewide Implementation. The project, shown to be feasible and effective, would be implemented statewide in 1987-88, at the projected costs of \$1,717,000 (including computer equipment and software contract services). In addition, the FSR estimated a need for departmental staff support of \$293,000 in 1987-88.

Budget Request. The department is requesting \$2,352,000 to implement the project statewide in 1986-87. This amount includes \$1,592,000 to purchase computer equipment for all 11 districts and headquarters, and \$760,000 to procure consulting services for computer software.

Recommendation. Because (1) the pilot study will not be complete until late 1986-87, (2) the feasibility study report programs the statewide implementation to take place in 1987-88, (3) the total costs estimated in the report over two years are less than the amount requested in the budget, and (4) the department may not need to procure all of the equipment detailed in the FSR, we think full statewide implementation in 1986-87 is premature. Accordingly, we recommend that the Legislature provide \$300,000 for a pilot project in the budget year, and delete the balance of the request (\$2,052,000).

Joint Development Authority Needs Legislative Clarification

We recommend that the Legislature enact legislation to clarify (1) whether the department may engage in joint development of state-owned property, (2) what types of development projects would be subject to legislative approval and review and (3) what type of projects can be undertaken by the department, with review and approval of the California Transportation Commission.

Current law allows the department to lease to public or private entities the use of areas above or below highways, if the department can ensure adequate protection of the highway facility and adjacent land. Accordingly, the department has for several years leased highway "air space" for various purposes, in accordance with local ordinances and requirements. Lease procedures are set by the California Transportation Commission, and leases must obtain the commission's unanimous approval when they are not let through the competitive bidding process. Air space leases are a significant source of revenue to the State Highway Account.

**DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—
Continued**

In addition, the department is also authorized to lease any land not currently needed for highway purposes.

The department owns properties which are used for departmental support purposes, such as office buildings, employee parking lots, and maintenance stations. These properties are not within the highway rights-of-way and, with the exception of maintenance stations, are not owned strictly for transportation purposes.

Recent Developments in the Use of Department Land and Air-Space. Some of the properties owned by the department are in areas where space is in high demand, such as in major metropolitan areas. Consequently, the value of some of the department's properties has increased significantly. This has raised the department's interest in leasing-out properties. Among the leases considered by the department in recent years are the following:

1. ***Los Angeles Parking Lot.*** In 1983-84, the department considered leasing a 2.5 acre parcel in downtown Los Angeles to a private developer on a long-term basis. This property would have been developed as a high-rise commercial building with space for parking and for private offices.

2. ***San Francisco Transbay Terminal.*** The department is continuing to develop plans for selling or leasing land or air rights associated with its San Francisco Peninsula Commuter Rail Service properties. These plans affect state-owned stations along the right-of-way of the service and certain properties adjacent to the Transbay Terminal which the department hopes to acquire for an extension of the Peninsula Commuter Service. A study conducted by a private consultant estimated that a prepaid, long-term lease of the land and air rights above the terminal could result in a one-time payment of between \$100 million and \$140 million to the state.

3. ***Los Angeles Harbor Freeway.*** In the current year, the department has asked the commission to authorize the execution of an option and lease allowing a private developer to develop some property adjacent to the Harbor Freeway in downtown Los Angeles. Development would involve two high-rise buildings for hotel and office space. The commission has suggested that the department consider getting the property rezoned prior to leasing it out for private development, in order to maximize lease revenue on the property.

As these three examples illustrate state-owned properties and airspace no longer are being leased merely for such limited purposes as parking lots and storage rentals. Instead, these properties are becoming attractive for high-rise building projects. As the department identifies more of those properties, the possibility of further commercial development will increase.

Current law does not explicitly address (1) whether the department and the California Transportation Commission are authorized to lease for commercial development property that is not within the highway rights-of-way, (2) how overall state needs are to be taken into consideration in leasing state property for commercial development and use, or (3) when it is appropriate for the department to enter into commercial ventures involving state-owned properties and what the extent of the department's involvement should be. For this reason, we recommend that the Legislature enact legislation to establish policies governing the department's involvement in the commercial development of state lands.

Unneeded Capital Outlay Funds Should Be Reverted

We recommend that the Legislature revert \$18.7 million from Item 2660-301-042 and \$212 million from Item 2660-301-890 of the Budget Act of 1985, because the capital outlay program adopted in the 1985 STIP for the current year is significantly smaller than what the Legislature anticipated. (Item 2660-495)

The 1985 Budget Act requires the department to revert at the end of each fiscal year amounts that are no longer needed for capital projects.

For the current year, the Legislature appropriated \$209,264,000 from the State Highway Account, based on what the 1985 STIP *proposed* to fund during 1985-86. Subsequently, however, the California Transportation Commission significantly reduced the highway capital outlay program in the 1985 STIP. It did so by (1) deferring approximately \$650 million worth of projects *beyond* the 1985 STIP period, and (2) delaying about \$1.2 billion worth of projects within the period. Given these changes, the final STIP (referred to as the "delivery STIP") schedules \$235 million less than the amount originally budgeted for 1985-86. Thus, \$18.7 million in state funds and \$212 million in federal funds appropriated in the 1985 Budget Act will not be needed in 1985-86.

Consequently, we recommend that these amounts be reverted by the end of the current year.

Funds for Local Streets and Roads

We recommend the Legislature delete the requested transfer of up to \$125 million of federal Section 8(g) funds to the State Highway Account because the availability of funds is not assured. (Delete Item 2660-102-890).

The 1985 Budget Act appropriated \$125 million in federal escrow funds, which the state expected to receive pursuant to Section 8(g) of the Outer Continental Shelf Land Act, for allocation to local governments for the reconstruction of streets and roads.

The budget proposes to (1) revert any escrow funds to the federal trust fund (Item 9675-495), (2) transfer the reverted and any future funds received, up to \$125 million, to the State Highway Account (Item 2660-102-890), and (3) appropriate up to \$125 million from the State Highway Account for loans to local governments for streets and roads (Item 9675-101-042).

In our analysis of Item 9675, we recommend that the Legislature *not* authorize a loan from the State Highway Account as proposed in the budget, because the loan could adversely affect the account's fund condition. Consistent with that recommendation, we recommend that the Legislature delete authorization for the transfer of federal funds to the State Highway Account. (See analyses of Items 9675-101-042, and 9675-495.)

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY

Item 2660-311 from the State
 Highway Account, State
 Transportation Fund

Budget p. BTH 79

Requested 1986-87	\$695,000
Recommended approval	65,000
Recommended reduction	170,000
Recommendation pending	460,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
 page

1. Redding Office Remodel. Withhold recommendation on \$350,000 requested in Item 2660-311-042(1), pending receipt of detailed cost estimate and preliminary plans. 320
2. *Minor Projects. Reduce Item 2660-311-042(2) by \$170,000.* 321
 Recommend deletion of funds requested for two minor projects because they are either not justified or inappropriately budgeted as capital outlay. Withhold recommendation on two minor projects totaling \$110,000, pending receipt of additional information.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$695,000 from the State Highway Account, State Transportation Fund, for one major capital outlay project and six minor projects for the Department of Transportation's (Caltrans) *administrative* facilities. The department's proposals and our recommendations are presented below.

Redding District Office Building Remodel

We withhold recommendation on Item 2660-311-042(1), \$350,000 for remodeling the Redding office to provide handicapped accessibility and to accommodate new electronic and computer designing systems, pending receipt of preliminary plans and a detailed cost estimate.

The department requests \$350,000 to install a passenger elevator to provide handicapped access to the Redding office building and to remodel the building interior to accommodate additional electronic data processing equipment and a computer-aided drafting and design (CADD) system. The department financed preliminary plans and working drawings for this project from its 1985-86 support budget.

The department informs us that preliminary plans and a cost estimate for this project will be available shortly. Until this information is available, we cannot substantiate the need for or cost of these alterations. Consequently, we withhold recommendation on this request, pending receipt of:

- preliminary plans,
- a detailed construction cost estimate,
- information on the status of the office's compliance with the handicapped code, Title 24.

Since the department has already financed the preliminary plans and working drawings in the current year, this information should be available prior to budget hearings.

Minor Capital Outlay

We recommend that Item 2660-311-042(2) be reduced by \$170,000 to eliminate funding for (1) a project that should be financed from support funds and (2) a project that has not been justified on a cost/benefit basis. We withhold recommendation on \$110,000 requested for two projects until additional information is available.

We recommend deletion of \$170,000 requested for two minor projects. The budget provides \$110,000 to replace the 30-year-old lighting system in the San Bernardino district office. Replacement of a building's lighting system is a maintenance item and should be funded on a priority basis from the department's support budget.

The budget also proposes \$60,000 for installation of solar screening on the windows of the San Diego district office building. The department indicates that temperatures in portions of this building can reach or exceed 85 degrees and that solar screens should reduce the temperature by 10 degrees. The department, however, has not substantiated the claim that there is a temperature problem in this building or determined what the resultant temperatures would be if the screens were installed. Moreover, the department indicates that there would be energy savings associated with this proposal, but has not documented the expected energy savings and related cost savings. Consequently, we recommend that funding for this project be deleted. Should the department develop data to substantiate this project's energy efficiency, the cost could be financed from Item 9895-001-942, which proposes \$20 million from the Petroleum Violation Escrow Account for improving energy efficiency in state-owned buildings.

We withhold recommendation on \$110,000 requested for the exhaust fan system in the Los Angeles district office basement garage (\$10,000) and the restroom remodels in the San Diego district office (\$100,000), pending receipt of detailed cost estimates and an evaluation of the San Diego office building's compliance with Title 24.

Supplemental Report Language

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

Business, Transportation and Housing Agency
OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds Budget p. BTH 86

Requested 1986-87	\$636,000
Estimated 1985-86.....	816,000
Actual 1984-85	483,000
Requested decrease \$180,000 (-22 percent)	
Total recommended reduction	18,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2700-001-044—Support	State Transportation, Motor Vehicle Account	\$277,000
2700-001-464—Support	First Offender Program	359,000
2700-001-890—Support and state grants	Federal Trust	(6,995,000)
2700-101-890—Local assistance	Federal Trust	(4,663,000)
Total		\$636,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	Analysis page
1. <i>General Expenses. Reduce Item 2700-001-044 by \$18,000.</i> Recommend reduction to correct for overbudgeted general expenses.	324

GENERAL PROGRAM STATEMENT

The Office of Traffic Safety (OTS) is responsible for evaluating and approving all state and local highway safety projects supported by federal funds. In order to qualify for federal funding, these projects must (1) comply with uniform safety standards established by the federal Department of Transportation and (2) address highway safety problem areas identified by OTS. In addition, OTS is responsible for (1) updating the California Highway Safety Plan, (2) providing technical assistance to state and local agencies in the development of traffic safety plans, and (3) coordinating ongoing traffic safety programs.

The office is authorized 25.8 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$12,267,000 (all funds) to support state and local traffic safety activities and the activities of OTS in 1986-87. This is a \$3,325,000, or 21 percent, reduction in expenditures from the current-year level of \$15,592,000. This reduction, however, is misleading, as we discuss below.

The amount budgeted consists of \$11,631,000 in federal funds, \$277,000 from the Motor Vehicle Account (MVA) in the State Transportation Fund, and \$359,000 from the First Offender Program Evaluation Fund. The \$277,000 requested from the MVA is \$11,000, or about 4.1 percent, above the estimated current-year expenditures. In contrast, the \$359,000 requested from the First Offender Program Evaluation Fund is \$191,000, or 35 percent, less than current-year expenditures. The combined amount requested from these two state funding sources—\$636,000—is \$180,000, or

22 percent, less than the amount of state funds OTS expects to spend in 1985-86.

Administrative Support. In the budget year, OTS proposes total program administration expenditures of \$1,866,000, consisting of \$1,230,000 in federal funds (66 percent) and \$636,000, in state funds (34 percent). The total is \$167,000, or 8.3 percent, less than estimated expenditures for administration in the current year. The decrease is attributable to a \$191,000 reduction in the Driving Under the Influence (DUI) first offender program. This program is scheduled to be completed during the budget year, and a final program evaluation report is due to the Legislature by December 30, 1986.

Grants to State Agencies. Federal fund allocations to state agencies for traffic safety projects are proposed at \$5,738,000 in 1986-87. This is essentially equal to the amount allocated for state projects in the current year.

Local Assistance. Federal regulations require that at least 40 percent of the federal funds provided to California be allocated to local agencies. Approximately 90 local agencies receive OTS grants each year that fund a variety of traffic safety activities, ranging from alcohol and drug enforcement to emergency medical services. The budget proposes that \$4,663,000, or 40 percent of the funds available for traffic safety activities in 1986-87, go to local agencies.

Although the budget reflects a reduction in local assistance expenditures of \$3,118,000 during 1986-87, the actual reduction, if any, will be considerably smaller than this amount. That is because part of the expenditures shown in the budget for the current year probably will not occur. The grant funds not spent will carry over into 1986-87, causing current-year expenditures to be lower and budget-year expenditures to be higher. Thus, there may be little change in the level of local assistance expenditures between this year and next.

Summary of Expenditures. Table 1 displays a summary of the OTS expenditures as reported in the budget document for the prior, current and budget years.

Table 1
Office of Traffic Safety
Summary of Expenditures
(1984-85 through 1986-87)
(dollars in thousands)

<i>Funding Source</i>	<i>Purpose</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Percent Change from 1985-86</i>
Federal Trust Funds	Administration	\$1,007	\$1,217	\$1,230	1.1%
	Grants to state agencies	5,743	5,778	5,738	-.7
	Grants to local agencies	6,100	7,781	4,663	-40.1
Motor Vehicle Account	Administration	244	266	277	4.1
First Offender Program					
Evaluation Fund	DUI Evaluation	239	550	359	-34.8
Reimbursements		39	—	—	—
Totals		\$13,372	\$15,592	\$12,267	21.4%

OFFICE OF TRAFFIC SAFETY—Continued**ANALYSIS AND RECOMMENDATIONS****General Expense Funds Overbudgeted**

We recommend a reduction of \$18,000 to correct for overbudgeting of general expenses. (Reduce Item 2700-001-044 by \$18,000.)

In the 1985 Budget Act, the Legislature provided \$63,000 for general expenses. According to the office, however, only \$48,000 of this amount will be expended for this purpose.

In the 1986 Budget Bill, the office is once again requesting \$63,000 for general expenses, but the need for only \$45,000 has been documented by supporting information. Accordingly, we recommend a reduction of \$18,000 to correct for overbudgeted general expenses.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund

Budget p. BTH 88

Requested 1986-87	\$481,847,000
Estimated 1985-86.....	451,929,000
Actual 1984-85	412,866,000
Requested increase \$29,918,000 (+6.7 percent)	
Total recommended reduction	3,171,000
Recommendation pending	1,310,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2720-001-044—Support	State Transportation Motor Vehicle Account	\$473,020,000
2720-001-890—Support	Federal Trust	(222,000)
2720-011-044—Payment of Deficiencies	Motor Vehicle	(2,000,000)
2720-021-044—Advance Purchase of Vehicles	Motor Vehicle	(5,000,000)
Reimbursements		8,827,000
Total		\$481,847,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Unregistered Vehicles.** Recommend adoption of supplemental report language directing the department to establish a task force with the Department of Motor Vehicles and local law enforcement agencies to increase the enforcement of the state's vehicle registration laws. 328
2. **Equipment Purchases. Reduce Item 2720-001-044 by \$1,970,000.** Recommend deletion of funds requested for telephone and radio equipment for Golden Gate Consolidated Center because construction of new facilities will not start in 1986-87. 328

3. **Vehicle Purchase.** Withhold recommendation on \$1,- 329
310,000 requested for vehicle purchase, pending a Budget
Amendment Letter.
4. **Personal Computers. Reduce Item 2720-001-044 by \$466,- 329**
000 and 1.0 personnel-years. Recommend reduction be-
cause department has not justified need for additional
personal computers.
5. **Word Processing Equipment. Reduce Item 2720-001-044 329**
by \$161,000. Recommend reduction to correct for over-
budgeting.
6. **Lease Costs. Reduce Item 2720-001-044 by \$574,000. 330**
Recommend reduction because the costs of certain leases
are overbudgeted.

GENERAL PROGRAM STATEMENT

The Department of the California Highway Patrol (CHP) is responsible for ensuring the safe, lawful and efficient movement of persons and goods along the state's highway system. To carry out this responsibility, the department administers three programs designed to assist the motoring public. These programs are: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. A fourth program, Administrative Support, provides administrative services to the first three programs.

The department's activities are coordinated from CHP headquarters in Sacramento, which oversees 8 division commands, 98 area offices, several inspection and scale facilities, and 2 communication centers. All facilities are linked to headquarters by an extensive communications network.

The department is authorized 7,640 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$482,069,000 for expenditure by the California Highway Patrol in 1986-87. This is \$29,918,000, or 6.7 percent, more than estimated total expenditures in the current year. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposed for 1986-87.

Current-year expenditures as reflected in the budget document, include \$4.1 million which had not been approved by the Legislature at the time this analysis was prepared. The CHP has requested additional spending authority from the Department of Finance under Section 27 (1) to fully support 670 traffic patrol officers authorized by Chapter 797, Statutes of 1985, AB 797, (\$3.8 million from the Motor Vehicle Account) and (2) to fund a study which will evaluate current standards for school buses and make recommendations for the cost-effective replacement of these buses (\$300,000 from the Driver Training Penalty Assessment Fund).

In the budget year, the department proposes to fund its programs primarily from the Motor Vehicle Account (MVA), State Transportation Fund, (\$473,000,000). In addition, it proposes to spend \$9,049,000 in reimbursements and federal funds.

Shortfall in Motor Vehicle Account

In the *1986-87 Budget: Perspectives and Issues* (Part three), we point out that during the next five years, the Motor Vehicle Account will face a major revenue shortfall, ranging from \$675 million to \$1 billion, *unless*

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

(1) vehicle registration and driver license fees are increased and (2) the growth in expenditures by the Department of Motor Vehicles, the California Highway Patrol and the Air Resources Board is slowed. The shortfall will first appear in 1986-87 when *the account will incur a deficit of about \$48 million.*

The steady growth in CHP expenditures is one of the major causes of the shortfall. In the five-year period ending in 1986-87, CHP's expenditures from the MVA will have increased by \$166,314,000, or 54 percent. This is equivalent to an annual average growth rate of about 9 percent.

The budget does nothing to eliminate the deficit in the Motor Vehicle Account. It proposes no increase in revenues to the account. Nor does it propose any slowdown in the growth of expenditures. In fact, the budget proposes a \$59,008,000, or 14 percent, *increase* in MVA support for the CHP in 1986-87. If this rate of increase were to continue, *the deficit in the MVA would exceed \$1 billion by 1990-91.*

In summary, the budget pretends that the imbalance between revenues and expenditures in the Motor Vehicle Account doesn't exist.

Table 1
California Highway Patrol
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	
Traffic Management	6,836.2	6,771.6	6,764.4	\$375,501	\$406,064	\$432,785	6.6%
Regulation and Inspection	719.2	712.5	711.1	30,084	37,376	40,055	7.2
Vehicle Ownership Security	157.6	156	155.8	7,503	8,711	9,229	5.9
Administration ^a	(1,359.1)	(1,346)	(1,343.6)	(79,813)	(88,181)	(94,909)	(7.6)
Totals	7,713	7,640.1	7,631.3	\$413,088	\$452,151	\$482,069	6.7%
Funding Sources							
General Fund				\$277	—	—	
Motor Vehicle Account, State Transportation Fund				368,577	\$414,012	\$473,020	
Reimbursements				-10,117	-7,772	-8,827	
California Highway Patrol Law Enforcement Account, State Transportation Fund				33,476	29,845	—	
Driver Training Penalty Assessment Fund				—	300	—	
Federal Trust Fund				641	222	222	
Reimbursements				10,117	7,772	8,827	

^a Administrative costs and personnel-years distributed to other programs.

Table 2
California Highway Patrol
Proposed 1986-87 Budget Changes
(dollars in thousands)

	Motor Vehicle Account (MVA)	Law Enforcement Account (LEA)	Driver Training Penalty Assess- ments Fund (DTPAF)	Federal Trust Fund	Reimburse- ments	Totals
1985-86 Expenditures (Revised)	\$414,012	\$29,845	\$300	\$222	\$7,772	\$452,151
Baseline Adjustment for 1986-87:						
1. Elimination of allocation for contingencies or emergencies	-1,844	—	-300	—	—	-2,144
2. Transfer LEA costs to MVA	29,845	-29,845	—	—	—	—
3. Allocation for employee compensation.....	20,150	—	—	—	—	20,150
4. Elimination of one-time costs	-9,877	—	—	—	—	-9,877
5. Other baseline adjustments:						
• Pro rata.....	4,513	—	—	—	—	4,513
• Miscellaneous operating expenses	826	—	—	—	—	826
• Reimbursements.....	-1,109	—	—	—	891	-218
• Full year cost of expanding program	8	—	—	—	—	8
Budget Change Proposals						
1. Inspection scale staffing	373	—	—	—	—	373
2. Overtime under Fair Labor Standards Act	753	—	—	—	—	753
3. Additional and replacement vehicles	1,310	—	—	—	—	1,310
4. Telecommunications equipment	10,120	—	—	—	—	10,120
5. Electronic sirens.....	447	—	—	—	—	447
6. Nonuniformed overtime.....	100	—	—	—	—	100
7. Communications staffing	219	—	—	—	164	383
8. Transportation systems management overtime	235	—	—	—	—	235
9. Automation changes	2,569	—	—	—	—	2,569
10. Other.....	161	—	—	—	—	161
1986-87 Expenditures (Proposed)	\$473,020	—	—	\$222	\$8,827	\$482,069
Change from 1985-86:						
Amount	\$59,008	-\$29,845	-\$300	—	\$1,055	\$29,918
Percent.....	14.3%	-100%	-100%	—	13.6%	6.7%

ANALYSIS AND RECOMMENDATIONS

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

- \$8,747,000 to replace enforcement radio equipment and electronic sirens.
- \$373,000 to staff and maintain the Truckee Inspection Facility and the Temecula Platform Scale.
- \$383,000 for additional communications staff for the Los Angeles Communications Center, Border Division headquarters office in San Diego, and the Ventura command office.
- \$753,000 to pay additional overtime under the provisions of the Fair Labor Standards Act.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**TRAFFIC MANAGEMENT**

The CHP traffic management program accounts for \$432,785,000, or 90 percent of department's proposed expenditures in 1986-87. Approximately 86 percent of the department's uniformed personnel, and nearly one-half of its nonuniformed personnel, are employed in this program.

Increased Enforcement of Vehicle Registration Laws is Needed

We recommend that the Legislature adopt supplemental report language directing the CHP to establish a task force with the Department of Motor Vehicles and local law enforcement agencies in order to increase the enforcement of the state's vehicle registration laws.

According to the Department of Motor Vehicles (DMV), at least 2.1 million vehicles are driving on California roads and highways without a valid registration. As a result, the Motor Vehicle Account will lose \$48.3 million in registration fees that are due on these vehicles in the current year. In addition, both the General Fund and local governments will be deprived of millions of dollars in revenues from the use tax and in-lieu property taxes, respectively.

Recognizing the seriousness of this problem, the Legislature recently enacted Ch 1126/85 (AB 2000) to create the Registration Amnesty Program. This program allows motorists to register or reregister their vehicles without penalties during a three-month period starting January 1, 1986.

The AB 2000 program may reduce the number of vehicles without valid vehicle registrations. Without increased emphasis on *enforcement* of state vehicle registration laws, however, there is no reason to believe that many scofflaws will change their ways.

We believe the CHP must be more aggressive in its enforcement of these laws. With this in mind, we recommend that the Legislature direct the CHP to form a task force that includes representatives of DMV and local enforcement agencies for the purpose of developing and implementing a plan for increased enforcement of the state's vehicle registration laws. To accomplish this, we recommend that the Legislature adopt the following supplemental language: "The Legislature directs the CHP and the DMV, in conjunction with local law enforcement agencies, to develop and implement a plan for increasing enforcement of vehicle registration laws and enhancement of state and local revenues from vehicle registration fees, use taxes and in-lieu property taxes. The task force shall submit to the Legislature a progress report by December 15, 1986, and a final report by August 1, 1987."

Construction of Golden Gate Consolidated Center Delayed

We recommend that the Legislature delete \$1,970,000 requested for telephone and radio equipment for the Golden Gate Consolidated Center because construction of new facilities will not begin in 1986-87. (Reduce Item 2720-001-044 by \$1,970,000.)

The department is requesting \$1,970,000 to purchase a computer-aided dispatch system and associated telephone equipment for the Golden Gate Consolidated Center. Construction of this facility originally was scheduled to begin in 1986-87.

We find that construction of the new building will not begin until the end of 1986-87, at the earliest, and will take 20 months to complete. Consequently, the purchase of this equipment in 1986-87 would be premature and can be deferred until 1987-88. Accordingly, we recommend that the Legislature delete \$1,970,000 requested for this equipment.

The Request for Replacement Vehicles Will Be Amended

We withhold recommendation on \$1,310,000 requested to replace and purchase new vehicles, pending the receipt of a Budget Bill amendment letter.

The department is requesting \$1,310,000 for the purchase of new vehicles to replenish its fleet. According to the department, a Budget Bill amendment letter will be submitted to reflect the estimated number and cost of the vehicles. Thus, we withhold recommendation on \$1,310,000 requested to purchase vehicles, pending receipt of the amendment letter.

ADMINISTRATIVE SUPPORT

The department's administrative support program consists of six elements—administrative services, management and command, budget and fiscal management, planning and analysis, training and the Statewide Integrated Traffic Records System. Administrative costs are prorated among the department's other operating programs.

Purchase of Personal Computers is Premature

We recommend that the Legislature delete \$466,000 and 1.0 personnel-year requested for the acquisition of personal computers because the department has not justified the need for this equipment. (Reduce Item 2720-001-044 by \$466,000.)

The department purchased 15 personal computers in the current year and is requesting \$466,000 to purchase 20 additional units in the budget year for various field offices. According to the department, the additional personal computers are needed to meet increased clerical and professional workload.

The department has not developed a feasibility study of its department-wide needs and the potential costs and benefits of adding this equipment. It is, instead, proposing to purchase personal computers on a piecemeal basis. Lacking a feasibility study, we have no basis for confirming that the department actually needs the equipment and that it would be cost-effective. Consequently, we recommend that the Legislature delete \$466,000 and 1 personnel-year requested for this purpose.

Operation and Maintenance Costs Overbudgeted

We recommend a reduction of \$161,000 to correct for overbudgeting of operations and maintenance costs associated with the purchase of word processing equipment. (Reduce Item 2720-001-044 by \$161,000.)

The department is requesting \$2,033,000 for the second phase of a project to purchase word processing equipment and pay associated maintenance costs for 50 area offices. Installation of the equipment is planned by June 1987. The feasibility study for this project has been approved by the state Office of Information and Technology.

Included in this request is \$176,000 to fund operations and maintenance costs for 12 months. Our analysis indicates, however, that the department will incur these costs for only one month in 1986-87. Thus, we recommend a reduction of \$161,000 to correct for overbudgeting.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**Lease Costs Exceed Needs**

We recommend a reduction of \$574,000 for proposed facility lease agreements to correct for overbudgeting. (Reduce Item 2720-001-044 by \$574,000.)

The patrol is requesting \$3,733,614 in 1986-87 to lease land, offices, and other facilities on a statewide basis. This is an increase of \$663,700, or 22 percent, above estimated expenditures for leases in the current year. According to the department, the increase will enable it to lease 20 new build-to-suit facilities in the budget year. These facilities will be specially constructed to satisfy the department's needs. Therefore, the cost of leasing these facilities will be higher than the cost of leasing the department's other facilities.

Based on information from the Department of General Services, Division of Space Management (DSM), we find that the department will not be able to occupy seven facilities until a date later than what the department originally anticipated. Consequently, we recommend a reduction of \$574,000 to correct for overbudgeting of facility leases. The basis for this recommendation appears in Table 3.

Table 3
California Highway Patrol
Proposed Lease Costs
1986-87

Facility	Amount Requested	Analyst's	Recommended Reduction
		Recommended Amount	
Coalinga	\$109,224	\$26,460	\$82,764
Garberville	150,700	20,100	130,600
Madera	69,332	47,100	22,232
Malibu	156,544	54,816	101,728
Northern Division	153,400	115,050	38,350
Susanville	120,000	90,000	30,000
Tejon	180,000	12,000	168,000
Totals	\$939,200	\$365,526	\$573,674

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Items 2720-301 and 2720-495
from the Motor Vehicle Ac-
count, State Transportation
Fund

Budget p. BTH 98

Requested 1986-87	\$11,159,000
Recommended approval	7,859,000
Recommended reduction	1,151,000
Recommendation pending	2,149,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

- | | |
|---|-----|
| 1. <i>Golden Gate Division Office and Communication Center. Reduce Item 2720-301-044(2) by \$331,000.</i> Recommend reduction to correct a miscalculation in the cost estimate. | 332 |
| 2. <i>EVOC Track Modifications. Reduce Item 2720-301-044(3) by \$216,000.</i> Recommend deletion of requested funds because the project will not achieve its stated goal. | 332 |
| 3. <i>Alterations at Stockton. Reduce Item 2720-301-044(6) by \$502,000.</i> Recommend deletion because the department has assured the Legislature that the proposed modifications would not be required. | 334 |
| 4. <i>New Facility—Oakland.</i> Withhold recommendation on Item 2720-301-044(7), pending receipt of value engineering study to evaluate potential cost savings in building construction materials and procedures. | 334 |
| 5. <i>New Facility—Needles.</i> Withhold recommendation on Item 2720-301-044(9), pending receipt of schematic drawings and an explanation for the excessive inspection and contingency costs. | 335 |
| 6. <i>Options and Appraisals.</i> Withhold recommendation on Item 2720-301-044(10), pending receipt of a detailed budget for these funds for the coming year and the two prior years. | 336 |
| 7. <i>Minor Projects.</i> Withhold recommendation on \$170,000 for remodeling the San Luis Obispo office, pending receipt of additional information. | 336 |
| 8. <i>Minor Projects. Reduce Item 2720-301-044(1) by \$102,000.</i> Recommend eliminating funds for a new HVAC system in Fresno because it should be funded in the support budget. | 336 |

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$11,159,000 from the Motor Vehicle Account, State Transportation Fund, for the Department of the California Highway Patrol's (CHP) 1986-87 capital outlay program. This includes nine major and seven minor projects. The department's request and our recommendations are summarized in Table 1.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY
—Continued

Table 1
Department of the California Highway Patrol
1986-87 Major Capital Outlay Program Summary
(dollars in thousands)

Sub-item	Project Title	Phase ^a	Budget Bill Amount	Analyst's Recommendation
2	Golden Gate Division Communications Center and Division Office	c	\$5,994	\$5,663
3	EVOC Track Modifications	pwc	216	—
4	New Skid Facility	pw	37	37
5	Yuba Sutter—Purchase of Leased Facility	a	754	754
6	Stockton Alterations	pwc	502	—
7	Oakland Facility	c	1,831	Pending value engineering study
8	Morongo Basin—Purchase of Leased Facility	a	644	644
9	Needles—Construct New Facility	pw	128	Pending cost estimate
10	Property and Appraisals	—	20	Pending additional information
			<hr/> \$10,126	<hr/> Pending

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; a = acquisition

Golden Gate Division Office And Communications Center

We recommend that the Legislature reduce Item 2720-301-044 (2) by \$331,000 to correct a miscalculation in the construction cost estimate.

The budget includes \$5,994,000 under Item 2720-301-044 (2) for construction of the new Golden Gate Division Office and Communications Center in Vallejo. The proposed 32,720 square foot facility will consolidate the radio dispatch function currently housed at four offices and provide space for division offices.

On December 19, 1985, we received a letter from the Office of State Architect (OSA) indicating that the estimated construction cost of \$5,994,000 was \$331,000 too high because the cost estimate inadvertently included an incorrect price for structural steel. Consequently, we recommend that the Legislature reduce this item by \$331,000 to correct for this miscalculation.

High Speed Track Modifications

We recommend that the Legislature delete Item 2720-301-044 (3), preliminary plans, working drawings and construction of modifications to the academy's EVOC track, because the project will not achieve the stated goal.

The Legislature appropriated \$72,000 in 1983-84 for two minor capital projects (projects costing \$200,000 and less) to enhance the academy's Emergency Vehicle Operations Course (EVOC) track. These projects were for (1) an "S" curve modification (\$37,000) and (2) an impact attenuator (\$35,000). Subsequent to the appropriation, the patrol combined these projects and transferred funds to the OSA for design and construction. The OSA's estimate for the combined job was \$262,000. Consequently, the CHP installed the impact attenuators at a cost of \$46,000, but did not modify the "S" curve.

The CHP now proposes to add the "S" shape curve to the performance driving track. According to the CHP, the OSA has spent \$62,000 to develop preliminary plans and working drawings for this addition to the track—*\$25,000 more than the original estimate for the entire project*. Based on OSA's current plan, the estimated total project cost is \$278,000 (over seven times the original estimate). Thus, an additional \$216,000 is needed for this project.

The department contends that the configuration of the current EVOC track is such that student drivers can quickly memorize its variations. The students can then respond through habit with the correct vehicle control measures to safely negotiate the track. The department feels this effectively neutralizes both the training and evaluation of student drivers, and proposes to construct an additional "S" curve so that students will be confronted with an unfamiliar roadway situation.

Our analysis indicates that the department's proposal will not solve the problem. While the new curve would be unfamiliar to students who have trained on the existing portion of the track, students who train on the track after the new curve is installed will develop the necessary reactions to negotiate this curve as well. Hence, the new students will not be faced with the unfamiliar roadway situation which the department is seeking.

Because the proposed modifications will not achieve the stated goal, we recommend that the Legislature delete the \$216,000 requested for this project.

Skid Pan Facility

We recommend approval of Item 2720-301-044(4), preliminary plans and working drawings for a new skid facility at the academy.

The budget provides \$37,000 for preliminary plans and working drawings for a new skid pan facility at the CHP Academy. The department indicates that the academy's current skid pan is only appropriate for training cadets how to recover from a skid when the cadet is driving a rear wheel drive car. The current skid pan is *not* effective, however, for training in the control of front wheel vehicles. The proposed skid pan would enable the department to train cadets to recover from skids when driving rear *and* front wheel drive vehicles at low or high speeds.

The department's records show that approximately 14 percent of CHP vehicle accidents in 1983 and 1984 resulted from CHP officers losing control of their vehicle. Twenty of these accidents resulted in injury; four injuries were serious. In addition, the department currently has 18 front wheel drive police vehicles and plans to purchase 100 more in 1986-87. On this basis, the new skid pan facility is justified and we accordingly recommend that funding for it be approved.

Purchase of Leased Facilities

We recommend approval of Items 2720-301-444 (5) and (8) for the purchase of leased facilities at Yuba Sutter and Morongo Basin.

The CHP is requesting \$1,364,000 for the purchase of two area offices that currently are leased by the patrol. Annual rent at the Morongo Basin and the Yuba Sutter facilities is \$131,000 and \$130,000, respectively.

The amounts budgeted for the purchase of these facilities are based on contractual amounts in the lease agreements plus Department of General Services' administrative costs. For Morongo Basin, the total cost is \$644,000; for Yuba Sutter, the cost is \$754,000. Our analysis indicates that these acquisitions will be financially beneficial to the state, and accordingly we recommend that the requested funds be approved.

**DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY
—Continued****Alterations at Stockton**

We recommend that the Legislature delete Item 2720-301-044 (6) because the department has assured the Legislature that the proposed modifications will not be required.

Item 2720-301-044 (6) contains \$502,000 for preliminary plans, working drawings and construction of building alterations to the Stockton field office. The department proposes to expand and upgrade the existing facility to better accommodate current staffing and to meet requirements for handicapped accessibility and women traffic officers. The department also proposes to remodel and upgrade various mechanical and electrical items at the Stockton field office.

This project is a resubmittal. The Legislature deleted funding for the project from the 1985-86 budget because just two years earlier, when requesting funds for acquisition of the Stockton office, the department indicated that the facility was (1) constructed for 75 traffic officers and (2) would be adequate for occupancy by the patrol for at least 13 years after purchase.

Our analysis indicates that modifications to this facility are not justified. The number of staff currently working at the Stockton office is 74, one less than the number of staff which, according to the department, the building was designed to accommodate. Furthermore, standards for handicapped accessibility and women traffic officers' facilities have not changed substantially since the building was purchased less than three years ago. Consequently, we recommend that the Legislature delete the funds requested for remodeling and expanding this facility.

Oakland Officers' Facility and Communications Center

We withhold recommendation on \$1,831,000 under Item 2720-301-044 (7), the Oakland officers' facility and communications center, pending receipt of additional information and a value engineering study of the proposed project.

The 1984 Budget Act provided \$1,211,000 for construction of a 100-officer facility and communications center in Oakland. On January 25, 1985, the Public Works Board approved an augmentation to increase the OSA's fees for this project. At that time, the board was advised that the construction cost would be \$1,211,000. Moreover, in January 1985, the Department of Finance certified to the Legislature that, except for the added cost for the OSA, the project was within the scope and cost approved by the Legislature.

On October 16, 1985, 10 months after the board approved the Oakland project, the OSA received bids for construction of the facility. The CHP indicates that each of the bids exceeded the amount appropriated by at least 20 percent. Existing law specifies that any augmentation in excess of 20 percent of the amount appropriated must be referred to the Legislature. Consequently, the CHP is submitting this project to the Legislature for reconsideration at the higher cost.

The CHP now requests \$1,831,000 for construction of these buildings. This represents a 51 percent increase over the 1984-85 appropriation.

We have no basis to evaluate the reasonableness of the request, as we do not have:

- a list of the bids submitted for this project,
- an explanation of why the costs exceed the amount approved by the Legislature and the Public Works Board, or
- any detailed information on the Office of State Architect's revised cost estimate.

Furthermore, given the substantial cost overrun, we believe this project would benefit from a value engineering analysis. In these studies, consulting architects/engineers and others review the project, analyze the cost efficiency of materials and procedures detailed in the construction documents. Our experience indicates that value engineering is cost-effective and results in an improved project costing less to construct.

Consequently, the CHP should use a portion of the funds currently available for this project to contract for a value engineering analysis. The results of this analysis should be available prior to budget hearings. Pending receipt of the information noted above and the value engineering analysis, we withhold recommendation of the additional funds requested for this project.

The unencumbered balance of the \$1,211,000, appropriated for this project in the 1984 Budget Act is proposed to be reverted under Item 2720-495. We recommend approval.

New Facility—Needles

We withhold recommendation on Item 2720-301-004 (9), preliminary plans and working drawings for a new facility in Needles, pending receipt of schematic drawings and an explanation of the inspection and contingency costs.

The CHP currently leases 2,880 square feet of modular office space in Needles at an annual rent of \$27,000. The Needles resident post has 12 traffic officers and one sergeant.

The City of Needles has offered the state a 49 year lease for 1.3 acres of land adjacent to the Needles Civic Center at a nominal fee of \$100. The lease is renewable, at the State's option, for another 49 years and a second \$100 fee.

The budget includes \$128,000 for preliminary plans and working drawings to construct a 6,200 square foot facility in Needles. The design of this project is to be based on the approved standard CHP plan for a 25 traffic officer facility. The department estimates that the proposed new facility will be adequate for a minimum of 15 years.

Our analysis indicates that this project is justified. The recently released budget estimate, however, contains numerous overbudgeted items. For example:

- the proposed facility is a standard prototype plan. Thus, the fees for architectural/engineering design should be reduced. This is not reflected in the budget request.
- *travel costs* associated with the construction inspection are budgeted to be \$86,000. This is based on the time, mileage and per diem costs of an inspector (or inspectors) making *110 round trips* from Los Angeles to Needles during the approximately 250 days of construction. The total cost for on-the-site inspection is \$23,000. Thus, the OSA plans to spend \$53,000 (230 percent) more for the inspector(s) to be off the job than on the job. We cannot imagine why construction inspection travel costs need to be this high.

**DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY
—Continued**

- the set-aside for contingencies include separate costs for *correcting* a deficiency and *negotiating* with the contractor to correct a deficiency. This is not normally done and amounts to a higher contingency than is permitted by the State Administrative Manual.

Consequently, we withhold recommendation on the funds requested for preliminary plans and working drawings for the Needles facility, pending receipt of:

- a detailed cost estimate.
- detailed explanations of the overbudgeted items.

Options and Appraisals

We withhold recommendation on Item 2720-301-044(9), options and appraisals, pending receipt of a detailed budget covering the use of these funds in the coming year and two prior years.

The proposed budget includes funds for property options and appraisals for both the Department of the California Highway Patrol and the Department of Motor Vehicles (Item 2740-301-044). Activities to be performed under these items are very similar. In each case, the Real Estate Services Division searches for a site and appraises it, the Office of Planning and Research assesses the environmental impact of the proposed construction, the Office of State Architect evaluates site suitability and the department pays an option price to the property owner. While the appropriate site for a DMV and CHP office differs somewhat, the costs for a site search, appraisal, evaluation, environmental assessment, and option should be fairly similar.

The budget, however, provides \$75,000 for the DMV options and appraisals and only \$20,000 for the CHP. The DMV's proposal for options and appraisals indicates a cost of \$35,000 per site; the CHP's proposal shows a cost of \$10,000 per site.

We withhold recommendation on the \$20,000 proposed under this item, pending receipt of (1) a budget for the department's 1986-87 option and appraisal activities, specifying the fees to be paid to the Real Estate Services Division, Office of Planning and Research, Office of State Architect and property owner, and (2) an accounting of the department's expenses under this item for 1985-86 and 1984-85.

Minor Projects

We recommend that the Legislature reduce Item 2720-301-044(1) by \$102,000 to eliminate funding for a new HVAC system in Fresno, because maintenance items should be funded from CHP's support budget.

We withhold recommendation on \$170,000 requested for the San Luis Obispo office remodel, pending receipt of additional information justifying the extensive remodeling.

The budget provides for \$1,033,000 to fund seven minor projects (\$200,000 or less per project). These projects, along with our recommendations, are summarized in Table 2.

Table 2
Department of the California Highway Patrol
1986-87 Minor Capital Outlay Projects
(dollars in thousands)

<i>Project</i>	<i>Location</i>	<i>Department's Request</i>	<i>Analyst's Recom- mendation</i>
Indoor Bullet Trap	Academy	\$160	\$160
Handicapped Access	Various	199	199
Female Traffic Officer Shower and Locker Room	Various	200	200
Office Alterations	San Luis Obispo	170	Pending additional information
Office Alterations	Fresno	175	73
Office Alterations	Redding	80	80
Motorcycle Repair Shop Modifications	Los Angeles	49	49
Totals		\$1,033	Pending

We have concerns with the following projects:

San Luis Obispo (SLO) Office Alterations. The CHP and DMV currently share an office in SLO. The budget proposes \$170,000 to substantially remodel the entire facility when the DMV moves to other quarters. This remodeling will increase the CHP's space by 50 percent. The department plans to enlarge offices, briefing rooms, the dispatch center, and the women's locker room.

We have no basis on which to evaluate the need for this additional space. Accordingly, we withhold recommendation, pending receipt of information on:

- the number of traffic officers at the SLO office.
- how the proposed space allocation of the SLO office compares with the standard space allocation for a comparable size office.
- the equipment to be purchased as part of this remodel.

Fresno Office Alterations. Central Division and the Fresno Area CHP currently share a facility. The department requests \$175,000 to remodel the Fresno Area office after Central Division moves into a new facility in 1986. This remodeling will enlarge many of the office's rooms, make the facility handicapped accessible and provide a locker room and showers for female traffic officers. These alterations will cost \$73,000—42 percent of the department's request.

The balance of the funds (\$102,000) for this minor project (58 percent) are for installation and purchase of a replacement HVAC system. The department indicates that the current system is not energy efficient and distributes air through an uninsulated attic.

Replacement of existing capacity is a maintenance/special repair item and should be financed on a priority basis using maintenance/special repair funds in the Patrol's support budget.

Supplemental Report Language

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

**DEPARTMENT OF THE CALIFORNIA HIGHWAY
PATROL—REAPPROPRIATION**

Item 2720-490 from the Motor
Vehicle Account

Budget p. BTH 88

ANALYSIS AND RECOMMENDATIONS

Reappropriation for the Purchase of Equipment.

We recommend approval.

The Department of the California Highway Patrol is requesting reappropriation of \$345,000 to complete the purchase of microwave equipment in the budget year. The funds were originally appropriated in Item 2720-001-044 (A), Budget Act of 1985. Our analysis indicates that the funds are needed in the budget year because the Department of General Services was unable to complete the purchase in 1985-86. Accordingly, we recommend approval of the requested reappropriation of \$345,000 to purchase the microwave equipment.

**Business, Transportation and Housing Agency
DEPARTMENT OF MOTOR VEHICLES**

Item 2740 from the Motor Vehicle Account, State Transportation Fund

Budget p. BTH 100

Requested 1986-87	\$343,180,000
Estimated 1985-86.....	315,968,000
Actual 1984-85	278,754,000
Requested increase \$27,212,000 (+8.7 percent)	
Total recommended reduction	6,879,670
Recommendation pending	4,722,400

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2740-001-001—Anatomical donor designation, petit jury selection	General	\$62,000
2740-001-044—Departmental Operations	Motor Vehicle Account, State Transportation	234,333,000
2740-001-054—Support of New Motor Vehicle Board	New Motor Vehicle Board Account	852,000
2740-001-064—Departmental Operations	Motor Vehicle License Fee Account, Transportation Fund	96,022,000
2740-001-378—Bicycle Registration	State Bicycle License and Registration	40,000
2740-001-516—Undocumented Vessel Registration	Harbors and Watercraft Revolving	2,716,000
2740-011-044—Payment of Deficiencies	Motor Vehicle Account	(1,000,000)
Reimbursements	—	9,155,000
Total		\$343,180,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. State Highway Account Revenue Transfer. Recommend that the Legislature adopt budget bill language prohibiting transfer of \$65,700,000 from the State Highway Account to the Motor Vehicle Account (MVA) because it does nothing to address the growing imbalance between expenditures from and revenues to the MVA. 343
2. *Appointment System. Reduce Item 2740-001-044 by \$2,736,000 and 100 personnel-years.* Recommend deletion of funds requested for phone-mail appointment system because the increase in workload has not been documented. 344
3. *Registration Services. Reduce Item 2740-001-044 by \$602,670 and 24.7 personnel-years.* Recommend deletion of funds requested for registration operations because the increase in workload has not been documented. 345
4. *Drivers Licensing. Reduce Item 2740-001-044 by \$370,000 and 18 personnel-years.* Recommend reduction to correct for overbudgeting. 346
5. Automation Project. Recommend department report to the fiscal subcommittees during budget hearings on the current status and costs of the automation project. 346
6. *Computer Replacement Project. Reduce Item 2740-001-044 by \$2,652,000 and 9.5 personnel-years.* Recommend deletion of funds requested for computer replacement project because the feasibility study report has not been completed. 347
7. Facilities Operations. Withhold recommendation on \$4,722,000 requested for maintenance of the department's facilities, pending receipt of additional information. 348
8. *Direct Computer Access. Reduce Item 2740-001-044 by \$519,000.* Recommend deletion of funds requested to allow direct access by the general public and business entities to department's data base information files because of a lack of specified information. Recommend adoption of supplemental report language directing the department to report on what information will be made available for direct public access and what security measures will be incorporated in the system. 348

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Field Office Operations, Administration, Electronic Data Processing, Registration and Compliance. Through these divisions, the department administers the following programs: (1) Vehicle and Vessel Registration and Titling, (2) Driver Licensing and Control, and Personal Identification, (3) Occupational Licensing and Regulation, and (4) Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

DEPARTMENT OF MOTOR VEHICLES—Continued

In the budget year, the department will operate 160 field offices in 14 districts throughout California, as well as a headquarters facility in Sacramento. The department is authorized 7,872.1 personnel-years in 1985-86.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$343,180,000 from various state funds and reimbursements for support of the Department of Motor Vehicles in 1986-87. This is \$27,212,000, or 8.7 percent, more than estimated expenditures from those sources in the current year. The budget also proposes 7,827 personnel-years for DMV in 1986-87. This represents a net decrease of 45 personnel-years, or -0.6 percent, from the 1985-86 level.

Table 1 provides a summary of the department's staffing and expenditures, by program, for the prior, current, and budget years.

Table 1
Department of Motor Vehicles
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	
Vehicle and Vessel Registration and Titling.....	4,048.7	4,101.9	4,062.0	\$156,193	\$175,478	\$193,714	10.4%
Driver Licensing and Control and Personal Identification.....	2,873.5	2,986.1	2,927.5	105,748	120,427	127,714	6.1
Occupational Licensing and Regulation	352.1	375.8	376.9	15,964	19,197	20,794	8.4
New Motor Vehicle Board.....	12.9	15.4	16.3	608	774	862	11.4
Administration	419.7	392.9	399.4	53,313	64,908	79,996	23.3
Administration Costs Distributed to Other Pro- grams.....	—	—	—	-53,072	-64,816	-79,900	23.3
Totals.....	7,706.9	7,872.1	7,827.1	\$278,754	\$315,968	\$343,968	8.7%
Funding Source							
General Fund.....				\$67	\$57	\$62	
Motor Vehicle Account, State Transportation Fund				177,493	212,399	234,333	
New Motor Vehicle Board Account.....				—	764	852	
Motor Vehicle License Fee Account, Transportation Tax Fund				75,737	91,167	96,022	
State Bicycle License and Registration Fund				23	27	40	
Vehicle Inspection Fund.....				1,119	—	—	
Harbors and Watercraft Revolving Fund.....				2,885	2,967	2,716	
Reimbursements				21,430	8,587	9,155	

The percentage changes proposed in the budget for the department (and shown in Table 1) understate the proposed growth in DMV programs. This is because DMV expenditures in the current year have been increased significantly since the Legislature approved the 1985 Budget Act. These increases, which total \$9,490,000, have been authorized by the Department of Finance under two sections of the 1985 Budget Act, and by the Legislature through the enactment of new legislation. The increases include (1) a Section 27 deficiency augmentation of \$6,338,000 to support 640 new personnel-years, (618 personnel-years after reducing salary savings), (2) a Section 28 authorization for additional reimbursements of \$1,043,000 from the Vehicle Inspection Fund to cover increased costs

associated with administering the state's smog inspection programs, and (3) appropriations totaling \$2,109,000 included in new legislation chaptered in 1985.

When the level of expenditures and staffing proposed for 1986-87 are compared with the expenditures approved by the Legislature in the 1985 Budget Act, including wage and salary adjustments, the increases would grow to \$36,702,000, or 12 percent, in expenditures and 572 personnel-years, or 7.9 percent, in staffing.

Midyear Adjustments Circumvent the Legislative Budget Process

This is the second consecutive year in which major adjustments have been made to the department's budget *after* enactment of the Budget Bill. In 1984-85, \$12 million was redirected from headquarters' operations to field office operations to handle a growing backlog in vehicle registrations. The backlog arose because of major problems and delays in implementing the department's field office automation project.

Recognizing the need for additional resources to reduce the backlog, the Legislature added \$4.8 million to the department's 1985-86 budget in order to fund overtime worked by field office staff. During the first three months of the year, the backlog was greatly reduced. Nevertheless, the Department of Finance, at DMV's request, has administratively approved further increases in the department's 1985-86 budget amounting to \$7,381,000. These augmentations consist of (1) \$4,177,000 and \$2,161,000 from the MVA and the Motor Vehicle License Fee Account, respectively, and (2) \$1,043,000 from the Motor Vehicle Inspection Fund. In addition, the Department of Finance has been administratively authorized a transfer of \$4.3 million from operating expenses and equipment to support increased staff. Together, these changes will provide the department with \$11,681,000 more for its vehicle registration program in 1985-86 to hold the backlog to acceptable levels.

This reliance on midyear budget adjustments approved outside the normal legislative process results from the department's failure (1) to develop realistic timetables and cost estimates for implementation of the field office automation project, (2) to successfully manage integration of the phone-mail appointment system with the department's registration processing system, and (3) to present the Legislature with a valid assessment of its personnel needs for operation of the registration process.

As a consequence, the Legislature's control over expenditures from the MVA has been diminished. Moreover, this ad hoc process to budgeting is disrupting the normal operation of the department, delaying the purchase of necessary computer equipment, and creating employee morale problems. Ultimately, the quality of services to the driving public suffers.

Funding Sources

In the budget year, the department proposes to fund its programs from three sources—\$234,333,000 from the Motor Vehicle Account (MVA), State Transportation Fund, \$96,022,000 from the Motor Vehicle License Fee Account, Transportation Tax Fund, and \$12,825,000 from reimbursements and other accounts.

Changes Proposed in the Budget

Table 2 summarizes the major changes proposed for the DMV's budget in 1986-87.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 2
Department of Motor Vehicles
Proposed Budget changes
(dollars in thousands)

	<i>Motor Vehicle Account</i>	<i>Motor Vehicle License Fee Account</i>	<i>Other</i>	<i>Total</i>
1985-86 Expenditures (Revised)	\$212,399	\$91,167	\$12,402	\$315,968
Baseline Adjustments, 1986-87				
1. Employee Compensation	\$7,288	\$3,146	\$396	\$10,830
2. Elimination of One-Time Cost	-9,113	—	—	-9,113
3. Net Administrative Adjustment	-3,076	—	—	-3,076
4. Pro Rata Adjustment	-168	—	85	-83
Budget Change Proposals				
1. Level of Service—22 Urban Offices	\$174	—	—	\$174
2. Statewide Level of Service Improvement and Backlog Prevention	111	—	—	111
3. Automation Delay	3,408	—	—	3,408
4. Legislation	-93	—	-\$50	-143
5. Workload	18,404	\$1,709	-8	20,105
6. EDP support for Level of Service	4,151	—	—	4,151
7. Reduce Salary Savings	848	—	—	848
1986-87 Expenditures (Proposed)	\$234,333	\$96,022	\$12,825	\$343,180
Change from 1985-86:				
Amount	\$21,934	\$4,855	\$423	\$27,212
Percent	10.4%	5.4%	3.5%	8.7%

ANALYSIS AND RECOMMENDATIONS

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

- \$13,874,930 and 132 personnel-years to maintain current service levels in the department's 160 field offices.
- \$3,415,000 and 156.1 personnel-years to improve customer service in 22 field offices in metropolitan areas.
- \$2,113,000 and 22.7 personnel-years to fund recently enacted legislation.
- \$665,000 for an additional computer to increase the department's information processing capabilities.
- \$420,000 to provide an uninterruptable electrical power supply for the department's computer center.
- \$2,793,000 and 131 personnel-years to continue implementation of the Automation Project.

Major Revenue Shortfall in the Motor Vehicle Account

In *The 1986-87 Budget: Perspectives and Issues* (Part three), we point out that during the next five years, the MVA will face a major revenue shortfall in the range of \$675 million to \$1 billion unless (1) vehicle registration and driver license fees are increased or (2) the growth of expenditures by the DMV, The California Highway Patrol and the Air Resources Board is slowed. *The shortfall will first appear in 1986-87, when the account will incur a deficit of about \$48 million.*

The steady growth in the Department of Motor Vehicle's expenditures

is one of the major causes of the approaching shortfall. In the five-year period ending in 1986-87, DMV's annual expenditures from the MVA will have risen by \$80,559,000, or 52 percent. This reflects an average annual growth in expenditures of about 9 percent.

The budget does not contain any proposal to address the *cause* of the deficit in the Motor Vehicle Account: the chronic imbalance between account revenues and account expenditures. The budget proposes no increase in revenues to the account. Nor does it propose any slowdown in the growth of expenditures. In fact, the budget proposes a \$21,934,000, or 10.4 percent, increase in MVA support for the DMV in 1986-87. If this rate of increase in expenditures, as well as the current spending trends for the other agencies supported by the MVA, were to continue, the cumulative revenue shortfall in the MVA would exceed \$1 billion by 1990-91.

In summary, the Governor's Budget pretends that the imbalance between revenues and expenditures in the Motor Vehicle Account doesn't exist.

Significant Increase in Fees is Needed

In *The 1985-86 Budget: Perspectives and Issues*, we point out that, in order to achieve a balance between MVA revenues and expenditures over the next five years, the average growth in expenditures will have to be held to about 7 percent per year and revenues to the account will have to be increased by a minimum of \$675 million. To generate the revenues needed during this five-year period, we recommend that the Legislature enact legislation to (1) increase vehicle registration fees by \$6 (to \$29) which would yield about \$575 million and (2) increase drivers license fees by \$4 (to \$14) which would yield about \$100 million.

Transfer from the State Highway Account

We recommend that the Legislature adopt budget bill language prohibiting the transfer of \$65,700,000 from the State Highway Account to the Motor Vehicle Account because the transfer does not address the underlying problem and may shift the deficit from one account to the other.

The budget attempts to gloss-over the \$48 million revenue shortfall in the Motor Vehicle Account projected for 1986-87 by proposing a \$65.7 million transfer from the State Highway Account to the MVA. This transfer, if approved by the Legislature, would provide a contingency reserve of \$17.5 million in the Motor Vehicle Account and postpone the manifestation of the deficit in the MVA for one more year.

Rather than request legislative approval for the transfer by proposing it in the 1986 Budget Bill, the Department of Finance indicates that it will authorize the transfer administratively under Section 42275 of the Vehicle Code. This provision allows a transfer of highway funds to the MVA to cover increased program costs.

Our analysis indicates two flaws with the proposed transfer. First, it leaves untouched the *cause* of the deficit, a serious imbalance between MVA expenditures and MVA revenues. Second, the transfer could result in or enlarge a potential revenue shortfall in the State Highway Account during 1986-87. We estimate that the shortfall could be as high as \$104 million if the transfer takes place.

Accordingly, we recommend the Legislature adopt the following budget bill language to prohibit the transfer:

"Any transfer of funds from the State Highway Account to the Motor Vehicle Account is prohibited."

DEPARTMENT OF MOTOR VEHICLES—Continued**Budget Proposals Are Not Adequately Documented**

We recognize the high priorities which the Legislature has placed on providing the department with sufficient resources to improve services to the motoring public. In addition, we are well-aware of the problems faced by the department in implementing the field office automation system and the phone-mail system. Consequently, we are receptive to proposals for additional funding that would improve services and overcome these problems.

The budget contains several increases that are intended to improve services at DMV field offices. Our analysis of these proposals, however, has been frustrated by the absence of information that is needed in order to fully evaluate them. Specifically, the department:

- Has failed to provide certain budget documentation on a timely basis; and
- Has failed to submit workload statistics and staffing conversion rationales.

Where our follow-up efforts have obtained the needed information, we have been able to recommend approval of the proposed increases. Unfortunately, we have had to recommend that the Legislature deny other proposed augmentations because there is nothing to substantiate the need for or benefits to be gained from the additional resources. If the department can provide the fiscal committees with information which justifies the additional resources sought by the administration in the budget year, we are prepared to adjust our recommendations in order that further improvements in services can be effected.

REGISTRATION AND TITLING

The department's largest program, Vehicle and Vessel Registration and Titling, accounts for \$193,714,000, or 57 percent, of the expenditures proposed by the DMV in 1986-87. This is an increase of \$18,236,000, or 10.4 percent, over current-year expenditures. Activities carried out under this program include the issuance of vehicle or vessel titles and registration documents, the collection of various fees for state and local governments, and the processing of registration and ownership information.

Substantial Increase in Workload

As part of its request for the registration and titling program, the department is requesting \$11,597,000 to support 89 additional personnel-years and related operating expenses and equipment. The department indicates that this increase will provide adequate staffing to meet workload increases and to ensure that services provided for the public are greatly improved.

Need to Expand Staffing for the Phone/Mail System Not Documented

We recommend that the Legislature delete \$2,736,000 and 100 personnel years requested for the phone-mail appointment system because the department has failed to document a significant increase in the utilization of this system. Reduce Item 2740-001-044 by \$2,736,000 and 100 personnel years.

The department is requesting \$2,736,000 and 100 additional personnel-years to make field office appointments for motorists.

The DMV currently operates a phone-mail appointment system which allows motorists to make an appointment prior to coming in to a local field office to obtain a drivers license or register their vehicle. When the vehicle owner calls for the appointment, he or she is sent a checklist of necessary forms to bring to the field office.

The department indicates that, after ironing out various problems, the system has now been successfully implemented. These problems were due to an inadequate number of phone lines and clerks to handle the heavy surge of calls for appointments and information.

According to the department, public use of the appointment system has remained at a high level, requiring that 100 personnel-years be diverted away from counter services to answer the phones. For that reason, the department is requesting an additional 100 personnel-years in the field offices.

Our analysis confirms that public use of the phone-mail appointment system is high. Nevertheless, the department has not presented the information needed to document that additional staffing is needed to accommodate this workload. The department has described the problems but fails to provide specific information documenting the increase in the utilization of the system from the time of its inception through the current year. As a result, we are unable to determine the department's needs in the budget year.

Consequently, we cannot recommend that the augmentation be approved, and instead recommend that the Legislature delete the \$2,736,000 and 100 personnel-years requested by the department for the phone-mail system.

If the department can provide the fiscal committees with sufficient justification for an increase in staffing, we are prepared to change our recommendation accordingly.

Workload Increase for Registration Services Not Demonstrated

We recommend that the Legislature reduce by \$602,670 and 24.7 personnel-years the amounts requested to meet additional workload because the department has not sufficiently documented the need for the additional positions. (Reduce Item 2740-001-044 by \$602,670.)

The department is requesting \$602,670 to support 24.7 additional personnel-years for the registration operations section in order to handle increased workload. This section performs a variety of functions at the headquarters office, such as record keeping, mail services, and registration processing.

Our analysis indicates that the department has failed to support its request with a detailed analysis of workload changes in previous years for the various functions performed by the operations section.

Without this information, we are unable to document the need for additional resources and, thus, cannot recommend approval of the proposed augmentation. Accordingly, we recommend that the Legislature delete the \$602,670 and 24.7 personnel-years requested to meet additional workload. However, if the department can provide additional information that documents workload increases over the previous five years, we are prepared to adjust our recommendation accordingly.

DEPARTMENT OF MOTOR VEHICLES—Continued**DRIVERS LICENSING AND CONTROL AND PERSONAL IDENTIFICATION**

The Drivers Licensing and Control and Personal Identification Program is designed to promote the public's use of the road and highway system, while minimizing the risk of injury, death, or property loss. To these ends, the program licenses drivers, promotes safe driving practices, and exercises control over drivers who have mental or physical impairments or have been judged to be unsafe. In addition, the program provides personal identification services for all drivers and nondrivers in the state.

The department is proposing total expenditures of \$127,714,000 in 1986–87 for this program. This is an increase of \$7,287,000, or 6.1 percent, over current-year expenditures. As part of its request for drivers licensing processing, the department is requesting \$5,730,000 and 70 personnel years.

Driver License Workload Increase Overstated

We recommend that the Legislature delete \$370,000 and 18 personnel years from the proposed \$738,710 to correct for overbudgeting. (Reduce Item 2740-001-044 by \$370,000.)

The department is requesting \$738,710 to support 34 additional personnel-years in the Drivers Licensing and Control and Personal Identification program. The requested increase is based on the estimated growth in workload in the Licensing and Personal Identification section.

The department estimates that the number of applications for drivers licenses will increase by 5.9 percent in the budget year. Our analysis, however, indicates that during the past five fiscal years, the average rate of growth in applications has been only 0.3 percent. In fact, from 1984–85 to 1985–86 there was a 0.2 percent increase in the number of original licenses issued and a 1.8 percent decrease in the number of license renewals.

Based upon the actual rates of growth in recent years, we estimate that the number of driver license applications will increase by about 0.3 percent in 1986–87. Accordingly, we recommend that the Legislature (1) delete \$370,000 and 18 personnel years to correct for overbudgeted personnel services and (2) approve the remaining \$368,710 and 16 personnel years requested for this program.

ADMINISTRATION

The department's administration program provides executive direction in administering and enforcing provisions of the Vehicle Code, formulates departmental policy and provides management support services, including EDP services to all department programs.

The department is requesting \$79,996,000 for this program in 1986–87. This is \$15,088,000, or 23 percent, more than estimated current-year expenditures.

Field Office Automation Project Experiences Delays and Cost Overruns

We recommend that prior to budget hearings, the department report to the fiscal committees on the status and potential costs of the automation project.

The Department of Motor Vehicles is in the midst of a multi-phased project to fully automate the registration and licensing functions at all of its field office locations.

Since its inception, this project has encountered serious problems and has experienced major delays and cost overruns. These problems are primarily attributed to faulty planning and unanticipated difficulties associated with the telecommunication interfacing of the department's statewide operations, coupled with greatly increased program requirements coming from the smog inspection program.

Phase 1 of the automation project, which automated the department's accounting system, was completed in October 1981, at a cost of \$1.5 million. This phase of the project was 6 months late and \$700,000 over budget.

Phase 2 of the project was due to be implemented in June 1984, but was not implemented until August 1985—a delay of 14 months. Phase 2 provides for automation of the registration functions in the department's headquarters and 102 field offices in the state's urban areas. According to the department, the implementation of Phase 3, which will automate the drivers licensing functions, has been delayed by three years from its original implementation date and is now scheduled for completion in December 1987. Due to this delay, Phase 4, which provides for automation of the remaining 58 field offices in the state's rural areas, will not be complete until February 1988, instead of June 1986 as originally scheduled. The department's information also indicates that the total cost to implement the last three phases of the project may exceed the original estimate of \$81 million by \$15.4 million, or 19 percent.

Our analysis indicates that the project is subject to further revisions over the next three years, and as a result, further delays and cost overruns may occur. Consequently, we recommend that prior to budget hearings, the department report to the fiscal committees on the status and potential costs of its field office automation project.

Computer Replacement Project Subject to Major Revisions

We recommend that the Legislature delete \$2,652,000 and 9.5 personnel years requested for the first phase of the data base replacement project because the request is premature given that revisions are being made to the feasibility study report. (Reduce Item 2740-001-044 by \$2,652,000.)

The department is requesting \$2,652,000 in 1986-87 to fund the initial phase of its planned \$15 million computer replacement project. The funds would be used in the budget year to (1) purchase computer hardware and software, (2) cover consultant services, and (3) pay maintenance costs.

The department's existing mainframe computer system supports the vehicle registration, driver license, and automated name index system data bases. In addition, the system supports all other data processing activities of the department. According to the department, replacement of the existing system is necessary to fully support the field office automation project and other information processing needs of the department.

Our analysis indicates that the project's feasibility study report, which was approved by the Office of Information Technology in February 1985, is undergoing further review and may be substantially revised. Until this review is completed and additional revisions are identified, the Legislature has no basis on which to determine what level of funding should be provided for this project in 1986-87. Therefore, we recommend that the Legislature delete \$2,652,000 and 9.5 personnel years requested for this project.

DEPARTMENT OF MOTOR VEHICLES—Continued**Facilities Operations Increase Needs Clarification**

We withhold recommendation on \$4,722,400 requested for facilities operations, pending the receipt of additional information.

The department is requesting \$4,722,400 for facilities operations to pay increased lease, utilities, janitorial and rehabilitation costs in the budget year. This increase is related to an anticipated increase in the department's field office workload.

Our review indicates that the department probably will incur additional costs for facility operations during the budget year, at the time this analysis was prepared, however, the department still had not provided a detailed schedule of these expenditures. Lacking this information, the Legislature has no basis to determine the appropriate expenditure level for facilities operations. Thus, we withhold recommendation on \$4,722,000 requested for facilities operations, pending the receipt of a detailed description of the proposed expenditures by functional category.

Direct Public Access to Department's Data Base Not Justified

We recommend that the Legislature delete \$519,000 requested for a project allowing direct public access to the department's computerized data base because the need for the project has not been established. We further recommend that the Legislature adopt supplemental report language requiring the department to report to the Legislature by December 1, 1986, on what information would be made available for direct public access and what security measures would be incorporated in the project.

The budget requests \$519,000 to implement a computerized system that would provide the general public and business entities with direct access to DMV's vehicle registration and drivers' license records. This system would establish dedicated telecommunication lines to access the department computer files. Special computer equipment would be procured to ensure the security of confidential information. The department indicates that such a system would be cost effective because it would reduce clerical costs and increase revenues from the sale of information.

This proposal raises major policy issues concerning the confidentiality of information and the privacy rights of individuals. Our analysis indicates that the department has not described for the Legislature (1) what information will be made available for direct public access and (2) what security measures will be incorporated in the system to protect information of a confidential nature and privacy rights of individuals.

Lacking a complete proposal, we believe the Legislature should not authorize a program that would open the department's data bases to the public until all details have been provided. Moreover, a major policy change such as this should be implemented by legislation in order to allow a thorough legislative review of the proposal.

Accordingly, we recommend that the Legislature delete \$519,000 requested for the direct access project and adopt the following supplemental report language requiring the department to report to the Legislature on what information would funding for be made available to whom and what security measures would be operative if the system were approved.

"The Department of Motor Vehicles shall report to the Legislature by December 1, 1986, on its plans to provide direct public access to its computerized files. This report shall identify the information that would

be made available and the security measures that would be incorporated to ensure the (1) state's need for confidentiality of information and (2) protection of privacy rights of individuals."

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor
Vehicle Account, State Transportation Fund

Budget p. BTH 115

Requested 1986-87	\$10,052,000
Recommended approval	251,000
Recommended reduction	4,720,000
Recommendation pending	5,081,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Various Projects. We withhold recommendation on five projects listed in Table 1 (p. 350) costing \$5,081,000, pending receipt of additional information. 350
2. *New Field Office—Redding. Reduce Item 2740-301-044 (5) by \$1,628,000.* Recommend deletion of working drawings and construction funds because the department has not yet purchased a site for the building. 351
3. *New Field Office—San Gabriel. Reduce Item 2740-301-044 (6) by \$1,606,000.* Recommend deletion of working drawings and construction funds because the department has not yet purchased a site for the building. 351
4. *New Field Office—Yuba City. Reduce Item 2740-301-044 (7) by \$1,385,000.* Recommend deletion of working drawings and construction funds because the department has not yet purchased a site for the building. 351
5. Escondido and Upland Field Offices. Withhold recommendation pending receipt of information. 352
6. *Minor Projects. Reduce Item 2740-301-044 (1) by \$101,000.* Recommend deletion of funds for projects at (1) the Los Angeles, Hope Street office and (2) the Fullerton office. 353

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$10,052,000 under Item 2740-301-044 for the Department of Motor Vehicles' (DMV) capital outlay program in 1986-87. This proposal includes \$9,700,000 for eight major projects and \$352,000 for six minor projects (\$200,000 and less per project).

The DMV's major capital outlay program is summarized in Table 1.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Table 1
Department of Motor Vehicles
1986-87 Major Capital Outlay Program Summary
(dollars in thousands)

<i>Subitem</i>	<i>Project</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>
2	Property Appraisals and Purchase Options	—	\$75	Pending additional information.
3	Sacramento Headquarters Computer Replacement	pwc	1,179	Pending additional information.
4	New Facility—Pomona	wc	1,357	Pending preliminary plans.
5	New Facility—Redding	wc	1,628	—
6	New Facility—San Gabriel	wc	1,606	—
7	New Facility—Yuba City	wc	1,385	—
8	New Facility—Escondido	ap	1,250	Pending option and additional information.
9	New Facility—Upland	ap	1,220	Pending option and additional information.
Total			\$9,700	

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; a = acquisition.

Options and Appraisals

We withhold recommendation on Item 2740-301-044(2), property appraisals and purchase options, pending receipt of a budget for the department's appraisal and options activities in 1985-86.

The 1985 Budget Act for the DMV included \$40,000 for options and appraisal in 1985-86. The 1986-87 budget requests \$75,000 for the department to use in securing options and appraisals. This would allow the DMV to search for two sites, at a cost of \$35,000 per site.

We have three concerns with this proposal.

First, two sites at \$35,000 each would require \$70,000—not \$75,000.

Second, the DMV has never secured an option for this purpose, and consequently has little experience on which to base its estimate. The DMV, prior to budget hearings, should gain some experience with options and appraisals, using the 1985 Budget Act funds, so that the Legislature will have a better basis for determining funding requirements.

Third, the CHP, which searches for similar options estimates its cost to be only \$10,000 per site.

Consequently, we withhold recommendation on this item, pending receipt of:

- information showing the *actual* cost of securing an option for a DMV site.
- information comparing the cost of securing an option and appraisal for the CHP and DMV.

DMV Headquarters Remodel

We withhold recommendation on \$1,179,000 requested in Item 2740-301-044(3), remodeling the Sacramento DMV headquarters for new computers, pending receipt of a detailed cost estimate and timeline.

The department proposes to substantially remodel the second floor of its headquarters in order to accommodate new computers. The DMV

indicates that it is near saturation of its existing computer facilities. The budget provides \$1,179,000 for preliminary plans, working drawings and construction of a computer replacement remodeling project. At the time of this analysis, however, the department's computer replacement proposal had not been approved.

In addition, the Office of State Architect (OSA) completed schematic drawings on January 17, 1986 and we have not had adequate time to review them. The budget estimate recently released by the OSA, however, estimates the total project cost to be \$2,032,000, or \$853,000 more than what is provided in the budget. Moreover, the department has not provided a detailed cost estimate for the project.

Consequently, we withhold recommendation on this request, pending approval of the computer replacement proposal, receipt of a detailed cost estimate and a schedule for undertaking the preliminary plan, working drawing and construction phases.

New Field Office—Pomona

We withhold recommendation on \$1,357,000 proposed under Item 2740-301-044(4), Pomona Office working drawings and construction, pending receipt of preliminary plans and a detailed cost estimate.

The department is requesting \$1,357,000 to finance working drawings and construction of a new 11,000 square foot field office in Pomona. The need for this project has been established. The Legislature appropriated funds for site acquisition and preliminary plans in the 1984 Budget Act.

The department apparently is in the final stages of acquiring property in Pomona. Consequently, the Office of State Architect should be starting to work on the preliminary plans. We are hopeful that the OSA will have preliminary plans for this project completed by the time of hearings. Until these plans are completed, the Legislature has no basis on which to evaluate the department's request for \$1,357,000. Consequently, we withhold recommendation on the request and urge the DMV and OSA to expedite completion of preliminary plans in order to make them available for legislative review.

No Sites Chosen For Three New Offices

We recommend that the Legislature delete \$4,619,000 from Items 2740-301-044(5), (6) and (7) to eliminate working drawings and construction funds for proposed DMV offices in Redding, San Gabriel and Yuba City, because sites for these offices have not yet been acquired.

The Legislature appropriated \$1,594,000 in the 1985 Budget Act to fund land acquisition and preliminary plans for DMV offices in Redding, San Gabriel and Yuba City. The Legislature, in the Supplemental Report of the 1985 Budget Act, indicated that it expected the preliminary plans to be completed prior to preparation of the 1986-87 Governor's Budget. These plans are essential in order for the Legislature to evaluate the amount requested for working drawings and construction.

At the time this analysis was prepared, the department had not acquired a site for any of these offices. Until a site is acquired, the preliminary plans for development of the site and construction of the office cannot be started. Moreover, given the experience with two recent DMV office projects, it will take approximately six months to complete preliminary plans. Therefore, it is unlikely that preliminary plans for any of these projects will be completed much before July 1986.

Without preliminary plans, the Legislature has no basis for evaluating the amount requested for working drawings and construction of these

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

three offices. While the need for the offices has been established, we cannot, under the circumstances, recommend approval of the request. Accordingly, we recommend that the Legislature delete the \$4,619,000 requested in the budget. We urge the DMV to expedite the site acquisition process and to work with the Office of State Architect in order to expedite completion of the preliminary plans so that they can be made available for legislative review.

New Field Offices—Escondido and Upland

We withhold recommendation on Items 2740-301-044 (8) and (9), acquisition and preliminary plans for new field offices in Escondido and Upland, pending (1) purchase of an option on sites for these offices and (2) receipt of information explaining the proposed architectural and engineering costs.

The department is requesting a total of \$2,472,000 to acquire property and prepare preliminary plans for new DMV field offices in Escondido and Upland. A summary of the estimated costs for each project is shown in Table 2.

Both of these projects are justified.

Table 2
Department of Motor Vehicles
New Field Offices
Escondido and Upland
(dollars in thousands)

	<i>Escondido</i>	<i>Upland</i>
Site acquisition	\$1,150	\$1,114
Real Estate Service Fee	25	26
Preliminary plans.....	75	80
1986-87 Request	\$1,250	\$1,220
Estimated construction contract	\$1,616	\$1,659
Architectural and engineering costs.....	269	263
Estimated project cost (not including land)	\$2,001	\$2,042
Total, Estimated Project Costs (Including Land)	\$3,176	\$3,182

Our concerns regarding these projects relate to the proposed acquisition and architectural and engineering costs.

Acquisition Costs. The 1985 Budget Act provided \$40,000 for property options and appraisals. This was the first time that the Legislature appropriated funds to the DMV for property options and appraisals. It did so in order to (1) expedite the often-lengthy process of site selection, evaluation, appraisals and settlements and (2) establish the level of funds needed for acquisition *before* acquisition funds are appropriated.

The DMV and the Real Estate Services Division of the Department of General Services began searching for sites in Escondido and Upland in September, 1985. To date, no option has been secured. Consequently, the site acquisition costs shown in the budget for Escondido and Upland are *estimates* and do not reflect actual purchase prices. Accordingly, we urge the department and the real estate services division to expedite the site search and secure an option prior to budget hearings.

Architectural and Engineering Costs. Section 6559 of the State Administrative Manual stipulates that architectural and engineering costs (A & E) in excess of 13 percent of the estimated contract cost must be

justified by the Office of State Architect or the requesting agency. The estimated costs for the proposed Upland and Escondido field offices provide for \$47,000 and \$58,000, respectively, in excess A & E costs. The need for \$88,000 of this \$105,000 is not clear.

The OSA attributes \$41,000 of extra A & E fees to the fact that the A & E costs will be spread over several years and, consequently, will be sensitive to inflation. This, however, is not unusual. Architectural and engineering costs, as defined by Section 6559 of the State Administrative Manual, include the cost of preliminary drawings through construction management. Thus, A & E costs *always* stretch over several years, unless the project is minor in scope.

The OSA attributes \$20,000 of the excess to the cost of travel time for the construction inspector. We do not know how this \$20,000 is derived.

Finally, \$17,000 of the excess charges is for the OSA's post-construction and claims review board costs. All expenses relating to the cost of making alterations to the building design, however, should be paid from the project's contingency funds, not A & E costs.

Consequently, we withhold recommendation on these items, pending the receipt of:

- options on the Escondido and Upland properties.
- an explanation for the excessive A & E costs.

Minor Projects

We recommend that the Legislature reduce Item 2740-301-044(1) by \$101,000 to eliminate funding for (1) parking lot lighting in Los Angeles, because the lighting should be funded as part of a major capital outlay project currently under construction and (2) a Fullerton stockroom expansion, because the cost is not justified.

The budget proposes \$352,000 for six minor capital outlay projects (projects costing \$200,000 or less). These projects are summarized in Table 3.

Table 3
Department of Motor Vehicles
Minor Capital Outlay Projects
1986-87
(dollars in thousands)

<i>Project</i>	<i>Location</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>
Parking Lot Lighting	Los Angeles (Hope Street)	\$11	—
Enlarge Stockroom	Fullerton	90	—
Enlarge Control Cashier	Montebello	13	\$13
Modify Investigation Area	Santa Ana	14	14
Handicapped Compliance	Statewide	179	179
Carpeting Personnel, Training, 4th Floor	Sacramento (headquarters)	45	45
Total		\$352	Pending

We have concerns with the following projects:

Parking Lot Lighting, Los Angeles Field Office (Hope Street). The department requests \$11,000 to install lighting for the east parking lot of this new field office. Parking lot lighting usually is included in the design of a new field office. As the Los Angeles field office is still under construction, this lighting should be installed using funds from the major capital outlay appropriation.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Enlarge Stockroom, Fullerton. The need to enlarge the storage room at the Fullerton office is evident. Based on the department's space guidelines for offices similar to Fullerton, the amount of storage space needed is about 1,128 square feet. The Fullerton office building, however, contains just 324 square feet of storage for license plates, forms and office supplies. The department proposes to increase the total storage area to 720 square feet by extending the exterior walls of the existing stockroom.

The department requests \$90,000 for this project. This amount is based on a "rough" average of two estimates: the Office of State Architect's (\$127,000) and a private contractor's (over the phone) (\$56,000).

While we do not dispute the need for this project, we find that the proposed cost for the added storage space—\$227 per square foot—is excessive. Consequently, we recommend that the Legislature delete the funds requested for this project and urge the department to consider less expensive means of providing additional storage for the Fullerton office.

Supplemental Report Language

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

Business, Transportation and Housing Agency
STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P.
Teale Data Center Revolving
Fund

Budget p. BTH 117

Requested 1986-87	\$56,106,000
Estimated 1985-86.....	52,642,000
Actual 1984-85	44,926,000
Requested increase \$3,464,000 (+6.6 percent)	
Total recommended reduction	1,028,000
Recommendation pending	28,890,000

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2780-001-683—support	Stephen P. Teale Data Center Revolving Fund	\$56,071,000
Reimbursements	—	35,000
Total		\$56,106,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Contracting. Reduce Item 2780-001-683 by \$640,000.*
Recommend reduction because cost estimates for consult-

356

- ing and professional services are not credible.
2. **EDP Equipment.** Withhold recommendation on \$28,- 357
890,000 requested for EDP equipment and equipment rental and maintenance, pending receipt of further information from the data center.
 3. **Security Services. Reduce Item 2780-001-683 by \$253,000.** 357
Recommend reduction because current invoices for security services do not support the amount requested.
 4. **Training Overbudgeted. Reduce Item 2780-001-683 by \$135,000.** 357
Recommend reduction to correct for over-budgeting of training costs.

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center (TDC) is one of three consolidated data centers authorized by the Legislature. The center was established to provide centralized automated data processing services to state agencies while at the same time minimizing the total cost of data processing to the state. In the budget year, the costs of operating the center will be fully reimbursed by approximately 120 clients.

The data center is authorized 328.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$56,106,000 for the data center in 1986-87. This is an increase of \$3,464,000, or 6.6 percent, above the estimated expenditures in the current year. The budget also proposes a reduction of 5.3 personnel-years (1.6 percent) for 1986-87.

Table 1 summarizes the changes proposed in the data center's budget for 1986-87.

Table 1
Stephen P. Teale Data Center
Proposed 1986-87 Budget Changes
(dollars in thousands)

	<i>Stephen P. Teale Data Center Revolving Fund</i>	<i>Reim- bursements</i>	<i>Total</i>
1985-86 Expenditures (Revised)	\$52,607	\$35	\$52,642
1. Workload adjustments			
Personal services—planning, operations and software	291	—	291
Contract services	1,000	—	1,000
Distributed data processing personnel	108	—	108
Additional system capacity	978	—	978
Cartridge tape devices	383	—	383
Client maintenance upgrade	29	—	29
2. Cost Adjustments			
Procurement	210	—	210
Security	313	—	313
Other	255	—	255
3. Program Adjustments			
Transfer of responsibilities to DOT	-103	—	-103
1986-87 Expenditures (Proposed)	\$56,071	\$35	\$56,106
Change from 1985-86:			
Amount	\$3,464	—	\$3,464
Percent	6.6	—	6.6

STEPHEN P. TEALE DATA CENTER—Continued**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of the following major budget proposals that are not discussed elsewhere in this analysis:

- \$210,000 for increased Department of General Services procurement charges,
- \$291,000 and 6.8 personnel-years for network planning, network operations, and software support personnel,
- \$108,000 and 2.5 personnel-years for distributed data processing personnel,
- a \$103,000 reduction to eliminate 3.8 personnel-years associated with responsibilities which are being transferred to the Department of Transportation.

Contracting Cost Estimates Are Not Credible

We recommend a reduction of \$640,000 for consulting and professional services because the data center has not provided credible cost estimates in support of its request. (Reduce Item 2780-001-683 by \$640,000.)

The center is requesting \$1 million to spend on consulting and professional services in 1986–87. These funds would be used to fund contracts with private firms calling for technical support in four areas:

- teleprocessing software,
- teleprocessing hardware,
- software support for two separate software systems.

According to the Data Center, these services will be needed beginning in the current year, and as a result the center will require an augmentation to this year's budget of \$500,000.

We asked the center to fully document each of its cost estimates for contract services. We also asked it to provide draft contracts or requests for proposals (RFPs), if available. From a review of the information provided by the data center, we conclude that Teale is not able to support the amount being requested for the budget year.

The center provided a summary of the hours budgeted and the hourly rate used to calculate the costs of each contract contemplated by this request. However, it could provide further detail on *only the teleprocessing software contract*. This information, moreover, was not consistent with the estimate provided in the center's summary of hours and rates. For example, its budget change proposal indicates that the teleprocessing software contract will cost \$110,000 in the current year and \$220,000 in the budget year. Discussions with Teale staff, however, reveal that this is a one-time activity which will terminate by the end of December 1986. This activity will require the equivalent of one full-time position, at a cost of \$87,000 in the current year and \$55,000 in 1986–87. Accordingly, we recommend a reduction of \$165,000 in the amount requested for the teleprocessing software contract in 1986–87.

In the absence of additional supporting material, the summary estimates provided by Teale for the other three components of its request are not credible. The *teleprocessing hardware* contract extends through the end of December 1986. Costs of this contract in the budget year appear to be overstated by \$255,000. Costs of the *software support* contracts also appear to be overstated by \$220,000 in the budget year.

Based on our findings, we further recommend a reduction of \$475,000

in the amount requested for the teleprocessing hardware and the software support contracts, for a total recommended reduction of \$640,000 in consulting and professional services.

EDP Equipment Request Must Be Justified

We withhold recommendation on \$28,890,000 requested for EDP Equipment and Equipment Rental and Maintenance until the data center provides adequate justification for its request.

The data center indicates that it has not prepared the normal schedules required by the Department of Finance in support of its equipment budget. It further indicates that, in lieu of these schedules, it will be submitting a special, more detailed, report to the Department of Finance and the fiscal committees in the near future. Therefore, we withhold recommendation on the center's request for equipment and equipment rental and maintenance, pending receipt of the supporting information from the data center.

Request Overestimates Security Cost Increase

We recommend a reduction of \$253,000 requested for security because data center invoices do not support the request. (Reduce Item 2780-001-683 by \$253,000.)

The data center is requesting an increase of \$313,000 to fund security costs in 1986-87. The data center currently purchases security services from the State Police security service in the Department of General Services (DGS). The actual cost of this service was \$616,000 in 1984-85. The center estimated that security costs will be \$735,000 in 1985-86 and \$814,000 in 1986-87.

As justification for its request, the center indicates that DGS plans to meet the center's security needs through overtime and use of State Police officers, in place of less expensive state security service officers. This is occurring because security service officer personnel have been reduced in prior years, in anticipation that the center would contract for private security services. The court has ruled, however, that the center *cannot* contract out this activity. Consequently, DGS has had to meet Teale's security needs in the current year.

Our analysis indicates that billings from DGS to the Teale Data Center for the first two months of 1985-86 averaged \$5,550 less than the bills for the first two months of 1984-85. This suggests that the center's security costs in 1985-86 are likely to be \$561,000, rather than \$735,000 as the budget estimates. Since the DGS budget does not provide for additional overtime expenses for officers in 1986-87, the center's security costs in 1986-87 should also be about the same. Therefore, we recommend that the Legislature budget security services for 1986-87 at \$561,000, for a reduction of \$253,000.

Training Overbudgeted

We recommend a reduction of \$135,000 requested for training to correct for past overbudgeting. (Reduce Item 2780-001-683 by \$135,000.)

The budget requests a \$103,000, or 41 percent, increase for training in 1986-87.

As shown in Table 2, our analysis indicates that training was overbudgeted in 1983-84 and 1984-85 by \$40,000 and \$101,000, respectively.

STEPHEN P. TEALE DATA CENTER—Continued

Table 2
Teale Data Center
Budgeted and Actual Training Expenditures
(dollars in thousands)

	1983-84	1984-85	1985-86	1986-87
Budgeted	\$227	\$292	\$253	\$356
Actual	187	191	n/a	n/a
Surplus	\$40	\$101	n/a	n/a
(Personnel-years)	(330.8)	(328.5)	(328.2)	(322.9)

Nevertheless, the amount requested for 1986-87 is 22 percent *more* than the amount *budgeted* in 1984-85, and 87 percent *more* than the amount *actually spent* in that same year. Moreover, the number of personnel-years (PYs) proposed for 1986-87 is 5.6 PYs (1.7 percent) *below* the actual number in 1984-85.

The data center has indicated that rapid changes in EDP technology and increases in the number of different software programs supported by the center have resulted in the increased training needs.

We asked the center to provide a copy of any training plans it may have prepared for 1985-86 and 1986-87. The center indicates that such plans are not available. The center did indicate, however, that by the end of November it had *encumbered* \$187,000 to meet current year training needs. In the absence of a training plan, however, it is not possible to determine what proportion of current year training needs will be met through the amounts encumbered.

Lacking sufficient support for the request, we cannot recommend approval of the data center's request for training. We believe, however, that funds for training should be increased above the level of expenditures in 1984-85 by (1) 5 percent to allow for increased training needs arising from rapid technological change and increasing software support, and (2) 5 percent per year to allow for normal cost increases. This implies a budget of \$221,000, or \$135,000 less than the amount requested. Accordingly, we recommend a reduction of \$135,000 in the amount requested for training.