

GOVERNOR'S OFFICE

Item 0500 from the General

Fund

Budget p. LJE 16

Requested 1987-88	\$6,880,000
Estimated 1986-87	6,365,000
Actual 1985-86	5,270,000
Requested increase (excluding amount for salary increases) \$515,000 (+8.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Constitution grants the executive power of the state to the Governor, who is responsible for administering and enforcing state law. The Governor is elected to a four-year term, and receives an annual salary of \$85,000.

The Governor's Office has 82 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$6,880,000 from the General Fund for support of the Governor's Office in 1987-88. The proposed amount is \$515,000, or 8.1 percent, greater than estimated current-year expenditures. Table 1 provides a summary of the budget for the Governor's Office in the past, current, and budget years. This table has not been adjusted to reflect any potential savings which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Governor's Office
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Percent Change from 1986-87
<i>Expenditures</i>				
Personal services	\$3,699	\$3,998	\$4,083	2.1%
Operating expenses and equipment	1,516	1,612	1,662	3.1
Special items of expense	55	755	1,205	59.6
Special adjustment	—	—	-70	NMF ^a
Totals	\$5,270	\$6,365	\$6,880	8.1%

^a Not a meaningful figure.

Most of the increase (\$450,000) requested for 1987-88 is proposed to finance the full-year operational costs of two overseas trade offices in London and Tokyo, at a total cost of \$1,150,000. In addition, \$85,000 is included for the full-year funding of the Governor's salary increase and two additional personnel-years. An additional \$50,000 is requested for operating expenses and equipment. These increases are partially offset by a

reduction of \$70,000 which is approximately 1 percent of the General Fund support, as a Special Adjustment.

Overseas Offices. The budget proposes \$1,150,000 as a special item of expense to fund the full-year cost of two overseas trade offices which are being established in Tokyo and London in the current year. The offices are designed to promote state exports, establish agricultural markets, and attract more foreign investment and tourists to California. According to the Governor's staff, the Tokyo office was opened in December 1986 and the London office is scheduled to open in the spring of 1987. A total of \$700,000 is estimated to be expended for the two offices in 1986-87.

In the *Supplemental Report of the 1986 Budget Act*, the Legislature requested the Governor to submit a written proposal to the Chairpersons of the Senate and Assembly fiscal committees, and the Chairperson of the Joint Legislative Budget Committee describing the goals and objectives of the overseas trade offices. In addition, the Legislature requested the submission of a progress report on the offices by March 1, 1987. Governor's office staff indicate that this information will be provided as requested by the Legislature.

Governor's Office

SECRETARY FOR STATE AND CONSUMER SERVICES

Item 0510 from the General

Fund

Budget p. LJE 17

Requested 1987-88	\$738,000
Estimated 1986-87	747,000
Actual 1985-86	636,000
Requested decrease (excluding amount for salary increases) \$9,000 (-1.2 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0510-001-001—Support	General	\$717,000
Reimbursements	—	21,000
Total		\$738,000

GENERAL PROGRAM STATEMENT

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

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

The agency has 11.5 personnel-years in the current year.

SECRETARY FOR STATE AND CONSUMER SERVICES—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$717,000 from the General Fund for support of the State and Consumer Services Agency in 1987-88. This is \$9,000, or 1.2 percent, less than estimated current-year expenditures.

Total agency expenditures in 1987-88, including expenditures from reimbursements, are budgeted at \$738,000, a net decrease of \$9,000, or 1.2 percent, from current-year expenditures. The \$9,000 decrease results primarily from the 1 percent General Fund "special adjustment."

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

Governor's Office**SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING**

Item 0520 from various funds

Budget p. LJE 18

Requested 1987-88	\$1,367,000
Estimated 1986-87	1,487,000
Actual 1985-86	2,684,000
Requested decrease (excluding amount for salary increases) \$120,000 (-8.1 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0520-001-001—Support	General	\$364,000
0520-001-044—Support	Motor Vehicle Account	583,000
Reimbursements	—	420,000
Total		\$1,367,000

GENERAL PROGRAM STATEMENT

The Secretary for Business, Transportation and Housing, one of five agency secretaries in the Governor's cabinet, supervises the activities of the following 14 departments and administrative bodies:

Business and Regulatory Agencies

Department of Alcoholic
Beverage Control
State Banking Department
Department of Corporations
Department of Commerce
Department of Insurance
Department of Real Estate

Transportation Agencies

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

Housing Agencies

Department of Housing and Community

Department of Savings and Loan
Stephen P. Teale Consolidated
Data Center

Development
California Housing Finance Agency

The agency is authorized 19 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1,367,000 to support the agency's activities in 1987-88. This is \$120,000, or 8.1 percent, less than estimated total expenditures in 1986-87. The proposed expenditures would be funded, in part, from two appropriations totaling \$947,000, including \$364,000 from the General Fund, and \$583,000 from the Motor Vehicle Account in the State Transportation Fund. In addition, the agency anticipates expenditures of \$420,000 to be fully reimbursed.

The reduction in proposed expenditures is primarily the result of (1) the elimination of one professional staff position to reflect a realignment of duties initiated in the current year; and (2) the termination of expenditures on the California Pavilion at the 1986 World Exposition in Vancouver, Canada, which closed in October 1986.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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

Governor's Office

SECRETARY FOR HEALTH AND WELFARE

Item 0530 from the General
Fund

Budget p. LJE 22

Requested 1987-88	\$1,700,000
Estimated 1986-87	1,732,000
Actual 1985-86	1,649,000
Requested decrease (excluding amount for salary increases) \$32,000 (-1.8 percent)	
Total recommended reduction	139,702

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0530-001-001—Support	General	\$1,370,000
Reimbursements	—	330,000
Total		\$1,700,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *New Assistant Secretary Position. Reduce Item 0530-001-001 by \$64,000.* Recommend deletion of Assistant Secretary, Special Program Public Information position, and related funding because the agency cannot provide suffi-

19

SECRETARY FOR HEALTH AND WELFARE—Continued

cient information as to what activities will be performed by the position.

2. **CEA IV Position.** *Reduce Item 0530-001-001 by \$75,702.* 19
Recommend deletion of CEA I position because the agency cannot identify how the position will be used.

GENERAL PROGRAM STATEMENT

The Secretary for the Health and Welfare Agency (HWA) is directly responsible to the Governor for general policy formulation in the health and human services area. The Secretary also is responsible for the operations and sound fiscal management of the following departments and offices:

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

The 1986 Budget Act authorized 23.1 personnel-years to assist the Secretary in performing his policy formulation and oversight responsibilities.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$1.7 million from the General Fund and reimbursements to support the Secretary for Health and Welfare in 1987–88. This is a decrease of \$32,000, or 1.8 percent, from estimated current-year expenditures. This decrease includes \$14,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment. The remainder of the decrease is due to a reduction in benefits and operating expenses and equipment resulting from the loss of a CEA I position during the current year. The Secretary proposes to restore the lost CEA I position for the budget year.

Table 1 presents a summary of program expenditures and funding sources for the agency during the past, current, and budget years. Table 2 identifies the changes in the Secretary's budget proposed for 1987–88. The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Secretary for Health and Welfare
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change From 1986–87
Secretary's Office	\$1,649	\$1,732	\$1,700	–1.8%
Funding Sources				
General Fund	1,251	1,402	1,370	–2.3
Reimbursements	398	330	330	—

Table 2
Secretary for Health and Welfare
Proposed Budget Changes
1987-88
(dollars in thousands)

	General Fund	Reimbursements	Totals
1986-87 expenditures (revised).....	\$1,402	\$330	\$1,732
Proposed changes:			
1. Reduction in benefits and OE&E due to loss of CEA I position.....	-18	—	-18
2. Restoration of lost CEA I position.....	64	—	64
3. Increase in salary savings to fund restored CEA I position.....	-64	—	-64
4. Special Adjustment.....	-14	—	-14
1987-88 expenditures (proposed).....	\$1,370	\$330	\$1,700
Change from 1986-87:			
Amount.....	-\$32	—	-\$32
Percent.....	-2.3%	—	-1.8%

ANALYSIS AND RECOMMENDATIONS

Need for Special Public Information Position Is Unclear

We recommend that the Assistant Secretary, Special Program Public Information position and related funding be deleted because the agency is unable to provide sufficient information as to what activities will be performed by the position, for a General Fund savings of \$64,000. (Reduce Item 0530-001-001 by \$64,000.)

The budget proposes to restore the Assistant Secretary, Special Program Public Information position for 1987-88. According to the agency, the position is responsible for coordinating and promoting selected information projects relating to sensitive health and welfare issues. The position was deleted at the end of 1985-86 pursuant to state law because it had been continuously vacant for nine months.

Based on our review, we conclude that this position is not necessary. This is because after the position was deleted, the agency borrowed a staff person from the Department of Health Services to perform the duties of the assistant secretary. However, this staff person was subsequently loaned to the Department of Social Services to work on the implementation of the Greater Avenues for Independence (GAIN) program. The agency has advised us that the staff person will work on GAIN implementation indefinitely. Thus, it appears that the person is not performing any specific activity for the agency as part of the functions of the assistant secretary. Moreover, the agency was unable to identify specific projects that the position would be responsible for in the future.

In view of this, we cannot recommend approval of the proposed new position. Therefore, we recommend the proposed position and related funding be deleted for a General Fund savings of \$64,000.

Agency Has No Specific Plans For CEA IV Position

We recommend that the CEA IV position and related funding be deleted because the position is vacant and the agency has no specific plans to use the position, for a General Fund savings of \$75,702. (Reduce Item 0530-001-001 by \$75,702.)

SECRETARY FOR HEALTH AND WELFARE—Continued

In the current year, the Health and Welfare Agency is authorized 24 positions (23.1 personnel-years). Of these positions, one is a CEA IV position that has been vacant since June 1986. Prior to that time, the CEA IV position was occupied by the deputy secretary for Program and Fiscal Affairs. When the person who occupied this deputy secretary position left the agency in April 1986, the position remained unused until June 1986. Subsequently, the position of Senior Deputy to the Secretary was reclassified to the Deputy Secretary for Program and Fiscal Affairs, thereby freeing up the CEA IV position.

At the time we prepared this analysis, the HWA had no plans to fill the CEA IV position until a new Secretary for Health and Welfare decides if and how to use the position. Because the position currently is vacant and the agency cannot identify how the position will be used in the future, we recommend that the position and related funding be deleted, for a General Fund savings of \$75,702.

Governor's Office**SECRETARY FOR RESOURCES**

Item 0540 from the General

Fund and Environmental License Plate Fund

Budget p. LJE 21

Requested 1987-88	\$1,357,000
Estimated 1986-87	1,647,000
Actual 1985-86	1,270,000
Requested decrease (excluding amount for salary increases) \$290,000 (-17.6 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0540-001-001—Agency support	General	\$1,242,000
0540-001-140—CTRPA activities	Environmental License Plate	90,000
Reimbursements	—	25,000
Total		\$1,357,000

GENERAL PROGRAM STATEMENT

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

Conservation
Fish and Game
Forestry

Colorado River Board
Energy Resources Conservation and
Development Commission

Parks and Recreation
Boating and Waterways
Water Resources
Air Resources Board
California Coastal Commission
California Conservation Corps

Santa Monica Mountains Conservancy
State Coastal Conservancy
California Tahoe Conservancy
State Lands Commission
State Water Resources Control Board
California Waste Management Board

In practice, however, the Air Resources Board, the California Waste Management Board, and the State Water Resources Control Board report to the administratively established Environmental Affairs Agency, rather than to the Resources Agency.

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

The agency has 19.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes two appropriations totaling \$1,332,000 for the Resources Agency in 1987-88. This amount consists of (1) \$1,242,000 from the General Fund for direct support costs and (2) \$90,000 from the Environmental License Plate Fund (ELPF) to carry out the agency's responsibilities as the successor to the deactivated California Tahoe Regional Planning Agency. When combined with reimbursements of \$25,000, the agency's total expenditure plan for the budget year is \$1,357,000. This is \$290,000, or 17.6 percent, less than estimated total current-year expenditures. Budget-year expenditures, however, will increase by the amount of any salary or benefit increases approved for 1987-88.

The proposed decrease in expenditures reflects the following changes to the Secretary's budget:

- Deletion of one-time funding of \$150,000 from the ELPF for the California Wild and Scenic River Studies required by Ch 894/86.
- Elimination of \$100,000 from the ELPF provided by Ch 885/86 for the preparation of the Upper Sacramento River Fisheries and Riparian Habitat Management Plan.
- A special adjustment reducing General Fund expenditures by \$13,000.
- Miscellaneous technical adjustments resulting in a net decrease of \$27,000.

The proposed budget appears reasonable and we recommend approval.

Governor's Office
SECRETARY FOR YOUTH AND ADULT CORRECTIONAL
AGENCY

Item 0550 from the General
Fund

Budget p. LJE 23

Requested 1987-88	\$819,000
Estimated 1986-87	892,000
Actual 1985-86	835,000
Requested decrease (excluding amount for salary increases) \$73,000 (-8.2 percent)	
Total recommended increase	159,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Positions Borrowed from Department of Corrections. Aug-*
ment Item 0550-001-001 by \$159,000. Recommend trans-
ferring three positions to agency's budget from
Department of Corrections' budget, because the staff are
working for the agency.

23

GENERAL PROGRAM STATEMENT

The Secretary for the Youth and Adult Correctional Agency coordinates the activities of and provides policy direction to the Departments of Corrections and the Youth Authority, Board of Prison Terms, Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, and the Narcotic Addict Evaluation Authority. The agency has 10.3 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$819,000 from the General Fund for support of the Youth and Adult Correctional Agency in 1987-88. This is a decrease of \$73,000, or 8.2 percent, below estimated current-year expenditures. The requested decrease in the agency's budget results primarily from the proposed elimination of one undersecretary position.

Consolidation of Undersecretary Positions

The Youth and Adult Correctional Agency currently is the only state agency that is authorized to have two undersecretary positions. In the current year, however, the agency has consolidated the administrative and program responsibilities of the existing undersecretary and chief legal advisor position (a position that has been vacant for more than a year), with the duties of the existing undersecretary for prison construction and inmate employment. The latter position was established on a limited-term basis in 1985 for coordination and oversight of construction and inmate work issues between the Department of Corrections and other state departments.

The newly consolidated undersecretary position has responsibility for:

- The prison construction program and the review of administrative regulations proposed by various boards and departments,
- The review of state and federal court decisions and how they affect the agency,

- Administrative direction and supervision of all agency staff.

The agency plans to make this consolidation of positions permanent in the budget year.

Our analysis indicates that the agency's plan is reasonable. We recommend that the proposed consolidation of positions be approved for the budget year.

Borrowed Positions Should be in Agency's Budget

We recommend that three positions that the agency is borrowing from the Department of Corrections be financed from the agency's budget rather than the department's budget, because the staff are working for the agency on an ongoing basis. (Augment Item 0550-001-001 by \$159,000 from the General Fund).

In the budget year, the agency proposes to continue to use three positions that are funded in the Department of Corrections' budget, but are assigned to the agency full-time. These positions were initially borrowed by the agency in 1985 when the position of undersecretary for prison construction was created. At that time, the three employees worked directly with the undersecretary and were funded by the Department of Corrections, primarily because their duties related solely to the support and monitoring of the prison construction program.

According to agency and Department of Finance staff, however, the work of these three employees is no longer tied directly to the prison construction program, partially because the duties of the undersecretary for prison construction have been consolidated with the duties of the undersecretary and chief legal advisor. Specifically, staff advise that one professional position assists the agency with liaison with local law enforcement agencies, one position serves as an administrative assistant to the undersecretary, and one serves as the undersecretary's executive secretary. Staff indicate that the agency will need all three positions on an ongoing basis for the foreseeable future.

In our judgment, it is more appropriate for staff to be funded by the departments and agencies to which they are assigned and for whom they work on a regular basis. This provides the Legislature with an accurate picture of an agency's actual spending practices and workload needs. For this reason, we recommend a transfer of the three positions to the agency and an augmentation of \$159,000 to the agency's budget (Item 0550-001-001). In our analysis of the Department of Corrections' budget (please see Item 5240), we recommend a corresponding reduction in the General Fund appropriation to reflect the transfer of the three positions.

OFFICE OF CALIFORNIA-MEXICO AFFAIRS

Item 0580 from the General

Fund

Budget p. LJE 24

Requested 1987-88	\$258,000
Estimated 1986-87	261,000
Actual 1985-86	261,000
Requested decrease (excluding amount for salary increases) \$3,000 (-1.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

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

The office currently has 3.9 personnel-years.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes General Fund expenditures of \$258,000 to support the activities of the OCMA in 1987-88, a decrease of \$3,000, or 1.2 percent, from the current year. The decrease is due entirely to the 1 percent "special adjustment" reduction.

The OCMA's proposed expenditures appear to be warranted, and we recommend approval.

CALIFORNIA STATE WORLD TRADE COMMISSION

Item 0585 from the General
Fund and various funds

Budget p. LJE 25

Requested 1987-88	\$2,628,000
Estimated 1986-87	1,472,000
Actual 1985-86	1,133,000
Requested increase (excluding amount for salary increases) \$1,156,000 (+78.5 percent)	
Total recommended reduction	1,000,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0585-001-001—Support	General	\$1,317,000
0585-001-036—Loan guarantees	Special Account for Capital Outlay	1,000,000
Statutory Appropriation—Support	Export Finance	51,000
0585-001-981—Trade promotion	California State World Trade Commission	260,000
Total		\$2,628,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Export Finance Program. Reduce Item 0585-001-036 by \$1 million.* Recommend reduction because proposed loan guarantee increase is not justified on a workload basis. 26

GENERAL PROGRAM STATEMENT

The California State World Trade Commission was created by Ch 1526/82. Subsequently, these provisions were repealed by Ch 1387/86, which also recreated the commission and gave it new responsibilities. The commission's responsibilities now include: (1) coordinating activities designed toward expanding international trade; (2) addressing policies that affect California's ability to trade internationally; (3) providing research in international trade; and (4) administering programs designed to increase the availability of funds used to finance the overseas sales of California products. The 11-member commission is composed of government and business leaders, and is chaired by an appointee of the Governor.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$2,628,000 from various funds to support the programs of the commission during 1987-88. This amount is \$1,156,000, or 78.5 percent above estimated current year expenditures. The increase reflects the *net* effect of: a \$104,000 reduction for one-time operating expenses, an increase of \$1,273,000 for various proposed program changes, and a \$13,000 reduction as a "special adjustment" in the budget year.

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

CALIFORNIA STATE WORLD TRADE COMMISSION—Continued

Table 1
California State World Trade Commission
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

Category	Actual 1985-86	Estimated 1986-87	Proposed 1987-88	Change From 1986-87	
				Amount	Percent
Personal Services	\$401	\$462	\$539	\$77	16.7%
Operating Expenses and Equipment	732	1,010	1,102	92	9.1
Loan Guarantees for Exporters	—	—	1,000	1,000	NMF ^a
Totals	\$1,133	\$1,472	\$2,641	\$1,169	79.4%
Special Adjustment	—	—	13	13	NMF ^a
Adjusted Totals	\$1,133	\$1,472	\$2,628	\$1,156	78.5%
Funding Sources					
General Fund	\$1,110	\$1,222	\$1,317	\$95	7.8%
California State World Trade Commission Fund ..	23	250	260	10	4.0
Export Finance Fund	—	—	51	51	NMF ^a
Special Account for Capital Outlay	—	—	1,000	1,000	NMF ^a
Personnel-Years	8.6	8.9	10.7	1.8	20.2%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

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

- **Operating Expenses (\$148,000).** These funds would be used by the commission to participate in three additional trade shows during the budget year.
- **Research Studies (\$40,000).** These funds would be used to contract for studies of the economic impact of two-way trade and the effect of trade protectionism on the California economy.
- **Export Finance Office Staffing Increase (\$51,000).** The budget requests one additional position to conduct financial analyses of loan guarantee requests.
- **World Trade Commission Staffing Increase (\$34,000).** The budget requests one additional office assistant to help with general office duties.

Additional Loan Guarantee Funds Not Needed

We recommend a reduction of \$1 million because additional loan guarantee funds are not justified on a workload basis (Reduce Item 0585-001-036 by \$1 million).

Chapter 1693, Statutes of 1984, created the California Export Finance Office within the WTC to provide export assistance and disseminate information on export opportunities, the techniques of exporting and sources of public and private export assistance. Moreover, it appropriated \$2 million from the General Fund to the Export Finance Fund which it established to guarantee loans made for qualified export transactions.

The budget proposes to appropriate \$1 million from the Special Account

for Capital Outlay to the Export Finance Fund to increase the amount of funds available for loan guarantees during 1987-88. According to the director of the export finance office, the funds are needed to gain the confidence of the banking community. Export office staff, however, have been unable to provide any information which demonstrates a lack of confidence on the part of the banking community. In fact, the opposite appears to be the case. Staff acknowledge that they have had no difficulty finding banks to participate. To date, 49 banks have expressed an interest in participating in the program. Further, there is no apparent reason why a lack of confidence should exist. The program has operated for two years without a single default.

Finally, it does not appear that the additional funding is necessary to accommodate the level of budget year loan guarantees. By law, each dollar in the Export Finance Fund can support four dollars in loan guarantees. Given the current amount available in the Export Finance Fund, the commission could guarantee an additional \$4.5 million. Over the past two years, however, guarantee commitments have totaled only \$3.9 million. The commission has not provided information which would indicate increased guarantee activity beyond the \$4.5 million is likely in the current and budget years. Therefore, we recommend a reduction of \$1 million proposed for loan guarantees because the amount has not been justified on a workload basis.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 0650 from the General
Fund

Budget p. LJE 29

Requested 1987-88	\$3,684,000
Estimated 1986-87	3,750,000
Actual 1985-86	3,879,000
Requested decrease (excluding amount for salary increases) \$66,000 (-1.8 percent)	
Total recommended reduction	103,000

1987-88 FUNDING BY ITEM AND SOURCE

Item-Description	Fund	Amount
0650-001-001-Support	General	\$3,628,000
0650-001-890-Support	Federal Trust	(144,000)
Reimbursements	—	56,000
Chapter 1604, Statutes of 1985	Federal Trust	(40,000)
Chapter 1338, Statutes of 1986	Petroleum Violation	(2,129,000)
	Escrow Account (Federal)	
Chapter 1339, Statutes of 1986	Petroleum Violation	(1,691,000)
	Escrow Account (Federal)	
Chapter 1343, Statutes of 1986	Petroleum Violation	(233,000)
	Escrow Account (Federal)	
Total		\$3,684,000

OFFICE OF PLANNING AND RESEARCH—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis
page**1. Position Transfers. Reduce Item 0650-001-001 by \$103,000.**

29

Recommend deletion of three positions transferred from various units into the Executive Office and Support Services unit because the office could not explain the need for the positions.

GENERAL PROGRAM STATEMENT

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

The OPR has 80 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$3,628,000 from the General Fund for support of the OPR in 1987-88. This is a decrease of \$37,000 below estimated current-year General Fund expenditures. This decrease, which is identified in the budget as a Special Adjustment, is an unspecified reduction of approximately 1 percent.

Total expenditures from all sources in 1987-88 are proposed at \$7,921,000, including \$3,628,000 from the General Fund, \$56,000 from reimbursements, \$184,000 from the Federal Trust Fund and \$4,053,000 from other federal funds in the Petroleum Violation Escrow Account (PVEA). This is an increase of \$735,000, or 10 percent, above estimated current-year expenditures.

The net increase in total expenditures proposed for 1987-88 primarily consists of expenditure changes to various programs supported by federal funds. First, Chapter 1604, Statutes of 1985, appropriated \$900,000 from federal funds for a loan program intended to assist low-income fishing operators conserve fuel. Because most of the loans will be made in the current year, the budget shows an expenditure reduction of \$740,000 from the Federal Trust Fund in the budget year.

Second, the Legislature appropriated \$11 million from the Petroleum Violation Escrow Account to OPR for three programs. These appropriations consist of (1) \$4 million for Small Business Energy Accounting (Ch 1338/86), (2) \$3 million for Native American Community Energy Services (Ch 1339/86) and (3) \$4 million for Schools Energy Management Centers (Ch 1343/86). The OPR proposes to expend these amounts, over a four-year period, from 1986-87 through 1989-90. The budget shows expenditures of \$2,412,000 to implement these programs in the current year. In addition, \$4,053,000, an increase of \$1,641,000, is budgeted to continue them in 1987-88.

Third, the federal government has reduced its regular energy grants to the state by \$100,000 in recognition that large sums of PVEA funds are available to the states for energy-related projects.

Table 1 shows the budget for OPR by program and funding source for 1985-86 through 1987-88. The table shows that 80 personnel-years are proposed in 1987-88.

Table 1
Office of Planning and Research
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

<i>Program Expenditures</i>	<i>Actual 1985-86</i>	<i>Estimated 1986-87</i>	<i>Proposed 1987-88</i>	<i>Percent Change from 1986-87</i>
1. Education Planning and Policy	\$295	\$315	\$315	—
2. Local Government Affairs.....	792	802	808	0.7%
3. Permit Assistance.....	1,135	1,002	993	-0.9
4. Energy Extension Service.....	660	3,441	4,237	23.1
5. Community Relations.....	695	692	692	—
6. Executive Office and Support Services	924	934	913	-2.2
Totals, Expenditures	\$4,501	\$7,186	\$7,958	10.7%
Special Adjustment	—	—	-37	NMF ^a
Adjusted Totals, Expenditures	\$4,501	\$7,186	\$7,921	10.2%
Funding Sources				
<i>General Fund</i>	\$3,660	\$3,665	\$3,628	-1.0%
<i>Federal Trust Fund</i>	622	1,024	184	-82.0
<i>PVEA funds (federal)</i>	—	2,412	4,053	68.0
<i>Reimbursements</i>	219	85	56	-34.1
Totals	\$4,501	\$7,186	\$7,921	10.2%
Personnel-Years.....	80.9	80	80	—

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of three positions requested for the Executive Office and Support Services program because OPR could not explain the need for these positions, for a General Fund savings of \$103,000. (Reduce Item 0650-001-001 by \$103,000).

Last year, the Legislature approved a budget for OPR that supported 80 positions, including 21 positions in the Executive Office and Support Services program. This year the budget proposes to increase the staff of the Executive Office and Support Services from 21 to 24 positions, by transferring 3 positions from other programs.

Specifically, two positions have been transferred from the Office of Permit Assistance, one-half of a position has been transferred from the California Energy Extension Service, and one-half of a position has been transferred from the Office of Community Relations. The budget reflects these transfers in both the current and budget year.

In order to evaluate the need for additional staff resources in the Executive Office and Support Services program, we requested that OPR provide information that would justify the need for the positions. The OPR advised that none was available.

Without this justification, we have no analytical basis for recommending that the positions be funded. Therefore, we recommend that the Legislature delete three positions from the budget for a savings of \$103,000 from the General Fund.

We will revise this recommendation accordingly, if OPR subsequently provides information justifying the transfer. This would include an explanation of the specific activities that were previously assigned to these

OFFICE OF PLANNING AND RESEARCH—Continued

positions and the reasons why those activities are no longer needed. In addition, it should include an explanation of, and justification for, the new activities assigned to the transferred positions.

Governor's Office
OFFICE OF EMERGENCY SERVICES

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

Budget p. LJE 33

Requested 1987-88	\$16,096,000
Estimated 1986-87	36,649,000
Actual 1985-86	15,069,000
Requested decrease (excluding amount for salary increases) \$20,553,000 (-56.1 percent)	
Total recommended reduction	None
Recommendation pending	438,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0690-001-001—Support	General	\$9,485,000
0690-001-014—Support	Hazardous Waste Control Account	152,000
0690-001-029—Support	Nuclear Planning Assess- ment Special Account	297,000
0690-001-890—Support	Federal Trust	(4,043,000)
0690-101-029—Local Assistance— Fixed Nuclear Power Plant Planning	Nuclear Planning Assessment Special Account	600,000
0690-101-890—Local Assistance Emergency Mu- tual Aid	Federal Trust	(38,013,000)
Continuous Appropriation—Local Assistance	Public Facilities Account, Natural Disaster Assistance	2,345,000
Continuous Appropriation—Local Assistance	Street and Highway Ac- count, Natural Disaster As- sistance	2,671,000
Reimbursements		546,000
Total, State Funds		\$16,096,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Hazardous Substances Response Training. We recom-
mend that, during budget hearings, OES advise the Legisla-
ture as to (1) why it has not implemented Chapter 1503 in
a manner consistent with legislative intent, and (2) the im-
pact of staff redirections on local government's ability to
respond effectively to disaster situations, and on continued
federal support for emergency management programs.

34

2. Emergency Management Assistance (EMA) Funding. 35
Withhold recommendation on \$438,000 requested from the General Fund for 13 positions pending receipt from OES of (1) its most recent estimate of EMA funds for 1987-88, (2) its plans for dealing with a potential reduction in EMA funding, and (3) an evaluation of options for redistributing the state's annual EMA allocation.
3. Public Facilities Account. Recommend that prior to 37
budget hearings, the administration report to the fiscal committees on the state's ability to provide disaster assistance to local governments within the amount budgeted for that purpose.

GENERAL PROGRAM STATEMENT

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

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$16,096,000 in state funds during 1987-88, which is \$20,553,000, or 56.1 percent, less than estimated state expenditures during the current year.

The budget proposes a *total* expenditure program of \$58,152,000 for support of OES activities in 1987-88. This amount is \$20,309,000, or 25.9 percent, less than estimated current-year expenditures.

The decline in expenditures proposed for 1987-88 is due primarily to two unusually high one-time disaster assistance expenditures in the current year. First, estimated expenditures from the Street and Highway Account within the Natural Disaster Assistance Fund appear unusually high due to the 1986 Budget Act transfer from the account, which resulted in a General Fund augmentation of \$13,500,000. This transfer was made because the reserve balance was greatly in excess of the amount needed to adequately provide for the state's streets and highways in the case of disasters. Second, current-year disaster assistance expenditures include \$5 million from the 1986 Flood Disaster Account, which is available for allocation to reclamation and levee maintenance districts in those counties declared disaster areas as a result of the February 1986 floods. The budget indicates that these latter funds will be expended fully in the current year.

The remaining difference between current and budget year expenditures results primarily from a reduction in the amount of Natural Disaster Assistance funds that the budget proposes to make available to the office for distribution to local governments in 1987-88. It is important to note that the amount of disaster assistance budgeted for 1987-88 is merely an *estimate*. The actual level of expenditure in the budget year will depend on the cost of repairing damage caused by natural disasters.

If the proposed budget for 1987-88 is adjusted to eliminate the effect of these one-time changes in disaster assistance funding, the level of expenditures is actually \$518,000, or 3.7 percent, *higher* than estimated expenditures in the current year.

Expenditures for OES support and local assistance are summarized by funding source and fiscal year in Table 1. The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986-87

OFFICE OF EMERGENCY SERVICES—Continued

which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Office of Emergency Services
Funding Sources
1985-86 through 1987-88
(dollars in thousands)

<i>Category/Source of Funds</i>	<i>Actual 1985-86</i>	<i>Est. 1986-87</i>	<i>Prop. 1987-88</i>	<i>Percent Change from 1986-87</i>
State Operations				
General Fund.....	\$9,003	\$9,257	\$9,485	2.5%
Federal Funds	4,032	3,799	4,043	6.4
Nuclear Planning Assessment	297	297	297	—
Hazardous Waste Control	—	245 ^a	152	-3.8
Reimbursements	340	407	546	34.2
Special Adjustment.....	—	—	-96	NMF ^b
Subtotals	\$13,672	\$14,005	\$14,523	3.7%
Local Assistance				
General Fund.....	\$633 ^c	—	—	—
Federal Funds	22,735	\$38,013	\$38,013	—
Nuclear Planning Assessment	425	600	600	—
Natural Disaster Assistance Fund:				
Public Facilities Account.....	2,965	3,843	2,345	-39.0%
Street and Highway Account.....	1,643	17,000	2,671	-84.3
1986 Flood Disaster Account	—	5,000 ^d	—	-100.0
State Highway Account.....	-237 ^e	—	—	—
Subtotals	\$28,164	\$64,456	\$43,629	-32.3%
Totals	\$41,836	\$78,461	\$58,152	-25.9%

^a Appropriation from Ch 1503/86.

^b Not a meaningful figure.

^c Amount represents funds transferred from Ch 1562/85 to reimburse local agencies for extraordinary costs related to the 1985 summer fires.

^d Allocation from Ch 16/86.

^e Loan repayment from local agencies per Ch 1064/83.

As Table 1 illustrates, the costs of state operations are proposed to increase by \$518,000, or about 4 percent, in the budget year. This increase is primarily the result of various workload and administrative adjustments. The increases are partially offset by several operating expense and equipment reductions, which reflect various one-time expenses which OES will not incur after the current year. In addition, the budget has been reduced by \$96,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment.

The 32.3 percent decrease in local assistance reflects the decline in disaster relief expenditures, mentioned earlier. This amount is \$20,827,000 below estimated current-year expenditures for local assistance.

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

Table 2
Office of Emergency Services
Program Summary
1985-86 through 1987-88
(dollars in thousands)

<i>Program Expenditures</i>	<i>Actual 1985-86</i>	<i>Est. 1986-87</i>	<i>Prop. 1987-88</i>	<i>Percent Change from 1986-87</i>
Fire and Rescue	\$3,406	\$2,695	\$2,719	0.9%
Law Enforcement	710	718	675	-6.0
Emergency Communication Systems	2,238	1,941	2,050	5.6
Plans and Preparedness	1,446	1,634	1,638	0.2
Earthquake Preparedness	1,127	1,534	1,884	22.8
Training	1,742	1,975	2,026	2.6
Hazardous Materials and Radiological Planning..	1,520	1,889	1,958	3.7
Technical Assistance	1,386	1,403	1,449	3.3
Disaster Assistance	28,498	64,672	43,849	-32.2
Administration (distributed)	(1,523)	(1,389)	(1,437)	3.5
Loan Repayment Program	-237	—	—	—
Special Adjustment	—	—	-96	NMF ^a
Totals	\$41,836	\$78,461	\$58,152	-25.9%
<i>Personnel-Years</i>				
Fire and Rescue	22.8	25.0	25.0	—
Law Enforcement	6.5	5.8	5.8	—
Emergency Communication Systems	15.0	15.3	16.2	5.9%
Plans and Preparedness	15.8	19.5	19.5	—
Earthquake Preparedness	10.2	10.7	16.7	56.1
Training	20.0	23.0	26.8	16.5
Hazardous Materials and Radiological Planning..	15.5	17.8	18.7	5.1
Technical Assistance	17.9	17.7	18.6	5.1
Disaster Assistance	15.9	12.9	12.9	—
Administration	32.2	29.0	29.0	—
Loan Repayment Program	—	—	—	—
Totals	171.8	176.7	189.2	7.1%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

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

- A request for \$190,000 to provide additional General Fund support for the Southern California Earthquake Preparedness Project and the Bay Area Earthquake Preparedness Project (which will be transferred to OES from the Seismic Safety Commission in the budget year), due to declining federal support for the projects.
- The purchase of vibraphone sound detectors which are used to locate individuals who have been buried in collapsed buildings at a cost of \$12,000, and an additional \$64,000 to provide training for structural engineers who would assess damages to facilities following a major earthquake.
- An augmentation of \$90,000 to establish two new positions to meet additional workload responsibilities in the hazardous materials and telecommunications divisions.
- An increase of \$41,000 to establish a position to meet additional emergency planning workload requirements, and \$48,000 to continue funding for an assistant information officer position.
- An additional \$150,000 to pay for increased Department of General Services' costs for telecommunications repair services.

OFFICE OF EMERGENCY SERVICES—Continued**Budget Proposal Reduces Emergency Response Training Efforts**

We recommend that, during budget hearings, the Office of Emergency Services advise the Legislature as to (1) why it has not implemented Chapter 1503 in a manner consistent with legislative intent, and (2) the impact of staff redirections on local government's ability to respond effectively to disaster situations, and on continued federal support for emergency management programs.

The budget proposes to establish four new positions at the California Specialized Training Institute (CSTI), at a cost of \$291,000, including \$152,000 from the Hazardous Waste Control Account and \$139,000 in reimbursements from tuition fees charged to trainees. Specifically, funds are requested to hire one senior emergency services coordinator, two instructor/coordinators, and one machine operator to continue the California Hazardous Substances Incident Response Training and Education Program established in the current year by Ch 1503/86 (AB 2702). This program requires the CSTI, to (1) develop curriculum for hazardous substances response training, and (2) adopt standards and procedures for training hazardous substances response instructors.

Background. With the enactment of Chapter 1503, the Legislature placed primary state responsibility for hazardous substances response training efforts with OES. The measure requires OES to develop a training curriculum and to train instructors within 12 months of the effective date of the measure (September 30, 1987). It also requires the program to be fully operational by April 1, 1988.

When Chapter 1503 was considered by the Legislature, OES provided detailed information to the policy and fiscal committees regarding the cost and staffing which would be required to establish the new training program. Specifically, OES indicated that it would need a total of seven new positions on an ongoing basis at the CSTI, in order to accomplish all aspects of the program within the time frames specified in the measure. For the first year of the program, OES indicated that it would require \$245,000 to establish three positions at the CSTI to begin curriculum and standards development. In recognition of this, the Legislature provided an appropriation of \$245,000 from the Hazardous Waste Control Account to initiate this work.

For the second year the office advised that it would require a total of \$401,000 to continue the three positions and establish four *additional* positions to complete instructor training and certification, and to manage the program on an ongoing basis. The Legislature enacted the measure with the understanding that all seven positions would be established on an ongoing basis in order to carry out the hazardous training response program.

OES Will Reduce Emergency Response Training Efforts In Order to Implement Chapter 1503. In spite of the fact that the Legislature appropriated \$245,000 to carry out the office's plan for the first year of the program, OES has *not* established the three positions at the CSTI in the current year. Instead, OES has used the appropriation primarily to hire consultants for curriculum and standards development in lieu of permanent staff. In addition, it has redirected several CSTI staff members from other duties and training responsibilities to work on the new program. As a result of the staff redirections, the office indicates that it plans to cancel

training seminars related to the needs of the disabled in disasters, emergency preparedness classes for schools and school districts, and computer application workshops in emergency management.

Moreover, for the second year of the program, the budget provides less funding and less staff than OES indicated to the Legislature would be needed to manage the program on an ongoing basis. The office advises that it will continue to redirect existing CSTI staff to work on the new training program in the budget year, and will continue to cutback on the amount of training provided in other emergency response areas.

Our concerns are two-fold. First in the current year, despite the appropriation of funds and specific legislative direction to hire staff, the administration has chosen to hire consultants and redirect staff from other training activities to implement this program. These administrative actions reduce existing training efforts below the amounts previously approved by the Legislature. Second, in the budget year, the program is funded below the level anticipated by the Legislature when it enacted Chapter 1503. Moreover, the redirection of staff from other training activities is proposed to continue. These actions could jeopardize local government's ability to respond effectively to disaster situations and could jeopardize continued federal support for their emergency management programs.

Given the potential impact of these administrative actions on the state's disaster training program in general, and hazardous substances response training in particular, we recommend that during budget hearings, OES advise the Legislature on the following issues:

- (1) Why it has not implemented Chapter 1503 in a manner consistent with legislative intent, and what effect these actions will have on meeting the statutory time frames required by the act.

- (2) What is the impact of staff redirections in the current and budget years on (a) local government's ability to respond effectively to disaster situations, and (b) continued federal support for emergency management programs.

California Uses the General Fund to Offset for the Loss of Federal Funds

We withhold recommendation on \$438,000 requested from the General Fund to offset for the loss of federal funds, pending receipt from OES of (1) its most recent estimate of the amount of federal Emergency Management Assistance (EMA) funds it will receive in 1987-88, (2) its plan for dealing with the potential for further EMA funding reductions in the budget year, and (3) a report which evaluates various options for redistributing California's annual EMA allocation (Item 0690-001-001).

The budget requests an increase of \$438,000 from the General Fund to pay the full cost of 13 positions in the office's fire and rescue and law enforcement divisions. In prior years, these positions have been supported partially with federal matching funds provided under the Emergency Management Assistance (EMA) program. The office now indicates that federal funding has decreased significantly, and that full General Fund support for these 13 positions is required. The Director of Finance also proposes to allocate a total of \$438,000 from the Reserve for Contingencies and Emergencies for this purpose in the current year, pursuant to Section 27 of the 1986 Budget Act.

Background. The EMA program provides federal contributions to state and local governments for up to 50 percent of the costs for certain emergency management personnel and related expenses. One-third of California's EMA allocation is used primarily to support 59 positions in the

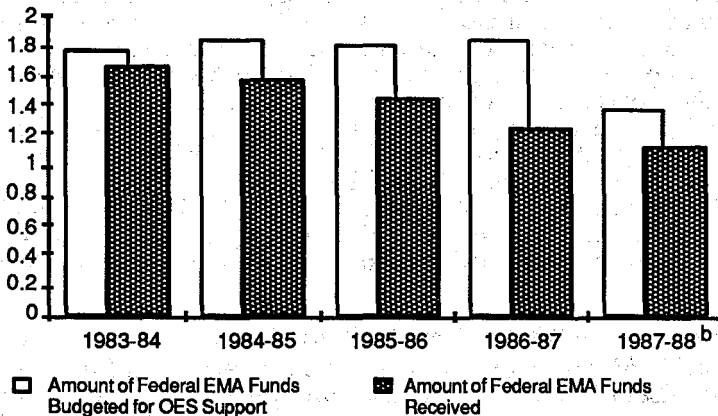
OFFICE OF EMERGENCY SERVICES—Continued

Office of Emergency Services. The remaining two-thirds is allocated by OES to approximately 100 local agencies. Although the original purpose of the EMA program was to assist state and local agencies in their civil defense planning efforts, EMA funds are currently used for a variety of disaster preparedness and emergency response activities.

EMA Funds Are Declining. Over the past several years, federal support for the EMA program has declined significantly. Chart 1 reflects the fact that the budgets prepared by OES in each of these years have not accurately anticipated these decreases in federal funding.

Chart 1

**Office of Emergency Services
Federal Emergency Management Assistance (EMA)^a
1983-84 through 1987-88**



^a Source: Governor's Budget and Office of Emergency Services

^b Projected by Legislative Analyst's Office

As Chart 1 indicates, the difference between budgeted and actual EMA allocations to OES increased significantly from 1983-84 to 1986-87. As this difference has grown during the previous four fiscal years, the state's General Fund has absorbed a total of approximately \$1.3 million in EMA funding shortfalls. Until the current year, OES indicates that it has offset these federal reductions primarily by holding various legislatively-approved positions vacant, and by eliminating approved equipment purchases. However, these decisions have been made administratively—not as part of the Legislature's annual review of the budget. Consequently, this minimizes the Legislature's role in developing the office's expenditure plan.

The budget document indicates that OES will receive \$1,380,000 in

EMA funds for state operations in 1987-88. This amount may be overstated given the decline in federal support for the EMA program. Assuming that the recent pattern of declining federal allocations continues, our analysis indicates that the amount of EMA funds OES will receive in 1987-88 is probably overestimated—potentially by \$228,000.

In order to ensure that the Legislature has the information it needs to make decisions about how to adjust to the loss of federal EMA funding, we recommend that the Legislature direct OES to report prior to budget hearings on (1) its most recent estimate of 1987-88 EMA allocations, (2) its specific plan to deal with a potential *further* reduction in such funding, and (3) the programmatic and financial implications of various options for redistributing the California's EMA allocation between the state and local governments.

Pending receipt of this information, we withhold recommendation on the \$438,000 requested for support of the 13 fire and rescue and law enforcement positions.

Budget Overestimates Public Facilities Account Reserve

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

Under the provisions of the Natural Disaster Assistance Act, OES administers a program of aid to local agencies for the repair and restoration of public real property—such as buildings or sewer systems—which are damaged by natural disasters. Local agencies are eligible for funding under the program if a local emergency is declared and the Director of OES concurs with the declaration. Under this program, restoration of public facilities (other than streets and highways) is funded by a continuous appropriation from the Public Facilities Account, Natural Disaster Assistance Fund. The account receives periodic appropriations from the General Fund.

Public Facilities Account Reserve Is Too Low. The budget estimates that a total of \$3,843,000 will be expended from the Public Facilities Account in 1986-87, and that the reserve for economic uncertainties in the account will total \$6,968,000 at the beginning of the budget year. In our judgment, however, the budget estimates regarding the amount of funds that will be available in the reserve are misleading.

This is because OES estimates that a total of \$5,668,000 of the disaster assistance funds in the reserve have already been committed to pay for the cost of disasters which have already occurred. Moreover, OES anticipates that a total of \$1,605,000 will be transferred from the reserve in the Public Facilities Account to the State Controller, Department of Water Resources, and Office of State Architect to pay for their services related to ongoing disaster assistance activities in the budget year.

Consequently, it appears that there will be no funds in the Public Facilities Account which are available for *new* disaster assistance expenditures in 1987-88. Our analysis indicates, therefore, that additional funds will need to be allocated to the Public Facilities Account in order to fund disaster assistance expenditures in the budget year. While additional funds will undoubtedly be requested by the administration once the need for them is apparent, failure to request funds in the budget creates two potential problems. First, it could temporarily disrupt the state's ability to provide disaster assistance to local governments. Second, it gives the Legislature a false impression of how much will be available in the Special Fund for Economic Uncertainties and therefore disrupts the Legislature's fiscal planning.

OFFICE OF EMERGENCY SERVICES—Continued

For these reasons, we recommend that the administration report to the fiscal committees *prior* to budget hearings, on the state's ability to finance *new* disaster assistance expenditures from the Public Facilities Account in the budget year.

OFFICE OF THE LIEUTENANT GOVERNOR

Item 0750 from the General

Fund

Budget p. LJE 42

Requested 1987-88	\$1,487,000
Estimated 1986-87	1,501,000
Actual 1985-86	1,457,000
Requested decrease (excluding amount for salary increases) \$14,000 (-0.9 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0750-001-001—Support	General	\$1,417,000
Reimbursements	—	70,000
Total		\$1,487,000

GENERAL PROGRAM STATEMENT

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

The Lieutenant Governor's Office has 23 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$1,487,000 (\$1,417,000 from the General Fund and \$70,000 from reimbursements) for the support of the Lieutenant Governor's Office during 1987-88. This is a reduction of \$14,000, or 0.9 percent, from estimated current-year expenditures, and is due entirely to the 1 percent General Fund "special adjustment" reduction.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the expenditures proposed for the office are reasonable.

DEPARTMENT OF JUSTICE

Item 0820 from the General
Fund and various funds

Budget p. LJE 43

Requested 1987-88	\$212,345,000
Estimated 1986-87	209,590,000
Actual 1985-86	175,096,000
Requested increase (excluding amount for salary increases) \$2,755,000 (+1.3 percent)	
Total recommended reduction	1,802,000
Recommendation pending	2,548,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0820-001-001—Support	General	\$152,849,000
0820-001-012—Antitrust	Attorney General's Anti-trust Account, General	408,000
0820-001-014—Toxic substance	Hazardous Waste Control Account, General	614,000
0820-001-017—Fingerprints	Fingerprint Fees, General	10,639,000
0820-001-044—Data center support	Motor Vehicle Account, State Transportation	14,045,000
0820-001-455—Toxic substance	Hazardous Substance Account, General	981,000
0820-001-460—Handgun control	Dealers Record of Sale Special Account, General	875,000
0820-001-469—Law enforcement	Narcotics Assistance and Relinquishment by Criminal Offender	478,000
0820-001-477—Gaming registration	Gaming Registration Fee Account, General	491,000
0820-001-890—Support	Federal Trust	(11,045,000)
0820-001-942—Support	Federal Asset Forfeiture Account, Special Deposit	776,000
0820-011-017—Transfer to General Fund	Fingerprint Fees Account, General	(3,000,000)
0820-101-001—Local assistance	General	1,310,000
0820-101-469—Local assistance	Narcotics Assistance and Relinquishment by Criminal Offender	500,000
Reimbursements	—	28,069,000
Political Reform Act	—	310,000
Total, Budget Bill Appropriations		\$212,345,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Integrated Office System. Reduce Item 0820-001-001 by \$578,000 and reimbursements by \$162,000.* Recommend a reduction because expansion of the department's Integrated Office System prior to an appropriate evaluation of the system is premature. 43
2. *Civil Law Workload.* Recommend that the department report during budget hearings on its ability to deal with litigation generated by the floods of 1986 within existing resources. 44

DEPARTMENT OF JUSTICE—Continued

3. Criminal Law Workload. Withhold recommendation on 47.6 positions and \$2,548,000 (Item 0820-001-001 and reimbursements) pending further review of the department's proposal. 45
4. *Subsidy to Special Funds. Reduce Item 0820-001-001 by \$429,000 and increase reimbursements by \$429,000.* Recommend a shift in funding source for various department legal work in order to eliminate a General Fund subsidy for special fund programs. 45
5. *Technical Recommendation. Reduce Item 0820-001-001 by \$50,000.* Recommend a reduction to eliminate overbudgeting. 46
6. *Bureau of Narcotic Enforcement (BNE) Augmentation. Reduce Item 0820-001-001 by \$155,000.* Recommend reduction to reflect planned phase-in of BNE support personnel. 47
7. *Radio Equipment Replacement. Reduce Item 0820-001-001 by \$233,000.* Recommend reduction to create a more consistent replacement schedule for the department's radio equipment. 48
8. *Drug Prevention Unit. Reduce Item 0820-001-001 by \$78,000.* Recommend reduction to eliminate a new drug prevention unit because the proposed activities can be accomplished with existing department personnel. 49
9. *Facilities Expenses. Reduce Item 0820-001-001 by \$192,000.* Recommend reduction to eliminate overbudgeting of facilities expenses. 50
10. *Alteration Costs. Reduce Item 0820-001-001 by \$292,000.* Recommend reduction to eliminate inadequately supported facility alteration costs. 50
11. *Money Laundering Program. Reduce Item 0820-001-942 by \$62,000.* Recommend reduction to reflect revised cost estimates for the program. 51
12. Transfer of Fingerprint Fees. Recommend that prior to budget hearings, the Department of Finance report on how its plan for transferring a surplus in the Fingerprint Fees Account to the General Fund conforms with the policies established in existing law. 51

GENERAL PROGRAM STATEMENT

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

The department's legal programs are staffed with approximately 750 attorneys, paralegals, auditors, and related support positions. The Civil Law Division provides legal representation for most state agencies, boards, and commissions. The Criminal Law Division represents the state in all criminal matters before the appellate and supreme courts. The Public Rights Division provides legal services in the areas of Civil Rights

and Charitable Trust, Natural Resources, Environmental Law, Antitrust, Land Law, and Consumer Law.

The law enforcement support program is the department's largest and has an authorized staff of approximately 1,820 positions. It (1) provides investigative assistance to local law enforcement agencies, (2) operates a system of criminalistics laboratories throughout the state, (3) maintains centralized criminal history records and fingerprint files, and (4) operates a 24-hour-a-day communications center which provides criminal record information to law enforcement agencies throughout the state.

The department is authorized a total of 3,195.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of \$212,345,000 from the General Fund, various special funds, and reimbursements for support of the Department of Justice in 1987-88. This is an increase of \$2,755,000, or 1.3 percent, over estimated current-year expenditures.

The proposed General Fund appropriations for the department in 1987-88 total \$154,469,000. The budget has been reduced by \$1,542,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment. The resulting budget is \$1,520,000, or 1 percent, more than estimated General Fund expenditures in 1986-87.

When expenditures from special funds, federal funds, and reimbursements are added to those financed by the General Fund, total expenditures from all sources reach \$223,390,000. This is \$6,152,000, or nearly 3 percent, more than estimated total expenditures in 1986-87.

Table 1 summarizes the department's spending program for 1987-88, by fund source, and Table 2 presents a summary of the department's total expenditures, by program. These tables have not been adjusted to reflect any potential savings in 1986-87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Department of Justice
Funding Source Summary
1985-86 through 1987-88
(dollars in thousands)

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Percent</i> Change from 1986-87
1. General Fund	\$124,808	\$152,949	\$154,469	1.0%
2. Attorney General's Anti-Trust Account (General Fund)	418	408	408	—
3. Hazardous Waste Control Account	351	591	614	3.9
4. Fingerprint Fees Account	8,295	10,557	10,639	0.8
5. Motor Vehicle Account (State Transportation Fund)	12,990	13,553	14,045	3.6
6. Hazardous Substance Account	453	950	981	3.3
7. Dealers Record of Sale Account	780	866	875	1.0
8. NARCO Fund Account	467	978	978	—
9. Gaming Registration Account	448	490	491	0.2
10. Reimbursements	26,086	28,248	28,069	-0.6
11. Federal Trust Fund	6,949	7,648	11,045	44.4
12. Federal Asset Forfeiture Account	—	—	776	100.0
Total Funding	\$182,045	\$217,238	\$223,390	2.8%

DEPARTMENT OF JUSTICE—Continued

Table 2
Department of Justice
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change from 1986-87</i>
	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	
Executive/Administration ^a	630.4	624.8	662.8	(\$39,083)	(\$39,512)	(\$44,163)	11.8%
Special Programs	53.1	50.0	49.0	5,837	6,197	6,155	-0.7
Civil Law	223.5	224.9	239.7	27,324	29,921	32,220	7.7
Criminal Law	317.7	326.6	355.4	29,798	34,095	37,542	10.1
Public Rights	140.9	147.1	146.6	16,423	19,225	18,843	-2.0
Law Enforcement	1,746.0	1,822.5	1,861.8	102,663	127,800	128,630	0.6
Totals.....	3,111.6	3,195.9	3,315.3	\$182,045	\$217,238	\$223,390	2.8%

^a Amounts in parentheses are distributed to other programs.

Table 3 identifies (by funding source) the changes in the department's expenditure levels proposed for 1987-88.

Table 3
Department of Justice
Proposed 1987-88 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds ^a</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
1986-87 Expenditures (Revised)	\$152,949	\$28,393	\$7,648	\$28,248	\$217,238
A. Workload Changes:					
1. Marijuana Review	465	—	—	—	465
2. Correctional Law Workload	1,188	—	—	—	1,188
3. Appeals, Writs and Trials	1,302	—	—	58	1,360
4. Charitable Trust Workload	200	—	—	—	200
5. Government Workload	534	—	—	—	534
6. HEW Workload	—	—	—	322	322
7. Natural Resources	715	—	—	—	715
8. Tort Workload	846	—	—	—	846
9. Licensing	—	—	—	863	863
10. Medi-Cal Fraud	60	—	181	—	241
11. California Parent Locator	—	—	—	25	25
12. Limited Term Programs	-1,558	—	—	—	-1,558
B. Cost Adjustments:					
1. Administrative Changes and Technical Adjustments	-3,643	-303	-237	-1,295	-5,478
2. FBI Pass-through	—	1,030	—	—	1,030
3. One-time Cost Reductions	-2,847	-672	-57	-286	-3,862
4. Chaptered Legislation	648	—	—	—	648
5. Cal-ID RAN (CH 1234/85)	-6,999	—	—	—	-6,999
6. General Fund 1% Reduction	-1,542	—	—	—	-1,542
C. Program Adjustments:					
1. Salary Savings Relief	1,053	123	10	134	1,320

2. Narcotic Enforcement.....	4,000	—	3,500	—	7,500
3. Missing/Unidentified Persons	100	—	—	—	100
4. Witness Protection	45	—	—	—	45
5. Data Base Audit Team	90	109	—	—	199
6. Criminalistics Institute	1,306	—	—	—	1,306
7. CLETS Augmentation.....	245	200	—	—	445
8. Data Center Augmentation.....	179	147	—	—	326
9. DOJ Base Augmentation	75	—	—	—	75
10. CIIB Augmentation	46	4	—	—	50
11. Money Laundering	—	776	—	—	776
12. Precursor Reporting	371	—	—	—	371
13. Clandestine Lab Enforcement	3,751	—	—	—	3,751
14. Major Fraud.....	890	—	—	—	890
1987-88 Expenditures (Proposed)	\$154,469	\$29,807	\$11,045	\$28,069	\$223,390
Changes from 1986-87					
Amount.....	\$1,520	\$1,414	\$3,397	-\$179	\$6,152
Percentage.....	1.0%	5.0%	44.4%	-0.6%	2.8%

^a Includes special accounts in the General Fund.

LEGAL DIVISIONS

For 1987-88, the department's legal divisions request a net increase of \$5.3 million (\$4.8 million from the General Fund, and the remainder from federal funds, special funds, and reimbursements) over estimated current-year expenditures. Workload driven augmentations totaling approximately \$5.9 million are offset by \$0.6 million in reductions due to limited-term programs which are not continued into the budget year. Several of the proposed workload increases are discussed later in this analysis. We recommend approval of the following significant requests which are not discussed elsewhere:

- An increase of \$863,000 funded by reimbursements for additional staff to enable the Licensing Section of the Civil Law Division to meet increased workload from the Department of Consumer Affairs.
- A total of \$890,000 from the General Fund to finance an increased level of activity by the Major Fraud Unit of the Criminal Law Division.
- An additional \$322,000 funded by reimbursements for staff for the Health, Education and Welfare Section of the Civil Law Division to address increased workload associated with the Departments of Health Services and Social Services.
- Augmentations totaling \$275,000 from the General Fund for the Charitable Trust Unit of the Public Rights Division to meet increased workload demands.

Expansion of Integrated Office System Is Premature

We recommend a reduction of \$740,000 from the amount budgeted for additional workstations for the Integrated Office System because further expansion of the system is premature. (Reduce Item 0820-001-001 by \$578,000 and reimbursements by \$162,000.)

The department first received approval of an Integrated Office System (IOS) pilot project for its legal divisions in 1984. The objective of the IOS is to improve the divisions' productivity, communications, text preparation and analytic tools. A total of \$3.6 million was appropriated over a three-year period for the purchase and operation of 355 workstations,

DEPARTMENT OF JUSTICE—Continued

including 130 workstations in 1984–85, 150 workstations in 1985–86, and 75 workstations in 1986–87. The department envisions that the IOS will have a total of 525 workstations when the project is fully implemented.

In its initial approval of the IOS pilot project, the Department of Finance's Office of Information Technology (OIT) made final approval of the project contingent upon an interim evaluation of the benefits generated by the IOS. In October 1986, the OIT completed its review of the department's IOS Interim Evaluation Report. The OIT determined that while the number of IOS workstations installed provided an adequate environment to evaluate the project, the interim evaluation report contains insufficient information to demonstrate the system's benefits. For example, the interim report details the *criteria* by which the project *should* be evaluated, but provides little actual data or results which can be used to measure the project's effectiveness. Accordingly, OIT recommends that no further workstations be added to the system until a Final Evaluation Report is completed in August 1987. Our review of the department's January 1987 Quarterly Progress Report for automation projects indicates that data gathering for the IOS evaluation will begin in February 1987.

In spite of the OIT's recommendation, the department proposes to add 86 new workstations to the IOS as part of its 1987–88 budget request. The department has requested that a new IOS workstation for each new attorney and legal stenographer position be included in the standard complement of equipment provided for these new positions in the budget year. Because an adequate evaluation of the IOS's benefits has not yet been performed, we concur with the OIT that expansion of the IOS project is premature. Therefore, we recommend that the additional IOS equipment be deleted from the department's support budget, for a General Fund savings of \$740,000.

Major Litigation Workload Due To Flood Damage Claims Not Addressed in Budget

We recommend that the department report to the Legislature during budget hearings on its ability to deal with the significant litigation generated by the floods of 1986 within existing resources.

The department requests six additional attorneys plus support staff in 1987–88 to accommodate specified workload increases in the Tort Law Section. In reviewing the department's projections of workload and its estimates of staffing needs, however, we found that the department did not include in its calculations any estimate of the amount of legal services and expenses it would incur as a result of the large volume of litigation associated with the floods of February 1986.

According to the Board of Control, it has received over 1,800 *damage claims totaling at least \$3.1 billion* related to the February 1986 floods. The standard policy of the board is to deny any claims involving complex questions of law or fact. Based upon this policy, the board indicates that nearly all of the 1,800 claims were denied between June and September of last year. Accordingly, the Attorney General's Office advises that claimants currently are filing a significant number of legal actions against the state.

The Attorney General's Office further advises that the nature of this litigation is complex and likely will require significant attorney resources.

Our review indicates, however, that the only amount provided in the 1987-88 Governor's Budget to deal with this litigation is an augmentation of \$300,000 to the Board of Control for "contractual services to review and appraise" flood claims (please see our analysis of Item 8700).

While the state's liability in any of these legal actions is uncertain, in our judgment the sheer number and magnitude of the claims suggests that the state should pursue an active and comprehensive defense. Accordingly, we recommend that the department report to the Legislature during budget hearings on its ability to defend the state against the potential liability arising from this flood litigation within its existing resources.

Criminal Law Staffing Proposals Warrant Further Review

We withhold recommendation on \$2,548,000 requested primarily from the General Fund for 17 attorney positions and related support staff for the Criminal Law Division pending further review of the proposal.

The department's Criminal Law Division requests \$2,548,000, largely from the General Fund, to fund 17 attorneys, 11 paralegals, and related secretarial support personnel for the Appeals, Writs and Trials, and Correctional Law Sections. Included in the Correctional Law Section's request are two attorney positions plus support staff for *specific* litigation (*Toussaint v. McCarthy*). The remainder of the request relates entirely to general workload increases.

At the time this *Analysis* was prepared, we had many questions regarding the department's proposal. The department's justification material is thorough and appears complete. However, because we still have several significant concerns, we currently are unable to make a recommendation.

Requests for additional attorneys for the Criminal Law Division have been a frequent occurrence in the past few years and we are concerned about the justification for any further augmentation. Our analysis indicates that between 1981-82 and 1987-88, attorney positions for the Appeals, Writs and Trials and Correctional Law Sections will increase approximately 41 percent if the department's proposal is approved. However, during this same period, the sections' caseload is projected to increase only 25 percent. We are concerned further that the division's workload projections do not reflect any increased efficiencies resulting from either the substantial increase in paralegal positions (over 1,000 percent between 1981-82 and the budget year) or the \$3.6 million expended over the past three years on the legal divisions' major automation project—the integrated office system.

Accordingly, we withhold recommendation on the Criminal Law Division's augmentation request totaling \$2,548,000, pending further analysis of the proposal and discussions with the department.

Eliminate General Fund Subsidy for Special Fund Programs

We recommend eliminating the General Fund subsidy for various special fund programs for a General Fund savings of \$429,000. (Reduce Item 0820-001-001 by \$429,000, and increase reimbursements by \$429,000.)

The department requests \$2.1 million for 16 attorney positions, five paralegals, and 14.8 secretarial support staff due to workload increases in the State Government, Natural Resources and Tort Law Sections. The budget proposes that these additional positions and related operating expenses be financed entirely from the General Fund in spite of the fact that in the current year, these sections receive only 58 percent of their budgets from the General Fund.

DEPARTMENT OF JUSTICE—Continued

Our analysis indicates that the sections will provide legal services to various state departments which are financed from special funds, federal funds, and reimbursements. Established state policy calls for other funding sources to share in the cost of services from which they benefit. At the time this analysis was written, the department was unable to provide us with funding detail for the client agencies generating the workload increases for these legal units. However, we reviewed historical data on the percentage of General Fund support versus reimbursements used to finance each of the above legal sections. Our review of the data indicates that the department could reasonably expect at least \$429,000 of these additional expenditures to be financed from reimbursements.

Accordingly, we recommend that the General Fund appropriation in Item 0820-001-001 be reduced by \$429,000 and that reimbursements be increased by the same amount.

Technical Budgeting Recommendation

We recommend a General Fund reduction of \$50,000 to eliminate over-budgeting. (Reduce Item 0820-001-001 by \$50,000.)

The department incorrectly calculated salary savings in its request for staff for the Government Law Section, and accordingly we recommend that the request be reduced by the amount of the error (\$50,000).

DIVISION OF LAW ENFORCEMENT

The Division of Law Enforcement requests a *net* increase of \$830,000 over estimated current-year expenditures for 1987-88. Program adjustments to the division's support request result in approximately \$8 million in increased appropriations. The most significant of these program initiatives is a \$7.5 million augmentation from the General Fund and federal funds for the Bureau of Narcotic Enforcement (BNE). The BNE proposal is discussed later in this analysis. The increase in the division's budget appears much lower than it would otherwise be because of a *one-time* \$7 million appropriation for equipment purchases in the current year for the CAL-ID random access network (Ch 1234/85).

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

- A total of \$3.7 million from the General Fund to augment BNE's clandestine lab enforcement program with 20 additional special agent personnel and support.
- An augmentation of \$371,000 from the General Fund to enhance a program for the compliance and enforcement of reporting requirements for manufacturers of materials used to manufacture controlled substances.
- An additional \$199,000 from the General Fund and Motor Vehicle Account to establish an audit program to improve the accuracy of data submitted by criminal justice agencies using the National Crime Information Center.
- A total of \$821,000 from the General Fund and the Narcotics Assistance and Relinquishment by Criminal Offender Fund for increased costs related to the department's data processing activities.

Major Narcotic Enforcement Augmentation

The BNE requests a budget increase of approximately \$9.5 million, or nearly 52 percent, over estimated current-year expenditures in 1987-88. The major component of this increased level of expenditures is a specific request for \$7.5 million to fund *65 new special agent positions*, an increase of approximately 50 percent over existing special agent staffing levels. In addition to increasing staffing levels at BNE's six existing field offices, these new agent positions will staff *new field offices* that will be established in Redding and Riverside in the budget year. The augmentation also provides for five new regional task forces, upgraded communications equipment, a planning and evaluation unit within BNE, and additional support personnel.

Of this \$7.5 million request, *we recommend approval* of the majority of the request (\$6.55 million), including the 65 agent positions. We recommend reductions totaling \$950,000 which we discuss in detail later in this analysis.

Sources of Funds. Funding for this proposal is split between the General Fund (\$4.0 million) and the Federal Trust Fund (\$3.5 million). The federal funds are part of the \$225 million allocated to state and local enforcement agencies in the Federal Anti-Drug Act of 1986, and require a 25 percent match by the state.

It should be noted that the recently released Federal Budget for Federal Fiscal Year (FFY) 1988 proposes to end this funding in FFY 1988 on the basis that the current "one-time infusion of funds will provide significant assistance to local drug enforcement efforts," and accordingly "such funds will no longer be needed for 1988." We estimate the annual ongoing cost of the proposed programs to be approximately \$5.3 million. Thus, it is likely that the General Fund will bear greater costs in future years to continue these programs, if they are approved for the budget year.

The department proposes to finance certain components of the proposal from the General Fund and other portions with federal funds. However, our review of the criteria for expending the federal grant money indicates that each component of the augmentation should qualify for federal funding. Accordingly, in the five recommendations for budget reductions which follow, we suggest that each of the reductions be made from the General Fund and that federal funds be redirected to support the remaining BNE program augmentations, to the extent that they are approved by the Legislature in the budget year.

No Phase-In of Narcotic Enforcement Support Personnel

We recommend a reduction of six personnel-years and \$155,000 from the General Fund, because the Bureau of Narcotic Enforcement's budget proposal does not account for the planned phase-in of support positions in 1987-88. (Reduce Item 0820-001-001 by \$155,000.)

The department's implementation plan for the BNE augmentation calls for the phase-in of the proposed 65 special agent positions over a six-month period in the budget year. Costs for staff, ongoing operating expenses, and one-time equipment purchases are expected to total \$3.8 million. Estimated full-year costs for staff and ongoing operating expenses beginning in 1988-89 will total \$3.7 million. This implementation schedule also calls for the special agent support personnel, primarily auditors and office assistants, to be introduced on a similarly staggered schedule.

The budget request, however, is based on this timetable and its associated costs savings *only* for special agent personnel. No partial-year adjust-

DEPARTMENT OF JUSTICE—Continued

ment for proposed *support* personnel and operating expenses is included. Therefore, we recommend a reduction of six personnel-years and \$155,000 from the General Fund, so that the budget properly reflects the department's implementation schedule for employing certain support personnel on a partial-year basis in 1987–88.

Equipment Replacement Plan Needs Revision

We recommend a revision to the department's equipment replacement plan in order to create a more consistent replacement schedule for the department's radio equipment. (Reduce Item 0820-001-001 by \$233,000.)

As part of the Governor's planned \$7.5 million augmentation for the BNE, the department proposes to accelerate its existing replacement schedule for that portion of its radio equipment which has been in service for longer than the equipment's designated "life span." The proposed funding for the new replacement schedule calls for appropriations of \$480,000 in 1987–88, \$131,000 in 1988–89 and \$131,000 in 1989–90, for a total cost of \$742,000. This new plan essentially accelerates the existing replacement schedule by providing a budget year augmentation of \$349,000 more than would be needed under the existing plan.

The department suggests that an acceleration of the replacement schedule is necessary at this time because the current replacement schedule would require roughly six more years to replace equipment which is *already* considered beyond its useful life. Implicit in the current replacement allowance is the assumption that only about 12 percent of the department's radio equipment was beyond its useful life when the replacement schedule was implemented. However, nearly 75 percent of the equipment on hand actually falls into this category. Accordingly, the department's contention appears reasonable. Given that in most instances the equipment to be replaced is presently in service and functional, we concur with the department that a three-year period for replacement of this outdated equipment is more appropriate.

Alternative Approach. However, our analysis indicates that a better approach to this revised replacement schedule would be to fund a higher, *consistent replacement allowance over the three-year period*, rather than to provide a disproportionately large amount in the budget year and smaller amounts thereafter.

This consistent approach would serve to minimize variations in the level of funding required by future replacement plans. In other words, replacement of a large quantity of equipment in the budget year would generate a similar problem of providing a large amount of replacement funding in some future year. Because of rapidly changing technology, concentrated purchases also heighten the risk of obtaining a large amount of technical equipment which becomes obsolete in later years.

Accordingly, we recommend that the \$742,000 of equipment which the department proposes to buy be purchased in equal increments over a three-year period (\$247,000 per year from 1987–88 through 1989–90). This approach results in a General Fund reduction of \$233,000 in 1987–88 by deferring some of the replacement costs to future years. At the same time, approval of this recommendation would ensure that there is a plan to adequately address the department's radio equipment needs.

Another Layer of Bureaucracy Not Needed in Drug Prevention Activity

We recommend deletion of two positions requested for a drug prevention unit within the Bureau of Narcotic Enforcement because adequate resources already exist within the department to perform the proposed unit's functions for a General Fund savings of \$78,000. (Reduce Item 0820-001-001 by \$78,000.)

The department proposes to establish a Drug Prevention Unit within the BNE at a cost of \$78,000 in the budget year. The new unit, consisting of an administrator and an office assistant, would be responsible primarily for (1) coordinating the exchange of drug prevention information between law enforcement and other segments of the criminal justice system, (2) developing an inventory of education and prevention programs established by law enforcement agencies, and (3) designating a special agent within each of BNE's six existing field offices to act as a drug prevention liaison. These special agent liaisons, *along* with performing their assigned law enforcement duties, would attempt to coordinate the various law enforcement prevention programs within the field office's area of responsibility.

We are concerned about the proposal because the department already operates a Crime Prevention Center, with a staff of 21 positions at a General Fund cost of approximately \$2.1 million annually. The center currently is involved in drug prevention activities, including the preparation of public service announcements and literature.

Specifically, in 1985-86 the center received a \$60,000 appropriation to develop an inventory and conduct an evaluation of private-sector and governmental drug prevention programs, as well as those developed by the education and health communities. The center also received a permanent position in the current year to establish a research and evaluation function. The stated objectives of this function include creating an inventory for all existing crime prevention programs of law enforcement agencies, surveying all crime prevention literature and multimedia resources, and coordinating crime prevention data collection, evaluation and studies. In fulfilling its role, the center also is involved with the drug prevention programs of law enforcement agencies across the state.

In our judgment, administering any new drug prevention program out of the existing Crime Prevention Center would provide for better coordination of the department's overall drug prevention activities and minimize the risk of duplicative drug prevention efforts. Improved coordination is a particularly important goal given the number of drug prevention programs already existing across the state, including those administered by the Department of Alcohol and Drug Programs, the Department of Education and the Office of Criminal Justice Planning. It is our understanding that shifting the *coordination* function to the existing Crime Prevention Center should have no effect on the unit's field presence, because the department could continue to implement that portion of the proposal which relies heavily upon special agents in field offices to carry out the unit's day-to-day activities.

For these reasons, we recommend that the two positions requested for the proposed drug prevention unit be deleted from the budget for a General Fund savings of \$78,000. We further recommend that the role of administering a drug prevention program involving BNE special agents instead be performed using existing resources in the department's Crime Prevention Center.

DEPARTMENT OF JUSTICE—Continued**Facilities Operations Overbudgeted**

We recommend a General Fund reduction of \$192,000 from the facilities operations budget because per-person space allowances are excessive and certain alteration costs are inappropriate. (Reduce Item 0820-001-001 by \$192,000.)

In conjunction with the proposal for 65 new narcotics agents and related support staff for the BNE, the department requests additional funds for facilities operations. Specifically, \$368,000 is requested for the rental of additional facilities and \$96,000 is budgeted for alterations to the leased facilities.

Rent. The department's request for additional funds for rental expenses is based upon detailed estimates of the square footage needed to accommodate the proposed new positions. These square footage estimates range from 115 to 415 square feet per person. According to the State Administrative Manual (SAM), however, the standard space allocation for a Cabinet Secretary or Agency Administrator is 250 to 350 square feet. Furthermore, the standard space allowance for the proposed positions ranges from 70 to 150 square feet.

Our analysis indicates that the department's request for rent is excessive. Using the SAM guidelines and providing additional space for public areas, conference rooms and the special needs of narcotics field offices, such as evidence storage and undercover rooms; we recommend that the facilities expenses budgeted for the BNE be reduced by \$121,000 to more accurately reflect the additional space requirements of the department.

Alterations. The department also requests \$96,000 for alterations to several privately-owned leased facilities. However, it is standard practice that when a state entity needs to make alterations to private leased facilities, the alterations costs are borne by the owner of the facilities, who then amortizes the costs over the life of the lease. Discussions with the department indicate an average facility lease period of five years. Based upon a five-year lease period, it appears that amortization of the costs of the proposed alterations would result in increased annual lease payments of about \$25,000.

Accordingly, we recommend that the difference between budgeted alteration costs (\$96,000) and the annual cost of amortization (\$25,000) be deleted from the department's request, for a General Fund savings of \$71,000.

Alteration Proposal Lacks Specific Detail

We recommend a General Fund reduction of \$292,000 because the amounts budgeted for facilities alterations for the California Criminalistics Institute and the BNE are inadequately supported and inappropriately included in the support item. The department should resubmit these requests through the minor capital outlay budget process. (Reduce Item 0820-001-001 by \$292,000.)

Our review of the department's budget for facilities operations indicates that \$292,000 is requested for alterations of state facilities for the newly created California Criminalistics Institute (Ch 1040/86) and the BNE. Instead of providing details of the alteration work to be performed or the nature of the expenses to be incurred, the department estimates each component of the request based upon a simple formula which multiplies

\$10 by the additional square footage requested for the proposed positions. The department was unable to provide any further support for alteration expenditures.

Per Control Section 6.0 of the 1987 Budget Bill, the cost of alterations greater than \$25,000 may not be budgeted through a support budget item. Accordingly, we recommend that the \$292,000 be deleted from the support budget. We recognize that the department may indeed need to modify its facilities to accommodate the new criminalistics institute and to expand narcotics field office operations. However, the department should identify these needs and submit specific alteration requests and supporting documentation through the minor capital outlay budget process.

Money Laundering Plans Altered

We recommend a reduction of \$62,000 from the amount budgeted from the Federal Asset Forfeiture Account for the department's Money Laundering Program because original cost estimates have been revised. (Reduce Item 0820-001-942 by \$62,000.)

The budget proposes an augmentation of \$776,000 from the Federal Asset Forfeiture Account to fund the department's Money Laundering Program in 1987-88. This program, which was recently initiated by Ch 1039/86 (SB 1470), will require specified financial institutions to report certain transactions greater than \$10,000 to the department. Once reported, these transactions are then analyzed to detect potential instances of criminal activity. The department's budget request is based upon the assumption that financial institutions will report the specified transactions directly to the Money Laundering Program.

However, subsequent to preparing its original budget request, the department learned that it will be able to utilize data already collected by federal law enforcement agencies. The requirements of federal law regarding the reporting of financial transactions are nearly identical to the reporting requirements of Ch 1039/86.

By using federal data as the program's source of information, the department could save significant data entry and processing costs. The current draft of the department's Feasibility Study Report indicates that data processing related costs for the program will be \$62,000 less than originally anticipated in 1987-88. Therefore, we recommend the amount budgeted from the Federal Asset Forfeiture Account for the Money Laundering Program be reduced by \$62,000.

Transfer of Fingerprint Fees to the General Fund

We recommend the Department of Finance report to the Legislature prior to budget hearings on the rationale for transferring \$3 million of a surplus in the Fingerprint Fees Account to the General Fund rather than lowering the fee for fingerprint services.

The Fingerprint Identification Program was established to (1) verify the identity of individuals through the use of fingerprint comparisons, (2) identify those individuals who have criminal histories, and (3) disseminate up-to-date criminal history records to state and local government entities. The program primarily serves law enforcement agencies, but also provides information to authorized agencies for employment, licensing, or certification purposes.

Existing law authorizes the department to charge a person or entity who requests a fingerprint search a fee which is "sufficient to reimburse the

DEPARTMENT OF JUSTICE—Continued

department for the cost of furnishing such information.” (In most cases, law enforcement agencies are *not* charged for this service.) In addition, the law authorizes the department to add a surcharge to the fee to fund maintenance and improvements to the fingerprint system. Currently, the department charges a fee of \$17.50 per request, which includes a surcharge of \$5. The fee is changed periodically to reflect fluctuations in program costs.

According to the budget, as of June 30, 1985, the balance in the Fingerprint Fee Account totaled \$5,032,000. The budget proposes to transfer \$3 million of this surplus to the General Fund on June 30, 1987 through provisions of a new item in the Budget Bill. We are concerned about this proposal because the law specifically authorizes the department only to charge fees and levy a surcharge to *offset the cost* of the department’s fingerprint system.

In light of provisions of existing law, we recommend that the Department of Finance report to the Legislature on how its proposal to transfer \$3 million of the Fingerprint Fees Account surplus to the General Fund conforms to the policy of charging fees and surcharges to offset the costs of the department’s fingerprinting program. If the fees are set at such a high level as to generate surplus revenues in the fund, another solution that would be consistent with existing law would be to reduce the amount of the fees charged.

DEPARTMENT OF JUSTICE—CAPITAL OUTLAY

Item 0820-301 from the General

Fund, Special Account for

Capital Outlay

Budget p. LJE 64

Requested 1987–88	\$30,000
Recommended approval	15,000
Recommended reduction	15,000

ANALYSIS AND RECOMMENDATIONS**Major Capital Outlay**

We recommend that Item 0820-301-036 be reduced by \$15,000 to eliminate funding for preliminary plans and working drawings related to remodeling the Redding Forensic Services Laboratory to provide a separate clandestine laboratory analysis area. (Future savings \$168,000.)

The budget proposes \$30,000 from the General Fund, Special Account for Capital Outlay, to finance preliminary plans and working drawings for a building addition and remodeling project at the Redding Forensic Services Laboratory in Shasta County. The proposal would:

- add 600 assignable square feet (asf) of laboratory space to accommodate clandestine laboratory analysis,
- add 968 asf of office space for existing laboratory staff, and
- remodel 360 asf of space into a conference/library/training room.

The estimated future cost of construction is \$337,000.

The department's proposal to provide office space and remodel existing space is justified. The proposal for a separate clandestine laboratory analysis area, however, has not been substantiated. The department indicates that materials from clandestine laboratories require defined laboratory areas and separate ventilation systems. The department has provided no information which indicates why it can no longer conduct this activity at Redding. The department, however, currently conducts this activity at other state laboratory facilities, in addition to Redding, by using existing laboratory facilities and equipment. It is not clear why separate laboratory space and ventilation systems are required at this site alone. Based on available information, the laboratory facilities and activities at Redding are similar to the other state laboratories. The department has provided no data to indicate otherwise.

Consequently, we recommend that the Legislature delete the additional laboratory area. The revised project will cost \$15,000 for preliminary plans and working drawings with an estimated future cost of \$154,000. This represents a \$183,000 reduction in the project cost—\$15,000 in the Budget Bill amount and \$168,000 in the estimated future cost.

STATE CONTROLLER

Item 0840 from the General
Fund

Budget p. LJE 65

Requested 1987-88	\$78,573,000
Estimated 1986-87	78,055,000
Actual 1985-86	71,979,000
Requested increase (excluding amount for salary increases) \$518,000 (+0.7 percent)	
Total recommended reduction	670,000
Recommendation pending	12,904,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0840-001-001—Support	General	\$56,687,000
0840-001-041—Support	Aeronautics Account, State Transportation	215,000
0840-001-061—Support	Motor Vehicle Fuel Ac- count, Transportation Tax	2,351,000
0840-001-344—Support	State School Building Lease-Purchase	91,000
0840-001-739—Support	State School Building Aid	356,000
0840-001-890—Support	Federal Trust	(1,129,000)
0840-001-903—Support	Assessment	142,000
0840-001-942—Support	Bank of America Unclaimed Property Litigation Fund, Special Deposit	1,988,000
0840-001-988—Support	Retail Sales Tax	148,000
Reimbursements	—	16,595,000
Total		\$78,573,000

STATE CONTROLLER—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis
page

- | | |
|---|----|
| 1. <i>Oil and Gas Royalty Audits.</i> Reduce Item 0840-001-001 by \$495,000 and Item 0840-001-890 by \$334,000. Recommend that 13 expiring limited-term positions not be reinstated because recent audits have not been productive. | 57 |
| 2. <i>Mandated Cost Unit.</i> Reduce Item 0840-001-001 by \$175,000 and 3.8 personnel-years. Recommend reduction because proposed staffing increase is not consistent with proposed changes to the mandated cost reimbursement program. | 58 |
| 3. <i>Electronic Fund Transfer.</i> Withhold recommendation on \$147,000 and 2.9 personnel-years pending receipt of a 1987-88 expenditure plan for the CAPPS project. | 60 |
| 4. <i>Teale Data Center Charges.</i> Withhold recommendation on \$10,769,000 pending receipt of additional information on actual 1986-87 expenditures. | 61 |
| 5. <i>Unclaimed Property Program.</i> Withhold recommendation on \$1,988,000 from the Bank of America Litigation Fund pending receipt of additional information. | 62 |

GENERAL PROGRAM STATEMENT

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

The Controller is authorized 1,276.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$78,573,000 from state sources for support of the Controller's Office in 1987-88. This is an increase of \$518,000, or 0.7 percent, over estimated current year expenditures. The total consists of \$61,978,000 from the General Fund and various special funds and \$16,595,000 in reimbursements. The amount of state-funded support is proposed to increase by \$750,000, or 1.2 percent, above estimated current year expenditures. The Controller also expects to receive \$1,129,000 in federal funds. Thus, total expenditures of \$79,702,000 are proposed in 1987-88. The budget has been reduced by \$573,000, which is approximately 1 percent of General Fund support, as a Special Adjustment.

The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986-87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures. Table 1 identifies the proposed level of expenditures and personnel-years for each of the major

programs administered by the Controller's Office in the prior, current and budget years.

Table 1
State Controller's Office
Program Summary
1985-86 through 1987-88
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1986-87
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	
Fiscal Control.....	900.4	1,037.6	1,058.7	\$52,129	\$60,565	\$61,145	1.0%
Tax Administration	61.4	65.2	58.8	3,041	3,150	2,810	-10.8
Administration							
Distributed to Other Pro-							
grams	(68.9)	(72.0)	(67.1)	(2,635)	(2,635)	(2,635)	—
Undistributed	270.5	173.4	172.3	17,482	15,571	16,320	4.8
Totals	1,232.3	1,276.2	1,289.8	\$72,652	\$79,286	\$80,275	1.2%
Special Adjustment				—	—	-573	—
Adjusted Totals.....				\$72,652	\$79,286	\$79,702	0.5%
Funding Sources							
General Fund.....	—	—	—	\$53,383	\$57,507	\$56,687	-1.4%
Motor Vehicle Fuel Ac-							
count, Transportation							
Tax Fund.....	—	—	—	2,493	2,469	2,351	-4.8
Bank of America							
Unclaimed Property							
Litigation Fund	—	—	—	—	252	1,988	688.8
Federal Trust Fund	—	—	—	673	1,231	1,129	-8.3
State School Building Aid							
Fund.....	—	—	—	341	356	356	—
Aeronautics Account, State							
Transportation Fund	—	—	—	254	272	215	-20.9
Assessment Fund.....	—	—	—	128	149	142	-4.7
Retail Sales Tax Fund	—	—	—	149	148	148	—
Payroll Revolving Fund							
(OASDI Refund Ac-							
count).....	—	—	—	106	—	—	—
Environmental License							
Plate Fund	—	—	—	—	75	—	-100.0
State School Building Lease							
Purchase Fund.....	—	—	—	—	—	91	—
Reimbursements	—	—	—	15,125	16,827	16,595	-1.4%

The budget proposes a total of 1,289.8 personnel-years in 1987-88, an increase of 13.6 personnel-years above the number authorized in the current year.

Table 2 identifies significant changes in the Controller's proposed budget for 1987-88.

STATE CONTROLLER—Continued

Table 2
State Controller's Office
Proposed 1987-88 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>All Other Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
1986-87 Expenditures (Revised)	\$57,507	\$4,952	\$16,827	\$79,286
Baseline Adjustments:				
a. Expiration of limited-term positions	-725	-436	-381	-1,542
b. Office automation project	-600	—	—	-600
c. One-time moving expenses	-851	—	—	-851
d. Elimination of CAPPs funding	-1,235	—	—	-1,235
e. Accounting equipment replacement	-72	—	—	-72
f. Data Entry System	-277	—	—	-277
g. Transportation, Planning and Development Account (TP&D) Audits	—	—	-84	-84
h. Interagency agreement with Department of Social Services	—	—	-261	-261
i. Lottery on-line system development	—	—	-551	-551
Proposed Changes:				
a. Staff for mandated cost unit	175	—	—	175
b. Staff for federal Single Audit Act	104	—	—	104
c. Staff for Transportation Development Act Administration (Ch 988/86)	—	48	—	48
d. Staff for automated investment system	—	—	150	150
e. Staff for accounting workload	91	91	—	182
f. Staff for lottery audits	—	—	504	504
g. Bank of America settlement	—	1,736	—	1,736
h. Reestablish staff for oil royalty audits	495	334	—	829
i. Staff for WIC program vendor audits	—	—	298	298
j. Staff for Electronic Fund Transfer program (Ch 600/85)	101	—	46	147
k. Staff for Berkeley school district audits (Ch 1258/86)	—	—	47	47
l. Rent increase	2,467	—	—	2,467
m. Reestablish inheritance and gift tax position	52	—	—	52
n. Miscellaneous	28	-305	—	-277
o. Special Adjustment	-573	—	—	-573
Total, 1987-88 Expenditures (proposed)	\$56,687	\$6,420	\$16,595	\$79,702
Change from 1986-87:				
Amount	-\$820	\$1,468	-\$232	\$416
Percent	-1.4%	29.6%	-1.4%	0.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes proposed for 1987-88 which are not discussed elsewhere in this analysis:

- **Financial Accounting.** The budget requests four additional positions in the Accounting Division, which will allow the Controller to (1) provide more timely financial reports and (2) handle workload increases in the State School Building Lease-Purchase Program. These positions will be funded equally between the General Fund (\$91,000) and the State School Building Lease-Purchase Fund (\$91,000).
- **Single Audit Project.** The budget requests \$104,000 from the General Fund and two positions in the Audits Division to coordinate the

implementation of the Federal Single Audit Act of 1984 with 7,000 units of local government.

- **Women, Infants, and Children (WIC) Food Program Audits.** The budget requests \$298,000 from reimbursements to permanently establish six limited-term positions for audits of vendors participating in the WIC food program administered by the Department of Health Services.
- **Automated Investments System.** The budget proposes an increase of \$150,000 from reimbursements to fund three positions to review and operate the automated investments system being developed jointly by the State Treasurer's Office, the State Teachers' Retirement System, and the Public Employees' Retirement System.
- **Transportation Development Act Administration.** The budget requests \$48,000 from the Transportation Planning and Development Account within the State Transportation Fund for one position to perform the duties required by the Transportation Development Act (Ch 988/86).
- **Inheritance and Gift Tax Examiner.** The budget requests \$52,000 from the General Fund to extend one limited-term position until June 30, 1988.
- **Berkeley School Audits.** The budget requests \$94,000 from the General Fund to extend one limited-term position and establish another limited-term position, for audits of the Berkeley Unified School District, as required by Ch 1258/86.
- **State Lottery Audits.** The budget proposes an increase of \$504,000 from reimbursements and 13.5 positions to perform audits for the State Lottery.

Oil and Gas Royalty Audits Program

We recommend the elimination of funding for the oil and gas royalty audit program, because the anticipated benefits of the program have not been realized. (Reduce Item 0840-001-001 by \$495,000 and 6.2 personnel-years, and Item 0840-001-890 by \$334,000 and 6.2 personnel-years).

Under the terms of a 1982 agreement with the U.S. Department of Interior (DOI), the Controller is empowered to audit federal oil and gas royalties paid by companies with leases in California. The state is entitled to receive 50 percent of all collections resulting from the audits. Although the state's agreement with the federal government provides for 100 percent federal funding of eligible state audit costs, the budget requests \$495,000 from the General Fund and \$334,000 from the Federal Trust Fund to continue the program in the budget year. This is because the federal government has not appropriated funds sufficient to fully reimburse the state, and because some of the Controller's activities are not eligible for reimbursement.

Recent Audit Results Discouraging. Our review of the most recent audits completed by the Controller indicates that between November 1985 and September 1986, *the audit program did not identify any new oil and gas royalty payments due the state.* During the period between July 1983 and November 1985, the Controller completed audits covering 38 of the 84 companies subject to audit (45 percent) and identified \$10.6 million in oil and gas royalty payments due the state and DOI for the period 1977 through 1983. The state's share of the audit findings, plus interest assessed by the federal government, amounted to \$7.6 million. As of September 1, 1986, the Controller had completed another 11 of the 84 audits, yet had not

STATE CONTROLLER—Continued

identified any additional oil and gas royalty payments due the state.

According to the Controller, the largest oil and gas companies, which generated the bulk of the audit findings, were audited in previous years when the oil and gas audit program was just beginning. This, in part, explains why the most recent audits were not as successful as the audits in previous years.

Payments Lag Behind Audit Findings. Although the state's share of the oil and gas audit findings amounts to \$7.6 million, as of September 1, 1986 the state had only received \$2.4 million in audit recoveries and interest payments. According to the Controller, actual payments to the state lag behind the audit findings because the state only has audit authority, while DOI retains collection and enforcement authority. The oil and gas companies can avail themselves of a lengthy appeals process, which delays the actual payment to the state. Other factors also contribute to the delay in actual payments to the state. Of the \$10.6 million in oil and gas audit findings, \$3.9 million will probably not be recovered until legal questions are resolved concerning the companies' practice of reporting and paying royalties at less than the highest posted field price. Of the requested state funds, \$161,000 is intended to pay for expenses related to this issue. In addition, over \$500,000 of the audit findings are attributable to companies which have declared bankruptcy, making it doubtful that these funds will ever be recovered. The state is pursuing its share of the uncollected audit findings through administrative and legal channels.

Further Audits Are Not Justified. The Controller plans on completing the remaining first-time audits of the 84 companies in the current fiscal year. The budget proposes to permanently establish the existing 13 audit positions to begin cyclical audits of the 84 companies (each of the 84 companies would be re-audited on a three-year cycle).

Because the Controller was not able to identify any new oil and gas royalty payments during the first-time audits completed in the past year, it does not appear likely that the cyclical audits will generate much revenue for the state. The cyclical audits would cover a shorter period of time than the first-time audits, and the previously audited companies most likely would have adjusted their method of computing royalty payments due to the state.

Accordingly, we recommend that Item 0840-001-001 be reduced by \$495,000 and 6.2 personnel-years, and Item 0840-001-890 be reduced by \$334,000 and 6.2 personnel-years, in order to eliminate funding for the oil and gas royalty audit program.

Mandated Cost Unit

We recommend a reduction of \$175,000 and 3.8 personnel-years to eliminate the proposed increase in staffing for the Mandated Cost Unit, because the increase is not justified on a workload basis. (Reduce Item 0840-001-001 by \$175,000.)

The budget proposes an increase of \$175,000 and 3.8 personnel-years for the Mandated Cost Unit to process projected increases in workload.

The Controller's Office has two functions with respect to the payment of mandated cost claims. First, the Mandated Cost Unit within the Accounting Division conducts a desk audit of reimbursement claims received from local governments prior to paying the claims. Second, the Field Audits Bureau within the Audits Division selectively audits local governments to verify the validity of amounts claimed.

Workload Projections Questionable. Our analysis indicates that the Controller's Office used unrealistic workload estimates in developing its staffing estimates for 1987-88. As Table 3 illustrates, the Controller's office projects that local reimbursement claims will almost double between 1985-86 and 1986-87, from 18,832 to 32,460. The two major factors responsible for this estimated increase are: (a) that 7,500 units of local government would file Unemployment Insurance reimbursement claims in 1986-87; and (b) the number of mandates requiring state reimbursement payments would increase from 62 in 1985-86 to 87 in 1986-87.

Table 3
Mandated Cost Unit
Workload and Staffing
1983-84 through 1987-88

	1983-84	1984-85	1985-86	1986-87	1987-88
Claims Filed.....	14,213	16,773	18,832	32,460 ^a	35,000 ^a
Personnel-Years Authorized.....	10.9	15.0	18.0	18.0	21.8 ^b

^a Controller's estimate.

^b Proposed level.

Our analysis indicates that there are three major inaccuracies contained in the Controller's workload estimates. First, the number of local government claims for Unemployment Insurance received as of November 30, 1986 (the date the claims were due to the Controller) was 2,195, which is more than 5,000 less than the number estimated. Second, only five new mandated programs have been funded in the current year, not 25 as estimated by the Controller. Third, the 1987-88 estimate was not reduced to reflect the implementation of the State Mandate Apportionment system (discussed below) in 1986-87.

SMA System Should Reduce Workload. The reimbursement process has been costly to both local governments, which must keep detailed records of program expenditures, and the Controller, who must process the cost estimates and conduct audits of local expenditures on mandated programs. In response to the administrative burdens associated with the reimbursement program, the Legislature enacted Ch 1534/85, which established a State Mandate Apportionment (SMA) system. The SMA system was designed to provide a means of funding state-mandated programs on a block grant basis, as opposed to an actual cost reimbursement basis. Use of the block grant formula for a program will result in the payment of an amount equal to a three-year average of "actual cost" payments, adjusted each year for inflation and program changes. The SMA system is intended to relieve both local agencies from the paperwork involved in substantiating claims and the Controller from the work involved in verifying actual cost claims.

The Controller and the Department of Finance have selected 14 mandates out of the 62 statutes and executive regulations funded in the 1986-87 Budget Act for inclusion in the SMA system. The 14 were chosen because of their history of stable costs. Beginning in 1986-87, the Controller no longer must process claims and audit expenditures for the 14 mandates. In the current year, any savings will be offset by the workload involved to determine the correct apportionment level.

The Controller estimates that the workload reduction resulting from

STATE CONTROLLER—Continued

the SMA system in 1987-88 will be equivalent to 6.5 personnel-years. This workload reduction is not reflected as a baseline budget adjustment, and was not considered in determining the amount of personnel-years needed to handle 1987-88 workloads. Due to the claims processing backlog, however, it appears there will be a temporary need to maintain these positions. If the SMA program runs smoothly in the current year, it will be expanded in the future, and the appropriate level of staffing for this program can be determined at that time.

In addition, the Governor's mandate reform proposal (discussed separately in Item 8885), if enacted, would result in a major workload reduction in the Mandated Cost Unit. Briefly, the Governor intends to sponsor legislation which will: (a) repeal 29 mandates; (b) make 15 mandates optional with local government and/or funded through fees for services; (c) retain five mandates but shift the funding for them to sources other than the General Fund; and (d) exempt local government from one mandate. The remaining 12 mandates would continue to be funded through the Budget Act.

Our analysis indicates there is justification to maintain the existing level of staffing during the budget year, however we can find no basis to increase the staff.

For the above reasons, we recommend the deletion of \$175,000 and 3.8 personnel-years requested for the Mandated Cost Unit.

Electronic Fund Transfer

We withhold recommendation on \$147,000 (\$101,000 General Fund and \$46,000 reimbursements) and 2.9 personnel-years requested to implement the Electronic Fund Transfer (EFT) program, pending receipt from the Controller's Office of a 1987-88 expenditure plan for the California Personnel/Payroll (CAPPS) project.

The Controller is required by Ch 600/85 to make an agreement with specified financial institutions to establish a program for the direct deposit of the salaries, wages and benefits of state employees through Electronic Fund Transfer (EFT).

Electronic Fund Transfer and CAPPS. The State Controller is responsible for operating and maintaining the state's Personnel/Payroll system. Through this system, the Controller maintains the state's official personnel history records and issues checks to all persons paid under the Uniform State Payroll System (USPRS). This includes nearly 200,000 employees of the approximately 150 state departments, the 19 campuses and Chancellor's Office of the California State University System (CSU), the Judicial Council, and the Legislature.

Prior to the enactment of Chapter 600, the Controller's Office already had plans to incorporate EFT capabilities into the new Personnel/Payroll system it was developing, known as the California Personnel/Payroll (CAPPS) project. The CAPPS project, initiated in 1983, was designed to address the payroll complexities arising from the growing number of collective bargaining units within the civil service system and CSU. The CAPPS system was intended to be responsive to change, and to provide certain advanced payroll functions not possible with the old system, most notably centralized Leave Accounting and Position Inventory.

The Controller's Office scrapped its plans to implement a new Personnel/Payroll system in April 1986, after the initial cost estimate for the

CAPPS project proved to be grossly inaccurate. Instead, the Controller has recently produced a plan to extensively modify its existing Personnel/Payroll system. The revised plan proposes to accomplish many of the objectives of the original CAPPS project, including EFT, but it effectively excludes the functions of automated Leave Accounting and Position Inventory. These functions are to be addressed as additional modifications once the payroll system design changes are accomplished. The Department of Finance approved the revised CAPPS project in October 1986. The revised plan states that the *design* of the EFT capabilities will be completed by July 1, 1987.

Approval of EFT Operational Funds is Premature. The funds requested in this item are for the *operational* aspects of the EFT program, such as negotiating agreements with financial institutions and notifying employees of the availability of EFT. We cannot recommend approval of these operational funds until more information becomes available concerning progress on the design aspects of EFT. In addition to design project delays, we are concerned that the revised CAPPS project does not have the necessary internal controls to successfully accommodate EFT. As noted by the Controller's Office, the implementation of EFT without the Leave Accounting and Position Inventory features of the original payroll system design, could result in significant payroll overpayment problems.

Further, we are concerned about the Controller's rate of progress with the CAPPS project. Although no funds for the CAPPS project are requested in the 1987 Budget Bill, the Department of Finance has indicated that it may request additional funds for the project this spring, if the Controller's progress on design aspects during 1986-87 is adequate. At that time, better information as to progress on EFT system design should also be available.

For these reasons, we withhold recommendation on \$147,000 (\$101,000 General Fund and \$46,000 reimbursements) and 2.9 personnel-years requested to implement EFT. We further recommend that the Controller submit to the Legislature and the Department of Finance, prior to budget hearings: (a) an expenditure plan for the CAPPS project in 1987-88; and (b) an explanation of how the revised CAPPS project will overcome the payroll accuracy problems associated with EFT.

Teale Data Center Charges

We withhold recommendation on \$10,769,000 requested for Teale Data Center charges pending receipt of additional information on 1986-87 expenditures.

The budget requests \$10,769,000 (\$9,427,000 from the General Fund and \$1,342,000 from reimbursements) for Teale Data Center (TDC) charges in 1987-88. This amount is equal to the revised expenditure total for this item in the current year.

Recent Estimates Have Not Been Accurate. The Controller works with TDC staff each year to develop a budget year estimate for TDC charges, based on actual historical costs. Over the past few years, the Controller has experienced difficulty in accurately budgeting for TDC charges, due to: (a) the implementation of several new automation projects; (b) workload increases; and (c) changes in the formula used by the TDC to distribute overhead costs to clients. The budgeting of TDC charges is further complicated by the fact that the Controller uses a different rate system than the rest of the TDC clients.

In the current year, the Controller has requested a category transfer of

STATE CONTROLLER—Continued

\$800,000 from its TDC budget to fund a projected personal services shortfall (this transfer is reflected in the current year revised expenditure total). Subsequent to the publication of this *Analysis*, better information on the Controller's current-year TDC expenditures will be available. That information should serve as a basis for estimating budget year needs. Accordingly, we withhold recommendation on \$10,769,000 requested for TDC charges until we receive additional information on actual current year expenditures.

Unclaimed Property Proposal

We withhold recommendation on \$1,988,000 requested from the Bank of America Litigation Fund for activity related to the location of owners of dormant Bank of America deposit accounts.

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

Bank of America Litigation. From 1959 to 1985, the Bank of America withheld service charges and discontinued applicable interest payments on dormant savings and checking accounts turned over to the state as escheated property. The Controller filed suit against the Bank of America in 1981, contending that the bank was liable for interest payments on all accounts which had been subject to a service charge. The bank was subsequently ordered by the Superior Court to pay a partial settlement of \$25.4 million, which will be deposited into a special deposit fund, the Bank of America Litigation Fund (BALF). The court also required the Controller to develop a plan for locating owners of the dormant accounts which were the subject of the suit.

The budget requests \$1,988,000 from the BALF to fund activities related to locating the owners of the dormant accounts. At the time this analysis was prepared, we had not received the Controller's plan for locating the owners of the dormant accounts. However, the amount requested for Bank of America activities, almost \$2 million, appears to be in excess of the effort expended on other unclaimed property accounts.

Therefore, we withhold recommendation on this item, pending receipt of the expenditure plan.

CALIFORNIA STATE LOTTERY COMMISSION

Item 0850 from the State Lottery Fund

Budget p. LJE 73

Estimated 1987-88.....	\$280,000,000
Estimated 1986-87.....	222,456,000
Actual 1985-86	202,851,000
Increase (including amount for salary increase) \$57,544,000 (+25.9 percent)	

GENERAL PROGRAM STATEMENT

Proposition 37, which was approved by the voters in November 1984, amended the California Constitution to authorize a statewide lottery. The proposition also enacted the California State Lottery Act of 1984 to govern its operation.

Among other things, the act prescribes how the proceeds from the lottery are to be distributed. The largest portion of lottery proceeds—50 percent—is to be paid out as prize money. Moreover, no more than 16 percent of the proceeds may be used for administrative costs. These costs include the Lottery Commission's support budget, acquisition and distribution of game materials, retailer commissions, advertising, depreciated equipment costs, and amortized development costs for the lottery's telecommunications network.

The act requires the balance of the proceeds (at least 34 percent) to be allocated to public education (primarily K-12 school districts, community college districts, the California State University and the University of California). These monies are deposited into a continuously appropriated special fund, known as the California State Lottery Education Fund (CSLEF), which is then distributed on a per-capita basis to augment—rather than substitute for—funds already allocated for public education in California. The act specifies that the funds are to be spent for “instructional purposes.”

The act established a five-member California State Lottery Commission to oversee the lottery's operations. Specifically, the commission is responsible for determining the types of lotteries to be held, the frequency of lottery drawings, the price of lottery tickets, the number and value of lottery prizes, and the locations where lottery tickets can be sold. It also is involved in the various administrative decisions required by lottery operations, such as the selection of vendors and procurement procedures. Furthermore, the commission is required to make periodic reports on the performance of the lottery, as well as independent studies on the effectiveness of lottery communications, the demographic characteristics of lottery players and the efficiency of lottery operations.

The commission is staffed with 1,015.8 personnel-years in the current year.

OVERVIEW OF THE OPERATING PLAN

The 1986 Budget Bill does not contain a proposed item of appropriation for support of the commission in 1987-88. Under existing law, the Legislature does not review or approve the commission's budget. Given the relative size of the commission's operations, which exceeds the operating budgets of many state departments including the Departments of the

CALIFORNIA STATE LOTTERY COMMISSION—Continued

Youth Authority, Forestry and Justice to name but a few, we describe the proposed operating plan in the following pages.

The Lottery Commission anticipates total revenues of \$1.75 billion from instant and on-line game ticket sales in the budget year. This is \$360 million, or 26 percent, more than estimated revenues in the current year. Specifically, the commission's revenue estimate for 1987-88 anticipates that on-line game ticket sales will increase from \$514 million to \$1 billion (up \$485 million, or 94 percent, above estimated current year sales), which is partially offset by an expected decline in instant ticket sales from \$875 million to \$750 million (down \$125 million, or 14 percent, below estimated current year sales).

If the commission's revenue estimate is correct, at least \$608 million will be transferred to the California State Lottery Education Fund in 1987-88 for allocation to public education. This is \$125 million, or 26 percent, more than the commission estimates will be transferred in the current year. To the extent that the commission's support expenses fall below the 16 percent allowed by the Lottery Act, the transfer will be correspondingly larger.

Table 1
Statement of Operations
California State Lottery Commission
1985-86 through 1987-88
(dollars in thousands)

Item	Actual 1985-86	Estimated 1986-87	Proposed 1987-88	Change From 1986-87	
				Amount	Per- cent
Revenues.....	\$1,765,572	\$1,390,352	\$1,750,000	\$359,648	25.9%
Expenditures:					
Prize Awards	-886,334	-695,176	-875,000	179,824	25.9
Admin. Costs	-202,851	-222,456	-280,000	57,544	25.9
Totals	<u>-\$1,089,185</u>	<u>-\$917,632</u>	<u>-\$1,155,000</u>	<u>\$237,368</u>	<u>25.9%</u>
Operating Income	\$676,387	\$472,720	\$595,000	\$122,280	25.9%
Interest Income, net	16,309	10,428	13,125	2,697	25.9
Total Net Income to be Trans- ferred	\$692,696	\$483,148	\$608,125	\$124,977	25.9%
Distribution to Education:					
K-12 Schools.....	\$558,437	\$394,574	\$492,951	\$98,377	24.9%
Community Colleges	85,423	55,205	72,445	17,240	31.2
California State University ...	31,331	21,952	27,022	5,070	23.1
University of California.....	17,256	12,110	15,081	2,971	24.5
California Youth Authority....	—	— ^a	434	434	—
Hastings ^b	249	152	192	40	26.3
Totals ^c	<u>\$692,696</u>	<u>\$483,993</u>	<u>\$608,125</u>	<u>\$124,132</u>	<u>25.6%</u>
Lottery revenues per student	\$129	\$88	\$108	\$20	22.7%

^a AB 3145 (Ch 1362/86) authorizes the allocation of lottery funds to the California Youth Authority (CYA) beginning January 1, 1987.

^b Includes allocation for the California Maritime Academy.

^c The allocations shown for each segment reflect those shown in the *Governor's Budget*. The sum of these components, however, differs from the total shown in the budget for the Lottery Commission in some cases.

The commission anticipates that its administrative expenses will total \$280 million (16 percent of total revenue) in the budget year. This is \$57.5 million, or 26 percent, above estimated current year expenditures. Finally, the commission's operating plan for the budget year anticipates that \$875 million (50 percent of total revenue) will be distributed as prizes.

Table 1 displays a summary of the commission's operating plan for the prior, current and budget years. In addition, Table 1 shows the distribution of lottery revenues among California's educational segments (including K-12 school districts, community colleges, the California State University, the University of California, Department of the Youth Authority, and Hastings College) for these same years. For a discussion of how lottery revenues have been and will be used, please refer to our analysis of these items.

ANALYSIS AND RECOMMENDATIONS

1987-88 Revenue Forecast Assumes Increased Per Capita Sales

As noted earlier, the commission anticipates total revenues of \$1.75 billion in the budget year from its instant and on-line game ticket sales. Specifically, the commission estimates that combined average weekly-per-capita sales will increase. Table 2 displays the commission's estimate of average weekly-per-capita sales for both types of games in the current and budget year.

Table 2
California State Lottery Commission
Average Weekly-Per-Capita Sales
1986-87 and 1987-88

	<i>Estimated</i> 1986-87	<i>Projected</i> 1987-88	<i>Change From</i> 1986-87	
			<i>Amount</i>	<i>Percent</i>
Instant Games	\$0.63	\$0.54	-\$0.09	-14.3%
On-line Games	0.52	0.72	0.20	38.5
Combined	\$1.15	\$1.26	\$0.11	9.6%

As shown in Table 2, the combined increase reflects an anticipated decline in average weekly-per-capita sales of instant tickets which is more than offset by an anticipated increase in average weekly-per-capita sales of on-line tickets.

Revenues Could Fall Short of Projections. The commission's revenue projections assume that California's instant and on-line game ticket sales will follow the same general trend experienced in other states such as Michigan, Arizona, Pennsylvania, and New Jersey which operate both types of games. It is uncertain, however, whether this will occur. Specifically, the commission originally estimated total lottery revenues would be \$1.62 billion in the current year. Recently, the commission revised this figure downward by \$223 million, or 14 percent. The downward revision primarily reflects the commission's belief that average weekly-per-capita sales of on-line tickets will be lower than originally anticipated.

Discussions with the commission's staff indicate that current year revenue estimates may be revised downward once again if average weekly-per-capita on-line ticket sales do not improve above their current 31-cent level. This is also true for the budget year. To the extent that on-line ticket sales do not improve, lottery revenues could be several hundred million

CALIFORNIA STATE LOTTERY COMMISSION—Continued

dollars lower than projected for the budget year. The amount of revenues to be transferred to education will decline by \$3.4 million for each \$10 million decline in anticipated revenues.

Administrative Cost Budget Based on 16 Percent of Revenue

According to the commission, the amount included in its operating plan for administrative costs in the budget year is based on a 16-percent share of anticipated total revenues. Hence, the commission's 1987-88 operating plan includes \$280 million for administrative costs. This is \$57.5 million, or 26 percent, more than estimated administrative costs in the current year.

Table 3
Proposed Staffing
and Expenditures by Program
California State Lottery Commission
1987-88
(dollars in thousands)

<i>Program</i>	<i>Proposed Staffing</i>	<i>Percent of Total</i>	<i>Proposed Expenditures</i>	<i>Percent of Total</i>
Executive	49.2	5.0%	\$7,619	2.7%
Administration	303.7	29.0	19,358	6.9
Field Operations	298.0	29.0	13,168	4.7
Security	86.3	8.0	8,036	2.8
EDP Operations	131.0	13.0	86,182	30.8
Marketing	22.3	2.0	44,427	15.9
Retail Support	149.7	14.0	12,459	4.5
Game Activity	0.0	0.0	88,750	31.7
Totals	1,040.2	100.0%	\$280,00	100.0%

As Table 3 displays, the commission anticipates expending \$280 million and 1,040.2 personnel-years in the budget year. The largest staffing levels can be found in four separate program areas, including: (1) *administration*, which is responsible for personnel, planning, budgeting and fiscal services; (2) *field operations*, which services retailer accounts; (3) *EDP operations*, which manages the commission's on-line games; and (4) *retail support*, which supplies on-line play slips and instant tickets to retailers. These four program areas collectively account for 882.4 personnel-years, or 85 percent, of total proposed staffing for the budget year. Furthermore, these programs account for \$131 million, or 47 percent, of total proposed expenditures.

Two of the commission's program areas—marketing and game activity—collectively account for only 22.3 personnel-years, or 2 percent, of proposed staffing in the budget year. However, these programs account for \$133 million, or 48 percent, of total anticipated budget year expenditures. The commission's marketing program is responsible for advertising, research, and strategic planning. The commission's game activity program area reflects funds set aside for bad debt costs (retailers failing to remit ticket sale proceeds) and to pay retailer commissions (the largest cost element).

Another way to examine the commission's proposed operating plan is to look at the types of administrative costs it anticipates incurring in the budget year. Table 4 displays a distribution of the commission's administrative costs by type.

Table 4
California State Lottery Commission
Administrative Costs Distributed by Type
1987-88
(dollars in thousands)

<i>Type of Administrative Cost</i>	<i>Amount</i>	<i>Percent</i>
Commissions to retailers	\$87,500	31.3%
Instant ticket costs.....	15,415	5.5
On-line game fees	13,544	4.8
Recurring telecommunications	8,391	3.0
Salaries, wages, and benefits.....	40,760	14.5
Professional services	7,544	2.7
Advertising	47,250	16.9
Provision for doubtful accounts.....	1,250	0.5
Amortization of development costs	7,422	2.6
Operating expenses.....	12,351	4.4
Depreciation	15,649	5.6
On-line play slips	3,000	1.1
Reserve for revenue fluctuations.....	19,924	7.1
Totals.....	\$280,000	100.0%

As shown in Table 4, "commissions to retailers" is the largest single category of administrative cost that the commission projects in the budget year. The budgeted amount reflects anticipated retailer profit from the sale of instant and on-line tickets. In contrast, on-line game fees account for \$13.5 million, or 4.8 percent, of anticipated administrative costs. This item reflects the amount that the commission expects to pay for on-line game services provided by its vendors. According to commission staff, every \$10 million shortfall in revenues results in about a \$550,000 (5.5 percent) reduction in these types of costs.

Another significant administrative cost the commission anticipates incurring in the budget year is for advertising, which includes television commercials and special promotions. Specifically, the commission's operating plan includes \$47.2 million (17 percent of total administrative costs) for advertising in the budget year.

In addition, the commission's operating budget (that is, the combined salaries, benefits and operating expenses for its staff) will amount to \$53 million, or 19 percent, of total anticipated administrative costs for the budget year.

Table 4 also indicates that the commission has included \$19.9 million in its operating plan as a "reserve for revenue fluctuations." This actually represents the difference between the 16 percent share of revenue available for administrative expenses, and the amounts which have actually been included in the operating plan for this purpose. The commission does not intend to expend these funds for administrative purposes, given its projection of revenues for 1987-88, and has indicated that these funds would be distributed to educational entities.

STATE BOARD OF EQUALIZATION

Item 0860 from the General
Fund and various funds

Budget p. LJE 74

Requested 1987-88	\$144,089,000
Estimated 1986-87	141,602,000
Actual 1985-86	127,633,000
Requested increase (excluding amount for salary increases) \$2,487,000 (+1.8 percent)	
Total recommended reduction	4,064,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0860-001-001—Support	General	\$100,387,000
0860-001-022—Support	Emergency Telephone Number Special Account	172,000
0860-001-061—Support	Motor Vehicle Account, Transportation Tax	4,521,000
0860-001-064—Support	Motor Vehicle License Fee Account, Transportation Tax	1,392,000
0860-001-415—Support	Universal Telephone Ser- vice	192,000
0860-001-465—Support	Energy Resources Programs Account	77,000
0860-001-965—Support	Timber Tax	2,013,000
Reimbursements	—	35,335,000
Total		\$144,089,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Funding for County Surveys Program. Recommend dele-
tion of Item 0860-001-064 because continued use of vehicle
license fee revenues for this program is precluded by the
State Constitution. Recommend adoption of new Item
0860-001-086 to appropriate \$1,392,000 from cigarette tax
revenues for local government's share of program costs. 73
2. *Funding for Omnibus Property Tax Reform Act. Reduce
Item 0860-001-001 by \$267,000.* Recommend reduction
to reflect local governments' full 50 percent share of pro-
gram costs. 73
3. *County Reimbursement for Costs of Resurvey Activities.
Reduce Item 0860-001-001 by \$108,000.* Recommend re-
duction to reflect the statutory requirement that counties
bear the cost of resurveys. 74
4. *State-Assessed Property Program Workloads. Reduce Item
0860-001-001 by \$34,000.* Recommend reduction because
workload levels do not justify staff increase. 74
5. *Sales Tax Reimbursements. Reduce Item 0860-001-001 by \$3
million.* Recommend reduction to offset underbudget-
ing of reimbursements for administration of sales and use
taxes. 75

6. **Mail-Order Legislation Lobbying Contract.** *Reduce Item 0860-001-001 by \$50,000.* Recommend reduction because proposed expenditures are not justified. 76
7. **Microfilm Machines Equipment Request.** *Reduce Item 0860-001-001 by \$73,000.* Recommend reduction because purchase of microfilm equipment is premature and not cost-effective. 77
8. **Technical Budgeting Issues.** *Reduce Item 0860-001-001 by \$455,000, Item 0860-001-022 by \$1,000, Item 0860-001-061 by \$15,000, Item 0860-001-064 by \$4,000, Item 0860-001-415 by \$1,000, and Item 0860-001-965 by \$6,000.* Recommend reduction of \$482,000 to correct for a technical error in calculation of staff benefits. 79

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 92 percent of the board's staff is devoted to the administration of the state and local taxes and several other business taxes. Activities involved in the administration of these taxes include registering taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration of local property taxes, and about 8 percent of its staff is engaged in those activities.

Administration of Business Taxes. The board administers and collects the state's 4.75 percent sales and use tax, the local 1.25 percent sales and use tax, and a 0.5 percent transactions and use tax for eight local transit or transportation districts. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax) (4) the use fuel tax (diesel tax), and (5) the insurance tax.

The board also administers (1) the private car tax, which is imposed on privately-owned railroad cars, (2) the energy resources surcharge on the consumption of electricity, which is used to support the State Energy Commission, (3) a telephone surcharge, which is used to fund the 911 emergency telephone system program, (4) a pair of taxes on the generation and disposal of hazardous substances, and (5) a tax on suppliers of telephone services, which provides funding for the Universal Telephone Service program.

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

Table 1 summarizes the revenues collected by the board under its tax programs.

STATE BOARD OF EQUALIZATION—Continued

Table 1
State and Local Revenues
Collected by the Board of Equalization^a
1985-86 through 1987-88
(dollars in millions)

	Actual 1985-86	Estimated 1986-87	Projected 1987-88	Change From 1986-87	
				Amount	Percent
State sales and use tax	\$10,318	\$10,730	\$11,375	\$645	6.0%
Local sales and use tax	3,296	3,428	3,708	280	8.2
Alcoholic beverage tax	132	134	134	— ^b	—
State cigarette tax	181	180	180	— ^b	—
Local cigarette tax	81	77	77	— ^b	—
Motor vehicle fuel tax (gasoline)	1,063	1,101	1,108	7	0.6
Use fuel tax (diesel)	131	137	144	7	5.1
Insurance tax	840	993	1,106	113	11.4
Private railroad car tax	4	5	5	— ^b	—
Energy resources surcharge	35	35	36	1	1.6
Emergency telephone users surcharge	35	38	40	2	5.0
Hazardous substance taxes	25	45	50	5	11.1
Universal telephone service	84	44	31	-13	-29.0
Timber yield tax	12	13	13	— ^b	—
Totals	\$16,237	\$16,961	\$18,007	\$1,047	6.2%

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

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

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

The board has 2,885.8 authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures, including reimbursements, of \$144,089,000 to support the Board of Equalization in 1987-88. This is an increase of \$2,487,000, or 1.8 percent, above estimated current year expenditures. The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986-87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

The budget proposes appropriations of \$108,754,000 from various funds to support the board in 1987-88. This is an increase of \$2,071,000, or 1.9 percent, above estimated current year expenditures. This amount will grow by any salary or staff benefit increases approved for the budget year. The budget has been reduced \$1,014,000, which is approximately 1 percent of General Fund support, as a special adjustment.

The budget proposes a total of 2,950.1 personnel-years in 1987-88, an increase of 64.3 above the number authorized in the current year.

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

Table 2
Board of Equalization Budget Summary
1985-86 through 1987-88
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1986-87
	Actual	Estimated	Proposed	Actual	Estimated	Proposed	
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	
County Assessment Standards ..	86.1	91.4	99.6	\$4,892	\$5,306	\$5,688	7.2%
State-Assessed Property	90.4	89.5	92.2	4,691	4,789	5,018	4.8
Timber Tax	33.3	37.1	36.2	1,861	2,100	2,013	-4.1
Sales and Use Tax	2,360.3	2,459.4	2,512.7	105,567	117,775	120,826	2.6
Hazardous Substance Tax	32.9	38.2	40.7	1,337	1,680	1,552	-7.6
Alcoholic Beverage Tax	26.6	26.7	26.7	793	1,059	1,080	2.0
Cigarette Tax	10.4	10.3	10.3	1,950	1,984	1,992	0.4
Motor Vehicle Fuel License Tax	12.6	11.4	11.1	656	644	642	-0.3
Use Fuel Tax	84.7	84.1	82.2	3,734	3,895	3,879	-0.4
Energy Resources Surcharge	1.8	1.6	1.6	73	75	77	2.7
Emergency Telephone Users							
Surcharge	2.3	3.5	3.9	96	152	172	13.2
Insurance Tax	2.4	2.3	2.3	119	122	124	1.6
Universal Telephone Service							
Tax	2.2	2.7	3	105	171	192	12.3
Appeals from other Govern-							
mental Programs	27.7	27.6	27.6	1,452	1,586	1,617	2.0
Administration (undistributed)	0.4	—	—	307	264	231	-12.5
Special Adjustment	—	—	—	—	—	-1,014	—
Totals	2,774.1	2,885.8	2,950.1	\$127,633	\$141,602	\$144,089	1.8%
Reimbursements	—	—	—	-33,643	-34,919	-35,335	1.2
Net Totals	2,774.1	2,885.8	2,950.1	\$93,990	\$106,683	\$108,754	1.9%
Funding Sources							
General Fund				\$86,113	\$97,605	\$100,387	2.9%
Hazardous Waste Control Account				—	585	—	-100.0
State Emergency Telephone Number Special Account				96	152	172	13.2
Motor Vehicle Fuel Account				4,390	4,539	4,521	-0.4
Motor Vehicle License Fee Account				1,352	1,392	1,392	—
Universal Telephone Service Fund				105	171	192	12.3
Energy Resources Programs Account				73	75	77	2.7
Mobilehome-Manufactured Home Revolving Fund				—	64	—	-100.0
Timber Tax Fund				1,861	2,100	2,013	-4.1
Reimbursements				-33,643	-34,919	-35,335	1.2

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

STATE BOARD OF EQUALIZATION—Continued

Table 3
Board of Equalization
Proposed 1987-88 Budget Changes
State Funds
(dollars in thousands)

	<i>Changes</i>	<i>Totals</i>
1986-87 Expenditures (Revised)		\$106,683
A. Baseline Adjustments		
1. Pro rata assessments	-\$27	
2. Increased reimbursements	-449	
3. Department of Motor Vehicles workload growth	215	
4. Department of Housing and Community Development Workload Growth	10	
5. Board of Control adjustment	4	
6. Budget year cost of legislation:		
a. Sales tax prepayment (SB 1610)	345	
b. Omnibus property tax reform (AB 2890)	689	
c. Hazardous waste fees (AB 4283)	477	
7. Special Adjustment	-1,014	
Total, Baseline Adjustments		\$250
B. Limited-Term Activities		
1. One-time costs reflected in 1986-87 base:		
a. Hazardous waste tax (SB 1379)	-284	
b. County survey	-100	
c. Computer replacement	-893	
d. Other equipment	-756	
2. Current-year legislation:		
a. Sales tax prepayment (SB 1610)	-338	
b. Mobilehomes taxation study (SB 1722)	-64	
c. Omnibus property tax reform (AB 2890)	-222	
d. Hazardous waste fees (AB 4283)	-585	
Total, Limited-Term Activities		-\$3,242
C. Budget Change Proposals		
1. Maintain audit activity	2,700	
2. Increase audit activity	1,180	
3. Return processing workload growth	588	
4. Taxpayer registration workload growth	302	
5. Hazardous waste tax workload (SB 1379)	162	
6. State-Assessed Property staff increase	84	
7. Telephone service tax workload growth	47	
Total, Budget Change Proposals		\$5,063
1987-88 Expenditures (proposed)		\$108,754
Change from 1986-87:		
Amount		\$2,071
Percent		1.9%

ANALYSIS AND RECOMMENDATIONS**COUNTY ASSESSMENT STANDARDS**

The Assessment Standards Division provides technical assistance to county assessors through the preparation of advisory letters, the publication of special topic surveys, and the preparation of the Assessor's Handbook. The division also trains and certifies county appraisers and provides training workshops on a variety of topics for county personnel. Most of the division's efforts, however, are concentrated on surveys of county assessors' practices and procedures in assessing property for the purposes of taxation. The board samples properties to determine whether the assessed value determined by the assessor is consistent with the requirements of Proposition 13 (Article XIII A of the State Constitution) and board regulations. The purpose of this survey is to provide recommendations for im-

provement of assessors' office functions, and to determine whether local assessment levels accurately reflect statutory requirements. In other words, the survey is intended to determine whether county assessors have made accurate appraisals of property values.

New Constitutional Amendment Precludes State Use of VLF Revenues

We recommend that Item 0860-001-064 be deleted to reflect a recent voter-approved constitutional amendment prohibiting state expenditure of Vehicle License Fee (VLF) revenues, and that the Legislature instead adopt a new Item 0860-001-086 appropriating \$1,392,000 from cigarette tax revenues to fund local government's share of program costs.

The budget proposes an appropriation of \$3,527,000 from the General Fund and the Vehicle License Fee Account (Transportation Tax Fund) to support the County Surveys element of the County Assessment Standards Program in 1987-88. Of this amount, \$1,392,000 would be appropriated from the Vehicle License Fee Account. Beginning with the 1982 Budget Act, 50 percent of the assessment program's variable cost generally has been supported by the General Fund, with the balance funded through reductions in VLF revenues subvended to local governments. The rationale for this funding formula is that local governments benefit from the county surveys program. To the extent that the program results in increased local assessments, it leads to an increase in local property tax revenues.

Statewide, each additional dollar in property tax revenues resulting from the county surveys element provides, on average, a 63-cent increase in local revenues. The remainder is allocated to school districts. Accordingly, because local governments share in the program's benefits, they also should share in the costs of the program.

However, Article XI, Section 15, of the California Constitution, approved by the voters as Proposition 47 in June 1986, prohibits the use of VLF revenues to fund state programs. Proposition 47 requires that the state allocate to cities and counties all vehicle license fee revenues, except amounts needed to fund the costs of collection and specified refunds. According to the Legislative Counsel, *the County Surveys program is not a legitimate use of the revenues.*

Our analysis indicates that local governments should nevertheless continue to share in the costs of the County Surveys element. This can be accomplished through a reduction in subventions to local government from the Cigarette Tax Fund. Thirty percent of cigarette tax revenues are allocated to local governments through a formula based 50 percent on population and 50 percent on distributions of local sales and use tax revenues. The budget indicates that local governments will receive approximately \$77 million from this source in 1987-88. In order to ensure that local governments continue to share in the cost of this program and to acknowledge the new constitutional constraints on vehicle license fee revenues, we recommend the replacement of Item 0860-001-064 by a new item (0860-001-086) appropriating \$1,392,000 from the Cigarette Tax Fund as local government's share of program costs.

Funding for Omnibus Property Tax Reform Act Needs Local Match

We recommend a reduction of \$267,000 in General Fund support and a corresponding increase in local government support to fund the costs associated with the Omnibus Property Tax Reform Act. (Reduce Item 0860-001-001 by \$267,000 and increase Item 0860-001-086 by \$267,000.)

The budget proposes an increase of \$689,000 from the General Fund and 13.3 personnel-years for increased workload required by the Omnibus

STATE BOARD OF EQUALIZATION—Continued

Property Tax Reform Act (Ch 1457/86). One of the provisions of this measure permits eligible counties to keep up to 5 percent of supplemental property tax collections to cover their costs of administering the supplemental property tax. In order to qualify for these funds, a county must have an average level of assessment that is at least 95 percent of the assessment level required by statute, as determined by the county assessment practices survey. The act also requires the board to increase by 50 percent the number of sample assessments used to determine the statutory assessment level in order to ensure the reliability of the county surveys.

Prior to the passage of Chapter 1457, a typical county survey involved 238 properties and approximately 2,400 hours of direct appraisal time. Chapter 1457 requires the board to increase the typical sample size to 363 properties, resulting in an expected 3,500 hours per survey. Of the \$689,000, the budget proposes \$482,000 (9.7 personnel-years) to handle this increased appraisal workload, and \$52,000 (0.9 personnel-years) to handle the expected increase in appeals workload.

Local governments benefit from the increased sample size for the county surveys as well as from the additional resources for handling county appeals. Therefore, it is appropriate that they also share in the costs of these activities. On this basis, we recommend that local governments fund 50 percent of the costs associated with the Omnibus Property Tax Reform Act. This results in a General Fund reduction of \$267,000, and a corresponding increase in funding from local governments' share of cigarette tax revenues.

Counties Should Pay for Resurvey Costs

We recommend that the budget be reduced by \$108,000, and that reimbursements be increased by the same amount, to reflect legislative intent that counties bear the cost of resurvey activities. (Reduce Item 0860-001-001 by \$108,000 and increase reimbursements by a corresponding amount.)

Chapter 1457 permits any county that is not satisfied with the board's conclusions as to its level of assessment to request a new survey in advance of its next regularly scheduled survey. In this way, a county may attempt to qualify for the retention of administrative cost funds up to five years in advance of its next survey. Based on the board's expectation that one county will request such a resurvey each year, the budget provides an additional 1.9 associate property appraiser personnel-years, and \$108,000 from the General Fund, to handle the resurvey workload.

However, Chapter 1457 allows counties to request resurveys only if they agree to pay for the cost of the survey. Thus, the Legislature has expressed its intent that any increased costs associated with the resurvey requirement be absorbed by the counties that benefit from the resurvey, *not* the state. On this basis, we recommend a General Fund reduction of \$108,000 and a corresponding increase in reimbursements.

STATE-ASSESSED PROPERTY PROGRAM**Staff Increase for Public Utilities Assessment Not Justified**

We recommend a reduction of \$84,000 proposed for the workload related to public utilities appraisal, auditing and appeals because a staff increase is not justified. (Reduce Item 0860-001-001 by \$84,000.)

The board is required by the State Constitution to annually assess, for property tax purposes, all property owned or used by certain public utilities, railroads and pipeline companies. The State-Assessed Property pro-

gram is responsible for annually estimating the value of public utility properties, as well as auditing such properties on a regular basis and handling taxpayer appeals.

The budget proposes an increase of \$84,000 and 1.9 personnel-years to handle increased public utilities assessment workload. One of these positions is proposed to handle appeals and appraisal workload and the other to handle the auditing workloads. According to the board, the increased workload is attributable to such factors as increased appeals by utilities and the trend toward federal deregulation of the communications industry.

New Appraisal Position. Our analysis indicates, however, that the workload increases cited by the board to justify the appeals/appraisal position are questionable. Specifically, examination of the board's budget presentation indicates that the 3,000-hour appeals workload projected for 1987-88 represents *no change* over 1986-87, and a *25 percent decrease* from 1985-86.

Furthermore, based on trends in workload growth since 1984-85, our analysis indicates that total appraisal workload will increase only 266 hours over the board's 1986-87 estimate. Given this, existing staff levels would appear adequate to handle the workload for 1987-88. On this basis, we recommend that the additional appeals/appraisal position be deleted.

New Audit Position. Our analysis further indicates that the requested audit position is not cost-effective. The board indicates that it does not have enough staff to audit all of the utility accounts on a four-year cycle. Because the statute of limitations for these audits is four years, the board's audits must be conducted on a four-year cycle if 100 percent coverage of the utility properties is to be obtained. However, our analysis of the program's audit return data indicates that it may not be cost-effective to provide 100 percent coverage of these accounts. The audit program has shown a rapid decline in recoveries since 1983-84. In 1984-85, audit recoveries declined from \$6,279,000 to \$2,509,000, or 60 percent. Recoveries declined even further in 1985-86, to \$318,000, or by 87 percent.

Our analysis indicates that the board is devoting an inordinately large number of staff hours to audits of unproductive small accounts. Over the life of the program, the board has spent 12,308 hours, or 19 percent of its total audit hours, on audits with an average recovery of only \$18 per hour (for a benefit-cost ratio of approximately 0.6-to-1). It would be more cost-effective for the board to improve its audit selection system so that the more profitable accounts are audited, rather than to add the auditors necessary to maintain the current coverage.

In sum, our analysis of the board's workload data indicates that the proposed staff increases are not justified, and that other means are available to meet any actual workload increases. Accordingly, we recommend a reduction of \$84,000.

SALES AND USE TAX PROGRAM

Local Reimbursements are Underestimated

We recommend a General Fund reduction of \$3 million in order to correct for underbudgeting of reimbursements from local agencies. (Reduce Item 0860-001-001 by \$3 million and increase reimbursements by a corresponding amount.)

In addition to administering the 4.75 percent state sales and use tax, the board administers the 1.25 percent local sales tax for cities and counties and the optional transactions and use tax for local transit and transportation districts. Before the board subvenes these revenues to local agencies,

STATE BOARD OF EQUALIZATION—Continued

it deducts an amount to cover a portion of its administrative costs. This amount is equal to a fixed percentage of the *revenues* produced by the tax. Specifically, the board charges cities and counties an amount equal to 0.82 percent of local sales and tax revenues, while local transit and transportation districts are charged an amount equal to 1.65 percent of their tax revenues.

The budget estimates that the amount of local revenues withheld from local agencies (reflected as a reimbursement in the board's budget) will total \$33,510,000, *exactly the same amount as reflected in the current year budget*. This figure is based on *May 1985* estimates of 1986-87 sales tax revenues. According to the Department of Finance, at the time the budget was prepared there was no information available to support any estimate of the increase in reimbursements for the budget year.

However, based on the department's January forecast of state sales and use tax revenues, our analysis indicates that the board will receive an additional \$3 million in reimbursements from local agencies. Of this amount, approximately \$1.7 million is attributable to the estimated growth in sales and use tax collections for the budget year. The remaining \$1.3 million is due to actions taken by the local voters in the November 1986 election. In that election, voters in Alameda and Fresno Counties approved one-half cent tax increases for transportation funding in their counties. These tax increases will be in effect in 1987-88 and, consequently, the board will receive proportionately higher reimbursements. The budget request, however, does not reflect the receipt of these funds.

Because the board uses the money from reimbursements to offset its cost for administering the sales and use tax program, its reliance on the General Fund should decrease in direct proportion to the expected increase in reimbursements resulting from the growth in the sales tax base and the increased transportation tax collections. On this basis, we recommend that Item 0860-001-001 be reduced by \$3 million, and that reimbursements be increased by a corresponding amount.

Continued Lobbying Contract for Mail Order Legislation Not Justified

We recommend a reduction of \$50,000 from contractual services, because the proposed expenditures for a lobbying contract are not justified. (Reduce Item 0860-001-001 by \$50,000.)

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

Existing law requires that the tax on goods purchased from an out-of-state retailer be paid by the consumer directly to the Board of Equaliza-

tion. As a practical matter, however, it is virtually impossible to collect this tax from consumers, because it is difficult to identify when sales take place, and it is inordinately expensive to assess and collect the tax from individuals. Very few consumers voluntarily pay the tax to the board. The board estimates that in 1984, the state and local governments experienced a revenue loss of \$120 million due to unpaid taxes on mail-order purchases.

Legislation introduced last year at both the state and federal levels tried unsuccessfully to reverse, or limit, the federal court decision by broadening the definition of a taxable business presence. The Legislature passed AJR 17 in 1985 requesting Congress to enact legislation allowing the state to require mail-order houses to collect the use tax. Because the court's decision was based on the provisions of the Commerce Clause in the U.S. Constitution, however, the constitutionality of such law changes is open to serious question.

Proposed Contract. In the 1986 Budget Act, the Legislature approved a one-time request for \$17,000 for a contract with the state's Washington, D.C., lobbyist to testify at hearings on the federal mail order legislation (HR 3549). The board proposes to continue this contract at a \$50,000 funding level in the budget year.

Our analysis indicates, however, that continuation of this contract is not justified. First, the funding for the contract was approved for a specific, *one-time* purpose—testimony on HR 3549—in the 1986–87 year. This bill failed passage in 1986. Second, the board proposes to continue the contract at a level that is \$33,000 *higher* than approved by the Legislature in 1986–87. Third, the board has submitted insufficient information to support its request. Finally, as we pointed out in last year's *Analysis*, there is no evidence that the board's lobbying efforts are needed, because several national organizations also are lobbying for similar legislation. Nor is there any assurance that favorable legislation would be able to overturn the Supreme Court's ruling. On this basis, we recommend elimination of the \$50,000 proposed to continue this effort.

Microfilm Machines: An Expensive Insurance Policy

We recommend a reduction of \$73,000 proposed for the purchase of microfilm machines because the request is premature and not cost-effective. (Reduce Item 0860-001-001 by \$73,000.)

The budget proposes an appropriation of \$588,000 for workload growth in the processing of tax returns. Of this total, \$73,000 is intended to purchase eight microfilm machines which would be used to make a copy of every check processed by the board. Copies of checks are occasionally needed to reconcile differences between taxpayer or bank records and the board's records. Currently, the board relies on depository banks to provide copies of the specific checks it requires. About 400 such requests are made each year. The banks now provide these copies free of charge, but the board's approved Feasibility Study Report (FSR) for the project states that, within the next year, one of the state's banks (the Bank of America) may impose a charge or discontinue the service.

Our analysis indicates that acquisition of the microfilm equipment would be premature. First, it is not clear that the Bank of America will discontinue free microfilm services in the budget year, if at all. The Bank of America has informally communicated to the State Treasurer that it is considering the discontinuance of the free microfilm services now available to the state's revenue agencies. However, the State Treasurer has taken action in the past to discourage this development, and it is by no

STATE BOARD OF EQUALIZATION—Continued

means a certainty to occur during the budget year.

Furthermore, given the board's limited use of microfilm copies, it may still be cheaper to pay for microfilm copies as needed than to copy every check. The Bank of America is only one of the board's eight major depositories, and processes less than 25 percent of all presorted state checks. Assuming a five-year service life for the microfilm equipment, and that 25 percent of all requests for copies of checks go to the Bank of America, the bank would have to charge *\$196 per request* in order for the board's savings to outweigh the cost of the equipment. It seems unlikely that microfilm copy services would be this costly. For example, the Bank of America currently charges private customers only 40 cents per microfilm copy.

Our analysis indicates that it is unnecessary to maintain records of every check processed through the board in order to guard against a possibility that one bank will discontinue free microfilm services. For this reason, we recommend that the funding for the microfilm equipment be deleted.

Balancing Funding Restrictions with Revenue Needs: Sales Tax Auditing

We recommend approval of the proposed funding for audit activities.

In accordance with the administration's policy for 1987-88, the board's budget was reduced to eliminate funding for operating expenses and equipment (OE&E) price increases, merit salary adjustments (MSAs) and social security tax increases. The board estimates that its costs for these items will amount to \$602,000 for OE&E, and \$2,098,000 for MSAs and associated benefits. In addition, the budget proposes a reduction of \$1,014,000 as a "special adjustment," and underfunds mandatory registration activities by \$49,000. In total, the proposed budget has been reduced by \$3,763,000 below the level required to maintain services at their current level.

The budget also proposes explicit and implicit augmentations to the sales and use tax audit program. First, the budget explicitly proposes an appropriation of \$3,880,000 (92.2 personnel-years), to "enhance revenue collections" in 1987-88. The board's budget presentation indicates that this augmentation will lead to a \$20 million revenue gain. Second, the budget proposes a reduction in salary savings (and associated benefits) of \$590,000, which implicitly increases the amount of funds available for the board's discretionary activities, such as sales tax audits. According to the board, this reduction reflects the administration's intent that the board lower its vacancy rate and act aggressively to maintain the state's revenue base.

Of the total explicit augmentation, \$2.7 million (57.2 personnel-years) is justified as being required to "maintain the current base." In reality, this is simply an offsetting adjustment for the MSA/OE&E reduction in the guise of an auditing program increase. The provision of these funds will not, as the department claims, lead to an increase in revenues over the current year. Rather, this "augmentation" precludes the reduction in revenue collections which would otherwise result from the redirection of dollars budgeted for audit activities to fund price and MSA increases. The remainder of the explicit augmentation (\$1,180,000 and 35 personnel-years) is estimated to yield an additional \$6.5 million in General Fund revenues.

Our analysis indicates, however, that the board will actually realize only

a portion of the proposed staff increase. The increased funding will be offset by two other adjustments. These include the "special adjustment" reduction of \$1,014,000 and the \$49,000 which must be redirected from within the budget to fund unrecognized workload growth in the taxpayer registration program. In other words, the board must redirect resources devoted to its discretionary activities, such as sales tax audits, to the extent that it cannot accommodate the underfunding in other areas of its budget. Taking into account all of these factors, our analysis indicates that the board will actually realize a net increase of \$708,000 and 19 auditor personnel-years rather than the \$3.9 million and 92 personnel-years identified in the proposed budget.

Our analysis further indicates that the board has overestimated the likely revenue gains associated with increased audit activities. According to the board, the expected gains from adding an auditor are \$126 per hour. However, this figure is based on outdated 1983-84 audit information, and does not take into account the additional auditor personnel-years funded in the 1986 Budget Act. Based on 1984-85 audit data, and taking into account the 52 field auditor personnel-years gained in the current year, we estimate that the additional auditors will increase revenues by \$94 per hour. This implies a General Fund revenue increase of approximately \$2.6 million, and a benefit-cost ratio of 4.1-to-1, considerably less than the 5.5-to-1 ratio indicated by the board.

While our analysis indicates that the revenue effect of the funded level of audit resources will be significantly lower than that proposed in the budget, we believe that a *moderate* increase in audit staff, such as that currently proposed, is justified on the following grounds:

- The net revenue effect of the additional auditors will exceed the cost.
- Additional staff will increase the number of accounts audited, thereby increasing the level of field audit "presence." As discussed in the Little Hoover Commission's report on the underground economy, an increase in field presence may improve the level of voluntary compliance. Field audit presence has diminished by 2 percent since 1982, despite steady increases in the number of accounts.

On this basis, we recommend that the increased funding be approved.

Technical Budgeting Issue

We recommend a reduction of \$482,000 due to a technical error in calculating staff benefit requirements. (Reduce Item 0860-001-001 by \$455,000, Item 0860-001-002 by \$1,000, Item 0860-001-061 by \$15,000, Item 0860-001-064 by \$4,000, Item 0860-001-415 by \$1,000 and Item 0860-001-965 by \$6,000.) These amounts represent funding in excess of the amounts needed by the board to pay for staff benefit costs.

BOARD OF EQUALIZATION—CAPITAL OUTLAY

Item 0860-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. LJE 92

Requested 1987-88	\$50,000
Recommended approval	50,000

ANALYSIS AND RECOMMENDATIONS

Minor Capital Outlay

We recommend approval.

The budget proposes \$50,000 from the General Fund, Special Account for Capital Outlay, for two minor projects at the Board of Equalization's district offices in San Diego (\$33,000) and Orange (\$17,000) Counties.

The San Diego project would alter 14,002 assignable square feet (asf) of space to provide open office landscaping, expand the training/conference/hearing room, add three new interview areas, and provide more public counter area.

The Orange County project would alter 1,120 asf of office space in the Santa Ana State Building to be vacated by the State Teachers' Retirement System. This additional space will provide for positions authorized in the 1986 Budget Act.

The San Diego and Orange Counties projects are warranted and the costs are reasonable. Consequently, we recommend approval.

SECRETARY OF STATE

Item 0890 from the General
Fund

Budget p. LJE 92

Requested 1987-88	\$25,299,000
Estimated 1986-87	21,591,000
Actual 1985-86	18,353,000
Requested increase (excluding amount for salary increases) \$3,708,000 (+17.2 percent)	
Total recommended reduction	678,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0890-001-001—Support	General	\$22,647,000
Transfer from Political Reform Act (Item 8640)— Support	General	624,000
Reimbursements	—	2,028,000
Total		\$25,299,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

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|--|----|
| 1. Corporations Program. <i>Reduce Item 0890-001-001 by \$82,000.</i> Recommend reduction to correct for overbudgeting. We further recommend the adoption of Budget Bill language to recoup unneeded funds by reducing funding by \$35,000 for each month the corporate automation project is not operational. | 83 |
| 2. Uniform Commercial Code Program. <i>Reduce Item 0890-001-001 by \$510,000.</i> Recommend reduction to correct for overbudgeting. | 84 |
| 3. Proposed Budget Bill Language. We recommend that the Legislature delete proposed Budget Bill language which imposes a surcharge, above normal document processing fees, to cover the cost of implementing the proposed optical disk system. Instead, we recommend the enactment of legislation to accomplish this objective. | 86 |
| 4. Uniform Commercial Code Program. Recommend proposed positions be established on a one-year limited-term basis. | 86 |
| 5. Facilities Operations. <i>Reduce Item 0890-001-001 by \$86,000.</i> Recommend reduction to correct for overbudgeted operating expenses. | 87 |

GENERAL PROGRAM STATEMENT

The Secretary of State has statutory responsibility for examining and filing for the public record specified financial statements and corporate-related documents. The Secretary also administers and enforces election law and campaign disclosure requirements. In addition, the Secretary appoints notaries public and manages the state archival function. The activities necessary to carry out these responsibilities are conducted in seven program units: (1) Corporate Filing, (2) Elections, (3) Political Reform, (4) Uniform Commercial Code, (5) Notary Public, (6) Archives, and (7) Limited Partnerships.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$25,299,000 for support of the Secretary of State in 1987-88. This is \$3,708,000, or 17.2 percent, above the current year level. The proposed expenditures consist of an appropriation of \$22,647,000 from the General Fund, reimbursements of \$2,028,000 from special handling fees, and \$624,000 under the Political Reform Act. Table 1 displays the Secretary of State's actual, estimated, and budgeted funding and staffing for the three-year period, 1985-86 through 1987-88. The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986-87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

The increase in expenditures is attributable to increases in the following categories: special items of expense related to elections (\$500,000); increased reimbursements (\$44,000); ongoing corporate automation costs (\$375,000); allocation for employee compensation (\$30,000); and various proposed program changes (\$4,210,000). These increases are offset by

SECRETARY OF STATE—Continued

Table 1
Secretary of State
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent
	Actual	Est.	Prop.	Actual	Est.	Prop.	Change
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	From 1986-87
Corporate Filing	116.1	121.0	118.7	\$5,875	\$7,103	\$6,948	-2.2%
Limited Partnership	25.6	24.0	23.5	1,173	1,199	1,193	-0.5
Elections.....	16.1	15.3	15.0	4,428	5,627	6,174	9.7
Political Reform	16.4	17.7	17.4	725	793	843	6.3
Uniform Commercial Code.....	57.2	64.6	69.1	2,679	2,969	6,358	114.2
Notary Public	14.3	14.2	13.9	1,236	1,216	1,271	4.5
Archives	17.2	20.7	18.4	981	1,331	1,306	-1.8
Administration (undistributed)	12.0	20.9	18.4	5,598	6,876	10,080	46.6
Administration (distributed)	81.5	69.2	70.8	-4,363	-5,523	-8,645	56.5
Totals.....	356.4	367.6	365.2	\$18,332	\$21,591	\$25,528	18.2%
Special Adjustment.....				—	—	-229	NMF ^a
Adjusted Totals				\$18,332	\$21,591	\$25,299	17.2
Funding Sources							
General Fund.....				\$15,804	\$18,983	\$22,647	19.3%
Transfer from Political Reform Act (General Fund)				605	624	624	—
Reimbursements				\$1,923	\$1,984	\$2,028	2.2%

^a Not a meaningful figure.

baseline adjustments which delete one-time equipment funds (\$100,000), funds reappropriated for the corporate automation project (\$977,000), and other one-time expenses, including moving costs and special projects (\$45,000). In addition, the budget includes a "special adjustment" reduction (\$229,000) for 1987-88. Table 2 displays these changes.

Table 2
Secretary of State
Proposed 1987-88 Budget Changes
(dollars in thousands)

	<i>All Funds</i>
1986-87 Expenditures (Revised)	\$21,591
Baseline Adjustments:	
Delete current-year reappropriation	-977
Delete one-time equipment	-100
Delete one-time moving expense	-24
Add salary adjustment for constitutional officers	30
Add corporate filing ongoing costs	275
Delete funds for one-time study	-21
Add special items of expense relating to elections	500
Increase reimbursements	44
Subtotal, Baseline Adjustments	-\$273
Program changes:	
Uniform Commercial Code—automation	\$3,050
Uniform Commercial Code—workload	186

Corporate filing increased costs.....	659
Archives map reproduction.....	44
Business services workload	32
Lobbyist directory update	20
Equipment replacement	50
EDP-programming workload	87
Facilities operations.....	82
Subtotal, Program Changes.....	\$4,210
Total	\$25,528
Special Adjustment	-229
1987-88 Expenditures (Proposed)	\$25,299
Change from 1986-87:	
Amount.....	\$3,708
Percent.....	17.2%

ANALYSIS AND RECOMMENDATIONS

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

- **Lobbyist Directory (\$20,000).** These funds would be used to publish a lobbyist directory update.
- **Equipment (\$50,000).** These funds would be used to replace worn-out equipment items.
- **Business Services Staffing Increase (\$24,000).** The budget requests one additional position to eliminate deficiencies that currently exist in the business services area.
- **Archive Map Reproduction (\$44,000).** These funds would be used for a one-time reproduction of frequently used historical maps of the state so as to preserve the originals.
- **Electronic Data Processing (\$87,000).** The budget requests one additional position for program maintenance and funds to contract for a one-time rewrite of specific computer programs.

Corporate Automation Project Encounters Additional Delays

We recommend a reduction of \$82,000 to correct for overbudgeted system transaction costs. We further recommend, in order to recoup unneeded funds, the adoption of Budget Bill language which reduces the funding level by \$35,000 for each month the corporate automation project is not operational. (Reduce Item 0890-001-001 by \$82,000).

Background. The Secretary of State is required by the California Corporations Code to maintain specified corporate documents on file as public records. The documents are handled by the Secretary of State's Corporations Division which records corporation names, dates of incorporation, changes in the status of corporations (such as dissolution or merger), and other information. In addition, the division is responsible for reserving corporate names.

Budget Year Proposal. The budget proposes \$659,000 to fund cost increases related to its corporate automation project. According to the Secretary of State, the cost increases are due to a projected increase in system transactions, peripheral communications, and prorated overhead costs.

According to the Secretary of State, \$238,000 of the total proposed amount reflects the anticipated increase in system transactions. The Secretary of State originally estimated that there would be 4.7 million transac-

SECRETARY OF STATE—Continued

tions in the current year, and 7.6 million transactions in the budget year. The budget request was justified on the basis of this increase of 2.9 million transactions. However, our analysis indicates that this estimate greatly understates the likely level of current year transactions. In fact, the Secretary of State now acknowledges the volume of transactions will more likely be 6.4 million in the current year, and that this volume of transactions is consistent with current year funding levels. Adjusting for this current year activity level, the budget year growth in transactions volume will be only 1.3 million. As a result, the Secretary of State will actually need only \$156,000 to fund the increase in system transactions. This is \$82,000 less than the amount budgeted. Accordingly, we recommend a reduction of \$82,000 to correct for overbudgeting.

Our analysis indicates that the remaining \$421,000, or 64 percent, of the total proposed amount reflects peripheral, communication, and overhead costs which will be incurred only if the system comes on-line. The system has thus far failed to meet its target dates for completion on three separate occasions. These delays reflect the inability of the Secretary of State's management personnel to exert effective control over vendor provided programming services. For example, the office indicates that it still has not entered into a formal written contract with its vendor. As of January 1987, the Secretary of State had not issued a new on-line date for the automation project.

Our review indicates that significant amounts of computer program debugging still need to be completed before the system can be considered reliable and accurate enough to be brought on-line. Further, it is not apparent that this can be accomplished by July 1, 1987. Therefore, in order for the state to recoup funds which cannot be spent in the budget year, we further recommend the adoption of Budget Bill language which reduces the proposed appropriation by \$35,000 (one-twelfth of the total amount) for each month the system fails to come on-line. In this way, recouped funds can be used to meet other legislative priorities. Specifically, we recommend adoption of the following language:

"Of the funds appropriated in category (b) of this item, \$421,000 shall be encumbered only for ongoing Teale Data Center charges resulting from the implementation of the Corporate Filing Program Automation Project. The Director of Finance shall reduce the appropriation provided by this item by \$35,000 for each month beyond July 1, 1987, that the Corporate Filing Program Automation Project is not operational."

Uniform Commercial Code Program Optical Disk System Overbudgeted

We recommend a reduction of \$510,000 to correct for overbudgeting. (Reduce Item 0890-001-001 by \$510,000.)

Background. The Secretary of State is required by law to accept, as a public record, various financing and tax documents which assure security interests in personal property. She performs this function through the Uniform Commercial Code (UCC) program which, for a fee, files, receives amendments to and provides certifications and copies of financing statements (94 percent of total program workload). In addition, program staff file and provide information relating to notices of federal tax liens against partnerships and corporations, state tax liens and attachment liens against personal property and judgment liens (the remaining 6 percent of total program workload).

In essence, the UCC program affords a secured creditor some protection against debtor bankruptcy, insolvency or default, and in addition, provides a prospective lender or seller with the means to determine if there are any previously filed security interests involving certain personal property. Consequently, significant delays and errors by the Secretary of State's Office in filing and responding to information requests can, and do, have a material effect on business decisions.

In recent years, the volume of documents processed by the UCC program has increased. Furthermore, the Legislature has authorized staff to accommodate this growth in workload and to alleviate backlogs which have developed. Discussions with the Secretary of State's Office indicate that processing backlogs ranging from eight days to 16 days now exist in the UCC program. Backlogged documents are not available for use by the public.

Budget Proposal. The budget proposes \$3,050,000 (\$1,673,500 for equipment; and \$1,376,290 for professional services) to automate UCC program filings using an optical disk system. Table 3 displays the anticipated costs of the proposed optical disk system for the years 1987-88 through 1991-92. As can be seen, hardware acquisition and data conversion activities cause the greatest costs to occur in the first year of system implementation.

Table 3
Secretary of State
Optical Disk System Costs
1987-88 through 1991-92
(dollars in thousands)

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>
Hardware	\$1,615	\$128	\$485	\$151	\$151
Software	59	—	—	—	—
Application development	150	—	—	—	—
Data conversion	800	—	—	—	—
Maintenance	234	252	320	341	362
Personnel	192	-420	—	455	910
Totals	\$3,050	-\$40	\$805	\$947	\$1,423

The proposed system, which is scheduled to be on-line as of February 1, 1988, uses computer hardware and software in conjunction with optical scanning equipment to file and retrieve an actual image of each processed document. Essentially, the system works much the same way an ordinary office copier does—it even can produce a hard copy of stored documents. As described in the feasibility study report, however, the most significant features of the system include the speed with which it can file and retrieve documents (20 seconds) and its high degree of accuracy (this is because an actual image, rather than key-entered data, is stored on the system).

Budget Request Includes Unneeded Funds. We believe that the application of optical disk technology in the UCC program is warranted based upon the volume of documents processed and the need to relay timely and accurate information to the public. However, our analysis of the Secretary of State's feasibility study report and supporting documentation indicates that the amount proposed to implement the system is over-budgeted by \$510,000.

First, funds for maintenance costs are budgeted at \$234,000 during the first full year. Given that the system will be on-line for five months (Febru-

SECRETARY OF STATE—Continued

ary through June 1988), our analysis indicates that maintenance costs should amount to \$97,000. Therefore, maintenance costs are overbudgeted by \$137,000.

Second, \$192,000 has been included for additional personnel costs. Discussions with the Secretary of State indicate that these funds are included to provide staff for "project management, implementation, and coordination." Discussions with the state Office of Information Technology (OIT) indicate however, that the Secretary of State's feasibility study report was approved on a "turnkey" basis. According to OIT, this means that the project was approved contingent upon system design and implementation being completely done by an outside vendor. In other words, it was anticipated that the Secretary of State's Office would have an extremely limited role in oversight of the project. Our analysis indicates that the proposed staffing level duplicates the efforts of the outside vendor, therefore the \$192,000 budgeted for this purpose should be deleted.

Finally, \$800,000 has been included for the one-time conversion of the UCC program's existing database, which contains approximately 5.5 million pages of information. Our analysis indicates that the Secretary of State has made a technical error by including \$181,000 as staff benefits for the temporary help positions that will be used to convert the database. Temporary help does not accrue staff benefits. Therefore, data conversion costs are overbudgeted by \$181,000.

Accordingly, we recommend a reduction of \$510,000 (that is, \$137,000 for maintenance; \$192,000 for project management; and \$181,000 for staff benefits) to correct for overbudgeting.

Separate Legislation is Needed

We recommend that the Legislature delete Budget Bill language which imposes a surcharge, above normal document processing fees, to cover the cost of implementing its proposed optical disk system. We further recommend that the Legislature enact legislation to accomplish this objective.

The Budget Bill includes control language which requires the Secretary of State to impose a temporary surcharge, above normal document processing fees, to cover the cost of implementing its proposed optical disk system. Discussions with Legislative Counsel indicate that fee increases of this type must be authorized by statute. Accordingly, we recommend that the Legislature delete the proposed Budget Bill language. To ensure that the cost of the proposed system is paid by those who will benefit from its implementation, we further recommend that the Legislature enact legislation to accomplish this objective.

Uniform Commercial Code Workload Increases

We recommend that the six positions requested to handle workload increases in the Uniform Commercial Code program be established on a one-year limited-term basis.

The budget proposes \$142,000 and 5.7 personnel-years (six positions) to handle projected workload increases in the Uniform Commercial Code program. Specifically, the Secretary of State's Office indicates that the filing of financial statements and other related documents is projected to require the processing of 1.8 million documents in the budget year. This is 100,000 documents, or 5.9 percent, above the estimated current year volume. Our analysis indicates that the additional staff are warranted on

a workload basis until the new optical disk system becomes operational.

The Secretary of State's feasibility study report for the system indicates that it will be on-line by February 1, 1988. Once on-line, the UCC program should begin experiencing productivity gains (that is, the ability to process greater volumes of workload in the same amount of time). Therefore, the requested positions should not be needed beyond the budget year. Accordingly, we recommend that the six positions be established on a one-year limited-term basis.

Facilities Operations Is Overbudgeted

We recommend a reduction of \$86,000 to correct for overbudgeted operating expenses. (Reduce Item 0890-001-001 by \$86,000).

The budget proposes \$82,000 to fund increased costs associated with the lease space that it occupies at various locations. Our analysis indicates that the Secretary of State's lease costs in the budget year will actually be \$4,000 less than estimated current year expenditures. Accordingly, we recommend a reduction of \$86,000 to correct for overbudgeted operating expenses.

STATE TREASURER

Item 0950 from the General

Fund	Budget p. LJE 99
Requested 1987-88	\$10,267,000
Estimated 1986-87	9,350,000
Actual 1985-86	8,258,000
Requested increase (excluding amount for salary increases) \$917,000 (+9.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

The State Treasurer is authorized 181.2 personnel-years for 1986-87.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$10,267,000 from the General Fund and reimbursements to support the State Treasurer's Office in 1987-88. This amount is \$917,000, or 9.8 percent, more than estimated total expenditures for the current year. The increase reflects the net effect of

STATE TREASURER—Continued

a \$142,000 increase in salaries and staff benefits, an \$836,000 increase in operating expenses and equipment, a \$17,000 increase in reimbursements and "Special Adjustment" reduction of \$61,000.

The budget request consists of \$6,031,000 from the General Fund, an increase of \$900,000, or 18 percent, and \$4,236,000 in reimbursements, an increase of \$17,000, or 0.4 percent. Table 1 provides information on the level of expenditures and personnel-years for each of the major programs administered by the State Treasurer's Office during the prior, current, and budget years.

Table 1
State Treasurer Budget Summary
1985-86 through 1987-88
(dollars in thousands)

Program:	Personnel-Years			Expenditures			Percent Change From 1986-87
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	
Investment Services	7.8	7.8	8.3	\$955	\$1,069	\$1,259	17.8%
Cash Management.....	18.3	18.2	18.7	910	1,013	1,111	9.7
Trust Services.....	51.4	63.2	57.3	3,591	4,143	3,924	-5.3
District Securities Division	7.2	6.8	6.8	476	457	447	-2.2
Net, Total Administration	75.8	85.2	88.8	2,326	2,668	3,587	34.4
Totals	160.5	181.2	179.9	\$8,258	\$9,350	\$10,328	10.5%
Special Adjustment	—	—	—	—	—	-61	NMF ^a
Adjusted Totals	—	—	—	\$8,258	\$9,350	\$10,267	9.8%
Funding Sources							
General Fund	—	—	—	\$4,141	\$5,131	\$6,031	17.5%
Reimbursements	—	—	—	4,117	4,219	4,236	0.4

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS***We recommend approval.***

The State Treasurer's Office proposes the following program changes for 1987-88: (1) \$1,365,000 and 1.9 personnel-years to support third-year implementation of its new information processing system; (2) \$113,000 to permanently establish four limited-term positions handling increased debt payment and commercial bank reconciliation workloads; (3) \$138,000 and 4.6 personnel-years to handle increased workloads in cash management, personnel, accounting, and business services; and (4) \$69,000 for additional office space. Our analysis indicates that these program changes are justified on a workload basis.

CALIFORNIA DEBT ADVISORY COMMISSION

Item 0956 from the California
Debt Advisory Commission
Fund

Budget p. LJE 103

Requested 1987-88	\$871,000
Estimated 1986-87	2,193,000
Actual 1985-86	694,000
Requested decrease (excluding amount for salary increases) \$1,322,000 (-60.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The general activities of the CDAC are supported by notification fees paid from the proceeds of bond sales. Under the terms of Ch 293/83 (SB 146), the fees are paid by the lead underwriter or purchaser of the bonds. Currently, the fee is set at one-eightieth (1/80) of 1 percent of the principal amount of the bond issue, up to a maximum fee of \$2,500. Short-term debt (such as tax and revenue anticipation notes) is subject to a fixed fee of \$125 per issue, while debt issues of less than \$1 million are exempt from the fee requirement. The revenues from the fees are deposited into the CDAC fund.

The commission is authorized 11 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$871,000 from the California Debt Advisory Commission Fund for support of the commission in 1987-88. This is \$1,322,000, or 60 percent, less than estimated expenditures in the current year.

The decrease in the commission's budget primarily results from a reduction of \$1,320,000 due to the elimination of current year funds which provided a rebate of notification fees to bond issuers. Adjusting for the one-time rebate, the commission's proposed budget is \$2,000, or 0.2 percent, less than estimated current-year expenditures.

Our analysis indicates that the proposed expenditures for the commission are reasonable.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Item 0959 from the General

Fund

Budget p. LJE 104

Requested 1987-88	\$169,000
Estimated 1986-87	144,000
Actual 1985-86	123,000
Requested increase (excluding amount for salary increases) \$25,000 (+17.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Debt Limit Allocation Committee (CDLAC) was established in 1984 through a proclamation by the Governor, in order to ensure the state's compliance with the federal Tax Reform Act of 1984. In September 1986, the Governor issued a subsequent proclamation to provide for CDLAC's continued existence—until January 1, 1988—to ensure the state's compliance with the federal Tax Reform Act of 1986. These acts limit the amount of tax-exempt "private activity" bonds which may be issued in a state during a given year. "Private activity bonds" generally include bonds issued for private industrial and commercial development projects, single and multi-family housing, for-profit hospitals and educational facilities, and student loans.

Under the Tax Reform Act of 1986, the volume of these bonds that may be issued is limited to \$75 per resident, or \$250 million, whichever is greater. This amount is one-half the amount allowed by the 1984 Act. The 1986 Act also subjects additional categories of bonds, such as tax-increment and housing bonds, to the volume cap. The state's 1986 ceiling has been set at \$1.9 billion. (In comparison, the ceiling amount for 1985 was \$3.8 billion.) For 1987, the ceiling is estimated to be \$2.0 billion. Beginning in 1988, however, the volume of private activity bonds that may be issued is reduced to \$50 per resident, or \$150 million, whichever is greater. The committee is responsible for allocating the ceiling amount among state and local agencies.

In addition, the CDLAC reviews (1) requests for transferring portions of the state's allocation to local authorities and (2) applications by state agencies to receive an allocation of the state's portion of the bond limit.

The committee is composed of the State Treasurer (Chairman), the Governor (or, in his absence, the Director of Finance), and the State Controller. The committee has two personnel-years, and also receives administrative support from the State Treasurer's Office and the California Debt Advisory Commission.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$169,000 from the General Fund for support of CDLAC during 1987-88. This is an increase of \$25,000, or 17 percent, above estimated expenditures for the current year. The increase in CDLAC's budget largely reflects the combined effect of a \$27,000 increase for the committee's share of the Treasurer's information

systems cost and a \$2,000 "Special Adjustment" reduction in the budget year. Our analysis indicates that the proposed expenditures for the committee are reasonable.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Item 0965 from the Industrial
Development Fund

Budget p. LJE 105

Requested 1987-88	\$352,000
Estimated 1986-87	316,000
Actual 1985-86	263,000
Requested increase (excluding amount for salary increases) \$36,000 (+11.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Fee Structure. Recommend adoption of supplemental report language directing the commission to: (1) revise its fee structure; and (2) submit a plan to the Legislature by December 31, 1987, to dispose of surplus fund balances.

92

GENERAL PROGRAM STATEMENT

The California Industrial Development Financing Advisory Commission (CIDFAC) was created by Ch 1358/80 (AB 74) for the purpose of evaluating industrial development bonds (IDBs). IDBs are issued by local development authorities. The proceeds of the bonds assist private businesses with the construction or purchase of certain industrial facilities. Current state and federal regulations provide a tax-exemption for the interest on IDBs, which allows businesses to obtain financing for qualified projects at below rates for conventional financing. These bonds are subject to the state's volume cap for "private activity" bonds, which may restrict the level of IDBs issued in 1987. Chapter 816, Statutes of 1986, extended CIDFAC's authority until January 1, 1989 and increased from \$250 million, to \$350 million, the maximum amount of IDBs which may be issued per year.

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

The commission's activities are funded from fees that are charged to the applicants which submit IDB issues for review. Currently, the fee is set at \$2,500 for each application, plus an amount equal to one-half of 1 percent of the total face value of the proposed issue. The fee revenues, which are estimated to total \$1 million in 1987-88, are deposited into the Industrial Development Fund.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$352,000 from the Industrial Development Fund for support of the CIDFAC in 1987–88. This is an increase of \$36,000, or 11 percent, compared to estimated current year expenditures. The increase in the commission's budget reflects a \$36,000 increase to fund the commission's share of the Treasurer's new information systems.

ANALYSIS AND RECOMMENDATIONS

Current Fee Level is Too High

We recommend that the Legislature adopt supplemental report language which directs the commission to (1) revise its fee structure, and (2) submit to the Legislature by December 31, 1987 a plan to dispose of surplus monies in the Industrial Development Fund.

Existing law requires the commission to charge fees commensurate with its expenses. The commission currently charges \$2,500 per application, plus an amount equal to one-half of 1 percent of the total face value of the proposed issue. During 1987–88, the CIDFAC estimates that the fees it charges to bond applicants will generate \$1 million in revenues, the same amount anticipated for the current year. The commission also estimates that it will receive \$244,000 in interest income from surplus money investments.

Table 1 displays the revenues and expenditures for the Industrial Development Fund for the period 1983–84 through 1987–88. As the table shows, the CIDFAC's estimate of fee revenues exceed by a wide margin the commission's expenses for each of the five years. As a result, the ending balance in the CIDFAC Fund is projected to increase from \$3,495,000 in 1986–87 to \$4,387,000 in 1987–88. This is more than 10 times the amount of the commission's proposed expenditures for the budget year.

Table 1
Fund Condition Statement
Industrial Development Fund^a
1983–84 through 1987–88
(dollars in thousands)

	1983–84	1984–85	1985–86	1986–87	1987–88
Beginning Balances	—\$6	\$403	\$1,548	\$2,621	\$3,495
Fee Revenues	732	1,301	1,148	1,000	1,000
Interest Earnings	21	91	188	190	244
Total Resources	\$747	\$1,795	\$2,884	\$3,811	\$4,739
Total Expenditures	344 ^b	247	263	316	352
Ending Balances	\$403	\$1,548	\$2,621	\$3,495	\$4,387

^a Source: Governor's Budget.

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

Both the amount of revenues deposited and the large surplus in the Industrial Development Fund indicate that the current fee level is not

commensurate with the cost of the commission's activities. On this basis, we recommend that the Legislature adopt supplemental report language directing the commission to revise its fee structure and develop a plan to dispose of surplus monies in the Industrial Development Fund.

Specifically, we recommend the Legislature adopt the following supplemental report language:

"California Industrial Development Financing Advisory Commission.

The commission shall (1) revise its fee structure in order to provide a level of revenues commensurate with its expenses for this program, and (2) submit a plan to the Legislature by December 31, 1987 to lower the balance in the Industrial Development Fund to a level sufficient to provide a prudent reserve."

Business, Transportation and Housing Agency

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE

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

Budget p. LJE 107

Requested 1987-88	\$16,000
Estimated 1986-87	15,000
Actual 1985-86	14,000
Requested increase \$1,000 (+6.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Mortgage Bond Allocation Committee (CMBAC) was established by Ch 1097/81 to assure that the state complies with the requirements of the Federal Mortgage Subsidy Bond Tax Act of 1980. Until 1986, the CMBAC was responsible for allocating to state and local government agencies the amount of tax-exempt mortgage revenue bonds that could be issued in California to finance *owner-occupied* housing. Because of various changes made by the federal Tax Reform Act of 1986, the CMBAC is now responsible for allocating to state and local governments the amount of tax-exempt revenue bonds that may be issued to finance loans for both owner-occupied and *multifamily rental* housing.

Under the 1986 Tax Reform Act, the federal government has imposed a limit on the level of tax-exempt bonds that can be issued to finance various private activities, including housing. During 1986, the ceiling for California was about \$1.9 billion, and the CMBAC was allocated \$710 million (about 37 percent) of the ceiling for housing bonds. For 1987, the CMBAC anticipates that the state's ceiling will be approximately \$2 billion, but it does not yet know how much of this amount will be allocated to the committee for housing purposes.

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

CALIFORNIA MORTGAGE BOND ALLOCATION COMMITTEE—Continued**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes an appropriation of \$16,000 from the Mortgage Bond Allocation Fee Account in the General Fund for support of the committee in 1987–88. This is \$1,000, or 6.7 percent, more than estimated current-year expenditures.

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The committee's proposed expenditures appear to be warranted, and we recommend approval.

**CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING
AUTHORITY**

Item 0971 from the California
Alternative Energy Authority
Fund

Budget p. LJE 107

Requested 1987–88	\$145,000
Estimated 1986–87	145,000
Actual 1985–86	71,000
Requested increase (excluding amount for salary increases) None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority was created by Ch 908/80 for the purpose of issuing up to \$200 million of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydroelectric projects, as well as energy conservation projects that reduce the use of fossil and nuclear fuels. As of December 30, 1986 the authority had issued \$116 million in bonds.

The authority consists of five state officers: the State Treasurer, who is chairman, the Director of Finance, the Chairman of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. Ongoing support is provided from the California Alternative Energy Authority Fund (CAEAF), which derives its revenue from application and other fees paid to the authority by those businesses receiving funds from the authority. The staff of the authority consists of two personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$145,000 from the Alternative Energy Authority Fund for support of the authority in 1987-88. This is equal to estimated current-year expenditures.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The requested appropriation is entirely from fees collected by the authority, so that funding will be available only to the extent that the authority receives fees from project proponents. The proposed expenditure is within the scope of the program previously approved by the Legislature.

The federal Tax Reform Act of 1986 generally restricts the size of projects that the authority can finance with federally tax-exempt bonds. In addition, the remaining \$84 million in bond authority is subject to the state's private activity bond ceiling established by the tax reform act. The authority also is evaluating the possibility of issuing bonds exempt from state tax only.

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

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

Budget p. LJE 109

Requested 1987-88	\$2,789,000
Estimated 1986-87	—
Actual 1985-86	—
Requested increase \$2,789,000	
Total recommended increase	112,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0974-101-489—Project Assistance	Hazardous Waste Reduction Incentive Account, General	\$189,000
Ch 1435/85—Project Assistance	Hazardous Waste Reduction Incentive Account, General	2,600,000
Total		\$2,789,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. **Additional Interest Earnings Available. Increase Item 0974-101-489 by \$112,000.** Recommend increase in funds for financial assistance to small businesses to properly handle hazardous wastes, because additional interest earnings are available and can be used for the program.

96

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY—Continued**GENERAL PROGRAM STATEMENT**

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

The authority has sold over \$3.2 billion in bonds since its inception in 1973.

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

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$2,789,000 for financial assistance to hazardous waste control projects in 1987-88, as authorized by Ch 1435/85. This amount consists of the full \$2.6 million appropriated by that act, none of which has been spent to date, plus \$189,000 of estimated accrued interest in the HWRIA. The authority indicates that implementation of the program has been delayed because of uncertainty associated with federal tax policy changes, but that the program will be in place for 1987-88.

ANALYSIS AND RECOMMENDATIONS**Additional Interest Earnings Available**

We recommend an increase of \$112,000 from the Hazardous Waste Reduction Incentive Account (HWRIA) in order to reflect an adjustment in the amount of interest earnings available for appropriation in the account. (Increase Item 0974-101-489 by \$112,000)

The budget document indicates that interest earnings for the HWRIA will be \$189,000 and the Budget Bill appropriates this amount to the authority. The State Controller and Treasurer's Office now indicate that an additional \$112,000 in interest earnings will be available due to accounting adjustments.

The authority indicates that the new federal tax policy changes will allow it to sell bonds for small businesses seeking to recycle, dispose of, or treat hazardous waste and that it could use all funds in the HWRIA to facilitate such bond sales in 1987-88, including the additional \$112,000 of interest earnings. The proposed use of these funds is consistent with the intent of Ch 1435/85. Accordingly, we recommend that the Legislature increase Item 0974-101-489 by \$112,000.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Item 0977 from the County
Health Facilities Financing
Assistance Fund

Budget p. LJE 110

Requested 1987-88	None
Estimated 1986-87	\$10,109,000
Actual 1985-86	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. County Health Facilities Financing. Recommend that prior to budget hearings, the authority provide the Legislature with specified information regarding county health facilities financing. 98

GENERAL PROGRAM STATEMENT

The California Health Facilities Financing Authority was created by Ch 1033/79 in order to issue revenue bonds to assist qualified private non-profit corporations or associations, counties, and hospital districts in financing or refinancing the construction, equipping, or acquisition of existing health facilities. Because of its ability to issue tax-exempt bonds, the authority provides lower-cost financing to qualified institutions than they would be able to secure on the open market. Participating institutions must pledge their full faith and credit to repay the bonds. The authority is a trust activity and involves no state revenues or expenditures. All expenses must be paid from revenues and other moneys available to the authority. The authority is composed of nine members: the State Treasurer, the Director of Finance, the State Controller, and two public members each appointed by the Senate, the Assembly, and the Governor.

Chapter 1556, Statutes of 1984 (AB 830), created the County Health Facilities Sinking Fund administered by the authority in order to fund local health facilities' capital improvements. This fund was renamed the County Health Facilities Financing Assistance Fund (CHFFAF) by Ch 1449/85 (AB 1140).

OVERVIEW OF THE BUDGET REQUEST

The budget does not include any funds for the bonding program or for support of the authority because it is a trust activity involving no state revenues or expenditures.

The budget shows that \$31.1 million is currently available in the CHFFAF. These funds were derived from three sources in approximately equal amounts: the Special Account for Capital Outlay (SAFCO), unspent county health services (AB 8) funds, and the settlement funds received by the state pursuant to Section 8(g) of the Outer Continental Shelf Lands Act. Although the bulk of the \$31 million has been in the account since the fall of 1985, the money has not been used due to a variety of questions related to the use and availability of the funds. Most of these questions were resolved by legislation that has been in effect since January 1, 1987.

The budget assumes that \$10.1 million of the \$31.1 million currently available in the CHFFAF will be spent in the current year. The Budget Bill includes language to transfer the remaining \$21 million in the

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY—Continued

CHFFAF to the General Fund at the end of the current year. The Department of Finance informs us that this shift is necessary due to shortfalls in the General Fund. In effect, the budget proposes to use funds designated for county health facilities capital financing for other General Fund expenditures. Technically, the authority could allocate these funds prior to June 30, 1986, and the General Fund transfer could not take place.

ANALYSIS AND RECOMMENDATIONS

We recommend that prior to budget hearings, the authority provide the Legislature with specified information regarding the availability of county capital financing funds.

The authority has two funding sources to assist counties with capital financing: revenue bonds issued by the authority and the County Health Facilities Financing Assistance Fund (CHFFAF).

County and Public Hospital Revenue Bonds

In August 1986, the authority issued \$650 million in revenue bonds specifically for counties and district hospitals. Revenue bonds are backed by the county's or district's credit, and must be paid back with interest. Counties could issue revenue bonds themselves, but the authority's funds are more advantageous to counties for two reasons. First, counties may arbitrage, or earn interest on the money they borrow that will offset their debt. The new federal tax law prohibits counties from doing this on any new bonds they might issue. Second, the costs of issuing the bonds, which are generally about 10 percent of the total issue, are shared among the counties.

Counties and hospital districts may apply for these funds as follows:

- **\$250 million for short-term (14-month) loans for working capital.** This program requires a minimum loan amount of \$300,000. These funds are available to both counties and hospital districts.
- **\$200 million for 3- to 25-year capital improvement projects.** This program requires a \$500,000 minimum loan amount at a variable interest rate. These funds are available to counties only.
- **\$200 million for 3- to 25-year capital improvement projects.** This program requires a \$500,000 minimum loan amount at a variable, converting to a fixed interest rate. These funds are available to counties only.

Prior to selling the bonds, the authority secured commitments from counties to apply for approximately \$200 million.

County Applications for Bond Funds are Significantly Lower Than Expected. These funding sources were authorized based on a belief that counties had significant unmet capital financing needs. In fact, in the fall of 1984, our office, in conjunction with the California Association of Public Hospitals (CAPH), surveyed counties to determine their capital needs. The CAPH estimated, based on the responses to the survey, that counties have approximately \$1.3 to \$1.5 billion in capital needs, mostly for replacement, renovation, or equipment needed for inpatient facilities. These projects ranged in size from \$5,000 to \$370 million.

Despite the need surveyed and the commitments obtained by the authority, only one county had actually applied for bond funds as of January 1987. Moreover, the authority informs us that this application may be difficult to approve because it is a multi-project application. Apparently,

the banks that are reviewing the loan application have no experience with these types of applications and must go through a long process to approve each project included in the application. The disposition of this application will be important, because many counties have a number of smaller projects, and the authority is likely to receive a number of similar applications.

Due to tax laws governing arbitrage, or earned interest on the bonds, the authority may have to make these bonds available to private nonprofit facilities if it is unable to sell the bonds to counties or public facilities.

There are several explanations why there has not been a more enthusiastic response from the counties so far. It may take county boards of supervisors a long time to decide whether or not to enter into a large construction project compared to deciding whether or not to contract out its management or sell the hospital altogether. Even if the board agrees to a capital improvement project, it may be unwilling to commit to repaying the bond funding if it does not believe the revenue sources to public hospitals or other health facilities are secure. Currently, about 75 percent of the revenue to public hospitals comes from Medi-Cal, the Medically Indigent Services program, and AB 8 funds. Finally, smaller counties may not be able to meet the \$500,000 minimum loan amount.

County Health Facilities Financing Assistance Fund (CHFFAF)

Current law provides that CHFFAF monies may be used for the following purposes:

- To pay no more than 50 percent of the debt service on loans or revenue bonds for county health facilities.
- To pay for insurance, letters of credit, lines of credit, or otherwise enhance a county's credit in order to secure payment on the debt service of a loan or revenue bond.
- To pay the expenses incurred by counties or the authority in connection with issuing, carrying, or repaying the revenue bonds or financing, acquiring, or constructing facilities.
- To provide any other financial assistance or support for county health facilities, including paying any outstanding debt.

The budget indicates that, as of January 1987, the balance in the CHFFAF was \$31.1 million. The authority has not yet decided how it will distribute funds in the CHFFAF, although the budget assumes that the authority will distribute \$10.1 million before June 30, 1987. The remaining funds are proposed for transfer to the General Fund.

Counties May Not be Able to Use CHFFAF Funds as Intended.

The CHFFAF was set up to assist counties in obtaining or paying debt service on loans and revenue bonds. The CHFFAF funds—\$10.1 million if the budget proposal is adopted and \$31.1 million if it is not—would not go very far in assisting counties to pay debt service on loans or revenue bonds, because the amount available is only a small percent of the total amount of revenue bonds available to counties. (The full \$31.1 million is 8 percent of the total revenue bonds available to counties; \$10.1 million is 2 percent.) The funds could be used instead to purchase letters of credit, or loan repayment guarantees, which cost about one-half of 1 percent of the bond amount. However, guaranteeing the loans in this way does not ameliorate the basic problems with revenue bonds that are described above. The authority may conclude that these funds should be distributed as direct grants. While this option would provide capital financing assistance, it would not meet the goal of helping counties access bond funds.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY—Continued

In any case, because only one county had applied for bond funding as of January 1987, it seems unlikely that even \$10.1 million will be depleted in the current year.

Because it is uncertain whether counties will be able to effectively utilize the funds available through the authority for their capital needs as intended by the Legislature, we recommend that prior to budget hearings, the authority provide the Legislature with the following information:

- How it intends to utilize CHFFAF funds and its schedule for distributing them.
- How the reduction of \$21 million would affect its plans for utilizing the funds.
- The amount of revenue bonds it projects will be distributed to counties, by time period.
- Whether the authority expects to release the bonds to private non-profit facilities.
- Whether counties are having difficulties applying for bond funding and for what reasons.

CALIFORNIA TASK FORCE TO PROMOTE SELF-ESTEEM AND PERSONAL AND SOCIAL RESPONSIBILITY

Item 0994 from the General
Fund

Budget p. LJE 113

Requested 1987-88	\$244,000
Estimated 1986-87	123,000
Actual 1985-86	None
Requested increase (excluding amount for salary increases) \$121,000 (+98 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
0994-001-001—Support	General	\$122,000
Ch 1065/86	General	122,000
Total		\$244,000

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Chapter 1065, Statutes of 1986 (AB 3659), established the California Task Force to Promote Self-Esteem and Personal and Social Responsibility. The task force consists of 25 members and is directed to study and make findings concerning the relationships between healthy self-esteem, personal responsibility, and social problems. The task force is mandated to submit progress reports to the Legislature on January 15, 1988 and 1989 and a final report on or before January 15, 1990. The task force sunsets on July 1, 1990.

The budget proposes expenditures of \$244,000 for support of task force

activities in 1987-88. This amount is an increase of \$121,000, or 98 percent, above estimated current-year expenditures. The increase reflects full-year operations of the task force. The \$244,000 consists of a General Fund appropriation of \$122,000 in 1987-88 and the carry-over of \$122,000 unexpended in 1986-87.

Our analysis indicates that the budget request is consistent with chaptered legislation; and, accordingly, we recommend its approval.

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

Item 1100 from the General
Fund

Budget p. SCS 1

Requested 1987-88	\$8,373,000
Estimated 1986-87	8,324,000
Actual 1985-86	8,653,000
Requested increase (excluding amount for salary increases) \$49,000 (+0.6 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,354,000
Reimbursements	—	19,000
Total		\$8,373,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|---|-----|
| 1. Parking Operations. Recommend that the museum report at budget hearings on plans to build parking facilities in Exposition Park. | 103 |
| 2. Museum Contracts. Recommend adoption of Budget Bill language requiring notification of the Legislature prior to approval of certain museum agreements. | 104 |

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry (MSI) is an educational, civic, and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors appointed by the Governor.

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

Associated with the Museum of Science and Industry is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, enter-