Business, Transportation and Housing Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General Fund — Budget p. BTH 1

Requested 1987–88	$18,680,000
Estimated 1986–87	18,413,000
Actual 1985–86	17,672,000
Requested increase (excluding amount for salary increases) $267,000 (+1.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, has the exclusive power, in accordance with laws enacted by the Legislature, to license the manufacture, importation, and sale of alcoholic beverages in California, and to collect license fees. The department is given discretionary power to deny, suspend, or revoke licenses for good cause.

It maintains 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department is authorized 351.3 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a total spending plan of $18,680,000 for support of the Department of Alcoholic Beverage Control in the budget year. This amount includes an appropriation of $18,089,000 from the General Fund and $591,000 in reimbursements. The total amount provided for support of the ABC is $267,000, or 1.5 percent, above estimated current-year expenditures.

The proposed increase of $267,000 reflects:

- $124,000 in overtime funds to reduce the department's compliance investigations backlog,
- $104,000 to establish an additional attorney position to meet increasing legal workload, and a programmer analyst position to address increasing data processing needs,
- $272,000 to provide for various operating expense adjustments,
- A reduction of $50,000 in equipment to adjust for one-time expenditures in the current year, and
- A reduction of $183,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment.

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

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 1
Department of Alcoholic Beverage Control
Program Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change
	Actual 1985–86	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*From 1986–87*
Licensing	203.3	205.1	205.4	$11,376	$11,853	$12,065	1.8%
Compliance	102.5	103.4	104.0	6,296	6,560	6,798	3.6
Administration (distributed)	42.4	42.8	42.8	(2,130)	(2,323)	(2,390)	2.9
Special Adjustment	–	–	–	–	–	–183	NMF[a]
Totals	348.2	351.3	352.2	$17,672	$18,413	$18,680	1.5%

[a] Not a meaningful figure.

General Fund Revenues Projected to Increase

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

Table 2 provides a summary of actual, estimated, and proposed revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of $31,338,000 in 1987–88. This is an increase of $293,000, or about 1 percent, over estimated current year revenues. The increase is largely attributable to the projected growth in the number of active licenses.

Table 2
Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
1985–86 through 1987–88
(dollars in thousands)

	Actual 1985–86	*Est. 1986–87*	*Prop. 1987–88*
Out-of-state beer certificates	$11	$11	$11
Original license fees	2,947	3,000	3,050
Transfer fees	4,200	4,200	4,200
Special fees	335	335	335
Service charges	205	230	230
Annual fees and offers in compromise	19,987	20,153	20,277
Ten percent surcharge on annual fees	1,702	1,717	1,728
Caterer's authorization, permits, and manager's certificates	369	400	400
Surcharge on annual fees for administrative hearings	678	684	792
Modification of conditions	30	15	15
Prior year adjustments	33	—	—
Penalty assessments	269	300	300
Miscellaneous income	5	—	—
Sale of documents	1	—	—
Totals	$30,772	$31,045	$31,338

Business, Transportation and Housing Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic Beverage Control Appeals Fund — Budget p. BTH 4

Requested 1987–88	$397,000
Estimated 1986–87	384,000
Actual 1985–86	373,000
Requested increase (excluding amount for salary increases) $13,000 (+3.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $397,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1987–88. This amount is $13,000, or 3.4 percent, more than estimated current-year expenditures for support of the board. The proposed increase results from a request to establish a half-time clerical position in the budget year. Our analysis indicates that this request, and the board's overall expenditure plan are reasonable.

STATE BANKING DEPARTMENT

Item 2140 from the State Banking Fund — Budget p. BTH 5

Requested 1987–88	$10,117,000
Estimated 1986–87	11,271,000
Actual 1985–86	8,906,000
Requested decrease (excluding amount for salary increases) $1,154,000 (−10.2 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2140-001-136—Support	State Banking	$9,781,000
2140-001-240—Administration of local agency security	Local Agency Deposit Security	236,000
Reimbursements		100,000
Total		$10,117,000
2140-490—Reappropriation of unexpended balance for office automation system		

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Examiner Turnover.*** Recommend adoption of Budget Bill and supplemental report language requiring specified administrative actions by the State Banking Department and the Department of Personnel Administration to alleviate the turnover problem among state banking examiners. 206
2. ***Regional Banking Act.*** Recommend the State Banking Department inform the Legislature regarding the potential impact of this act on the department's workload. 209
3. ***Reappropriation of Office Automation Funds.*** Recommend adoption of Budget Bill language to ensure compliance with legislative intent. 210

GENERAL PROGRAM STATEMENT

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

As of September 30, 1986 the department had regulatory responsibilities over 287 state chartered banks (with combined assets of $92 billion) and 102 subsidiaries of foreign banking corporations (with combined assets of $54 billion) doing business in California.

In addition, the department is responsible for (1) regulating companies which sell money orders for domestic or international use; (2) licensing and regulating Business and Industrial Development Corporations (BIDCOs); and (3) certifying securities as legal investments for the state, municipalities and other public agencies in California.

The programs of the department are supported by revenues from (1) annual assessments of institutions licensed by the department, (2) various license and application fees, and (3) other charges.

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

The department is headquartered in San Francisco, with branch offices in Los Angeles, Sacramento and San Diego. In the current year, it is authorized 179 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $9,781,000 from the State Banking Fund and $236,000 from the Local Agency Deposit Security Fund for support of the State Banking Department in 1987–88. In addition, the department anticipates reimbursements of $100,000 during the budget year, resulting from fees charged for examining trust companies, and conducting special examinations of banks. Including reimbursements, the budget proposes total expenditures of $10,117,000 in 1987–88, which is $1,154,000, or 10.2 percent, below estimated expenditures from these sources in the current year.

Table 1 shows expenditures and personnel-years for the department's programs in the past, current, and budget years. Table 2 summarizes the budget changes proposed by the department for 1987–88.

Table 1
State Banking Department
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Licensing and supervision of banks and trust companies	161.4	168.7	169.6	$8,620	$10,857	$9,616	−11.4%
Payment instruments	3.8	4.3	4.3	172	203	213	4.9
Certification of securities	0.2	0.2	0.2	8	9	10	11.1
Supervision of California Business and Industrial Development Corporations	0.9	1.1	1.1	37	40	42	5.0
Administration of local agency security	2.4	4.7	6.5	69	162	236	45.7
Departmental administration	(35.3)	(37.5)	(38.4)	(1,864)	(3,172)	(1,962)	−38.1
Totals	168.7	179.0	181.7	$8,906	$11,271	$10,117	−10.2%
Funding Sources							
State Banking Fund				*$8,637*	*$11,009*	*$9,781*	*−11.1%*
Local Agency Deposit Security Fund				*69*	*162*	*236*	*45.7*
Reimbursements				*200*	*100*	*100*	—

STATE BANKING DEPARTMENT—Continued

Table 2
State Banking Department
Proposed 1987–88 Budget Changes
(dollars in thousands)

	State Banking Fund	*Local Agency Deposit Security Fund*	*Reimbursements*	*All Funds*
1986–87 Expenditures (Revised)	$11,009	$162	$100	$11,271
Baseline Adjustments				
Underbudgeted staff benefits	113	—	—	113
One-time funding of office automation system	−1,434	—	—	−1,434
Decreased pro rata charges	−31	—	—	−31
San Francisco office relocation	82	—	—	82
Subtotal, Baseline Adjustments	(−$1,270)	—	—	(−$1,270)
Program Change Proposals				
Additional office automation staff	42	—	—	42
Full-year funding of expanded Local Agency Security Program	—	74	—	74
Subtotal, Program Change Proposals	(42)	(74)	—	(116)
1987–88 Expenditures (Proposed)	$9,781	$236	$100	$10,117
Change from 1986–87				
Amount	−$1,228	74	—	−$1,154
Percent	−11%	46%	—	−10%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this budget request, including the following significant budget changes which are not discussed elsewhere in this analysis.

- Baseline adjustments for one-time (1986–87) funding of the department's office automation system (−$1,434,000) and underbudgeted staff benefits ($113,000);
- Funding of the relocation and expansion of the department's San Francisco office ($82,000); and
- Full-year funding of the expanded Local Agency Security Program ($82,000).

Financial Examiner Turnover Problem

We recommend that the Legislature adopt Budget Bill and supplemental report language in Item 2140-001-136 requiring the State Banking Department, in cooperation with the Department of Personnel Administration, to take specified administrative actions in order to alleviate the turnover problem among state banking examiners.

Importance of Financial Examiners. Frequent and thorough financial examinations of banks, savings and loan associations, credit unions, loan and mortgage companies, security dealers and insurance companies by competent federal and state examiners are of critical importance to instilling public confidence in California's financial services institutions. Effective financial examinations are also important in protecting the depositors and investors from fraud and unscrupulous practices.

Problems Created by Deregulation. Prior to 1980, the banks, thrift institutions, credit unions, mortgage brokers, insurance companies and securities dealers performed traditional financial services and their regulators had no serious difficulties in protecting the consumers by monitoring the legality and adequacy of these services.

Beginning in 1980, however, federal and state deregulation revolutionized the financial services industry by allowing institutions to become financial supermarkets, offering a myriad of nontraditional financial products and services at competitive rates. Deregulation placed a greater, rather than lesser, demand on financial examiners to protect consumers from economic losses and to maintain stability in the financial marketplace.

Increased competition to attract customers and deposits often resulted in unconventional—and more risky—investments and unique, sometimes questionable, management practices which led to serious problems for many financial institutions and their regulators. As a result, several banks, savings and loan associations and loan companies have failed in California in recent years. In October 1986, the chairman of the Federal Deposit Insurance Corporation (FDIC) acknowledged that more than 10 percent of the nation's 14,378 banks—including the largest in California—were on the FDIC's "problem list" and predicted that about 180 of them would fail in 1987. In August 1986, the state Department of Savings and Loan reported that, of the 154 institutions examined under its "early warning system," 42 (27 percent) of them fell in the "worst case" (Rating 5) category.

In recent years the Legislature, recognizing the impact of deregulation on the workload of the state financial examiners, has increased the number of examiners in the various state regulatory departments. This action, however, did not fully solve the workload problem for two reasons. First, new examiners have to go through up to three years of training before they become skilled and effective. Second, many of the younger examiners—once trained and experienced—are leaving the state regulatory departments for employment elsewhere.

Nature of the Examiner Turnover Problem. During the last three years, state financial regulatory agencies, especially the Departments of Banking and Savings and Loan, have been experiencing unusually high turnover among their examiners, particularly those with two to six years of experience.

Given the important consumer-protection role of examiners, we reviewed the reasons why these employees were leaving. Our analysis indicates that the turnover problem may be attributed to two major causes: (1) better salary and benefit offers by private and other public employers, and (2) state civil service promotional restrictions and salary limitations within the affected regulatory departments.

Information from the affected regulatory departments indicates that they lose examiners to the private sector and federal agencies because of higher salaries and benefits offered by these employers. They also lose examiners to other state departments which have promotional opportunities for examiners not available in the state regulatory departments.

Competition from the Federal Home Loan Bank. The majority of the examiners who left the Departments of Banking and Savings and Loan during the last two years were hired by the Federal Home Loan Bank (FHLB). In order to increase the quality and frequency of its examinations, FHLB decided to double (from 750 to 1,500) its examiner staff during the two-year period starting in 1985. To accomplish this goal, the FHLB placed its examiners outside the federal civil service system, offering significantly higher salaries (as much as $10,000 more per year), better retirement benefits and more lucrative travel pay than those available from the state regulatory agencies. In addition, FHLB has been offering

STATE BANKING DEPARTMENT—Continued

a $600 "finder's fee" to its employees who recruit an experienced examiner. As a result, the bank has been very successful in attracting the "cream of the crop" among the experienced state examiners.

Cost of the Examiner Turnover. It takes regulatory agencies up to three years to train examiners to a point of self-sufficiency. Training costs range from an estimated $50,000 (over two years) for the Department of Corporations to about $100,000 (over three years) for the State Banking Department. These costs include (1) salary and benefits for the new examiners while training, (2) the portion of the in-house instructors' compensation attributed to their time spent training new examiners, (3) the cost of the formal training programs, and (4) related travel expenses.

Extent of the Turnover Problem in the State Banking Department. Since 1984, 41 examiners have left the State Banking Department for employment elsewhere. Of these departures, 21 (51 percent) occurred during 1986, representing nearly 17 percent of the currently authorized 124 examiner positions in the department. Although the department actively recruited new examiners throughout the year, 12 examiner positions remained vacant at the end of 1986. According to the department, the majority of the departed employees were in the examiner II category with three to six years of experience.

The department acknowledges that it does not currently have a sufficient number of higher level examiner positions (examiner IIIs and IVs) into which it might promote all qualified employees currently in the examiner I and II positions. As an alternative to promotion, the department has tried to provide reclassifications and multi-step salary increases in order to keep its outstanding examiners. This attempt, however, has been thwarted by delays in the current civil service process which require Department of Personnel Administration (DPA) approval for most of these personnel actions. As a results, many trained examiners become impatient and leave the department for one of the federal regulatory agencies or private accounting firms which offer superior compensation packages and are anxious to hire these trained state employees. Assuming that they are replaced with entry level employees, it takes the department, as noted earlier, three years and about $100,000 to replace a trained examiner.

Recommendations to Ease the Turnover Problem. Clearly, it is in the state's best interest to retain its trained and experienced examiners. Our analysis indicates that the examiner retention problem may be slowed, administratively—without augmenting the 1987–88 budget—by requiring the State Banking Department and the Department of Personnel Administration (DPA) to take certain sequential steps. To accomplish this task, we recommend that the Legislature adopt the following Budget Bill language and supplemental report language under Item 2140-001-136.

This language would essentially require both departments, working in coordination, to:

(1) Establish "deep class" authority for the State Banking Department to promote outstanding examiners more quickly, without prior approval by the DPA—which currently may take more than a year to secure;

(2) Grant Modified Classification Review I (MCR-I) authority for the State Banking Department to reclassify and fill vacant positions without prior DPA approval;

(3) Require both departments to conduct a salary and benefits survey in order to determine how salary and benefits currently provided by the state for the various classes of financial examiners compare with salary and

benefits provided by other federal and state agencies in comparable geographic areas. (The DPA conducts such surveys from time to time for various civil service positions, as part of its general personnel management responsibility to ensure that the state remains competitive for hiring quality employees); and

(4) Require both departments to report to the Legislature the results of the salary and benefits survey and their joint recommendations as to what additional administrative and legislative steps are necessary to ensure that the state is competitive and successful in recruiting and retaining experienced financial examiners.

Budget Bill Language (Item 2140-001-136)

"No personal services funds scheduled under this item shall be expended after November 1, 1987 unless the Department of Personnel Administration (DPA) authorizes, and the State Banking Department initiates, the following sequential administrative steps to alleviate the turnover problem among state banking examiners.

1. Establish "deep class" authority for the examiner I through examiner IV classifications; and
2. Grant Modified Classification Review I (MCR I) authority for examiner I through examiner IV classifications."

Supplemental Report Language

"Compensation Survey for Examiners. The Department of Personnel Administration, with assistance from the State Banking Department, shall (1) conduct a salary and benefits survey comparing the total compensation (that is, salary and benefits) provided to state regulatory examiners with the total compensation provided to examiners by similar federal and other state financial regulatory agencies in comparable geographic and cost-of-living areas; and (2) report—by November 1, 1987—to the Legislature its survey findings and recommendations to ensure that the state is competitive in recruiting and retaining qualified financial examiners."

Impact of the Regional Banking Act on the Department

We recommend that, prior to the budget hearings, the State Banking Department report to the Legislature regarding the anticipated effect of the Regional Banking Act on the workload of the department during 1987–88.

Effective July 1, 1987, Chapter 1250, Statutes of 1986 (SB 2300), authorizes a bank holding company or a savings company—whose operations are principally conducted in one of the 11 specified western states—to do business in California under specified terms. The authorization is contingent upon the home state of such a non-California bank holding company or savings company extending "substantial reciprocity" (as defined) to California bank holding companies or saving companies to do business in that state.

As of January 1, 1987, regulatory representatives of the affected states held one meeting regarding the implementation of Chapter 1250 and similar laws enacted by the other western states. According to the department's representative at this meeting, sufficient information was not available regarding the number of reciprocal authorizations among the affected states, or the number of companies planning to use such authorizations, to get an indication about the potential administrative and regulatory workload for the department. By the time of the budget hearings,

STATE BANKING DEPARTMENT—Continued

however, the department should be in a better position to address this issue. Therefore, we recommend that the department furnish such information, including the effect of any Chapter 1250-related workload on the department's proposed budget, to the Legislature prior to the budget hearings.

Budget Controls Should be Retained on Office Automation Project

We recommend that the Legislature amend Item 2140-490 to include language previously approved by the Legislature to ensure compliance with legislative intent relative to the procurement of office automation equipment.

The 1986 Budget Act provided a one-time appropriation of $1,434,000 from the State Banking Fund to implement an office automation system. The new system was to improve the quality and timing of bank examinations by making the examination and reporting functions of the department more efficient. To ensure the orderly planning and completion of this system, the Legislature approved language in the 1986 Budget Act to (1) provide a maximum amount of $519,700 for a pilot project and (2) release the remaining $914,300 to implement the main system only upon the successful completion of the system's pilot project and approval—by the Office of Information Technology (OIT)—of a pilot evaluation report to be submitted by the department.

Due to unanticipated delays in procuring the equipment, the pilot project will not start until March 1987 and will not be completed until September 1987. Assuming a favorable evaluation by the OIT, full implementation of the system will probably take place during the September–December 1987 period. The 1987–88 Budget Bill, as introduced, contains a reappropriation item (Item 2140-490), to carry forward the unencumbered balance from the one-time 1986–87 appropriation in order to finance the full implementation of the system in 1987–88.

The item, however, does not include the language approved in Item 2140-001-136 of the 1986 Budget Act, making the availability of the funds contingent upon (1) successful completion of the pilot test, and (2) OIT's approval of the department's pilot evaluation report. In order to ensure compliance with legislative intent concerning implementation of the department's office automation system, we recommend that the Legislature readopt the following Budget Bill language in Item 2140-490:

"Of the $1,434,000 appropriated in this item for the implementation of an office automation project, no more than $519,700 may be encumbered until the Office of Information Technology approves a pilot evaluation report submitted by the department which: (a) substantiates the costs and benefits of the proposed system as set forth in the department's feasibility study report; and (b) verifies that the project can be fully implemented within the amount appropriated for the project."

DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 10

Requested 1987–88	$18,478,000
Estimated 1986–87	18,220,000
Actual 1985–86	17,389,000
Requested increase (excluding amount for salary increases) $258,000 (+1.4 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2180-001-001—Support	General	$8,862,000
Reimbursements		9,616,000
Total		$18,478,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Examiner Turnover. Recommend adoption of Budget Bill and supplemental report language requiring specified administrative actions to alleviate the turnover problem among examiners. 213

GENERAL PROGRAM STATEMENT

The Department of Corporations is responsible for protecting the public from unfair business practices and the fraudulent or improper sale of financial products and services. The department fulfills this responsibility through three major programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans. The cost of administering the department is prorated among these programs.

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

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

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

The cost of the Investment program is financed by the General Fund. The costs of the other two programs are fully reimbursed from assessments of the entities regulated by these programs.

In the current year, the department is authorized 339.8 personnel-years.

DEPARTMENT OF CORPORATIONS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $8,862,000 from the General Fund for support of the department in 1987–88. This is an increase of $34,000, or 0.4 percent, over the estimated General Fund expenditures in the current year.

In addition, the department expects to receive reimbursements totaling $9,616,000 from fees charged for examining the financial records of licensees. This amount is $224,000 (2.4 percent) above the level of reimbursements expected in the current year. The budget has been reduced by $90,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment. Thus, the budget proposes total expenditures of $18,478,000 in 1987–88, which is $258,000, or 1.4 percent, above estimated total expenditures in the current year.

The department estimates that its programs will generate revenues of $12,277,000 from licenses and fees for the General Fund in 1987–88. This amount is $1,175,000, or 11 percent, more than the General Fund revenues anticipated during the current year. These revenues represent a net General Fund gain of $3,415,000 after deducting the department's requested budget-year expenditure of $8,862,000.

Table 1 shows the personnel and budget requirements of the department for the past, current and budget years. Table 2 summarizes the significant changes proposed for 1987–88.

Table 1
Department of Corporations
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Investment	160.9	160.9	162.8	$8,803	$8,760	$8,896	1.5%
Lender-Fiduciary	125.0	126.7	126.7	6,375	7,244	7,410	2.3
Health Care Service Plan	37.2	35.1	35.1	2,211	2,216	2,262	2.1
Administration	17.4	17.1	17.1	(903)	(941)	(950)	1.0
Totals	340.5	339.8	341.7	$17,389	$18,220	$18,568	1.9%
Funding Sources							
General Fund				*$8,412*	*$8,828*	*$8,952* [a]	*1.4%*
Reimbursements				*8,977*	*9,392*	*9,616*	*2.4*

[a] Further reduced by a special adjustment of $90,000, or approximately 1 percent of the department's General Fund support.

Table 2
Department of Corporations
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements*	*All Funds*
1986–87 Expenditures (Revised)	$8,828	$9,392	$18,220
Baseline Adjustments:			
1 percent special adjustment	−90		−90
Correct underbudgeted in-state travel for examiners and investigators	60	66	126
Workload Change:			
Increased regulatory workload in the Lender-Fiduciary program		158	158
Program Changes:			
Additional technical staff for investment program	42		42
Reclassified investigator positions	22		22
1987–88 Expenditures (Proposed)	$8,862	$9,616	$18,478
Change from 1986–87			
Amount	$34	$224	$258
Percent	0.4%	2.4%	1.4%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this budget, including the following changes which are not discussed elsewhere in this Analysis:

- $126,000 ($60,000 from the General Fund and $66,000 from reimbursements) to correct underbudgeting of in-state travel for examiners and investigators;
- $158,000 (from reimbursements) for increased regulatory activities in the Lender-Fiduciary program; and
- $64,000 (General Fund) for two program changes: (1) two new program technician positions in the Enforcement and Securities Regulation elements of the Investment program to handle increased volume in routine data entry workload ($42,000) and (2) upgrade of certain investigator positions ($22,000).

The Examiner Turnover Problem

We recommend that the Legislature adopt Budget Bill and supplemental report language in Item 2180-001-001 requiring the Department of Corporations, in cooperation with the Department of Personnel Administration, to take specified administrative actions in order to alleviate the turnover problem among Department of Corporations examiners.

Extent of the Turnover Problem. In our analysis of the State Banking Department's budget (Please see page 207 of the *Analysis*), we: (1) discuss how deregulation of the financial services industry has increased the importance of financial examiners as consumer and regulatory "watchdogs," (2) point out recent turnover problems among the examiners working for the state financial regulatory departments, and (3) identify the two major causes of the turnover problem as: (a) higher salary and benefit offers from other employers and (b) state civil service promotional restrictions.

DEPARTMENT OF CORPORATIONS—Continued

The examiner turnover problem in the Department of Corporations is of similar proportions. For example, in the last three years, 34 examiners (or about 25 percent of the total examiner staff) have left the department for other jobs. The majority of them went to work in the private sector, but about one-third of them transferred to other state agencies.

As a result of active recruitment efforts during 1986, the department filled all but seven of its authorized examiner positions (a vacancy rate of 5 percent) by the end of 1986.

Reasons for the Turnover. The Department of Corporations cannot effectively compete with recruitment incentives of the private sector and other public employers for several reasons. First, it does not have enough higher-level positions to provide timely promotional opportunities for its outstanding examiners. Second, the salary steps established for the entry and intermediate level examiner positions may not be competitive with salaries paid for comparable positions by other public and private employers. Finally, promotions and salary increases for outstanding examiners are often delayed by civil service regulations which require Department of Personnel Administration (DPA) approval of most of these personnel changes. As a result, many of the experienced, better qualified examiners become impatient, frustrated and leave the department for more promising and better paying jobs.

Clearly, it is in the state's best interest to retain its experienced examiners. To replace these employees, the department generally must start the training process (at an estimated cost of $50,000 per employee) all over again.

Recommendations to Ease the Turnover Problem. Our analysis indicates that the examiner turnover problem in the Department of Corporations may be slowed administratively, without augmenting the 1987–88 budget. This could be done by requiring the Department of Corporations and the Department of Personnel Administration (DPA) to take certain administrative actions which would permit the Department of Corporations (DOC) to be more successful in retaining experienced examiners.

In order to accomplish this task, we recommend that the Legislature adopt the following Budget Bill language and supplemental report language under Item 2180-001-001, requiring both departments to take the following sequential actions:

1. Establish "deep class" authority for the DOC to promote outstanding examiners more quickly without prior DPA approval;
2. Grant modified Classification Review I (MCR I) authority for the DOC to reclassify and fill vacant examiner positions without prior DPA approval;
3. Require the DPA—with assistance from the Department of Corporations—to conduct a salary and benefits survey in order to determine how salary and benefits currently provided by the state for examiners compare with salary and benefits offered by other federal and state agencies in comparable geographic areas. (The DPA conducts such surveys from time to time for various civil service positions, as part of its general personnel management responsibility to ensure that the state remains competitive for hiring quality employees); and
4. Require the DPA to report to the Legislature the results of the salary and benefits survey and recommend actions which should be taken to ensure that the state is competitive and successful in recruiting and retaining experienced examiners.

Budget Bill Language (Item 2180-001-001)

"No personal services funds scheduled under this item shall be expended after November 1, 1987 unless the Department of Personnel Administration (DPA) authorizes, and the Department of Corporations initiates, the following sequential administrative steps to alleviate the turnover problem among its examiners:"

"1. Establish "deep class" authority for the auditor I (the entry-level class for examiners in the Department of Corporations) through examiner IV classifications; and

2. Grant Modified Classification Review I (MCR I) authority for auditor I through examiner IV classifications."

Supplemental Report Language

"Compensation Survey for Examiners. The Department of Personnel Administration, with assistance from the Department of Corporations, shall (1) conduct a salary and benefits survey comparing the total compensation (that is, salary and benefits) provided to state regulatory examiners with the total compensation provided to such employees by similar federal and other state financial regulatory agencies in comparable geographic and cost-of-living areas; and (2) report—by November 1, 1987—to the Legislature findings of the survey and recommendations to ensure that the department is competitive in recruiting and retaining qualified examiners."

DEPARTMENT OF COMMERCE

Item 2200 from the General Fund and various funds — Budget p. BTH 17

Requested 1987–88	$41,295,000
Estimated 1986–87	33,728,000
Actual 1985–86	18,628,000
Requested increase (excluding amount for salary increases) $7,567,000 (+22.4 percent)	
Total recommended reduction	140,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2200-001-001—Support (includes transfers to other funds)	General	$15,075,000
2200-001-535—Support	Main Street Program	(252,000)
2200-001-890—Support	Federal Trust Fund	(85,000)
2200-001-918—Transfer to General Fund	Small Business Expansion	(192,000)
2200-001-922—Transfer to General Fund	Economic Development Grant and Loan	(794,000)
2200-101-036—Transfer to Rural Economic Development Fund	Special Account for Capital Outlay	23,000,000
2200-101-123—Local assistance	Rural Economic Development Fund	(30,000,000)
2200-101-890—Transfer to Rural Economic Development Fund	Federal Trust Fund	(7,000,000)

DEPARTMENT OF COMMERCE—Continued

2200-101-922—Local assistance	Economic Development Grant and Loan	3,200,000
2200-495—Reversion	Main Street Program	(19,000)
2200-495—Reversion	Small Business Development Center	(102,000)
Reimbursements	—	20
Totals		$41,295,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

Analysis page

1. ***Technical Budgeting Issue. Reduce Item 2200-001-001 by $140,000.*** Recommend reduction to correct for underbudgeted salary savings. 219

GENERAL PROGRAM STATEMENT

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

1. Coordinating federal, state, and local economic development policies and programs;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies to implement state economic development plans;
4. Advising the Governor regarding his annual Economic Report;
5. Providing information and statistics on the state's economy, products, tourism, and international trade; and
6. Promoting of filmmaking in California.

The department is headed by a director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross section of the state's economy. The department is authorized 100.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures of $41,295,000 are proposed for support of the department in 1987–88. This is an increase of $7,567,000, or 22.4 percent, above estimated current year expenditures. The budget proposes an appropriation of $15,075,000 from the General Fund in 1987–88. This is $3,601,000, or 16.4 percent, less than estimated General Fund expenditures for the current year. The decrease primarily reflects the elimination of state support for regional development corporations.

During 1987–88, the department also expects to receive $23 million from the Special Account for Capital Outlay to fund the rural economic development program established by Ch 1147/86, $3.2 million from the California Economic Grant and Loan Fund for continued support of the department's Office of Local Development, and $20,000 in reimbursements. The budget has been reduced by $149,000, which is approximately 1 percent of the General Fund support, as a Special Adjustment.

The department's *total* expenditure plan, including federal funds, is $48,380,000. This amount is $14,048,000, or 41 percent, above estimated current year expenditures. The increase primarily reflects the implementation of the rural economic development program established by Ch 1147/86. The department's expenditures for the past, current, and budget years are summarized, by program, in Table 1. 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
Department of Commerce
Summary of Budget Requirements
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Business Development	20.5	20.0	19.0	$3,194	$3,090	$3,242	4.9%
California Film Office	5.0	5.7	6.6	443	457	616	34.8
Marketing and Communications	—	4.8	5.7	—	341	414	21.4
Tourism	10.3	9.5	9.5	6,692	7,841	7,841	—
Local Development	10.2	18.2	13.2	2,546	13,643	34,346	151.8
Small Business	12.2	11.4	11.4	5,130	7,964	1,074	−86.5
Economic Research	10.3	11.0	11.9	1,094	996	996	—
Administration (distributed)	20.7	20.0	21.8	(1,159)	(1,281)	(1,400)	9.3
Totals	89.2	100.6	99.1	$19,099	$34,332	$48,529	41.4%
Special Adjustment				—	—	−149	NMF[a]
Adjusted Totals				$19,099	$34,332	$48,380	40.9%
Funding Sources							
General Fund				*$17,155*	*$18,676*	*$15,075*	*−19.3%*
Main Street Program Fund				*−19*	—	—	—
Small Business Development Center Fund				*−99*	—	—	—
Federal Trust Fund				*471*	*604*	*7,085*	*1,073.0*
Rural Economic Development Fund				—	*7,950*	*23,000*	*189.3*
Petroleum Violations Escrow Account				—	*3,000*	—	*−100.0*
Economic Development Grant and Loan Fund				*1,119*	*3,200*	*3,200*	—
Reimbursements				*472*	*902*	*20*	*−97.8*

[a] Not a meaningful figure.

Table 2 displays the changes in the department's expenditures by fund, for 1987–88.

DEPARTMENT OF COMMERCE—Continued

Table 2
Department of Commerce
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Rural Economic Development Fund*	*California Economic Development Grant and Loan Fund*	*Petroleum Violations Escrow Account*	*Reimbursements*	*All Funds*
1986–87 Revised	$18,676	$604	$7,950	$3,200	$3,000	$902	$34,332
Baseline Adjustments							
Employment Training Panel (ETP) Grant	—	—	—	—	—	−53	−53
Job Training (JTPA) Grants	—	—	—	—	—	−340	−340
Community Development Block Grants	—	—	—	—	—	−60	−60
JTPA Service Center Grant	—	—	—	—	—	−429	−429
Plant Closure Assistance (SSED)	—	−515	—	—	—	—	−515
Federal Planning Grant	—	−4	—	—	—	—	−4
Rural Economic Development (Ch 1147/86)	−143	—	−7,950	—	—	—	−8,093
Energy Conservation Loans (Ch 1339/86)	—	—	—	—	−3,000	—	−3,000
Program Changes							
Foreign-language Brochures	200	—	—	—	—	—	200
Rural Economic Development	94	7,000	23,000	—	—	—	30,094
Regional Corporation Administrative Support	−867	—	—	—	—	—	−867
Regional Corporation Guarantee Authority	−3,023	—	—	—	—	—	−3,023
Marketing California Film Production	130	—	—	—	—	—	130
Data Processing Maintenance and Support	157	—	—	—	—	—	157
Totals	$15,224	$7,085	$23,000	$3,200	—	$20	$48,529
Special Adjustment	−149	—	—	—	—	—	−149
Adjusted Totals	$15,075	$7,085	$23,000	$3,200	—	$20	$48,380
Change from 1986–87							
Amount	−$3,601	$6,481	$15,050	—	−$3,000	−$882	$14,048
Percent	−19.3%	NMF[a]	189.3%	—	−100.0%	−97.8%	40.9%

[a] Not a Meaningful Figure

ANALYSIS AND RECOMMENDATIONS

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

- ***Rural Economic Development ($30,094,000).*** The budget requests $94,000 in support and $30 million in local assistance to implement Ch 1147/86. Specifically, the funds would be used to provide grants and loans to eligible rural cities and counties to finance new or rehabilitate existing public facilities. The request is consistent with the 1986 legislation establishing the program.

- ***Regional Development Corporations (−$3,890,000).*** The department requests a reduction in funding because: (1) it has no plans to establish additional regional corporations; and (2) existing regional corporations have completed the four-year period after which they are to be self-supporting.
- ***California Film Office ($130,000).*** These funds would be used to add 0.9 personnel-years to handle increased workload associated with the film office's effort to develop and maintain a computerized reference library of film location sites. Furthermore, funds are included to implement a marketing campaign designed to encourage filmmakers to make films in California rather than elsewhere.
- ***Foreign Language Brochures ($200,000).*** These funds would be used to develop and print foreign-language brochures and print advertising with the objective of stimulating direct foreign investment in California.

Technical Budgeting Issues

We recommend a reduction of $140,000 to correct for underbudgeted salary savings. (Reduce Item 2200-001-001 by $140,000.)

Each state agency accrues savings during the year because of staff turnover and delays in filling new positions. Consequently, an agency does not receive funding for the full costs of its authorized positions. "Salary savings" are estimated and deducted from the appropriation to account for the difference between the cost of authorized positions and expected expenditures for salaries and wages.

The department has budgeted $238,000 in salary savings for 1987–88. This is $140,000 less in salary savings than the department estimates that it will accrue in the current year.

We reviewed the amount of salary savings that the department budgeted for 1984–85 and 1985–86 and compared these amounts to the amount of salary savings actually achieved during these same periods. Our review indicates that actual salary savings were significantly greater than the amount budgeted for this purpose. Our analysis indicates that this underbudgeting has been a trend in recent years. Specifically, the department underbudgeted salary savings by $311,000 and $346,000 in 1984–85 and 1985–86, respectively. In order to recoup funds that the department is unlikely to expend, and make these funds available for other legislative priorities, we recommend a reduction of $140,000.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various special funds Budget p. BTH 28

Requested 1987–88	$110,342,000
Estimated 1986–87	116,184,000
Actual 1985–86	109,706,000
Requested decrease (excluding amount for salary increases) $5,842,000 (−5.0 percent)	
Total recommended reduction	247,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2240-001-001—Support	General	$5,648,000
2240-001-245—Support	Mobilehome Parks Revolving	2,555,000
2240-001-451—Support	Manufactured Home License Fee Account	1,816,000
2240-001-530—Support	Mobilehome Park Purchase	227,000
2240-001-635—Support	Rural Predevelopment Loan	165,000
2240-001-648—Support	Mobilehome-Manufactured Home Revolving	11,256,000
2240-001-813—Support	Self-Help Housing	154,000
2240-001-844—Support	Farm Labor Housing Rehabilitation Loan Account	30,000
2240-001-890—Support	Federal Trust	1,181,000
2240-001-929—Support	Housing Rehabilitation Loan	502,000
2240-001-936—Support	Homeownership Assistance	207,000
2240-001-938—Support	Rental Housing Construction	538,000
2240-001-980—Support	Urban Predevelopment Loan	213,000
2240-001-985—Support	Emergency Housing Assistance	131,000
Subtotals, Support		($24,623,000)
2240-101-001—Local assistance	General	$6,900,000
2240-101-530—Local assistance	Mobilehome Park Purchase	2,704,000 [a]
2240-101-635—Local assistance	Rural Predevelopment Loan	1,635,000 [a]
2240-101-813—Local assistance	Self-Help Housing	2,149,000 [a]
2240-101-843—Local assistance	California Housing Trust	(10,000,000)
2240-101-844—Local assistance	Farm Labor Rehabilitation Loan Account	1,007,000
2240-101-890—Local assistance	Federal Trust	47,868,000
2240-101-927—Local assistance	Farmworker Housing Grant	200,000 [b]
2240-101-929—Local assistance	Housing Rehabilitation Loan	3,600,000 [a]
2240-101-936—Local assistance	Homeownership Assistance	1,800,000 [a]
2240-101-938—Local assistance	Rental Housing Construction	2,318,000 [a]

2240-101-942—Local assistance	Special Deposit—Office of Migrant Services	990,000 [a]
2240-101-942—Local assistance	Special Deposit Fund—Senior Shared Housing	500,000 [a]
2240-101-972—Local assistance	Mobilehome Recovery	500,000 [a]
2240-101-980—Local assistance	Urban Predevelopment Loan	2,707,000 [a]
2240-101-985—Local assistance	Emergency Housing Assistance	4,032,000 [a]
Subtotal, Local assistance		($78,910,000)
Reimbursements		$6,809,000
Total Funding		$110,342,000

[a] Spending authority provided through a continuous statutory appropriation.
[b] A total of $2.7 million is appropriated from this fund, of which $2.5 million is included in General Fund appropriation.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Housing Trust Fund. We recommend that the Legislature consider allocating funds to programs that are more cost-effective than those proposed in the Governor's Budget. 227
2. Employee Housing Program. We recommend enactment of legislation to improve the availability of information regarding local enforcement of the Employee Housing Act. 231
3. Report Deadlines. We recommend that the department report at budget hearings as to its inability to produce reports for the Legislature in a timely manner. 231
4. ***Technical Overbudgeting. Reduce by $247,000 ($46,000 from the General Fund, $54,000 from Reimbursements, $139,000 from special funds and $8,000 from federal funds).*** Recommend reduction to correct for overbudgeting. 232

GENERAL PROGRAM STATEMENT

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

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

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

The department is authorized 554.8 personnel years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $110,342,000 from various sources, including federal funds and reimbursements, for support of the Department of Housing and Community Development (HCD) in 1987–88. This is $5,842,000, or 5.0 percent, *less* than estimated current-year expenditures. Excluding federal funds, expenditures in 1987–88 are budgeted at $61,293,000, which is $14,296,000 or 19 percent, *less* than estimated current-year expenditures of $75,589,000.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1988. It indicates that the General Fund would finance about 11 percent of the department's total expenditures in the budget year; special funds, approximately 38 percent of these expenditures; federal funds about 44 percent of the total; and reimbursements about 6 percent of the total.

The department anticipates receiving approximately $49 million in federal funds in the budget year. About half of this funding, $24 million, is associated with the department's management of the Small Cities portion of the federal Community Development Block Grant (CDBG) program. The HCD first assumed statewide management of the program in October 1982.

Table 1
Department of Housing and Community Development
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program:	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Codes and Standards	241.2	256.0	253.0	$16,869	$17,669	$17,742	0.4%
Community Affairs	169.6	159.9	159.9	91,489	97,261	91,398	−6.0
Housing Policy Development	22.7	22.0	22.0	1,348	1,254	1,259	0.4
Administration	114.5	116.9	113.2	(6,378)	(6,838)	(7,048)	(3.1)
Totals	548.0	554.8	548.1	$109,706	$116,184	$110,342	−5.0%
Funding Sources							
General Fund				*$24,116*	*$13,961*	*$12,548*	*−10.1%*
Mobilehome Park Revolving Fund				*2,237*	*2,532*	*2,555*	*0.9*
Manufactured Home License Fee Account				*1,761*	*1,812*	*1,816*	*0.2*
Mobilehome Park Purchase Fund				*4,038*	*5,219*	*2,931*	*−43.8*
Rural Predevelopment Loan Fund				*1,630*	*2,721*	*1,800*	*−33.8*
Mobilehome-Manufactured Home Revolving Fund				*10,827*	*11,460*	*11,256*	*−1.8*
Self-Help Housing Fund				*533*	*4,852*	*2,303*	*−52.5*
California Housing Trust Fund[a]				—	*(10,000)*	*(10,000)*	*0.0*
Farm Labor Rehabilitation Loan Account				—	*1,003*	*1,037*	*3.4*
Farmworker Housing Grant Fund				*1,679*	*500*	*200*	*−60.0*
Housing Rehabilitation Loan Fund				*1,422*	*5,994*	*4,102*	*−31.6*
Homeownership Assistance Fund				*621*	*848*	*2,007*	*136.7*
Rental Housing Construction Fund				*3,946*	*8,289*	*2,856*	*−65.5*
Special Deposit Fund—Office of Migrant Services Account				*900*	*941*	*990*	*5.2*
Special Deposit Fund—Senior Shared Housing				*142*	*520*	*500*	*−3.8*
Urban Predevelopment Loan Fund				*3,511*	*3,582*	*2,920*	*−18.5*
Rural Communities Facilities Fund				*244*	*12*	—	—
Mobilehome Recovery Fund				—	—	*500*	—
Emergency Housing and Assistance Fund				*1,835*	*4,451*	*4,163*	*−6.5*
Reimbursements				*6,072*	*6,892*	*6,809*	*−1.2*
Subtotals, State Funds				($65,514)	($75,589)	($61,293)	(−18.9%)
Federal Trust Fund				*$44,192*	*$40,595*	*$49,049*	*20.8%*
Totals, All Funds				$109,706	$116,184	$110,342	−5.0%

[a] Monies appropriated from this fund are transferred to other HCD funds, from which they are counted as expenditures.

Proposed Budget-Year Changes

Table 2 summarizes the significant changes in the department's proposed budget for 1987–88. The most significant baseline adjustment is a $1.4 million reduction to account for a one-time expenditure in 1986–87 for the development of migrant farm labor centers. There are several workload changes, including $12.1 million in reduced loan and grant activities, and increased federal support for the CDBG program ($1.8 million) and migrant labor camps ($6.7 million).

Table 2

Department of Housing and Community Development
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General	*Special*	*Federal*	*Reimbursements*	*Total*
1986–87 Expenditures (Revised)	$13,961	$54,736	$40,595	$6,892	$116,184
Baseline Adjustments					
One-time Appropriations:					
Office Consoldiation	−$19	−$47	−$3	−$2	−$71
Pilot Car Study	—	−100	—	—	−100
Micrographics Project	—	−300	—	—	−300
Development of Migrant Labor Camp Centers	−1,400	—	—	—	−1,400
Increased Statewide Indirect Costs	—	39	—	—	39
Telephone Installation	23	64	5	4	96
Miscellaneous	28	144	−69	132	235
Subtotals, Baseline Adjustments	(−$1,368)	(−$200)	(−$67)	($134)	(−$1,501)
Workload Changes					
Staffing Increases:					
Administrative Services	$6	$18	$1	$7	$32
Legal Affairs Office	6	18	1	7	32
Community Development Block Grants-Small Cities	—	—	1,795	—	1,795
Development of Migrant Labor Camp Centers	—	—	6,724	—	6,724
Loan and Grant Activity:					
Rental Housing Construction	—	−4,897	—	—	−4,897
Housing Rehabilitation	—	−2,031	—	—	−2,031
Other	—	−5,131	—	—	−5,131
Loan Repayments	—	−577	—	—	−577
Subtotals, Workload Changes	($12)	(−$12,600)	($8,521)	($14)	(−$4,053)
Program Changes					
Energy Commission Interagency Agreement	—	—	—	−$231	−$231
Special Adjustment	−$57	—	—	—	−$57
1987–88 Expenditures (Proposed)	$12,548	$41,936	$49,049	$6,809	$110,342
Change from 1986–87:					
Amount	−$1,413	−$12,800	$8,454	−$83	−$5,842
Percent	−10.1%	−23.4%	20.8%	−1.2%	−5.0%

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

ANALYSIS AND RECOMMENDATIONS

Proposed Budget-Year Changes

We recommend approval of the following budget changes not discussed elsewhere in this analysis.

- ***Teale Operating Expenses***—The department proposes to redirect $265,854 saved from eliminating six positions in the Registration and Titling project to pay for the project's increased operating costs at Teale Data Center.
- ***Engineering Review Unit***—The department proposes to delete three positions by eliminating the Engineering Review Unit; of these positions, two would be redirected to administrative activities, and the remaining one would be eliminated.
- ***Telephone Installation***—The department proposes a one-time augmentation of $96,000 for the installation of telephone equipment when it relocates its Sacramento offices.

These changes would result in a net decrease of $71,000 in total expenditures (*increased* General Fund expenditures of $35,000, *increased* special fund expenditures of $107,000, and *reduced* reimbursements of $213,000).

Update on Century Freeway Housing Program

The Century Freeway Housing Program implements the Amended Consent Decree which settled the *Keith v. Volpe* litigation involving tenants displaced by the construction of a highway linking the Los Angeles International Airport to the City of Norwalk (called The Century Freeway). Under the decree, HCD must develop and manage a comprehensive program of relocation, rehabilitation, and/or replacement of housing units which have been, or will be, displaced by freeway construction. The decree requires the replacement of 3,700 units by 1990.

Table 3 shows HCD's projected housing unit production levels, as estimated last year and as currently estimated. The table shows that the department has fallen behind the schedule it presented to the Legislature one year ago and that it will not meet the terms set forth by the Consent Decree.

Table 3

Century Freeway Housing Program
Housing Unit Production Levels
As Estimated in 1986 and 1987

	Yearly Production		*Cumulative Production*	
	Jan. 1986 Estimate	*Jan. 1987 Estimate*	*Jan. 1986 Estimate*	*Jan. 1987 Estimate*
1985–86	282	233 [a]	633	584 [a]
1986–87	788	540	1,421	1,124
1987–88	708	899	2,129	2,023
1988–89	670	395	2,799	2,418
1989–90	532	602	3,331	3,020
1990–91	—	334	—	3,354

[a] Actuals

HOUSING TRUST FUND

Background

Chapter 1584, Statutes of 1985, established the California Housing Trust Fund (HTF) to support housing programs serving low and very low-income households. The measure appropriates $20 million in tidelands oil revenues annually for three years, beginning in 1986–87. Chapter 1584 also specifies that at least 20 percent of the HTF must be used to address the needs of rural areas, with at least one-fourth allocated to the newly established Farm Labor Housing Rehabilitation Loan Program (FLHRLP). Lower-than-anticipated tidelands oil revenues resulted in only $10 million, rather than $20 million, being made available to the HTF in 1986–87. The budget proposes to maintain the 1987–88 HTF allocation at that same level.

Monies in the HTF are available to support *any* of the varied grant and loan programs currently administered by the department. The Governor's budget, however, proposes to allocate the 1987–88 HTF monies to the *same* five programs and in the *same* amounts as provided the current year. Table 4 shows not only the department's proposed allocation of HTF monies in 1987–88, but also proposed budget-year expenditures from other sources of funds for HCD's major local assistance programs.

The table indicates that the proposed $25.2 million local assistance budget would be financed by:

- $8.3 million in special fund expenditures (revolving fund expenditures supported by loan repayments and interest income);
- $6.9 million in General Fund expenditures (historically allocated primarily to migrant and farmworker housing); and
- $10.0 million in HTF expenditures.

Table 4
Department of Housing and Community Development
Local Assistance Expenditures
1987–88
(dollars in thousands)

Grant Programs	*Housing Trust Fund*	*General Fund*	*Special Funds*[a]	*Total Expenditures*
Office of Migrant Services	—	$4,200	$990	$5,190
Emergency Shelter	$4,000	—	32	4,032
Farmworker Housing	—	2,500	200	2,700
Senior Citizens Shared Housing	500	—	—	500
Loan Programs				
Mobilehome Park Purchase	—	—	2,704	2,704
Special User Housing Rehabilitation	2,500	—	—	2,500
Self-Help Housing	2,000	200	149	2,349
Homeownership Assistance	—	—	1,800	1,800
Rental Housing Construction[b]	—	—	1,300	1,300
Deferred Payment Rehabilitation	—	—	1,100	1,100
Farm Labor Housing Rehabilitation	970[c]	—	37	1,007
Totals	$9,970[c]	$6,900	$8,312	$25,182

[a] Generally, these are expenditures financed from loan repayments and interest earnings.
[b] Includes "Development Payments" component only.
[c] In addition, $30,000 in HTF monies are proposed for state operations expenses.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Legislature Has Options for Allocation of Funds

In deciding how to distribute the $10 million in HTF monies, we believe that the Legislature should take into consideration the following questions:

- Which groups (low-income or very low-income persons, renters or potential homeowners) should be served?
- Which programs add the most units to the lower-income housing stock at the lowest cost?
- Historically, for which programs is there the greatest demand?
- Which programs leverage the most dollars from other funding sources (such as private funds, federal dollars, and local "matches")?
- Which programs construct or rehabilitate housing units most quickly?

The following tables provide information which helps address these questions. Table 5 shows expenditures for HCD's major grant and loan programs since 1983–84. The table shows that two programs—Migrant Services and Farmworker Housing—received steady support over the period, due to annual General Fund support. Expenditures for the other programs tend to vary more, due to their funding dependency on loan repayments and appropriations in special legislation.

Table 5

Department of Housing and Community Development
Local Assistance Expenditures
1983–84 through 1987–88
(dollars in thousands)

Grant Programs	*Actual 1983–84*	*Actual 1984–85*	*Actual 1985–86*	*Estimated 1986–87*	*Proposed 1987–88*	*Five-Year Total*
Office of Migrant Services	$5,000	$5,000	$5,100	$6,541	$5,190	$26,831
Emergency Shelters	2,488	4,101	6,647	4,330	4,032	21,598
Farmworker Housing	2,500	2,459	4,179	3,000	2,700	14,838
Senior Citizens Shared Housing	300	464	100	500	500	1,864
Loan Programs						
Mobilehome Park Purchase	—[a]	—[a]	3,888	5,000	2,704	11,592
Special User Housing Rehabilitation	—[a]	3,537	1,172	2,500	2,500	9,709
Self-Help Housing	200	200	2,407	4,900	2,349	10,056
Homeownership Assistance	1,872	1,540	500	637	1,800	6,349
Rental Housing Construction[b]	9,812	1,733	3,115	6,072	1,300	22,032
Deferred Payment Rehabilitation	462	1,000	468	500	1,100	3,530
Farm Labor Housing Rehabilitation	—[a]	—[a]	—[a]	970	1,007	1,977
Totals	$22,634	$20,034	$27,576	$34,950	$25,182	$130,376

[a] Not Applicable.
[b] Includes "Development Payment" component only.

Although it is difficult to compare HCD's programs with each other, Table 6 provides some useful measures of program costs and performance. Specifically, the "total cost per unit" shows the total amount spent on a unit, including HCD's subsidy. The "program cost per unit" column shows the subsidy provided to each unit by that particular HCD program.

Table 6

Department of Housing and Community Development Local Assistance Programs Measures of Program Cost, Demand, and Leveraging

	Cost per Unit			
Grant Programs	*Total*	*HCD Program Cost*	*Demand Per HCD Dollar*	*Leverage[a] Ratio*
Office of Migrant Services[b]	$34,000	0–$34,000	NA	NA
Emergency Shelters	2,860[c]	1,052[c]	1.4	2.1
Farmworker Housing	77,165	9,772	1.3	4.1
Senior Citizens Shared Housing	210[d]	105[d]	2.4	NA[e]
Loan Programs				
Mobilehome Park Purchase	$27,068	$9,845	1.5	1.7
Special User Housing Rehabilitation (Residential Hotels)	22,277	4,344	4.6	4.1
Self-Help Housing (New Construction)	68,909	9,982	1.9	5.9
Homeownership Assistance	71,429	28,571	2.4	1.5
Rental Housing Construction[f]	42,097	35,686	1.6	2.6
Deferred Payment Rehabilitation	14,635	4,100	7.8	2.6
Farm Labor Housing Rehabilitation[g]	NA	NA	NA	NA

[a] The number of non-HCD dollars attracted to a project relative to each HCD dollar.
[b] New construction cost for a seasonal unit.
[c] Cost to house a person in a shelter for one year.
[d] Approximate cost to match each senior citizen with an available housing unit.
[e] Requires at least 100 percent matching funds for administrative expenses, but no leveraging data is available.
[f] Includes new construction costs only.
[g] This program has yet to make its first loan, thus no data are available at this time.

For eight of the programs shown in Table 6, "demand" measures the ratio of dollars requested in the most recent "requests for proposal" (RFPs) to available HCD dollars. The three remaining programs—Office of Migrant Services, Farmworker Housing, and Self-Help Housing—use a less competitive process (over-the-counter awards) for providing assistance, making it more difficult to compare them with other programs when considering demand.

The last column shows the "leverage ratio" of each program, which measures the number of non-HCD dollars a program attracts to a project relative to each HCD program dollar. HCD programs "leverage" contributions from nonprofit organizations, federal housing and development programs, local housing authorities, and the private sector. While the information provided in Table 6 has its limitations, it is helpful in assessing the relative merits of HCD's major assistance programs, as discussed in the following section.

Data Suggest A Different HTF Program Allocation

We recommend that the Legislature consider reducing the HTF allocations to the Farm Labor Rehabilitation Loan Program and the Self-Help Housing Program, and increase allocations to the Deferred Payment Rehabilitation Loan Program and the Special User Housing Rehabilitation Program, in order to provide a more effective use of these monies.

Our review of the available program data indicates that in contrast to the Governor's proposal, the Legislature should give higher priority for

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

HTF funding to the Deferred Payment Rehabilitation Loan Program (DPRLP) and the Special User Housing Rehabilitation Program (SUHRP).

Deferred Payment Rehabilitation Loan Program. The DPRLP provides 3 percent deferred-payment loans for the rehabilitation of both single-family owner-occupied housing and multifamily rental housing. The program has several positive characteristics. First, it costs the state less to rehabilitate a unit than to construct a new one. Second, the DPRLP monies are flexible in that they can easily be used for a variety of activities and in conjunction with other sources of funds. Third, it has one of the highest demand ratios for an HCD program. For each $7.80 requested, only one dollar was made available in the program's last major rounds of funding. The department does *not* propose to support this program in the budget year with HTF monies.

Special User Housing Rehabilitation Program. The SUHRP provides 3 percent 30-year deferred-payment loans for acquisition and/or rehabilitation of (1) facilities for use by elderly or handicapped, (2) residential hotels for lower-income persons. As with the DPRLP, this program rehabilitates units at a relatively low cost and requires that rents remain at an affordable level. Even though the SUHRP has received several recent augmentations, demand for the program has remained relatively high. On average, $4.60 is requested for each dollar available, and, most recently, $6.60 was requested for each HCD dollar. The budget proposes to allocate $2.5 million of the HTF monies to the SUHRP.

On the other hand, there are two programs which the budget proposes to augment with HTF monies that appear to be lower-priority programs on the basis of available data: Farm Labor Housing Rehabilitation Loan Program (FLHRLP) and Self-Help Housing Program (SHHP).

Farm Labor Housing Rehabilitation Loan Program. The FLHRLP is designed to provide 7 percent loans to owners or operators of existing farmworker housing to bring the housing into compliance with code standards. We cannot report on either the effectiveness of or the demand for this program, as it is new and probably will not issue its first loan until sometime in 1987–88.

The Governor's Budget proposes to allocate $1 million from the HTF to the FLHRLP in 1987–88, even though the law establishing this program requires that only $500,000 be allocated. This is a new, untested program. Thus, it is not yet clear that (1) the program will effectively meet the needs of its intended recipients, or (2) developers will want this type of assistance. Further, the HCD has other programs that will provide assistance specifically to farmworkers in the budget year: the Office of Migrant Services will spend about $5.2 million, and the Farmworker Housing Grant Program will award about $2.7 million.

Self-Help Housing Program. The SHHP provides (1) mortgage loans to families for the construction or rehabilitation of their homes, and (2) technical assistance grants to self-help housing organizations that train, supervise, and help package loans for self-help households. Our analysis indicates that this is not a high priority program for the department at this time for two reasons. First, SHHP units cost more than those produced by other programs—on average, these homes cost about $69,000 each, including an SHHP subsidy of about $9,982. Second, eligible participants are already capable of finding safe and affordable housing. Given the department's limited resources, we think funds could be better used by helping those at the margin—those who otherwise could *not* afford safe and sanitary housing. The department proposes to allocate $2 million of the HTF monies to the SHHP in the budget year.

Based on our review of HCD's major programs, we recommend that the Legislature consider redistributing HTF monies *from* the Farm Labor Housing Rehabilitation Loan Program and the Self-Help Housing Program *to* the Deferred Payment Rehabilitation Loan Program and the Special User Housing Rehabilitation Program. This redistribution would result in greater state resources directed toward programs which have: (1) proven track records, (2) lower HCD cost per assisted unit, and (3) consistently high demand.

REVIEW OF EMPLOYEE HOUSING PROGRAM

Background

Chapter 1495, Statutes of 1986, requires the Legislative Analyst to report in the *1987–88 Analysis* on the department's implementation of the Employee Housing Act (EHA).

The original objective of the Employee Housing Act was to ensure that safe and sanitary housing was being provided for individuals who had their employer as their landlord. Subsequent legislation extended that mandate to also include housing where five or more "agricultural" employees are housed.

Major Responsibilities. The HCD has developed regulations establishing minimum health and safety standards for employers who operate employee housing facilities (usually referred to as labor camps). Under the Employee Housing Act, the HCD's two major responsibilities are (1) inspecting camps prior to occupancy so that a permit to operate may be issued, and (2) seeking out illegal camps.

Local Option. Local governments may elect to assume responsibility for implementing the EHA in their jurisdiction if they receive HCD approval. In the event of inadequate enforcement of the EHA by a local agency, the HCD may assume inspection and enforcement activities within that local jurisdiction. The local agency would be liable to the HCD and the Attorney General for the actual cost of the investigation and enforcement by these state agencies. Fourteen counties have elected to enforce the EHA in their own jurisdictions: Fresno, Kern, Merced, Monterey, Napa, Orange, Riverside, Sacramento, San Benito, San Joaquin, San Mateo, Santa Cruz, Solano, and Stanislaus. HCD is responsible for the rest of the state.

Enforcement Efforts

Table 7 provides summary information on the Employee Housing Program for the past three years. It shows that in 1986 there were about 1,100 active labor camps in the state, which housed almost 30,000 empoyees. Local enforcement agencies were responsible for 622 camps (56 percent) and 17,901 occupants (60 percent). The HCD was responsible for 479 camps (44 percent) and almost 12,000 occupants (40 percent).

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 7

Department of Housing and Community Development
Employee Housing Program
1984 through 1986

	1984		1985		1986	
Camps	*HCD*	*Local*	*HCD*	*Local*	*HCD*	*Local*
Labor Camps:						
Number	554	585	513	607	479	622
Occupants	13,977	17,869	13,309	18,179	11,981	17,901
Inactive Camps	97	—[a]	809	—[a]	963	—[a]
Inspections						
Preoccupancy Inspections	554	—[a]	513	—[a]	140	—[a]
Occupancy Inspections	43	—[a]	33	—[a]	407	—[a]
Reinspections for Previous Violations	94	—[a]	92	—[a]	107	—[a]
Number of Illegal Camps Reported	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Fees Collected						
Permit Fees[b]	$181,490	—[a]	$173,161	—	$158,552	—[a]
Reinspection	4,136	—[a]	4,232	—	2,906	—[a]
Total Fees collected	$185,626	—[a]	$177,393	—	$161,458	—[a]
Staffing						
Field Personnel	4	—[a]	4	—[a]	6[c]	—[a]
Office Personnel	6	—[a]	6	—[a]	6	—[a]

[a] Data not readily available.
[b] Permit fees include issuance fees, permit fee, and any amended permit fees.
[c] Program had 4 field personnel through 6/86 and 6 thereafter.

Inspections. The EHA requires the enforcement agency to make every effort to complete inspections prior to occupancy. As Table 7 shows, HCD met this obligation to inspect all permitted labor camps under its jurisdiction prior to occupancy in 1984 and 1985. In the past year, however, the department shifted its focus by performing far more occupancy inspections than preoccupancy inspections. This was due in part to (1) a growth in the number of year-round camps, and (2) staffing problems. We cannot comment on the performance of the local enforcement agencies because they are not required to provide such information to the department. As the table indicates, the HCD also performs "occupancy" inspections and "reinspections" to ensure that problems cited in preoccupancy inspections are rectified.

Monitoring Locals. The HCD monitors every local enforcement agency by reviewing their records on inspections and violations. In the past three years, the department has found no significant problems. The actual performance of the locals, however, is difficult to evaluate, as they are not required to provide much information to the HCD.

Illegal Labor Camps. The EHA requires each enforcement agency to seek out illegal labor camps, that is, camps operating without a permit. The department's general procedure in seeking out illegal labor camps is to (1) monitor former employee housing sites to ensure that they are not currently operating, and (2) survey the area for illegal camps while driving from one inspection site to another. Unfortunately, the department was unable to tell us at the time this analysis was prepared how many illegal labor camps had been found over the past three years.

Legal Actions. To date, the Attorney General has investigated and prosecuted violations found in two labor camps. In both cases, the Attorney General subsequently applied to the superior court for remedial action. In one case, the superior court issued a preliminary injunction ordering required improvements in the housing. In the second case, the superior court issued an injunction, but it was appealed to the California Supreme Court, where a decision is still pending.

Local Agencies Should Provide Additional Information

We recommend that the Legislature enact legislation requiring local agencies to provide additional information on their enforcement efforts.

Our analysis of the department's implementation of the EHA has been hampered by the lack of readily available data from both the state and local agencies. In future years, more data will be available on the state's enforcement efforts, as the department is now developing a computerized database that will generate more program enforcement information. To ensure that more information is made available from local agencies, however, we recommend that Section 17031.4 of the Health and Safety Code be amended as follows to require all agencies to submit annually information describing their implementation of the EHA to HCD:

Section 17031.4. Local enforcement agency; information to department

When the enforcement agency is a local agency, upon granting an exemption pursuant to Section 17031.3, the enforcement agency shall submit to the department *by June 30 of each year,* the following information *regarding the previous calendar year:*

(a) The year the housing was constructed.

(b) The number of years, if any, the housing has been operated as a labor camp with a valid permit to operate.

(c) The number and character of any complaints received during the time the housing has been operated as a labor camp.

(d) Any violations of the provisions of this part and the State Housing Law which materially affect health and safety cited in the last inspection of the housing.

(e) The number and location of camps found operating without a permit.

(f) The number and location of inactive camps and the number of occupants residing in the camp when it was most recently occupied.

(g) The number of preoccupancy inspections, occupancy inspections and reinspections performed.

(h) A schedule of permit fees charged and the total amount of fees collected; and the total amount of reinspection fees collected.

(i) The number of staff hours dedicated to the implementation of the Employee Housing Act.

(ej) That the employee community housing has been exempted pursuant to Section 17031.3, and conforms with the requirements.

OTHER ISSUES

Key Housing Reports Long Overdue

We recommend that the department report at budget hearings on what actions it will take to provide required reports to the Legislature in a timely manner.

Existing law requires the HCD to regularly submit to the Legislature

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

the following two reports: (1) an Annual Report detailing the operations and accomplishments of its housing programs during the previous fiscal year, and (2) a biennial Statewide Housing Plan describing the condition of California housing and the department's housing policies and objectives. The last Annual Report provided by the HCD was for fiscal year 1982–83; the Legislature is still awaiting overdue annual reports for the past *three* fiscal years. The department's tardiness also applies to *two* overdue Statewide Housing Plans as well: one was due in 1984, and the second in 1986.

We have two concerns about the department's failure to provide these required reports. First, we fail to understand how the department can develop coherent, responsible housing policies without understanding (1) the nature of California's housing needs, and (2) the effectiveness of its programs in meeting those needs. Second, the department's failure to meet these deadlines impairs the Legislature's ability to make sound housing policy.

In light of these concerns, we recommend that the department report at budget hearings on what actions it will take to provide these reports to the Legislature in a timely fashion.

Technical Recommendations

We recommend a reduction of $247,000 ($46,000 from the General Fund, $139,000 from special funds, $54,000 in reimbursements, and $8,000 from federal funds) to eliminate overbudgeting.

Personnel Assistant and Legal Affairs Clerk. The department proposes to augment its administrative staff by adding a Personnel Assistant and a Legal Affairs Clerk, both of which would be funded by $64,000 in increased General Fund and special fund expenditures. The positions appear to be needed. However, since both of these positions would be performing work previously funded through the use of temporary help and overtime, we recommend that funds from temporary help and overtime be redirected to pay for these positions. (Reduce General Fund by $12,000, reimbursements by $14,000, Mobilehome Parks Revolving Fund by $6,000, Mobilehome License Fee Account by $2,000, Mobilehome-Manufactured Revolving Fund by $24,000, Federal Trust Fund by $2,000, Housing Rehabilitation Fund by $2,000, and Rental Housing Construction Fund by $2,000).

Overbudgeted Rent. The department could only justify $1,463,000 of the $1,646,000 requested for rent in the budget year. The department overstated its space needs and requested money for work which will be performed in the current year. Therefore, we recommend the deletion of $183,000. (Reduce General Fund by $34,000, reimbursements by $40,000, Mobilehome Parks Revolving Fund by $17,000, Mobilehome License Fee Account by $6,000, Mobilehome-Manufactured Home Revolving Fund by $68,000, Federal Trust Fund by $6,000, Housing Rehabilitation Loan Fund by $6,000, and Rental Housing Construction Fund by $6,000).

Business, Transportation, and Housing Agency

CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California Housing Finance Fund — Budget p. BTH 44

Requested 1987–88	($8,911,000) [a]
Estimated 1986–87	(8,787,000) [a]
Actual 1985–86	(8,071,000) [a]
Requested increase (excluding amount for salary increases) $124,000 (+1.4 percent)	
Total recommended reduction	None

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

GENERAL PROGRAM STATEMENT

The primary mission of the California Housing Finance Agency (CHFA) is to provide financing for the development and rehabilitation of housing for the state's low- and moderate-income residents. Funding for its programs is derived mainly from the sale of tax-exempt revenue bonds and notes, the proceeds from which are used to (1) make direct loans to developers of multifamily rental housing or (2) provide loans and insurance through private lenders to low- and moderate-income households for the purchase and/or rehabilitation of single-family housing units. Bond proceeds are deposited in the California Housing Finance Fund and are continuously appropriated to the agency by Section 51000 of the Health and Safety Code.

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

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

OVERVIEW OF THE BUDGET REQUEST

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

According to CHFA staff, board action on a final proposed budget for 1987–88 is not expected until March 1987. The Board of Directors will determine how the agency will allocate its funds for programs and administrative support in the budget year.

The agency's 1987–88 preliminary budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend $8,911,000 in 1987–88, an increase of $124,000, or 1.4 percent, over current-year expenditures. The change is due entirely to an anticipated increase in costs for administrative and interagency services.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

Table 1
California Housing Finance Agency
Expenditure Summary
1985–86 through 1987–88
(dollars in thousands)

Personal Services	*Actual 1985–86*	*Estimated 1986–87*	*Preliminary[a] 1987–88*
Salaries and Wages	$4,224	$4,795	$4,795
Staff Benefits	1,423	1,186	1,186
Subtotals, Personal Services	($5,647)	($5,981)	($5,981)
Operating Expenses and Equipment			
General Expense	$268	$257	$257
Communications	262	298	298
Insurance	0	157	157
Travel	269	370	370
Training	45	25	25
Facilities Operation	521	526	526
Consulting and Professional Services	166	248	248
Administrative & Interagency Services	393	525	649
Data Processing	415	350	350
Equipment	85	50	50
Subtotals, Operating Expenses and Equipment	($2,424)	($2,806)	($2,930)
Totals	$8,071	$8,787	$8,911

[a] The CHFA's preliminary budget for 1987–88 reflects only baseline adjustments to estimated expenditures in the current year. It makes no allowance for budget changes that may be approved by the Board of Directors in adopting a final budget.

MORTGAGE REVENUE BONDS

The California Housing Finance Agency, as well as local housing agencies and authorities, are dependent on the issuance of mortgage revenue bonds (MRBs) to finance housing activity. In this section, we briefly (1) describe the major effects of recent federal tax law changes on the use of housing bonds, and (2) analyze preliminary data regarding the use of housing bond proceeds in California.

The Impact of Federal Tax Reform

Prior to 1987, there were some restrictions on the issuance of housing bonds in California. With regard to *multifamily* housing, there were no federal restrictions on the amount of bonds which could be issued by state and local governments, but the state imposed limits on its cities and counties. Prior to 1985, these local entities could not issue more than $900 million in multifamily housing bonds in any one year. Chapter 325, Statutes of 1985, set the limit at $2.8 billion in 1985 and $1.5 billion in subsequent years.

With regard to *single family* housing, the federal government previously imposed limits on the amount of tax-exempt bonds that could be issued. In 1985, the limit was $2 billion, of which 75 percent was issued by local agencies and 25 percent by state agencies.

With the passage of the 1986 Federal Tax Reform Act, state and local governments will still be able to issue housing bonds, but at much lower levels than previously allowed. Each state may issue tax-exempt "private activity bonds," including housing, in an amount not to exceed $75 per capita for 1986 and 1987, dropping to $50 per capita thereafter. This "unified volume cap" (UVC) resulted in an allocation to California of about $1.9 billion in 1986.

A Governor's Proclamation issued in September 1986 gave the California Debt Limit Allocation Committee (CDLAC) the authority to allocate a portion of the UVC for housing bonds. In 1986, CDLAC allocated $710 million, or 37 percent, of the $1.9 billion UVC for housing bonds. As can be seen from Table 2, the $710 million housing cap, of which $408 million was issued through October 1986, is dramatically lower than the housing bond activity over the past five years, during which an average of $3.4 billion in housing bonds were issued annually.

Table 2

California Housing Bond Issuance [a]

1982 through 1986

(dollars in millions)

	Multifamily		*Single Family*		*Total,*
	State	*Local*	*State*	*Local*	*All Housing*
1982	$277	$448	$345	$1,690	$2,760
1983	86	831	359	1,128	2,404
1984	90	1,042	421	1,890	3,443
1985	158	5,596	499	1,504	7,757
1986 [b]	—	85	242	81	408

[a] Data is based on the most recent information reported to the California Debt Advisory Commission.
[b] Includes data through October.

For 1987, the CDLAC anticipates that the state's UVC for all private activity bonds will be approximately $2 billion, but it does not yet know how much of this will be allocated for housing purposes.

The act also makes significant changes in the *use* of MRB proceeds for both single-family and multifamily housing. In general, the new requirements are more stringent in order to better target units to lower-income people.

Multifamily Housing. Under prior federal tax law, developments receiving MRB financing had to reserve 20 percent of the units for households with incomes of less than 80 percent of the area's median income ("low-income" households). California law was even more stringent, requiring that half of those reserved units be made available to persons whose income was less than 50 percent of median income.

The new tax law goes even further, requiring the issuer to meet one of the following two "set-aside" requirements: (1) 40 percent or more of the units in the project must be occupied by individuals whose income is less than *60* percent of the area median income, or (2) 20 percent or more of the units in the project must be occupied by individuals whose income is less than 50 percent of the area median income. These new income requirements are adjusted for family size rather than for apartment size, as was previously the case.

The act makes two other important changes. First, it provides developers a new low-income housing credit for multifamily rental housing in an amount equal to $1.25 per capita—about $32.9 million for California in 1987. For new construction or rehabilitation of existing housing, the law allows a developer to take a 10-year, 9 percent credit for conventionally financed low-income units; if bond financing is used, then a 4 percent credit for the low-income units is allowed. A 4 percent credit is also allowed for targeted units rehabilitated by developers who acquire existing rental housing.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

Second, the new tax law requires *annual*, rather than one-time, certification of the income of tenants in reserved units.

Single-Family Housing. For single-family housing, the Federal Tax Reform Act requires that purchasers of homes subsidized with MRBs have incomes no more than 115 percent of the greater of the area median income or the state's median family income. The CHFA's practice had been to allow the income limit to vary between 120 percent and 150 percent of median income, depending on family size. The new law makes no adjustments for family size.

The act also reduces the maximum allowable purchase price of a MRB-assisted home from 110 percent to 90 percent of the average area purchase price.

In *targeted redevelopment areas*, however, the new federal law is *less* stringent. It allows two-thirds of the purchasers to have an income of up to 140 percent of the applicable median family income, with the remaining one-third of the purchasers facing *no* income requirements. In addition, the act reduces the maximum allowable purchase price of a home in a targeted area from 120 percent to 110 percent of the average area home price.

CDAC Report Information

Since January 1985, local governments have had to report information to the California Debt Advisory Commission (CDAC) on their MRB issuances. This requirement, which was added by Ch 1399/84, was intended to give the Legislature better information as to how the MRB subsidy was being used. The CDAC issued its second report on the use of MRB proceeds in October 1986. In this section, we use the information provided in CDAC's report to meet our annual MRB reporting requirement specified in Ch 323/83.

The CDAC report presents data on both multifamily and single-family projects. CDAC received data on the use of proceeds from 246 issues, the majority (90 percent) of which describe multifamily projects.

Multifamily Housing. The 222 multifamily housing bond issues reported to CDAC raised about $3.7 billion, which was used to finance 334 projects consisting of 62,455 units. Of these units, 13,500, or 22 percent, will be targeted for occupancy by lower-income households. About three-fourths of the subsidized units will remain targeted for 10 years with the remainder targeted anywhere between 11 to 75 years. Of the total MRB proceeds, 24 percent is being used in Orange County, 20 percent in Los Angeles County, and 9.9 percent in San Francisco County.

Thus far, about 28 percent of the units are occupied, with 15 percent of these units occupied by lower-income households. Rents for the occupied, targeted units vary greatly, ranging from $270 to $850 per month, with most (63 percent) between $400 and $600 per month. The occupied units appear to be housing very small households for the most part: 71 percent of the units have one or two occupants, and only about 7 percent have four or more occupants.

Single-Family Housing. Of the 246 reports received by the CDAC, 24 described the use of $715 million in bond proceeds for single-family housing. These proceeds will help build 38,500 single-family homes. Of these, only 1,007 were occupied by the time of the report. As with the multifamily units discussed above, most of the homes are housing very small families: about 70 percent of the households have only one or two occupants. Of the households in occupied units: (1) 13 percent have low incomes, (2) 56 percent have moderate incomes (between 80 and 120 percent of area median income), and (3) 31 percent have incomes above 120 percent of the area median income.

The prices of the occupied homes range from $44,000 to $152,000, with 59 percent selling for prices between $76,000 and $105,000. The corresponding monthly mortgage payments range from a low of $435 to a high of $1,488.

DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 46

Requested 1987–88	$28,183,000
Estimated 1986–87	26,066,000
Actual 1985–86	23,366,000
Requested increase (excluding amount for salary increases) $2,117,000 (+8.1 percent)	
Total recommended reduction	656,000
Recommendation pending	300,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Funding of Health Insurance Counseling and Advocacy Program (HICAP). Reduce Item 2290-001-217 by $656,000.*** Recommend reduction because the proposed expansion of the program has not been justified. 239
2. Computer System Upgrade. Withhold recommendation on $300,000 proposed for a new computer system, pending submission and approval of a feasibility study report, identifying the costs and benefits of the proposed system. 240

GENERAL PROGRAM STATEMENT

The Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers, to protect insurance policyholders. It does so through three programs which: (1) process inquiries and complaints from the public regarding insurance companies; (2) examine and rate insurers; (3) examine applicants seeking to be licensed as insurance agents or brokers; (4) investigate complaints concerning insurance agents and brokers; (5) investigate insurance fraud; and (6) collect, as well as audit, various insurance taxes from insurance companies and brokers.

Operations of the department are financed entirely from the Insurance Fund which receives revenues from various fees levied on insurance companies, brokers and agents.

The department is authorized 438 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $28,183,000 from the Insurance Fund for support of the department in 1987–88. This is an increase of $2,117,000, or 8.1 percent, over estimated current-year expenditures.

DEPARTMENT OF INSURANCE—Continued

Table 1 shows the staffing and expenditures for the department's programs for the three-year period ending June 30, 1988. Table 2 summarizes the significant changes proposed for the budget year.

Table 1
Department of Insurance
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	*Personnel-Years* Actual 1985–86	Est. 1986–87	Prop. 1987–88	*Expenditures* Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change From 1986–87
Regulation	395.3	414.0	417.8	$22,018	$24,763	$26,432	6.7%
Fraud Control	18.5	19.0	27.6	1,142	1,124	1,569	39.6
Tax Collection and Audit	3.0	5.0	5.0	206	179	182	1.7
Administration	(98.6)	(90.0)	(90.0)	(5,066)	(5,392)	(5,768)	7.0
Totals	416.8	438.0	450.4	$23,366	$26,066	$28,183	8.1%
Funding Sources							
Insurance Fund				$23,294	$26,066	$28,183	3.1%
Financial Responsibility Penalty Account				72	–	–	–

Table 2
Department of Insurance
Proposed 1987–88 Budget Changes
(dollars in thousands)

1986–87 Expenditures (Revised)	$26,066
Baseline Adjustments	
Adjustment for reduced PERS contributions and increased salary savings	−363
Funding of the health insurance counseling and advocacy program in the Department of Aging	1,544
Reduced pro rata charges	−342
Operating expense and equipment for new positions provided in the 1986 Budget Act	202
Subtotal, Baseline Adjustments	($1,041)
Program Change Proposals	
Continued examinations of rating practices	$237
Increased anti-fraud activities	428
Additional staff to reduce investigation backlog	111
New, computerized information system	300
Subtotal, Program Change Proposals	($1,076)
1987–88 Expenditures (Proposed)	$28,183
Changes from 1986–87	
Amount	$2,117
Percent	8.1%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed changes which are not discussed elsewhere in this *Analysis:*

- Baseline changes consisting of (1) reductions of $363,000 for reduced employers' retirement contributions and increased salary savings, and $342,000 in reduced pro rata charges; and (2) an increase of $202,000 for operating expenses and equipment for positions approved, but not adequately funded by the 1986 Budget Act; and

- Budget change proposals of (1) $237,000 for continued examinations of rating practices of insurance companies; (2) $428,000 for increased anti-fraud activities by the department; and (3) $111,000 for a staff increase to handle the backlog in investigations of insurance-related complaints.

Insurance Fund is to Finance Department of Aging Program

We recommend a reduction of $656,000 of the $1,544,000 requested from the Insurance Fund to finance the Department of Aging's Health Insurance Counseling and Advocacy Program (HICAP) because the proposed expansion of the program has not been justified (Reduce Item 2290-001-217 by $656,000).

The budget proposes $1,544,000 from the Insurance Fund to permit the Department of Insurance to contract with the Department of Aging for the funding of the Health Insurance Counseling and Advocacy Program (HICAP) during 1987–88.

The HICAP was established by Ch 1464/84 to assist elderly Californians in (1) understanding the health insurance coverage provided under the federal Medicare program, (2) evaluating what additional coverage they might need to supplement that federal program, and (3) protecting them from the purchase of unnecessary, or duplicative health insurance coverage promoted by some insurance companies. Chapter 1464 also requires the California Department of Aging (CDA) to report annually—beginning in January 1986—regarding the cost-effectiveness of the program.

The CDA contracts with certain local agencies and individual consultants in 31 of the state's 58 counties to provide the services mandated by Chapter 1464. During the past and current fiscal years, the HICAP has been financed from the General Fund. In 1987–88, however, the budget proposes to (1) expand the program to cover all 58 counties of the state, (2) increase program expenditures to cover the estimated cost of expansion, and (3) finance the budget-year costs of the program as reimbursements from the Insurance Fund.

Our analysis indicates that this proposal raises two issues:

Funding Issue. Is the Insurance Fund an appropriate source for funding the HICAP? Current law provides the Commissioner of Insurance with broad authority to ". . . inform the public . . ." on insurance matters, including health insurance to supplement Medicare coverage. In fact, the Department of Insurance is currently working on a brochure designed to inform the elderly about the need and the choices for health insurance coverage which supplements Medicare coverage.

Based on our review, it appears that the Insurance Fund may be used for this purpose.

Program Implementation Issue. Is statewide expansion of the program justified? We discuss this issue under our analysis of Item 4170, the California Department of Aging. In that analysis, we recommend that the program be funded in 1987–88 at the current-year level of $888,000, instead of the proposed level of $1,544,000. As noted in our analysis, the CDA has not submitted the required annual report to the Legislature regarding the cost-effectiveness of the HICAP. Without this information, there is no basis to recommend the expansion of the program.

DEPARTMENT OF INSURANCE—Continued

Accordingly, we recommend that the amount to be appropriated from the Insurance Fund to finance this program in 1987–88 be reduced from the proposed $1,544,000 to $888,000, a reduction of $656,000 in Item 2290-001-217.

New Computer System Lacks Feasibility Report

We withhold recommendation on $300,000 from the Insurance Fund for a proposed computer system, pending submission and approval of a feasibility study report which identifies the costs and benefits of the system (Item 2290-001-217).

The budget proposes $300,000 from the Insurance Fund to finance a new computer system which would integrate the department's current data files (mostly on microfiche) into a new, on-line information system in order to obtain a more current data base and respond to requests for information in a more timely manner. According to the department, the proposed system would also make the department's regulatory efforts more effective and efficient by having current information readily available to employees.

At the time this analysis was prepared, however, the department had not prepared a feasibility study report (FSR). Such a report usually identifies and discusses the (1) need for the proposed system, (2) costs and benefits of the various alternatives, and (3) the most cost-effective system. The State Administrative Manual requires that departments submit FSRs on their computer projects to the Office of Information Technology (OIT) in the Department of Finance for technical evaluation and approval before they can proceed with them.

In the absence of this report, we withhold recommendation on the $300,000 requested for a new computer system, pending (1) submittal by the Department of Insurance of a feasibility study report to the OIT, (2) OIT's review and approval of the report, and (3) our analysis of the report to ensure that the most cost-effective alternative is chosen.

Update on Last Year's Budget Augmentation

We recommend that, during budget hearings, the Department of Insurance report to the Legislature regarding the (1) progress made in implementing the specific requirements accompanying the augmentation provided by the 1986 Budget Act and (2) public benefits resulting from the augmentation.

Last year, the Legislature provided 24 positions and $1 million to the Consumer Affairs Division of the department in order to improve the availability, quality, and timeliness of its services to consumers regarding information and complaints on insurance matters. The 1986 Budget Act earmarked specified amounts to be spent on the following staff and functions:

- $300,000 for establishing and staffing (6 positions) toll-free telephone lines to handle consumers' complaints;
- $250,000 for staff (8 positions) to conduct at least 36 market examinations per year in order to monitor the insurance industry's practices in processing claims;
- $200,000 for the production and distribution of insurance related consumer information pamphlets; and
- $300,000 for 10 additional positions to handle consumer complaints regarding insurance matters.

As of mid-January 1987, when this analysis was prepared, the department had (1) filled 20 of the 24 positions authorized by the augmentation, (2) installed and staffed toll-free telephone lines, and (3) developed several information pamphlets, including consumers' guides for life and homeowner's insurance, as well as health insurance for senior citizens. The department also reported that installation of the toll-free lines increased significantly the complaint-investigation workload of its Consumer Affairs Division and produced a backlog in that workload.

In order to keep the Legislature up-to-date regarding implementation of these important consumer service functions, we recommend that the department report to the Legislature during the budget hearings regarding (1) the progress made in implementing the specific requirements of the augmentation and (2) the benefits received to date by the public.

DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 51

Requested 1987–88	$22,500,000
Estimated 1986–87	22,383,000
Actual 1985–86	20,814,000
Requested increase (excluding amount for salary increases) $117,000 (+0.5 percent)	
Recommendation pending	415,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2320-001-317—Support	Real Estate	$22,197,000
Reimbursement		303,000
Total		$22,500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Computer System Upgrade. Withhold recommendation on $415,000 proposed for expansion of the department's computerized information system pending submission, and approval of a feasibility study report identifying the costs and benefits of the proposal. 243
2. Fingerprinting Fees. Recommend adoption of supplemental report language directing the department to limit the fingerprinting fee to an amount which covers the actual costs of processing the fee through the Department of Justice. 244

DEPARTMENT OF REAL ESTATE—Continued

GENERAL PROGRAM STATEMENT

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

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

The department is authorized 351.1 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $22,500,000 for support of the Real Estate Department in 1987–88. This is $117,000, or 0.5 percent, more than the estimated current-year expenditures. The expenditures consist of $22,197,000 from the Real Estate Fund and $303,000 in reimbursements, primarily from fingerprint fees paid by applicants for broker and salesperson licenses.

Table 1 shows the budget requirements for the department during the three-year period ending June 30, 1988. Table 2 summarizes the significant changes proposed for the budget year.

Table 1
Department of Real Estate
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Licensing and education	96.3	89.5	89.9	$4,995	$5,646	$5,585	−1.1%
Regulatory and recovery	176.9	164.6	165.7	10,615	11,210	11,271	0.5
Subdivisions	88.7	97.0	97.3	5,204	5,527	5,644	2.1
Administration (distributed)	(58.4)	(54.0)	(54.9)	(3,955)	(4,391)	(4,800)	9.3
Totals	361.9	351.1	352.9	$20,814	$22,383	$22,500	0.5%
Funding Sources							
Real Estate Fund				*$20,009*	*$22,080*	*$22,197*	*0.5%*
Reimbursements				*805*	*303*	*303*	—

Table 2
Department of Real Estate
Proposed 1987–88 Budget Changes
(dollars in thousands)

1986–87 Expenditures (Revised)	$22,383
Baseline Adjustments	
Onetime expenditures	−277
Deficiency appropriation	−320
Reduced pro rata charges	−60
Underbudgeted facilities operation and communication expenses	319
Subtotals, Baseline Adjustments	(−$338)
Program Change Proposals	
Upgrading of computerized information system	$415
Additional accounting and audit staff	40
Subtotals, Program Change Proposals	($455)
1987–88 Expenditures (Proposed)	$22,500
Change from 1986–87	
Amount	$117
Percent	0.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed changes which are not discussed elsewhere in this *Analysis:*

- Total net *baseline reduction* of $338,000, including reduced pro rata charges, adjustments for underbudgeted operating expenses, onetime expenditures and a deficiency appropriation for 1986–87.
- *Program changes totaling* $40,000 for additional auditing and accounting staff.

No Feasibility Report on Updated Information System

We withhold recommendation on $415,000 requested from the Real Estate Fund for a proposed expansion of the department's computerized information system, pending submission and approval of a feasibility study report which identifies the costs and benefits of the expanded system (Item 2320-001-317).

The department proposes to spend $415,000 from the Real Estate Fund for upgrading and expanding its current computerized information system. Specifically, it proposes to (1) add newer-generation processing units and other equipment to its current on-line information system used in the licensing program and (2) expand the system to other programs.

According to the information submitted by the department, the proposed change will permit much more rapid updating of data files and more timely response to requests from licensees and the public for information. Upon full implementation, it is also expected to reduce the cost of using the Teale Data Center.

At the time this analysis was prepared, however, the department had not submitted a feasibility study report (FSR) to the Office of Information Technology (OIT) in the Department of Finance, as required by the State Administrative Manual. Such a report usually identifies and discusses the (1) need for the proposed system, (2) costs and benefits of the various alternatives, and (3) most cost-effective alternative. This information is

DEPARTMENT OF REAL ESTATE—Continued

used to evaluate the proposed system. Without the FSR, the proposal cannot be properly evaluated.

Accordingly, we withhold recommendation on this request, pending (1) submittal by the department of a feasibility study report to the OIT, (2) OIT's review and approval of the report, and (3) our analysis of the FSR in order to ensure that the most cost-effective alternative is selected.

Department Proposes to Overcharge for Fingerprints

We recommend that the Legislature adopt supplemental report language directing the Department of Real Estate to limit fingerprinting fees to an amount which covers its actual costs for processing and checking the fingerprints through the Department of Justice.

The Department of Real Estate charges initial applicants for broker or salesperson's licenses a special fingerprinting fee of $19.00 per person. This fee is in addition to an application fee (ranging from $120 to $165, depending on the type of license) which covers the department's licensing-related administrative costs. The fingerprints are checked by the Department of Justice (for a charge of $17.50 per fingerprint) to ensure that persons with prior criminal records are not licensed. At the time this analysis was prepared, neither department anticipated a change in fingerprint fees during 1987–88.

Our analysis indicates that the Department of Real Estate proposes to overcharge for fingerprinting license applicants by $1.50 ($19.00–$17.50) per person. Based on the 27,467 initial applicants projected by the department for 1987–88, this overcharge would generate $41,200 in excess revenues for the department.

Since fingerprinting fees are charged to cover actual costs and are not to generate excess revenues, we recommend that the Legislature adopt the following supplemental report language:

> "Fingerprinting Fees. The fingerprinting fees charged by the Department of Real Estate shall be limited to an amount which covers the department's actual costs for processing and checking the fingerprints through the Department of Justice."

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 55

Requested 1987–88	$8,279,000
Estimated 1986–87	8,739,000
Actual 1985–86	5,688,000
Requested decrease (excluding amount for salary increases) $460,000 (−5.3 percent)	
Total recommended reduction	63,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2340-001-337—Support	Savings Association Special Regulatory	$8,232,000
Reimbursements		47,000
Total		$8,279,000
2340-490—Reappropriation of unexpended funds for office automation project		

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Appraiser/Examiner Turnover. Recommend adoption of Budget Bill and supplemental report language requiring specified administrative actions to alleviate turnover among appraisers and examiners. 247
2. Reappropriation of Office Automation Funds. Recommend adoption of Budget Bill language to ensure compliance with legislative intent. 249
3. Regional Banking/Savings Company Act. Recommend that prior to budget hearings, the department report to the Legislature regarding the potential impact of this act on the department's workload in 1987–88. 250
4. ***Rent Expense. Reduce Item 2340-001-337 by $63,000.*** Recommend reduction to correct for overbudgeting of office rent expense. 250

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for regulating the activities and examining the financial records of the state-licensed savings and loan associations in order to protect the savings and investments of the public.

Savings and loan associations doing business in California have the option of being regulated by either the state or federal government. As of November 30, 1986 there were 146 state-chartered savings and loan associations. These associations had total assets of $132 billion. There also were 70 federally chartered savings and loan associations, with total assets of $172 billion, doing business in California. Deposit insurance is provided to both state-chartered and federally chartered savings and loan associations by the Federal Savings and Loan Insurance Corporation (FSLIC).

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

In the current year, the department is authorized 138.1 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $8,232,000 from the Savings Association Special Regulatory Fund for support of the department in 1987–88. In addition, the department anticipates reimbursements of $47,000 from certain savings and loan associations for out-of-state travel costs to be incurred by the

DEPARTMENT OF SAVINGS AND LOAN—Continued

department's appraisers and examiners for reviewing assets held by these associations outside California. Including reimbursements, the budget proposes expenditures of $8,279,000 in 1987–88. This is $460,000, or 5.3 percent, less than estimated current-year expenditures.

Table 1 shows personnel-years and expenditures for the department in the past, current, and budget years. Table 2 categorizes the major budget-year changes.

Table 1
Department of Savings and Loan
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Examination	60.7	80.0	79.7	$3,259	$5,153	$4,906	−4.8%
Appraisal	12.5	20.7	20.8	796	1,363	1,310	−3.9
Licensing	4.9	4.9	4.9	390	451	485	7.5
Administration	26.6	32.5	32.7	1,243	1,772	1,578	−10.9
Totals	104.7	138.1	138.1	$5,688	$8,739	$8,279	−5.3%
Funding Sources							
Savings Association Special Regulatory Fund				*$5,688*	*$8,739*	*$8,232*	*−5.8%*
Reimbursements				–	–	*47*	*100.0*

Table 2
Department of Savings and Loan
Proposed 1987–88 Budget Changes
(dollars in thousands)

1986–87 Expenditures (Revised)	$8,739
Baseline Adjustments	
One-time cost of office automation system	−480
One-time expenditure for equipment	−226
Increased pro rata charges	140
Program Change Proposals	
Increased out-of-state travel for examinations	57
Increased funding for Attorney General's services	49
1987–88 Expenditures (Proposed)	$8,279 [a]
Change from 1986–87	
Amount	−$460
Percent	−5.3%

[a] Includes $47,000 in proposed reimbursements.

ANALYSIS AND RECOMMENDATIONS

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

- Baseline adjustments of (1) one-time expenditures in 1986–87 for an office automation system and equipment (−$706,000) and (2) increased pro rata charges ($140,000); and
- Budget change proposals for (1) out-of-state travel for examinations ($57,000) and (2) increased Attorney General's services ($49,000).

The Appraiser and Examiner Problem

We recommend that the Legislature adopt Budget Bill and supplemental report language in Item 2340-001-337 requiring the Department of Savings and Loan, in cooperation with the Department of Personnel Administration, to take specified administrative actions in order to alleviate the turnover problem among savings and loan appraisers and examiners.

Extent of the Turnover Problem. In our analysis of the State Banking Department's budget (please see page 207 of the *Analysis*), we: (1) discuss how deregulation of the financial services industry has increased the importance of financial examiners as consumer and regulatory "watchdogs"; (2) point out recent turnover problems among the examiners working for the state financial regulatory departments; and (3) identify the two major causes of the turnover problem as (a) higher salary and benefit offers from other employers and (b) state civil service promotional restrictions and salary limitations.

The turnover problem in the Department of Savings and Loan is of similar proportions. For example, in the last two years, 17 examiners (or 20 percent of the total examiner force of 83 positions) left the department for new employment. The majority of them (examiner IIs with three to six years of experience) went to work for the Federal Home Loan Bank, an agency which has been actively soliciting the experienced examiners of state regulatory agencies by offering significantly higher salaries and benefits and also a $600 finder's fee for recruiting experienced state examiners. Although the department actively recruited new examiners throughout the year, 11 examiner positions (or 13 percent of the total examiner staff) remained vacant at the end of 1986.

In addition to the examiners, there has also been a turnover problem among the department's real estate appraisers. At the end of 1986, four (or 23 percent) of the 17 appraiser positions in the department were vacant. Appraisers play a very important role in the examination process—especially in the post-deregulation era—because they verify and monitor the market value of real estate held as security, or as invested assets by savings and loan institutions. Appraisers are in the same civil service group and bargaining unit as examiners.

In the Department of Savings and Loan, examiners also provide an important consumer service function by handling complaints against savings and loan associations.

Reasons for the Turnover. The Department of Savings and Loan cannot effectively compete with recruitment incentives of the Federal Home Loan Bank and other employers for several reasons. First, it does not have enough higher-level positions to provide timely promotional opportunities for its outstanding examiners and appraisers. Second, the salary steps established for the entry and intermediate level positions may not be competitive with salaries paid for comparable positions by other public and private employers. Finally, promotions and salary increases for outstanding examiners and appraisers are often delayed by civil service regulations which require Department of Personnel Administration (DPA) approval of most of these personnel changes. As a result, many of the experienced, more ambitious examiners and appraisers become impatient, frustrated and leave the department for more promising and better paying jobs.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Clearly, it is in the state's best interest to retain its experienced appraisers and examiners. To replace these employees, the department generally must start the training process (at an estimated cost of $85,000 per employee) all over again.

Recommendations to Ease the Turnover Problem. Our analysis indicates that the examiner and appraiser turnover problem in the Department of Savings and Loan may be slowed administratively, without augmenting the 1987–88 budget. This could be done by requiring the Department of Savings and Loan and the Department of Personnel Administration (DPA)—working in coordination—to take certain administrative actions which would permit the Department of Savings and Loan (DSL) to be more successful in retaining experienced appraisers and examiners.

In order to accomplish this task, we recommend that the Legislature adopt the following Budget Bill and supplemental report language under Item 2340-001-337, requiring both departments to take the following sequential actions:

1. Establish "deep class" authority for the DSL to promote outstanding appraisers and examiners more quickly without prior approval by the DPA;
2. Grant Modified Classification Review I (MCR I) authority for the DSL to reclassify and fill vacant appraiser and examiner positions without prior DPA approval;
3. Require the DPA—with assistance from the Department of Savings and Loan—to conduct a salary and benefits survey in order to determine how salary and benefits currently provided by the state for appraisers and examiners compare with salary and benefits provided by other federal and state agencies in comparable geographic areas. (The DPA conducts such surveys from time to time for various civil service positions, as part of its general personnel management responsibility to ensure that the state remains competitive for hiring quality employees); and
4. Require the DPA to report to the Legislature the results of the salary and benefits survey and recommend actions which should be taken to ensure that the state is competitive and successful in recruiting and retaining experienced appraisers and examiners.

Budget Bill Language (Item 2340-001-337)

"No personal services funds scheduled under this item shall be expended after November 1, 1987 unless the Department of Personnel Administration (DPA) authorizes and the Department of Savings and Loan initiates the following sequential administrative steps to alleviate the turnover problem among its appraisers and examiners:

1. Establish "deep class" authority for the appraiser I and auditor I (the entry-level class for examiners in the Department of Savings and Loan) through appraiser IV and examiner IV classifications; and

2. Grant Modified Classification Review I (MCR I) authority for appraiser I and auditor I through appraiser IV and examiner IV classifications."

Supplemental Report Language:

"Compensation Survey for Appraisers and Examiners. The Department of Personnel Administration, with assistance from the Department of Savings and Loan, shall (1) conduct a salary and benefits survey comparing the total compensation (that is, salary and benefits) provided to state regulatory appraisers and examiners with the total compensation provided to such employees by similar federal and other state financial regulatory agencies in comparable geographic and cost-of-living areas; and (2) report—by November 1, 1987—to the Legislature findings of the survey and recommendations to ensure that the department is competitive in recruiting and retaining qualified appraisers and examiners."

Budget Controls Should be Retained on Office Automation Project

We recommend that the Legislature readopt in Item 2340-490 of the 1987–88 Budget Bill, the same language included in the 1986 Budget Act, to ensure compliance with legislative intent relative to the procurement of office automation equipment.

The 1986 Budget Act appropriated $637,000 from the Savings Association Special Regulatory Fund to implement an office automation system for the department. The new system is intended to improve the quality and timing of examinations by making the examination and reporting functions of the department more efficient. To ensure the orderly planning and completion of this system, the Legislature approved language in the 1986 Budget Act to (1) provide a maximum of $261,000 for a pilot project and (2) release the remaining $376,000 to implement the main system only upon the successful completion of the system's pilot project and approval—by the Office of Information Technology (OIT)—of the department's pilot evaluation report.

Due to unanticipated delays in procuring the equipment, the pilot project will not start until April 1987 and will not be completed until July 1987. Assuming a favorable evaluation by the OIT, full implementation of the system will probably take place during the August–December 1987 period. The 1987–88 Budget Bill, as introduced, contains a reappropriation item (Item 2340-490) to carry forward the unencumbered balance from the one-time (1986–87) appropriation in order to finance the full implementation of the system in 1987–88.

This reappropriation item, however, does not include the language approved in Item 2340-001-337 of the 1986 Budget Act, making the availability of the funds contingent upon (1) successful completion of the pilot project, and (2) OIT's approval of the department's pilot evaluation report. In order to ensure compliance with legislative intent concerning implementation of the department's office automation system, we recommend that the Legislature readopt the following Budget Bill language in Item 2340-490:

"Of the $637,000 appropriated in this item for the implementation of an office automation project, no more than $261,000 may be encumbered until the Office of Information Technology approves a pilot evaluation report submitted by the department which: (a) substantiates the costs and benefits of the proposed system as set forth in the department's feasibility study report; and (b) verifies that the project can be fully implemented within the amount appropriated for the project."

DEPARTMENT OF SAVINGS AND LOAN—Continued

Impact of the Regional Bank and Savings Company Act

We recommend that, prior to the budget hearings, the Department of Savings and Loan report to the Legislature regarding the anticipated effect of the Regional Banking and Savings Company Act on the workload of the department during 1987–88.

Effective July 1, 1987, Ch 1250 (SB 2300), authorizes a bank holding company or a savings company—whose operations are principally conducted in one of the 11 specified western states—to do business in California under specified terms. The authorization is contingent upon the home state of such a non-California bank holding company or savings company extending "substantial reciprocity" (as defined) to California bank holding companies or savings companies to do business in that state.

As of January 1, 1987, regulatory representatives of the affected states held one meeting regarding the implementation of Chapter 1250 and similar laws enacted by the other western states. According to the department, sufficient information was not available regarding the number of reciprocal authorizations among the affected states, or the number of savings companies planning to use such authorizations, to get an indication about the potential administrative and regulatory workload for the department. By the time of the budget hearings, however, the department should be in a better position to provide such information, including the effect of any Chapter 1250-related workload on its 1987–88 budget, to the Legislature.

Rent Expenses are Overbudgeted

We recommend that Item 2340-001-337 be reduced by $63,000 to correct for overbudgeting of rent for the department's offices.

The department proposes $406,000 to finance the cost of leasing space for its offices in Los Angeles and San Francisco during 1987–88.

Our analysis of the leases for office space at these two locations indicates that only $343,000 will be needed to rent the proposed space during 1987–88. This amount includes (1) adjusted rental costs for each location, pursuant to the respective lease provisions, (2) the amortized cost of alterations made to the department's office space in Los Angeles, and (3) the annual fee to be charged by the Office of Space Management of the Department of General Services for managing the leases of the Department of Savings and Loan during 1987–88.

The $406,000 included in the department's proposed budget exceed by $63,000 the $343,000 which will be needed for rent of office space and related expenses during 1987–88. We therefore recommend that the Legislature reduce Item 2340-001-337 by $63,000.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 58

Requested 1987–88	$1,206,000
Estimated 1986–87	1,171,000
Actual 1985–86	929,000
Requested increase (excluding amount for salary increases) $35,000 (+3.0 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2600-001-042—Support	State Highway Account	$128,000
2600-001-046—Support	Transportation Planning and Development Account	1,078,000
Total		$1,206,000

GENERAL PROGRAM STATEMENT

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

The commission's major responsibilities include (1) adopting a five-year State Transportation Improvement Program (STIP), (2) determining which transportation projects to fund from annual appropriations, (3) adopting and issuing one-year and five-year transportation revenue estimates for use by regional transportation planning agencies in developing regional transportation programs, (4) recommending funding priorities to the Legislature under the state's Mass Transportation program, (5) submitting to the Legislature an annual report on the policies and decisions adopted by the commission, the major project allocations made in the previous year, and significant transportation issues, and (6) evaluating the Department of Transportation's annual budget and the adequacy of current state transportation revenues.

In the current year, the commission is authorized 11 personnel-years of staff.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $1,206,000 for support of the commission's activities in 1987–88. This amount is $35,000 (3 percent) more than estimated expenditures for the current year. Funding will include $128,000 from the State Highway Account, and $1,078,000 from the Transportation Planning and Development Account in the State Transportation Fund.

The proposed increase of $35,000 results from an increased assessment to the commission for support of various state administrative services (including the Legislature, State Controller, and the Department of Fi-

CALIFORNIA TRANSPORTATION COMMISSION—Continued

nance). For 1987–88, the commission is also proposing to redirect $25,000 in funds for consultant services in order to increase staff by one clerical position to handle additional workload.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our review shows that the proposed expenditures for the commission's support are warranted.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 59

Requested 1987–88	$33,000,000
Estimated 1986–87	10,619,000
Actual 1985–86	69,340,000
Requested increase (excluding amount for salary increases) $22,381,000 (+211 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Recommend Legislature amend this item to conform to actions taken in Item 2660 regarding TP and D Account. 253

GENERAL PROGRAM STATEMENT

The Special Transportation Programs item consists of a single element —the State Transportation Assistance (STA) program. The STA program provides capital and operating assistance to local transportation agencies for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $33 million from the Transportation Planning and Development (TP and D) Account for the STA program in 1987–88. This is $22,381,000, or 211 percent, greater than estimated current-year expenditures. The budget proposes to finance the program through transfers to the TP and D Account of $27 million in tidelands oil revenues from the Special Account for Capital Outlay (SAFCO) and $6 million in Petroleum Violation Escrow Account (PVEA) funds.

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature amend this item of the Budget Bill (Item 2640) to conform to its actions on TP and D Account funding under Item 2660.

The budget proposes changes to the current funding of the TP and D Account and the programs it supports. Our analysis of all changes proposed to the funding of TP and D Account programs—including those affecting the STA program—are discussed under the Department of Transportation item in this *Analysis*. (Please see Item 2660.) As a result, we recommend that the Legislature conform this item to its decision on the larger issue of funding for the TP and D Account.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Item 2660 and 2660-301 from various funds — Budget p. BTH 62

Requested 1987–88	$3,222,733,000
Estimated 1986–87	3,099,564,000
Actual 1985–86	2,505,044,000
Requested increase (excluding amount for salary increases) $123,169,000 (+4.0 percent)	
Total recommended reduction	338,090,000
Recommendation pending	88,169,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund[a]	Amount
2660-001-041—Aeronautics, support	Aeronautics Account	$2,465,000
2660-001-042—Highway, support, Mass Transportation, support	State Highway Account	902,744,000
2660-001-045—Highway, support	Bicycle Lane Account	10,000
2660-001-046—Mass Transportation, support, Transportation Planning, support	Transportation Planning and Development Account	30,271,000
2660-001-047—Mass Transportation, support	Abandoned Railroad Account	56,000
2660-101-041—Aeronautics, local assistance	Aeronautics Account	200,000
2660-101-042—Highway, local assistance, Mass Transportation, local assistance	State Highway Account	63,920,000
2660-101-045—Highway, local assistance	Bicycle Lane Account	838,000
2660-101-046—Mass Transportation, local assistance, Transportation Planning, local assistance	Transportation Planning and Development Account	10,871,000
2660-301-042—Highway, capital outlay	State Highway Account	432,570,000
Total, Budget Act Appropriations, State Funds		$1,443,945,000
Prior Appropriations—		
Toll Bridge Funds—Highway, support	Toll Bridge	$36,811,000
Statutory—Aeronautics, local assistance	General	1,080,000
Statutory—Aeronautics, local assistance	Aeronautics Account	2,901,000

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Statutory—Highways, support	General	184,000
Statutory—Mass Transit, local assistance	Petroleum Violation Escrow Account	2,500,000
Budget Act of 1981—Highway, capital outlay	State Highway Account	400,000
Budget Act of 1982—Highway, capital outlay	State Highway Account	1,000,000
Budget Act of 1983—Highway, capital outlay	State Highway Account	2,000,000
Budget Act of 1984—Highway, capital outlay	State Highway Account	6,000,000
Budget Act of 1985—Highway, capital outlay	State Highway Account	32,853,000
Budget Act of 1986—Highway, capital outlay	State Highway Account	104,562,000
Toll Bridge Funds—Highway, capital outlay	Toll Bridge	18,462,000
Total, Prior Appropriations, State Funds		$208,753,000
Minus, Transfer to General Fund		540,000
Minus, Balance Available in Subsequent Years		122,045,000
Minus, Unexpended Balance		9,420,000
Federal Funding [b]		
2660-001-890—Support	federal	170,025,000
2660-101-890—Local Assistance	federal	255,984,000
2660-301-890—Capital Outlay	federal	872,102,000
Reimbursements		403,929,000
Total, All Expenditures		$3,222,733,000

[a] All accounts are within the State Transportation Fund.
[b] Net of prior appropriations, previous balances, and revision.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Funding of Capital Outlay. Reduce Item 2660-301-042 by $39 million.*** Recommend reduction because past reversion experience indicates a consistent overbudgeting of funds to deliver highway capital outlay projects. 263
2. ***Cash Flow Management Proposal.*** Recommend the adoption of supplemental report language (a) directing the department to conduct, and submit to the Legislature, a feasibility study report on an alternative financing/accounting methodology for capital outlay projects, and (b) prohibiting the department from adopting the alternative methodology until it has approval through the budget process. 264
3. ***Size of State-Funded-Only Program. Reduce Item 2660-301-402 by $250 million.*** Recommend that the Legislature enact legislation to establish a framework and general guidelines for the California Transportation Commission and the department to follow in determining (1) when state funds should be used to fully support highway projects, (2) and the appropriate magnitude of the state-funded only program. Further recommend deletion of $250 million requested for state-funded only projects until such legislation is enacted. 265
4. ***Contracting Authority.*** Recommend that the Legislature enact legislation to provide the department clear authority and guidelines to contract for engineering services directly, if the Legislature decides contracting to be desira- 269

ble. Further recommend that the department be required to justify the proposed contract amount annually in the budget.

5. ***Maintenance Work Information.*** Recommend the adoption of supplemental report language directing department annually to submit information relating to highway maintenance needs and activities. 270
6. ***Maintenance Work by Staff.*** Recommend approval of $3.6 million for additional maintenance to be accomplished by an augmentation of 60.2 personnel-years of staff. (Item 2660-001-042) 272
7. ***Funding Shift. Delete Items 2640-101-036 and 2660-001-001 and amend Item 2640-101-046.*** Recommend that the Legislature delete transfers, proposed in lieu of current law, of $18 million in General Fund and $27 million in SAFCO resources to the Transportation Planning and Development Account and, instead, transfer $27 million of tidelands oil revenues directly to the General Fund. Further recommend language to appropriate 60 percent of specified TP and D Account revenues to the State Transportation Assistance program. 274
8. ***PVEA Funding.*** Recommend that $6 million in PVEA funds requested for the State Transportation Assistance program be allocated, instead, under the Transit Capital Improvements program. Withhold further recommendation on $10 million in proposed PVEA transfers to the Transportation Planning and Development Account pending receipt of the Transit Capital Improvements priority list. 276
9. ***Caltrain Capital Improvements.*** Withhold recommendation on $22,907,000 in federal funds and $18,176,000 in reimbursements pending receipt of the Transit Capital Improvements priority list. 277
10. ***Metro Rail.*** Recommend that the Legislature enact legislation to amend current law to allow local agencies to reserve funds for San Fernando Valley Metro Rail construction in lieu of current requirements to commence such construction. 278
11. ***Local Assistance for Planning. Reduce Item 2660-101-046 by $600,000.*** Recommend reduction because proposed discretionary funds to assist local planning agencies is not justified. Further recommend corresponding reduction in the transfer from the State Highway Account to the TP and D Account. 280
12. ***Tort Liability Caseload Study.*** Recommend adoption of supplemental report language directing the department to review its attorney workload in terms of tort liability cases and report to the Legislature on the potential impact of the increasing caseload. 281
13. ***Accounting Personnel. Reduce Item 2660-001-042 by $663,000 and 15 personnel-years.*** Recommend reduction because a request for additional accounting personnel is overbudgeted. 282

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

14. ***Conversion to Data Base Management System. Reduce Item 2660-001-042 by $981,000.*** Recommend reduction because the proposal to convert existing information systems to a data base management system is not well defined, and the amount requested for the effort is not justified. 283
15. ***Technical Adjustments. Reduce various items by $50,546,000 and revert $5,700,000 from previous appropriations.*** Recommend reductions and reversions because funds are either overbudgeted or no longer needed. 283
16. ***Pending Recommendations.*** Withhold recommendation on $37,086,000, pending further information. 284

GENERAL PROGRAM STATEMENT

The Department of Transportation (Caltrans) is responsible for the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes, and Administration encompasses management of the department. Expenditures for the Administrative program are prorated among the four operating programs.

The department is authorized $3.1 billion and 14,984.8 personnel-years in the current year to perform its activities.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $3,222,733,000, all funds, by the Department of Transportation in 1987–88. This is $123,169,000 or 4 percent more than estimated current year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1985–86 through 1987–88.

Table 1
Department of Transportation
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Aeronautics	22.8	30.2	30.2	$6,001	$5,643	$5,956	5.6%
Highway transportation	13,277.9	13,176.0	13,647.3	2,340,461	2,806,067	3,043,518	8.5
Mass transportation	172.8	186.8	186.1	138,607	267,107	150,505	43.6
Transportation planning	102.2	126.4	126.4	19,975	20,747	22,754	9.7
Administration (distributed)	1,359.0	1,465.5	1,504.5	(109,654)	(117,303)	(129,137)	10.1
Totals	14,934.7	14,984.9	15,494.5	$2,505,044	$3,099,564	$3,222,733	4.0
Funding Sources							
State Funds				*$1,089,858*	*$1,413,189*	*$1,520,693*	*7.7%*
Federal funds				*1,157,981*	*1,371,679*	*1,298,111*	*−5.4*
Reimbursements				*257,205*	*314,696*	*403,929*	*28.4*

Funding Sources

The expenditures proposed for 1987–88 will be financed with:

- ***State funds*** of $1.5 billion—8 percent above estimated state expenditures in the current year.
- ***Federal Funds*** of $1.3 billion, including $872 million for capital outlay and $426 million for support and local assistance. The total is $73.6 million (or 5 percent) less than current-year estimated expenditures.
- ***Reimbursements*** of $404 million from other agencies or individuals—28 percent more than estimated for the current year.

Significant Program Changes

Table 2 compares the department's proposed expenditures from various funding sources in 1987–88 with expenditures in the current year. The bulk of the increases are in the Highway Transportation program. The major changes proposed in the Department of Transportation's budget are discussed in the review of each of the department's programs. Table 3 summarizes the major changes in proposed activities, by program.

Table 2

Department of Transportation
Proposed 1987–88 Budget Changes
(dollars in thousands)

	Aeronautics Account	*State Highway Account*	*Transportation Planning and Development Account*	*Federal Funds*	*Reimbursements*	*Other Funds*	*Total*
1986–87 Expenditures (Revised)	$5,048	$1,270,148	$44,053	$1,371,679	$314,696	$93,940	$3,099,564
1. Cost changes	54	−311	960	10,512	—	−72	11,143
2. Workload and program changes							
a. Aeronautics							
(1) State operations	17	—	—	335	—	—	352
(2) Local assistance	−93	—	—	—	—	—	−93
b. Highways							
(1) State operations	—	56,242	—	7,053	—	—	63,295
(2) Local assistance	—	—	—	−24,400	—	−2,412	−26,812
(3) Capital outlay	—	182,951	—	−86,581	89,098	−2,500	182,968
c. Mass transportation							
(1) State operations	—	—	−18,000	—	−91	18,000	−91
(2) Local assistance	—	−93,906	−6,571	—	—	−25,555	−126,032
(3) Capital outlay	—	—	−3,300	19,513	226	—	16,439
d. Transportation planning							
(1) State operations	—	—	—	—	—	—	—
(2) Local assistance	—	—	2,000	—	—	—	2,000
Total Proposed Workload and Program Changes	−$76	$145,287	−$25,871	−$84,080	$89,233	−$12,467	$112,026
1987–88 Expenditures (Proposed)	$5,026	$1,415,124	19,142	$1,298,111	$403,929	$81,401	$3,222,733
Change from 1986–87 Expenditures							
Amount	−$22	$144,976	−$24,911	−$73,568	$89,233	−$12,539	$123,169
Percent	−0.4%	11.4%	−56.6%	−5.4%	28.4%	−13.4%	4.0%

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Table 3
Department of Transportation
Summary of Major Changes
(dollars in thousands)

Highway Transportation	*Amount*	*Personnel-Years*
State-funded capital outlay	$250,000	—
Staff increase for design and engineering	30,363	395.0
Maintenance workload increase	2,261	33.4
Roadway maintenance backlog	8,368	13.2
Operations	1,055	24.8
Roadside rest maintenance	1,500	—
Equipment and material purchase	17,271	—
Mass Transportation		
Peninsula Commuter Service Capital Improvements	41,083	—
Transbay Terminal Rehabilitation	919	—
Planning		
Local assistance	2,000	—
Administration		
Tort payment	12,000	—

ANALYSIS AND RECOMMENDATIONS

Overview of Analysis

The Legislature has repeatedly expressed the importance of a well-developed and effectively maintained state highway system to the people of California. As discussed in this *Analysis,* however, the department is experiencing significant problems in carrying out its highway capital outlay and maintenance responsibilities.

Our review of the department's 1987–88 budget and the status of funding availability for transportation projects points out that there is need for additional state resources to (1) fund the 1987 State Transportation Improvement Program, and (2) address some of the transportation improvements estimated to be needed by the state over the next decade. (A detailed discussion of the state's transportation funding condition is presented in our report number 87-7 entitled *State Transportation Funding Needs and Options.*

However, our review shows that an increase in funding in and of itself will not generate additional transportation improvement projects in the short run because, in our view, the department does not possess sufficient staff to deliver the projects. Over the last three years, the department's staffing level has been arbitrarily constrained although its workload indicated that a substantial increase in staffing was needed. (See page 266 and past *Analyses.*) Consequently:

- Capital outlay expenditures have not been as high as initially planned or budgeted. (See page 261.)
- Backlogs in various work activities, such as closing out projects, have accumulated. (See page 282.)
- Staff resources have been redirected among activities in order to stay within the lower, departmentwide staffing level, leaving certain work, such as design and engineering as well as snow removal efforts, understaffed. (See pages 268 and 270.)

In addition, attempts to contract out part of the work has *not* proven successful. Thus, there are increasing backlogs in both design and engineering work as well as maintenance activities. (See page 272.)

Although a major increase in staff—510 personnel-years—is being proposed in 1987–88, *it will be some time before the department can deliver capital outlay projects closer to STIP schedules, reduce the backlog of maintenance and other work, and begin to do the necessary engineering and design work for future projects.* A substantial increase in staff imposes other demands on the department, including the potential for recruiting, training, and other operational problems. (See page 268.)

The department's ability to increase delivery of capital outlay projects, while maintaining and operating the state's highway system also depends on how successful it is in contracting out for about 425 personnel-year equivalents of engineering work and about 100 personnel-years of maintenance work in 1987–88. In addition, the budget indicates, as it has done in past years, that the department anticipates various "efficiencies," including efficiencies to be achieved through the "Caltrans 2000" review and various automation efforts. However, as we point out, until these automation efforts are fully implemented, accounting for the related efficiencies would be premature. (See page 268.)

Thus, until the department is staffed realistically according to the level of work it proposes to deliver, an increase in funds available for capital outlay purposes will continue to generate high State Highway Account balances, and will not necessarily address the need for improvement of the state highway system. (See page 264.)

TRANSPORTATION FUNDING

In our report entitled *State Transportation Funding Needs and Options* (Report Number 87-7), we analyze the condition of state transportation funding and identify the options available to the Legislature to meet the state's transportation needs. This review indicates that:

- An additional $450 million in State Highway Account (SHA) money will be needed over the next five years to fully fund all Department of Transportation support activities and the 1987 State Transportation Improvement Program (STIP) projects, beginning in the second half of 1989–90.
- *Over and above* the amounts programmed in the 1987 STIP, there is more than $13 billion of highway improvements estimated by the department to be needed during the next 10 years.
- Additional transit guideway needs could exceed $2.4 billion from now until the year 2000. Furthermore, the Department of Transportation estimates that needed capital improvements on state administered passenger rail services will total $162 million during the next *five* years.
- Noncapital outlay expenditures—including highway maintenance and operations—will outgrow SHA revenues, so that by 1990–91, they will exceed total SHA resources. Essentially, this would stop highway building projects unless an additional source of revenue was forthcoming.
- The availability of federal funds is uncertain. At the same time, there is increasing use of local funds, such as county sales taxes, for state transportation projects.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

- The Legislature has several options to raise funds, including a motor fuel tax increase or redirection of General Fund revenues. A tax increase, however, would be constrained by the Article XIII B appropriation limit.
- Bond issues can be used to finance capital improvements, but debt financing is costly.

HIGHWAY TRANSPORTATION

Of the total 1987–88 expenditures proposed in the department's budget, $3 billion (94 percent) is proposed for the Highway Transportation program. This is an increase of $237 million, or 8 percent, above estimated expenditures in the current year. The budget proposes to increase staffing for the program by 471.3 personnel-years.

Table 4 shows proposed changes in expenditures and the funding sources for the Highway Transportation program in 1987–88. The State Highway Account will finance $1.4 billion (45 percent) of total proposed expenditures. An additional $1.2 billion (41 percent) will be financed from federal funds. The remaining $425 million (14 percent) will come from other state funds and reimbursements.

Table 4
Department of Transportation
Highway Transportation
Proposed Program Changes and Fund Sources
1987–88
(dollars in thousands)

	Personnel-Years	*State Operations*	*Local Assistance*	*Capital Outlay*	*Total*
1986–87 Expenditures (Estimated)	13,176.0	$1,041,386	$294,650	$1,470,031	$2,806,067
Proposed Change					
Rehabilitation	73.7	14,895	—	33,725	48,620
Operational improvements	125.8	1,416	—	4,053	5,469
Local assistance	12.3	2,421	−26,812	21,533	−2,858
Program development	3.3	−188	—	—	−188
New facilities	290.7	19,664	—	131,996	151,660
Operations	1.3	2,831	—	—	2,831
Maintenance	−35.8	31,917	—	—	31,917
Subtotals (proposed changes)	471.3	$72,956	−$26,812	$191,307	$237,451
1987–88 Expenditures (proposed)	13,647.3	$1,114,342	$267,838	$1,661,338	$3,043,518
Funding Sources					
State Highway Account		*$902,573*	*$32,000*	*$448,460*	*$1,383,028*
Federal funds		*158,360*	*232,500*	*844,272*	*1,235,132*
Other State Funds		*37,005*	*3,338*	*18,462*	*58,810*
Reimbursements		*16,404*	—	*350,144*	*366,548*

The department's highway capital outlay activities are in three program elements—*rehabilitation*, which extends the service life of the highway system, *operational improvements* which increase the capacity and efficiency of the system, and *new facilities* which adds new mileage in the system. Staff in these three elements design, engineer, and manage the construction of highway projects scheduled for delivery according to the State Transportation Improvement Program (STIP).

Under the *local assistance* program element, the department also performs fully reimbursed design and construction oversight work for local agencies. Due to increasing local initiatives to generate funds for additional capital outlay projects on the state highway system, this activity will increase.

In total, the department is requesting $1.7 billion in capital outlay expenditures—$192 million higher than estimated for the current year, including an additional $89 million in reimbursed expenditures. The budget also requests $453 million for staff support to deliver capital outlay projects.

Highway maintenance is the other major activity of the Highway Transportation program. Maintenance is funded out the State Highway Account with no federal support. For 1987–88, the budget proposes $542 million in maintenance activities, to be achieved with 5,791 personnel-years of support—about 36 personnel-years less than estimated in the current year. This reduction is the net result of 46 additional personnel-years requested for roadway maintenance and a reduction of 82 personnel-years in technical services prorated to the maintenance element by the Administration program.

Highway Capital Outlay

The Legislature has delegated to the California Transportation Commission (CTC) the authority to allocate funds for specific highway capital outlay projects according to the State Transportation Improvement Program (STIP). Consequently, the Legislature annually appropriates a lump sum amount for this purpose, based mainly on the estimated costs of all projects programmed for delivery in the budget year. Each appropriation is available for encumbrance over three years. Annually, the department projects how much out of each (of the three) outstanding appropriations it will spend in the budget year, by estimating the projects it will award for construction. For 1987–88, the department is requesting a total *appropriation* for capital outlay purposes of $1.1 billion—$433 million in State Highway Account funds and $656 million in federal funds. Together with proposed expenditures from toll bridge funds and reimbursements, the department proposes a total highway capital outlay expenditure program of $1.3 billion in the budget year.

Our review shows that *the department is not able to deliver projects according to the STIP schedule. Consequently, over the last three years, about 25 percent of STIP projects were not delivered, and capital outlay expenditures have been below the planned level. Moreover, based on past experience, capital outlay expenditures for the current and budget years are likely to be substantially less than budgeted.*

Because there is no one exact indicator to measure capital outlay delivery, we based our review on the following *three indicators* to get an estimate of the department's performance:

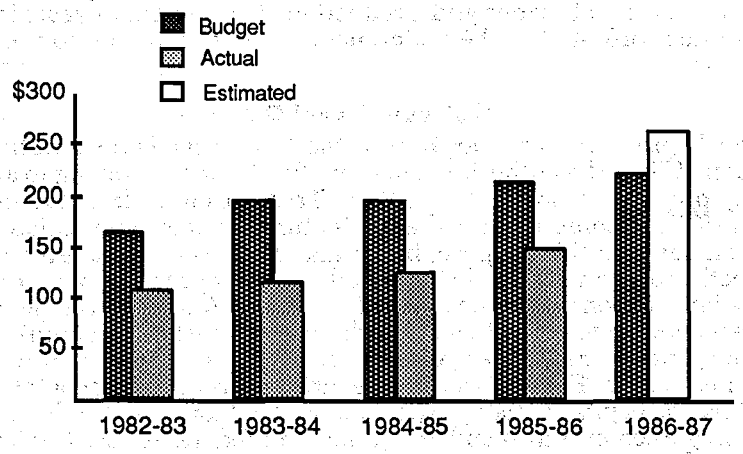
- Actual annual expenditures compared to planned expenditures;
- The amount of each appropriation expended in the first two years of that appropriation; and
- The number of major STIP projects to which the CTC has allocated funds.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Actual Expenditures Fall Short of Budgeted Expenditures. From 1982–83 through 1985–86, the department planned total capital outlay expenditures from *SHA and federal* funds of $3.9 billion. Actual expenditures were $2.9 billion, or 75 percent of what was planned. As Chart 1 shows, from 1982–83 through 1985–86, the actual amount of *SHA* expenditures for highway capital outlay has been less than 70 percent of budgeted expenditures.

Chart 1

Department of Transportation Highway Capital Outlay Expenditures State Highway Account (in millions)



Less Than 70 Percent of Funds Needed in First Two Years of Appropriation. Table 5 shows the SHA amounts appropriated annually since 1981–82, and the amount expended in each of the three years for which the appropriations are available for encumbrance. Generally, between 50 percent to 60 percent of each appropriation is expended in the first two years. As the table indicates, the department estimates that it will use up about 65 percent of the 1985–86 appropriated funds by the end of the current year. In this instance, the best example in the last five years, it took two years for the department to obligate up to 65 percent of the programmed STIP amounts.

Funds were Allocated for About 75 Percent of Major STIP Projects. From 1984–85 through January 1987, the department received fund allocations for 550 out of 829 major STIP projects (with costs of over $250,000 each) programmed to be delivered from 1984–85 through 1986–87. If the department continues to request fund allocations for projects at the rate it did in the last seven months, we estimate that about 75 percent of all major projects would be delivered, leaving a backlog of 25 percent.

Current-Year and Budget-Year Expenditures are Likely to be Less. Although the department estimates current- and budget-year expenditures of $1.2 billion and $1.3 billion, respectively, past experience indicates that actual capital outlay expenditures would be less. In the current year, however, the department is encumbering $100 million to backfill federal funds. As a result, SHA expenditures will be higher, while federal-funded expenditures will be lower.

Table 5
Department of Transportation
Highway Capital Outlay Expenditures[a]
By Year and Appropriation
State Highway Account
(dollars in millions)

Appropriation	*Appropriated Amount*	*Expenditures During 1981–82*	*1982–83*	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*Percent Expended After Two Years*	*Total Reversions/ Transfers*
Budget Act 1981	$150.5	$44.1	$29.2	$24.4	—	—	—	—	48.7%	$52.4
Budget Act 1982	186.0	—	71.5	25.8	–$4.0[b]	—	—	—	52.3	91.7
Budget Act 1983	181.4	—	—	67.6	34.6	$8.2	—	—	56.3	69.0
Budget Act 1984	243.1	—	—	—	96.1	53.5	Est. $20.5	—	61.5	71.0
Budget Act 1985	209.2	—	—	—	—	87.2	Est. 47.9	Est. $23.4	64.5	48.7

[a] Expenditures and reversions shown in table do not total to appropriated amounts due to subsequent reappropriations.
[b] Negative amount due to accounting reconciliation.

Reversions and Transfers Indicate Overbudgeting

We recommend a reduction of $39 million from the State Highway Account because past experience indicates a consistent overbudgeting of funds to deliver STIP projects. (Reduce Item 2660-301-042 by $39 million).

Table 5 also shows that substantial amounts from past capital outlay appropriations have been either transferred to other uses, including support, or reverted back to the State Highway Account because they were no longer needed. In 1982–83, 49 percent was transferred or reverted. The department indicates that 23 percent out of the 1985–86 appropriation has been reverted to date. Our analysis indicates that the department has over-estimated the amount needed to fund STIP projects for several reasons.

- The department is not capable of delivering all projects scheduled in the STIP within the three year period;
- The cost of projects have been less than estimated; and
- Projects have been dropped from the delivery schedule because they are no longer needed, or they are being rescoped and therefore rescheduled for a later delivery date.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Based on past experience, we think that the amount of State Highway Account funds requested for 1987–88 is too high. Accordingly, we recommend that the amount requested be reduced by a conservative 10 percent, or $39 million. This would more accurately reflect the amount needed based on the department's delivery record.

Cash Flow Management Proposal Requires Review

We recommend that the Legislature adopt supplemental report language to (1) direct the department to submit to the Legislature a detailed feasibility study report on an alternative financing/accounting methodology for capital outlay expenditures, and (2) prohibit the department from adopting the alternative methodology until it has justified the implementation through the annual budget process.

Currently, when the department awards contracts for capital outlay construction, the full amount of the contract is set aside (or encumbered) for payment. Payment, however, often extends over several years, and is made in phases according to the amount of work completed. Thus, emcumbered funds stay in the State Highway Account as cash balances, until payments are made (or liquidated).

State Highway Account Shows a Significant Monthly Balance. In 1985–86, the cash balance averaged $746 million. For the current year, the balance has increased to an average of $896 million. When all outstanding payment *commitments* (including contracts) are deducted, the cash balance averages around $400 million a month. The increasing cash balance indicates that payments lag behind receipts, and suggests that available resources are not being used most efficiently.

An Alternative Approach to Reduce the Cash Balance is Under Consideration. The department, jointly with the Department of Finance, is considering changing the method of financing and accounting for capital outlay projects. Under the alternative approach, instead of setting aside the full amount of any contract when it is awarded, regardless of when payment is due, the department would estimate the amount of state funds needed to make all payments anticipated for any one year, and budget for only that amount on a year-by-year basis.

The alternative approach would reduce the amount of money needed in a year to finance a given project, and consequently, allow the department to finance more projects at the outset. Thus, there *could* be a one-time increase in the amount of projects awarded. However, by not assuring that funds are available to cover the full contract amount, the alternative approach increases the risk of the department running short of money in the future to cover all of its outstanding obligations.

Discussions with the department indicate that it currently has the statutory authority to budget state funded capital expenditures on an anticipated annual pay-out basis. It is, however, prohibited by federal law from doing so relative to the federally-funded portion of any contract. Consequently, adopting the alternative approach would require essentially two accounting and budgeting systems for capital outlay projects—one for state funds and one for federal funds. Adjustments to other internal processes would also be needed. Most importantly, the department would need to have an accurate cash flow model to track and estimate cash demand on a project-by-project basis.

Financing Method is Not the Real Constraint at this Time. The department indicates that it is not ready, at this time, to switch to the alternative approach. It does not know what all the necessary conditions for implementation are. The accounting and budgeting systems and cash flow model mentioned above are not in place. It is also not clear what level of costs and staff resources would be required to implement the processes, and whether the additional, essentially one-time, funding capacity of projects warrants the additional costs. Our review shows that although the alternative approach would enable the department to increase the number of projects under construction, it would not necessarily result in a smaller cash balance. *Unless the department has projects ready for construction*, cash balances would remain unused even with the alternative method of financing.

However, the approach may prove to be beneficial in providing the department with additional flexibility to increase capital outlay activities. Thus, we think this approach should be carefully reviewed, and the necessary conditions for its implementation identified, including an evaluation of costs. Accordingly, we recommend the Legislature adopt the following supplemental report language:

"The department shall submit to the Legislature for review, a detailed feasibility study report on the advantages and disadvantages of an alternative approach to finance projects on a year by year basis, its cost and benefits and all the necessary conditions—including data processing and accounting systems, staff and other resources—which need to be in place for the implementation of this approach. The department shall not adopt this modified system of accounting until it has submitted the report and received approval for implementation through the annual budget process."

State-Funded-Only Program

We recommend that the Legislature enact legislation to establish a framework and general guidelines for the California Transportation Commission and the department to follow in determining (1) when state funds should be used to fully support highway projects, and (2) the appropriate magnitude of the state-funded only program. We further recommend deletion of $250 million from the State Highway Account requested for state-funded only projects until such legislation is enacted and the amount reassessed. (Reduce Item 2660-301-042 by $250 million.)

For the current year, the department requested, and the Legislature approved *$100 million* from the State Highway Account in order to fully fund certain noninterstate capital outlay projects, which would otherwise be delayed due to federal funds being less than anticipated. For 1987–88, the Governor's Budget requests a total of *$250 million* for the same purpose.

Up until the current year, state funds have been used primarily to match federal funds, which pay for about 90 percent of project costs. Few projects are financed entirely out of state funds. In the 1986–87 *Analysis*, (please see page 296) we discussed the issues relating to the use of state money to fully fund highway projects. We still believe that the issue of whether the state should fund a portion of its highways program exclusively with state money is a *policy* issue which the Legislature ought to decide.

In our view, the Legislature should consider:

1. ***Under what circumstance should there be a "state-funded" capital outlay program?*** As discussed earlier, the needs for additional transportation improvements beyond those programmed in the STIP are sub-

stantial. The Legislature ought to determine whether a certain level of state-funded program should be *sustained on an ongoing basis* as part of a long-term program to meet some of the estimated needs, or whether state funds will only be used to "backfill" federal funds. In making this decision, the Legislature needs to consider the impact of such a program on its ability to meet other demands on the SHA, such as Article XIX transit guideway funding. In order to maintain a sustained level of state-only capital outlay program it will be necessary to consider additional state revenues.

2. ***What should be the level of program funding for state-funded projects and what types of projects should be funded?*** The budget identifies $100 million for the current year and proposes $250 million for the budget year in order to (a) backfill federal funds and keep noninterstate projects on schedule as they have been initially programmed, and (b) reduce the cash balance in the account. However, the 1987 STIP Fund shows that, in order to keep noninterstate STIP projects on schedule in subsequent years, an additional $76 million in 1988–89, and $62 million in 1989–90, will be needed.

We think the Legislature should determine if (a) the current approach is the best approach to program projects for delivery since it will likely result in funding gaps which the SHA will be called upon to "backfill," and (b) it intends to continue funding projects to keep them on a schedule which assumes optimistic federal funding.

3. ***What is the impact of using these funds on the fiscal condition of the State Highway Account both in the short and the long run?*** The 1987 Fund Estimate also shows that additional state revenues will be needed by 1989–90 to cover all noncapital expenditures such as highway maintenance and operations, and to match anticipated federal funds. If the Legislature decides to continue using state funds to keep federal projects on schedule after 1987–88, the state's ability to match federal funds in the future would be reduced, and the Legislature would need to consider raising state funds sooner than 1989–90.

Analyst Recommendation. In summary, we believe the Legislature needs to determine whether a state-funded-only program should be an ongoing, integral part of the highway capital outlay program, and what the level of funding should be. It should also consider the demand of such a program on state revenue needs. Consequently, we recommend that the Legislature enact legislation which defines the policies of a state-funded program and provides guidelines for the CTC and the department to follow in determining when and how much to request annually in the budget for the state-funded program. We further recommend that the $250 million be deleted from the budget until the legislation in enacted, and the appropriate amount of state-funded program re-assessed.

Highway Capital Outlay Support

Project Delivery Still Questionable

We recommend approval of the department's request to increase resources by $30,363,000 for additional capital outlay support, in order to deliver projects in the 1987 STIP.

For 1987–88, the department estimates its total workload to be 6,576 personnel-years, based on the projects scheduled in the 1987 STIP. The department proposes to accomplish this workload with 5,791 personnel-years (PYs) in regular and temporary staff, and the equivalent of 250 PYs in cash overtime. In addition, it proposes to contract for 110 PYs of student assistance, and the equivalent of 425 PYs in project design and engineering services.

Request for Additional Personnel Appears Warranted. To support the proposed level of effort, the department is requesting an increase of $30.4 million including (1) $16.9 million for an additional 395 PYs in regular staff, (2) $13.2 million for an additional 155 PY equivalent of contract engineering services, and (3) $236,000 for 10 PYs in student assistance. The department also proposes to reduce cash overtime work by 50 PYs—from the current 300 PYs to 250. This reduction is the result of a recently implemented departmentwide policy to limit the amount of overtime worked per employee.

Our review of the department's proposal indicates that the request for additional staff appears justified. However, despite the increase, we question the department's ability to deliver projects scheduled in the 1987 STIP, for the following reasons:

1. The department has a backlog of engineering work due to past underbudgeting;
2. Productivity loss will occur from staffing up and training new staff;
3. Various efficiencies likely will not be realized; and
4. The department may not be able to contract engineering work to the private sector.

Capital Outlay Support Staff has been Underbudgeted for Three Years. Since 1983–84, the department has claimed various efficiencies, and consistently underbudgeted the staff needed to deliver capital outlay projects programmed in the STIP. Table 6 compares the staffing need estimated according to the department's statistical personnel-years, project scheduling, and cost analysis (PYPSCAN) model and the amount requested by the department.

Table 6

Department of Transportation
Budgeted Versus Estimated Staff Need [a]
Capital Outlay Support

	Personnel-Years [b]		
	Statistically Estimated Need	*Budgeted*	*Difference*
1983–84	6,270	5,645.4	624.6
1984–85	6,272	5,999.2	272.8
1985–86	6,108	5,790.0	318.0
1986–87	5,887	5,696.5	190.5

[a] Estimate based on the department's "statistical model for personnel-year, project scheduling, and cost analysis system" (PYPSCAN), without adjustments for any "efficiencies."
[b] Personnel includes regular staff, temporary help, and cash overtime equivalents.

Because of the underbudgeting, the department has redirected resources from other activities, and utilized staff overtime, in order to accomplish design and engineering activities. Table 7 shows that the department redirected resources or utilized overtime in all three years from 1983–84 through 1985–86. As a consequence, actual personnel-years expended on capital outlay exceeded the amount requested (and budget-

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

ed) by substantial amounts. These redirections have, in turn, resulted in work *not* being accomplished in other areas—such as pavement maintenance, which are discussed in later sections of this *Analysis*.

Table 7
Department of Transportation
Budgeted Versus Actual Personnel
Capital Outlay Support

	Personnel-Years [a]		
	Budgeted	*Actual*	*Difference*
1983–84	5,645.4	5,955.5	310.1
1984–85	5,999.2	6,511.0	511.8
1985–86	5,790.0	6,062.5	272.5
1986–87	5,696.5	5,886.5 [b]	190 [b]

[a] Personnel includes regular staff, temporary help, and cash overtime equivalents.
[b] Estimated to be needed based on department workload.

Shortfall in the Current Year Estimated to be 190 PYs. As Table 7 shows, the department has budgeted 5,696 personnel-years to deliver it's capital program in the current year. However, it estimates the workload to be higher by 190 PYs. To make up for part of this shortfall, the department is requesting 74 PYs (as part of the total 395 PY increase in the budget year) to minimize the slippage of projects scheduled for delivery in the later years of the STIP period (i.e., 1989–90 through 1991–92).

Operational and Training Problems Will Reduce Productivity of New Staff. We estimate the department will need to hire 600 to 700 new personnel—mostly engineering staff—during 1987–88, in order to fill the 395 personnel-years and to compensate for normal attrition. In addition, if department staff participates in the early retirement option currently available to all state employees, the department estimates that it might have to hire another 200 personnel to make up that loss. However, even if the department fills all the new and vacated positions, it will likely obtain *less* than 395 PY of additional effort because operational and training problems associated with bringing these new staff on board will result in some productivity loss. For instance, Junior Civil Engineers—the entry level engineer rank—typically go through a 12 to 18 month rotational training program. It is unreasonable to assume the new staff's productivity level to be the same as experienced staff while they are in training. Moreover, the department cannot bring all these staff on board at one time due to other considerations such as space, timing and scheduling of training.

Efficiencies and Other Adjustments are Questionable and Likely Will Not Materialize Fully. The department requests 395 additional personnel-years *after* it *reduced total staff need by 393 PYs for various efficiencies* from the implementation of Caltrans 2000—a departmentwide program started in 1985–86 to eliminate less important work. If these efficiencies are not realized, staffing would be insufficient by this amount. For instance, the budget claimed efficiencies of about 120 PYs to be forthcoming due to use of computer-aided design and drafting systems. However, the bulk of the design equipment for the engineers will not be installed until November 1987, and training of staff for the equipment and system will not be complete until April 1988. Consequently, we question the reasonableness of this reduction in staffing.

The department also reduced *arbitrarily*, 90 PYs of its staff to design and plan minor capital outlay projects. These projects cost less than $250,000 each, and are not individually identified in the STIP. However, they are often needed to resolve immediate problems on the highway system. The department indicated that while there is no reduction in the minor capital program per se, fewer staff resources are provided to accomplish this work.

Department May Not be Able to Contract for All the Work Planned. The budget also proposes a total of $34 million to contract for the equivalent of 425 PYs of project engineering and design work—155 PYs more than in the current year. For 1986–87, the department estimates it will only realize about 45 PYs of effort, instead of 270 PYs as planned. Based on this lack of progress, we believe it is unlikely the department will obtain 425 PYs of effort from contracting in the budget year.

In our view, the budget once again underestimates the staff needed to deliver all the projects scheduled in the STIP. Thus, despite the apparent increase in resources requested for 1987–88, we think that delays in project delivery will continue.

Legislature Should Determine Contracting Authority

We recommend that if the Legislature determines that the department should contract for engineering services, it should enact legislation providing the department clear authority and guidelines to contract for these services directly. We further recommend that to insure that the Legislature retains control over the department's contracting efforts, legislation be enacted to require the department to justify the amount of work it proposes to contract on an annual basis through the budget process.

The department has successfully contracted for work which is one-time in nature, as well as work for which the department lacks expertise—for example, archaeological excavation. Its authority, however, to contract for engineering work which is similar in nature to work currently performed by department staff is being challenged in court. Because it could be some time before the court decides this issue, reliance on contracting could result in capital projects *not* being delivered on schedule.

Because of the legal issues regarding the department's authority to contract directly for engineering and design services, the department currently contracts through cooperative agreements with local agencies. Under these agreements, a city or county provides engineering services with its staff, or may hire a consultant to perform the work. During the first half of 1986–87, the department obligated, through cooperative agreements, $2.9 million for 34 personnel-years of work on seven projects statewide.

Our review indicates that contracting engineering services indirectly through cooperative agreements (1) is limited by the expertise and staff available in local agencies, and (2) is costly.

Limited Ability of Local Agencies To Perform Contract Work. Not all local agencies have the necessary expertise, or capacity to perform work for the department. For instance, local agencies would find it difficult to design interstate projects if they have not performed this work in the past. Their ability is further constrained by the availability of staff, especially during periods of peak workload.

Contracting by Cooperative Agreement is Costly. The department has to pay for administrative costs incurred by the local agency even if the work is contracted with the private sector. In addition, the department

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

must negotiate separate agreements with each local entity providing services. Negotiations take from six months to over a year depending on the work to be provided using a significant amount of department staff. For instance, the department estimates it will expend about 74 PYs of staff in 1986–87 to negotiate and administer 270 PY equivalent of contracted work.

Direct Contracting is More Efficient and Has Other Advantages. In our view, if the department contracts for engineering services, it should contract *directly*. Although contracting with private consultants directly is likely to be more costly than performing this work with department staff, contracting provides other advantages. First, it allows the department to maintain a stable level of staff, and not have to staff-up to meet short-term peak workload or layoff employees during periods of low activity. Second, it allows the department to cultivate over time, an experienced pool of specialized resources to meet emergency situations or to build a reserve of projects that would allow it to take advantage of additional federal funds. Third, contracting directly could increase the department's ability to deliver projects sooner than scheduled, thereby realizing potential savings from lower inflation costs for these projects.

We believe that the Legislature should determine whether the department should accomplish part of its capital outlay design and engineering work through contracting. If the Legislature determines that contracting is desirable to supplement departmental staff, we recommend that it enact legislation to provide the department with the authority to contract *directly* for engineering services. Although this legislation would not necessarily reduce legal challenges, nor resolve any constitutional issues relating to contracting, it would allow the department to more actively seek to contract portions of its work.

To insure that the Legislature retains control over contracting efforts, we further recommend enactment of legislation to require the department to justify the amount of work it proposes to contract annually, through the budget process.

Maintenance

Department Should be Held Accountable for Maintenance Work

We recommend that the Legislature adopt supplemental report language directing the department to submit annually, by December 1, information on total personnel, materials, and other resources needed to adequately maintain all department inventory based on its maintenance budget model.

Our review shows that as a consequence of consistent underbudgeting, particularly for engineering and design support, the department has had to *adjust* internally its staff resources and activities among programs, so as to stay within the budgeted level of staff and expenditures departmentwide. One example of such internal adjustments is in the highway maintenance area. In 1985–86, the department reduced its personnel in highway maintenance by 137 personnel-years in order to counter-balance a corresponding overstaffing situation in engineering and design staff. Thus, while the Legislature has designated maintenance as the department's top priority activity, the department actually has done less than it indicated to the Legislature.

The department achieved the adjustment by not filling positions in maintenance and other programs. This failure to fill positions resulted in a shortage of personnel for various maintenance activities, decreased the effectiveness of maintenance crews and increased the amount of backlog work to be completed.

On-Call Policy for Snow Removal was Not Workable. As part of the strategy to reduce staff, the department adopted an on-call policy for snow removal personnel. Instead of keeping temporary staff on board throughout the snow season—as was past practice, staff were called in and paid to work *only when needed*—when a snow storm occurred, or appeared imminent. Although this policy enabled the department to reduce its expenditure for temporary staff, it (1) reduced the level of service to the public by limiting the personnel available for road clearing and (2) resulted in a lack of people for chain control operations and for maintenance of snow removal equipment. More importantly, the department was not able to insure that adequate staff would be available when needed. The on-call policy resulted in roads not being cleared promptly, and increased inconvenience to the motorists.

In response to the problems experienced last year, the department has initiated various changes to improve snow removal service in the current year, including (1) discontinued use of the on-call policy; (2) redirection of 21 personnel-years from other areas to snow removal activities; and (3) increased staff to maintain and repair snow removal equipment. We believe these changes will improve snow removal service. However, to the degree overall maintenance staffing is inadequate, the department's commitment of increased resources for snow removal activities may result in staffing shortages in other maintenance activities.

Hiring Restrictions Reduce Crew Efficiency. Hiring restrictions imposed in 1985–86 also decreased the effectiveness of maintenance crews to perform certain work. For instance, some crews in rural areas were unable to complete pavement work because of a lack of staff to act as safety lookouts. In other areas, smaller crews were combined in order to perform maintenance work over a larger area. Although less supervision was needed, this practice also resulted in staff spending more time traveling to work locations.

Inadequate Staff Resulted in Increased Pavement Deficiencies. The Legislature, in 1982–83, added 43 PYs to the department's personnel level in order that it could increase pavement repair work and eliminate a backlog of about 21,000 deficient pavement sections. Our review shows that the department did not use all of the resources on this activity. Instead, resources were redirected to other activities. As a consequence, total deficient pavement increased to more than 28,000 sections by 1985.

In sum, restricted hiring, internal adjustments of staff, and consistent understaffing have had a negative impact on the level of maintenance work accomplished by the department. In recent years, the Legislature has approved budgets with the belief that proposed levels of work would be accomplished. Experience indicates, however, that the Legislature has little assurance that programs specifically authorized will be implemented.

We believe that the department should be held more accountable to the Legislature—maintenance requests and authorizations should be directly related to actual work performed. Therefore we recommend that the Legislature adopt the following supplemental report language:

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

"The department shall submit annually by December 1, detailed information on the total personnel and other resources needed to maintain all highway facilities, by major category of activities. Specifically, this information should include: a description and breakdown of the total maintenance inventory by type, the level of service to be provided for this inventory, total planned work to be accomplished in the budget year, amount and type of backlog work, estimate of personnel, materials and equipment to maintain this inventory, the resources requested for the budget year, the resources expended and actual work done in past year, and estimated in the current year."

Contracting Not Cost-Effective for All Maintenance Work

We recommend that $3.6 million budgeted for contract services to reduce maintenance backlog be used instead to augment department staff by 60.2 personnel-years because it is more cost-effective to hire state personnel for this work and the department has a poor record in contracting for this activity.

For the budget year, the department proposes an increase of $8.4 million and 13.2 personnel-years in order to contract out various maintenance backlog work. The department indicates that contracting of this type would eliminate backlogs over a five-year period.

Contracting Not Cost-Effective for Certain Work. Our review indicates that contracting is more cost-effective than using state employees for some activities such as concrete pavement repair and maintenance of changeable message signs, because these activities require skills or equipment which are not readily available to maintenance crews. However, we do not believe contracting is cost-effective for work such as shrub removal, plant and tree replacement, and repair of irrigation systems. This work can be performed more cost-effectively by department staff because (1) the work is spread throughout the state, (2) it is difficult to contract for work in small volumes over a large area. Consequently, we recommend the request to contract $1,486,000 (25.6 personnel-years equivalent) for various landscape-related work be rejected, and that this activity be undertaken by department staff instead.

Department Has Not Been Able to Complete Contract Work. Table 8 shows that in 1984–85 and 1985–86, the department failed to contract for $1.8 million and $1.6 million, respectively, of the amounts authorized by the Legislature for various maintenance activities, including sign repair, and replacement of deficient pavement markers. The department indicates it has been unable to contract for this work because its project development staff consider it to be low priority. Nonetheless, the budget proposes an additional $2.1 million to contract for these specific activities for a total of $3.6 million in the budget year. Based on the department's poor record of contracting this work, we can see no reason why it should be provided additional contracting funds.

Consequently, we recommend the $2,131,000 to contract for repair of lane markers and sign replacement be used, instead, to augment department staff by 34.6 personnel-years.

For the above reasons, we recommend that $3,617,000 in contract funds to eliminate maintenance backlog be used to augment department staff by approximately 60.2 personnel-years.

Table 8
Department of Transportation
Contracting of Highway Maintenance Work
(dollars in thousands)

	1984–85		1985–86		1986–87	
Contract Items	*Authorized*	*Expended*	*Authorized*	*Expended*	*Authorized*	*Expended*[a]
Raised pavement markers	$1,402	$768	$1,472	$987	$1,472	$269
Sign replacement	—	—	677	338	510	365
Cracksealing	1,028	404	1,079	511	1,079	994
Realign guardrail	430	180	452	148	451	144
Relamping	318	—	334	440	334	—
Loop detector repair	89	48	258	72	258	53
Bridge painting	—	—	165	360	165	384
Totals	$3,267	$1,400	$4,437	$2,856	$4,269	$2,209
Amount Unexpended	$1,867		$1,581		$2,060	

[a] Annualized estimates based on five months of actual expenditure data.

MASS TRANSPORTATION

The Mass Transportation program consists of several program elements: (1) *Full Mobility Transportation,* (2) *Transit Operator Assistance,* (3) *Interregional Public Transportation,* (4) *Transfer Facilities and Services,* (5) *Transportation Demonstration Projects,* (6) *Work for Others,* and (7) *Ridesharing.* Table 9 summarizes the proposed funding of the Mass Transportation program by expenditure category—state operations, local assistance, or capital outlay—and by program element.

The budget proposes total 1987–88 expenditures of $151 million for the Mass Transportation program, including $51 million for state operations, $53 million for local assistance and $46 million for capital outlay projects. This is $117 million (44 percent) *less* than estimated current-year expenditures. The budget proposes a staffing level of 186.1 personnel-years for the program—0.7 personnel-years (0.4 percent) *less* than the current year, reflecting a shift in audit responsibilities to the State Controller's Office.

While state operations and one-time capital outlay expenditures would *increase* by $0.9 million (2 percent) and $8.6 million (23 percent), respectively, local assistance *expenditures* would decline by $126 million (70 percent). A portion of these current-year expenditures under the Transit Capital Improvements (TCI) and Article XIX Guideways programs, however, will be funded from appropriations made over the last *three* years. Compared with current-year *appropriations* of $71 million (excluding reappropriations), the budget proposes a reduction of $17.5 million (25 percent) in local assistance.

As previously mentioned, the budget proposes $46 million in capital outlay expenditures. This includes $4 million in projects funded from prior year appropriations. Of the $42 million requested for appropriation in the Budget Bill, $41 million is requested for projects on the San Francisco Peninsula Commuter Rail Service (Caltrain) and $1 million is requested for rehabilitation of the Transbay Terminal in San Francisco. As discussed below, these projects must be funded from the Transportation Planning and Development (TP and D) Account and are allocated under the TCI program. Due to the restricted level of TP and D Account funding available under the TCI program, however, an undetermined portion of the cost of these projects is *unfunded* in the proposed budget.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Table 9
Department of Transportation
Mass Transportation
Budget Summary By Expenditure Category and Program Element
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Expenditure Category	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
State Operations:							
Full Mobility Transportation	22.2	23.0	23.0	$1,333	$1,196	$1,210	1.2%
Transit Operator Assistance	35.1	44.3	43.6	2,357	2,880	2,815	−2.3
Interregional Public Transportation	43.6	42.3	42.3	46,930	30,297	31,179	2.9
Transfer Facilities and Services	26.6	30.0	30.0	4,598	3,242	3,260	0.6
Transportation Demonstration Projects	2.5	5.1	5.1	546	491	493	0.4
Work for Others	8.0	6.8	6.8	576	1,767	1,767	—
Ridesharing	34.8	35.3	35.3	9,783	10,283	10,294	0.1
Totals	172.8	186.8	186.1	$66,123	$50,156	$51,018	1.7%
Local Assistance:							
Transit Operator Assistance				$61,198	$179,375	$53,343	−70.3%
Interregional Public Transportation				1,640	—	—	—
Transfer Facilities and Services				3,040	—	—	—
Totals				$65,878	$179,375	$53,343	−70.3
Capital Outlay:							
Transit Operator Assistance				$423	—	—	—
Interregional Public Transportation				219	$14,076	$45,225	321.3%
Transfer Facilities and Services				5,964	23,500	919	−96.1
Totals				$6,606	$37,576	$46,144	22.8%
Grand Totals				$138,607	$267,107	$150,505	−43.7%
Funding Sources:							
State Funds				*$88,364*	*$204,634*	*$57,671*	*−71.8%*
Federal funds				*22,997*	*26,000*	*56,226*	*116.3*
Reimbursements				*27,246*	*36,473*	*36,608*	*0.4*

Proposed Funding Shift Inconsistent with Legislature's Policy

We recommend that the Legislature delete language in the Budget Bill which, in lieu of current law, would transfer $18 million from the General Fund and $27 million from the Special Account for Capital Outlay to the Transportation Planning and Development Account and add language to transfer $27 million in tidelands oil revenues directly to the General Fund. Our recommendation, however, would reduce General Fund resources by a net of $10 million in 1987–88. We further recommend that, consistent with current law, the Legislature amend the Budget Bill to appropriate to the State Transportation Assistance program 60 percent of specified revenues deposited in the TP and D Account. (Delete Items 2640-101-036 and 2660-001-001, and amend Item 2640-101-046.)

The Transportation Planning and Development (TP and D) Account receives a portion of retail sales and use tax revenues annually under the statutory "spillover" formula. It is expected, however, that this formula will not yield a transfer to the TP and D Account in either the current or budget year. Chapter 1600, Statutes of 1985, provides for transfer of specified revenues to the extent necessary to provide the TP and D Account a minimum of $110 million in annual revenues.

Current-Year Actions. In the current-year, Chapter 1600 would have required a transfer of $110 million from the General Fund to the TP and D Account. The Legislature adopted provisions in the Budget Bill which, in lieu of the $110 million, would have provided a smaller $55 million transfer. The Governor, however, vetoed this amount. Subsequently, the Legislature enacted Ch 890/86, which provided $35 million in Petroleum Violation Escrow Account (PVEA) moneys to restore full funding for the Transit Capital Improvements program and partial funding for the State Transportation Assistance program.

Budget-Year Proposal. Beginning in the budget year, Chapter 1600 requires that revenues from the sale and use of diesel fuel—currently deposited in the General Fund—be transferred, as necessary, to bring revenues in the TP and D Account to a minimum of $110 million annually. However, the $55 million in diesel sales and use tax revenues anticipated in the budget year will *not* be adequate to achieve the $110 million minimum level.

Current law also specifies that the Legislature shall appropriate 60 percent of these revenues—$33 million—for allocation under the State Transportation Assistance program. This program provides capital and operating assistance to local agencies for public mass transit systems and, under specified conditions, for local streets and roads. The balance—$22 million—is available to fund state operations, including support of state run rail services, and to fund capital improvements under the Intercity Rail Capital and the Transit Capital Improvements programs.

To provide additional General Fund reserves in the budget year, the administration is proposing to provide, in lieu of the required transfer under Chapter 1600, $45 million to the TP and D Account, consisting of $27 million in tidelands oil revenues from the Special Account for Capital Outlay (SAFCO) and $18 million in General Fund resources. Because the administration's proposal would transfer only $18 million from the General Fund, rather than the $55 million of diesel sales and use tax revenue under current law, a net gain of $37 million in General Fund resources would be realized. (Separately, as discussed below, the administration proposes to transfer $10 million in Petroleum Violation Escrow Account funds to the TP and D Account.)

Analyst Recommendation. Our analysis indicates that the administration's proposal is inconsistent with the Legislature's policy as enacted in Chapter 1600. The intent of that legislation was to provide greater *stability* in the funding of mass transportation programs by specifying both the desired level of funding and the source of such funds. While it appears that only $55 million will be available from diesel fuel sales tax—less than necessary to provide the $110 million minimum target expressed in Ch 1600—we see no basis to *lower* the amount of the transfer to $45 million, as proposed. Consequently, we recommend the full amount of diesel fuel sales tax—estimated at $55 million—be transferred. Moreover, should the Legislature wish to use tidelands oil revenues to provide additional General Fund reserves, it could do so by *directly* transferring these revenues

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

to the General Fund, without altering the funding mechanism of the TP and D Account.

Therefore, we recommend that the Legislature delete the proposed SAFCO and General Fund transfer items contained in the Budget Bill (Items 2640-101-036 and 2660-001-001) and, instead, amend Section 11.5 of the Budget Bill to transfer $27 million in tidelands oil revenues directly to the General Fund. We further recommend that, consistent with current law, the Legislature amend the Budget Bill to appropriate 60 percent of the funds transferred to the TP and D Account for allocation under the State Transportation Assistance program (Item 2640-101-046).

Petroleum Violation Escrow Account Funding Proposed

We recommend that the Legislature allocate $6 million in requested Petroleum Violation Escrow Account funds under the Transit Capital Improvements program instead of the State Transportation Assistance program.

In addition, we withhold further recommendation on the request to transfer $10 million in PVEA funds to the TP and D Account, pending receipt of the TCI priority list from the California Transportation Commission.

The administration is proposing *two* items in the Budget Bill which transfer a total of $10 million in Petroleum Violation Escrow Account (PVEA) funds to the TP and D Account for allocation under (1) the State Transportation Assistance program ($6 million), and (2) the Transit Capital Improvements program ($4 million). The Department of Finance indicates that the proposed use of PVEA money is based upon the merit of the programs to be funded and is *not* related to the administration's proposals to increase General Fund reserves through the funding shifts discussed above.

Need for Stable Funding. Allocations under the State Transportation Assistance program are made to regional transportation planning agencies and to transit operators pursuant to statutory formulas. Once allocated, these funds are available for both operating and capital purposes, and under certain circumstances, for local streets and roads. Because PVEA funds will not be available once settlements from oil company overcharge cases are exhausted, use of these funds does not address the need for *stable* funding. The use of such funds, however, can provide a *one-time* increase in assistance under the program and contribute to the ability of local agencies to fund one-time needs. However, the formula allocation of PVEA funds may not best target these funds to meet needs on a priority basis.

Therefore, we recommend that the Legislature allocate this $6 million to fund projects under the Transit Capital Improvements program (discussed below) rather than under the State Transportation Assistance program.

Priority List Decision. Allocations under the Transit Capital Improvements (TCI) program are made by the California Transportation Commission based upon its ranking of applicant projects. We estimate based on the STIP, however, that only $8 million in funds will be available for *new* TCI projects during the next five years. Because the commission will not adopt its TCI priority list until March, however, we reserve further comment on the program until that time. Therefore, we withhold further recommendation on the request to transfer $10 million in PVEA funds to the TP and D Account, pending the commission's action on the TCI priority list.

Caltrain Capital Improvements Unfunded

We withhold recommendation on $22,907,000 in federal funds and $18,176,000 in reimbursements requested for Caltrain capital improvements pending receipt of the commission's TCI priority list.

The department is requesting $41 million for capital improvements to the Peninsula Commuter Service (Caltrain). Under current law, the Legislature appropriates a lump sum from the TP and D Account to the California Transportation Commission (CTC) for allocation under the Transit Capital Improvements (TCI) program for all transit projects. Caltrain improvements are then ranked by the commission against other transit capital projects in the state before funding allocations are made. Allocations from the TCI program to the department for Caltrain projects appear as reimbursements in the budget, though the funds originate in the TP and D Account.

As shown in Table 10, the department's request includes $9.8 million in TP and D Account funds which it hopes to receive as reimbursements through the TCI program, $22.9 million in federal funds, and $8.4 million in reimbursements from local agencies.

Table 10
Peninsula Commuter Service
Proposal Capital Outlay Projects
By Funding Sources [a]
1987–88 through 1990–91
(dollars in thousands)

	1987–88			*Total Project 1987–88 through 1990–91*			
	TP and D	*Federal*	*Local*	*TP and D*	*Federal*	*Local*	*Total*
Maintenance facility ..	$3,000	$9,000	—	$11,272	$25,875	—	$37,147
Maintenance equipment	354	—	$354	354	—	$354	708
Track rehabilitation....	700	2,800	—	2,100	8,400	—	10,500
Station acquisition	—	—	3,500	—	—	3,500	3,500
San Jose terminal construction	4,513	8,825	4,513	6,700	13,200	6,700	26,600
Station improvements	1,244	2,282	—	1,244	2,282	—	3,526
Totals......................	$9,811	$22,907	$8,367	$21,670	$49,757	$10,554	$81,981

[a] The 1987–88 amounts are based on the *Governor's Budget.* Later year amounts are from the Transit Capital Improvement applications submitted to the California Transportation Commission.

As Table 10 also shows, the amounts requested in 1987–88 are part of a multiyear program of capital improvements. The total cost to complete these projects is estimated at $82 million, including $21.7 million in TP and D Account funds, $49.8 million in federal funds and $10.6 million in local funds. As noted in the section at the end of this discussion, we withhold recommendation on the amounts requested in the budget for Caltrain capital outlay projects pending receipt of the CTC's priority list for TCI projects.

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Account Resources Inadequate to Fund Proposed Program. While the Caltrain budget request includes $9.8 million in reimbursements from the TCI program, the Budget Bill contains an appropriation of only $6.8 million for *all* projects funded under the TCI program. This means that even if the CTC allocated all TCI funds to Caltrain projects, a portion of the Caltrain request would remain unfunded.

Furthermore, as discussed earlier, total funding available from the TP and D Account for *new* projects under the TCI program during the period 1987–88 through 1990–91 is estimated to be only $8 million. Therefore, we do not expect the $21.7 million in TCI funding which will be needed during this period to complete the proposed Caltrain projects to be available.

Federal Funds Uncertain Until Institutional Issues Are Resolved. In response to the Legislature's request in 1984 (SCR 74) to study alternative rail systems for the Peninsula corridor, the Metropolitan Transportation Commission (MTC) recommended the formation of a joint powers agency (JPA) to be responsible for operation and development of the corridor's rail system. The administration has indicated that it does not intend to administer the service beyond 1990, when the current contract with the railroad expires, and that it does not wish to be a party to a successsor JPA. While negotiations to form a JPA are continuing, to date they have not been successful.

Because of the uncertainty regarding future administration of Caltrain, the Urban Mass Transportation Administration has indicated that it may be unwilling to provide additional federal discretionary funding for the Caltrain capital outlay program until agreements to form the JPA are concluded.

Recommendation Withheld. As discussed above, the CTC is required to rank Caltrain projects along with other transit capital projects for funding under the TCI program. Therefore, we withhold recommendation on $22,907,000 million in federal funds and $18,176,000 in reimbursements requested for Caltrain capital improvements pending receipt of the commission's priority list in March.

Unacceptable Risk To Public Funds Under Metro Rail Statute

We recommend that the Legislature amend current law to allow local agencies to reserve funds for construction of the San Fernando Valley segment of the Los Angeles Metro Rail project in lieu of the current requirement to begin such construction by September 1987.

The Los Angeles Metro Rail project, sponsored by the Southern California Rapid Transit District (SCRTD), is planned as a transit guideway project of approximately 18 miles running from Union Station in downtown Los Angeles to a North Hollywood station in the San Fernando Valley. During the past year, the federal Urban Mass Transportation Administration has signed agreements to fund a portion of Metro Rail costs on the first 4.4 miles of the project beginning at Union Station. With completion of these agreements—and the allocation of matching funds from the California Transportation Commission, the Los Angeles County Transportation Commission (LACTC), and the City of Los Angeles—the SCRTD began construction on this first 4.4 mile downtown segment of the project in September 1986.

Chapter 617, Statutes of 1984, requires the SCRTD to begin construction on the San Fernando Valley segment of the Metro Rail project one year after commencement of construction on the initial segment—by September 1987. In addition, the amount of funds spent on construction of the San Fernando Valley segment in any given year shall not be less than 15 percent of nonfederal funds spent in the previous year to construct the other segments of the project. Consequently, during the period of construction on the initial downtown segment of Metro Rail, the SCRTD would be required to spend about $70 million on San Fernando Valley construction under these provisions.

Chapter 617 was intended to provide assurance to San Fernando Valley residents that the San Fernando Valley segments of the project would be completed in the manner originally conceived. However, the federal administration remains opposed to federal funding of extensions to the initial Metro Rail segment. While Congress may ultimately force the administration to fund this project, the lack of administration support could result in significant delay. Furthermore, much of the original Metro Rail alignment ran through areas of abandoned oil wells and methane gas fields. As a result of a methane gas explosion at a site close to the original route, Congress has ordered a new route alignment be adopted. At the time this analysis was prepared, adoption of a new alignment had not been completed and the federal government had not yet agreed to fund any Metro Rail construction beyond the downtown segment. Thus, proceeding with the construction of stations and tunnels in the San Fernando Valley, without a clear alignment and commitment of federal funds, runs the risk that these facilities (1) may not be of use to the public for many years, and (2) may require major increases in state and local funding for the project. Even under an *optimistic* federal funding scenario, the district indicates that the facilities required to be constructed beginning in September of this year would not be used as part of the Metro Rail line until at least 1995 and probably later.

We believe that the provisions of Chapter 617 *increase* the risk that public funds will be expended on facilities which ultimately could prove of no public benefit if it becomes impossible to join them to the downtown Metro Rail segment. In the absence of commitments to fund the *entire* Metro Rail project, Chapter 617 cannot guarantee that San Fernando Valley residents will ultimately benefit from the expenditures required under the act. We do believe, however, that the Legislature could modify the current law to allow the SCRTD to reserve the funds which would otherwise be required for expenditure on the San Fernando Valley segment, thereby eliminating the risk of investment in unusable facilities while providing tangible evidence of the district's commitment to construct such facilities once federal commitments are forthcoming. Therefore, we recommend that the Legislature amend Chapter 617 to include such provisions.

AERONAUTICS

We recommend approval.

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

The budget proposes—in addition to $2.9 million of current statutory appropriations—$2.7 million from the Aeronautics Account and $390,000

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

from the Federal Trust Fund for total expenditures of approximately $6 million in 1987–88. This is an increase, over estimated current-year expenditures, of $313,000 (5.5 percent) consisting of $372,000 to establish a statewide airport pavement management system and a reduction of $59,000 in other costs. The budget proposes to maintain the current year staffing level of 31.3 personnel-years.

TRANSPORTATION PLANNING

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

The budget proposes an expenditure of $23 million for transportation planning in 1986–87, including $10 million for state operations and $13 million for local assistance. This is an increase of $2 million (or 10 percent) over current year estimated expenditures.

Increase in Local Assistance Not Justified

We recommend a reduction of $600,000 from the Transportation Planning and Development Account proposed to increase local assistance because the amount is not justified. (Reduce Item 2660-101-046 by $600,000.) We further recommend that the State Highway Account transfer to the Transportation Planning and Development Account for the planning activities be reduced accordingly.

The department provides funding assistance to the regional transportation planning agencies (RTPAs) and Metropolitan Planning Organizations (MPOs) for transportation planning activities. Regional transportation plans are required biennially by state law for 43 RTPAS; and annually under federal law for 14 MPOs with urbanized populations of over 50,000. (Thirteen of the MPOs are also RTPAs.) The department provides guidelines for the preparation of regional transportation plans, reviews the plans for conformance with the guidelines, and allocates state and federal dollars for the plans' preparation.

Funding for RTPAs is from the Transportation Planning and Development Account. Since 1981–82, the funding level has been around $2 million annually. MPOs, on the other hand, receive federal planning funds. Table 11 shows the actual amount of TP and D and federal funds allocated to regional planning purposes since 1982–83.

Table 11
Regional Transportation Planning
Total Allocations to Local Agencies
1982–83 through 1987–88
(dollars in thousands)

	Actual			Est.	Prop.
Fund Source	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*1987–88*
TP and D Account	$2,032	$2,032	$2,032	$2,032	$4,032
Federal funds	7,771	8,850	8,945	8,900	8,900
Totals	$9,803	$10,882	$10,977	$10,932	$12,932

For 1987–88, the department is requesting an additional $2 million in TP and D funds to increase state allocations for regional planning. According to the department, RTPAs and MPOs have had to reduce staff in recent years due to overall funding constraints. Consequently, they are not able to perform needed planning and corridor studies.

Although we agree that increased state assistance is warranted, our review indicates that the department plans to (1) allocate only $3.4 million (instead of the total $4 million) to the local agencies based on their transportation planning work plan for 1987–88, and (2) to hold $600,000 for *discretionary* planning funds, to support *specific* planning studies.

The department indicates that it provides a list of *general* state priorities to aid the RTPAs in preparing their work plan. Allocations of the $3.4 million will be made based on how well the individual RTPA workplans match state needs and priorities. We think that using a general state priority list for basic allocations, and a specific priority list for discretionary funding creates confusion over what state priorities actually are. Since the department already has identified specific studies which it considers to be of high priority, these priorities should be made known to the local agencies and be a prerequisite for state allocation eligibility. Consequently, we do not think a discretionary fund is warranted and recommend that $600,000 be deleted.

Because the Transportation Planning and Development Account receives a transfer from the State Highway Account for planning activities, we recommend that the State Highway Account transfer be reduced accordingly.

ADMINISTRATION

The Administration program contains the business, legal, management and other technical services necessary to support the department. The department proposes expenditures of $129 million for this program in 1987–88. This is a net increase of $12 million over estimated current-year expenditures. The major increase includes (1) $12 million for additional tort payments, (2) $1.3 million for an increase of 29 personnel-years of accounting staff to close out projects, (3) $2.2 million and 10 personnel-years for additional computer services workload related to the implementation of a data base management system, and the leasing of additional data processing equipment. These increases are offset by reductions in various areas.

Tort Liability Caseload Increasing

We recommend that the Legislature adopt supplemental report language directing the department to review its attorney caseload in terms of tort liability cases and report to the Legislature by December 1, 1987 on the adequacy of staff and tort caseload standards.

The state is self-insured against liability on its highway system. The department has about 40 attorneys to represent it on all tort liability cases. Total tort payments have been increasing. Table 12 shows the total tort payments (including judgments and settlements) from 1983–84, the number of cases, and the average caseload per attorney handling tort cases.

The 1986 Budget Act appropriated $11 million for tort payments in the current year. Based on past payments and an assessment of cases which may be finalized this year, the department anticipates total payments to be about $16.5 million—$5.5 million more than authorized. The department is proposing to defer payments in excess of available funds into 1987–88. It is, therefore, requesting an additional $12 million from the State Highway Account for tort payments in 1987–88. This amount consists of

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Table 12
Department of Transportation
Tort Payments and Tort Caseloads
1983–84 through 1987–88
(dollars in thousands)

	Total Tort Awards	*Total Cases*	*Caseload/ Attorney*
1983–84	$7,223	1,597	39.9
1984–85	15,701	1,883	47.1
1985–86	16,056	2,150	53.8
1986–87 (est.)	11,056 [a]	2,500	62.5
1987–88 (projected)	23,056	2,900	72.5

[a] Does not include $5.5 million to be deferred into 1987–88.

(1) $5.5 million to cover any deferred payments and (2) $6.5 million to increase the base level for 1987–88 from the existing $11 million to $17.5 million. Based on recent payment experience, the increase appears warranted.

Our review however, also indicates that while tort cases have increased, the number of attorneys representing the state has not. As Table 12 shows, average caseload per attorney has gone up from about 40 in 1983–84 to an estimated 62.5 in 1986–87—an increase of 56 percent. For 1987–88, the caseload is projected to be even higher, at 72.4 cases per attorney—an 82 percent increase over 1983–84. In addition, the department indicates that over half of its 40 attorneys have less than two years of experience in handling tort cases. This raises a question as to the department's ability to effectively handle the increasing workload.

While we cannot conclude that an increasing caseload would necessarily result in higher tort payments, the department agreed that the increase could lead to (1) longer time requirements to resolve cases, (2) greater incentives to settle cases, or (3) fewer well-prepared state cases. Accordingly, we think that the department should evaluate its tort workload, the level of staffing, and the potential impact of the increasing caseload on total payments.

Consequently, we recommend the adoption of the following supplemental report language: "The department shall evaluate its tort workload, the level of staffing, and the impact of the increasing caseload on total tort payments. The department shall submit this report to the Legislature by December 1, 1987."

Accounting Personnel Request Overstated

We recommend a reduction of 15 personnel-years and $663,000 from the State Highway Account because a request for additional accounting personnel is overbudgeted. (Reduce Item 2660-001-042 by $663,000).

The department is responsible for performing the final accounting on all completed federally funded state and local highway projects before these projects are officially "closed". Department data show that in the past few years a substantial backlog of completed projects has accumulated, pending final accounting documentation. This backlog is estimated to be around 5,000 projects by the end of the current year with about 75 percent of them being local projects. The Federal Highway Administration (FHWA) has directed the department to reduce this backlog or risk the withholding of federal funds. Consequently, the department has agreed with FHWA to double its current closure rate and produce 200 closures per month for three years.

To close the targeted number of projects, the department is requesting to nearly double its accounting staff from 36 personnel-years to 65 personnel-years. The department indicated that it takes 36.2 hours per project to close out a local project, while state projects require less time to close. The department, however, does not have accurate estimates of the time needed to close a state project. Conservatively assuming that *all* projects require 36.2 hours to close, we estimate that it would require 50 personnel-years per year to close 2,400 projects. Accordingly, we recommend that the department's request be reduced by 15 personnel-years, and $663,000 be deleted from the budget.

Conversion to Data Base Management System

We recommend a reduction of $981,000 from the State Highway Account because the proposal to convert existing information systems to a data base management system is not well defined, and the amount requested for the effort is not justified. (Reduce Item 2660-001-042 by $981,000).

In a recent evaluation of its needs for various types of management information, the department found that data and reports from many existing information systems are obsolete, have not been updated, and are technically complex to use. Moreover, most of the systems have been developed independently of one another without a standardized methodology, resulting in data redundancy and inconsistencies.

To address these problems, the evaluation study recommended that the department adopt a "Comprehensive Information Management System (CIMS)" approach to data management and data base systems development. To begin implementation of this approach, the department is requesting $981,000 and 4 personnel-years for 1987–88.

Our review indicates that the problems identified by the needs assessment study are real, and that efforts should be undertaken to integrate these systems. However, we find that the budget request is not justified because the conversion project has not been defined. First, the department withdrew the feasibility study report (FSR) which was the basis for the proposed amount after indications from the Office of Information Technology (OIT), that the FSR was not acceptable. Second, our review of the FSR shows that it lacked specific information on costs, tasks, work plans and schedules, equipment and staffing needs. Third, the budget request for additional staff and consultant services is not substantiated by the FSR. Thus, we have no basis to determine what the department plans to accomplish in 1987–88, and whether the requested amount is justified. Consequently, we recommend that the amount be deleted.

Technical Recommendations

We recommend technical budgeting adjustments, for a total reduction of $50,546,000, as follow:

- Reduce $3.7 million in reimbursements because one-time current-year rail car purchase costs are inadvertently included in the budget year request. (Reduce reimbursements by $3.7 million.)
- Reduce $1.5 million from the State Highway Account because one-time current year costs for a highway electrification study are incor-

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

rectly included in the budget year request. (Reduce Item 2660-001-042 by $1.5 million.)

- Reduce $746,000 from the State Highway Account because equipment is overbudgeted by this amount. (Reduce Item 2660-001-042 by $746,000.)
- Reduce $44.6 million from the State Highway Account because the department overestimated the amount of state funds needed to match federal funds for highway capital outlay expenditures. (Reduce Item 2660-301-042 by $44.6 million.)
- Approve $189,000 and 5.2 personnel-years for specific traffic operations' studies for only two years because the studies are anticipated to be completed within that period.

We further recommend that the Legislature amend the Budget Bill to require the reversion on July 1, 1987 of the following amounts from past Transportation Planning and Development Account appropriations because the moneys are no longer required to carry out the purposes for which they were originally appropriated. (Amend Item 2660-495 to revert $5,700,000 from various past appropriations.):

- $402,000 in unencumbered balances originally appropriated under Ch 1130/75 and Ch 1349/76.
- $4 million appropriated under Section 71 of Ch 161/79 for Union Station acquisition.
- $1,298,000 appropriated under Item 182.1 of Ch 510/80 and subsequently allocated by the CTC to San Francisco Muni for light rail vehicle purchase and improvements to its trolley coach lines.

Pending Recommendations

We withhold recommendation on the following:

- $802,000 from the State Highway Account for materials and equipment costs, pending receipt of information used to derive these costs. (Item 2660-001-042).
- $606,000 from the State Highway Account to computerize the preparation of specification books for capital outlay contracts, pending the outcome of a feasibility study report. (Item 2660-001-042).
- $781,000 in federal funds and $138,000 in reimbursements for rehabilitation of the Transbay Transit Terminal in San Francisco pending receipt of the CTC's Transit Capital Improvements (TCI) priority list.
- $31,920,000 in Article XIX guideway funds (SHA) and $2,839,000 in TP and D funds requested for allocation under the TCI program pending receipt of the CTC's TCI priority list.

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY

Item 2660-311 from the State Highway Account, State Transportation Fund — Budget p. BTH 77

Requested 1987–88	$1,663,000
Recommended approval	70,000
Recommendation pending	1,593,000

ANALYSIS AND RECOMMENDATIONS

The budget proposes $1,663,000 from the State Highway Account, State Transportation Fund, for three major capital outlay and three minor capital outlay projects (costing less than $200,000 each) for the Department of Transportation's (Caltrans) *administrative* facilities. The department's proposals and our recommendations are presented below.

Projects to Remodel Three District Offices

We withhold recommendation on $1,593,000 requested to alter district offices in Redding, San Diego and San Luis Obispo, pending receipt of detailed cost estimates and preliminary plans. (Items 2660-311-042(1), (2) and (3).)

The Budget Bill requests $1,593,000 for three projects to upgrade the Redding ($658,000), San Diego ($457,000) and San Luis Obispo ($478,000) district offices for compliance with fire safety codes. The work proposed for these projects is very similar and entails items such as installing fire escapes, fire dampers and replacing doors in the main corridors with one-hour fire rated doors. When this analysis was prepared, the preliminary plans for these projects were not available and, according to the administration, the amounts in the budget are simply "placeholder" amounts.

Until the preliminary plans and cost estimates are available, we cannot substantiate the cost of these alterations. Consequently, we withhold recommendation on these requests, pending receipt of cost estimates and preliminary plans.

Minor Capital Outlay

We recommend approval.

The budget provides $70,000 for three minor capital outlay projects: a security system and fire alarm system for the Marysville office ($25,000 and $15,000, respectively) and a public address/security system for the San Bernardino office ($30,000). These projects are needed and the costs are reasonable. Consequently, we recommend approval.

Supplemental Report Language

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

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS

Items 2660-490 and 2660-491
from various funds Budget p. BTH 62

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes the following reappropriations.

Capital Outlay (Item 2660-490). The budget proposes that the unliquidated encumbrances of specified appropriations made in the Budget Acts of 1981, 1982, 1983 and 1984, be reappropriated until June 30, 1988. The appropriations were made to provide state and federal funds for highway capital outlay purposes. Reappropriating these funds would allow the projects to be paid upon completion.

In addition, the department requests the reappropriation of specified unencumbered amounts, also from the same appropriations, to be available until June 30, 1988. The department indicates that these amounts will allow for payment of any potential claims on construction projects funded out of these appropriations.

Local Assistance (Item 2660-491). The budget also proposes that the unliquidated encumbrances of specified state and federal funds appropriated in the 1986 Budget Act for local assistance purposes be reappropriated. The reappropriation would allow local projects to be paid upon completion when the encumbrance will be liquidated.

DEPARTMENT OF TRANSPORTATION—REVERSION

Item 2660-495 from various
funds Budget p. BTH 62

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert the unencumbered balance of the following:

- Item 2660-301-042, Budget Act of 1984—to the unappropriated reserve of the State Highway Account; and
- Item 2660-301-890, Budget Act of 1984—to the unappropriated reserve of federal funds.

These appropriations were made for highway capital outlay purposes. Appropriations are available for encumbrance over three years. Thus, any appropriations made in the 1984 Budget Act will expire by the end of the current year if they are not encumbered by that time. Accordingly, any unencumbered balances should be reverted.

Business, Transportation and Housing Agency

OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds — Budget p. BTH 84

Requested 1987–88	$274,000
Estimated 1986–87	633,000
Actual 1985–86	829,000
Requested decrease (excluding amount for salary increases) $359,000 (−57 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2700-001-004—Support	State Transportation, Motor Vehicle Account	$274,000
2700-001-890—Support and state grants	Federal Trust	(6,957,000)
2700-101-890—Local assistance	Federal Trust	(4,663,000)
Total		$274,000

GENERAL PROGRAM STATEMENT

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

The office is authorized 25.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $274,000 from the Motor Vehicle Account, State Transportation Fund, for support of the office in 1987–88. This is $359,000, or 57 percent, less than state fund expenditures in the current year. Total expenditures of $11,894,000 (all funds) are proposed in 1987–88. This is a $3,749,000, or 24 percent, reduction in expenditures from the current year level. This reduction reflects the continued decrease in funds received by the state from the federal government for highway safety projects. In the budget year, no funds are requested from the First Offender Program Evaluation Fund due to completion of the first offender program report in the current year.

Table 1 displays a summary of OTS expenditures for the prior, current and budget years.

OFFICE OF TRAFFIC SAFETY—Continued

Table 1
Office of Traffic Safety
Summary of Expenditures
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Administration	$1,367	$1,586	$1,527	−3.7%
Grants to state agencies	6,552	7,380	5,704	−22.7
Grants to local agencies	9,949	6,318	4,663	−26.2
Driving Under the Influence Program evaluation	544	359	—	−100.0
Totals	$18,412	$15,643	$11,894	−24.0%
Funding Sources				
Motor Vehicle Account, State Transportation Fund	*$285*	*$274*	*$274*	—
Federal Trust Fund	*17,583*	*14,888*	*11,620*	*−22.0%*
First Offender Program Evaluation Fund	*544*	*359*	—	*−100.0*
Reimbursements	—	*122*	—	*−100.0*

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed budget for the Office of Traffic Safety is warranted to continue current activities and to ensure the efficient allocation of available grants to state and local agencies. Because federal funds available in the budget year are anticipated to decline by $3.3 million, or 22 percent, the number of state and local traffic safety projects are projected to decline in the budget year.

First Offender Program Evaluation

Sections 1660.5 through 2660.8 of the Vehicle Code required OTS to conduct an evaluation of first offender programs serving persons convicted of driving under the influence of alcohol or drugs and report its findings to the Legislature by December 31, 1986. As a means of funding the evalution, the Legislature authorized OTS to assess a fee on program participants to offset the costs of the evalution, but not to exceed $5 per person. The proceeds from the fees were deposited in the First Offender Program Evaluation Fund. According to OTS, the report will be completed in January 1987. The fund sunsets on July 1, 1987 at which time the $373,000 remaining in the fund will revert to the General Fund.

Business, Transportation and Housing Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from the State Transportation Fund — Budget p. BTH 87

Requested 1987–88	$481,934,000
Estimated 1986–87	473,025,000
Actual 1985–86	440,436,000
Requested increase (excluding amount for salary increases) $8,909,000 (+1.9 percent)	
Total recommended reduction	1,501,000
Recommendation pending	862,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2720-001-044—Support	State Transportation, Motor Vehicle Account	$470,668,000
2720-001-840—Support	Motorcyclist Safety	1,362,000
2720-001-890—Support	Federal Trust	(1,558,000)
2720-011-044—Payment of deficiencies	Motor Vehicle	(2,000,000)
2720-021-044—Advance purchase of vehicles	Motor Vehicle	(5,000,000)
Reimbursements		9,904,000
Total		$481,934,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Increase in Firepower. We make no recommendation on $121,000 for the purchase of rapid-firing rifles because this represents a policy decision to be made by the Legislature. 292
2. Helicopter Expenditures. Recommend legislation requiring local law enforcement agencies utilizing CHP helicopter services to reimburse the patrol for such services. 293
3. Towing and Storage Costs. Recommend that legislation be enacted to clarify whether court-related vehicle towing and storage costs are the responsibility of the state or local courts. 293
4. ***Freeway Call Boxes. Reduce Item 2720-001-044 by $900,000, reduce reimbursements by $170,000, and delete six personnel-years.*** Recommend deletion of funds requested to implement the emergency motorist aid system because the participating counties have failed to sign contracts to reimburse CHP for its estimated costs as required by statute. 294
5. ***Technical Recommendation. Reduce Item 2720-001-044 by $601,000.*** Recommend reduction of telecommunication equipment because need has not been documented. 294
6. ***Vehicle Purchase.*** Withhold recommendation on $862,000 requested for vehicle purchase, pending information on the number of vehicles and their unit cost. 295

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

GENERAL PROGRAM STATEMENT

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

The CHP's activities are coordinated from its headquarters in Sacramento, which oversees 8 division commands, 96 area offices, 9 airplanes and 5 helicopters in various areas, several inspection and scale facilities, and 2 communications centers. All facilities are linked by an extensive communications network.

The department is authorized 7,642.3 personnel-years in the current year.

Table 1
Department of the California Highway Patrol
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program:	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Traffic Management	6,813.8	6,775.3	6,846.9	$397,112	$425,641	$432,637	1.6%
Regulation and Inspection	713.4	711.2	745.0	36,201	39,949	41,529	4.0
Vehicle Ownership Security	157.7	155.8	160.4	8,400	8,955	9,326	4.1
Administration [a]	(1,352.6)	(1,344.6)	(1,358.1)	(89,940)	(93,280)	(94,060)	0.8
Totals	7,684.9	7,642.3	7,752.3	$441,713	$474,545	$483,492	1.9%
Funding Sources							
Motor Vehicle Account, State Transportation Fund				*$402,273*	*$460,642*	*$470,668*	*2.2%*
California Highway Patrol Law Enforcement Account, State Transportation Fund				*28,950*	—	—	—
Motorcyclist Safety Fund				—	*1,355*	*1,362*	*0.5*
Driver Training Penalty Assessment Fund				*20*	*480*	—	*−100.0*
Federal Trust Fund				*1,277*	*1,520*	*1,558*	*2.5*
Reimbursements				*9,193*	*10,548*	*9,904*	*−6.1*

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

OVERVIEW OF THE BUDGET REQUEST

The budget requests $481,934,000 for expenditure (all state funds) by the California Highway Patrol in 1987–88. This is $8,909,000, or 1.9 percent above estimated expenditures in the current year. In addition, the CHP anticipates the receipt of $1,558,000 in federal funds, thus increasing expenditures to $483,934,000 in the budget year. The CHP also proposes a staffing level of 7,752.3 personnel-years in the budget year. This is an increase of 110 personnel-years, or 2 percent over the current level. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposed for 1987–88.

Although the budget proposes several new programs, estimated expenditures from the Motor Vehicle Account (MVA) will only grow at a rate of about 2 percent in 1987–88. This reduced level is in sharp contrast to the annual expenditure growth rate of 13 percent for CHP between 1983–84 and 1986–87.

Table 2

Department of the California Highway Patrol
Proposed 1987–88 Budget Changes
(dollars in thousands)

	Motor Vehicle Account	*Motorcyclist Safety Fund*	*Driver Training Penalty Assessment Fund*	*Federal Trust Fund*	*Reimbursements*	*Totals*
1986–87 Expenditures (Revised)	$460,642	$1,355	$480	$1,520	$10,548	$474,545
Baseline Adjustments for 1987–88:						
1. Elimination of one-time costs	−11,162	—	−480	—	—	−11,642
2. Elimination of reappropriation	−342	—	—	—	—	−342
3. Pro rata adjustment	−1,608	—	—	—	—	−1,608
4. SWCAP	—	—	—	28		28
5. Salary savings	1,485	—	—	—	—	1,485
6. Reimbursements	—	—	—	—	−1,235	−1,235
7. Full-year cost of expanding program	1,044	7	—	10	—	1,061
Budget Change Proposals						
1. Towing and storage program	800	—	—	—	—	800
2. Investigation and prosecution of vehicle theft	113	—	—	—	—	113
3. Commercial vehicle inspection and enforcement	841	—	—	—	—	841
4. Telecommunication services	14,555	—	—	—	—	14,555
5. Additional & replacement vehicles	862	—	—	—	—	862
6. Workload increases	250	—	—	—	—	250
7. Motor carrier safety operations	402	—	—	—	—	402
8. Data processing	2,025	—	—	—	—	2,025
9. Program support staff	135	—	—	—	—	135
10. Rifles	121	—	—	—	—	121
11. Tour bus safety operations	339	—	—	—	—	339
12. Continuation of reimbursable positions					591	591
13. Other	166	—	—	—	—	166
1987–88 Expenditures (Proposed)	$470,668	$1,362	—	$1,558	$9,904	$483,492
Change from 1986–87:						
Amount	$10,026	$7	−$480	$38	−$644	$8,947
Percent	2.2%	0.5%	−100.0%	2.5%	−6.1%	1.9%

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Funding Sources

In the budget year, CHP proposes to fund its programs from four sources: $470.7 million from the Motor Vehicle Account (MVA), State Transportation Fund; $9.9 million from reimbursements; $1.4 million from the Motorcyclist Safety Fund; and $1.6 million from the Federal Trust Fund.

ANALYSIS AND RECOMMENDATIONS

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

- $2,025,000 to purchase data processing equipment.
- $841,000 to add 16 new positions to the vehicle inspection and enforcement program.
- $402,000 to add seven positions to the transportation of hazardous materials program.
- $339,000 to establish a tour bus inspection program.

CHP Designated Statewide Coordinator of Vehicle Theft Investigations

In 1986, the Governor designated the Commissioner as the statewide coordinator for vehicle theft investigations by Executive Order D-52-86. On this basis, the CHP is requesting $113,000 for three positions to establish a new unit to coordinate statewide investigation of vehicle theft. The budget also proposes to redirect $1.3 million and 22 traffic officers from ground operations to staff this new unit.

Our analysis indicates that this is a reasonable request to improve vehicle theft investigations. Therefore, we recommend approval.

Procurement of Rapid Firing Weapons is a Policy Decision for the Legislature

In the current year, the department purchased 35 submachine guns, at a cost of almost $33,000, to upgrade the firepower of its Protective Services Detail. This unit provides protection and security for state and national officials and foreign dignitaries. For 1987–88, the CHP is requesting $121,000 to purchase 250 semi-automatic rifles to provide a further increase in firepower. The patrol indicates that the rifles would be deployed statewide in selected divisions and in certain vehicles.

Sub-Machine Guns Not Authorized by the Legislature. According to CHP, the sub-machine guns purchase was authorized by the Commissioner and paid for by redirecting existing equipment funds. No prior authorization was sought or received from the Legislature for procurement of these weapons. The patrol contends that, since the weapons were for an existing program, legislative notification and authorization were not needed.

Our analysis indicates that the procurement of the sub-machine guns represents a significant policy decision which should have been reviewed and approved by the Legislature.

Rapid-Firing Rifles. According to CHP, the 250 semiautomatic rifles requested in the budget year would provide traffic officers with a long-range, rapid-fire capability which could be used on a quick-response basis to combat snipers using long-range or rapid-firing weapons.

Our analysis indicates that, since 1980, the patrol has been involved in

129 shooting incidents, or about 22 per year. During the past six years, however, *the patrol participated in only five incidents in which snipers used rapid-firing or long-range weapons.* Consequently, we find that equipping the patrol with weapons of this type is questionable on a workload basis. Moreover, on a policy basis, we believe that equipping the patrol with machine guns and rapid-firing rifles may conflict with its traditional legislatively approved role of managing and regulating traffic on the state highway system.

Over the past 15 years, most of the major local law enforcement agencies have organized highly effective SWAT teams which can be quickly brought into action when special weapons are needed. The patrol has not established clear justification why it should duplicate the weapons' capabilities of these local agency teams.

For these reasons, we believe that the purchase of weapons to significantly upgrade the patrol's firepower is a policy decision for the Legislature. Therefore, we make no recommendation on the purchase of these weapons.

Helicopters Primarily Assist Local Agencies

We recommend enactment of legislation requiring allied agencies and other governmental entities utilizing CHP helicopter services to reimburse the patrol for its costs.

For 1987–88, the patrol is requesting $5.4 million to support its five helicopters which are used for the following purposes: (1) CHP law enforcement and traffic management, (2) assistance provided to allied agencies, (3) emergency medical services, and (4) search and rescue missions. Currently, all helicopter program activities are supported by the Motor Vehicle Account.

Our analysis indicates that, of the $5.4 million requested, almost $3.6 million ($2.3 million for direct charges and $1.3 million for indirect operational costs), or 66 percent, is for allied agency assistance. Thus, on a cost basis, the *CHP helicopter program primarily serves local law enforcement agencies.*

For the most part, the current and proposed use of the patrol's helicopters represents a significant departure from the department's primary mission of managing traffic and providing law enforcement on the state highway system. Moreover, the use of funds from the Motor Vehicle Account (MVA) to support all of the costs of the helicopter program, without any reimbursements from local agencies, does not appear to be justified. In order to ensure that the MVA is appropriately reimbursed, we recommend the enactment of legislation requiring allied agencies and other local entities to reimburse the department for helicopter services.

Vehicle Towing and Storage Costs—Who Is Responsible?

We recommend enactment of legislation to clarify whether costs for towing and storing of vehicles seized as evidence for court cases are the responsibility of the state or local courts.

The patrol is requesting $800,000 and 1.9 personnel-years to establish a vehicle towing and storage program. The program would pay costs incurred by the patrol to tow and store vehicles seized, without a search warrant, as evidence for the investigation and prosecution of crimes.

Traditionally, towing and storage costs have been borne by the court in which the criminal case was prosecuted. In March 1986, the Attorney

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

General issued Opinion No. 85-804, however, which directed (1) CHP to pay vehicle towing and storing charges incurred prior to the time the court begins criminal proceedings and (2) the court to pay for all towing and storage costs incurred from the time prosecution begins until it ends.

Our analysis indicates that the state payment of towing and storage charges for vehicles seized as court evidence represents a significant departure from current policy. More importantly, implementation of the Attorney General's opinion requires significant new expenditures from the Motor Vehicle Account. Such expenditures may conflict with other legislative priorities.

Given these new funding demands, we recommend the enactment of legislation to clarify the Legislature's intent as to whether vehicle towing and storage charges related to court prosecution activities are the responsibility of the state or local courts.

Counties Refusing To Reimburse CHP

We recommend deletion of $900,000 to purchase telephone and computer equipment to implement the emergency motorist aid system because participating counties are refusing to reimburse CHP for its costs as required by statute. (Reduce Item 2720-001-044 by $900,000.) In addition, we recommend deletion of six personnel-years and reduction of reimbursements by $170,000 to eliminate support personnel for this system.

The budget is requesting $900,000 for freeway call box equipment to provide central dispatching services within five counties for emergency motorist aid systems. The budget also continues $170,000 for six personnel-years added in the current year to staff the project.

Chapter 1350, Statutes of 1985 (SB 1255), requires CHP to provide central dispatching services for emergency motorist aid systems, when requested by counties. The law also requires participating *counties to sign a contract with CHP for system services and to reimburse the department for state expenditures.*

The department has projected its telephone and computer equipment costs for this project based on full system usage by the five participating counties. According to the patrol, however, all five counties have failed to sign the reimbursement contracts. Despite the fact that the contracts have not been signed, CHP indicates that it plans to go ahead with the equipment purchase.

In order to ensure that the state is properly reimbursed, we believe the CHP should secure the required contracts before it is appropriated funds to purchase any telephone and computer equipment. Lacking the contracts required by statutes, we recommend the deletion of $900,000 for the purchase of equipment. In addition, we recommend the deletion of six personnel-years and $170,000 in reimbursements to staff this project.

Funds Requested for Telecommunication Equipment Not Documented

We recommend a reduction of $601,000 requested for telecommunication equipment expenses because CHP has not documented the need for these purchases. (Reduce Item 2720-001-044 by $601,000).

The department is requesting $1,637,000 for telecommunication equipment. Of the total amount requested, $1,036,000 is for specific equipment which is detailed and justified in a schedule. We have reviewed the schedule and justification material submitted and recommend approval of the funds. The balance of the request, $601,000, consists of a single category called "other telecommunication expenses." The department has been unable to document the need for this equipment. Therefore, we recommend a reduction of $601,000.

Request For Replacement Vehicles Lacks Specifics

We withhold recommendation of $862,000 to replace and purchase new vehicles, pending the receipt of information on the number of vehicles and their unit cost.

The department requests $862,000 for the purchase of new vehicles to replenish its fleet. According to the department, the Department of Finance plans to submit an amendment letter to reflect the estimated number of vehicles and their unit cost. Accordingly, we withhold recommendation on $862,000 requested to purchase vehicles, pending receipt of the specified information.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY

Item 2720-301 from the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 97

Requested 1987–88	$9,936,000
Recommended approval	9,383,000
Recommendation pending	553,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Academy New Skid Facility. Withhold recommendation on $553,000 in Item 2720-301-044(2), pending receipt of cost estimate and preliminary plans. 295

ANALYSIS AND RECOMMENDATIONS

The budget proposes $9,936,000 from the Motor Vehicle Account, State Transportation Fund, for the Department of the California Highway Patrol's (CHP) 1987–88 capital outlay program. This includes eight major and fourteen minor projects. The CHP's requests are summarized in Tables 1 and 2.

Skid Pan Facility

We withhold recommendation on $553,000 proposed for construction of a new skid pan facility at the CHP Academy, pending preliminary plans and a cost estimate. (Item 2720-301-044(2)).

The Legislature appropriated $37,000 in the 1986 Budget Act for preparation of preliminary plans and working drawings for a new skid pan facility at the CHP Academy. The skid pan will be used to train cadets how to recover from a skid when the cadet is operating a front wheel drive vehicle. In the *Supplemental Report of the 1986 Budget Act,* the Legislature specified its intent for the preliminary plans of this project to be completed no later than November 1986. When this *Analysis* was pre-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY —Continued

pared, however, the preliminary plans were not complete. Consequently, we do not have the necessary information to substantiate the requested amount. Accordingly, we withhold our recommendation.

Table 1
Department of the California Highway Patrol
1987–88 Major Capital Outlay Program Summary
(dollars in thousands)

Sub-Item	*Location/Project*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*
2	Academy/New Skid Facility	c	$553	Pending
3	Ukiah/Purchase of Leased Facility	a	1,461	$1,461
4	Fresno/Purchase of Leased Facility	a	1,339	1,339
5	Rancho California/Purchase of Leased Facility	a	1,194	1,194
6	Blythe/Purchase of Leased Facility	a	907	907
7	Needles/New Field Office	c	1,336	1,336
8	San Bernardino/Purchase of Leased Facility	a	2,329	2,329
9	Options and Appraisals	a	20	20
	Total		$9,139	$8,586

[a] Phase symbols indicate: p=preliminary plans; w=working drawings; c=construction; a=acquisition

Purchase of Leased Facilities

We recommend approval of $7,230,000 for the purchase of five leased CHP facilities.

The CHP is requesting a total of $7,230,000 for the purchase of five offices that are currently leased by the patrol. The location and cost for each office is summarized in Table 1. The amount budgeted for the purchase of each facility is based on the amount specified in the lease agreement, plus $4,000 for the Department of General Service's administrative costs. Our analysis indicates that each acquisition will be financially beneficial to the state. The cost to purchase the facility and pay operating expenses is significantly less than the present value of future lease payments. Accordingly, we recommend that the requested funds be approved.

New Facility—Needles

We recommend approval of $1,336,000 for the construction of a new CHP facility in Needles. (Item 2720-301-044(7))

The budget proposes $1,336,000 to construct a new 25 traffic officer, 6,324 gross square foot facility in Needles. The CHP currently operates its Needles office from leased trailers, at an annual cost of $27,000. The CHP will build the new facility on land owned by the City of Needles. This land is leased to the state for 49 years for a nominal fee of $100. The lease is renewable, at the state's option, for another 49 years and a second $100 fee.

The preliminary plans for this project are complete and the estimated cost is $142,000 *below* the CHP's 1986 estimate. The scope of the project conforms with the legislative intent as expressed in the *Supplemental Report of the 1986 Budget Act.* Accordingly, we recommend approval.

Minor Projects

We recommend approval.

The Budget Bill provides a total of $797,000 for 14 minor (under $200,-000) capital outlay projects. Table 2 summarizes the proposed projects.

Table 2
Minor Capital Outlay
Department of the
California Highway Patrol
(dollars in thousands)

Type	*Location*	*Number*	*Amount*
1. Remodel restrooms to provide handicapped accessibility..	Paso Robles	1	$20
2. Provide locker room facilities for female traffic officers....	Various	5	105
3. Alter office space or dispatch areas	Various	5	222
4. Alter automotive areas	Various	3	326
5. Provide additional space for evidence storage	Various	3	34
6. Install a 12,000 gallon underground ground tank for aviation fuel	Barstow	1	90
Total			$797

The CHP advises us that, with the completion of projects under Nos. 1 and 2 in Table 2, the CHP will have altered all facilities to provide accessibility for the handicapped and locker rooms for female traffic officers.

The minor projects shown in Table 2 are justified and the costs are reasonable. We recommend approval.

Supplemental Report Language

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

Business, Transportation and Housing Agency
DEPARTMENT OF MOTOR VEHICLES

Item 2740 from the State Transportation Fund — Budget p. BTH 98

Requested 1987–88	$350,120,000
Estimated 1986–87	339,270,000
Actual 1985–86	315,042,000
Requested increase (excluding amount for salary increases) $10,850,000 (+3.2 percent)	
Total recommended reduction	2,867,000
Recommendation pending	1,367,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2740-001-001—Anatomical donor designation, petit jury selection	General	$62,000
2740-001-044—Support	Motor Vehicle Account, State Transportation	230,294,000

DEPARTMENT OF MOTOR VEHICLES—Continued

2740-001-054—Support of New Motor Vehicle Board	New Motor Vehicle Board Account	910,000
2740-001-064—Support	Motor Vehicle License Fee Account, Transportation Tax	106,220,000
2740-001-378—Bicycle Registration	State Bicycle License and Registration	37,000
2740-001-516—Undocumented Vessel Registration	Harbors and Watercraft Revolving	3,262,000
2740-011-044—Payment of deficiencies	Motor Vehicle Account	(1,000,000)
Reimbursements		9,335,000
Totals		$350,120,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. State Highway Account Transfer. Recommend readoption of Budget Bill language requiring the Department of Finance to notify the Legislature if it intends to transfer funds from the State Highway Account to the Motor Vehicle Account to eliminate a projected deficit. 301
2. ***Appointment System. Reduce Item 2740-001-044 by $2,412,000 and 100 personnel-years.*** Recommend deletion of funds for additional phone/mail appointment system personnel because an increase in system usage which would justify additional staff has not been documented. 302
3. Satellite Office Leases. Withhold recommendation on $1,367,000 for office leases until the department submits an analysis detailing the justification for this policy change. 303
4. Computer Replacement Project. Recommend continuation of supplemental report language because information is necessary to maintain oversight of project. 304
5. ***Equipment Purchases. Reduce Item 2740-001-044 by $455,000.*** Recommend reduction to eliminate overbudgeting. 304

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in and promoting public safety on California's roads and highways. To carry out these responsibilities, the department administers three programs to aid the driving public. These programs are: (1) Vehicle and Vessel Registration and Titling, (2) Driver Licensing and Control and Personal Identification, and (3) Occupational Licensing and Regulation. These programs are implemented by the department's Divisions of Headquarters Operations, Field Operations North and South, Investigations and Occupational Licensing, and Electronic Data Processing. Administrative support services are provided to the other divisions by the Division of Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

In the budget year, the department will operate 160 field offices and five central registration centers, in 12 regions throughout the state, as well as a headquarters facility in Sacramento. The department is authorized 7,831 personnel-years in 1986–87.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $350,120,000 from various state funds and reimbursements for support of the Department of Motor Vehicles in 1987–88. This is $10,850,000, or 3.2 percent, above estimated expenditures in the current year. The budget also proposes 7,691.4 personnel-years in 1987–88. This is a decrease of 139.6 personnel-years, or 1.8 percent, below the 1986–87 level.

Table 1 provides a summary of the department's staffing and expenditures, by program, for the prior, current, and budget years.

Table 1
Department of Motor Vehicles
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Vehicle and vessel registration and titling	4,022.1	4,012.8	4,004.0	$173,946	$191,822	$200,200	4.4%
Driver licensing and personal identification	3,052.2	3,037.1	2,910.2	122,959	127,928	130,111	1.7
Occupational licensing and regulation	378.5	408.1	405.5	17,232	18,571	18,793	1.2
New Motor Vehicle Board	14.6	16.8	16.8	679	853	920	7.9
Total administration	329.9	356.2	354.9	30,274	32,327	34,815	7.7
Administration distributed	—	—	—	(30,048)	(32,231)	(34,719)	7.7
Totals	7,797.3	7,831.0	7,691.4	$315,042	$339,270	$350,120	3.2%
Funding Sources							
General Fund				*$57*	*$62*	*$62*	—
Motor Vehicle Account, State Transportation Fund				*211,201*	*231,030*	*230,294*	*–0.3%*
New Motor Vehicle Board Account				*675*	*843*	*910*	*7.9*
Motor Vehicle License Fee Account, State Transportation Tax Fund				*91,167*	*95,058*	*106,220*	*11.7*
State Bicycle License and Registration Fund				*21*	*40*	*37*	*–7.5*
Harbors and Watercraft Revolving Fund				*2,926*	*3,219*	*3,262*	*1.3*
Federal Trust Fund				*5*	*0*	*0*	—
Reimbursements				*8,990*	*9,018*	*9,335*	*3.5*

Funding Sources

In the budget year, the department proposes to fund its programs from three sources—$230.3 million from the Motor Vehicle Account (MVA), State Transportation Fund; $106.2 million from the Motor Vehicle License Fee Account, Transportation Tax Fund; and $13.6 million from reimbursements and other accounts.

DEPARTMENT OF MOTOR VEHICLES—Continued

Funding Constraints in the Budget Year

Table 2 summarizes the major changes proposed for DMV's budget in 1987–88. The budget indicates that $239.9 million in personal service expenditures will be needed to support 7,691.4 personnel-years in the budget year. As with most other agencies, however, no funds are provided for merit salary adjustments (MSAs). Instead, under the administration's policy, the department will have to absorb MSA costs of about $2.6 million in 1987–88. In addition, the Department of Finance (DOF) has imposed a salary savings rate of almost 5 percent on DMV, which exceeds by 1 percent the average rate from 1983–84 through 1986–87. Despite the constraints in the DMV's budget, our review indicates that the department has the resources to deliver the level of services envisioned by the Legislature in the budget year.

Table 2
Department of Motor Vehicles
Proposed 1987–88 Budget Changes
(dollars in thousands)

	Motor Vehicle Account	*Motor Vehicle License Fee Account*	*Other*	*Total*
1986–87 Expenditures (Revised)	$231,030	$95,058	$13,182	$339,270
Baseline Adjustments 1987–88				
1. Limited term positions/expiring programs	−2,361	—	—	−2,361
2. Increase for license plates [a]	2,400	—	—	2,400
3. Adjustment to salary savings	1,800	—	—	1,800
4. Pro rata adjustment	1,287	—	34	1,321
5. PERS rate reduction	37	—	—	37
6. Fund allocation adjustment	−8,017	8,017	—	—
7. Net administration adjustment	9	—	—	9
Budget Change Proposals				
1. Workload	539	−22	389	906
2. Data base computer replacement	1,932	1,204	1	3,137
3. Remittance processing equipment	503	314	—	817
4. Expanded satellite offices	498	869	—	1,367
5. Continuation of phone/mail appointment system	1,678	734	—	2,412
6. Automation project	−1,554	−358	—	−1,912
7. Legislation	513	404	—	917
1987–88 Expenditures (Proposed)	$230,294	$106,220	$13,606	$350,120
Change from 1986–87				
Amount	−736	11,162	424	10,850
Percent	−0.3%	11.7%	3.2%	3.2%

[a] Effective January 1, 1987, Ch 679/85, requires that license plates on newly registered vehicles be reflectorized. Accordingly, the baseline budget is adjusted to pay for the cost of reflectorized license plates.

ANALYSIS AND RECOMMENDATIONS

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

- $817,000 to purchase remittance processing equipment to improve the handling of checks deposited with the department to pay vehicle registration and driver's license fees.
- $917,000 to fund four programs established by legislation in 1986–87. This includes approximately $634,000 to fund Chapters 1305 (AB 3666) and 1306 (AB 3262) to establish a tour bus driver certification program and a tour bus driver inspection program, respectively.

Condition of the Motor Vehicle Account

We recommend readoption of Budget Bill language requiring the Director of Finance to report to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees 30 days prior to transferring any funds from the State Highway Account to the Motor Vehicle Account (MVA) during 1987–88.

In *The 1986–87 Budget: Perspectives and Issues* and a subsequent analysis of the Department of Finance's March 1986 revenue estimates, we pointed out that the Motor Vehicle Account (MVA) would face a major revenue shortfall during the next five years unless (1) vehicle registration and driver license fees were increased or (2) the growth of expenditures by the DMV, the California Highway Patrol (CHP) and the Air Resources Board (ARB) were slowed.

Since that analysis, however, the outlook for the MVA appears to have improved—at least in the short term—for three reasons. First, in the last quarter of 1986, there was a surge in new vehicle sales resulting in a substantial increase in the collection of vehicle registration fees. Second, the department accelerated its collection and processing of vehicle registration fees, generating increased revenues of approximately $20 million in 1985–86 and the first half of 1986–87. Third, the growth rate in expenditures for CHP, DMV, and ARB has slowed significantly. According to the Department of Finance's (DOF) most current estimates, the June 30, 1987 reserve, which was originally estimated at $15 million, may, instead, approach $81 million.

Moreover, DOF's projections for 1987–88 show total resources of $840.9 million and expenditures of $776.5 million, leaving a reserve of over $64 million on June 30, 1988. The projection of expenditures from the MVA for 1987–88 shows an increase of about 2 percent for CHP, no increase for DMV, and a reduction of almost 4 percent for ARB. These reduced levels are in sharp contrast to annual expenditure increases of 13 percent for CHP, 14 percent for DMV, and 15 percent for ARB for the period 1983–84 through 1986–87.

How Reliable are the MVA Projections? Our analysis indicates that MVA revenue collections in 1985–86 and during the first half of 1986–87 have, indeed, been much larger than DOF originally anticipated. Moreover, the assumptions and methodologies underlying the recently revised MVA revenue and expenditure projections are not unreasonable.

Although the revenue estimates appear reasonable, given the positive impact of the three factors mentioned earlier, they could be optimistic. This is because there are concerns that new car sales may slow greatly in 1987 because sales tax deductions have been terminated by the Federal Tax Reform Act, and low-interest loans and price incentives offered by the

DEPARTMENT OF MOTOR VEHICLES—Continued

manufacturers during the last quarter of 1986 are not likely to be renewed at the same levels. Therefore, it is possible that the condition of the MVA could change significantly during the budget year.

Continue Budget Control Language. The Legislature adopted language in the 1986 Budget Act requiring the Director of Finance to notify the Joint Legislative Budget Committee and the appropriate budget committees in each house 30 days in advance if the department intended to transfer funds from the State Highway Account (SHA) to the Motor Vehicle Account to offset an approaching deficit. In view of a possible slowdown in new car sales and a resulting drop-off in revenue from registration fees to the MVA, we recommend that the Legislature readopt the following Budget Bill language to ensure that the fiscal committees are notified before any funds are transferred from the SHA to the MVA to avoid a potential deficit.

> "Notwithstanding Section 42275 of the Vehicle Code, the State Controller shall not transfer funds from the State Highway Account to the Motor Vehicle Account, to eliminate a revenue deficiency in the Motor Vehicle Account, unless notification of the proposed transfer is made in writing by the Director of the Department of Finance and given to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees not later than 30 days prior to the effective date of the recommended transfer."

Staffing for the Phone/Mail Appointment System Not Documented

We recommend deletion of $2,412,000 and 100 personnel-years requested to continue the positions added in the 1986 budget for the phone/mail appointment system because the department has failed to document its utilization of the system. (Reduce Item 2740-001-044 by $2,412,000 and 100 personnel-years.)

The 540 personnel-years added in 1985–86 and 1986–87 included 100 temporary positions at a cost of approximately $2.4 million to make field office appointments for motorists. The department is again requesting funds for this purpose in the budget year.

The DMV currently operates a phone/mail appointment system which allows motorists to make an appointment at a local field office to obtain a driver's license or register their vehicles. When the vehicle owner calls for an appointment, he or she is sent a checklist of necessary forms to bring to the field office. According to the department, public use of the appointment system has been increasing. For this reason, the department is requesting continuation of funds to support 100 personnel-years in the field offices.

The Legislature approved these temporary positions in the current year with the understanding that they would be allocated throughout the state specifically to improve the phone/mail appointment system. The department, however, has not allocated these positions for that purpose. Instead, the positions were used to process the department's normal workload in the field offices.

Our analysis indicates that the department cannot document an increase in the utilization of the appointment system from 1984–85 through 1987–88. In fact, its own quarterly reports *do not demonstrate increased usage of the system.* Instead, the reports provide only estimates of the total number of phone calls received by the department.

Lacking the needed workload information, there appears to be no basis for the 100 personnel-years in the budget year. Our analysis indicates that elimination of the 100 temporary personnel-years should have marginal, if any, impact on the phone/mail appointment system because the funds for the temporary hours were not specifically allocated by DMV to improve the system. Thus, we recommend deletion of $2,412,000 and 100 personnel-years requested by the department for the phone/mail appointment system.

Policy to Lease All DMV Offices Needs Tempering

We withhold recommendation on $1,367,000 requested to lease satellite office space, pending receipt of an analysis detailing the justification for this policy change.

In the fall of 1986, DMV informed us that it would no longer acquire land and construct field offices. Instead, DMV will lease new facilities in commercial areas and shopping centers. As the initial step to implement this policy, the Department of Motor Vehicles is requesting $1,367,000 to lease six new satellite office facilities in order to reduce the workload in overcrowded core offices in certain areas. The budget proposes no new capital construction for state-owned offices and reverts up to $790,000 previously appropriated for a new state-owned office in San Gabriel. This facility would be replaced by a leased satellite office.

According to the department, the satellite offices would: (1) be located in densely populated service areas to relieve overcrowded core offices by drawing customers away from the core offices, and (2) enable the department to add customer service space faster and more efficiently than under the capital outlay process. The department proposes that *all* future capacity needs be met by leasing—on a three-to-five year basis—offices located in shopping centers and commercial areas.

Under certain circumstances, leasing may be prudent in order to secure additional office space quickly to serve the growing number of motorists. The department's plan, however, applies a single solution to a wide range of field office needs. For example, at some locations a permanent long-term office may be appropriate. In these cases, DMV should consider the economies of owning the property through either construction or lease with purchase option arrangements. Moreover, DMV should assure that offices are adequately visible/accessible to the public and provide sufficient parking along with proper driver testing routes. Lease space with these attributes may not be readily available or too costly. In view of these factors that affect individual locations to varying degrees, we recommend that DMV temper its policy to include an analysis that takes into account each of these aspects.

On this basis, we withhold recommendation on $1,367,000 to lease satellite office space, pending receipt of DMV's analysis of each office. To assure comparability for the six projects, the analysis should include:

- An evaluation of the cost-effectiveness, in present values terms projected over the lifetime of the building, of each leasing project versus lease with purchase option and a state-constructed building.
- A comparison of each leasing project and a comparable state-constructed building in terms of space, parking, and location.

If the proposed lease costs more (in present value terms) than the other alternatives, DMV should explain its criteria for selecting the lease option.

Finally, DMV should address the long-term implications of this policy

DEPARTMENT OF MOTOR VEHICLES—Continued

change by detailing the reasons for the change and its effect on client services and state costs.

Data Base Replacement Project Currently on Schedule

We recommend the readoption of supplemental report language requiring the department to submit quarterly reports to the Chairperson of the Joint Legislative Budget Committee and the chairs of the fiscal committees on the status of the Computer Replacement Project.

The department is requesting a total of $5.6 million (including $2.5 million currently in the base budget and $3.1 million in new resources) to fund the second phase of its planned $65 million computer replacement project. The funds will be utilized to purchase data processing capacity at the Teale Data Center and pay for other computer-related costs.

Our analysis indicates that the project is currently meeting the projected scheduling milestones with a minimum of slippage. Project expenditures also appear to be at the levels proposed in the revised feasibility study report. However, in order to ensure that the Legislature continues to receive progress reports on this project, we recommend readoption of the following supplemental report language:

"The Department of Motor Vehicles shall submit quarterly reports to the Chairs of the Joint Legislative Budget Committee, fiscal committees and the policy committees on the status of the computer replacement project. The reports shall include all of the following:

- Milestone progress reports comparing the originally proposed project conversion schedule to the actual conversion milestones achieved to date (including progress toward data measures utilized as milestones).
- The projected transaction volumes for the Automated Name Index (ANI), Driver License (DL), and Vehicle Registration (VR) data bases for fiscal year 1987–88, and the actual transaction volumes for the ANI, DL, and VR data bases per quarter.
- Expenditures made on the project to date, including: (1) Teale Data Center costs, (2) current system maintenance costs, (3) conversion personnel costs (hard and soft costs), (4) consultant costs, (5) internal data processing costs, and (6) training costs.
- A list of files and programs that have been transferred to the Teale Data Center and the steps taken to ensure that data have not been lost or compromised in the transfer.
- A comparison of the estimated utilization of Teale computer capacity to the actual capacity utilized by the department during that quarter.
- The effect on customer service which has resulted from the project."

Equipment Costs Overstated

We recommend deletion of $455,000 to correct for overbudgeting of equipment costs. (Reduce Item 2740-001-044 by $455,000.)

The department is requesting $3,507,000 for major equipment purchases in the budget year. Our analysis of the Schedule 9 Equipment listing, however, indicates that the department can document only $3,052,000 in major equipment purchases. Thus, it appears that the request for equipment purchases is overstated. Accordingly, we recommend a reduction of $455,000.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Items 2740-301 from and 2740-495 to the Motor Vehicle Account, State Transportation Fund — Budget p. BTH 109

Requested 1987–88	$5,831,000
Recommended approval	345,000
Recommended reduction	119,000
Recommendation pending	5,367,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Site Preparation for Computer Replacement. We withhold recommendation on Item 2740-301-044(2), pending receipt of information reconciling the cost and scope of the proposed project with the project approved in the 1986 Budget Act. 306
2. Pomona Field Office. We withhold recommendation on Item 2740-301-044(3), pending redesign of office to conform with cost previously recognized by the Legislature. 307
3. Yuba City Field Office. We withhold recommendation on Item 2740-301-044(4), pending receipt of preliminary plans and a detailed cost estimate. 307
4. ***Upland Field Office. Reduce Item 2740-301-044(5) by $119,00.*** Recommend deletion of working drawing funds, because the department has not acquired a site for the building. 308
5. Redding Field Office. Recommend that, before budget hearings, the department submit a report to the Legislature on the status of the new field office for Redding. 308
6. Reversions—Appraisals and Options. We recommend that the Legislature modify the language under Item 2740-495 to leave $70,000 available to the department to obtain appraisals and purchase options. 309
7. Reversions—San Gabriel. We withhold recommendation on this reversion, pending receipt of a report evaluating costs and benefits of leasing rather than constructing a San Gabriel office. 310

ANALYSIS AND RECOMMENDATIONS

The budget proposes $5,831,000 under Item 2740-301-044 for the Department of Motor Vehicles' (DMV) capital outlay program for 1987–88. This amount includes $5,486,000 for four major projects and $345,000 for five minor projects ($200,000 and less per project).

The DMV's capital outlay program represents a significant departure from prior years. In the fall of 1986, the DMV informed us that it was abandoning its traditional capital outlay program and would no longer acquire land and build new offices. Under this plan, the DMV would only

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

lease new facilities in commercial areas and shopping centers. The 1987–88 capital outlay program reflects the new policy. The budget includes funds only to *finish* projects for which planning has started.

In our discussion of the DMV's support budget (Item 2740-001-044), we provide a detailed analysis of this proposed policy change. As pointed out in that discussion, our analysis indicates that the proposed policy:

- applies a single solution to a wide range of field office needs,
- may be unnecessarily costly, and
- needs more thorough review and analysis by DMV.

The DMV's 1987–88 capital outlay program is summarized in Table 1. A discussion of the projects and our recommendations follows.

Table 1
Department of Motor Vehicles
1987–88 Major Capital Outlay Program Summary
(dollars in thousands)

Subitem	*Project Title*	*Phase* [a]	*Budget Bill Amount*	*Analyst's Recommendation*
1	Statewide Minor Capital Outlay	pwc	$345	$345
2	Sacramento Headquarters—Site Preparation for Computer Replacement	wc	2,112	pending
3	Pomona—Office Building and Parking Facility	c	1,691	pending
4	Yuba City—Office Building and Parking Facility	c	1,564	pending
5	Upland—Office Building and Parking Facility	w	119	—
	Total		$5,831	$345

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; a = acquisition.

Computer Remodeling/Fire and Life Safety Retrofit

We withhold recommendation on $2,112,000 under Item 2740-301-044(2), for working drawings and construction related to site preparation for computer replacement at the Sacramento Headquarters Building, pending receipt of information reconciling the proposed project's scope and cost with the project funded in the 1986 Budget Act.

The 1986 Governor's Budget included $1,179,000 for preliminary plans, working drawings and construction of a project to remodel the second floor of the DMV Headquarters to accommodate new computers *and* upgrade fire/life safety. During budget hearings, the DMV advised the Legislature that it had canceled its plan to purchase new computers, but still wished to remodel the Headquarters Building to improve fire/life safety. On this basis, the Legislature appropriated $105,000 to prepare preliminary plans for the fire/life safety portion of the project. (The project name listed in the 1986 Budget Act erroneously cites "computer replacement site preparation.")

In October 1986, the DMV informed us that the cost of the fire/life safety remodeling would exceed what was originally proposed in the 1986 Governor's Budget for both the computer replacement *and* fire/life safety remodeling. At that time, the department's architectural representative (the Office of Planning, Development and Management (OPDM) in the

Department of General Services) agreed to provide a reconciliation of scope and cost of the current project with the project originally proposed in the 1986 Governor's Budget.

We received the preliminary plans for the fire/life safety project in December 1986. The budget estimate reflects a project cost of $2,116,550—nearly $1 million (80 percent) *more* than the DMV originally requested to alter the building for *both* computer replacement and fire/life safety. In submitting the preliminary plans and cost estimates, the DMV offered no explanation for the inordinate cost overrun. Moreover, when this *Analysis* was prepared, we had not received the cost/scope reconciliation that OPDM agreed to provide. Consequently, we do not know why the cost of this project has increased so substantially or how the scope of the project has changed. Accordingly, we withhold our recommendation, pending receipt of a reconciliation of the *original* project's scope and cost with the *proposed* project's scope and cost.

Pomona Field Office—Construction Costs are High

We withhold recommendation on $1,691,000 under Item 2740-301-044 (3) for construction of a new field office in Pomona, pending receipt of revised preliminary plans reducing the cost to that previously recognized by the Legislature.

The budget proposes $1,691,000 to construct a new 11,000 net square foot DMV office in Pomona. The need for this office has been established. The Legislature appropriated $763,000 for site acquisition and preliminary plans in the 1984 Budget Act and $77,000 for working drawings in the 1986 Budget Act. The delay in establishing this new office resulted from the DMV's difficulty in acquiring a site for the office, a process that took over one and one-half years.

The preliminary plans for this project were recently completed. The cost of the project, as currently designed, however, is $411,000 (32 percent) greater than the amount recognized by the Legislature and specified in the *Supplemental Report of the 1986 Budget Act*. Similar to the case with the Headquarters project, the DMV, in submitting the preliminary plans for Pomona, provided no explanation of the substantial overrun. In fact, the DMV made no mention of the excess cost. To the best of our knowledge, there is no obvious reason for it. The project has remained the same and there have been no inflationary cost increases. Based on our review of the preliminary plans, the project can be redesigned to reduce the cost and provide a quality DMV office. Consequently, we recommend that the department direct the architect to redesign the project so that the cost reflects the amount approved by the Legislature. We therefore withhold recommendation on Item 2740-301-044(3), pending receipt of the revised preliminary plans.

Yuba Field Office—Behind Schedule and Over Budget

We withhold recommendation on $1,564,000 under Item 2740-301-044(4), construction of a new field office in Yuba City, pending receipt of preliminary plans and a revised cost estimate.

The budget proposes $1,564,000 for construction of a new field office in Yuba City. The need for this new DMV office has been established. The Legislature appropriated $284,000 for site acquisition and preliminary plans in the 1985 Budget Act and $90,000 for working drawings in the 1986 Budget Act.

This project is behind schedule. When this *Analysis* was prepared, the

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

department had not submitted preliminary plans for the project, nor a revised cost estimate. We understand that the preliminary plans are complete, but that the department and the Office of Planning Development and Management are reviewing them for possible cost reductions. The amount proposed in the Governor's Budget is $269,000 (21 percent) greater than the cost recognized by the Legislature when it approved working drawings in 1986.

Lacking preliminary plans and a cost estimate, we have no basis to recommend an amount for construction. We urge the department to complete its review and to redesign the project, as necessary, to ensure that the cost reflects the amount the Legislature specified. Pending receipt of the preliminary plans and cost estimate, we withhold recommendation.

No Site Purchased For a New DMV Office in Upland

We recommend deletion of $119,000 for working drawings for a new field office in Upland, because the department has not purchased the site. (Delete Item 2740-301-044(5).)

During hearings on the 1986 Budget Bill, the DMV informed the Legislature that it was in *final* negotiations to purchase property in Upland for a future DMV office. Consequently, the DMV stated that funds would be needed for *both* acquisition and preliminary plans in the budget year. On this basis, the Legislature appropriated $1.2 million in the 1986 Budget Act for acquisition and preliminary plans for the Upland office.

When this *Analysis* was prepared, however, the DMV still had not purchased a site or started preliminary plans. Consequently, there is no basis to substantiate the amount requested for working drawings. Therefore, we recommend deletion of the $119,000. We urge the department to expedite purchase of the site and complete preliminary plans prior to preparation of the Governor's 1988–89 Budget. At that time, a request for working drawings and construction, based on completed preliminary plans, would warrant legislative consideration. Given the progress on this project, this action should not affect significantly the opening of the new office.

No Funding Proposed for Redding Office

We recommend that, prior to budget hearings, the department submit a report on the status of the capital outlay project for Redding.

The Legislature appropriated $518,000 in the 1985 Budget Act to acquire land and prepare preliminary plans for a new field office in Redding. The Legislature also appropriated $65,000 for working drawings in the 1986 Budget Act.

When this *Analysis* was prepared, the DMV had still not purchased a site for the Redding office. Based on this situation, it is appropriate that no funds are requested for Redding in the 1987 Governor's Budget. On the other hand, based on our discussion with the DMV, we understand that the Redding office is one of the areas most critically in need of additional capacity. Consequently, we urge the department and the Office of Real Estate and Design Services to increase their efforts to secure a site. We further recommend that, prior to budget hearings, the department submit a report on the status of the new field office for Redding.

Minor Projects

We recommend approval.

The budget proposes $345,000 for six minor capital outlay projects summarized in Table 2. The project "Handicapped Compliance and Retrofit" will bring the last DMV offices into compliance. The need for—and cost of—the proposed projects is justified. Accordingly, we recommend approval.

Table 2
Department of Motor Vehicles
1987–88 Capital Outlay Budget
Minor Capital Outlay

Project	*Location*	*Amount*
Parking Lot Lighting	Hollywood	$59,000
Parking Lot Lighting	Riverside	12,000
Install Elevator	Santa Ana	127,000
Handicapped Compliance Retrofit	Various	111,000
Remodel Control Cashier and Employee Room	Whittier	26,000
Enlarge Storeroom	Winnetka	10,000
Total		$345,000

Supplemental Report Language

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

Proposed Reversions (Item 2740-495)

The budget proposes to revert to the Motor Vehicle Account on June 30, 1987 the unencumbered balance of appropriations made for the following purposes in the 1986 Budget Act:

- Property Appraisals and Purchase Options,
- Preliminary plans for Sacramento Headquarters, computer replacement/site preparation, and
- Acquisition and preliminary plans for an office building and parking facility in San Gabriel.

Property Appraisals and Purchase Options Money May be Needed

We recommend that the Budget Bill be amended to leave $70,000 available to secure appraisals and options.

The Budget Bill proposes reversion of the funds appropriated by the Legislature in 1986 for property appraisals and purchase options. This proposed reversion reflects the DMV's new policy to lease rather than construct field offices.

As discussed earlier, the decision to acquire field offices by either leasing or constructing should be based on an analysis of the cost/benefit in each instance. In some cases, the appropriate decision may be to construct. In this event, the project could be expedited if funds are available to appraise property and secure a purchase option. Consequently, reversion of *all* the funds available for this purpose appears premature. We, therefore, recommend that the Budget Bill be amended to leave funds available to secure at least two appraisals/options. Specifically, we recommend that the language under Item 2740-495 be amended to read:

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

"2740-495—Reversion, Department of Motor Vehicles as of June 30, 1987, the unencumbered balance of the appropriations provided in the following citations, *except for $70,000 under Subitem (1)*, shall revert to the unappropriated surplus of the fund from which the appropriation was made."

Sacramento—Headquarters

We recommend approval.

The Legislature appropriated $105,000 in 1986 to develop preliminary plans for a project to remodel the Sacramento Headquarters. According to the DMV, preliminary plans were completed at a cost of $4,000. This item reverts the balance of funds. We recommend approval.

San Gabriel

We withhold recommendation, pending receipt of a report evaluating capital outlay versus lease decisions.

The Legislature appropriated funds in the 1985 Budget Act (and reappropriated funds in the 1986 Budget Act) for acquisition and preliminary plans for a new DMV office in San Gabriel.

The budget proposes to revert these funds and lease a new office. We urge the department to evaluate the cost/benefits of leasing or constructing this office. The department's report on this evaluation should be submitted to the Legislature, prior to budget hearings. Pending receipt of this report, we withhold recommendation on this matter.

DEPARTMENT OF MOTOR VEHICLES—REVERSIONS

Item 2740-496 to the Motor Vehicle Account — Budget p. BTH 104

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert to the unappropriated reserve of the Motor Vehicle Account (MVA), the unexpended balances remaining in two appropriations made by Ch 1126/85 and Ch 1500/85.

- Chapter 1126 appropriated $1,875,000 from the MVA to the Department of Motor Vehicles in 1985–86 to implement and publicize a registration amnesty program to speed-up the collection of unpaid vehicle registration fees. An unexpended balance of $1.1 million remains.
- Chapter 1500 appropriated $183,682 from the MVA to the department in 1985–86 to change its computer files for leased vehicles. An unexpended balance of $85,000 remains.

Both of these appropriations were made effective for three years, however, both projects have been completed.

Business, Transportation and Housing Agency
STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 112

Requested 1987–88	$55,502,000
Estimated 1986–87	55,139,000
Actual 1985–86	50,995,000
Requested increase (excluding amount for salary increase) $363,000 (+0.7 percent)	
Total recommended reduction	3,535,000
Recommendation pending	2,170,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2780-001-683	Stephen P. Teale Data Center Revolving	$55,467,000
Reimbursements	—	35,000
Total		$55,502,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Control Language.* Recommend adoption of a schedule of equipment acquisition projects and language requiring notice to the Legislature prior to any expenditures for new projects. 312
2. ***Microprocessors. Reduce Item 2780-001-683 by $138,000.*** Recommend reduction to reflect shift in procurement practices of data center clients. 313
3. ***Technical Recommendations. Reduce Item 2780-001-683 by $3,397,000.*** Recommend various technical budget adjustments. 313
4. ***Recommendations Withheld.*** Withhold recommendation on $2,170,000 requested by the center to fund several proposals, pending receipt of additional information. 314

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center (TDC) is one of three consolidated data centers authorized by the Legislature. The center was established to provide centralized electronic data processing services to state agencies in order to minimize the total cost of data processing to the state. The costs of operating the center are fully reimbursed by 209 clients.

The data center is authorized 318.9 personnel-years (PYs) in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $55,502,000 for data center operating expenses and equipment in 1987–88. This consists of $55,467,000 from the Stephen P. Teale Data Center Revolving Fund and $35,000 in reimbursements. The budget request represents an increase of $363,000 (0.7 percent) and 27.1

STEPHEN P. TEALE DATA CENTER—Continued

PYs over estimated current year expenditures.

Table 1 summarizes the changes proposed in the data center's budget for 1987–88.

Table 1
Stephen P. Teale Data Center
Proposed 1987–88 Budget Changes
(dollars in thousands)

	TDC Revolving Fund	*General Fund*	*Reimburse-ments*	*Total*
1986–87 Expenditures (Revised)	$53,925	$1,179	$35	$55,139
Adjustment for one-time costs	–7,886	—	—	–7,886
Current year payment of audit disallowances (Ch 1365/86)		–1,179	—	–1,179
Budget year General Fund repayment	1,179	–1,179	—	—
1. Workload Adjustments				
Additional Staff:				
Operations and support	330	—	—	330
User support—publications unit	25	—	—	25
Timeshare support	67	—	—	67
Online systems	157	—	—	157
Data Management	41	—	—	41
Teleprocessing	49	—	—	49
Client Relations	42	—	—	42
Administrative Services	29	—	—	29
Financial Management	37	—	—	37
EDP Equipment:				
Central processor capacity	2,267	—	—	2,267
Data storage capacity—disk	3,167	—	—	3,167
Data storage capacity—tape cartridge	590	—	—	590
Terminals and communications	2,091	—	—	2,091
2. Program Adjustments				
Communication facilities—backup power supplies	7	—	—	7
Data Base Computer System	405	—	—	405
Programmer workbench	124	—	—	124
1987–88 Expenditures (Proposed)	$56,646	–$1,179	$35	$55,502
Change from 1986–87:				
Amount	$2,721	–$2,358	—	$363
Percent	5.0%	–200.0%	—	0.7%

ANALYSIS AND RECOMMENDATIONS

Additional Budget Control Needed

We recommend that the Legislature adopt in the Budget Bill, (1) a schedule of the center's proposed equipment acquisition projects and (2) language limiting the authority of the Department of Finance to approve expenditures on new projects not scheduled in the Budget Bill.

The Teale Data Center intends to redirect over $1.6 million in its current-year budget to fund projects which were not funded in the 1986 Budget Act. Specifically, the center proposes to fund (1) backup power supplies at its remote facilities ($244,000), (2) software to provide a "workbench" for program development on one of its computers ($636,000), and (3) acquisition of a database computer system ($751,000). Furthermore, installment purchase agreements negotiated in the current-year for these projects will entail additional obligations in future years totaling at least $1.1 million.

To carry out the basic program enacted by the Legislature in the center's annual budget, it is sometimes necessary or advisable for the center to revise specific budget allocations. The reallocation of funds to undertake *new* projects, however, undermines the Legislature's ability to set priorities through the budget process. This problem is further compounded when such reallocations fund only the first year of a multi-year contractual commitment. Consequently, we believe that the center's authority to reallocate funds should be limited and, in the case of new projects, subject to prior notification of the Legislature. Therefore, we recommend that the Legislature add to the Budget Bill (1) a schedule of the center's proposed EDP equipment acquisitions, and (2) language requiring 30 days notice to the Legislature prior to approval of budget revisions to fund any new projects. Specifically, we recommend the following Budget Bill provision:

> "The Director of Finance may authorize an augmentation of the amount available for expenditure for any project not scheduled in this item, if the total multi-year cost of the project is estimated to be greater than $200,000, not sooner than 30 days after (1) completion and approval of any required feasibility study report on the project, and (2) notification in writing of the necessity therefor is provided to the chairperson of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine."

Microprocessors Overbudgeted

We recommend a reduction of $138,000 in the amount requested for microprocessors because demand by clients for procurement through the data center is declining. (Reduce Item 2780-001-683 by $138,000.)

The data center's budget request includes $415,000 for acquisition of microprocessors, an amount equal to the current-year budget. The center procures microprocessors for both its own needs and on behalf of its clients. After adjusting for one-time purchases by the center to meet its own needs, actual expenditures to meet client needs were $310,000 in 1985–86. Since that time, however, the Department of General Services has established a computer store to serve Sacramento-based departments and agencies. Consequently, the data center now purchases microprocessors primarily for clients located outside of Sacramento and for some of its smaller Sacramento clients. As a result, microprocessor expenditures averaged only $18,500 per month during the first four months of 1986–87, or a $222,000 annual rate. Therefore, we recommend that the Legislature budget $222,000, plus $55,000 which the center has requested to meet its own needs, for a total of $277,000. This is a reduction of $138,000 from the amount requested.

Technical Recommendations

We recommend technical budgeting adjustments, for a total reduction of $3,397,000, as follows (Reduce Item 2780-001-683 by $3,397,000):

- $1,347,000 reduction in the amount requested for purchase of direct access data storage (DASD) devices to reflect (1) known cost savings

STEPHEN P. TEALE DATA CENTER—Continued

of $965,000 for phase I of the project, and (2) a reduction of $382,000 in phase II costs consistent with phase I cost experience.

- $936,000 deletion of request for purchase of a mainframe computer because the purchase will be completed in the current year rather than in the budget year.
- $620,000 reduction in the amount requested for data communication line expenses to reflect (1) a $360,000 reduction in the center's estimate of these costs, and (2) a $260,000 reduction because the center's estimate failed to recognize the partial year nature of some line costs.
- $353,000 reduction in the amount requested for personal services because the center has underestimated salary savings associated with staff vacancies.
- $141,000 reduction in the amount requested for the computer capacity expansion project to reflect the center's revised cost estimates, including (1) a reduction of $250,000 in software expenses, and (2) increases of $49,000 for equipment maintenance and $60,000 for equipment.

Recommendations Withheld

We withhold recommendation on $2,170,000 requested for equipment procurement, including:

- **$1,250,000 to lease terminals.**
- **$273,000 for a communication controller for the center's computer systems.**
- **$57,000 to expand capacity on the computer output microfilm (COM) system.**
- **$590,000 for additional cartridge tape readers and related expenses.**

At the time this analysis was prepared we did not have sufficient time to review information recently provided by the center pertaining to its request for funds to lease terminals. We are withholding recommendation on the other items discussed here pending completion of feasibility study reports by the center. When our analysis is complete we will submit a supplemental analysis to the Legislature.