

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

ity. The task force consists of 25 members and is directed to study and make findings concerning the relationships between healthy self-esteem, personal responsibility, and social problems. The task force is mandated to submit progress reports to the Legislature on January 15, 1988 and 1989 and a final report on or before January 15, 1990. The initial report was submitted as scheduled. The task force sunsets on July 1, 1990.

The task force has two personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$252,000 for support of task force activities in 1988-89. This amount is an increase of \$20,000, or 8.6 percent, above estimated current-year expenditures. The increase in the task force budget largely reflects (1) an increase in operating expenses of \$14,000 and (2) the reclassification of an administrative position.

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

State and Consumer Services Agency MUSEUM OF SCIENCE AND INDUSTRY

Item 1100 from the General
Fund

Budget p. SCS 1

Requested 1988-89	\$9,086,000
Estimated 1987-88	8,612,000
Actual 1986-87	8,039,000
Requested increase (excluding amount for salary increases) \$474,000 (+5.5 percent)	
Total recommended reduction	\$118,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	\$8,969,000
Reimbursements	—	117,000
Total		\$9,086,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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| 1. Compliance With Budget Act Language. Recommend that the museum and the Department of General Services report at budget hearings on why the Legislature was not informed prior to the approval of a new parking contract. | 94 |
| 2. <i>Parking Operations.</i> Reduce reimbursements by \$98,000. Recommend reduction because the museum has not justified how the funds will be spent. | 95 |
| 3. <i>Working Drawings.</i> Reduce Item 1100-001-001 by \$20,000. Recommend reduction because project is undefined. Working drawings should be budgeted as a capital outlay project. | 96 |

GENERAL PROGRAM STATEMENT

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

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

Associated with the MSI is the Museum of Afro-American History and Culture (MAHC). The MAHC was established by the Legislature to preserve, collect, and display artifacts of Afro-American contributions to the arts, science, religion, education, literature, entertainment, politics, sports, and history of California and the nation. The MAHC is governed by a seven-member advisory board.

The museum has 129.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes the expenditure of \$9,086,000 to support the MSI and the MAHC in 1988-89. This is \$474,000, or 5.5 percent, more than estimated current-year expenditures. The proposed expenditure consists of \$8,969,000 from the General Fund and \$117,000 in reimbursements.

Table 1
Museum of Science and Industry
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	
Education:							
Museum operations	76.5	79.8	80.7	\$5,122	\$5,236	\$5,538	5.8%
Science workshop	—	—	—	28	58	58	—
Aerospace Science Museum	1.0	1.8	1.8	145	312	318	1.9
Hall of Economics and Finance.	4.0	3.7	3.7	223	248	251	1.2
Subtotals, Education	(81.5)	(85.3)	(86.2)	(\$5,518)	(\$5,854)	(\$6,165)	(5.3%)
Administration:							
Administrative services	21.3	25.1	25.1	\$1,103	\$1,220	\$1,237	1.4%
Parking lot operations	6.6	4.0	4.0	313	280	388	38.6
Subtotals, Administration	(27.9)	(29.1)	(29.1)	(\$1,416)	(\$1,500)	(\$1,625)	(8.3%)
Afro-American Museum:							
Education	6.0	8.0	8.0	\$765	\$906	\$923	1.9%
Administration	6.0	7.2	8.2	340	352	373	6.0
Subtotals, Afro-American Museum	(12.0)	(15.2)	(16.2)	(\$1,105)	(\$1,258)	(\$1,296)	(3.0%)
Totals	121.4	129.6	131.5	\$8,039	\$8,612	\$9,086	5.5%
Funding Sources							
General Fund				\$8,014	\$8,593	\$8,969	4.4%
Reimbursements				25	19	117	515.8
Foundation				(\$1,008)	(\$1,092)	(\$1,092)	(—)

MUSEUM OF SCIENCE AND INDUSTRY—Continued

The General Fund request includes \$1,296,000 for support of the MAHC in 1988-89. This is an increase of \$38,000, or 3 percent, over estimated current-year expenditures.

In addition, an estimated \$1 million will be provided the museum in 1988-89 by the California Museum Foundation of Los Angeles. Table 1 shows the museum's expenditures for the past, current, and budget years.

The \$474,000 increase in total expenditures proposed for 1988-89 reflects baseline adjustments needed to maintain the museum's current level of activity and several workload changes. These changes are detailed in Table 2.

Table 2
Museum of Science and Industry
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General Fund and Reimbursements</i>
1987-88 Expenditures (Revised)	\$8,612
<i>Baseline Adjustments</i>	
Allocation for employee compensation	100
Decrease in cost of staff benefits	-10
Replace roof of Armory building	257
Working drawings for facilities improvement	20
Increase in Consultant Services, Interdepartmental	32
Increase in Consultant Services, External	22
Other expense increases	28
One-time study, Latino Museum	-4
One-time study, Exposition Park master plan	-150
Subtotal, Baseline Adjustments	(\$295)
<i>Workload Changes</i>	
Additional staff, exhibits and curator services	26
External affairs consulting contract	40
Temporary help, Afro-American Museum	15
Contract to operate parking lots	98
Subtotal, Workload Changes	(\$179)
1988-89 Expenditures (Proposed)	\$9,086
Change from 1987-88:	
Amount	\$474
Percent	5.5%

ANALYSIS AND RECOMMENDATIONS**Legislature Not Informed of New Parking Contract**

We recommend that the museum and the Department of General Services report at budget hearings on why the Legislature was not informed prior to the approval of a new parking contract pursuant to language in the 1987 Budget Act.

In September 1987 the museum signed a contract with a private firm for the operation of its courtesy parking lot. The amount of the contract is \$25,000, but it also contains an open-ended clause which could result in additional payments to the contractor.

Language in Item 1100 of the 1987 Budget Act states:

The Director of General Services may not approve a contract, permit, or lease agreement by the museum . . . which reduces state revenues or increases state costs by \$25,000 or more unless, not sooner than 30 days prior to giving his or her approval, the director submits in writing to the Chairperson of the Joint Legislative Budget Committee notification of the director's intent to approve such contract . . ."

Given that the Legislature was not informed of the signing of the September 1987 contract, the actions of the museum and the Department of General Services appear to have violated this provision. Therefore, we recommend that the museum and the Department of General Services report at budget hearings on why the Legislature was not informed prior to the approval of this contract.

Proposed Parking Contract Is Lacking

We recommend deletion of \$98,000 to contract for parking lot operations and purchase parking equipment, because the museum has not provided sufficient information to justify numerous aspects of the request. (Reduce Item 1100-001-001 by \$98,000).

The budget proposes to increase the museum's budget by \$98,000 in 1988-89 to upgrade the museum's parking lot operations. Specifically, the museum plans to (1) continue a contract entered into in the current year with a private firm for the operation of its courtesy parking lot, (2) contract for a new tram service to transport visitors from its overflow lot to the museum, and (3) purchase new signs and parking equipment. This amount is proposed to be offset by increased reimbursements from parking revenues.

The museum currently has four positions dedicated to parking operations. The museum states, however, that its current staff cannot adequately deal with the traffic management problems which occur during weekends, holidays, school vacation periods, and "special event days" (days when events at the Los Angeles Coliseum or Sports Arena cause heavy traffic in Exposition Park). The proposed augmentation would provide additional staff and equipment to improve parking services for museum patrons.

At the time we prepared this analysis, the museum had not provided sufficient information to justify numerous aspects of this request. Specifically, the museum has not:

- Justified its contention that its current parking staff cannot adequately handle existing parking operations.
- Provided information to justify the cost estimates for the proposed contracts to operate the parking lots and the tram service.
- Provided detail on the parking equipment and signs which would be purchased.
- Explained how it plans to coordinate the work currently performed by its existing parking operations staff with the contracting agent.

Given these concerns, we cannot recommend that the Legislature approve the proposed augmentation at this time. Our recommendation would result in a \$98,000 decrease in reimbursements and a comparable increase in General Fund revenue. Should the museum provide additional information which addresses the issues discussed above, we will revise this recommendation accordingly.

MUSEUM OF SCIENCE AND INDUSTRY—Continued**Restroom Design Funds Are Inappropriately Budgeted**

We recommend a General Fund reduction of \$20,000 to prepare working drawings for a project to renovate and expand the restrooms at the museum, because the project has yet to be defined and working drawing funds should be budgeted as a capital outlay item. (Reduce Item 1100-001-001 by \$20,000.)

The budget proposes to spend \$20,000 to develop working drawings to renovate and expand public restrooms at the museum. Although the museum has not provided a cost estimate for this project or identified its scope, our analysis indicates that, based on the amount budgeted for working drawings, the future construction cost could be approximately \$380,000.

The State Administrative Manual requires that working drawing funds be budgeted as a capital outlay item. This requirement ensures that the Legislature is advised of the *total* cost of all capital outlay projects. If the Legislature funds this project, we recommend that it be funded in the capital outlay item.

Consequently, and without prejudice to the project, we recommend that the \$20,000 requested for working drawings be deleted from the museum's support item, and that the administration resubmit this request as a capital outlay project with proper scope and cost justification.

MUSEUM OF SCIENCE AND INDUSTRY—CAPITAL OUTLAY

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

Budget p. SCS 4

Requested 1988-89	\$120,000
Recommended approval	120,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval of \$120,000 requested for provision of lighting at the museum.

We recommend approval of \$120,000 requested in Item 1100-301-036(1) for the installation of outdoor lighting in the vicinity of the following building complexes at the Museum of Science and Industry: (1) Aerospace Museum, (2) Afro-American Museum, (3) main building/science wing complex, (4) Parsons Plaza, and (5) museum parking/Finance Museum. The project is consistent with recommendations by the Crime Prevention Program, California State Police.

State and Consumer Services Agency
DEPARTMENT OF CONSUMER AFFAIRS

Items 1120-1655 from various
funds

Budget p. SCS 5

Requested 1988-89	\$140,343,000
Estimated 1987-88	135,658,000
Actual 1986-87	115,622,000
Requested increase (excluding amount for salary increases) \$4,685,000 (+3.5 percent)	
Total recommended reduction	121,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1120-001-704—Board of Accountancy	Accountancy	\$4,398,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	3,430,000
1140-006-001—State Athletic Commission	General	738,000
1140-006-492—State Athletic Commission	Boxer's Neurological Examination Account	170,000
1150-008-128—Bureau of Automotive Repair	Automotive Repair	7,792,000
1150-008-420—Bureau of Automotive Repair	Vehicle Inspection	33,090,000
1160-010-713—Board of Barber Examiners	Barber Examiners	846,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	1,592,000
1180-014-717—Cemetery Board	Cemetery	322,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	792,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjustor	3,052,000
1230-020-735—Contractors State License Board	Contractors License	25,998,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	3,305,000
1260-024-741—Board of Dental Examiners	State Dentistry	2,714,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	717,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,158,000
1300-030-180—Bureau of Personnel Services	Personnel Services	547,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	539,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	236,000
1350-040-001—State Board of Guide Dogs for the Blind	General	41,000
1360-042-752—Bureau of Home Furnishings	Bureau of Home Furnishings	2,164,000
1360-042-753—Bureau of Home Furnishings	Bureau of Home Furnishings, Dry Cleaning Account	76,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	367,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	15,099,000
1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	167,000
1400-048-108—Board of Medical Quality Assurance	Acupuncturists	520,000
1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	290,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

1420-052-759—Board of Medical Quality Assurance	Physical Therapy	379,000
1430-054-280—Board of Medical Quality Assurance	Physicians Assistant	346,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	695,000
1450-058-310—Board of Medical Quality Assurance	Psychology	1,148,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	574,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	239,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	370,000
1480-064-763—Board of Optometry	State Optometry	378,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	3,030,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners	108,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	3,514,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	6,146,000
1520-072-771—Certified Shorthand Reporters Board	Certified Shorthand Reporters	284,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	99,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	1,978,000
1540-076-406—Tax Preparers Program	Tax Preparers	834,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	643,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	106,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	2,605,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	676,000
1640-086-001—Division of Consumer Services	General	1,444,000
1655-090-702—Administrative Services	Consumer Affairs	2,041,000
1655-090-702—Division of Consumer Services	Distributed	(1,089,000)
1655-090-702—Administrative Services	Distributed	(12,924,000)
Total Budget Act Appropriations		\$137,797,000
Statutory Appropriations		
Board of Accountancy	Accountancy	65,000
Certified Shorthand Reporters Board	Transcript Reimbursement	303,000
Total, Statutory Appropriations		\$368,000
Reimbursements		2,178,000
Total, All Expenditures		\$140,343,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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1. Departmentwide Computer System. Recommend adoption of supplemental report language requiring quarterly reports on the implementation of the advanced computer project. 100

2. Potential Fund Deficiencies. Recommend that by March 15, 1988, eight specified boards report to the fiscal committees on the steps taken to ensure sufficient reserves in their respective fund balances. 103
3. Excessive Fund Surpluses. Recommend that, by March 15, 1988, the Respiratory Care Examining Committee and the Structural Pest Control Board report to the fiscal committees on their plans for reducing the reserves in their respective funds to more reasonable levels. 104
4. Accountancy Board. Recommend adoption of supplemental report language requiring the board to report on its efforts to establish a new position classification to investigate specified accounting firms. 105
5. *Contractors State License Board. Reduce Item 1230-020-735 by \$121,000.* Recommend reduction in funds proposed for rental costs due to overbudgeting. 106

GENERAL PROGRAM STATEMENT

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

The department has five major components: (1) 40 regulatory agencies, which include boards, bureaus, programs, committees and commissions; (2) the Division of Administration; (3) the Division of Technology; (4) the Division of Investigation; and (5) the Division of Consumer Services. Each of the department's constituent licensing agencies is statutorily independent of the department's control. Only five bureaus and one program are under the direct statutory control of the director.

Each of the 40 regulatory agencies within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objective through licensure and the enforcement of laws, rules and regulations.

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

The Division of Technology provides data processing services to the constituent agencies on a distributed cost basis.

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

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

The department has 1,752.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$140,343,000 from various funds, including reimbursements, for support of the department and its constituent agencies in 1988-89. This is \$4,685,000, or 3.5 percent, more than estimated expendi-

DEPARTMENT OF CONSUMER AFFAIRS—Continued

tures from these funds in the current year.

Of the \$140.3 million that the department proposes to spend in 1988-89, \$17.8 million is for departmental support. The remaining \$122.6 million would be spent for support of the various boards and bureaus. Table 1 presents the department's total expenditures, by division, for the prior, current and budget years.

Table 1
Department of Consumer Affairs
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Division	Personnel-Years			Expenditures			Percent
	Actual	Est.	Prop.	Actual	Est.	Prop.	Change
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	From 1987-88
Consumer Services	38.1	38.0	38.8	\$2,216	\$2,171	\$2,559	17.9%
Administration	120.9	124.0	124.9	6,101	6,596	6,826	3.5
Investigation	58.5	60.8	60.8	3,328	3,295	3,412	3.6
Technology	27.4	26.1	27.1	2,633	2,169	2,917	34.5
Building and Maintenance	—	—	—	1,388	1,875	2,041	8.9
Totals	244.9	248.9	251.6	\$15,666	\$16,106	\$17,755	10.2%
Funding Sources							
General Fund				\$1,276	\$1,372	\$1,444	5.2%
Consumer Affairs Fund				1,388	1,875	2,041	8.9
Dry Cleaning Account				180	—	—	—
Distributed to other programs				12,562	12,602	14,013	11.2
Reimbursements				260	257	257	—

ANALYSIS AND RECOMMENDATIONS**DIVISION OF ADMINISTRATION****Departmentwide Computer System Requires Monitoring**

We recommend the Legislature adopt supplemental report language requiring the department to submit quarterly progress reports on the implementation of the advanced computer project.

In 1985-86, the Legislature approved the department's proposal to implement, in four phases, an advanced computer system to provide greatly increased data processing services to all of the department's constituent agencies. A total of \$2.2 million has been appropriated to the department since 1985-86, including a current-year deficiency request for \$156,000, for completion of Phase I of the project. The department is requesting \$1,379,000 for completion and operation of Phase I in the budget year. Implementation of this system has been a long-term goal of the Legislature.

The department revised the project from four to three phases by consolidating phases III and IV. It is estimated that, when all three phases are completed, total costs will be \$6.1 million.

The purpose of Phase I of the new computer system is to automate the license issuance and renewal processes. Phase II is intended to automate the application processing and enforcement tracking processes.

In the current year, the department was required to submit a revised feasibility study report (FSR) to the Office of Information Technology

(OIT) within the Department of Finance for Phase I because of increased project costs and decreased savings. The department submitted the revised FSR in September 1987 and it was approved in December 1987. The revised FSR modified the original proposal by (1) implementing 34 of the 40 boards and bureaus at the Teale Data Center (TDC), rather than all boards, (2) using personal computers (PCs) for local key entry functions, rather than on-line, and (3) converting three boards (Bureau of Personnel Services, Cemetery Board, and Board of Polygraph Examiners) to local PC-based systems, instead of using TDC. Phase I is now scheduled for completion in February 1989, almost two years from the original completion date. The completion date of Phase II is 1990-91; two and one-half years after the original completion date.

Although the project has been delayed, the department has demonstrated, through a pilot project of Phase I at the Barber Board and Board of Pharmacy, that the project can provide the anticipated benefits and improved services to the public. Nevertheless, we believe that the Legislature should be kept apprised of the status of this project given its history of delays. Therefore, we recommend the adoption of supplemental report language requiring the department to submit quarterly progress reports on this project to the Legislature. The following language is consistent with this recommendation.

The Department of Consumer Affairs shall submit quarterly progress reports on the departmentwide advance computer project to the chairs of the fiscal committees and the Joint Legislative Budget Committee. These reports shall include: (1) a 12-month plan of tasks to be performed by board, (2) the status of these tasks, (3) an explanation of issues resulting in any deviations from the schedule, and (4) staffing levels and expenditures.

BOARDS AND BUREAUS

Boards, Bureaus and Committees Whose Budgets Contain No Significant Issues

Our analysis indicates that the proposed 1988-89 budgets for a number of boards, bureaus, and committees raise no significant fiscal issues that warrant separate write-ups in this *Analysis*. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases which our review show to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 2

Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1988-89

(dollars in thousands)

Item Number	Description	Personnel-Years			Expenditures ^a			Percent Change From 1987-88
		Actual 1986-87	Est. 1987-88	Prop. 1988-89	Actual 1986-87	Est. 1987-88	Prop. 1988-89	
1130-004-706	Board of Architectural Examiners ^b	17.9	25.4	30.7	\$1,707	\$2,853	\$3,435	20.4%
1140-006-001	State Athletic Commission . Bureau of Automotive Repair:	12.7	13.1	13.8	778	830	908	9.4
1150-008-128	Automotive Repair	121.6	123.3	124.7	6,935	7,660	7,910	3.3
1150-008-420	Vehicle Inspection	228.4	257.8	291.3	27,049	29,720	33,090	11.3
1160-010-713	Board of Barber Examiners.	12.8	13.4	13.4	772	828	847	2.3
1170-012-773	Board of Behavioral Science Examiners ^b	15.0	17.2	18.3	1,116	1,333	1,618	21.4
1180-014-717	Cemetery Board	4.4	4.4	4.4	265	290	322	11.0
	Bureau of Collection and Investigative Services:							
1200-016-157	Collection Agencies	11.2	11.2	13.6	601	668	799	19.6
1210-018-769	Private Investigators	43.1	45.8	49.2	3,426	4,098	4,147	1.2
1240-022-738	Board of Cosmetology	49.0	42.5	42.5	3,105	3,148	3,326	5.7
1260-024-741	Board of Dental Examiners.	30.0	31.7	35.0	2,194	2,597	2,777	6.9
1270-026-380	Board of Dental Examiners— Dental Auxiliary	10.5	8.3	8.3	586	675	721	6.8
1280-028-325	Bureau of Electronic and Appliance Repair	14.5	14.5	14.5	1,032	1,168	1,158	-0.9
1300-030-180	Bureau of Personnel Services ^b	6.2	5.1	4.4	609	586	547	-6.7
1330-036-750	Board of Funeral Directors and Embalmers ^b	6.2	6.0	8.3	400	438	543	24.0
1340-038-205	Board of Registration for Geologists and Geophysicists	3.2	3.5	3.5	203	221	236	6.8
1350-040-001	State Board of Guide Dogs for the Blind	0.4	0.3	0.5	28	30	41	36.7
1360-042-752	Bureau of Home Furnishings	28.1	31.7	33.6	1,974	2,258	2,240	-0.8
1370-044-757	Board of Landscape Architects	2.3	2.8	2.8	284	331	367	10.9
1390-046-758	Board of Medical Quality Assurance ^b	166.5	182.0	181.4	13,162	15,160	15,278	0.8
1390-047-175	Dispensing Opticians	1.0	1.0	1.0	133	160	167	4.4
1400-048-108	Acupuncturists	5.0	7.5	7.5	408	491	527	7.3
1410-050-208	Hearing Aid Dispensers	2.0	3.3	3.3	181	288	294	2.1
1420-052-759	Physical Therapy	3.3	3.7	3.7	333	386	399	3.4
1430-054-280	Physicians Assistant	3.7	3.3	3.3	296	334	349	4.5
1440-056-295	Podiatry	3.9	3.6	3.6	532	638	699	9.6
1450-058-310	Psychology	8.0	7.7	7.7	1,020	1,073	1,165	8.6
1455-059-319	Respiratory Care ^b	5.8	5.7	5.7	594	588	600	2.0

1460-060-376	Speech Pathology and Audiology Examining Committee ^b	3.0	3.1	3.1	\$184	\$239	\$251	5.0%
1470-062-260	Board of Examiners of Nursing Home Administrators ..	3.9	4.0	4.4	274	338	371	9.8
1480-064-763	Board of Optometry	4.4	5.3	5.3	380	439	384	-12.5
1490-066-767	Board of Pharmacy	32.1	32.2	33.8	2,586	2,878	3,074	6.8
1495-067-297	Polygraph Examiners Board ^b	1.6	1.5	1.5	74	83	108	30.1
1500-068-770	Board of Registration for Professional Engineers	37.1	37.1	47.1	3,341	3,352	3,518	5.0
1510-070-761	Board of Registered Nursing	60.0	52.7	52.7	5,153	5,630	6,229	10.6
1520-072-771	Certified Shorthand Reporters Board	4.0	3.6	4.2	526	564	588	4.3
1530-074-775	Structural Pest Control Board ^b	27.6	27.0	27.0	2,100	2,226	2,079	-6.6
1540-076-406	Tax Preparers Program ^b ..	3.6	5.2	5.2	379	376	849	125.8
	Board of Examiners in Veterinary Medicine:							
1560-078-777	Veterinarians	4.7	3.9	3.9	568	619	669	8.1
1570-080-118	Animal Health Technicians. Board of Vocational Nurse and Psychiatric Technician Examiners:	1.0	1.4	1.4	83	100	106	6.0
1590-082-779	Vocational Nurse	26.3	25.6	33.1	2,116	2,188	2,621	19.8
1600-084-780	Psychiatric Technician	7.0	3.9	3.9	539	548	676	23.4

^a Includes reimbursements.

^b Faces potential fund balance problem in 1988-89. See following sections on "Potential Fund Deficiencies" and "Excessive Fund Surpluses."

Potential Fund Deficiencies

We recommend that specified boards and bureaus report to the fiscal committees by March 15, 1988 on the steps they are taking to ensure sufficient reserves in their respective funds.

Generally, special funds that derive revenues from licensing activities should maintain a reserve equal to about three months' operating expenses (25 percent of annual expenditures). In addition, current law requires that the Board of Medical Quality Assurance maintain a reserve equal to four months, or 33 percent, of its annual expenditures. Our analysis indicates that some of the special funds established for the various boards and bureaus are likely to have fund balances during 1988-89 that fail to meet these standards and, in some cases, the budget document projects a deficit for some of the funds.

Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate reserves. At the time we prepared this analysis, these boards and bureaus were in the process of determining what steps to take in order to ensure adequate reserves during 1988-89. In order to provide this information to the Legislature, we recommend that these boards and bureaus report to the fiscal committees by March 15, 1988 on the steps they are taking to ensure that the balances in their funds will be sufficient to meet their cash flow needs during 1988-89.

DEPARTMENT OF CONSUMER AFFAIRS—Continued**Table 3**

**Department of Consumer Affairs
Board and Bureaus With Fund Deficiencies
or Potential Fund Deficiencies in 1988-89
(dollars in thousands)**

Item Number	Board/Bureau	Fund Balance		Total Proposed Expendi- tures 1988-89 ^a	1988-89 Fund Balance as a Percent of Total 1988-89 Expendi- tures ^a
		1987-88	1988-89		
1130-004-706	Architectural Examiners.....	\$1,491	—\$148	\$3,447	—
1170-012-773	Behavioral Science Examiners	233	58	1,592	3.6%
1300-030-180	Personnel Services.....	248	67	547	12.2
1330-036-750	Funeral Directors and Embalmers.	169	112	539	20.8
1390-046-758	Medical Quality Assurance.....	3,817	2,877	15,099	19.1
1460-060-376	Speech Pathology & Audiology ...	192	—12	239	—
1495-067-297	Polygraph Examiners.....	—	11	108	10.2
1540-076-406	Tax Preparers Program.....	323	-209	834	—

^a Total expenditures are net of reimbursements.

Excessive Fund Surpluses

We recommend that by March 15, 1988 the Respiratory Care Examining Committee (Item 1455-059-319) and the Structural Pest Control Board (Item 1530-074-775) report to the fiscal committees on their plans for reducing the reserves in their respective funds to more reasonable levels.

Section 128.5 of the Business and Professions Code states that at the end of any fiscal year, no agency within the Department of Consumer Affairs shall have unencumbered reserves in an amount which equals or exceeds the agency's operating budget for the next two fiscal years. Additionally, it requires the agency to reduce its fees during the following fiscal year to comply with this requirement. Our analysis indicates that the following funds will have reserves on June 30, 1989 which exceed projected disbursements for two years:

- The Respiratory Care Examining Committee (excessive reserve of \$68,000).
- The Structural Pest Control Board (excess reserve of \$3.1 million in the Structural Pest Control Fund and \$135,000 in the Structural Pest Control Education and Enforcement Fund).

Accordingly, we recommend that the Respiratory Care Examining Committee and the Structural Pest Control Board report to the fiscal committees by March 15, 1988 on their plans for reducing the excessive reserves in their funds.

BOARD OF ACCOUNTANCY

The Board of Accountancy regulates certified public accountants and public accountants. The board is requesting \$4,482,000, including reimbursements, for support of its operations in 1988-89. This is an increase of \$751,000, or 20 percent, above estimated current-year expenditures. This

increase consists of an \$87,000 increase in personal services and a \$664,000 increase in operating expenditures primarily for enforcement activities.

Contractual Costs to Investigate "Big Eight" Firms is a Short-Term Solution

We recommend that the Legislature adopt supplemental report language requiring the board, in cooperation with the Department of Personnel Administration, to submit a report describing their efforts to establish a new position classification to investigate specified accounting firms.

The board is requesting an augmentation of \$445,000 in order to investigate major certified public accounting firms, also known as "Big Eight" firms. This amount consists of \$375,000 for contractual services and \$70,000 for operating expenses.

According to the board, it plans to hire consultants to investigate five disciplinary cases against Big Eight firms in 1988-89. The board anticipates that each of these cases will require 500 hours of technical review and evaluation, including review of documents, interviews with related parties, and coordination with state and federal regulatory agencies. The estimated hourly rate for these services is \$150, resulting in contractual costs of \$375,000.

Our analysis indicates that the board's proposal is a short-term solution and that there is a less costly long-term solution. In the board's budget proposal, it identified a less expensive alternative which consisted of hiring two certified public accountants with big eight experience at an annual salary of \$60,000 to \$75,000. However, the board rejected this alternative, arguing that there are currently no state employee classifications for this level of expertise and that the Department of Personnel Administration's (DPA) procedures and policies in creating a new classification would cause a delay in filling these positions. We have discussed this issue with DPA's staff and they indicate that development of a new classification can be expedited and that such a position could be filled within six months. On the other hand, the process could take longer if there are disagreements between DPA and the board regarding issues such as salary level. We believe that one year would provide sufficient time to establish such a new classification.

Therefore, we recommend approval of the \$445,000 for consultant services as a short-term solution in 1988-89 for pursuing disciplinary actions against Big Eight firms. However, as a long-term solution, we recommend adoption of supplemental report language requiring the board, in cooperation with DPA, to report to the Legislature by January 1, 1989 on their efforts in establishing a new classification which would be used to investigate these firms. The following supplemental report language is consistent with this recommendation:

The Board of Accountancy, in cooperation with the Department of Personnel Administration, shall submit a report on their efforts to establish a new classification for in-house expert services in pursuing disciplinary actions against Big Eight firms. The report shall be submitted to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee by January 1, 1989. The report shall identify: (a) the major milestones necessary to establish and fill these positions and the extent to which the board and DPA have met those milestones and (b) any problems and solutions in establishing the classification.

DEPARTMENT OF CONSUMER AFFAIRS—Continued
CONTRACTORS STATE LICENSE BOARD

The Contractors State License Board (CSLB) is responsible for licensing and regulating individuals in the construction industry. The board is requesting \$26,050,000, including reimbursements, for support of its operations in 1988-89. This is a decrease of \$3.9 million, or 13 percent, below estimated current-year expenditures. This decrease is primarily due to one-time funding for workload and statutory appropriations in the current year. This decrease is misleading because some of the statutory appropriations will not be spent in the current year and will carryover into the budget year.

Office Rental Costs Are Overbudgeted

We recommend a reduction of \$121,000 in rental funds which are overbudgeted for the board's (1) field office expansion proposal (\$53,000) and (2) headquarters, northern region and Sacramento district offices consolidation project (\$68,000). (Reduce Item 1230-020-735 by \$121,000.)

The board is requesting the following amounts for rental expenses: (1) \$234,000 for expansion of 13 field offices and (2) \$68,000 for the consolidation and expansion of its headquarters, northern region and Sacramento district offices.

Field Office Expansion. The board is requesting 29,594 square feet of office space for 13 of its 20 field offices located statewide. This would increase its field office space by 6,377 square feet, or 27 percent. The board indicates that the offices will be expanded at the existing locations, with the exception of three locations.

The board's rental proposal was based on the assumption that there are 134 permanent positions at these field offices. Based on information from the board, however, there are only 112 permanent positions—22 fewer positions—located at these field offices. These 22 positions were allocated 1,472 square feet at an annual cost of \$53,000. Therefore, we recommend a reduction of \$53,000 for rental expenses.

Headquarters, Northern Region and Sacramento District Offices. The board is requesting an augmentation of \$68,000 for the rental expenses of its headquarters, northern region and Sacramento district offices. This amount is in addition to \$405,000 in the board's baseline budget for rental costs for these offices.

The augmentation proposal was based on an initial estimate by the Department of General Services. Subsequently, the Department of General Services revised its estimate and submitted a lease proposal in December 1987 to the Legislature. The revised lease agreement proposes 50,264 square feet at an annual cost of \$405,000—the same amount as in the board's baseline budget. Based on this more recent information, we recommend a reduction of \$68,000.

State and Consumer Services Agency
DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General
Fund and Federal Trust Fund

Budget p. SCS 90

Requested 1988-89	\$12,863,000
Estimated 1987-88	12,593,000
Actual 1986-87	12,114,000
Requested increase (excluding amount for salary increases) \$270,000 (+2.1 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1700-001-001—Support	General	\$10,784,000
1700-001-890—Support	Federal Trust	2,066,000
Reimbursements		13,000
Total		\$12,863,000

GENERAL PROGRAM STATEMENT

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

The department consists of two divisions:

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

The department has 247.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$12,863,000 for support of the DFEH in 1988-89. This is \$270,000, or 2.1 percent above estimated current-year expenditures. This increase primarily is due to the cost-of-living adjustment granted state employees in the current year. The budget requests an appropriation from the General Fund of \$10.8 million, or 2.4 percent above estimated current-year General Fund expenditures. Reimbursements are proposed at \$13,000, and federal support is proposed at \$2.1 million—the same amount estimated for 1987-88.

Table 1 presents a summary of the department's expenditures, by program and funding source, for the three-year period ending June 30, 1989.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

Table 1
Department of Fair Employment and Housing
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent
	Actual	Esti-	Proposed	Actual	Esti-	Proposed	Change
		mated			mated		From
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1987-88
Enforcement	205.8	216.3	216.3	\$10,645	\$11,006	\$11,244	2.2%
Administrative services	28.4	31.1	31.1	1,469	1,587	1,619	2.0
Totals	234.2	247.4	247.4	\$12,114	\$12,593	\$12,863	2.1%
Funding Source							
General Fund				\$10,041	\$10,527	\$10,784	2.4%
Federal Trust Fund				2,066	2,066	2,066	—
Reimbursements				7	—	13	—

^a Not a meaningful figure.

Table 1 shows that the General Fund appropriation finances approximately 84 percent of the department's expenditures, while the Federal Trust Fund appropriation supports about 16 percent. Federal support of the state's antidiscrimination activity in employment is linked to an ongoing "work-sharing agreement" between DFEH and the federal Equal Employment Opportunity Commission (EEOC). Under this agreement, the federal government reimburses DFEH for processing cases which, although filed with the state, are subject to the jurisdiction of EEOC. The reimbursement covers only those cases which are filed pursuant to federal law. In 1987-88 the reimbursement rate is \$400 per EEOC case. The DFEH anticipates \$1.9 million from the EEOC in 1988-89.

Under similar terms, the department also maintains a work-sharing agreement with the federal Department of Housing and Urban Development (HUD) for enforcement of fair housing standards. Previously, HUD provided reimbursements for housing-related enforcement at the rate of \$600 per case. Currently, HUD provides a lump sum award based on the prior year's workload statistics. The amount of the award for federal fiscal year 1988 is \$211,000.

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

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

Item 1705 from the General

Fund

Budget p. SCS 92

Requested 1988-89	\$854,000
Estimated 1987-88	827,000
Actual 1986-87	761,000
Requested increase (excluding amount for salary increases) \$27,000 (+3.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The commission is composed of seven members appointed by the Governor to four-year terms. The FEHC's primary responsibility is to hear formal accusations issued by the Department of Fair Employment and Housing against a party alleged to have committed unlawful discrimination, and to issue decisions in these cases. The FEHC also: (1) assists the Attorney General when commission decisions are appealed to the superior and appellate courts, (2) conducts fact-finding hearings on selected matters involving illegal discriminatory activity, (3) promulgates regulations and standards to implement the state's antidiscrimination statutes, and (4) prepares and submits legal briefs in cases involving issues related to the commission's jurisdiction.

The commission has 12.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The FEHC's proposed expenditures appear to be warranted.

The budget proposes an appropriation of \$854,000 from the General Fund to support the FEHC in 1988-89. This is an increase of \$27,000, or 3.3 percent, over estimated current-year expenditures. Of this amount, \$22,000 is for wages and salaries, and \$5,000 is for operating expenses and equipment.

State and Consumer Services Agency
OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General
Fund and various funds

Budget p. SCS 93

Requested 1988-89.....	\$10,958,000
Estimated 1987-88	10,327,000
Actual 1986-87	9,692,000
Requested increase (excluding amount for salary increases) \$631,000 (+6.1 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—Support	General	\$4,476,000
1710-001-198—Support	California Fire and Arson Training	1,414,000
1710-001-199—Support	California Fireworks Licensing	304,000
1710-001-209—Support	Hazardous Liquid Pipeline Safety Fund	1,060,000
1710-001-890—Support	Federal Trust Fund	120,000
Reimbursements		<u>3,584,000</u>
Total		<u>\$10,958,000</u>

GENERAL PROGRAM STATEMENT

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

- Developing, maintaining and enforcing safety standards for all state owned/occupied structures, all educational and institutional facilities, public assembly facilities, organized camps, and buildings over 75 feet in height.
- Developing, maintaining and enforcing controls for portable fire extinguishers, automatic fire extinguishing systems, explosives, fireworks, decorative materials, fabrics, wearing apparel and hazardous liquid pipelines.
- Training and certifying fire service personnel for fire fighting, fire prevention, and arson investigation activities.

The office has 157.9 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$10,958,000 for support of the Office of the State Fire Marshal in 1988-89. This is an increase of \$631,000, or 6.1 percent, over estimated current-year expenditures. As Table 1 shows, General Fund expenditures will account for \$5 million of the total, with \$2.8 million to come from three special funds, and \$3.6 million to come from reimbursements.

Table 1
Office of the State Fire Marshal
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>CFATF^a</i>	<i>HLPF^b</i>	<i>CFLF^c</i>	<i>Reimburse- ments</i>	<i>Federal Funds</i>	<i>Total</i>
1987-88 Expenditures.....	\$4,404	\$1,383	\$1,076	\$345	\$3,119	—	\$10,327
<i>Baseline Adjustments</i>							
Expiration of limited-term posi- tions.....	-692	—	—	—	-154	—	-846
Salary and benefit and miscella- neous adjustments.....	56	7	-91	-49	33	—	-44
Pipeline program (Federal funds).....	—	—	-120	—	—	\$120	—
Prior year adjustment (Ch 1529/85).....	-20	—	—	—	—	—	-20
<i>Proposed Program Changes</i>							
Continue state building inspec- tion.....	771	—	—	—	—	—	771
Reestablish fire extinguisher in- spection.....	—	—	—	—	49	—	49
Increase overtime/incentive pay.....	27	7	6	1	19	—	60
Increase printing.....	18	12	1	6	4	—	41
Increase pipeline inspection....	-41	—	184	—	—	—	143
Increase incident reporting /tracking (Ch 345/87).....	50	—	—	—	—	—	50
Increase fees to Building Stan- dards Commission.....	16	5	4	1	11	—	37
Increase hospital plan check- ing/inspection.....	-80	—	—	—	357	—	277
Increase health care facilities in- spection.....	-16	—	—	—	71	—	55
Continue school plan checking....	-17	—	—	—	75	—	58
Totals.....	\$4,476	\$1,414	\$1,060	\$304	\$3,584	\$120	\$10,958
<i>Change from 1987-88</i>							
Amount.....	\$72	\$31	-\$16	-\$41	\$465	\$120	\$631
Percent.....	1.6%	2.2%	-1.5%	-11.9%	14.9%	100%	6.1%

^a California Fire and Arson Training Fund.

^b Hazardous Liquid Pipeline Safety Fund.

^c California Fireworks Licensing Fund.

The significant budget change proposals are as follows:

- Add 4.7 personnel-years (\$357,000) to maintain on-site hospital inspections under contract with the Office of Statewide Health Planning and Development. (General Fund savings: \$80,000).
- Add 0.9 personnel-year (\$184,000) on a limited-term, two-year basis to provide for inspection of new pipeline construction. (General Fund savings: \$41,000).
- Establish 12.3 personnel-years (\$771,000) on a permanent basis to provide regular fire inspections of all state-owned and state-occupied (leased) buildings.
- Cover cost increases in four areas: printing (\$41,000), reimbursements to Building Standards Commission for publication of standards and regulations (\$37,000), overtime (\$15,000), and physical fitness incentive pay (\$45,000).

OFFICE OF THE STATE FIRE MARSHAL—Continued

The proposed budget is consistent with the office's mission and appears reasonable.

FRANCHISE TAX BOARD

Item 1730 from the General
Fund

Budget p. SCS 97

Requested 1988-89.....	\$163,075,000
Estimated 1987-88	153,988,000
Actual 1986-87	140,973,000
Requested increase (excluding amount for salary increases) \$9,087,000 (+5.9 percent)	
Total recommended reduction.....	None
Recommendation pending	\$2,203,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	\$154,216,000
8640-001-001—Support	General (Political Reform Act)	1,088,000
1730-001-167—Support	Delinquent Tax Collection	5,228,000
1730-001-200—Support	Fish and Game Preservation	19,000
1730-001-473—Support	Vietnam Veterans' Memorial Account	26,000
1730-001-800—Support	U.S. Olympic Committee	18,000
1730-001-803—Support	State Children's Trust	19,000
1730-001-823—Support	California Alzheimer's Disease and Related Disorders Research	26,000
1730-001-905—Support	California Election Campaign	16,000
1730-001-983—Support	California Seniors	17,000
Reimbursements	—	2,402,000
Total		\$163,075,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS
*Analysis
page*

1. Workload Growth. Withhold recommendation on \$2,203,000 requested to accommodate workload growth, pending receipt and review of revised tax return volume estimates for the budget year. 118

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation (B&C) Tax, the Senior Citizens' Property Tax Assistance Program, and the Political Reform Act audit program.

The PIT and B&C tax programs administered by the board account for over 57 percent of total General Fund revenues. In 1988-89, these programs are projected to produce \$20.8 billion, including \$15.4 billion in

PIT revenue and \$5.4 billion in B&C tax revenue. Approximately \$20 billion of these revenues are accounted for by voluntary self-assessments by taxpayers, while the remaining \$800 million will be raised from assessments issued by the board's audit, collections, and filing enforcement programs.

The board consists of the Director of Finance, the chairman of the State Board of Equalization, and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to supervision and direction from the board. The FTB has 3,358 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures by the FTB are proposed at \$163,075,000 for the budget year, which is \$9,087,000, or 5.9 percent, more than estimated current year expenditures. The budget request includes funding for 3,399 personnel-years in 1988-89. This is 41 personnel-years (1.2 percent) more than is estimated for the current year.

The budget proposes an appropriation of \$154.2 million from the General Fund, which is an increase of \$3.8 million, or 2.5 percent, over estimated General Fund expenditures for the current year.

During 1988-89, the board also expects to receive \$2.4 million in reimbursements from other agencies, \$1.1 million as a transfer from the Political Reform Act (Item 8640), \$5.2 million from the newly established (Ch 613/87) Delinquent Tax Collection Fund, and \$141,000 from various special funds.

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

Expenditures by Program. As Table 1 shows, the PIT program accounts for the largest single portion of the board's budget (68 percent of the total budget request). Most of the remaining expenditures are attributable to the B&C tax program (28 percent). The FTB's activities under the Political Reform Act (PRA) and Homeowners and Renters Assistance (HRA) programs account for a relatively small amount (2 percent) of its total budget. In addition to the funding for these mandated programs, a portion of the FTB budget (2 percent) is used for support of services which the board provides on a contractual basis to other agencies.

Source of Funds. Table 1 also shows that nearly all of the FTB budget (about 95 percent) is supported directly from the General Fund. These funds are used for the PIT, B&C tax and HRA programs. Beginning in 1988-89, the PIT program also will receive support from the newly created Delinquent Tax Collection Fund (\$5.2 million) to finance a new enforcement program which assigns PIT collection accounts to private collection agencies. The Delinquent Tax Collection Fund will be supported by the delinquent taxes actually collected by the agencies.

The funding for the board's PRA audit program is provided under a separate budget item (Item 8640). Expenditures for contract work are financed by reimbursements charged to other government agencies.

In addition, the FTB budget includes funding from the California Election Campaign Fund, the U.S. Olympic Committee Fund and related funds which are provided to the board in order to cover its costs of processing voluntary contributions made by taxpayers to special programs supported by these funds.

FRANCHISE TAX BOARD—Continued

Table 1
Franchise Tax Board
Program Summary
1986-87 through 1988-89
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change from 1987-88
	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Actual 1986-87	Est. 1987-88	Prop. 1988-89	
Personal Income Tax.....	2,025	2,256	2,205	\$95,479	\$106,535	\$111,052	4.2%
Bank & Corporation Tax.....	780	756	849	40,482	41,694	46,171	10.7
Homeowners and Renters							
Assistance	38	37	36	1,770	1,850	1,856	0.3
Political Reform Act.....	16	17	17	829	1,061	1,088	2.5
Contract work	55	62	62	2,413	2,848	2,908	2.1
Administration (distributed).....	257	230	230	(12,135)	(11,186)	(11,186)	—
Totals	3,171	3,358	3,399	\$140,973	\$153,988	\$163,075	5.9%
Funding Sources							
General Fund	3,099	3,272	3,303	\$137,403	\$150,447	\$154,216	2.5%
Reimbursements.....	55	62	62	2,471	2,342	2,402	2.6
Political Reform Act (General Fund)	16	17	17	1,041	1,063	1,088	2.4
Delinquent Tax Collection Fund ..	—	—	10	—	—	5,228	— ^a
Fish and Game Fund	1	1	1	15	17	19	11.8
Vietnam Veterans' Memorial							
Account	—	1	1	—	26	26	—
U.S. Olympic Committee Fund ...	—	1	1	7	17	18	5.9
State Children's Trust Fund	—	1	1	14	19	19	—
California Alzheimer's Disease and Related Disorders							
Research Fund	—	1	1	—	26	26	—
Federal Trust Fund	—	—	—	3	—	—	—
California Election Campaign Fund	—	1	1	8	15	16	6.7
California Seniors Fund	—	1	1	11	16	17	6.3

^a Not a meaningful figure.

General Fund Expenditures. Table 2 shows how much the FTB plans to spend from the General Fund for various functions.

About two-thirds of the board's General Fund budget is for two FTB functions—processing and auditing tax returns. As Table 2 shows, 33 percent of the FTB's total General Fund budget is for return processing and taxpayer assistance and 34 percent is for audits. About 23 percent is for collecting delinquent taxes (collections function) and 9 percent is for programs to make sure that individuals and businesses file tax returns (filing enforcement).

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund
1988-89
(dollars in thousands)

<i>Function</i>	<i>PIT Program</i>		<i>B and C Program</i>		<i>HRA Program</i>		<i>Total</i>	
	<i>Budgeted Expendi- tures</i>	<i>Percent of Total</i>	<i>Budgeted Expendi- tures</i>	<i>Percent of Total</i>	<i>Budgeted Expendi- tures</i>	<i>Percent of Total</i>	<i>Budgeted Expendi- tures</i>	<i>Percent of Total</i>
Processing/Taxpayer Assistance	\$38,814	36.7%	\$10,491	22.7%	\$1,856	100.0%	\$51,161	33.3%
Audit	28,137	26.6	24,519	53.1	—	—	52,656	34.3
Collections	26,876	25.4	8,790	19.1	—	—	35,666	23.2
Filing enforcement	11,856	11.2	1,208	2.6	—	—	13,064	8.5
Exempt corporations	—	—	1,163	2.5	—	—	1,163	0.8
Administration (distributed)	(7,589)	—	(3,281)	—	(139)	—	(11,009)	—
Totals ^a	\$105,683	100.0%	\$46,171	100.0%	\$1,856	100.0%	\$153,710 ^b	100.0%
Percent of General Fund expenditures	68.8%		30.0%		1.2%		100%	

^a Detail may not add to totals due to rounding.

^b This amount is \$506,000 lower than the General Fund appropriation (\$154.2 million) because it does not reflect \$506,000 in General Fund expenditures allocated to the contract work program.

FRANCHISE TAX BOARD—Continued

Proposed Changes to the Budget. Table 3 identifies the changes that account for the proposed increase of \$9.1 million in the FTB's budget. It shows \$13.8 million in program and workload adjustments partially offset by \$4.7 million in reduced baseline expenditures. The negative baseline adjustments are primarily the result of one-time costs incurred during 1987-88 related to tax conformity legislation (\$3.6 million) and the tax rebate program (\$2.9 million). For purposes of this table, we have reflected \$905,000 of the proposed increase in audit funding as the cost of merit salary adjustments, in order to reflect the actual purpose and ultimate use of these funds.

Table 3
Franchise Tax Board
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Reimbursements, Transfers, and Special Funds</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$150,447 ^a	\$3,541	\$153,988
Baseline Adjustments:			
Tax conformity	-3,617	—	-3,617
Tax rebate	-2,851	—	-2,851
Merit salary adjustment	889	16	905
Staff benefit adjustment	569	14	583
Salary increase	1,386	35	1,421
One-time costs	-711	—	-711
Price increase	698	26	724
Limited-term positions	-967	—	-967
Other	-98	-53	-151
Subtotal, Baseline Adjustments	(\$-4,702)	(\$38)	(\$-4,664)
Workload Adjustments:			
Return processing and taxpayer assistance	2,750	—	2,750
Information systems improvements and maintenance	-24	—	-24
Subtotal, Workload Adjustments	(\$2,726)	—	(\$2,726)
Program Changes:			
Audit workplan	1,016	—	1,016
Enforcement workplan	4,079	—	4,079
In-state collections	-50	5,228	5,178
Lien fee payments	217	—	217
Federal conformity	483	—	483
Alzheimer's checkoff	—	26	26
Vietnam Memorial checkoff	—	26	26
Subtotal, Program Changes	(\$5,745)	(\$5,280)	(\$11,025)
1988-89 Budget Request	\$154,216	\$8,859	\$163,075
Change from 1987-88			
Amount	\$3,769	\$5,318	\$9,087
Percent	2.5%	150.2%	5.9%

^a Excludes amount funded under the Political Reform Act (\$1,063,000). This funding is included as a transfer.

ANALYSIS AND RECOMMENDATIONS

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

- A General Fund increase of \$4,079,000 for the FTB to perform additional tax collection and filing enforcement activities, which the budget estimates will produce revenues of approximately \$29 million in 1988-89 and \$35 million annually thereafter.
- A General Fund increase of \$483,000 to finance the FTB's increased tax return processing costs associated with recent tax conformity legislation (Ch 1138/87 and Ch 1139/87).
- An augmentation of \$5,228,000 from the Delinquent Tax Collection Fund to implement Ch 613/87, which authorizes the board to use private collection agencies for its in-state collection activities. The budget indicates that this effort should produce revenues of about \$13 million in 1988-89.
- An additional \$217,000 from the General Fund to finance the costs of recent legislation which increased the FTB's costs for attaching and releasing tax liens made as part of the board's enforcement activities.

Audit and Collection "Augmentations" Less Than They Appear

The budget proposes augmentations of \$1.9 million for support of the board's audit program, and \$4.1 million for collection activities, which the administration claims will generate \$50 million (\$21 million and \$29 million, respectively) in net revenues to the General Fund in 1988-89. Our analysis indicates, however, that only a part of these augmentations represent new funding for audit and collections workload. The Department of Finance—for the third year in a row—is representing that its "augmentation" of the budget will increase audit and collections revenue, when in reality a portion of the funds must be used to backfill for reductions elsewhere in the board's budget.

Restoration of MSAs. The budget does not directly provide funding for the FTB to pay for an estimated \$905,000 in cost increases for merit salary adjustments (MSAs). This reflects the administration's policy requiring state agencies to "absorb" these costs. However, unlike other departments, the board's costs for MSAs (\$905,000) will *not* have to be absorbed through reductions in specific programs. Rather, the FTB will have adequate funding to pay these costs through the administration's request to "augment" the board's audit program by \$1.9 million.

Real Audit Augmentation is \$1,016,000. In reality, FTB's audit program would be augmented by \$1,016,000, which will generate additional audit recoveries of approximately \$11.1 million in 1988-89 and \$14.8 million annually thereafter. Therefore, about half of the \$21 million in net revenue attributed by the administration to the \$1.9 million audit augmentation is *not* additional General Fund revenue. Rather, \$9.9 million of this amount represents the revenue that would have been *foregone* in 1988-89 if the administration had not provided the necessary funds to the FTB to cover the costs for MSAs. In this sense, the augmentation mainly restores the portion of the General Fund's revenue base which was "lost" when the administration declined to fund MSAs.

The proposed "augmentation" of \$1.9 million for 1988-89 brings the FTB's total funding level for the audit program to \$52.7 million and will allow the board to conduct approximately 2 million audits and levy net assessments of \$575 million. This funding level will allow the board to perform virtually all audits of returns that yield at least \$5 in revenue for each \$1 of audit cost, which is consistent with the revenue-to-cost level of audit effort that the Legislature has funded in recent years.

FRANCHISE TAX BOARD—Continued

Restoration of Current Year Special Adjustment. The net effects of the administration's proposed audit and collection augmentations also are skewed somewhat by reductions made to the board's budget in the current year. In approving the 1987 Budget Bill, the administration vetoed a General Fund appropriation to restore a 1 percent "special adjustment" funding reduction included in the budgets of most state agencies, including the FTB. Because the FTB has a relatively small range of discretionary programs, the board elected to absorb a large part (\$1.1 million) of this unallocated program reduction (\$1.4 million) by reducing current year personal service costs in the audit and collection programs. These reduced staffing levels will result in current year revenue losses estimated by FTB at \$15.4 million and \$4.9 million for the audit and collection programs, respectively.

Our review indicates that approximately the first \$375,000 of the proposed collection augmentation and about \$750,000 of the audit augmentation serve to restore the \$1.1 million in staff hour reductions made necessary by the administration's veto. Thus, while these amounts represent an expenditure level higher than 1987-88, the ultimate effect of these dollars is to restore funding to the board to the level contemplated by the Legislature in approving the 1987 Budget Bill.

Workload Augmentation Requires Further Review

We withhold recommendation on \$2,203,000 requested to provide for expected workload growth, pending receipt and review of revised data on tax return volumes.

About 33 percent, or \$51.2 million, of the board's 1988-89 General Fund budget is for processing returns and providing information and assistance to taxpayers. The budget requests an increase of \$2,750,000 for return processing, taxpayer assistance, and other administrative activities. Of this amount, \$547,000 will be used to replace or upgrade data processing equipment, while the balance of the proposed amount—\$2,203,000—reflects the estimated increase in return processing and taxpayer assistance.

The amount included in the FTB budget for workload growth is based, in part, on the estimated volume of tax returns the board projects for the budget year. As shown in Table 4, the board projects that it will process 13.9 million returns in 1988-89. This is an increase of 176,000 returns, or 1.3 percent, over the estimated volumes in the current year.

Table 4
Franchise Tax Board
Tax Return Volumes
1986-87 to 1988-89
(Number of returns in thousands)

Type of Returns	Number of Returns			Change from	
	Actual 1986-87	Estimated 1987-88	Projected 1988-89	1987-88 Number	Percent
Personal Income Tax.....	12,820	12,950	13,122	172	1.3%
Bank and Corporation.....	530	554	576	22	4.0
Homeowners and Renters.....	282	265	247	-18	-6.8
Totals.....	13,632	13,769	13,945	176	1.3%

Although the tax return volumes shown in Table 4 suggest minimal growth in the budget year, the board's budget request includes funding

for 160,000 additional staff hours; or a 6.5 percent increase in available hours. While we acknowledge that factors other than tax return volumes may affect staffing requirements, we are concerned that the magnitude of the proposed augmentation is not consistent with the board's workload indicators.

In addition, the FTB's projections are based primarily on estimates of various economic variables that are believed to affect the total volume of returns filed by California taxpayers. Given the timing of the budget process, the board had to develop these projections using economic data available during July 1987. Since then, however, the economic outlook has changed, and current projections for certain variables differ from those used by FTB to estimate tax return volumes for 1988-89. Based on the economic forecast contained in the Governor's Budget, we believe the volume of returns could be significantly higher than what FTB projected for 1988-89. The FTB has indicated that it plans to revise its estimates of return processing workload for 1988-89 to account for these changes.

Accordingly, given our concerns regarding the magnitude of the board's existing workload request, and until we have had the opportunity to review FTB's revised estimates for 1988-89 return volumes, we withhold recommendation on the \$2,203,000 included in the budget for workload growth.

State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES

Item 1760 from the various
funds

Budget p. SCS 109

Requested 1988-89	\$441,416,000
Estimated 1987-88	422,122,000
Actual 1986-87	376,650,000
Requested increase (excluding amount for salary increases) \$19,294,000 (+4.6 percent)	
Total recommended reduction.....	738,000
Recommendation pending	31,212,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations.	General	\$9,285,000
1760-001-002—Departmentwide. For maintaining and improving properties (1) acquired under the Property Acquisition Law or (2) declared surplus prior to disposition by the state.	General (Property Acquisition Law Account)	1,721,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Money Account)	2,846,000

DEPARTMENT OF GENERAL SERVICES—Continued

1760-001-006—Office of State Architect. For verifying that plans of structures financed with public funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	790,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	886,000
1760-001-026—Departmentwide. For payment of claims and operating expenses resulting from the Motor Vehicle Liability Self-Insurance program.	General (State Motor Vehicle Insurance Account)	
—Budget Act appropriation		1,877,000
—Government Code Section 16379		9,291,000
1760-001-036—Office of State Architect. For asbestos abatement, PCB equipment replacement and underground tank removal.	Special Account for Capital Outlay	34,986,000
1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	6,534,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	3,489,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	7,731,000.
1760-001-397—Office of California State Police. For state police training activities.	California State Police	41,000
1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	79,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,226,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	11,937,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	286,024,000
1760-001-688—Office of Procurement. For support of Surplus Personal Property program.	Surplus Personal Property Revolving	1,235,000
1760-001-706—Building Standards. For review of public works and private construction.	Architectural Examiners	17,000
1760-001-735—Building Standards. For review of public works and public construction.	Contractors Licensing	17,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	460,000
1760-001-770—Building Standards. For review of public works and private construction.	Professional Engineers	16,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	318,000
1760-011-602—Departmentwide. For support of activities other than the Offices of State Architect and State Parking.	Architecture Revolving	1,206,000

1760-101-022—Office of Telecommunications. For reimbursement of local costs of implementing Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General (State Emergency Telephone Number Account)	57,085,000
—Business/Professions Code Sections 16379.6 and 16379.7, Insurance and Risk Management. For support of operations.	California Fairs Insurance	2,050,000
—Education Code Section 8485, Office of Local Assistance. For support of Latch Key Program.	Child Care Facilities	169,000
—Education Code Section 8493 Office of Local Assistance. For support of child care programs.	Child Care Capital Outlay	100,000
Total		<u>\$441,416,000</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Office of State Printing. Recommend the Legislature adopt supplemental report language requiring the department to prepare a report which evaluates the costs and benefits of the current system for meeting the state's printing needs. 127
2. *Office of State Printing. Reduce Item 1760-001-666 by \$375,000.* Recommend deletion of funds requested to install a new chiller and pay increased electrical expenses, because the chiller project should be budgeted as capital outlay, and there will be no increased electrical expenses in the budget year. 128
3. Office of the State Architect. Hazardous Materials, State Facilities. Recommend that the programs for remediation of hazardous conditions involving PCBs, asbestos, and underground tanks be budgeted under separate Budget Bill items (1760-012-036, 1760-022-036, and 1760-017-036 respectively). 130
4. Office of the State Architect. Asbestos Abatement Program, State Facilities. Withhold recommendation on \$13,908,000 from the Special Account for Capital Outlay pending receipt of information to substantiate cost estimates and to verify capacity of qualified contractors. 131
5. Office of the State Architect. Underground Tanks Program, State Facilities. Withhold recommendation on \$11,530,000 from the Special Account for Capital Outlay pending receipt of additional information on the progress and cost of the current year program. 132
6. Office of Local Assistance. Withhold recommendation on \$861,000 for an additional 19 personnel-years under Item 1760-001-344 from the School Building Lease-Purchase Fund pending receipt of a consultant's final report on the school facilities application process. 133
7. Office of Energy Assessments. Withhold recommendation on \$2,295,000 under Item 1760-001-666 from the Service Revolving Fund pending receipt of further information on proposed expenditures in the budget year. 134
8. Office of Energy Assessments. Recommend the Legislature enact legislation to strengthen legislative oversight and 134

DEPARTMENT OF GENERAL SERVICES—Continued

- control of the Energy Efficiency Revenue Bond Program.
9. Office of Energy Assessments. Recommend that the office report to the fiscal committees, prior to budget hearings, on procedures it will institute to identify and fund energy projects on a statewide priority basis. 136
 10. Office of Energy Assessments. Recommend adoption of supplemental report language directing the office to develop a statewide program for identifying and funding energy projects on a priority basis. 136
 11. *Office of Buildings and Grounds. Reduce Item 1760-001-666 by \$50,000.* Recommend reducing architectural/engineering fees consistent with the State Administrative Manual. 137
 12. Office of Buildings and Grounds. Withhold recommendation on \$2,618,000 in Item 1760-001-666 from the Service Revolving Fund for four elevator modernization projects pending receipt of information substantiating the high cost of the projects. 138
 13. *Office of Buildings and Grounds. Reduce Item 1760-001-001 by \$31,000 and Item 1760-001-666 by \$282,000.* Recommend deletion of three projects that are part of the department's recurring maintenance budget. 139
 14. *Building Rental Account.* Recommend Budget Bill Language to transfer \$1,029,000 from the Building Rental Account to the General Fund. 139

GENERAL PROGRAM STATEMENT

The Department of General Services (DGS) was created by statute in 1963 to increase the overall efficiency and economy of state government operations. It does this by: (1) providing support services on a centralized basis to operating departments; (2) performing management and support functions as assigned by the Governor and as specified by statute; and (3) establishing and enforcing statewide administrative policies and procedures.

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

The department has 4,225.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$441.4 million from various funds to support activities of the Department of General Services in 1988-89. This is \$19.3 million, or 4.6 percent more than estimated current-year expenditures.

Departmental Expenditures by Program

The programs with the largest proposed budget-year expenditures are Telecommunications (\$117.7 million), Buildings and Grounds (\$62.2 million), Building Rental (\$48.2 million), Procurement (\$41.4 million), and State Printing (\$41.6 million). Table 1 presents the total expenditures of the department, by program element, during the three-year period ending with 1988-89.

Table 1
Department of General Services
Distribution of Program Expenditures
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Change from 1987-88		
			Prop. 1988-89	Amount	Percent
Property Management Services:					
Architectural consulting and construction services	\$23,101	\$57,537	\$58,318	\$781	1.4%
Building rental	45,628	44,429	48,183	3,754	8.4
Building standards	500	486	586	100	20.6
Buildings and grounds	57,567	58,552	62,231	3,679	6.3
Energy assessments	2,165	3,126	3,190	64	2.0
Facilities planning and development	1,793	2,117	2,186	69	3.3
Local assistance	6,416	8,777	8,831	54	0.6
Real estate and design services	8,880	9,708	8,246	-1,462	-15.1
Subtotals, Property Management Services	(\$146,050)	(\$184,732)	(\$191,771)	(\$7,039)	(3.8%)
Statewide Support Services:					
Administrative hearings	\$5,412	\$5,391	\$5,650	\$259	4.8%
Fleet administration	20,881	21,723	23,642	1,919	8.8
Insurance and risk management	11,809	12,989	14,189	1,200	9.2
Legal services	1,372	1,274	1,315	41	3.2
Management technology and planning ..	7,400	7,352	7,625	273	3.7
Procurement	39,925	40,770	41,356	586	1.4
Records management	2,296	2,767	2,457	-310	-11.2
Small and minority business	1,290	1,354	1,420	66	4.9
State police	22,667	22,216	23,002	786	3.5
State printing	41,350	38,630	41,607	2,977	7.7
Support services	14,507	13,700	14,528	828	6.0
Telecommunications	101,802	110,993	117,708	6,715	6.0
Subtotals, Statewide Support Services ..	(\$270,711)	(\$279,159)	(\$294,499)	(\$15,340)	(5.5%)
Administration:					
Administrative services	\$3,992	\$3,513	\$3,478	-\$35	-1.0%
Executive	9,904	1,708	1,757	49	2.9
Fiscal services	5,856	5,723	5,959	236	4.1
Subtotals, Administration	(\$19,752)	(\$10,944)	(\$11,194)	(\$250)	(2.3%)
Totals, All Programs	\$436,513	\$474,835	\$497,464	\$22,629	4.8%
Distribution of Intrafund Services	59,793	52,713	56,048	3,335	6.3
Total Net Expenditures	\$376,720	\$422,122	\$441,416	\$19,294	4.6%

As Table 1 indicates, the single major change in proposed program expenditures is the \$6.7 million increase in telecommunication expenditures. The increase is due primarily to increased state assistance for local emergency telephone systems.

Funding Sources for Departmental Expenditures

The department is funded by two types of appropriations. The department's *direct support appropriations* are for specific purposes (such as maintenance and security for the Capitol complex). Its *revolving fund appropriations*, on the other hand, permit the department to spend specified revenues. These revenues, "earned" by providing services and products to client agencies, are budgeted initially for operating expenses within the support budgets of the state agencies. The DGS receives the revenues when the client agencies purchase goods and services. The

DEPARTMENT OF GENERAL SERVICES—Continued

department pays its personnel costs and operating expenses by using the "spending authority" provided by its revolving fund appropriations.

Table 2 presents a summary of the department's total expenditures, by source of fund, for the prior, current, and budget years. The table indicates that 32 percent of the department's costs are funded by direct support, with the balance—68 percent—supported from "earned" revenues.

Table 2
Department of General Services
Total Expenditures, By Source of Funds
1986-87 through 1988-89
(dollars in thousands)

<i>Funding Source</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Percent of Total 1988-89</i>
Direct Support:				
General Fund	\$304	\$9,003	\$9,285	2.1%
General Fund (Special Accounts)	58,051	100,709	109,482	24.8
Architecture Public Building Fund	6,905	7,127	10,023	2.3
Energy Resources Programs Account	—	1,206	1,226	0.3
State School Building Aid Fund	431	435	460	0.1
State School Building Lease-Purchase Fund ..	5,120	7,549	7,731	1.8
State School Deferred Maintenance Fund	373	300	318	0.1
California Fairs Insurance Fund	767	2,000	2,050	0.5
Various Special Funds/Accounts	138	1,020	439	0.1
Subtotals, Direct Support	(\$72,089)	(\$129,349)	(\$141,014)	(31.9%)
Architecture Revolving Fund	\$15,762	\$15,004	\$13,143	3.0%
Service Revolving Fund	287,301	275,768	286,024	64.8
Surplus Personal Property Revolving Fund ..	1,498	2,001	1,235	0.3
Subtotals, Revolving Funds	(\$304,561)	(\$292,773)	(\$300,402)	(68.1%)
Total Expenditures	\$376,650	\$422,122	\$441,416	100.0%

Program Distribution of Departmental Personnel

Table 3 identifies the allocation of staff among departmental functions for the prior, current and budget years. It shows that 4,219.3 personnel-years are proposed for the budget year—a net decrease of 6.5 personnel-years (0.2 percent) below the current-year level. About 45 percent of the department's staff are budgeted in property management services, and about 50 percent in statewide support services, with the balance in administration.

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1986-87 through 1988-89

<i>Program</i>	<i>Personnel-Years</i>			<i>Percent of Total 1988-89</i>
	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	
Property Management Services:				
Architectural consulting and construction services	318.9	337.9	312.3	7.4%
Building standards	7.0	6.7	7.0	0.2
Buildings and grounds	1,222.0	1,233.1	1,233.1	29.2
Energy assessments	10.3	11.0	11.0	0.3
Project management and development	23.2	31.1	31.1	0.7
Local assistance	107.5	178.0	180.6	4.3
Real estate services	120.3	124.7	128.4	3.0
Subtotals, Property Management Services ..	1,809.2	1,922.5	1,903.5	45.1%
Statewide Support Services:				
Administrative hearings	57.8	61.4	61.4	1.5
Fleet administration	152.0	149.3	150.7	3.6
Insurance and risk management	23.3	24.5	23.1	0.5
Legal services	19.7	19.5	19.5	0.5
Management technology and planning	130.0	129.3	130.7	3.1
Procurement	265.6	282.2	280.3	6.6
Records management	35.6	41.5	38.7	0.9
Small and minority business	21.0	20.9	21.8	0.5
State police	364.2	400.5	400.5	9.5
State printing	420.3	408.3	408.3	9.7
Support services	192.5	195.5	195.5	4.6
Telecommunications	335.1	345.3	362.4	8.6
Subtotals, Statewide Support Services	2,017.1	2,078.2	2,092.9	49.6%
Administration:				
Administrative services	73.5	69.6	67.1	1.6%
Executive	22.2	23.7	23.7	0.6
Fiscal services	130.5	131.8	132.1	3.1
Subtotals, Administration	226.2	225.1	222.9	5.3%
Totals	4,052.5	4,225.8	4,219.3	100.0%

Proposed Budget-Year Changes

Table 4 shows the changes in the proposed 1988-89 budget resulting from baseline adjustments, workload changes, and program changes.

DEPARTMENT OF GENERAL SERVICES—Continued**Table 4****Department of General Services
Proposed 1988-89 Budget Changes
(dollars in thousands)**

	<i>General Fund</i>	<i>Special Funds</i>	<i>Revolving Funds</i>	<i>Total</i>
1987-88 Expenditures (Revised)	\$9,003	\$120,346	\$292,773	\$422,122
Baseline Adjustments:				
Salary increase adjustment	\$114	\$295	\$3,448	\$3,857
Pro rata charges	—	320	1,488	1,808
Price Increase	85	241	3,885	4,211
Miscellaneous adjustments	<u>-185</u>	<u>-34,428</u>	<u>-15,870</u>	<u>-50,483</u>
Subtotals, Baseline Adjustments	\$14	-\$33,572	-\$7,049	-\$40,607
Workload Changes:				
Administration (Transactions)	—	—	40	40
State Printing (Chiller/Asphalt)	—	—	460	460
State Printing (Direct Charges)	—	—	1,508	1,508
Fleet Administration (Legislative Vehicles) ..	—	—	1,140	1,140
Fleet Administration (Vehicle Insurance)	—	—	535	535
Small Business (Clerical Support)	—	—	27	27
Procurement (PIN Project)	—	—	722	722
Procurement (Material Services)	—	—	(372)	(372)
Procurement (EDP Acquisitions)	—	—	254	254
Telecommunications (Telephone Services) ..	—	—	462	462
Telecommunications (Overtime)	—	—	75	75
Telecommunications (Engr/Warehouse)	—	—	623	623
Telecommunications ("911" costs)	—	\$7,178	—	7,178
Telecommunications (Microwave)	—	—	3,195	3,195
Telecommunications (Test Equipment)	—	—	224	224
Telecommunications (Office Automation) ...	—	—	508	508
State Architect (Access Compliance)	—	58	—	58
State Architect (Access Plan Checking)	—	198	—	198
State Architect (APBF Plan Checking)	—	2,905	—	2,905
State Architect (Construction Inspection)	—	—	372	372
State Architect (PCB)	—	8,915	—	8,915
State Architect (Underground Storage Tanks)	—	10,905	60	10,965
State Architect (Asbestos Abatement)	—	13,444	76	13,520
Buildings and Grounds (Special Repairs)	\$268	—	4,344	4,612
Building Standards (Construction Policy)	—	84	—	84
Subtotals, Workload Changes	\$268	\$43,687	\$14,253	\$58,208
Program Changes:				
Insurance (GAIN)	—	—	67	67
Procurement (California Administrative Code) ..	—	—	285	285
Local Assistance (Legislation)	—	861	73	934
Real Estate and Design (Property Inventory)	—	407	—	407
Subtotals, Program Changes	—	\$1,268	\$425	\$1,693
1988-89 Expenditures (Proposed)	\$9,285	\$131,729	\$300,402	\$441,416
Change from 1987-88				
Amount	\$282	\$11,383	\$7,629	\$19,294
Percent	3.1%	9.5%	2.6%	4.6%

The budget does not include additional funding for merit salary adjustments. The department intends to finance the costs of merit salary adjustments through higher salary savings.

ANALYSIS AND RECOMMENDATIONS

STATEWIDE SUPPORT SERVICES

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

Office of State Printing

The Office of State Printing (OSP), provides printing services for the Legislature and all other state agencies except the University of California. The budget proposes an appropriation of \$41.6 million and 408.3 personnel-years for support of the office in 1988-89.

Expenditures for Contracted State Printing Services Are Growing

We recommend that the Legislature adopt supplemental report language requiring the Department of General Services to prepare a report which evaluates the costs and benefits of the current system for meeting the state's printing needs.

Currently, requests for printing that cannot be performed by OSP because of capacity constraints or the specialized nature of the project are contracted to private printing companies, and paid for through a "direct charges" line item in the budget. In addition OSP charges a 10 percent administrative fee to state agencies for negotiating and monitoring these contracts.

Contracted Printing Expenditures Growing Dramatically. During the past several years, expenditures for privately contracted printing services have grown dramatically. Specifically, the direct charges budget item has increased from \$1.2 million in 1983-84 to an estimated \$8.4 million in the current year. The budget proposes to increase contracted printing services by an additional \$1.5 million in order to accommodate projected growth in 1988-89.

Table 5 compares the office's direct charges for private printing services and total OSP expenditures from 1983-84 through 1987-88.

Table 5
Department of General Services
Office of State Printing
Direct Charges as a Percentage of Total OSP Expenditures
1983-84 through 1987-88
(dollars in thousands)

	1983-84	1984-85	1985-86	1986-87	1987-88
Direct charges	\$1,194	\$3,135	\$6,393	\$6,109	\$8,389
Total OSP expenditures	31,979	35,369	36,859	37,786	38,630
Percent of total	4%	11%	17%	16%	22%

As Table 5 shows, direct charges for privately contracted printing services have grown from about 4 percent of the total OSP budget in 1983-84, to almost one-quarter of the budget in the current year. In fact, most of the growth in the office's budget during the previous five years can be attributed primarily to increased expenditures for privately contracted printing services.

DEPARTMENT OF GENERAL SERVICES—Continued

Is the Current State Printing System Still Economically Viable? The Office of State Printing was initially established on the basis that a centralized support agency could provide high quality printing services at a lower cost than could be achieved by state agencies contracting individually for such services. To the extent that this premise is still valid, the significant growth in *privately* contracted printing services appears to run counter to the original reason for establishing a centralized printing function. Due to the specialized nature of certain orders and scheduling conflicts during peak demand times, it would be unreasonable to expect to have sufficient equipment and personnel to eliminate privately contracted printing work entirely. There may be some level of demand, however, at which it would become more economical to increase the capacity of the state printing plant rather than continue to pay for privately contracted printing services, plus OSP administrative costs.

On the other hand, if the continuation of a centralized printing office can no longer be justified on economic and/or other grounds, it could be more cost-effective to allow state agencies to contract individually for private printing services, thus avoiding the 10 percent OSP administrative charge.

The growth in direct charges for contracted printing services, therefore, leads us to conclude that it would be prudent to reevaluate the costs and benefits of the current system for meeting the state's printing needs. Consequently, we recommend that the Legislature adopt the following supplemental report language, requiring the Department of General Services to prepare a report which addresses this issue:

The Department of General Services shall report to the Chairpersons of the fiscal committees in both houses and the Joint Legislative Budget Committee, no later than October 1, 1988, the following information regarding the Office of State Printing:

(1) a specific percentage and cost breakdown of current expenditures for contracted printing services indicating those printing jobs contracted out due to capacity constraints, and those contracted out due to the specialized nature of the project. (2) the incremental costs of expanding the state printing plant to accommodate all, or a portion of the printing work which is currently contracted out. These costs should include personnel, maintenance, equipment, and any relevant capital outlay costs. (3) the savings in state costs for private printing contracts, OSP administrative charges, and other avoided costs which would result from such an expansion, and (4) the savings in administrative charges which would result from having state agencies individually contract for all or a portion of their printing needs.

New Chiller Request Is Inappropriately Budgeted

We recommend a total General Fund reduction of \$375,000 to install a new chiller (\$315,000) and to pay for increased electrical costs (\$60,000) because the chiller project is more appropriately budgeted as a capital outlay item, and the increased electrical expenses will not be needed in the budget year. (Reduce Item 1760-001-666 by \$375,000)

The budget requests a total of \$375,000 to purchase and install a new 1,000-ton chiller for the state printing plant (\$315,000) and pay for increased electrical expenses (\$60,000) which the department anticipates it will incur once the new chiller is installed.

Chiller Project Should Be Capital Outlay. Our analysis indicates that the new chiller unit would result in an improvement of the state printing plant's existing mechanical systems. The State Administrative Manual requires that projects of this nature be budgeted as capital outlay items.

Accordingly, and without prejudice to the project, we recommend that the \$315,000 requested for the new chiller be deleted from the department's support item, and that the administration resubmit this request as a capital outlay project with proper scope and cost justification.

Increased Electrical Expenses Will Not Be Needed. In addition, our analysis indicates that based on past experience with capital outlay projects of similar cost and scope, installation of the new chiller unit will take at least one year to design and complete. Consequently, because the chiller should not be operational until 1989-90, the department will not experience any increased electrical expenses in the budget year as a result of the new chiller unit. Therefore, the \$60,000 included in the budget for this purpose should be deleted.

PROPERTY MANAGEMENT SERVICES

The property management services program has responsibility for planning, acquisition, design, construction, maintenance, and operation of state-owned facilities for state offices and employees. The seven agencies which carry out this program are: Office of Project Development and Management, Office of the State Architect, Office of Local Assistance, Building Standards Commission, Office of Energy Assessments, Office of Real Estate and Design Services, and Office of Buildings and Grounds.

We recommend approval of the following budgets not discussed elsewhere in the analysis:

- Office of Project Development and Management.
- Office of Real Estate and Design Services.
- Building Standards Commission.

OFFICE OF THE STATE ARCHITECT

The Office of the State Architect (OSA) provides three major services. First, OSA provides architectural/engineering (A/E) services and construction inspection services for state construction projects. Second, OSA provides plan checking and inspection services pursuant to (a) the Physically Handicapped Building Access law, (b) the Field Act for school buildings (earthquake safety), (c) hospital seismic safety regulations, and (d) the Essential Services Building Act (state-owned or leased fire stations, police stations, and emergency communication centers). Third, OSA administers three programs to mitigate hazardous conditions in state-owned facilities: (a) asbestos abatement, (b) removal of PCB hazards, and (c) removal, repair and monitoring of underground tanks.

The budget proposes a total of \$58.3 million for support of OSA activities in 1988-89. This is a net increase of \$781,000, or 1.4 percent above estimated current year expenditures. This increase includes (a) increases of \$529,000 in administrative adjustments, and \$142,000 to reflect an inflationary increase of 2.5 percent in operating expenses, (b) a decrease of \$2,726,000 to reflect the expiration of 45.9 limited-term personnel-years for prison construction inspection, (c) a decrease of \$327,000 for abatement of hazardous conditions, (d) a decrease of \$340,000 to reflect expiration of 3.8 limited-term personnel-years in the hospital seismic

DEPARTMENT OF GENERAL SERVICES—Continued

safety program, and (e) an increase of \$3,503,000 and 20.5 personnel-years included in four budget change proposals for plan checking services under school construction projects (\$2,905,000 and 13.3 PYs), state prison construction projects (\$372,000 and 5.3 PYs), and the Physically Handicapped Building Access law (\$226,000 and 1.9 PYs).

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

- An increase of \$8,832,000 and related funding for 0.9 personnel-years to continue replacement and disposal of electrical equipment that poses a PCB hazard in state-owned facilities.
- An increase of \$372,000 for 5.3 limited-term (one-year) personnel-years to provide construction inspection services to the Department of Corrections Prison Construction Program.
- An increase of \$2,905,000 (13.3 personnel-years and an equivalent of 21 personnel-years contract authorization) to meet projected increases in school plan checking and field supervision work loads.
- An increase of \$226,000 (1.9 personnel-years) to meet projected work load increases in plan checking for the handicapped access compliance program.

Hazardous Materials Programs Should Be Budgeted Separately

We recommend that each hazardous materials mitigation program for state facilities—PCBs, asbestos, and underground tanks—be budgeted as a separate item (1760-012-036, 1760-022-036, and 1760-017-036 respectively).

The 1988 Budget Bill includes a total of \$34,986,000 under Item 1760-001-036 for programs to remediate hazardous conditions involving PCBs, asbestos and underground tanks at state facilities. Budget Bill language under this item outlines the following "expenditure plan" for the three programs:

- \$8,832,000 in special repairs funds for PCBs:
- \$10,903,000 for underground tanks:
- \$13,350,000 for asbestos:
- \$1,901,000 for personal services, operating expenses and equipment.

In effect, the budget would provide a pool of funds for abatement of hazardous conditions in state facilities, and permit apportionment of funds among the three hazardous material programs at the discretion of the administration. Moreover, under the budget proposals all funds would be transferred to the Service Revolving Fund.

This proposal is contrary to the Legislature's action last year. In the 1987 Budget Act, the Legislature treated these programs as three *separate* items, because they are three *separate* programs. Each program, over the relatively short history of hazardous material abatement in state facilities, has faced a unique set of issues and difficulties. The programs target three different materials, use three different technologies, and operate under three different regulatory systems. They are independently managed, and their projects are independently scheduled. We see no advantage to modifying the way the Legislature treated funding for these programs in the 1987 Budget Act.

Accordingly, we recommend that each hazardous material mitigation program be budgeted as a separate item displaying the costs for personal

services and operating expenses/equipment with budget language similar to the 1987 Budget Act.

As discussed below, we are withholding recommendation on the expenditures proposed in the budget for asbestos abatement and underground tank repair/removal. Based on project costs and progress revealed in February and March, we may recommend changes to the amounts proposed for those programs.

Asbestos Abatement: A Slow Start

We withhold recommendation on \$13,908,000 for personal services, operating expenses and equipment under Item 1760-001-036 to continue abatement of asbestos in state-owned facilities, pending receipt of information to substantiate cost estimates and verify the capacity of qualified contractors.

The 1987 Budget Act (Item 1760-022-036) provided \$12 million to OSA to conduct the following asbestos-related activities in the current year:

- Contract for a survey of asbestos conditions in all state-owned space not surveyed in 1986-87.
- Contract for emergency abatement of asbestos conditions in state buildings identified by the current year survey.
- Contract for abatement work on \$7.5 million of an estimated \$21 million in asbestos conditions identified in the 1986-87 survey as posing no immediate danger, but requiring abatement within two years of the survey.

The budget includes \$13,350,000 for operating expenses and equipment and \$558,000 for personal services to pursue the short-term asbestos projects identified in 1986-87, but not undertaken in the current year.

The current year marks the first year of large-scale efforts to mitigate asbestos hazards in state-owned buildings. The OSA has not had sufficient experience with projects of this type to judge the accuracy of its cost estimates, or whether there are sufficient qualified contractors to undertake the work proposed for 1988-89. The bidding of current year projects, now scheduled to occur in March 1988, should provide the information necessary to judge the appropriate level of funding for 1988-89.

No Check on Accuracy of Cost Estimates. The *Supplemental Report of the 1987 Budget Act* (Item 1760-301-036) specified that OSA was to award contracts for current-year short-term projects by January 1, 1988. The OSA, however, does not expect to receive construction bids on these projects until March 1, 1988. Thus, OSA may not actually award contracts for the work until April 1988.

For the most part, difficulties with establishing a statewide priority list of short-term projects caused this three-to-four month delay in starting current-year projects. Establishing priorities was complicated by inconsistent data provided by the various consultants employed in the 1986-87 survey. After extensive sifting and reformatting of the data, OSA is now preparing a priority list of short-term projects and proceeding to bid. This list, however, was not available at the time this *Analysis* was written.

How Many Qualified Contractors? In late December 1987, OSA stopped work on all emergency abatement projects involving unregistered contractors, and stated that further asbestos work will be assigned only to registered contractors. At the writing of this analysis, only 25 contractors operating in California were registered by the Department of Industrial Relations as qualified to undertake asbestos

DEPARTMENT OF GENERAL SERVICES—Continued

work. Consequently, it is not clear whether or not there will be a sufficient number of qualified contractors to handle either the quantity of short-term work budgeted in the current year, or proposed in the budget year.

Accordingly, we withhold recommendation on the asbestos abatement program proposed in the budget, pending receipt of construction bids on current year asbestos projects and clarification of the capacity of qualified contracting firms.

Underground Tanks

We withhold recommendation on \$11,530,000 for personal services and operating expenses and equipment in Item 1760-001-036 for removal, repair and monitoring of state-owned underground tanks, pending receipt of additional information on the progress and cost of current-year underground tank projects.

The budget requests \$11,530,000 for annual tank testing (\$442,000), installation of monitoring systems (\$6,833,000), site investigation (\$670,000), removal of leaking tanks and piping (\$2,958,000), and personal services (\$627,000).

The underground tank program involves a complex and unpredictable set of negotiations between state and local government agencies. In spite of these problems, OSA has done a commendable job of keeping the overall program on schedule. Underground tank testing, monitoring, and removal must follow county and regional, as well as state, regulations. County departments of health must approve the OSA's plans and its contractors for tank removal and installation of monitoring systems. If a leaking tank has contaminated ground water, OSA must negotiate with a Regional Water Quality Control Board to determine the extent of necessary testing and clean-up. Resulting delays in approval of plans and changes in the scope of clean-up efforts have raised the costs of some projects much higher than OSA's preliminary estimates.

Over the last two years, however, the OSA has had limited experience with the work and costs associated with the underground tank program. Therefore, the cost estimates for removal and replacement of underground tanks are understandably uncertain. The OSA has advised us that bids will be received on current-year work (removal of 240 tank/piping units) in April 1988. In addition, OSA will be able to report at that time whether or not 840 tank monitoring systems budgeted in the current year will be installed as scheduled, by July 1, 1988. Receipt and review of this data should provide a sufficient basis to determine the appropriate level of work and associated costs for the budget year. Consequently, pending receipt of this information, we withhold our recommendation on the funding level of the underground tank program.

OFFICE OF LOCAL ASSISTANCE

The Office of Local Assistance (OLA) is the administrative arm of the State Allocation Board. It has primary responsibility for administering several programs which provide funding to local school districts for acquisition and development of school sites, and construction, reconstruction or maintenance of school buildings. OLA also administers programs which fund the placement of portable classrooms and child care facilities.

The budget requests \$8,831,000 for OLA in 1988-89. This amount is a net increase of \$54,000, or less than 1 percent above estimated 1987-88

expenditures. This increase reflects an increase of \$67,000 and 6.4 personnel-years to meet increased work load anticipated as a result of legislative changes in the school lease-purchase program, (b) a decrease of \$177,000 to reflect the expiration of 3.8 limited term PYs established in 1987-88 to administer the School Age Community Child Care Services Program, (c) increases of \$123,000 in administrative adjustments such as benefits, salary savings and departmental overhead, and \$41,000 to reflect an inflationary increase of 2.5 percent in operating expenses.

Additional Staff May Not Be Warranted

We withhold recommendation on \$861,000 under Item 1760-001-344 from the State School Building Lease-Purchase Fund for an additional 19 personnel-years pending receipt of a consultant's final report on the school facilities application process.

As authorized by the 1987 Budget Act [Item 1760-001-344 (1)], the Director of the Department of Finance has augmented OLA's current year budget by \$794,000 (12.6 PYs) to meet additional work load requirements resulting from Chapters 886, 887 and 888, Statutes of 1986. These measures broadened school district eligibility for state construction and renovation funds, made several changes in the methods of calculating eligibility for construction and renovation funds, and required school districts to provide a match for state construction funds. The proposal to spend \$861,000 in the budget year would establish 19 PYs to process the ongoing work load resulting from this legislation.

Chapter 886, Statutes of 1986, appropriated \$150,000 from the State School Building Lease-Purchase Fund to retain a consultant to study the school facilities application process and make recommendations for streamlining it. Chapter 886 also requires OLA to report to the Legislative Analyst's Office by November 1, 1988 on implementation of recommendations made by the consultant. The consultant began the study in January 1987 and submitted a draft report on September 4, 1987. At the time this *Analysis* was written, the final report was scheduled to be completed in January 1988 but had not yet been received.

Our review of the consultant's draft report indicates that there are various changes that should provide an opportunity to reduce the amount of time required by OLA staff to process a school lease-purchase application. Implementation of these changes could modify the number and type of staff required to fulfill the mandates of Chapters 886, 887 and 888, as well as other OLA program objectives. Pending review and analysis of the final report, we withhold recommendation on the increased staffing level proposed in the budget.

OFFICE OF ENERGY ASSESSMENTS

The Office of Energy Assessments (OEA) is responsible for improving the efficiency of state operations by developing cost-efficient energy programs. The budget proposes \$3,190,000 for support of the office in 1988-89, consisting of \$895,000 from the Energy Resources Program Account (ERPA) in the General Fund and \$2,295,000 from the Service Revolving Fund. This is an increase of \$64,000, or 2.0 percent, above estimated current year expenditures. However, the amount requested for 1988-89 exceeds actual expenditures in 1986-87 by \$1,025,000, or 47 percent.

DEPARTMENT OF GENERAL SERVICES—Continued**Overbudgeting from the Service Revolving Fund**

We withhold recommendation on \$2,295,000 requested in Item 1760-001-666 for support of OEA pending receipt of further information regarding its proposed expenditures from the Service Revolving Fund.

Throughout its five-year history, OEA has been funded primarily from two sources: (1) ERPA and (2) the Service Revolving Fund. Our review indicates that the amounts budgeted to OEA from the Service Revolving Fund have exceeded actual expenditures consistently during the last five years. Table 6 shows that the amount by which OEA's Service Revolving Fund budget authority has exceeded actual expenditures has ranged from \$60,000 in 1983-84 to \$2,128,000 in 1984-85. On a cumulative basis through 1986-87 this excess budget authority equals \$4.4 million. Looked at another way, during this four-year period OEA spent only 44 percent of its Service Revolving Fund budgets.

Table 6

**Department of General Services
Office of Energy Assessments
Budgeted and Actual Expenditures
Service Revolving Fund
1983-84 through 1986-87
(dollars in thousands)**

	1983-84	1984-85	1985-86	1986-87
Budgeted expenditures	\$215	\$2,212	\$2,265	\$3,150
Actual expenditures	155	84	1,015	2,165
Excess budget authority	\$60	\$2,128	\$1,250	\$985

The budget proposes a total of \$3.2 million for support of OEA in 1988-89. This is 47 percent above actual expenditures in 1986-87, even though neither this budget nor the 1987-88 budget includes an increase in positions or significant budget change proposals. This, combined with the evidence of consistent overbudgeting of OEA's Service Revolving Fund allocation in the past, indicates that the amount requested for 1988-89 may substantially exceed the office's true needs. The department has not explained the consistent overbudgeting of the Service Revolving Fund in the past nor has it explained the need for a 47 percent increase in the OEA budget above actual 1986-87 expenditures.

Any amounts requested in excess of OEA's demonstrable needs for 1988-89 should be identified and transferred to the General Fund so that the Legislature may have more flexibility in meeting statewide funding needs. Accordingly, we withhold recommendation on the amount requested for support of OEA from the Service Revolving Fund (\$2,295,000 under Item 1760-001-666) pending receipt of additional information substantiating OEA's funding needs for 1988-89.

Energy Efficiency Revenue Bonds Need Legislative Review

We recommend that the Legislature enact legislation to revise the process for review of energy revenue bond projects in order to strengthen legislative oversight and control of the Energy Efficiency Revenue Bond Program.

The Energy Efficiency Revenue Bond Program was created by Ch 1523/82. Under the energy bond program, the State Public Works Board (PWB) is authorized to issue, over a ten-year period, up to \$500 million

in revenue bonds to finance energy projects. The bonds are to be repaid from the savings which result from the energy improvements. Any savings in excess of the amount needed to repay the bonds are shared, on a 50-50 basis, by the department undertaking the energy improvement and the General Fund. The OEA serves as the board's staff on matters regarding the energy bond program.

On July 1, 1986 the State Treasurer sold, on behalf of PWB, the initial revenue bonds (\$66.5 million) for this program. As of January 11, 1988 PWB had executed energy project contracts encumbering \$21.9 million of the bond proceeds. The OEA, on behalf of the board, had identified potential projects requiring an additional \$24.0 million. This leaves \$20.6 million—31 percent of the initial bond issue—for which there is no specific expenditure plan.

Section 15814.14 of the Government Code, added by the authorizing legislation for the energy bond program, requires the Administration to notify the Joint Legislative Budget Committee and the fiscal committees of the need for energy project contracts at least 30 days prior to PWB approval. This process allows the Legislature to review and comment on proposed expenditures of the revenue bonds. The Legislature has an interest in reviewing these expenditures because if energy projects fail to generate anticipated savings the only choices available to the Legislature are (1) appropriating funds to pay back the bonds or (2) allowing departments to absorb bond payments in existing support budgets—a course that could have significant program impacts.

Legislative input is ignored. On a number of occasions during 1986 and 1987 (the first years in which projects have been funded through the energy revenue bond program) the Chairman of the Joint Legislative Budget Committee has expressed concerns to the Director of General Services on energy projects which have been the subject of notifications to the Legislature pursuant to the Government Code. On these occasions the Chairman has requested either that the Administration (1) defer action on projects pending further information, (2) reduce project costs, or (3) not proceed with proposed projects. In several of these instances the department and PWB have proceeded with the project despite the Chairman's request.

For example, in October 1986, the Chairman objected to the proposed use of energy revenue bonds to *reimburse* the Department of Mental Health for a boiler that it had already purchased with funds from its support budget. The department proceeded with the reimbursement, despite the Chairman's objections.

In 1987, the Chairman objected to two projects with economic paybacks of nine years: (1) a \$1.1 million contract for an energy management system at California State University, Sacramento, and (2) a \$620,000 contract for air conditioning system improvements at the UC Irvine Medical Center. Generally, the Legislature has limited funding of energy conservation *capital outlay* projects to those with paybacks of five years or less, on the basis that projects which require longer periods to return an investment are too speculative. For the same reason, many private firms observe similar guidelines regarding energy investments. The Chairman further objected to use of the revenue bonds for the Irvine Medical Center project because the proposed improvements were for a non-state-funded facility. The department proceeded with the California State University project, despite the Chairman's objections. The depart-

DEPARTMENT OF GENERAL SERVICES—Continued

ment deferred the Irvine Medical Center project because of *other* issues raised by the Chairman. However, in his reply to the Chairman, the Director of General Services made it clear that he is not concerned about either the long payback period for the project or the undesirable precedent of using energy revenue bonds for non-state-funded facilities.

In our view, the Legislature should have greater input in the energy revenue bond program which, under existing authority, could involve the expenditure of \$500 million of state funds over the next 10 years. When the Administration proposes capital outlay funding of energy conservation projects the Legislature has the opportunity to review projects and proposed expenditures *before* it appropriates funds. It does not have that opportunity under the current process for energy revenue bonds, even though it has precisely the same interest in insuring that funds are spent on the best possible projects. There is no intrinsic difference between energy projects funded through capital outlay budgets or the revenue bond program, nor is there any difference in the financial risk assumed by the state under either funding mechanism. Thus, in our view, there should be no difference in the process by which they are reviewed.

Accordingly, we recommend that the Legislature enact legislation to generally revise the process for review of projects funded under the Energy Efficiency Revenue Bond Program. This revision should include the following key elements: (1) rescission of the continuous appropriation authority in existing law, and (2) a requirement that the annual *Governor's Budget* delineate the projects proposed for energy revenue bond funding in the coming year.

Need for Statewide Priority System—Energy Efficiency Revenue Bonds

We recommend that (1) the Office of Energy Assessments report to the fiscal committees prior to budget hearings on the procedures it will institute to identify and fund energy projects on a statewide priority basis, and (2) the Legislature adopt supplemental report language directing OEA to implement a program to accomplish that objective.

One shortcoming of the energy revenue bond program is the lack of a systematic process for determining the state's energy conservation opportunities on a priority basis. Under current procedures, OEA is dependent on each department of state government to identify "candidate" projects for funding and then must consider them on what amounts to little more than a "first-come first-served" basis. The quality of each department's assessment of its energy conservation opportunities, in turn, varies greatly. In some cases, however, these assessments are neither comprehensive nor detailed. Consequently, OEA does not have the information it needs to determine whether the projects it selects for funding under the revenue bond program meet the state's highest priority energy conservation needs. We recommend, therefore, that OEA report to the fiscal committees prior to budget hearings on procedures it plans to implement that will enable it to develop a comprehensive statewide program for identifying and funding projects on a priority basis. We further recommend that the Legislature adopt the following supplemental report language directing OEA to implement a program to accomplish that objective:

It is the intent of the Legislature that the Office of Energy Assessments develop a comprehensive statewide program for identifying and funding energy projects on a priority basis.

OFFICE OF BUILDINGS AND GROUNDS

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

The budget proposes total expenditures of \$62.2 million for support of OBG in 1988-89. This is an increase of \$3.6 million, or 6.1 percent, above estimated current-year expenditures. This increase reflects, primarily, additional funding proposed for special repair projects.

Special Repairs

The budget includes \$5.2 million for 39 special repair projects. Special repairs are projects that continue the usability of a facility at its original designed level of service. (In contrast, capital outlay projects include new construction and alterations, extensions and improvements of existing structures.)

A. Projects for Which We Recommend Approval

Table 7
Department of General Services
Office of Buildings and Grounds
1988-89 Special Repair Projects
Projects for Which We Recommend Approval
(dollars in thousands)

<i>Type of Project</i>	<i>Number of Projects</i>	<i>Department Request and Analyst Recommendation</i>
1. Elevator repairs	2	\$413
2. Heating, ventilation, air conditioning repairs	11	503
3. Roof repairs and replacement	4	234
4. Electrical load test and repairs	4	22
5. Infrastructure studies and plans	2	352
6. State Capitol projects	6	248
7. Miscellaneous	2	128
Totals	31	\$1,900

We recommend approval of \$1,900,000—consisting of \$248,000 in Item 1760-001-001 and \$1,652,000 in Item 1760-001-666—requested for 31 projects outlined in Table 7.

Our review of the 31 special repair projects shown in Table 7 indicates that each repair is necessary to ensure the viability of a state building or the safety and comfort of its occupants.

B. Project for Which We Recommend Reduced Funding

We recommend a reduction of \$50,000 to Item 1760-001-666 and approval in the reduced amount of \$289,000 for an elevator modernization project in San Diego.

The budget requests \$339,000 to modernize three elevators in the State Office Building in San Diego. We recommend a reduction of \$50,000 to

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eliminate excessive budgeting for architectural and engineering (A&E) fees. The State Administrative Manual generally limits these fees to 13 percent of construction contract costs. The amount budgeted for A&E fees for this project (\$79,000) is 35 percent of the estimated construction contract cost. The amounts proposed for A&E fees for the department's other elevator modernization projects do not exceed the SAM guidelines. We see no reason for A&E fees to exceed the guidelines on this project, particularly since this type of repair work does not require the preparation of extensive architectural drawings.

C. Projects for Which We Withhold Recommendation

We withhold recommendation on \$2,618,000 requested in Item 1760-001-666 for four elevator modernization projects pending receipt of information substantiating the high cost of the projects.

We withhold recommendation on \$2,618,000 requested for four elevator modernization projects, as summarized in Table 8.

Table 8
Department of General Services
Office of Buildings and Grounds
1988-89 Special Repair Projects
Projects for Which We Withhold Recommendation
(dollars in thousands)

<i>Building</i>	<i>Budget Request</i>
1. State Office Building, San Francisco.....	\$472
2. State Annex, San Francisco.....	1,001
3. Office Building 1, Sacramento.....	490
4. Education Building, Sacramento.....	655
Totals.....	<u>\$2,618</u>

San Francisco. The budget requests a total of \$1,473,000 for two elevator modernization projects in San Francisco: (1) modernization of five elevators in the State Annex and (2) modernization of two elevators in the adjacent State Office Building. This amount is 3.8 times the amount (\$390,000) requested in the Governor's 1986-87 Budget for the same work. The Legislature provided funds in the 1986 Budget Act for a portion of this work. The department then did not proceed with the work because a cost estimate prepared by the Office of the State Architect (OSA) indicated that the cost would exceed the amount budgeted.

The current request (\$1,473,000) reflects prior cost estimates prepared by OSA in 1985 and 1986 for both projects adjusted for inflation. Data submitted with the department's 1988-89 proposal, however, includes letters (late 1984) from two construction contractors providing price quotes for undertaking the work. These quotes, adjusted for inflation and state inspection/administrative costs, indicate that a total of \$425,000 should be adequate for the two projects. According to the department, the budget request is more than three times higher than both the amount requested in 1986 and the contractor quotes because subsequent consultant studies indicated that more repair work is needed than originally thought. The department should provide those studies to the Legislature. In addition, the department should (1) thoroughly review the scope and costs of these projects in order to reduce costs, and (2) prepare new detailed estimates based on that review.

Sacramento. The other two projects for which we withhold recommendation involve the modernization of five elevators in Sacramento. The estimated construction contract costs are \$156,000 per elevator in one project and \$182,000 per elevator in another. These unit costs are approximately double the costs of similar elevator projects proposed in the budget. The department has not substantiated the need for such costly repairs.

Based on the available information for all of the above projects, there appears to be a potential for substantial savings from the amount requested in the budget.

D. Projects for Which We Recommend Deletion

We recommend deletion of \$31,000 requested under Item 1760-001-001 and \$282,000 requested under Item 1760-001-666 for three special repair projects because these projects should be funded under the department's normal recurring maintenance budget.

We recommend deletion of funds for three projects totaling \$313,000 as outlined in Table 9. Ten percent, or \$31,000, of this total is requested under Item 1760-001-001 (General Fund) and the balance, \$282,000, is requested under Item 1760-001-666 (Service Revolving Fund, Building Rental Account).

Table 9
Department of General Services
Office of Buildings and Grounds
1988-89 Special Repairs Projects
Projects for Which We Recommend Deletion
(dollars in thousands)

<i>Project</i>	<i>Building</i>	<i>Amount</i>
1. Gas turbine maintenance.....	Central Plant	\$35
2. Gas turbine overhaul	Central Plant	128
3. Maintenance service contract	Central Plant	150
Total.....		\$313

These projects involve *maintenance* work at the state's Central Plant in Sacramento. In the past, work of this nature has been appropriately funded from OBG's recurring maintenance budget. Thus, there should be no need for an augmentation to OBG's budget for this work.

Surplus in the Building Rental Account

We recommend that the Legislature adopt Budget Bill language directing the State Controller to transfer \$1,029,000 from the Building Rental Account to the General Fund based on (1) the account's projected year-end surplus and (2) our recommended reductions to the account's budget.

Based on current income and expenditure patterns in the Building Rental Account, the department projects a \$697,000 surplus in the account on June 30, 1988. Since 1983, Government Code Section 16422 has required the transfer of any year-end surplus in the Building Rental Account to the General Fund. The department, however, has not transferred surplus funds to the General Fund in past years, citing an ambiguity in the definition of "surplus funds." Instead, the department has, on at least one occasion, transferred funds (\$4.5 million) from the account to the Service Revolving Fund. It is able to make such transfers

DEPARTMENT OF GENERAL SERVICES—Continued

because the Building Rental Account is an *administratively* established account within the Service Revolving Fund.

In order to carry out the legislative intent of Section 16422 and increase the Legislature's flexibility in meeting statewide funding needs we recommend the adoption of the following Budget Bill language in Item 1760-001-666:

In addition to any amount transferred pursuant to Section 16422 of the Government Code, the Controller shall on either the effective date of this Act or July 1, 1988, whichever is later, transfer \$1,029,000 from the Building Rental Account in the Service Revolving Fund to the General Fund.

This language directs the transfer of an amount equal to (1) the projected year-end surplus in the account (\$697,000) and (2) the sum of our recommended reductions to Item 1760-001-666 in the OBG budget (\$332,000). Our recommended reductions, if adopted by the Legislature, would decrease the department's need for funds in the account by a corresponding amount.

The amount specified in the above proposed Budget Bill language should be revised to conform with final actions by the fiscal committees on the OBG budget.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Item 1760-301 from the General
Fund, Special Account for
Capital Outlay and the
General Fund, Energy
Resources Program Fund

Budget p. SCS 130

Requested 1988-89.....	\$6,606,000
Recommended approval.....	1,782,000
Recommended reduction.....	1,803,000
Recommendation pending.....	2,500,000
Recommended change in funding source.....	521,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Central Plant—Sacramento. Reduce Item 1760-301-036(1) by \$78,000.* Recommend deletion of well site acquisition, because (1) the department has neither identified the sites to be purchased nor substantiated the requested amount and (2) an environmental assessment has not been developed. 142
2. *Site 7—Sacramento.* Withhold recommendation on Item 1760-301-036(2), preliminary plans and working drawings for a new office building (\$2,500,000), pending (1) determination of what buildings are to be constructed/altered and (2) modification of the project schedule to provide appropriate legislative review/approval. 142

3. *Site 5—Sacramento. Reduce Item 1760-301-036(3) by \$300,000.* Recommend deletion of working drawings for new office building because preliminary plans will not be complete in time for legislative review during budget hearings. 144
4. *Micrographic Vault—Auburn. Reduce Item 1760-301-036(4) by \$334,000.* Recommend reduction of construction funds to eliminate unnecessary work. Recommend further that the Department of General Service (DGS) report, prior to budget hearings, on geology of proposed site. 145
5. *Long Beach State Building. Reduce Item 1760-301-036(5) by \$24,000.* Recommend reduction of appropriation for preliminary plans, on the basis that DGS should implement its consultant's recommendation for lower-cost construction. (Future savings: \$878,000). 146
6. *Space Planning—Statewide. Reduce Item 1760-301-036(8) by \$77,000.* Recommend deletion of space planning for new state office building at Sacramento Sites 5 and 7 because it is either provided elsewhere in the budget, or will be completed in the current year. 146
7. *Site 1B, Atrium Roof—Sacramento. Delete Item 1760-301-465 and finance project in Item 1760-301-036(10), in the reduced amount of \$521,000, a reduction of \$490,000.* Recommend (1) funding from the Special Account for Capital Outlay, instead of from the Energy Resources Programs Account, and (2) reduction of working drawings/construction to delete unnecessary work and adopt a consultant's recommendation for less costly construction. 147

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$6,606,000 from the General Fund, Special Account for Capital Outlay (\$5,595,000), and from the General Fund,

Table 1
Department of General Services
1988-89 Capital Outlay Program
Items 1760-301-036 and 1760-301-465
(dollars in thousands)

Sub-Item	Project	Location	Phase ^a	Budget Bill Amount	Analyst's Recommendation	Est. Future Cost ^b
(1)	Central Plant—new wells.....	Sacramento	a	\$78	—	\$1,600
(2)	Site 7—new office building.....	Sacramento	pw	2,500	pending	76,000
(3)	Site 5—new office building.....	Sacramento	pw	800	—	21,000
(4)	Micrographic vault.....	Auburn	apwc	870	\$536	—
(5)	State Building—lighting.....	Long Beach	p	77	53	1,968 ^c
(6)	State Building—seismic repairs..	San Francisco	p	70	70	2,373
(7)	State Building—addition.....	Redding	a	494	494	6,000
(8)	Space planning.....	Statewide	s	95	18	—
(9)	Minor projects.....	Statewide	c	611	611	—
(1)	Site 1B—atrium roof ^d	Sacramento	wc	1,011	521	—
Totals				\$6,606	pending	\$108,941

^a Phase symbols indicate: a = site acquisition; p = preliminary plans; w = working drawings; c = construction; and s = studies.

^b Department estimate.

^c Assuming that the Legislature adopts the Analyst's recommendation to reduce the cost of this project (department estimate is \$878,000 higher).

^d From the Energy Resources Program Account, Analyst's recommendation is to finance from the Special Account for Capital Outlay (SAFCO).

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Energy Resources Program Account (\$1,011,000), for nine major and eleven minor capital outlay projects. Table 1 summarizes the Department of General Services (DGS) requests, along with our recommendations.

Projects Recommended For Approval

We recommend approval of the following projects:

- \$70,000 under Item 1760-301-036(6) to develop preliminary plans for fire/life safety modifications at the San Francisco State Office Building located at 525 Golden Gate Avenue. (Estimated future cost: \$2,373,000.)
- \$494,000 under Item 1760-301-036(7) for land acquisition for an addition to the Redding State Office Building. (Estimated future cost, if addition is constructed: \$6,000,000.)
- \$611,000 under Item 1760-301-036(9) for minor capital outlay projects (\$200,000 or less per project) to provide fire/life safety and handicapped access modifications in 11 state-owned buildings.

Central Plant, Sacramento

We recommend deletion of \$78,000 in Item 1760-301-036(1) for acquisition of three well sites to provide more condensing water for the Central Heating and Cooling Plant, because (1) the department has neither identified the sites to be purchased nor substantiated the requested amount, and (2) an environmental assessment has not been developed.

The budget proposes \$78,000 to acquire sites for drilling three deep wells along the Sacramento River, near the deep well which presently serves the Central Heating and Cooling Plant. Water from these wells would add to the cooling capacity of the Central Plant, which provides air conditioning for state-owned buildings in the Capitol area. At present, the volume of cooling water needed on the *hottest* summer days exceeds the recommended pumping capacity of existing wells.

The DGS has not identified the sites to be purchased or substantiated the amount requested for purchase. Furthermore, the department did not consider the possibility of drilling on land already owned by the state. Moreover, DGS was unable to proceed with a similar well construction project in 1976, because the environmental impact report on the project was not accepted. The department has been unable to explain how the proposed project overcomes these environmental concerns.

Under the circumstances, we recommend deletion of the \$78,000 requested for the acquisition of well sites. A project to provide additional cooling water may warrant legislative consideration after the department (a) identifies several specific sites, giving due consideration to the cost-effectiveness of using state-owned sites, and (b) develops an environmental impact report on each site.

Site 7 Complex, Sacramento

We withhold recommendation on \$2,500,000 in Item 1760-301-036(2) for preliminary plans and working drawings to develop Site 7 pending

***(1) determination of what buildings are to be constructed/altered and
(2) modification of the project schedule to provide for appropriate
legislative review/approval.***

The budget includes \$2,500,000 for preliminary plans *and working drawings* for a new state office complex on Site 7 in Sacramento. Information from the department, however, indicates that this request is for preliminary plans *only*. Further, the most recent estimate developed by the Office of the State Architect indicates that preliminary plans for this project should cost \$1.7 million, *not* \$2.5 million.

Site 7 consists of two major state-owned structures—1025 P Street (major occupant - Department of Finance) and 1020 O Street (State Archives)—and surface parking, on the block bounded by O, P, 10th, and 11th Streets. In the 1987 Budget Act, Item 1760-301-036(1), the Legislature appropriated \$750,000 for a comprehensive programming/planning study for Site 7 plus an environmental assessment and pre-schematic documents associated with the findings/recommendations in the study. The proposed tenants of the new complex are the Secretary of State and the State Archives.

We have three concerns which lead us to withhold recommendation on the budget proposal for preliminary plans:

- The budget does not propose a specific plan for development of the site.
- All four development alternatives currently under consideration call for building heights in excess of standards set in the state Capitol Area Plan.
- The project schedule proposed by the DGS does not give the Legislature an opportunity to meaningfully participate in the decision process.

Construction Alternative Not Selected. The programming/planning study of Site 7 was sent to the Legislature on December 4, 1987. This study identifies four alternatives that should be considered for further review and development. The DGS has not yet selected the alternative it will propose for final development and construction. Moreover, according to the DGS schedule, *a development plan would not be selected until after budget hearings are completed.* Consequently, the department is asking the Legislature to approve \$2.5 million to develop plans for an unspecified project on Site 7.

The projected future demolition/construction cost of the four alternatives under consideration, net of architectural and project development fees, range from \$55 million to \$60 million. The alternatives are:

- Demolish most of the 1025 P Street building, construct a new five-story office building where surface parking currently exists, substantially remodel the Archives Building (1020 O Street) and construct a new Archives stack area. Maximum height: Five stories (70 feet). Estimated construction cost: \$58 million.
- Substantially renovate both buildings, and construct a new Archives stack area and offices on the existing parking area. Maximum height: Four stories (56 feet). Estimated construction cost: \$55 million.
- Demolish the 1025 P Street building, construct a five-story office building and archive stacks on the site of 1025 P Street and existing parking, substantially renovate the Archives Building. Maximum height: Five stories (70 feet). Estimated construction cost: \$60 million.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

- Demolish both buildings, and construct a new office complex, with archive stacks, which would cover the entire block. Maximum height: Six stories (84 feet). Estimated construction cost: \$60 million.

Building Heights Exceed Capitol Plan Policy. An element of the Capitol Area Plan (CAP) includes a policy of maintaining a maximum height of 50 feet (three to four stories) for state office buildings constructed south of the Capitol. The maximum building height in three of the four alternatives recommended by the programming/planning study exceeds this limit by 20 feet or more.

Changes of this significance to the Capitol Area Plan are *policy decisions* which should be presented to and endorsed by the Legislature before proceeding. If the DGS recommends an alternative which exceeds CAP height limits, it should advise the Legislature concerning the basis for doing so. In particular, the DGS should stipulate whether this is a limited exception for this project only, or an overall change in the CAP. In providing this information, DGS should give the Legislature the justification for changing the CAP and point out the associated effects.

Project Schedule Discourages Legislative Review. The proposed project schedule for Site 7 allows the department *seven years* for development and construction of the project. The department's schedule, however, allows *no* time for the Legislature to meaningfully participate in the decision process. For example, selection of an alternative for final development would not occur until July 1988, *after* the enactment of the 1988 Budget Act. Moreover, preliminary plans would not be available until June 1989, too late for legislative review to assess the department's request for working drawing funds in the 1989-90 budget hearings. Finally, working drawings would not be complete until October 1991, several months *after* 1990-91 budget hearings will be held on a request for construction funds. Thus, at the time the department would request funds for various phases of the project, the Legislature would *not* have the information it needs to assess the department's proposal.

Summary. We withhold recommendation on \$2,500,000 for preliminary plans for demolition/construction at Site 7, because of the concerns outlined above. Further, we recommend that the DGS expedite the development and construction schedule of this project as follows:

- Select an alternative for final development prior to hearings on the 1988-89 budget. For the alternative it selects, the DGS should identify and justify potential variances from the Capitol Area Plan.
- Submit preliminary plans for legislative review with its 1989-90 capital outlay program to enable consideration of an appropriation for working drawings and construction.

Site 5, Sacramento—Library Annex/Board of Control

We recommend deletion of \$800,000 in Item 1760-301-036(3) for working drawings for a building to house the Library Annex/Board of Control, because preliminary plans for the structure will not be completed in the current year.

The budget includes \$800,000 for preliminary plans and working drawings for a new state office building on Site 5 in Sacramento. Information from the DGS, however, indicates that this request is for working drawings *only*.

In the 1979 Budget Act, the Legislature appropriated \$286,700 to develop preliminary plans for construction of a state building at Site 5 (southeast corner of 9th and N Streets). An additional \$525,800 was appropriated for preliminary plans in the 1984 Budget Act. *Although development of Site 5 has been a legislative priority, it has been eight years since the original appropriation and Site 5 preliminary plans are still not complete.* Moreover, the Office of Project Development and Management (OPDM) estimates that preliminary plans will *not* be complete in time for legislative review during 1988 budget hearings. The plans have apparently been delayed through a variety of administrative actions including three changes in proposed tenancy of the building, and by various proposed changes in the scope of construction.

Without preliminary plans, the DGS cannot substantiate either the amount requested for working drawings or the estimated future cost (\$21 million) for construction. As a consequence, the Legislature does not have the information it needs to evaluate either the programmatic/architectural elements of the building or the associated project costs. This is unfortunate. Absent preliminary plans, we cannot recommend appropriating funds for working drawings.

The department's schedule (as is the case under the schedule for the Site 7 project) does not allow for legislative participation in the decision process for Site 5. We urge DGS to reconsider its current schedule and expedite completion of preliminary plans in order to submit them for legislative review prior to hearings on the budget. When plans are submitted, we will modify our recommendation accordingly.

Vault for Micrographic Records

We recommend that \$870,000 in Item 1760-301-036(4) be reduced by \$334,000 to delete unnecessary work. We further recommend that DGS report to the Legislature, prior to budget hearings, on the geological stability of the proposed site.

The budget includes \$870,000 for preliminary plans, working drawings and construction of a storage facility for vital records of the state. The proposed site of the facility is state-owned property at the California Conservation Corps Placer Energy Center in Auburn. The DGS estimates that the facility will have sufficient space for records storage through the year 2010. Construction of the storage facility, even at the cost proposed in the budget, is more cost-effective than maintaining the state's present lease space in a storage facility in Tahoe City.

Our analysis, however, based on construction costs of records storage facilities for other state agencies (the Northern Regional Storage Facility in Berkeley, for example), indicates that the amount requested in the budget could be reduced by \$334,000 without compromising the goals of the project. The reduced appropriation would accommodate the same volume of records, security system, fire suppression system, and redundancy in electrical systems as proposed by the DGS. It would also enable the DGS to provide more than adequate environmental control for the interior of the facility. Accordingly, we recommend reduction of the budget request by \$334,000 to correct for excessive heating/air conditioning capacity and unnecessarily heavy wall construction.

Stability of Proposed Site. We also recommend that the DGS conduct or contract for a study to determine the seismic stability of the proposed site and report to the Legislature on the results of the study prior to

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

budget hearings. The department indicates that such a study has not been performed, although one purpose of the proposed facility is to protect state records from natural disasters, such as earthquakes. The State Geology Office indicates that the proposed site has not yet been mapped in sufficient detail to rule out the possibility of faults.

Long Beach Office Building Lighting

We recommend a reduction of \$24,000 in Item 1760-301-036(5) to develop preliminary plans for a lighting retrofit project at the Long Beach State Building, on the basis that the department implement the lighting system recommended by its consultant, rather than the proposed, more expensive, system. (Future savings: \$878,000).

The Long Beach State Building was constructed with an high-intensity discharge (HID) lighting system, instead of a more commonly used fluorescent lighting system. The existing system has proven inadequate for the lighting needs of building tenants. According to the department, the HID system is undependable, plagued by frequent electrical failures and has unusually high maintenance costs.

The Department of General Services (DGS) proposes to solve these problems by removing the HID system and installing an acoustical tile ceiling with recessed fluorescent light fixtures. In proposing this solution, the DGS has ignored the recommendation of a \$137,000 study it commissioned in 1985-86. The consultant's study considered three alternatives including the system now proposed by DGS. The other alternatives are:

1. Minor modifications to the existing lighting system.
2. Removal of the HID system and suspension of fluorescent fixtures from the existing ceiling.

The consultant's report recommends removing the HID system and suspending fluorescent fixtures from the existing ceiling. This would cost \$878,000 less than the system proposed by DGS, while providing the same level of lighting at the same operating costs. It would avoid the costs of a suspended ceiling and modification of existing fire alarm and sprinkler systems. Further, modification of the heating/air conditioning system would be less extensive under the solution recommended by the consultant. This is particularly important, because the DGS only recently completed major modifications of the building's heating and air conditioning systems.

The consultant's recommendation will provide the necessary improvements at a significantly reduced cost. Based on the lower construction cost and the reduced amount of design effort, the cost to develop preliminary plans should be less. Accordingly, we recommend a reduction of \$24,000 in the budget request for preliminary plans, to reflect implementation of the solution recommended by the consultant.

Space Planning

We recommend that Item 1760-301-036(8) be reduced by \$77,000 to delete space planning services for Site 5 and Site 7, because these services are being performed in the current year or are funded elsewhere in the budget.

The budget includes \$95,000 for the Office of Real Estate and Design Services to provide space planning services to three Department of

General Services projects: Site 5 (\$28,000), Site 7 (\$49,000), and the Los Angeles State Building (\$18,000). The department has not substantiated the need for space planning services at Sites 5 and 7, beyond those provided in the current year or requested elsewhere in the budget.

Site 5. By the end of the current year, the Office of Project Development and Management (OPDM) will have completed an architectural program for Site 5 (Library/Board of Control Project). This will include a detailed accounting of the amount and type of space required to support the programs of the proposed tenants.

Site 7. The Programming/Planning Study of Site 7 (Secretary of State/State Archives Project), completed in December 1987 as part of a \$750,000 appropriation in the 1987 Budget Act, contains a detailed analysis of the type and quantity of space required to support the proposed tenants of this office complex.

Our analysis indicates that the Office of Real Estate and Design Services has not justified the need for further space planning for these two projects. The development of this space is appropriately the responsibility of the consulting architect under the project management of OPDM.

Site 1B, Sacramento—Atrium Roof

We recommend (a) deletion of the \$1,011,000 in Item 1760-301-465 (from the Energy Resources Program Account), and (b) the atrium roof project be financed instead in the reduced amount of \$521,000 (a \$490,000 reduction) in Item 1760-301-036(10), from the Special Account for Capital Outlay. The reduced amount would delete unnecessary work and implement cost-saving recommendations made by the department's consultant on this project.

The budget includes \$1,011,000 for working drawings and construction of an atrium roof for the state office building on Site 1B, Sacramento. This building is currently occupied by the Energy Commission and managed by DGS. The budget proposes to fund this project from the Energy Resources Program Account (ERPA).

Funding From ERPA Not Appropriate. Using the ERPA to finance a capital outlay project is not consistent with the stated purpose of this fund. Revenues to ERPA come from fees assessed on proposed generating facilities, and from statewide surcharges imposed on consumers of electricity. The California Public Resources Code, Section 25803, provides that ERPA funds be spent to carry out the purposes of the Warren-Alquist State Energy Resources Conservation and Development Act (Chapter 276, Statutes of 1974). The purposes of this chapter include planning for electrical generation and transmission, research and development of alternative energy sources and cogeneration technology, acquisition and analysis of information on the state's role in future energy problems, and promotion of energy conservation.

Construction of an atrium roof at Site 1B does not fit any of the statutory purposes for which ERPA may be used. This project is needed to correct a design error when the building was constructed. Accordingly, we recommend that this project be funded from the same source as other DGS capital outlay projects proposed in the budget, the Special Account for Capital Outlay.

Proposed Project Includes Unnecessary Work. The state office building at Site 1B is built around an open courtyard. The existing canvas

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

canopy roofing permits significant amounts of rainfall into the courtyard. As a result, there has been water damage to electrical wiring, office walls and ceilings, interior carpet, and courtyard flooring. In addition, pedestrian traffic between cross-courtyard offices is limited on rainy days. In the 1985 Budget Act, the Legislature appropriated \$45,000 for preliminary plans to design a roof for the courtyard area, *provided* that the DGS consider alternatives significantly less costly than the space frame proposal originally presented.

The DGS subsequently contracted for a study of three alternatives for roofing the courtyard at Site 1B. The alternative chosen by the department and proposed for construction in the budget year is significantly more expensive than the alternative recommended by the consultant. The department proposes a translucent covering for the entire courtyard. On the other hand, the consultant concluded that a partial covering solution "is the most economical permanent solution that provides protection for all existing circulation patterns." The consultant's recommended solution involves covering only those areas which require protection (including occupant circulation), and correcting drainage in the courtyard floor.

Moreover, the modifications as recommended by the consultant, are viewed more favorably (than the DGS proposal) by the Office of the State Fire Marshal, and avoid installation of a new fire detection and alarm system in the building. These modifications also avoid structural changes necessary for fire safety, which would be required under the DGS proposal.

After adjustment for inflation, provision for reuse of the existing courtyard flooring (as included in the budget request), and deletion of electric roll-down window shades, the consultant's proposal would cost \$521,000 to develop and construct. This is \$490,000 less than the amount included in the budget for working drawings and construction.

We therefore recommend that the Legislature approve the project based on the consultant's proposal. We also recommend that the Legislature finance this project from SAFCO, not ERPA. Accordingly, we recommend deletion of Item 1760-301-465 (from the Energy Resources Program Account) and addition of Item 1760-301-036(10) in the amount of \$521,000.

Supplemental Report Language

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

State and Consumer Services Agency
STATE PERSONNEL BOARD

Item 1880 from the General
Fund

Budget p. SCS 132

Requested 1988-89	\$25,381,000
Estimated 1987-88	24,771,000
Actual 1986-87	23,999,000
Requested increase (excluding amount for salary increases) \$610,000 (+2.5 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	\$21,557,000
Reimbursements	—	3,824,000
Total		\$25,381,000

GENERAL PROGRAM STATEMENT

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

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

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

The board has 302.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$25.4 million for support of the SPB in 1988-89. This is \$610,000, or 2.5 percent, more than estimated expenditures for the current year. The proposed expenditures consist of an appropriation of \$21.6 million from the General Fund and \$3.8 million in reimbursements. The General Fund amount is \$408,000, or 1.9 percent, more than estimated current-year expenditures. Reimbursements are expected to increase by \$202,000, or 5.6 percent, over estimated current-year amounts.

Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the past, current, and budget years. Table 1 also shows that for administrative purposes the Appeals Division will be consolidated with the Merit System Administration Program beginning

STATE PERSONNEL BOARD—Continued

in 1988-89. The baseline adjustments and workload changes proposed for the budget year are displayed in Table 2.

Table 1
State Personnel Board
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

Program:	Personnel-Years			Expenditures			Percent Change From 1987-88
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	
Merit system administration	160.2	178.0	215.6	\$20,426	\$21,104	\$24,283	15.1%
Appeals	40.9	41.9	—	2,632	2,671	—	-100.0
Local government services	—	—	—	838	842	881	4.6
Administrative services	86.3	82.4	82.3	3,835	4,440	4,778	7.6
Distributed administrative ser- vices	(86.3)	(82.4)	(82.3)	-3,732	-4,286	-4,561	6.4
Totals	287.4	302.3	297.9	\$23,999	\$24,771	\$25,381	2.5%
Funding Sources							
General Fund				\$20,511	\$21,149	\$21,557	1.9%
Reimbursements				3,488	3,622	3,824	5.6

Table 2
State Personnel Board
Proposed 1988-89 Budget Changes
(dollars in thousands)

	General Fund	Reim- bursements	Total
1987-88 Expenditures (Revised)	\$21,149	\$3,622	\$24,771
<i>Baseline Adjustments</i>			
Personal services	395	37	432
Operating expense	70	—	70
Expiring program reductions	-184	-42	-226
Subtotals, Baseline Adjustments	(281)	(-5)	(276)
<i>Workload Changes</i>			
Merit system oversight	127	52	179
Psychological screening	—	53	53
Local government services, court interpreter program	—	39	39
On-Line automated selection system	—	63	63
Subtotals, Workload Changes	(127)	(207)	(334)
1988-89 Expenditures (Proposed)	\$21,557	\$3,824	\$25,381
Change from 1987-88:			
Amount	\$408	\$202	\$610
Percent	1.9%	5.6%	2.5%

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

Our analysis indicates that the proposed expenditures are warranted.

Departments Report on Equal Opportunity Efforts

In the *Supplemental Report of the 1987 Budget Act*, the Legislature directed 14 departments to report on compliance with the Governor's Executive Order D-20-83 (August 24, 1983) regarding equal employment opportunity. Collectively, these departments have approximately 71

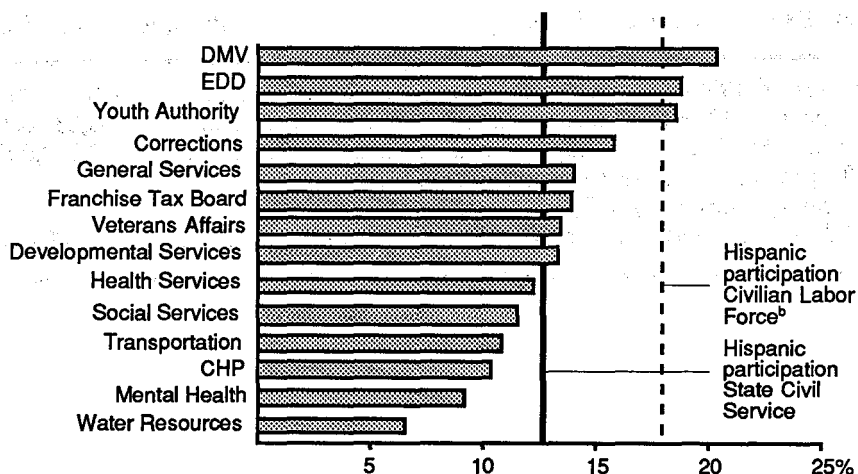
percent of the state's total full-time, permanent workforce. At the time this analysis was prepared, each of the 14 departments had submitted reports in compliance with the supplemental report language.

The reports focused on the employment opportunities of Hispanics, as they are currently significantly underrepresented in the state civil service labor force. According to SPB's latest figures, Hispanics comprise 13.3 percent of the state civil service workforce, as compared to 17.2 percent of the California civilian labor force. The latter figure, an official SPB figure based on 1980 U.S. Census data, has been and will be used throughout the 1980s. SPB estimates, however, that the percent of Hispanics in the 1987 California civilian labor force has probably increased since the 1980 U.S. census, and that a more accurate estimate is closer to 19 percent. The current composition of the California civilian labor force will not be known conclusively, however, until the 1990 census.

The following two charts summarize the data presented by the 14 departments. Chart 1 shows for each agency the percentage of all employees who are Hispanic. It indicates that only the Departments of Motor Vehicles (DMV), Youth Authority, and Employment Development (EDD) had achieved a level of Hispanic representation within their workforce that is equal to the percentage of Hispanics in the California civilian labor force. Eight of the selected departments had a Hispanic workforce which exceeded the statewide civil service average. Chart 2 shows the Hispanic hiring rate (percent Hispanic of total new hires in 1986-87) for each of the departments. It shows that the Franchise Tax Board and the Departments of Veterans Affairs, Youth Authority, and Water Resources had achieved a hiring rate for Hispanics which exceeded the percentage of Hispanics in the civilian labor force.

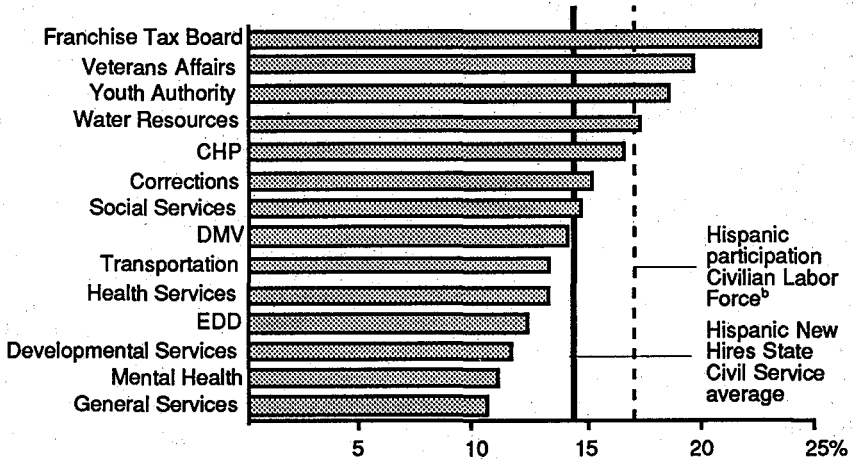
Chart 1

**Hispanic Representation In State Service
for Selected Departments^a**



^a Source: State Personnel Board (SPB). Data as of June 30, 1987.

^b Based on 1980 U.S. Census.

STATE PERSONNEL BOARD—Continued**Chart 2****Percent Hispanic Employees of New Hires
for Selected Departments^a****1986-87**^a Source: State Personnel Board (SPB). Data as of June 30, 1987.^b Based on 1980 U.S. Census.

State and Consumer Services Agency
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from various funds

Budget p. SCS 138

Requested 1988-89	\$43,307,000
Estimated 1987-88	43,230,000
Actual 1986-87	43,232,000
Requested increase (excluding amount for salary increases) \$77,000 (+0.2 percent)	
Total recommended increase	80,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security administration	General	\$61,000
1900-001-815—Retirement administration	Judges' Retirement	235,000
1900-001-820—Retirement administration	Legislators' Retirement	134,000
1900-001-830—Retirement administration	Employees' Retirement	38,518,000
1900-001-950—Health Benefit administration	Public Employees' Contingency Reserve	3,315,000
1900-001-962—Retirement administration	Volunteer Firefighters' Length of Service Award	63,000
Prior Statutory Appropriations		54,000
Reimbursements		927,000
Total		\$43,307,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. *Investigation Unit. Increase Item 1900-001-830 by \$80,000.* 156
Recommend addition of \$80,000 for two special investigator I positions and related operating expenses. Further recommend the adoption of supplemental report language requiring a report on the activities and savings achieved by the Investigation Unit in 1987-88 and 1988-89.

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and related benefit programs that serve over one million active and retired public employees. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, most nonteaching school employees and other California public employees whose employers elect to contract for the benefits available through the system. The PERS also administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance (Social Security) programs.

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

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

The PERS is managed by a 13-member Board of Administration. Members are appointed, elected by specified membership groups, or assigned by statute. In the current year, PERS has 713.5 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$43,307,000 (including \$927,000 in reimbursements) from various funds for the administrative support of PERS in 1988-89. This is \$77,000, or 0.2 percent, above estimated current-year expenditures.

Table 1 summarizes the prior, current and proposed budget-year expenditures for PERS. It shows that the Governor proposes \$38.7 million

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

to finance the system's Retirement program and \$3.3 million to finance the Health Benefits program. The other single largest item is \$21.6 million for administration that is distributed among the system's other programs.

Table 1
Public Employees' Retirement System
1986-87 through 1988-89
(dollars in thousands)

Program	Expenditures			Change From	
	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Amount 1987-88	Percent
Retirement	\$38,417	\$38,616	\$38,669	\$53	0.1%
Social Security	589	590	598	8	1.4
Health Benefits	3,118	3,215	3,396	181	5.6
PERS System Redesign Project	1,108	659	644	-15	-2.3
Administration	22,602	21,495	21,566	71	0.3
Administration (Distributed to other programs)	(22,602)	(21,345)	(21,566)	(221)	1.0
Totals, Net Adjustments	\$43,232	\$43,230	\$43,307	\$77	0.2%
<i>Funding Sources</i>					
General Fund	\$107	\$59	\$61	\$2	3.4%
Judges Retirement Fund	229	227	235	8	3.5
Legislators' Retirement Fund	141	136	134	-2	-1.5
Public Employees' Retirement Fund	38,771	38,685	38,572	-113	-0.3
Public Employees' Contingency Reserve Fund	3,041	3,137	3,315	178	5.7
Volunteer Firefighters' Length of Service Award Fund	10	61	63	2	3.3
Reimbursements	933	925	927	2	0.2
Personnel-years	683	714	718	4	0.6%

Table 2 summarizes the significant changes proposed in the PERS budget in 1988-89. The largest workload change (\$120,000) will update health benefit booklets which were last revised in 1984. Program changes include: (1) \$483,000 to support 9.7 positions in the Office of Information Systems and Services which were redirected from the system redesign project in order to perform ongoing maintenance and develop new applications for systems previously designed, and (2) \$126,000 to support 2 new positions in the investment office which will focus on foreign investments.

Table 2
Public Employees' Retirement System
Proposed 1988-89 Budget Changes
(dollars in thousands)

1987-88 Expenditures (Revised)	<i>All Funds</i> \$43,230
<i>Baseline Adjustments</i>	
Employee compensation adjustment	\$422
Adjustments for one-time expenditures	-539
Price increase	435
Pro rata decrease	-759
Salary savings revision	258
Printing costs	-120
Temporary help position	-24
Continuously vacant position	-20
System redesign project	-483
Miscellaneous	-5
Subtotal, Baseline Adjustments	(-\$835)

Workload Changes

Health benefit booklets	\$120
Fiscal office position	24
Senior account clerk	20
Printing costs	5
Actuarial staff support	41
Legal counsel support	45
Subtotal, Workload Changes	(\$255)

Program Changes

Staff increase, Office of Information Systems and Services	\$483
Internal auditor support	48
Investment office support	126
Subtotal, Program Changes	(\$657)

1988-89 Expenditures (proposed) \$43,307

Change from 1987-88:

Amount	\$77
Percent	0.2%

ANALYSIS AND RECOMMENDATIONS**PERS Requests Expansion of Personal Computer Program****Background**

Over the past five years, the Public Employees' Retirement System (PERS) has experienced rapid growth in both the quantity and complexity of work it is required to do in order to meet the needs of its members. The workload has increased as a result of court cases and legislative changes such as the Tax Reform Act of 1986, which generated questions from members on the tax consequences of their retirement benefit choices. In an effort to reduce reliance on additional staffing to meet changing program requirements and workload growth, PERS established a Personal Computer (PC) program in 1985. By the end of 1986-87, PERS had a total of 82 PCs in use throughout the organization.

In 1987-88, PERS requested authorization to spend an additional \$270,000 on PCs and related equipment. Due to PERS' lack of an adequate comprehensive strategy to set priorities for its PC needs, develop applications, and provide support for PC use, however, the Legislature required PERS to submit a status report. In the *Supplemental Report of the 1987 Budget Act*, the Legislature requested the PERS Board of Administration to report on (1) the methods for allocating additional purchases of personal computers to the highest priority uses, (2) methods for post-implementation evaluation of personal computers, and (3) the amount and kind of training and support provided to staff-users of the personal computers.

In order to comply with the supplemental report language, the PERS Board of Directors directed PERS staff to form a committee to develop and report on a comprehensive personal computer strategy which would aid management decision making as well as enable the Legislature to evaluate future PC requests. The committee developed a process for evaluating every PC in each division in terms of personnel-years saved. Specifically, it developed a methodology to calculate the savings based on the time required to perform a task using the personal computer versus the time required to do the task without the computer.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Based on these figures, PERS estimates that, in the aggregate, it is currently saving *\$703,000 annually*, representing the cost of 19 positions which would have been necessary to accomplish the same amount of work without the 82 computers. The *one-time* acquisition cost of the computers was \$721,600.

In the process of conducting the evaluation, several significant improvements were made toward development of an analytical methodology for making decisions about PC purchases and use. First, whereas formerly PERS had only an informal PC evaluation process, the system has now developed a formal process for post-implementation evaluation of its PCs. Second, PERS has scheduled post-implementation evaluations for every PC in the department. Third, it has made an initial estimate of cost-effectiveness in terms of personnel-years saved for every PC in the department.

Based on our review of the report and subsequent meetings with PERS, we believe that the system has made a good faith effort to respond to the Legislature's concerns that a PC strategy be developed. In order for the strategy to work effectively, however, PERS needs to develop workload measures and standards for its personnel. This is because, absent such standards, there is no analytical basis by which to evaluate its requests for additional staff.

Budget-Year Request

PERS has requested an additional 41 PCs (\$246,000) for use throughout 10 divisions of its organization. The system's computer strategy committee has reported that due to these PCs, PERS will eliminate the need to establish 5 positions it would otherwise request, for an annual savings of \$185,000. Absent workload standards for positions as noted above, we are unable to evaluate whether such savings are achievable. Nevertheless, our review indicates that sufficient workload exists in the 10 divisions to justify the increase in PCs. We therefore recommend approval of the request and will continue to monitor PERS' PC strategy and report to the Legislature as needed.

Disability Retirement Investigation Unit Warrants Staffing Increase

We recommend a budget augmentation of \$80,000 for two special investigator I positions and related expenses in order to enhance the ability of PERS to review questionable disability retirement cases. (Increase Item 1900-001-830 by \$80,000.)

We further recommend the adoption of supplemental report language requiring PERS to report to the Legislature on the number of such investigations performed and amount of savings achieved in 1987-88 and 1988-89.

Approximately 18,000 persons currently receive disability benefits from PERS. The system approves an additional 1,600 new disability retirement applications each year based on medical reports from physicians. In about 5 percent of both initial applications and disability retirements, information from the employer or other sources indicates that the member is capable of remaining in his or her job or returning to work. PERS actuaries have conservatively estimated that the average cost of lifetime benefits for a person on disability exceeds \$200,000. Thus, if 5 percent of the current disability retirees were to return to work, the Public

Employees' Retirement Fund would experience savings in the range of \$180 million over the lifetimes of those members.

Following a study by the Auditor General's office in 1984 which identified large numbers of disability applicants whose claims were doubtful, PERS established a separate disability retirement investigation unit. The unit examines retirement applications and benefit recipients whose right to receive disability benefits has been questioned by the employees' physician or others. The unit was initially staffed with one investigator. Since then, three investigator positions have been added for a total of four.

The Investigation Unit is responsible for gathering information with respect to the following three types of cases:

1. *Disability Applications:* If information from the employer or other sources casts doubt on the validity of an application for disability retirement, the Benefits Division can require an evaluation by an independent physician and refer the application to the Investigation Unit for review. The investigators seek to verify information on the application and perform surveillance, if justified, to gather evidence for use by the examining physician and the PERS staff in their evaluation of the case. This results in (1) greater confidence in the medical reports in cases in which the existence of a disability is confirmed, and (2) denial of claims for which there is no valid basis.

2. *Involuntary Reinstatements.* The PERS Benefits Division routinely receives reports that retired members are performing work which is inconsistent with the disability for which they retired. These cases are referred to the Investigation Unit for verification. If the investigation substantiates the report, the case is referred back to the Benefits Division for medical review and reevaluation. If the examining physician determines that the member is no longer disabled, the Benefits Division pursues various administrative remedies (ranging from a "notification" letter to court action) to return the member to productive employment so that disability payments may be stopped.

3. *Disability Appeals.* PERS may deny an application for disability retirement or terminate a retirement because of medical evidence showing that the applicant is not disabled or that a disability no longer exists. In such cases, the member may appeal and request an administrative hearing. The Investigation Unit gathers evidence which the PERS legal staff may use to document a decision to deny or revoke a member's disability retirement.

In all three of these processes, the Investigation Unit serves a critical role in gathering information to document spurious claims, thus enabling other units within the system to evaluate disability cases more effectively. During fiscal year 1985-86 (the first year of operation), evidence developed by the unit led to the affirmation of six disability denials at the administrative hearing level, and an additional seven cases were dropped prior to the hearing. The unit completed 14 reinstatement investigations with recommendations to reinstate the member to active service. These 27 cases represent a savings of approximately \$5.4 million over the lifetimes of the members.

The current staffing level of the Investigation Unit is not sufficient to enable it to process all the cases in which there is evidence of doubtful claims. The unit is currently capable of handling approximately 110 cases per year. According to PERS, however, appeals alone represent an

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

average of 120 cases per year that warrant investigation. Initial applications comprise an additional 80 cases per year.

In addition to the backlog of currently identified work that needs to be performed, it appears that a much more active program of investigation would be justified, particularly with respect to initial retirement applications. Currently, the Benefits Division refers to the Investigation Unit only those cases whose validity is suspect based on information received from outside sources. Due to the volume of workload, PERS tends to give other cases only desk-top review, relying on reports from the applicant's employer and personal physician.

Given the significant benefit/cost relationship demonstrated by the unit's activities to date and the backlog of pending workload, we recommend an augmentation of \$80,000 to establish two investigators and related expenses. Addition of these positions would: (1) assist the legal staff in reducing the backlog of investigations for administrative hearings, and (2) assist the Benefits Division in identifying initial applications with doubtful claims.

In order for the Legislature to continue to monitor the cost-effectiveness of the unit, we further recommend that PERS maintain records on the number of cases handled by each investigator and the associated savings achieved in both 1987-88 and 1988-89. The following supplemental report language is consistent with this recommendation:

The Investigation Unit shall report to the Legislature the number and type of disability retirement cases worked in 1987-88 and 1988-89 together with the associated savings achieved by such investigations no later than September 1, 1988 and September 1, 1989, respectively.

**State and Consumer Services Agency
STATE TEACHERS' RETIREMENT SYSTEM**

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

Budget p. SCS 145

Requested 1988-89	\$22,670,000
Estimated 1987-88	21,474,000
Actual 1986-87	20,045,000
Requested increase (excluding amount for salary increases) \$1,196,000 (+5.6 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement Administration	State Teachers' Retirement	\$22,268,000
Education Code Section 24701 COLA Administration	State Teachers' Retirement (Retirees' Purchasing Power Protection Account)	97,000
1920-001-963—Annuity Administration	Teacher Tax-Sheltered Annuity	66,000
Reimbursements		239,000
Total		\$22,670,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Budget Bill Language. Recommend deletion of Budget Bill language delegating authority to the Director of Finance to spend funds in the absence of a specific appropriation. 162
2. Member Services. Recommend adoption of supplemental report language requiring STRS to report on the savings realized from program expansion for rehabilitation and accounting services. 162

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, STRS serves over 380,000 active and retired members. The system is managed by the State Teachers' Retirement Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

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

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

The STRS has 307.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$22.7 million from the State Teachers' Retirement Fund (STRF), two other special funds, and reimbursements for administrative support of STRS in 1988-89. This is an increase of \$1.2 million, or 5.6 percent, from estimated current-year expenditures.

Total STRS expenditures, by program, for the past, current, and budget years are shown in Table 1. As the table indicates, the largest programs of the system, in terms of budget-year expenditures, are member services (\$4.7 million), fiscal and audit services (\$3.7 million) and data processing (\$6.1 million). Table 1 also indicates that STRS proposes to fund 318.3 personnel-years in the budget year—a net decrease of 11.1 personnel-years from the current level.

STATE TEACHERS' RETIREMENT SYSTEM—Continued**Table 1**

**State Teachers' Retirement System
Budget Summary
1986-87 through 1988-89
(dollars in thousands)**

<i>Program</i>	<i>Actual 1986-87</i>	<i>Estimated 1987-88</i>	<i>Proposed 1988-89</i>	<i>Change From 1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
Administration:					
Executive office	\$659	\$689	\$558	-\$131	-19.0%
Administrative services	590	631	642	11	1.7
Fiscal & audit services	6,440	4,421	3,738	-683	-15.4
Legal office	778	757	773	16	2.1
Administration and program analysis ...	441	546	563	17	3.1
Subtotals, Administration	(\$8,908)	(\$7,044)	(\$6,274)	(\$-770)	(-10.9%)
Investment services	\$532	\$503	\$834	\$331	65.8%
Client Services:					
Administration	—	\$228	\$230	\$2	.9%
External operations	\$1,661	2,446	3,122	676	27.6
Member services	4,460	4,349	4,657	308	7.1
Subtotals, Client Services	(\$6,121)	(\$7,023)	(\$8,009)	(\$986)	(14.0%)
Operation Systems:					
Administration	\$208	\$138	\$121	-\$17	-12.3%
Accounting	1,146	1,223	1,359	136	11.1
Data processing	3,130	5,543	6,073	530	9.6
Subtotals, Operation Systems	(\$4,484)	(\$6,904)	(\$7,553)	(\$649)	(9.4%)
Total Expenditures	\$20,045	\$21,474	\$22,670	\$1,196	5.6%
Funding Sources					
Teachers' Retirement Fund	\$19,696	\$21,173	\$22,365	\$1,192	5.6%
Retirees' Purchasing Power Protection Account, Teachers' Retirement Fund ..	(97)	(97)	(97)	—	—
Teacher Tax-Sheltered Annuity Fund ...	51	62	66	4	6.5
Reimbursements	298	239	239	—	—
Personnel-years	286.0	307.2	318.3	11.1	3.6%

Table 2 summarizes the major changes proposed in the STRS budget for 1988-89, by baseline adjustments, workload changes and program changes. Under workload changes, the \$678,000 adjustment in data processing represents the net effect of a \$3.3 million increase offset by a \$2.6 million reduction due to STRS's first full year of operating its new on-line system with support from Teale Data Center. The reductions in expenditures for accounting, member services and external operations reflect one-time expenditures in 1987-88 to increase the level of service and improve communication between STRS and its members.

Table 2
State Teachers' Retirement System
Proposed 1988-89 Budget Changes
(dollars in thousands)

	<i>State Teachers' Retirement Fund</i>
1987-88 Expenditures (Revised)	\$21,235,000
<i>Baseline Adjustments:</i>	
Pro rata charges	-\$922,000
One-time expenditures	
Accounting	-66,000
Member services	-111,000
External operations	-145,000
Other Adjustments:	
Salary increases	201,000
Price increase and technical adjustment	204,000
Tax-sheltered annuity	4,000
Subtotal, Baseline Adjustments	(- \$835,000)
<i>Workload Changes:</i>	
Member services	\$237,000
Data processing	678,000
Accounting	68,000
Subtotal, Workload Changes	(\$983,000)
<i>Program Changes:</i>	
Office of State Controller (auditing and actuarial services)	\$150,000
Office of Attorney General (corporate governance services)	50,000
Investments	137,000
External operation	711,000
Subtotal, Program Changes	(\$1,048,000)
1988-89 Expenditures (Proposed)	\$22,431,000
Reimbursements	239,000
Change from 1987-88:	
Amount	\$1,196,000
Percent	5.6%

ANALYSIS AND RECOMMENDATIONS

STRS Requests Further Expansion of Member Services

The STRS is in the third year of a multiyear program to increase the level of service it provides both to its active and its retired members. An important element of this program is improvement in the way STRS communicates with and responds to inquiries from its members. The system has developed several strategies to accomplish this goal. These include: (1) employer based individual and group counseling service, (2) client information program that includes member mailings (newsletters, annual statements and warrant stub messages), videotapes, interactive telephone inquiry system, and brochures, (3) telephone and correspondence units to respond to member inquiries, and (4) microcomputer programs that allow members to do "what if" benefit calculations.

For 1988-89, the system requests the following augmentations to its budget in support of expanded member service activities:

- \$547,000 for phase three of its Employer Based Service (EBS) program.

STATE TEACHERS' RETIREMENT SYSTEM—Continued

- \$180,000 to increase the budget and staffing of the rehabilitation program.
- \$118,595 for four full-time telephone counselors.
- \$64,000 for development and distribution of four new client information pamphlets.
- \$40,000 to collect past due overpayments.

Proposed Budget Bill Language Unnecessary

We recommend deletion of proposed Budget Bill language granting the Director of Finance the express authority to appropriate additional funds to STRS in the budget year, because the language is unnecessary and delegates authority to the Director of Finance to spend funds in the absence of a specific appropriation.

The budget proposes \$119,000 from the State Teachers' Retirement Fund (STRF) to establish four telephone counselor positions in the STRS public service telephone unit. This unit is the primary location for contact between members and beneficiaries and STRS, and is responsible for providing answers to technical questions regarding the system and to research and provide answers to more specific questions regarding individual benefits.

Based on current telephone system performance reports, STRS estimates that with its current staffing level, 50 percent of the projected calls to the public service unit for 1988-89 will be placed in queue for three minutes or more, resulting in costs to its toll-free line of \$162,000. By establishing the four additional telephone counselor positions, STRS expects to eliminate its telephone queue costs completely, and realize a \$43,000 net savings in 1988-89 from its \$119,000 investment in additional staff.

Despite the projected budget-year savings, the Budget Bill includes control language authorizing the Director of Finance to spend up to an additional \$108,000, if the anticipated savings in telephone queue costs do not materialize. We believe this raises a significant fiscal and policy issue for the Legislature. Specifically, the language would delegate authority to the director to spend funds in the absence of a specific appropriation. We see no basis for the delegation of such authority.

Moreover, the language is unnecessary because the Director of Finance is already empowered through Section 27.00 of the 1988-89 Budget Bill, to authorize STRS to create a deficiency in the budget year.

For this reason, we recommend deletion of the proposed Budget Bill language included in Item 1920-001-835.

Anticipated Savings Should Be Verified

We recommend that the Legislature adopt supplemental report language requiring STRS to report on the savings realized from its proposed program expansion for rehabilitation and accounting services.

The budget includes a total of \$220,000 from the STRF to augment programs in the STRS Member Services division. Specifically, STRS proposes: (1) \$40,000 in 1988-89 to establish a two-year limited term accountant position to collect benefit overpayments, (2) \$26,000 to continue funding a permanent rehabilitation counselor position established in the current year to evaluate disability payment recipients for

rehabilitation potential, and (3) \$154,000 to pay for increased travel costs to permit STRS rehabilitation counselors to attend administrative appeal hearings.

The STRS has justified the increased costs of these positions and travel expenses on the basis that the program expansions will generate offsetting budget savings. For example, STRS estimates that the accountant position could collect approximately \$750,000 in retirement benefit overpayments during the next two years. In addition, STRS projects that the proposal to establish an additional permanent rehabilitation counselor position and to permit its counselors to attend administrative appeal hearings, could result in annual savings of up to \$1.3 million in STRS disability payments.

Before the Legislature makes a determination to continue funding these program expansions in 1989-90, it will need to know if they yield the savings anticipated in the budget year. Therefore, we recommend that the Legislature adopt the following supplemental report language requiring the STRS to report during the budget year on the actual level of savings realized:

The STRS shall report to the Chairperson of the fiscal committees and the Joint Legislative Budget Committee, no later than December 15, 1988, on the following: (1) the number of rehabilitation benefit recipients able to return to work and the associated amount of benefit payments saved due to the augmentation of the rehabilitation program, and (2) the amount of overpayments collected due to the efforts of an additional accountant working on these cases for the five months beginning July 1, and ending November 30, 1988.

State and Consumer Services Agency

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOME OF CALIFORNIA

Items 1960-1970 from the
General Fund and various
special funds

Budget p. SCS 149

Requested 1988-89.....	\$1,255,906,000
Estimated 1987-88	1,142,541,000
Actual 1986-87	844,936,000
Requested increase (excluding amount for salary increases) \$113,365,000 (+9.9 percent)	
Total recommended reduction.....	None
Recommendation pending	1,403,000

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

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Support	General	\$2,550,000
1960-001-592—Support	Cal-Vet Farm and Home	1,001,000
1960-101-001—Local assistance	General	1,000,000
1970-011-001—Veterans' Home	General	24,855,000
1970-011-890—Veterans' Home	Federal Trust	10,071,000
Reimbursements		<u>8,183,000</u>
Total, Budget Bill Appropriations		\$47,660,000
Continuing Appropriation—Support	Cal-Vet Farm and Home	17,127,000
Continuing Appropriation—Loans	Cal-Vet Farm and Home	1,186,862,000
Continuing Appropriation—Support	Cal-Guard Farm and Home	185,000
Continuing Appropriation—Loans	Cal-Guard Farm and Home	<u>4,072,000</u>
Total		<u>\$1,255,906,000</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| | <i>Analysis
page</i> |
| 1. Cogeneration Plant. Recommend adoption of Budget Bill language prohibiting payments for chilled water capacity until the cogeneration plant is completed. | 167 |
| 2. Medicare Shortfall. Withhold recommendation on \$1.4 million budgeted to offset a reduction in Medicare funds pending receipt of information detailing anticipated federal receipts. | 168 |
| 3. General Fund Loans. Recommend adoption of Budget Bill language to provide legislative oversight of short-term General Fund loans proposed to meet cash flow problems. | 169 |

GENERAL PROGRAM STATEMENT

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

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

2. *Veterans Claims and Rights.* This program assists eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents.

3. *The Veterans' Home.* The home provides approximately 1,350 California war veterans with several levels of medical care, rehabilitation services, and residential services.

4. *Cal-Guard Farm and Home Loan.* This program provided low-interest farm and home loans to qualifying National Guard members, using proceeds from the sale of revenue bonds. The Military Department advises that in 1986 it decided to stop providing new loans under this program because of a lack of interest by guard members due to the fact that interest rates required under the program were not competitive. As a result, no new loan applications have been accepted since May 1, 1986 and the current program involves only maintenance and servicing of the existing loan portfolio.

5. **Administration.** This program provides for the implementation of policies established by the California Veterans Board and the department director.

The department has 1,245.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$1.3 billion from various state and federal funds for support of the Department of Veterans Affairs and the Veterans' Home of California in 1988-89. This is an increase of \$113.4 million, or 9.9 percent, above estimated current-year expenditures. The increase reflects the following changes:

- An increase of \$2.4 million, or 9.1 percent, in *General Fund* support for departmental administration and the Veterans' Home. This primarily results from increases proposed at the Veterans' Home to fund workload deficiencies and to offset a projected reduction in federal funds anticipated from the federal Medicare program.
- A net increase of \$112.3 million in *special funds*. Nearly all of this increase is in the Cal-Vet loan program, primarily to reflect increased costs and new loan activity. The special fund request also reflects a decrease of \$82,000, or 1.9 percent, in the Cal-Guard loan program because there is a declining workload resulting from the decision to not accept new loan applications.
- A decrease in *federal funds* of \$2 million, or 16 percent, primarily reflects a reduction in the amount of Medicare coverage available for members at the Veterans' Home. In addition it reflects one-time expenditures in the current year for medical care equipment needed to furnish a new hospital addition project and a newly renovated hospital wing.
- An increase in *reimbursements* of \$667,000, or 9 percent, primarily reflects increased receipts from member fees and Veterans Administration aid and attendance payments. The department proposes to use these increased reimbursements to offset the Medicare shortfall.

Table 1 provides a summary, by fiscal year and funding source, of all expenditures, including expenditures for loans, debt service, and taxes in the Cal-Vet and Cal-Guard loan programs.

Table 1
Department of Veterans Affairs
Summary of Expenditures and Funding Sources
1986-87 through 1988-89
(dollars in thousands)

<i>Funding Sources</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Percent Change From 1987-88</i>
General Fund				
Departmental administration.....	\$2,532	\$2,587	\$2,550	-1.4%
Veterans Service Offices.....	1,000	1,000	1,000	—
Veterans' Home.....	22,002	22,455	24,855	10.7
Subtotals, General Fund	(\$25,534)	(\$26,042)	(\$28,405)	(9.1%)
Veterans Farm and Home Building Fund				
Loan program administration	\$15,870	\$20,534	\$18,128	-11.7%
Loans, debt service, taxes	776,580	1,072,051	1,186,862	10.7
Subtotals, Cal-Vet Fund	(\$792,450)	(\$1,092,585)	(\$1,204,990)	(10.3%)

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

California National Guard Members Farm and

Home Building Fund				
Loan program administration	\$137	\$180	\$185	2.8%
Loans, debt service, taxes	9,886	4,159	4,072	-2.1
Subtotals, Cal-Guard Fund	(\$10,023)	(\$4,339)	(\$4,257)	(-1.9%)
Federal Trust Fund—Veterans' Home	\$10,191	\$12,059	\$10,071	-16.5%
Special Account for Capital Outlay	\$358	—	—	—
Reimbursements				
Departmental administration	\$46	\$148	\$152	2.7%
Veterans' Home	6,334	7,368	8,031	9.0
Subtotals, Reimbursements	(\$6,380)	(\$7,516)	(\$8,183)	(8.9%)
Totals, Expenditures	\$844,936	\$1,142,541	\$1,255,906	9.9%

Table 2 summarizes the department's expenditures and personnel years, by program, for the past, current, and budget years.

Table 2
Department of Veterans Affairs
Program Summary
1986-87 through 1988-89
(dollars in thousands)

<i>Programs</i>	<i>Actual</i> <i>1986-87</i>	<i>Est.</i> <i>1987-88</i>	<i>Prop.</i> <i>1988-89</i>	<i>Percent</i> <i>Change</i> <i>From</i> <i>1987-88</i>
Cal-Vet Farm and Home Loan	\$792,450	\$1,092,585	\$1,204,990	10.3%
Cal-Guard Farm and Home Loan	10,023	4,339	4,257	-1.9
Veterans Claims and Rights	2,844	2,977	2,919	-1.9
Veterans' Home	39,619	42,640	43,740	2.6
Administration (distributed)	(1,712)	(1,798)	(1,846)	2.7
Totals	\$844,936	\$1,142,541	\$1,255,906	9.9%
Personnel-Years				
Cal-Vet Farm and Home Loan	267.3	279.6	278.2	-0.5%
Cal-Guard Farm and Home Loan	4.2	3.3	3.3	—
Veterans Claims and Rights	31.1	35.7	34.6	-3.2
Veterans' Home	926.4	926.8	956.8	3.2
Administration (distributed)	(33.6)	(35.5)	(35.4)	-0.3
Totals	1,229.0	1,245.4	1,272.9	2.2%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant budget changes not discussed later in this analysis:

- An additional 20.1 positions for the Veterans' Home to provide relief for nursing services positions assigned to fixed shifts at a cost of \$480,000 (\$408,000 from the General Fund and \$72,000 from reimbursements).
- A \$345,000 reduction in budgeted salary savings at the Veterans' Home to reduce the number of positions involved in direct patient care that are intentionally held vacant (\$293,000 from the General Fund and \$52,000 from reimbursements).
- Increased loan activity in the Cal-Vet loan program at a cost of \$112 million from the Veterans Farm and Home Building Fund.

State Payments for a Cogeneration Plant

We recommend that the Legislature adopt Budget Bill language in Item 1970-011-001 to prohibit payments for chilled water capacity from a cogeneration plant until the cogeneration facility is completed.

The budget proposes \$250,000 (\$212,000 from the General Fund and \$38,000 in reimbursements) to pay the California Energy Facilities Corporation, a nonprofit corporation, for chilled water cooling capacity in 1988-89. The proposed payment is in accordance with an agreement between the state and the corporation, which provides for the construction and operation of a cogeneration facility at the Veterans' Home. The cogeneration project involves the construction of two natural gas-fueled reciprocating engines to produce electricity, with a waste heat recovery boiler to produce steam. The project also includes a 600-ton chiller and chilled water distribution system to supply chilled water for air conditioning to the Veterans' Home.

Financing for the project came from tax-exempt revenue bonds issued by the California Alternative Energy Source Financing Authority. Funds to retire the bonds are derived from state payments for electricity, steam heat and chilled water, and from payments made by the Pacific Gas and Electric Company for the purchase of excess electricity. Once the bonds are retired, ownership of the facility will be transferred to the state.

Terms of Cogeneration Agreement. Under the terms of the agreement, the state is required to make annual rent payments for electrical service not to exceed what would have been paid for energy consumption had the plant not been built. In addition, the agreement requires the state to pay the corporation "capacity payments" reflecting the chilled water cooling capacity. These payments are \$250,000 annually, and are scheduled to begin in 1987-88 and end in 1990-91. According to the agreement, once the cogeneration facility is completed and has been accepted by the state, the payments are unconditional, *provided an appropriation has been made for that purpose*. The amount of the payments are not subject to the quantity or value of chilled water produced by the cogeneration facility. As a result, the state has agreed to pay the corporation \$1 million over a four-year period for chilled water capacity regardless of whether any chilled water is delivered.

There is currently no appropriation for the \$250,000 chiller capacity payment required in 1987-88. The department has submitted a request to the Department of Finance to obtain \$250,000 from the Reserve for Contingencies or Emergencies included in Item 9840 of the 1987 Budget Act in order to make the 1987-88 payment. The Department of Finance is still reviewing that request. The budget proposal would appropriate funds for the 1988-89 payment.

Legislative Analyst's Review. Our analysis indicates that under the terms of the agreement, there is no current obligation to make these payments because the relevant portion of the agreement does not become effective until the cogeneration facility is completed. The project cannot be completed until all equipment, chilled water lines, connections, and control systems have been tested and accepted. The department advises that actual testing of the chiller should begin in the summer of 1988 and the agreement requires at least one month of testing.

Further, there is no assurance that the facility will be accepted at that time. The facility has already experienced failures of the steam compressor, the exhaust system, and the chiller. If the budget is adopted as

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

proposed, we are concerned that the department will make payments to the corporation before the facility is completed.

To assure that no payments are made until the state is satisfied that it has a functioning facility, we recommend that the Legislature amend the Budget Bill to prohibit payments until the project is completed.

Item 1970-011-001:

Notwithstanding any other provision of law to the contrary, of the amount appropriated in category (a), \$250,000 is for payment to the California Energy Facilities Corporation for chilled water capacity under the Lease and Agreement dated April 1, 1985, provided that no payments shall be made until the cogeneration facility at the Veterans' Home is completed and accepted by the state.

Insufficient Data to Support the Request to Offset the Medicare Shortfall.

We withhold recommendation on \$1.4 million requested to offset an expected shortfall in federal Medicare payments pending receipt of (1) detailed projections of the federal funds and reimbursements that will be received in the budget year, and (2) an explanation of how the Veterans' Home was able to absorb a \$3.2 million shortfall in federal funds in 1986-87. (\$597,000 from the General Fund and \$806,000 from reimbursements in Item 1970-011-001.)

The budget for the Veterans' Home contains funding to provide a variety of health care services to the 1,350 residents of the Home. Funding for these services comes from the General Fund, Medicare payments, Medi-Cal payments, member fees, and payments from the Veterans Administration. The budget proposes an augmentation of \$1.4 million, including \$597,000 from the General Fund and \$806,000 in reimbursements from member fees, aid and attendance payments from the Veterans Administration and Medi-Cal payments, to offset a projected shortfall of \$1.4 million in Medicare payments in 1988-89.

We are unable to evaluate the request at this time for three reasons. First, the documents submitted to support this request did not contain the specific detail that shows how the projections were made for federal funds and reimbursements that will be received in 1988-89. We asked the department for the support detail behind its projections. However, at the time this analysis was prepared, the department had not responded. As a result we are unable to evaluate the accuracy of the estimates.

Second, the department has submitted to the Department of Finance a deficiency request for \$1.6 million to offset a projected shortfall in federal funds and reimbursements in 1987-88. This deficiency is not reflected in the Governor's Budget. It is possible that a decision made with respect to this current-year deficiency proposal would have an impact on the department's budget year needs. At the time this analysis was prepared, however, the Department of Finance had not finished its review of this proposal.

Third, in 1986-87, the department experienced a shortfall of \$3.2 million in Medicare payments. We have asked the department how the Home was able to absorb such a large reduction without reducing the quality of medical care provided to its residents. We also asked the department to prepare a list of the 1986-87 budgeted functions that the Home was not

able to accomplish because of the shortfall, including a description of the consequences that resulted from not performing them. Again, at the time this analysis was prepared the department had not responded.

Without this information, we are unable to verify the amount of funds needed by the department to offset the projected loss of federal Medicare payments, or evaluate the appropriateness of the level of medical services budgeted. Accordingly, we withhold recommendation pending its receipt.

Legislative Oversight of General Fund Loans Should be Maintained

We recommend that the Legislature amend the Budget Bill to maintain oversight of short-term General Fund loans provided to the Veterans' Home to meet cash flow problems (Item 1970-011-001).

The budget proposes to add a provision to Item 1970-011-001 of the Budget Bill to authorize loans from the General Fund to the Veterans' Home to meet cash needs resulting from the delay in receipt of federal reimbursements for medical services that the Home provides. The loans would be interest free and would have to be repaid within six months. The proposal makes no restriction on the amount of the loans and does not include any specific provisions for legislative oversight.

About 42 percent of the Veterans' Home budget comes from federal funds or reimbursements. These are mostly third-party payments from Medicare, Medi-Cal, and the Veterans Administration. Because there is a delay between the time the services are provided and the actual receipt of federal and state reimbursements, the Veterans' Home has experienced cash flow problems at the end of the last two fiscal years. As a result, in order to meet its May and June payroll in recent years, the Veterans' Home has obtained General Fund loans from the Reserve for Contingencies or Emergencies (Item 9840-011-001). The amounts of the loans totaled \$1.1 million in 1985-86 and \$1.7 million in 1986-87. These loans represented 40 percent to 60 percent of the funds available in Item 9840-011-001 for loans to all state agencies.

Item 9840-011-001 also includes restrictions and reporting requirements relating to loans. Specifically, the item:

- Provides for the approval of a loan by the Department of Finance.
- Prohibits loans which require repayment from a future appropriation.
- Requires 30 days notice to the Legislature prior to approval of the loan, or a lesser time as determined by the Legislature. However, if the Director of Finance states in writing the reasons why prior approval are impractical, these time limits do not apply.
- Requires the Director of Finance to report to the Legislature within 10 days after authorizing a loan.

The department indicates that it is requesting a special authorization for loans to the Veterans' Home because it anticipates that the need for a significant loan will be ongoing. Further, the department is concerned that funding may not be available from Item 9840-011-001 in future years because funds in that item are available for all state departments and might be committed for loans to other state agencies before the Veterans' Home is able to specifically identify its loan needs.

Our analysis indicates that the need for a special loan authorization is justified. However, we can find no reason why legislative oversight of these loans should be eliminated, particularly when the proposal places

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

no restriction on the amount of any loan. Therefore, we recommend that the Legislature amend the Budget Bill to provide the same degree of legislative oversight for loans to the Veterans' Home that is provided for loans to other state agencies in Item 9840-011-001. Specifically, we recommend that the Legislature adopt the following Budget Bill language in Item 1970-011-001:

Any loan authorized pursuant to this item shall require approval by the Department of Finance. Provisions 2, 3, and 4 of Item 9840-011-001 shall also apply to any loan authorized pursuant to this item.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY

Items 1970-301 and 1970-490
from the General Fund,
Special Account for Capital
Outlay, and from the Federal
Trust Fund

Budget p. SCS 161

Requested 1988-89.....	\$12,768,000
Recommended approval	893,000
Recommended reduction.....	8,469,000
Recommendation pending	3,406,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Construction Delays. Recommend that the department, prior to budget hearings, provide the Legislature with an update of the 1979 master plan for renovation of the California Veterans' Home, based on new federal funding regulations. 171
2. Three-year Construction Appropriations. Recommend deletion of provisions in Items 1970-301-036 and 1970-301-890 which would unnecessarily exempt construction appropriations from sound budgeting practices. 173
3. Remodel Wards 2, 3E/Administration—Construction. Recommend reappropriation of \$1,188,000 in Item 1970-301-036(6) and \$2,645,000 in Item 1970-301-890(4), Budget Act of 1987, because the project was denied federal funds on a technicality in 1987-88. 174
4. Withhold recommendation on two major capital outlay projects (remodel wards 1, 2, 3B and main kitchen renovation) and \$3,406,000, pending receipt of additional information. 174
5. *Renovate Hospital Support Services—Construction. Reduce Item 1970-301-036(1) by \$700,000, delete Item 1970-490—Reappropriation, and add Item 1970-495—Reversion, to revert \$284,000 in Item 1970-301-036(2), Budget Act of* 175

1987. Recommend deletion of proposed funds and reversion of prior funding, because this project will not receive federal construction funds in the budget year.
6. *Correct Code Deficiencies in Section H. Reduce Item 1970-301-036(4) by \$427,000 and Item 1970-301-890(3) by \$997,000.* Recommend deletion of construction funds, because the project will not receive federal construction funds in 1988-89. 176
 7. *Correct Code Deficiencies in Section K. Reduce Item 1970-301-036(5) by \$272,000 and Item 1970-301-890(4) by \$676,000.* Recommend deletion of construction funds, because the project will not receive federal construction funds in 1988-89. 177
 8. *Remodel Hospital Wards 1, 2, 3C. Reduce Item 1970-301-036(6) by \$894,000 and Item 1970-301-890(5) by \$1,984,000.* Recommend deletion of construction funds because construction of this project cannot start in the budget year since it is dependent on the completion of another project that has been delayed. 177
 9. *Remodel Hospital Wards 1, 2, 3D—Working Drawings and Construction. Reduce Item 1970-301-036(8) by \$783,000 and Item 1970-301-890(6) by \$1,736,000.* Recommend deletion of construction funds, because the project will not receive federal construction funds in the budget year. 177

ANALYSIS AND RECOMMENDATIONS

The Department of Veterans Affairs facility in Yountville, the California Veterans' Home, provides long-term care to qualified California veterans. The budget includes \$12,768,000 from the General Fund, Special Account for Capital Outlay (SAFCO) (\$5,189,000), and from the Federal Trust Fund (\$7,579,000) for eight major and four minor capital outlay projects at the Yountville facility. In addition, the budget requests reappropriation of a \$284,000 appropriation in Item 1970-301-036(2) of the 1987 Budget Act. Finally, Budget Bill language proposes that the majority of these capital outlay funds will be unconditionally available for expenditure in fiscal years 1988-89, 1989-90, and 1990-91.

Changes in Federal Funding Delay Veterans Home Projects

We recommend that the department, prior to budget hearings, provide the Legislature with an update of the 1979 master plan for renovation of the California Veterans' Home, based on new federal regulations for federal funding of state veterans home construction projects.

Renovation of the California Veterans' Home has proceeded according to a master plan developed by the Department of Veterans Affairs in 1979. We provided an overview of the master plan in our *Analysis of the 1986-87 Budget Bill* (please see pages 218-219). Chapter 1106, Statutes of 1984, provides that construction of master plan projects cannot begin until the federal government has provided a written commitment to provide either 65 percent of the project cost or the maximum amount of federal funds available to the state. The state provides the balance of the project cost.

Federal regulatory changes in 1987-88, and proposed changes in 1988-89 will delay two veterans home projects which received state funds in the

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

1987 Budget Act and two projects proposed in the Budget Bill. These projects cannot proceed as scheduled because federal funding was not or will not be available in the year it was originally anticipated. Three changes in federal regulations are responsible for the delays:

- A technical regulation, first used in 1987-88, which prevented federal funding of projects with no state appropriation in effect by June 15, 1987.
- A new federal priority system for ranking state veterans home projects.
- A regulation anticipated in 1988-89 which will allow funding of state projects only if working drawings are 80 percent complete by June 15 preceding the federal fiscal year and construction funds are available prior to the federal fiscal year.

Table 1 lists the delayed projects, along with the estimated state/federal cost and the reason for delay.

Table 1
Department of Veterans Affairs
Construction Projects Delayed
by Lack of Federal Funds
(dollars in thousands)

<i>Project:</i>	<i>Phase^a</i>	<i>Amount</i>		<i>Reason for Delay</i>
		<i>State</i>	<i>Federal</i>	
1987 Budget Act:				
Remodel Wards 2, 3E/Administration	c	\$1,188	\$2,645	State appropriation too late for June 15 deadline.
Renovate hospital support services .	c	284	700	Projects involving administration/support for acute care hospitals have low priority in new federal project ranking system.
1988 Budget Bill:				
Renovate Wards 1, 2, 3C	c	894	1,984	Delay of Wards 2, 3E/Administration in current year.
Renovate Wards 1, 2, 3D	wc	901	1,736	Must be undertaken with Wards 1, 2, 3C. Working drawings will not be 80 percent complete by June 15, 1988.
Totals		\$3,267	\$7,065	

^a Phase symbols indicate: w = working drawings, c = construction.

Construction delays in these four projects require revision of the entire master plan for renovation of the California Veterans' Home. In many cases, the beginning of one master plan project is contingent on the completion of another, because residents must be moved temporarily to accommodate construction activity. As a result, delay of the four projects noted here will affect the construction schedule of projects proposed for future years.

Recommendation. In view of these circumstances, we recommend that the department develop a revised master capital outlay plan for renova-

tion of the California Veterans' Home, and submit it to the Legislature prior to budget hearings. The plan should reflect (a) delays of construction projects in 1987-88 and 1988-89, and (b) federal requirements for the timing of working drawings.

Budget Language Decreases the Legislature's Fiscal Flexibility

We recommend deletion of Budget Bill provisions in Items 1970-301-036 and 1970-301-890 which would unnecessarily exempt construction appropriations from sound budgeting practices.

Control Section 2 of the Budget Bill provides that appropriations for construction revert (and become available for other purposes) if the project has neither been bid nor authorized to proceed to bid by June 30, 1989. This long standing section prevents an idle construction project from tying up money that could be used for other purposes and gives the Legislature an opportunity to reconsider the merits of a project which has not proceeded on schedule.

Furthermore, the Legislature has had a long standing policy to provide only that level of funding that can reasonably be encumbered in the budget year. The combination of Control Section 2 and this legislative policy gives the Legislature a measure of control over capital expenditures and added fiscal flexibility in addressing statewide needs.

Budget Bill provisions in Items 1970-301-036 and 1970-301-890, however, would exempt most of the proposed construction appropriations (and reappropriations) for California Veterans' Home projects from Section 2. These provisions would permit the department to retain the appropriations for three fiscal years, without further legislative review or authorization, regardless of whether construction actually started for any of the projects in any of the three years.

The department maintains that the exemption is necessary because of federal regulations regarding the timing of state appropriations for construction projects. As indicated above, the federal Veterans Administration, in its 1987-88 funding cycle, rejected all projects which did not have a state appropriation for construction in effect on *June 15, 1987*. As a result, federal funding was not granted for renovation of Wards 2, 3E/Administration, even though the Legislature appropriated construction funds in the 1987 Budget Act. If this federal procedure were to remain in effect, California and other states which operate on a July 1-June 30 fiscal year would be in an untenable position. In order to assure federal funding of state construction projects, *the Legislature would have to appropriate the state's share of the cost at least 16 months before the federal funds would be available (assuming the project is approved by the federal government).*

Fortunately, the unnecessary burden placed on states by this requirement has been recognized at the federal level and Congress is currently considering legislation to correct this situation. Staff to the U. S. Senate Committee on Veterans Affairs advise that the measure under consideration would require that (1) working drawings must be 80 percent complete by June 15 preceding the federal fiscal year, *and* (2) the state's share of construction funds must be available prior to the beginning of the federal fiscal year. The staff expects this measure to be enacted by the end of February 1988. Presuming that this legislation will be enacted, we recommend deletion of the Provisions in Items 1970-301-036 and 1970-301-890.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

If this federal legislation is not enacted, two options are available to the Legislature for assuring that the state share of project finances is available before the federal application deadline:

- Appropriate construction funds in the 1988 Budget Act for projects which will not begin construction until 1989-90 (as proposed in the Budget Bill).
- Enact a measure (other than the Budget Bill) prior to *June 15, 1989* which would finance construction projects scheduled for 1989-90.

A. Projects Recommended for Approval/Reappropriation**Equipment for Section E, Minor Projects**

We recommend approval.

We recommend approval of \$80,000 (\$28,000 state, \$52,000 federal) to equip the renovated Section E building and \$562,000 (state funds) for four minor capital outlay projects (\$200,000 or less per project) at the Home. There are no future costs associated with these proposals.

Remodel Wards 2, 3E/Administration—Reappropriation

We recommend reappropriation of \$3,833,000 appropriated in the 1987 Budget Act, Items 1970-301-036(6) (\$1,188,000 from SAFCO) and 1970-301-890(4) (\$2,645,000 from the Federal Trust Fund) to remodel Wards 2, 3E/Administration at the Veterans' Home.

Renovation of Wards 2, 3E/Administration did not receive federal construction funds in 1987-88. Consequently, construction cannot begin in the current year.

The Ward/Administration project was denied federal construction funds because the 1987 Budget Act was not effective on June 15, 1987. This occurred even though the project ranks in the highest category on the federal priority list of state veterans' home projects. Given this priority ranking, the project to remodel Wards 2, 3E/Administration should receive federal construction funds in 1988-89, after Congress modifies the current regulation.

Consequently we recommend that Item 1970-490 be inserted in the Budget Bill, reading as follows:

1970-490—Reappropriation, California Veterans' Home, Department of Veterans Affairs. Notwithstanding any other provision of law, the balance of the appropriation provided in the following citations is reappropriated for the purpose provided in the appropriation and shall be available for expenditure until June 30, 1989:

Items 1970-301-036(6) and 1970-301-890(4), Budget Act of 1987, 80.20.075—Remodel Hospital Wards 2, 3E and Administration—Construction.

B. PROJECTS FOR WHICH RECOMMENDATION IS WITHHELD

We withhold recommendation on \$1,272,000 in Items 1970-301-036(2) and (7), and on \$2,134,000 in Item 1970-301-890(1) pending receipt of additional information.

These projects, along with our reasons for withholding recommendation, are listed in Table 2.

Table 2
Department of Veterans Affairs
1988-89 Capital Outlay Projects for Which
the Legislative Analyst is Withholding Recommendation
(dollars in thousands)

Project:	Phase ^a	Budget Bill Amount		Est. Future Cost	Reason for Withholding Recommendation
		State	Federal		
Remodel Wards 1, 2, 3B.....	c	\$988	\$2,134	—	Pending receipt of working drawings with estimated cost in line with the cost previously recognized by the Legislature.
Main Kitchen Renovation (Cook-Chill).....	w	284	—	unknown	Pending receipt of cost-benefit analysis of construction alternatives and preliminary plans.
Totals.....		\$1,272	\$2,134	unknown	

^a Phase symbols indicate: w = working drawings, c = construction.

C. RECOMMENDED REDUCTIONS/DELETIONS

Our analysis indicates that five major capital outlay projects included in Items 1970-301-036 (1), (4), (5), (6) and (8) (\$3,327,000 in SAFCO funds), and 1970-301-890 (3), (4), (5) and (6) (\$5,393,000 in federal funds), should be deleted or reduced. These projects, together with our recommendations on each, are summarized in Table 3 and discussed below.

Table 3
Department of Veterans Affairs
1988-89 Major Capital Outlay
Legislative Analyst's Recommended Changes
Items 1970-301-036 and 1970-301-890
(dollars in thousands)

Project:	Phase ^a	Budget Bill Amount		Analyst's Recommendation
		State	Federal	
Renovate hospital support services.....	c	\$700 ^b	—	—
Correct code deficiencies in Section H.....	wc	500	\$997	\$73 ^c
Correct code deficiencies in Section K.....	wc	332	676	60 ^c
Remodel Hospital Wards 1, 2, 3C.....	c	894	1,984	—
Remodel Hospital Wards 1, 2, 3D.....	wc	901	1,736	118 ^c
Totals.....		\$3,327	\$5,393	\$251

^a Phase symbols indicate: w = working drawings, c = construction.

^b Budget also includes reappropriation of \$284,000 (Item 1970-490) for this project. We recommend deletion of Item 1970-490 and reversion of \$284,000.

^c We recommend appropriation of SAFCO funds for working drawings only.

Renovate Hospital Support Services

We recommend deletion of \$700,000 in Item 1970-301-036, and deletion of Item 1970-490—Reappropriation, because this project will not receive federal construction funds in 1988-89.

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

The Hospital Support Services Wing houses laboratories, speech pathology, audiology, social workers, doctors' offices and hospital administration. Patients are not housed in the area to be renovated by this project.

The budget proposes *100 percent state funding* of this project. This is contrary to existing law regarding construction projects at the California Veterans' Home. Chapter 1106, Statutes of 1984, specifies that "no contract for construction of any project related to the [Veterans' Home] master plan shall be entered into prior to the department's obtaining a written commitment from the federal government to fund either 65 percent of the projected cost, as approved by the federal government, or the maximum amount available to the state." The state, in past years, has funded only preliminary plans, working drawings, and 35 percent of construction costs for renovation projects at the Veterans' Home.

Federal Funding Not Likely. The Legislature followed this policy in funding renovation of Hospital Support Services in the 1987 Budget Act. Item 1970-301-036(2) provided state funds of \$284,000 for 35 percent of construction costs, while Item 1970-301-890(2) appropriated 65 percent of the construction costs (\$700,000) from the Federal Trust Fund. This project, however, did not receive federal funds in the federal 1987-88 funding cycle. Under a new ranking system used by the federal Veterans Administration to allocate funds to state construction projects, renovation of administrative/support facilities for acute care hospitals is a very low priority. Neither federal officials nor the state Department of Veterans Affairs anticipate federal funding for this project in 1988-89.

100 Percent State Funding of This Project is Not Justified. Consistent with stated legislative policy, we recommend that the Legislature not fund renovation of Hospital Support Services until federal construction funds are available for the project. Federal officials anticipate that funds will be available for projects like this one in future years, after higher priority needs have been addressed. As discussed above, this project alters space housing various support/administrative functions. Our analysis indicates that delay of this project poses no threat to the health and safety of hospital patients or staff. We see no reason, therefore, for the state to give this project a higher priority than indicated by the federal ranking system.

We also recommend deletion of Item 1970-490, which would reappropriate \$284,000 in the 1987 Budget Act from SAFCO, the state's share of construction financing for this project. Instead, we recommend that the funds be reverted. Accordingly, we recommend the following budget language:

Item 1970-495—Reversion. Veterans' Home of California, Department of Veterans Affairs. Notwithstanding any other provision of law, the balance of the appropriation provided in the following citation shall revert to the unappropriated surplus of the fund from which the appropriation was made:

Item 1970-301-036(2), Budget Act of 1987, 80.20.050—Renovate Hospital Support Services—Construction.

Correct Code Deficiencies in Section H

We recommend a reduction of \$1,424,000 to delete construction funds from the amount proposed for working drawings and construction,

because this project cannot receive federal construction funds until 1989-90, when working drawings are 80 percent complete. (Reduce Items 1970-301-036(4) and 1970-301-890(3) by \$427,000 and \$997,000 respectively).

Items 1970-301-036(4) and 1970-301-890(3) provide \$1,497,000 for working drawings and construction to correct code deficiencies in Section H, a 56-bed dormitory. Federal funds for construction of this project will not be received in the budget year. The proposed new regulation, however, would permit federal funding of the project in 1988-89 *if* working drawings are 80 percent complete by the federal deadline for funding applications. Consequently, preparation of working drawings in 1988-89 is necessary if the project is to be eligible for federal funds in 1989-90. Accordingly, we recommend approval of \$73,000 in Item 1970-301-036(4) for preparation of working drawings in 1988-89.

The construction amount, however, is *not* needed in the budget year. Therefore, we recommend deletion of construction funds in Items 1970-301-036(4) (\$427,000) and 1970-301-890(3) (\$997,000).

Correct Code Deficiencies in Section K

We recommend a reduction of \$948,000 to delete construction funds from the amount proposed for working drawings and construction, because this project cannot receive federal construction funds until 1988-89, when working drawings are 80 percent complete. (Reduce Items 1970-301-036(5) and 1970-301-890(4) by \$272,000 and \$676,000, respectively.

Items 1970-301-036(5) and 1970-301-890(4) provide \$1,008,000 for working drawings and construction to correct code deficiencies in Section K, a 37-bed dormitory. Our analysis indicates that Section K will not receive federal construction funds in 1988-89, for the same reason as discussed in our analysis of Section H, above. Accordingly, we recommend deletion of construction funds for this project in Items 1970-301-036(5) and 1970-301-890(4). We recommend retaining \$60,000 in Item 1970-301-036(5) for preparation of working drawings in 1988-89, so that the project will be eligible for federal construction funds in 1989-90.

Remodel Hospital Wards 1, 2, 3C

We recommend deletion of \$2,878,000 in construction funds because construction on this project cannot begin until completion of Wards 2, 3E/Administration in 1989-90. (Reduce Items 1970-301-036(6) and 1970-301-890(5) by \$894,000 and \$1,984,000 respectively.)

According to the current master plan for renovation of the Veterans' Home, construction at the C Wards cannot begin until patients can be moved out of these wards into Wards 2, 3E. As already discussed, however, construction in Wards 2, 3E will not get under way until 1988-89, and will not be complete until spring 1990 at the earliest. As a result, construction at the C Wards cannot begin until fiscal year 1989-90. Appropriation of construction funds at this time would be premature. Consequently, we recommend deletion of \$2,878,000 in state (\$894,000, Item 1970-301-036(6)) and federal (\$1,984,000, Item 1970-036-890(5)) construction funds included in the budget.

Remodel Hospital Wards 1, 2, 3D

We recommend a reduction of \$2,519,000 to delete construction funds from the amount proposed for working drawings and construction,

DEPARTMENT OF VETERANS AFFAIRS—CAPITAL OUTLAY—Continued

because construction cannot begin at this project until construction at Wards 1, 2, 3C begins in 1989-90. (Reduce Items 1970-301-036(8) and 1970-301-036(6) by \$783,000 and \$1,736,000, respectively.)

Items 1970-301-036(8) and 1970-301-890(6) provide \$2,637,000 for working drawings and construction to remodel Wards 1, 2, 3D. Information received from the department, however, indicates that construction at the D Wards and at the C Wards must be undertaken as a single project. Neither ward complex, by itself, has a sufficient number of beds to qualify for federal construction funds. Construction at the D Wards, therefore, must be delayed until 1989-90, along with construction at the C Wards. This factor, combined with the need to have working drawings 80 percent complete by June 15, 1988, assure that federal funds will not be available for construction in the budget year.

Consequently, we recommend deletion of construction funds for this project in Item 1970-301-036(8) (\$783,000) and Item 1970-301-890(6) (\$1,736,000). We recommend retention of \$118,000 in Item 1970-301-036(8) for preparation of working drawings, so that this project will qualify for federal construction funds in 1989-90.

Supplemental Report Language

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

Business, Transportation and Housing Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 2100 from the General
Fund

Budget p. BTH 1

Requested 1988-89.....	\$22,579,000
Estimated 1987-88	21,799,000
Actual 1986-87	18,043,000
Requested increase (excluding amount for salary increases) \$780,000 (+3.6 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 power to deny, suspend, or revoke licenses for good cause.

It maintains 25 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department has 419.2 personnel-years in the current year.