Responsibility. The task force consists of 25 members and is directed to study and make findings concerning the relationships between healthy self-esteem, personal responsibility, and social problems. The task force is mandated to submit progress reports to the Legislature on January 15, 1988 and 1989 and a final report on or before January 15, 1990. The progress reports were 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 $289,000 for support of task force activities in 1989-90. This amount is the same as estimated current-year expenditures.

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 1989-90	$8,949,000
Estimated 1988-89	8,779,000
Actual 1987-88	8,329,000
Requested increase (excluding amount for salary increases) $170,000 (+1.9 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1100-001-001—Support	General	$8,794,000
Reimbursements	—	155,000
Totals		$8,949,000

GENERAL PROGRAM STATEMENT

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

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

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

MUSEUM OF SCIENCE AND INDUSTRY—Continued

lished 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 board.

The museum has 131.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $8,794,000 from the General Fund to support the Museum of Science and Industry and the Museum of Afro-American History and Culture in 1989-90. This is $132,000, or 1.5 percent, over estimated current-year expenditures.

The General Fund request includes $1,274,000 for support of the Museum of Afro-American History and Culture in 1989-90. This is an increase of $17,000, or 1.4 percent, over estimated current-year expenditures.

In addition to the $8.8 million requested from the General Fund, the museum proposes to spend $155,000 in reimbursements and an estimated $1.2 million to be provided by the California Museum Foundation of Los Angeles in 1989-90. The $155,000 in reimbursements includes $38,000 in new reimbursements for the MAHC to fund a new research analyst position. Table 1 shows the museum's expenditures for the past, current, and budget years.

Table 1
Museum of Science and Industry
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			*Expenditures*			
							Percent Change From
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*1988-89*
Education:							
Museum operations	74.8	82.2	83.1	$5,398	$5,285	$5,275	−0.2%
Science workshop	—	—	—	29	58	59	1.7
Aerospace Science Museum	1.4	2.0	2.0	181	325	349	7.4
Hall of Economics and Finance	2.6	2.0	2.0	209	243	261	7.4
Subtotals, education	(78.8)	(86.2)	(87.1)	($5,817)	($5,911)	($5,944)	(0.6%)
Administration:							
Administrative services	22.4	25.1	25.1	1,282	1,210	1,374	13.6%
Parking lot operations	4.0	4.0	4.0	295	401	319	−20.4
Subtotals, administration	(26.4)	(29.1)	(29.1)	($1,577)	($1,611)	($1,693)	(5.1%)
Afro-American Museum:							
Education	6.3	8.0	8.0	647	895	934	4.4%
Administration	7.8	8.2	8.2	288	362	378	4.4
Subtotals, Afro-American Museum	(14.1)	(16.2)	(16.2)	($935)	($1,257)	($1,312)	(4.4%)
Totals	119.3	131.5	132.4	$8,329	$8,779	$8,949	1.9%
Funding Sources:							
General Fund				*$8,212*	*$8,662*	*$8,794*	*1.5%*
Reimbursements				*117*	*117*	*155*	*32.5*
Foundation				*($1,165)*	*($1,244)*	*($1,244)*	—

The $170,000 increase in total expenditures proposed for 1989-90 reflects several workload changes, and baseline adjustments needed to maintain the museum's current level of activity. These changes are detailed in Table 2.

Table 2
Museum of Science and Industry
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund and Reimbursements
1988-89 Expenditures (Revised)	$8,779
Baseline Adjustments:	
Allocation for employee compensation	303
Decrease in cost of staff benefits	−58
Telephone rate reduction	−15
Reappropriation, Armory roof repair	141
One-time study, Exposition Park master plan	−120
Other one-time costs	−119
Subtotal, baseline adjustments	($132)
Workload Changes:	
Add staff—manager of education	36
Redirect temporary help/consultant services	−36
Museum research analyst	38
Subtotal, workload adjustments	($38)
1989-90 Expenditures (Proposed)	$8,949
Change from 1988-89:	
Amount	$170
Percent	1.9%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the proposed expenditures for the museum are appropriate.

Reappropriation (Item 1100-490)

We recommend approval.

The Legislature approved $256,000 in the 1988 Budget Act for roof repairs at the museum. Of this amount, $115,000 was spent in the current year for this purpose. This item would extend the museum's authority to spend the remaining $141,000 of the 1988 appropriation until June 30, 1990.

Our review indicates that the reappropriation item is appropriate because it would allow the Legislature to fund projects which are consistent with its priorities.

State and Consumer Services Agency

DEPARTMENT OF CONSUMER AFFAIRS

Items 1120-1655 from various funds — Budget p. SCS 5

Requested 1989-90	$156,334,000
Estimated 1988-89	149,910,000
Actual 1987-88	125,656,000
Requested increase (excluding amount for salary increases) $6,424,000 (+4.3 percent)	
Total recommended reduction	175,000
Recommended transfer from various special funds to General Fund	8,700,000
Recommended transfer from Consumer Affairs Fund to various special funds	800,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1120-001-704—Board of Accountancy	Accountancy	$5,555,000
1130-004-706—Board of Architectural Examiners	Architectural Examiners	3,152,000
1140-006-001—State Athletic Commission	General	774,000
1140-006-492—State Athletic Commission	Boxer's Neurological Examination Account	173,000
1150-008-421—Bureau of Automotive Repair	Vehicle Inspection and Repair	49,683,000
1160-010-713—Board of Barber Examiners	Barber Examiners	899,000
1170-012-773—Board of Behavioral Science Examiners	Behavioral Science Examiners	2,148,000
1180-014-717—Cemetery Board	Cemetery	318,000
1200-016-157—Bureau of Collection and Investigative Services	Collection Agency	812,000
1210-018-769—Bureau of Collection and Investigative Services	Private Investigator and Adjuster	3,598,000
1230-020-735—Contractors' State License Board	Contractors' License	27,022,000
1240-022-738—Board of Cosmetology	Cosmetology Contingent	3,642,000
1260-024-741—Board of Dental Examiners	State Dentistry	2,844,000
1270-026-380—Board of Dental Examiners	Dental Auxiliary	758,000
1280-028-325—Bureau of Electronic and Appliance Repair	Electronic and Appliance Repair	1,272,000
1300-030-180—Bureau of Personnel Services	Bureau of Personnel Services	405,000
1330-036-750—Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	535,000
1340-038-205—Board of Registration for Geologists and Geophysicists	Geology and Geophysics	260,000
1350-040-001—State Board of Guide Dogs for the Blind	General	74,000
1360-042-752—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation	2,381,000
1360-042-753—Bureau of Home Furnishings and Thermal Insulation	Bureau of Home Furnishings and Thermal Insulation, Dry Cleaning Account	48,000
1370-044-757—Board of Landscape Architects	Board of Landscape Architects	455,000
1390-046-758—Board of Medical Quality Assurance	Contingent Fund of the Board of Medical Quality Assurance	15,407,000

1390-047-175—Board of Medical Quality Assurance	Dispensing Opticians	173,000
1400-048-108—Board of Medical Quality Assurance	Acupuncturists	558,000
1410-050-208—Board of Medical Quality Assurance	Hearing Aid Dispensers	295,000
1420-052-759—Board of Medical Quality Assurance	Physical Therapy	400,000
1430-054-280—Board of Medical Quality Assurance	Physician's Assistant	407,000
1440-056-295—Board of Medical Quality Assurance	Podiatry	736,000
1450-058-310—Board of Medical Quality Assurance	Psychology	1,031,000
1455-059-319—Board of Medical Quality Assurance	Respiratory Care	601,000
1460-060-376—Board of Medical Quality Assurance	Speech Pathology and Audiology Examining Committee	244,000
1470-062-260—Board of Examiners of Nursing Home Administrators	Nursing Home Administrator's State License Examining Board	368,000
1480-064-763—Board of Optometry	State Optometry	429,000
1490-066-767—Board of Pharmacy	Pharmacy Board Contingent	3,007,000
1495-067-297—Polygraph Examiners Board	Polygraph Examiners	41,000
1500-068-770—Board of Registration for Professional Engineers and Land Surveyors	Professional Engineers and Land Surveyors	3,784,000
1510-070-761—Board of Registered Nursing	Board of Registered Nursing	7,616,000
1520-072-771—Certified Shorthand Reporters Board	Shorthand Reporters	435,000
1530-074-399—Structural Pest Control Board	Structural Pest Control Education and Enforcement	196,000
1530-074-775—Structural Pest Control Board	Structural Pest Control	2,038,000
1540-076-406—Tax Preparers Program	Tax Preparers	809,000
1560-078-777—Board of Examiners in Veterinary Medicine	Veterinary Examiners' Contingent	782,000
1570-080-118—Board of Examiners in Veterinary Medicine	Animal Health Technician Examining Committee	105,000
1590-082-779—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account	2,984,000
1600-084-780—Board of Vocational Nurse and Psychiatric Technician Examiners	Vocational Nurse and Psychiatric Technician Examiners, Psychiatric Technicians Account	711,000
1640-086-001—Division of Consumer Services	General	1,400,000
1655-090-702—Support, Department of Consumer Affairs	Consumer Affairs	1,724,000
Total Budget Act Appropriations		$153,089,000
Statutory Appropriations		
Certified Shorthand Reporters Board	Transcript Reimbursement	303,000
Total, Statutory Appropriations		303,000
Reimbursements		2,942,000
Total, All Expenditures		$156,334,000

DEPARTMENT OF CONSUMER AFFAIRS—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Consumer Affairs Fund. Recommend adoption of Budget Bill language directing the department to transfer $2.5 million from the Consumer Affairs Fund to the General Fund ($1.7 million) and various special funds ($800,000) in order to reduce its fund reserve to a more reasonable level.	88
2. Departmentwide Computer Project. Recommend adoption of supplemental report language to (a) direct the department to give priority to the development of the automated enforcement system and (b) require quarterly progress reports on the implementation of the advanced computer project.	89
3. Potential Fund Deficiencies. Recommend that by March 31, 1989, four specified agencies report to the fiscal committees on the steps taken to ensure sufficient reserves in their respective fund balances.	91
4. Excessive Fund Reserves. Recommend that, by March 31, 1989, the State Athletic Commission, the Board of Optometry, 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.	92
5. Bureau of Automotive Repair. Recommend adoption of Budget Bill language to transfer $7 million from the Vehicle Inspection and Repair Fund to the General Fund because an excessive fund reserve is not needed.	92
6. ***Bureau of Automotive Repair. Reduce Item 1150-008-421 by $75,000.*** Recommend reduction in funds proposed for random roadside inspections to correct for overbudgeting.	93
7. Contractors' State License Board. Recommend adoption of Budget Bill language directing the board to lower its fees in order to reduce its fund reserve to a more reasonable level.	93
8. Contractors' State License Board. Recommend the redirection of $878,000 requested for permanent staff and contracted arbitration services to fund the extension of 22 limited-term positions for one year in order to reduce the complaint backlog and provide time to assess long-term staffing needs.	94
9. Contractors' State License Board—Moreno Valley. Recommend adoption of supplemental report language directing the board to continue one limited-term investigator position at the San Bernardino office to handle complaints.	96
10. ***Board of Medical Quality Assurance. Reduce Item 1390-046-758 by $100,000.*** Recommend reduction in funds proposed for the Physician and Surgeon Incentive Loan Program because the program has expired.	97
11. Board of Medical Quality Assurance. Recommend the board report on its plans to address unassigned complaint cases in the budget year. Further recommend adoption of supplemental report language directing the board to assign and investigate immediately all cases identified as having a potential for patient harm.	97

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs (DCA) is 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.

Regulatory Agencies. Each of the 40 regulatory agencies is responsible for licensing and regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices.

The Division of Administration provides centralized fiscal, personnel, legal, and facilities 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. Several 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 1,886.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $156.3 million from various funds, including reimbursements, for support of the department and its constituent agencies in 1989-90. This is $6.4 million, or 4.3 percent, more than estimated expenditures in the current year.

Of the total expenditures proposed for 1989-90, $20.4 million is for support of the four divisions. The remaining $135.9 million is for support of the various boards and bureaus. Table 1 presents the department's total expenditures for the prior, current and budget years.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 1
Department of Consumer Affairs
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change From
	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Actual 1987-88	Est. 1988-89	Prop. 1989-90	1988-89
Boards and Bureaus	1,451.7	1,627.2	1,648.6	$109,947	$131,408	$135,959	3.5%
Divisions:							
Consumer services	40.3	38.8	38.8	2,134	2,550	2,569	0.7
Administration	125.0	126.3	132.3	6,501	6,855	7,386	7.7
Investigation	57.7	60.8	70.3	3,242	3,409	4,313	26.5
Technology	26.5	33.3	39.5	2,318	3,649	4,383	20.1
Building and maintenance	—	—	—	1,514	2,039	1,724	−15.4
Subtotals, divisions	(249.5)	(259.2)	(280.9)	($15,709)	($18,502)	($20,375)	(10.1%)
Totals	1,701.2	1,886.4	1,929.5	$125,656	$149,910	$156,334	4.3%
Funding Sources							
General Fund				*$2,062*	*$2,220*	*$2,248*	*1.3%*
Consumer Affairs Fund				*1,514*	*2,039*	*1,724*	*−15.4*
Various Special Funds of the Boards and Bureaus				*119,383*	*143,409*	*149,420*	*4.2*
Reimbursements				*2,697*	*2,242*	*2,942*	*31.2*

ANALYSIS AND RECOMMENDATIONS

DIVISION OF ADMINISTRATION

Excess Reserve in Consumer Affairs Fund Not Needed

We recommend that the Legislature adopt Budget Bill language directing the Department of Consumer Affairs, in conjunction with the Department of General Services, to transfer $2.5 million from the Consumer Affairs Fund to the General Fund ($1.7 million) and various special funds ($800,000) from which rents have been paid to the department (Item 1655-090-702).

The Department of Consumer Affairs, with the approval of the Department of General Services (DGS), leases space in its headquarters building to several of its constituent agencies and to other state agencies (such as the Board of Equalization). Lease revenues are deposited in the Consumer Affairs Fund to pay expenses for buildings operation, maintenance and repair.

Our analysis indicates that the Consumer Affairs Fund will have a reserve of $4.1 million as of June 30, 1990, after building operation and minor capital outlay costs totaling $1.8 million are paid. (This reserve reflects a deletion of $450,000 for major capital outlay per our recommendation [please see analysis of Item 1655-301-702]). This reserve will be more than adequate to cover total capital improvement expenses of $1.2 million anticipated for 1990-91 *and* 1991-92. In addition, the amount will likely continue to grow because annual lease revenues are expected to exceed maintenance and operating expenses by 8 percent to 12 percent annually over the next three years.

Consequently, there is no need for maintaining a reserve of the projected magnitude in the fund. Accordingly, we recommend that $2.5

million be transferred from the fund—including $1.7 million to the General Fund and $0.8 million to various special funds from which the rents were paid. This transfer will leave an adequate reserve to cover anticipated capital improvement expenses for the next two years. The following Budget Bill language would be consistent with our recommendation:

> The Department of Consumer Affairs shall transfer by June 30, 1989, $2.5 million from the Consumer Affairs Fund to the General Fund and to the special funds from which the rents were paid over the past three years, in amounts determined by the Department of Consumer Affairs and approved by the Department of General Services.

Departmentwide Automation Project

We recommend that the Legislature adopt supplemental report language directing the Department of Consumer Affairs to (1) give priority to the development of an automated enforcement system and (2) submit quarterly progress reports on the department's automation project to the chairpersons of the fiscal committees and the Joint Legislative Budget Committee (Item 1655-090-702).

In 1985-86, the Legislature approved a department proposal to implement, in four phases, an advanced computer system to provide increased data processing services to all of the department's constituent agencies.

Phase I of the new system to automate the license issuance and renewal processes was initially scheduled for completion in April 1987. Since 1985-86, a total of $3.5 million has been appropriated for completion and operation of this phase of the project. However, the most recent estimate is that Phase I will not be completed until about April 1989. This two-year delay resulted from a combination of increased project costs, loss of staff, and contract approval delays.

While Phase I is still being implemented, the department plans to begin development of Phase II in February 1989. Phase II will automate the (1) complaint tracking system and (2) license application processing system. The planned completion date is June 1990.

Our review indicates that automation of the complaint tracking system is essential for boards and bureaus to implement an effective enforcement program and resolve consumer complaints on a timely basis. Currently, most boards and bureaus have manual systems and only a few have automated systems. In general, the existing systems are not capable of providing effective and timely information to management and to consumers.

Given the delays experienced in the implementation of Phase I, the plan to complete both the enforcement and application systems in Phase II by June 1990 appears optimistic. To the extent the department is unable to meet the target completion date for both components of Phase II, we believe that priority should be given to the installation of an automated enforcement and complaint tracking system. In addition, we think that the Legislature should be kept informed of the status of this project given its history of delays.

Accordingly, we recommend the Legislature adopt the following supplemental report language directing the department to give priority to the automated enforcement system and to submit quarterly progress reports on this project to the Legislature:

> The Department of Consumer Affairs shall give first priority to the development and completion of an automated enforcement system in Phase II of the

DEPARTMENT OF CONSUMER AFFAIRS—Continued

department's automation project. The Department of Consumer Affairs also shall submit to the chairs of the fiscal committees and the Joint Legislative Budget Committee quarterly reports on the progress of the departmentwide automation project. These reports shall include: (1) the status of tasks to be completed in the period, (2) an explanation for deviations from the schedule, and (3) the resources expended on the project.

BOARDS AND BUREAUS

Our analysis indicates that the proposed 1989-90 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 shows to be justified. Table 2 displays staffing and expenditures for those boards, bureaus, and committees whose budgets we recommend be approved as submitted.

Table 2
Department of Consumer Affairs
Boards, Bureaus, and Committees
Recommend Approval as Budgeted
1989–90
(dollars in thousands)

		Personnel-Years			*Expenditures* [a]			
Item Number	*Description*	*Actual 1987–88*	*Est. 1988–89*	*Prop. 1989–90*	*Actual 1987–88*	*Est. 1988–89*	*Prop. 1989–90*	*Percent Change From 1988–89*
1120-001-704	Board of Accountancy [b]	31.6	28.2	47.4	$3,678	$4,522	$5,574	23.3%
1130-004-706	Board of Architectural Examiners	28.1	30.7	30.6	2,783	3,427	3,157	−7.9
1140-006-001	State Athletic Commission [c]	12.9	13.8	13.8	826	914	947	3.6
1160-010-713	Board of Barber Examiners	13.6	13.4	12.9	802	844	900	6.6
1170-012-773	Board of Behavioral Science Examiners	21.6	21.0	24.0	1,389	1,924	2,174	13.0
1180-014-717	Cemetery Board	4.6	4.4	4.4	278	321	318	−0.9
	Bureau of Collection and Investigative Services:							
1200-016-157	Collection Agencies	9.9	13.1	12.0	616	807	819	1.5
1210-018-769	Private Investigators	45.8	49.7	44.9	3,956	4,424	4,998	13.0
1240-022-738	Board of Cosmetology [b]	44.2	42.5	40.8	3,144	3,425	3,663	6.9
1260-024-741	Board of Dental Examiners	29.6	35.0	33.6	2,503	2,911	2,907	−0.1
1270-026-380	Board of Dental Examiners—Dental Auxiliary	9.6	8.3	8.0	656	751	762	1.5
1280-028-325	Bureau of Electronic and Appliance Repair	14.7	14.5	13.6	1,110	1,173	1,272	8.4
1300-030-180	Bureau of Personnel Services [b]	4.6	4.4	4.4	531	464	405	−12.7
1330-036-750	Board of Funeral Directors and Embalmers	5.5	8.3	8.2	406	541	539	−0.4
1340-038-205	Board of Registration for Geologists and Geophysicists	4.2	3.5	3.9	228	259	260	0.4
1350-040-001	State Board of Guide Dogs for the Blind	0.3	0.5	0.6	27	41	74	80.5
1360-042-752	Bureau of Home Furnishings and Thermal Insulation	29.6	33.6	36.1	2,213	2,254	2,429	7.8
1370-044-757	Board of Landscape Architects	3.6	3.5	3.5	405	451	455	0.9
1390-047-175	Dispensing Opticians	1.0	1.0	1.0	133	169	173	2.4
1400-048-108	Acupuncturists	5.4	7.5	7.9	452	526	565	7.4
1410-050-208	Hearing Aid Dispensers	2.7	3.3	3.3	270	309	299	−3.2
1420-052-759	Physical Therapy	3.3	3.7	3.6	359	400	420	5.0
1430-054-280	Physicians Assistant	3.7	3.4	3.4	315	362	410	13.3

1440-056-295	Podiatry	3.9	3.6	3.6	635	716	740	3.4
1450-058-310	Psychology	7.2	7.7	8.1	1,033	1,162	1,068	–8.1
1455-059-319	Respiratory Care	5.9	5.7	5.6	557	640	627	–2.0
1460-060-376	Speech Pathology and Audiology	3.1	3.1	3.1	232	254	256	0.8
1470-062-260	Board of Examiners of Nursing Home Administrators	3.7	4.4	3.9	319	374	369	–1.3
1480-064-763	Board of Optometry [c]	4.4	5.3	4.2	406	394	435	10.4
1490-066-767	Board of Pharmacy	30.3	33.8	33.0	2,626	3,081	3,051	–1.0
1495-067-297	Polygraph Examiners Board	1.5	1.5	0.8	84	88	41	–53.4
1500-068-770	Board of Registration for Professional Engineers and Land Surveyors	42.0	47.1	45.9	3,354	3,648	3,788	3.8
1510-070-761	Board of Registered Nursing	57.5	64.3	70.8	5,629	6,658	8,130	22.1
1520-072-771	Certified Shorthand Reporters Board	3.7	4.2	4.7	526	588	739	25.7
1530-074-775	Structural Pest Control Board [c]	28.1	27.0	26.9	2,135	2,104	2,236	6.3
1540-076-406	Tax Preparers Program	4.9	5.2	5.8	334	862	824	–4.4
	Board of Examiners in Veterinary Medicine:							
1560-078-777	Veterinarians	4.8	4.7	5.3	601	786	879	11.8
1570-080-118	Animal Health Technicians	1.1	1.4	1.4	88	103	105	1.9
	Board of Vocational Nurse and Psychiatric Technician:							
1590-082-779	Vocational Nurse	29.4	33.1	34.9	2,274	2,788	3,037	8.9
1600-084-780	Psychiatric Technician	3.6	3.9	4.6	516	798	711	–10.9

[a] The expenditure amounts include reimbursements.
[b] The bureau and the boards face potential fund balance problems in 1989–90.
[c] The boards will have large reserves in their funds in 1989–90.

Potential Fund Deficiencies

We recommend that specified boards and bureaus report to the fiscal committees by March 31, 1989 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 prudent reserve sufficient to cover any contingencies and unanticipated reduction in revenue collections. As a general rule, an amount equal to about three months' operating expenses (or 25 percent of annual expenditures) should be maintained. 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 1989-90 that fail to meet these standards.

Table 3
Department of Consumer Affairs
Boards and Bureau With
Potential Fund Deficiencies in 1989-90
(dollars in thousands)

Item Number	*Board/Bureau*	*Fund Balance 1988-89*	*Fund Balance 1989-90*	*Proposed Expenditures 1989-90* [a]	*1989-90 Fund Balance as a Percent of 1989-90 Expenditures* [a]
1120-001-704	Accountancy	$1,682	$947	$5,555	17.0%
1240-022-738	Cosmetology	1,515	819	3,642	22.5
1300-030-180	Personnel Services	101	2	405	0.5
1390-046-758	Medical Quality Assurance	4,194	1,385	15,407	9.0

[a] Expenditures are net of reimbursements.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 3 shows the fund conditions for those boards and bureau that do not appear to have adequate reserves. These agencies may run into cash flow problems during the budget year as a result. Thus, the agencies should determine what steps they need to take to avoid the potential of such problems. Accordingly, we recommend that these boards and bureau report to the fiscal committees by March 31, 1989 on steps they are taking to assure that the balances in their funds will be sufficient to meet their cash flow needs during 1989-90.

Fund Reserves Exceeding Statutory Ceiling

We recommend that the State Athletic Commission (Item 1140-006-492), the Board of Optometry (Item 1480-064-763), and the Structural Pest Control Board (Item 1530-074-775) report to the fiscal committees by March 31, 1989 on their plans for reducing the reserves in their respective funds to more reasonable levels.

Current law prohibits any agency within the department to have, at the end of any fiscal year, unencumbered reserves in an amount which exceeds the agency's operating expenses for the next two fiscal years. Additionally, agencies must reduce their fees during the following fiscal year to comply with this requirement. Our analysis indicates that the following funds will have reserves on June 30, 1990 which exceed projected disbursements for two years:

- Athletic Commission—the Boxers' Neurological Examination Account in the General Fund will have an excess reserve of $204,000.
- Board of Optometry—the Optometry Fund will have an excess reserve of $103,000.
- Structural Pest Control Board—the Structural Pest Control Fund will have an excess reserve of $252,000.

Accordingly, we recommend that the Athletic Commission, the Board of Optometry and the Structural Pest Control Board report to the fiscal committees by March 31, 1989 on their plans for reducing the excessive reserves in their funds.

BUREAU OF AUTOMOTIVE REPAIR

Transfer Smog Check Fee Reserve to General Fund

We recommend that the Legislature adopt Budget Bill language to transfer $7 million from the Vehicle Inspection and Repair Fund to the General Fund as of June 30, 1990 because an excessive fund reserve is not needed (Item 1150-008-421).

Beginning in March 1989, the Bureau of Automotive Repair (BAR) will increase by $1 the fee it charges for a Smog Check inspection certificate. Currently, the fee is $5, and it is allowed statutorily to be raised to a maximum of $6 (and adjusted for inflation). This fee is paid by motorists with vehicles registered in nine air quality districts: Los Angeles, Ventura, San Diego, Fresno, San Francisco, Sacramento, Kern, San Joaquin, and Tulare. Revenues generated comprise about 77 percent of total revenues in the Vehicle Inspection and Repair Fund (VIRF).

Our review indicates that with a fee increase the VIRF will have a sizeable reserve of $20.2 million as of June 30, 1990. This reserve is equal to nearly 38 percent of the bureau's operating costs. In addition, we estimate that this reserve will likely continue to grow because (1) projected revenues will exceed proposed expenditures by 19 percent in the budget year and (2) the number of certificates sold has grown an average of 6 percent annually over a three-year period.

We estimate that about $10 million of the projected reserve at the end of the budget year is attributable to revenues generated by the Smog Check certificate fee paid by the general public. In the past, excess funds generated by these fees have been transferred into the General Fund. In fact, the budget proposes a similar transfer (of $10 million) in the current year. Consequently, to avoid the accumulation of a large reserve in future years, we recommend that the Legislature adopt Budget Bill language transferring $7 million from the VIRF to the General Fund as of June 30, 1990. This transfer would leave a reserve of about $13 million, or 25 percent of the bureau's operating costs. The following language would be consistent with this recommendation:

> Notwithstanding Section 44061 of the Health and Safety Code, the Office of the State Controller shall transfer $7 million of reserve funds from the Vehicle Inspection and Repair Fund to the unappropriated surplus of the General Fund as of June 30, 1990.

Smog Check Roadside Inspections are Overbudgeted

We recommend a reduction of $75,000 from the Vehicle Inspection and Repair Fund to correct for overbudgeted expenditures for random roadside inspections (Item 1150-008-421).

The Bureau of Automotive Repair (BAR) conducts random roadside vehicle smog check inspections in various air quality districts. The purpose of these inspections is to detect and deter the tampering of smog equipment on vehicles. The BAR is proposing to spend $110,000 to contract with the California Highway Patrol (CHP) to conduct these inspections in the budget year.

Our review shows that the requested amount is overbudgeted. According to the CHP, it entered into a contract with the bureau for $22,500 in 1987-88, but no contract has been negotiated for the current year and none is planned for the budget year. The BAR, on the other hand, indicates that it plans to contract for $34,000 of CHP services in the current year. Based on the bureau's expenditures for CHP services in prior years, our analysis indicates that $35,000 will be sufficient for contract services in the budget year rather than the $110,000 proposed by the bureau. Accordingly, we recommend a reduction of $75,000 from the Vehicle Inspection and Repair Fund to correct for overbudgeting.

CONTRACTORS' STATE LICENSE BOARD

Contractors' License Fund Reserve Continues to Grow

We recommend that the Legislature adopt Budget Bill language directing the Contractors' State License Board to lower its fees in order that its fund reserve by June 30, 1990 is not more than six months, or 50 percent, of operating expenses (Item 1230-020-735).

The Contractors' State License Board (CSLB) is projected to have a fund reserve of $41.5 million as of June 30, 1990. This is equal to 153 percent of proposed expenditures for the budget year. Table 4 displays the growth of the reserve from 1985-86 through 1989-90. The table shows that annual revenues exceeded costs from 1985-86 through 1987-88 and this trend is projected to continue in both the current and budget years. As a result, the reserve at the end of 1989-90 will be double the amount at the end of 1985-86.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 4
Contractors' State License Board
Contractors' License Fund
Growth of Year-End Reserve
1985-86 through 1989-90
(dollars in millions)

	Actual			*Est.*	*Prop.*	*Percent Change From*
	1985-86	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1985-86*
Revenue	$23.3	$24.5	$30.7	$32.5	$34.7	49%
Expenditures	19.1	20.8	24.7	29.6	27.0	41
Year-end reserve	20.8 [a]	24.5	30.9 [b]	33.8	41.5	100
Reserve as percent of expenditures	109%	117%	126%	114%	153%	

[a] Includes reserves carried over from 1984-85.
[b] Includes a $0.4 million adjustment to the 1986-87 year-end reserve.

Based on past experience, we anticipate that the reserve will continue to grow at about 20 percent annually beyond 1989-90. While special funds should maintain a prudent reserve, a reserve of over 150 percent of operating expenses is excessive. In our report *Summary of Recommended Legislation* (please see page 7), we recommend that the existing statutory reserve *ceiling* be reduced to six months of operating expenses for agencies with annual operating expenses exceeding $1 million. Consistent with that recommendation, fees charged by the CSLB ought to be lowered in the budget year in order to reduce the size of the reserve. Accordingly, we recommend adoption of the following Budget Bill language:

> The Contractors' State License Board shall reduce its fees to levels that result in a reserve of no more than six months, or 50 percent, of its annual operating expenditures by June 30, 1990.

More Staff Needed to Reduce Complaint Backlog

We recommend that the $878,000 in the Contractors' License Fund requested for permanent staff and for contracted arbitration services be redirected to extend 22 limited-term positions through the budget year in order to reduce the Contractors' State License Board's complaint backlog and provide adequate time for the board to assess its long-term staffing needs (Item 1230-020-735).

In 1987-88, the Contractors' State License Board (CSLB) was allocated $1.7 million for 24 limited-term positions to address an anticipated backlog of 12,800 complaints against its licensees. The objective was to reduce the backlog over a two-year period to a level that leaves an acceptable inventory of cases.

Table 5 displays the board's complaint backlog over a five-year period. As shown in the table, the board was able to resolve 30,200 complaints in 1987-88—more than the number of complaints received during the year. As a result, the CSLB reduced the number of complaints pending at year end by 2,400.

Table 5
Contractors' State License Board
Complaints Pending at Year End
1985-86 through 1989-90

	Actual			Est.	Prop.
Complaints	*1985-86*	*1986-87*	*1987-88*	*1988-89*	*1989-90*
Received	28,500	27,700	27,800	28,500	28,100
Closed	26,900	26,900	30,200	30,200	28,630
Pending at Year End	12,000	12,800	10,400	8,700	8,170

Staff to Handle Complaints Will Decrease. In 1989-90, the 24 limited-term positions will expire. Instead of continuing these positions, the budget requests $878,000 to reduce the backlog by:

- Converting 10 of the positions to permanent status at a cost of $497,000. The board projects that the 10 positions would be able to handle about 1,700 complaints a year. Consequently, the board anticipates to resolve about 28,600 complaints in 1989-90.
- Contracting with an arbitration service to handle 1,000 complaints at a cost of $381,000.

Few Complaints Handled Through Arbitration. Chapter 1311, Statutes of 1987, appropriated $450,000 to the board for the implementation of an arbitration program, beginning in July 1988. Our review shows that the board has earmarked $350,000 of that amount to contract for arbitration services for 1,000 complaints in the current year. However, only 12 complaints had been submitted for arbitration and about $1,000 had been spent as of November 1988. Based on this level of activity, we anticipate that at least $330,000 of the appropriation contained in Chapter 1311 would continue to be available to fund arbitration services for additional complaints in the budget year.

In addition to this large amount that will be available in 1989-90, the board is requesting $381,000 to fund arbitration services for another 1,000 complaints. However, based on the low number of complaints handled through arbitration in the current year, the board's target is very optimistic. Instead, we estimate that only about 30 rather than 1,000 complaints would be handled through the proposed arbitration contract in the budget year. As a consequence, about 28,630 total complaints will be handled in the budget year by the board's staff and through arbitration rather than the 29,600 complaints estimated by the board. This would result in about 8,170 cases still pending at the end of 1989-90.

Our analysis further shows that the board alternatively could increase the number of complaints it resolves in the budget year by redirecting the $878,000 requested to extend for one year 22 of the limited-term positions. Assuming these positions would continue to handle the same number of complaints as they currently do, approximately 29,100 complaints could be dealt with in the budget year, leaving 7,700 pending cases at the end of 1989-90.

Extending these positions for one more year also would provide the board with time to complete its current study to assess its field office staffing needs. When this study is completed in September 1989, the board will be in a better position to determine the extent it should increase its permanent staff. Accordingly, we recommend that the $878,000 requested for converting 10 limited-term positions to permanent and contractual arbitration services be redirected to fund the continuation of 22 limited-term positions for one more year.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

If the Legislature wishes to reduce the complaint backlog even further, it may choose to extend all 24 limited-term positions in the budget year. This would require that the board's budget be augmented by $80,000 from the Contractors' State License Fund. This increase in funding to continue the remaining two limited-term positions would result in the handling of an additional 200 complaints and would reduce the backlog to about 7,500 cases at the end of 1989-90.

Enforcement Activities in Moreno Valley

We recommend that the Legislature adopt supplemental report language directing the Contractors' State License Board to continue the one limited-term deputy investigator position at the San Bernardino district office (Item 1230-020-735).

In the 1988 Budget Act, the Legislature adopted supplemental report language requiring the CSLB to report on its ability to respond in a timely manner to complaints from the Moreno Valley area in Riverside County. The language also requires the Legislative Analyst to review this report and make appropriate recommendations for augmentation or reallocation to the board's 1989-90 budget.

Report by CSLB. There are two offices in the San Bernardino District of CSLB—a district office in Colton in San Bernardino County and a branch office in Rancho Mirage in Riverside County. Each office has three investigators that investigate complaints from Riverside County. The board's report indicated:

- About 50 percent of all complaints received by the district originated from Riverside County. Of these, about 38 percent are from the Moreno Valley and other communities in western Riverside County.
- The median time for closing complaints in the district was 225 days in 1986-87—about 88 days more than the time taken by other field offices.
- In 1987-88, the board added one limited-term deputy investigator and one permanent consumer service representative to the Colton office to reduce the district's complaint backlog.

Analyst's Review. Our review indicates the following:

- The delay of two to three months in complaint handling in the Colton office is due to a backlog in complaint screening. This function is generally done by consumer services representatives.
- The two positions added in 1987-88 were able to reduce the complaint backlog by about 330 cases. However, the limited-term investigator position will expire on June 30, 1989 and the board has no plan to maintain that position in the Colton office.
- While the board recommends relocating the Rancho Mirage office to an area which is undergoing rapid growth (such as Moreno Valley), there is insufficient information to determine at this time whether a relocation of the office would enhance the board's ability to handle complaints.

Recommendation. Because the board is currently assessing its staffing needs and field office locations, we think that any decision to relocate the branch office should await the completion of this assessment, due in September 1989. However, in order to continue its effort to reduce the complaint backlog, the board should maintain its current staffing level. Thus, consistent with our previous recommendation that the board extend 22 limited-term positions through the budget year, we recommend that the Legislature adopt the following supplemental report language to continue the limited-term investigative position in the Colton office.

The Contractors' State License Board shall allocate one limited-term deputy investigator to the San Bernardino district office in Colton.

BOARD OF MEDICAL QUALITY ASSURANCE

Physician and Surgeon Incentive Loan Program Sunsetted

We recommend a reduction of $100,000 from the Contingent Fund of the Board of Medical Quality Assurance because the Physician and Surgeon Incentive Loan Program has expired. (Reduce Item 1390-046-758 by $100,000).

Chapter 1313, Statutes of 1980 (as amended by Ch 1502/85), established the Physician and Surgeon Incentive Loan program to provide loans to physicians in order to encourage and assist them in starting or expanding medical practices in geographical areas determined to be deficient in physician services and primary care specialties. Under the program, the Board of Medical Quality Assurance (BMQA) was authorized to award loans totaling $100,000 annually. This program expired January 1, 1989.

As required under the law, we reviewed this program and submitted a report to the Legislature on its activities. In our report, we concluded that the program had a minimal effect on increasing the number of physicians in these deficient areas. Consequently, we recommended that the program not be extended in its current form.

According to the Department of Consumer Affairs, however, the board's proposed budget contains $100,000 to fund the loan program in 1989-90. Because the program has expired, we recommend that $100,000 be reduced from the Contingent Fund of the Board of Medical Quality Assurance.

Complaints Not Assigned for Investigation

We recommend that the Board of Medical Quality Assurance report to the fiscal committees by April 15, 1989 on how the board plans to address the number of unassigned complaint cases in the budget year. We further recommend that the Legislature adopt supplemental report language directing the board to assign and investigate immediately all cases identified as having a potential for patient harm (Item 1390-046-758).

The Board of Medical Quality Assurance (BMQA) investigates complaints against physicians and surgeons and various other health practitioners such as podiatrists, psychologists and hearing aid dispensers. Currently, BMQA has 44 investigator and three limited-term assistant investigator positions to investigate complaints. For 1989-90, the budget proposes to maintain the same staffing level as in the current year.

The BMQA categorizes complaints according to whether they involve harm to patients. Those cases identified as clearly having patient harm—such as sexual abuse of patients or cases involving gross negligence on the part of the licensed physicians and other licensed health practitioners—are assigned to be investigated immediately. However, our review shows that many cases are not assigned to be investigated

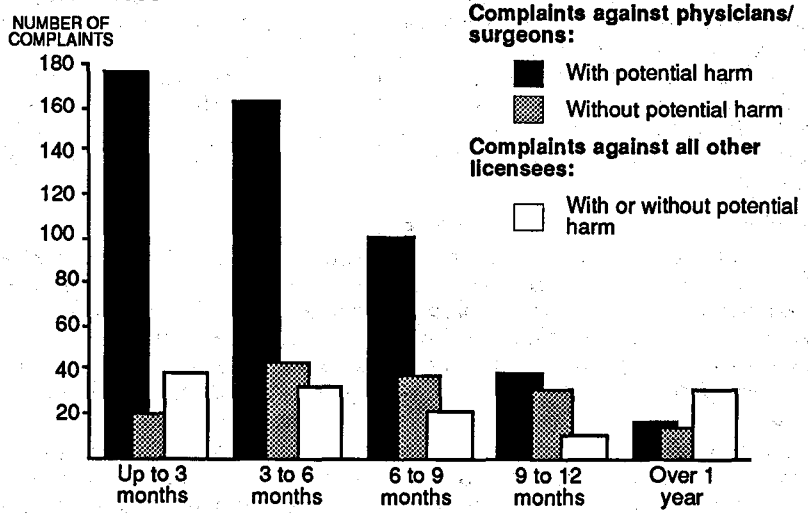
DEPARTMENT OF CONSUMER AFFAIRS—Continued

promptly. These cases include (1) complaints against physicians and surgeons which have a potential (but not definite) patient harm, (2) complaints against physicians and surgeons but without patient harm, and (3) complaints against all other non-physician/surgeon licensees (such as psychologists, hearing aid dispensers, etc.) with or without potential harm.

Many Cases Unassigned. Our review indicates that, as of December 1988, about 789 complaints had not been assigned for investigation. Chart 1 shows that the length of time these cases remain unassigned varies. Of the 789 complaints not assigned, 499 (63 percent) are categorized by the board as complaints against physicians and surgeons having a potential for patient harm. About 65 percent of these cases with a potential patient harm have been unassigned for a *minimum* of three to six months. To the extent these complaints may involve bodily harm to patients, the delay in investigation impedes BMQA's ability to provide effective and efficient protection to the public.

Chart 1

Board of Medical Quality Assurance
Length of Time Complaints Have Been Unassigned For Investigation
December 1988



Unassigned Cases an Ongoing Problem. Our review further shows that the number of unassigned cases will continue to be high in the budget year. This is because BMQA anticipates that, of the projected 2,900 new investigative cases, about 652 to 800 cases will be unassigned by year-end.

Because a majority of these cases may have a potential for physical harm to the public, a significant delay in investigating these cases is undesirable and inconsistent with the board's stated mission. As the board is not requesting additional staff in the budget year, it is not clear how it intends to reduce the delay in investigating complaint cases. Therefore, we recommend that BMQA report to the fiscal committees by April 15, 1989 on how it plans to address the projected number of unassigned cases in 1989-90. In order that the board places high priority on those cases with a potential for patient harm, we further recommend that the Legislature adopt the following supplemental report language directing BMQA to first assign and investigate all cases identified as having that potential:

> The Board of Medical Quality Assurance shall first assign and investigate immediately all cases that are categorized as having a potential for patient harm.

State and Consumer Services Agency
DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Item 1700 from the General Fund and Federal Trust Fund — Budget p. SCS 94

Requested 1989-90	$13,187,000
Estimated 1988-89	12,506,000
Actual 1986-87	12,591,000
Requested increase (excluding amount for salary increases) $681,000 (+5.4 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1700-001-001	General	$11,108,000
1700-001-890	Federal Trust	2,066,000
Reimbursements		13,000
Total		$13,187,000

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, contract compliance and legal services. This division is also responsible for the development of policy, educational programs, and legislative affairs.

The department has 240 personnel-years in the current year.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $13.2 million for support of the DFEH in 1989-90. This is $681,000, or 5.4 percent, above estimated current-year expenditures. This increase primarily is due to the salary adjustment granted state employees in the current year. It also reflects: (1) an increase of two positions for $105,000 to process increased discrimination complaints and (2) a decrease of $97,000 due to an increase in estimated salary savings.

The budget requests an appropriation from the General Fund of $11.1 million, or 6.5 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 amounts estimated for 1988-89.

Table 1
Department of Fair Employment and Housing
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1987-88*	*Estimated 1988-89*	*Proposed 1989-90*	*Actual 1987-88*	*Estimated 1988-89*	*Proposed 1989-90*	*Percent Change From 1988-89*
Enforcement	201.6	204.0	200.0	$10,702	$10,630	$11,167	5.1%
Administrative services	35.0	36.0	36.0	1,889	1,876	2,020	7.7
Totals	236.6	240.0	236.0	$12,591	$12,506	$13,187	5.4%
Funding Source							
General Fund				*$10,511*	*$10,427*	*$11,108*	*6.5%*
Federal Trust Fund				*2,062*	*2,066*	*2,066*	—[a]
Reimbursements				*18*	*13*	*13*	—[a]

[a] Not a meaningful figure.

Table 1 shows that General Fund appropriations finance approximately 84 percent of the department's expenditures, while federal funds support 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 1988-89 the reimbursement rate is $400 per EEOC case. The DFEH anticipates $1.9 million from the EEOC in 1989-90.

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. Prior to 1987-88, 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. The amount of the award for federal fiscal year 1989 is $211,000.

Our analysis indicates that the expenditures proposed for DFEH are appropriate.

State and Consumer Services Agency

FAIR EMPLOYMENT AND HOUSING COMMISSION

Item 1705 from the General Fund — Budget p. SCS 96

Requested 1989-90	$713,000
Estimated 1988-89	851,000
Actual 1987-88	789,000
Requested decrease (excluding amount for salary increases) $138,000 (−16 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Staffing Reductions. Recommend that the Department of Finance and the commission advise the fiscal committees during budget hearings on: (a) how the commission can accommodate its workload with reduced staff and (b) how it will meet its statutory mandates. 102

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.

OVERVIEW OF THE BUDGET

The budget proposes an appropriation of $713,000 from the General Fund to support the FEHC in 1989-90. This is a net decrease of $138,000, or 16 percent, below estimated current-year expenditures. The decrease reflects the phaseout of four positions for a savings of $171,000 in 1989-90.

FAIR EMPLOYMENT AND HOUSING COMMISSION—Continued

ANALYSIS AND RECOMMENDATIONS

Proposed Staff Reduction

We recommend that the Department of Finance and the commission, during budget hearings, advise the fiscal committees on (1) how the commission can accommodate its workload with reduced staff and (2) how it will meet its statutory mandates.

The budget proposes to eliminate four of the commission's existing 12.5 positions for an annual savings of $236,000 to the General Fund. This reduction would be phased in over a two-year period: 2.7 positions and $171,000 in 1989-90, and an additional 1.3 positions and $65,000 in 1990-91. These include three attorneys and one clerical staff position.

The budget justifies the reduction on the basis that (1) the commission's workload has declined and (2) the commission is inappropriately rewriting decisions proposed by administrative law judges acting on its behalf. Reducing the commission's staff is expected to eliminate the rewrites. Our review indicates that this justification is flawed in two respects.

First, the commission indicates that its workload is increasing—not decreasing. While the number of decisions annually rendered by the commission in recent years has decreased slightly, its other workload has remained constant. The commission indicates that the decrease is temporary and that it will review significantly more cases in 1989-90 than it has in recent years. This appears to be supported by an increase in the number of complaints received by the Department of Fair Employment and Housing, some portion of which will be substantiated and passed to the commission for resolution.

Second, the proposal incorrectly assumes that the commission should not rewrite decisions proposed by administrative law judges. Our review indicates that the commission is *statutorily* responsible for doing so if it disagrees with the proposed decision. It appears that the commission, in the absence of its own staff, could send proposed decisions back to the administrative law judges for a rewrite, but, it is not clear that the proposal allows for this alternative. Absent such an alternative, the commission would not be able to meet its statutory obligations.

Consequently, we recommend that the Department of Finance and the commission advise the fiscal committees during budget hearings on: (1) how the commission can accommodate its workload with reduced staff and (2) how it will meet its statutory mandate to resolve housing and employment discrimination cases.

State and Consumer Services Agency

OFFICE OF THE STATE FIRE MARSHAL

Item 1710 from the General
Fund and various funds — Budget p. SCS 98

Requested 1989-90	$11,402,000
Estimated 1988-89	11,080,000
Actual 1987-88	10,093,000
Requested increase (excluding amount for salary increases) $322,000 (+2.9 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1710-001-001—Support	General	$4,603,000
1710-001-198—Support	California Fire and Arson Training	1,385,000
1710-001-199—Support	California Fireworks Licensing	271,000
1710-001-209—Support	Hazardous Liquid Pipeline Safety	1,095,000
1710-001-890—Support	Federal Trust	120,000
Reimbursements		3,928,000
Total		$11,402,000

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 167.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $11.4 million for support of the Office of the State Fire Marshal in 1989-90. This is an increase of $322,000, or 2.9 percent, above estimated current-year expenditures. The significant change in the office budget for 1989-90 is an increase of $208,000 (2.8 personnel-years) from reimbursements by the Office of the State Architect to meet an increase in school plan checking workload.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

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 and various funds — Budget p. SCS 102

Requested 1989-90	$184,534,000
Estimated 1988-89	167,745,000
Actual 1987-88	153,551,000
Requested increase (excluding amount for salary increases) $16,789,000 (+10 percent)	
Total recommended reduction	4,844,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1730-001-001—Support	General	$175,454,000
8640-001-001—Support	General (Political Reform Act)	1,136,000
1730-001-200—Support	Fish and Game Preservation	21,000
1730-001-800—Support	U.S. Olympic Committee	19,000
1730-001-803—Support	State Children's Trust	20,000
1730-001-823—Support	California Alzheimer's Disease and Related Disorders Research	29,000
1730-001-905—Support	California Election Campaign	17,000
1730-001-983—Support	California Seniors	18,000
Statutory Appropriation—Support	Delinquent Tax Collection	5,303,000
Statutory Appropriation—Support	Vietnam Veterans' Memorial Account	27,000
Reimbursements	—	2,490,000
Total		$184,534,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Audit and Collections Programs. Reduce Item 1730-001-001 by $4 million.*** Recommend reduction of $4 million and 120 personnel-years from the General Fund because the workloads at issue have previously been funded by the Legislature. 108
2. ***Water's-Edge Audits. Reduce Item 1730-001-001 by $650,000.*** Recommend deletion of $650,000 and 15 personnel-years from the General Fund because the hiring of water's-edge auditors is premature and the hiring of additional legal staff is not justified. 110
3. ***Processing Workload. Reduce Item 1730-001-001 by $194,000.*** Recommend reduction of $194,000 and 10.6 personnel-years due to revised estimates of the number of income tax returns to be processed. 112

GENERAL PROGRAM STATEMENT

The Franchise Tax Board (FTB) is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation (B&C) tax, 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 nearly 57 percent of total General Fund revenues. In 1989-90, these programs are projected to produce revenues of $22 billion, including $16.4 billion from the PIT and $5.6 billion from the B&C tax. Approximately $19.9 billion of these revenues are accounted for by voluntary self-assessments by taxpayers, while the remaining $2.1 billion 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 3,604 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures by the FTB are proposed at $184.5 million for the budget year, which is $16.8 million, or 10 percent, more than estimated current-year expenditures. The budget request includes funding for 3,850 personnel-years in 1989-90. This is 246 personnel-years (6.8 percent) more than is estimated for the current year.

The budget proposes an appropriation of $175.5 million from the General Fund, which is an increase of $16.6 million, or 10 percent, over estimated General Fund expenditures for the current year.

During 1989-90, the board also expects to receive $2.5 million in reimbursements from other agencies, $1.1 million as a transfer from the Political Reform Act (Item 8640), $5.3 million from the Delinquent Tax Collection Fund, and $151,000 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 (70 percent of the total budget request). Most of the remaining expenditures are attributable to the B&C tax program (27 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 (1 percent) is used for support of services which the board provides on a contractual basis to other agencies.

FRANCHISE TAX BOARD—Continued

Table 1
Franchise Tax Board
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change from 1988-89*
Personal Income Tax	2,143	2,365	2,568	$105,871	$115,892	$128,428	10.6%
Bank & Corporation Tax	765	887	932	42,241	46,533	50,662	9.4
Homeowners and Renters Assistance	38	38	36	2,016	1,886	1,874	−0.6
Political Reform Act	22	17	17	1,178	1,088	1,136	4.4
Contract Work	38	47	47	2,245	2,346	2,434	3.8
Administration (Distributed)	242	250	250	(11,346)	(11,685)	(12,381)	6.0
Totals	3,248	3,604	3,850	$153,551	$167,745	$184,534	10.0%
Funding Sources							
General Fund	*3,183*	*3,523*	*3,769*	*$150,106*	*$158,885*	*$175,454*	*10.4%*
Reimbursements	*38*	*47*	*47*	*2,323*	*2,402*	*2,490*	*3.7*
Political Reform Act (General Fund)	*22*	*17*	*17*	*1,063*	*1,088*	*1,136*	*4.4*
Delinquent Tax Collection Fund	—	*10*	*10*	—	*5,229*	*5,303*	*1.4*
Fish and Game Fund	*1*	*1*	*1*	*10*	*19*	*21*	*10.5*
Vietnam Veterans' Memorial Account	*1*	*1*	*1*	*10*	*26*	*27*	*3.8*
U.S. Olympic Committee Fund	*1*	*1*	*1*	*5*	*18*	*19*	*5.6*
State Children's Trust Fund	*1*	*1*	*1*	*10*	*19*	*20*	*5.3*
California Alzheimer's Disease and Related Disorders Research Fund	*1*	*1*	*1*	*12*	*26*	*29*	*11.5*
Federal Trust Fund	—	—	—	*1*	—	—	—
California Election Campaign Fund	—	*1*	*1*	*4*	*16*	*17*	*6.3*
California Seniors Fund	—	*1*	*1*	*7*	*17*	*18*	*5.9*

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 and HRA programs. The PIT program also receives support from the Delinquent Tax Collection Fund ($5.3 million) which finances an enforcement program that assigns PIT collection accounts to private collection agencies. The Delinquent Tax Collection Fund is 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.

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

Table 2
Franchise Tax Board
Program Functions Supported by the General Fund [a]
1989-90
(dollars in thousands)

	PIT Program		B & C Program		HRA Program		Total	
Function	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total	Budgeted Expenditures	Percent of Total
Processing/Taxpayer Assistance	$47,476	38.6%	$10,946	21.6%	$1,874	100.0%	$60,296	34.4%
Audit	33,933	27.6	26,354	52.0	—	—	60,287	34.3
Collections	31,910	25.9	11,051	21.8	—	—	42,961	24.5
Filing Enforcement	9,655	7.9	996	2.0	—	—	10,651	6.1
Exempt Corporations	—	—	1,315	2.6	—	—	1,315	0.7
Administration (Distributed)	(8,754)	—	(3,223)	—	(140)	—	(12,117)	—
Totals	$122,974	100.0%	$50,662	100.0%	$1,874	100.0%	$175,510 [b]	100.0%
Percent of General Fund Expenditures	70.0%		28.9%		1.1%		100.0%	

[a] Exclusive of Political Reform Act activities.
[b] This amount is $56,000 higher than the General Fund appropriation ($175,454,000) because it reflects $56,000 in reimbursements from the contract work program for general administrative expenses.

About two-thirds of the board's General Fund budget is for two FTB functions — processing and auditing tax returns. As Table 2 shows, 34 percent of the FTB's total General Fund budget is for return processing and taxpayer assistance and 34 percent is for audits. About 25 percent is for collecting delinquent taxes (collections function) and 6 percent is for programs to make sure that individuals and businesses file tax returns (filing enforcement).

Proposed Changes to the Budget. Table 3 identifies the changes that account for the proposed increase of $16.8 million in the FTB's budget. It shows $16.5 million in program and workload adjustments, in addition to about $300,000 in increased baseline expenditures. The relatively minor net baseline adjustment is primarily the result of increased baseline costs related to salary increases, merit salary adjustments, and price increases ($7.8 million), offset by baseline reductions associated with the funding of the board's current-year deficiency ($7 million). For purposes of this table, we have reflected $1.2 million 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.

FRANCHISE TAX BOARD—Continued

Table 3
Franchise Tax Board
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements, Transfers, and Special Funds*	*Total*
1988-89 Expenditures (Revised)	$158,885 [a]	$8,860	$167,745
Baseline Adjustments:			
Current-Year Deficiencies:			
Return processing	−4,923	—	−4,923
Audit workplan	−1,261	—	−1,261
Research activities	−840	—	−840
Personal Services:			
Salary increase	5,748	135	5,883
Merit salary adjustment	1,156	—	1,156
One-time costs	−753	−38	−791
Price increase	682	123	805
Property tax adjustment	295	—	295
Subtotals, Baseline Adjustments	($104)	($220)	($324)
Workload Adjustments:			
Return processing and taxpayer assistance	6,402	—	6,402
Program Changes:			
Audit workplan	4,594	—	4,594
Enforcement workplan	4,521	—	4,521
Research activities	948	—	948
Subtotals, Program Changes	($10,063)	(—)	($10,063)
1989-90 Budget Request	$175,454	$9,080	$184,534
Change from 1988-89:			
Amount	$16,569	$220	$16,789
Percent	10.4%	2.5%	10.0%

[a] Excludes amount funded under the Political Reform Act ($1,088,000). This funding is reflected as a transfer.

ANALYSIS AND RECOMMENDATIONS

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

- A General Fund increase of $948,000 to augment the FTB's research staff. This augmentation will enhance the board's revenue-estimating capabilities and finance various studies including a detailed review of recent capital gains activity.

Audit and Collections "Augmentations" Fund the Board's Redirections

We recommend that the board's budget requests for additional audit and collections personnel be reduced by $4 million and 120 personnel-years because the Legislature has already provided funding to the board to handle these workloads. (Reduce Item 1730-001-001 by $4 million).

The FTB's budget requests a total of $10.3 million from the General Fund to augment its audit and collections programs by 163 and 117 personnel-years, respectively. The board also received $1.3 million in current-year deficiency funding for its audit and collections programs.

Included in its budget-year request is $4 million to finance 74 personnel-years for the board's audit workplan, and 46 personnel-years for FTB's collections workplan. The budget requests also fund workload related to "water's-edge" audits (*see issue below*), a shift in workload from the board's self-assessment division to its collections program, and the board's budget-year costs for merit salary adjustments.

Our review of the FTB's budget requests for its audit and collections workplans has raised significant concerns. Our analysis indicates that for the budget year, the board has redirected approximately 200,000 staff hours (114 personnel-years) previously authorized by the Legislature for the FTB's audit and collections workplans to other "mandatory" functions both within the audit and collections programs, and to programs outside these units.

Specifically, the board indicates that these hours have been used to staff the testing and implementation of its taxpayer information automation system (33 personnel-years), additional audit staff training (22 personnel-years), workload processing (22 personnel-years), audit program administration (19 personnel-years), water's-edge audit program development (13 personnel-years), and various other functions outside the audit and collections programs (5 personnel-years). Only a very limited portion of these activities are revenue producing.

Table 4 illustrates the number of audit and collections staff hours previously funded, the total hours redirected, and the additional number of direct staff hours requested for the budget year.

Table 4
Franchise Tax Board
Direct Audit and Collections Staff Hours
Administratively Redirected
1989-90

	Collections	*Audit*	*Totals*
Total direct hours proposed in 1989-90 workplan	433,461	556,056	989,517
Direct hours funded in the 1988-89 budget	468,519	542,291	1,010,810
Direct hours administratively redirected	−105,739	−96,023	−201,762
Direct hours available for 1989-90 workplans	362,780	446,268	809,048
Additional direct hours proposed in 1989-90 budget	70,681	109,788	180,469

As the table indicates, the board requests about 180,000 *additional* direct staff hours, plus support staff, to perform an audit and collections workload which is projected to be 21,000 direct audit and collections hours *less* than the level of current-year workloads funded by the Legislature in the 1988 Budget Act (1,010,810 hours versus 989,517 hours). Given this projected decline in workload and the level of resources the Legislature has previously provided to the board for these specific purposes, any further program augmentations generate significant budget policy concerns.

Magnitude of redirection circumvents legislative oversight. The Legislature has traditionally funded the board's audit and collections programs to the point where incremental program costs generate incremental revenues in a ratio of $1 to $5. Legislative approval of

FRANCHISE TAX BOARD—Continued

additional audit and collections resources has been made on the presumption that these funds would be expended in revenue-producing functions. Instead, the board has elected to redirect approximately 20 percent of its available audit and collections staff hours to other functions — functions for which the funding has not been subject to legislative review, and that generally are not revenue producing. Such significant shifts of resources away from authorized programs circumvent the Legislature's efforts at budget oversight and restrict its ability to prioritize spending across all state programs.

In addition, these shifts have occurred despite $7 million in current-year deficiency funds provided to the board for mandatory activities, and a $6.4 million augmentation which will fully fund FTB's mandatory functions associated with workload growth in the budget year.

Therefore, at this time, given that the Legislature has already approved staffing levels and corresponding funding in excess of the audit and collections workload levels anticipated for the budget year, we see no reason to augment these programs further. Accordingly, we recommend that the audit and collections budget requests be reduced by a total of 120 personnel-years, and $4 million from the General Fund. While the activities funded by the board's redirections may be of high priority to the FTB, this shifting of resources has been undertaken without appropriate legislative review.

Water's-Edge Audit Implementation Plan Needs Refinement

We recommend that the board's request related to the implementation of its water's-edge audit plan be reduced by $650,000 and 15 personnel-years because the request for audit personnel is premature and the legal staff augmentation is not justified. (Reduce Item 1730-001-001 by $650,000).

Chapter 660, Statutes of 1986 (SB 85) substantially revised California's "unitary" method of apportioning the income of multinational corporations for purposes of determining their bank and corporation tax liabilities. The changes made by Chapter 660 in the unitary method generally allow multinational corporations to elect to exclude the income and apportionment factors associated with their foreign operations in determining their taxable income under the unitary method. This is generally referred to as corporations making the "water's-edge" election.

The auditing of corporations which make the water's-edge election can be significantly more complicated than the "traditional" audit of multinational corporations. While maintaining the complexities of world-wide combined reporting, the water's-edge rules give rise to a host of difficult new audit issues. The most important and complex of these new issues is the proper pricing of intercompany sales of goods. Additional issues involve foreign subsidiary dividends, interest expenses incurred on foreign investments, the calculation of water's-edge election fees, and the review of domestic disclosure spreadsheets.

Under the provisions of Chapter 660, corporations may first make the water's-edge election for tax years beginning on or after January 1, 1988. Given the usual time frame for filing corporate tax returns and FTB's normal audit cycle, this means that the first year in which significant water's-edge audit activity will take place will be 1991-92. However, the complexity of the new issues involved, and the fact that no comparable program exists in other states or at the federal level, means that the board must take certain steps in advance of the first water's-edge audits to develop the program capacity to perform these functions.

The board's implementation plan. The FTB proposes a three-year plan for developing the required water's-edge audit capacity. This plan calls for the addition of a total of 95 positions, 35 of which would be added in the budget year, 23 positions in 1990-91, and 37 positions in 1991-92.

The board's 35 positions proposed for the budget year consist of (1) 12 positions plus support staff for continued development of the water's-edge audit program, (2) eight new audit positions plus support staff for the board's international audit program, and (3) two attorney positions plus support staff primarily for "implementing water's-edge legislation." We recommend approval of the first component of FTB's proposal consisting of 12 positions plus support staff. We have several concerns regarding the proposed new auditor and legal support positions.

Training of new auditors premature. The FTB proposes to add eight new audit positions plus support staff to its international audit program in order to begin "staffing up" for anticipated water's-edge audit workload which essentially begins in 1991-92. It is the board's intention to use this personnel for "simple" audits initially, and then gradually increase the complexity of their workload so that this staff is prepared by 1991-92 to perform more complex water's-edge audits. The proposed hiring of audit staff directly into the international audit program is in contrast with the board's normal audit program policy of placing new hires in the personal income tax audit program where they gain their initial experience, and then transferring successful auditors into the more complex corporate audit program. Experienced audit staff in the corporate unit are generally the pool of personnel from which the international audit program obtains its staff.

We believe that the hiring of new audit staff into the international audit unit is premature at this time, because there will be no significant water's-edge related audit work to perform in the budget year. The FTB already has a substantial number of experienced professional audit staff available to fulfill this staffing need. For 1989-90, the board's budget proposes funding for over 450 personnel-years devoted to FTB's corporate audit program. If in 1990-91 the Legislature determines that additional water's-edge audit positions are justified, the required personnel could be recruited from the corporate audit program, with the transferred staff then replaced by new corporate auditors.

In addition, we believe that the hiring of any further audit personnel into the international audit program is premature to the extent that significant uncertainty exists as to the level of water's-edge audits which will be required. The board's implementation plan and its staffing request assumes that over 1,000 California corporations will make the water's-edge election for the 1988 income year. However, a significant number of final corporate returns for the 1988 income year will not be filed until October 1989. Until these returns are filed, the board will have no reliable data upon which to base its workload estimates. Given that the board already has sufficient institutional capacity to provide experienced auditors to the water's-edge audit program, we believe that the more prudent budget course would be to eliminate the funding of new auditors in the budget year, and instead assess again the board's direct audit workload requirements in the 1990-91 budget. At that time, the board

FRANCHISE TAX BOARD—Continued

should have a more reliable estimate of water's-edge workload requirements, as well as the benefit of further program development efforts.

Legal staff augmentation not justified. The board proposes to augment its legal staff by two attorney positions plus support personnel to assist in the further development of water's-edge tax policy, review training materials, provide support to audit staff during water's-edge audits, and to respond to water's-edge audit protests.

We acknowledge that enactment of Chapter 660, as well as recently enacted water's-edge clean-up legislation, Ch 989/88, has involved significant resource commitments by the legal staff of FTB. In addition, substantial staff time during the current and prior fiscal years was devoted to the development of the recently published regulations which implement the water's-edge legislation. However, it appears that the board's legal workload associated with this issue has already peaked. We anticipate that legal workload related to new water's-edge legislation, or the refinement of existing water's-edge regulations, will require *less* legal staff time in the budget-year than has been expended during the past two years on the basis of previous activity.

Also, we note that any significant audit support activities or protest workload associated with the water's-edge program should not occur for several years until water's-edge audits actually take place, and related audit adjustments are proposed. Accordingly, additional legal resources related to the water's-edge program are not justified at this time.

Therefore, we recommend that the board's request for implementation of the water's-edge audit program be reduced by 15 personnel-years and $650,000 from the General Fund. This reduction will prevent the premature hiring of certain audit personnel, and eliminate unjustified additional legal staff.

Revised Estimates Indicate Lower Workload Growth

We recommend a reduction of $194,000 and 10.6 personnel-years due to revised projections of the number of tax returns to be processed. (Reduce Item 1730-001-001 by $194,000).

The 1989-90 budget for FTB requests an increase of $6.4 million to accommodate the expected workload growth for various return processing, taxpayer assistance and other tax administrative activities. This amount consists of approximately $3.7 million for processing returns and other tax documents, and about $2.7 million for other related taxpayer assistance functions such as the board's toll-free Telephone Information Center.

The amount included in the FTB budget for workload growth is based, in part, on the estimated volume of tax returns to be received and processed during the budget year. As shown in Table 5, the board projects that it will process approximately 14.9 million returns during 1989-90. This represents an increase of 525,000 returns, or 3.7 percent, over the estimated processing volume for the current year. However, the FTB's budget documents indicate that the board does not expect to process all of the returns it estimates it will receive in the current year. The board indicates that its budget-year workload volumes include a "carryover" of 130,000 personal income tax returns from 1988-89. Thus, the volumes shown in Table 5 illustrate the number of returns the board expects to *process* in the respective fiscal years, not the number of returns which the FTB will *receive*.

Table 5
Franchise Tax Board
Tax Return Volumes
1987-88 through 1989-90
(Number of returns in thousands)

	Number of Returns Processed			*Change from 1988-89*	
	Actual	*Estimated*	*Projected*		
Type of Returns	*1987-88*	*1988-89*	*1989-90*	*Number*	*Percent*
Personal Income Tax	13,078	13,501	14,067	566	4.2%
Bank and Corporation	535	624	592	–32	–5.1
Homeowners and Renters	254	241	232	–9	–3.7
Totals	13,867	14,366	14,891	525	3.7%

The FTB's projections are based primarily on estimates of various economic and demographic variables that are believed to affect the total volume of returns filed by California taxpayers. Given the timing of the budget process, the board had to develop these projections using economic data available during July 1988. Since then, however, the economic outlook has changed, and current projections for certain variables differ from those used by FTB to estimate tax return volumes.

Based on more recent economic data, it appears that the number of tax returns filed will be lower than the estimate used to develop the FTB's budget request. Using the economic data contained in the budget document, we estimate that 14,406,000 returns will be filed in 1988-89, and that 14,641,000 returns will be filed in 1989-90, which is a total of 210,000 returns *less* than the board's projections for these two years. This difference is due primarily to a revised projection of changes in unemployment, which is one of the factors used to estimate tax return volumes. Previous economic data appear to have understated unemployment for 1988.

The lower estimate of return volumes should reduce both the anticipated *carryover* of current-year returns into 1989-90, and the number of returns *received* by the board in the budget year. Given the reduced level of carryover returns and the lower estimate of return volumes for the budget year, the proposed increase in funding for workload growth is overstated by 10.6 personnel-years and $194,000. Accordingly, we recommend that the board's budget request be reduced by these amounts.

State and Consumer Services Agency

DEPARTMENT OF GENERAL SERVICES

Item 1760 from various funds Budget p. SCS 113

Requested 1989-90	$461,192,000
Estimated 1988-89	436,230,000
Actual 1987-88	404,575,000
Requested increase (excluding amount for salary increases) $24,962,000 (+5.7 percent)	
Recommended reductions from the General Fund	5,182,000
Recommended reductions from special funds for transfer to General Fund	2,985,000
Total General Fund Savings	8,167,000
Recommended additional reductions from special funds	6,895,000
Recommendation pending	6,640,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1760-001-001—Departmentwide. For direct support of department operations.	General	$20,356,000
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	2,203,000
1760-001-003—Departmentwide. For maintaining, protecting, and administering state parking facilities.	General (Motor Vehicle Parking Facilities Moneys Account	4,056,000
1760-001-006—Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by the physically handicapped.	General (Access for Handicapped Account)	908,000
1760-001-022—Office of Telecommunications. For support of Emergency Telephone Number program.	General (State Emergency Telephone Number Account)	917,000
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		1,890,000
—Government Code Section 16379		9,205,000
1760-001-120—Office of State Architect. For direct support of specified plan checking services.	Architecture Public Building (School Building Program Account)	4,334,000
1760-001-122—Office of State Architect. For support of hospital plan checking.	Architecture Public Building (Hospital Plan Checking Account)	4,457,000
1760-001-344—Office of Local Assistance. For support of State School Building Lease-Purchase program.	State School Building Lease-Purchase	9,933,000
1760-001-397—Office of California State Police. For state police training activities.	California State Police	42,000

1760-001-450—Departmentwide. For support to test and certify gas valves.	Seismic Gas Valve Certification	83,000
1760-001-465—Departmentwide. For support of energy assessment programs.	General (Energy Resources Program Account)	1,293,000
1760-001-602—Office of State Architect. For support of operations.	Architecture Revolving	17,961,000
1760-001-666—Departmentwide. For provision of goods and services to agencies.	Service Revolving	316,897,000
1760-001-739—Office of Local Assistance. For support of State School Building Aid program.	State School Building Aid	769,000
1760-001-961—Office of Local Assistance. For support of State School Deferred Maintenance program.	State School Deferred Maintenance	330,000
1760-011-602—Departmentwide. For support of activities other than the Offices of State Architect and State Parking.	Architecture Revolving	1,269,000
1760-101-022—Office of Telecommunications. For reimbursement of local costs of implementing Emergency Telephone Number program, as authorized by Ch 443/76	General (State Emergency Telephone Number Account	57,085,000
1760-490—Office of State Architect. Reappropriation for asbestos abatement, PCB equipment replacement, and underground take removal.	Special Account for Capital Outlay	5,000,000
—Education Code Section 8493—Office of Local Assistance. For support of child-care programs.	Child Care Capital Outlay	53,000
—Business/Profession Code Sections 16379.6 and 16379.7, Insurance and Risk Management. For support of operations.	California Fairs Insurance	2,151,000
Total		$461,192,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. 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. 122
2. ***Office of the State Architect. Reduce Item 1760-001-602 by $2.9 million (38 personnel-years).*** Recommend deletion of OSA project management and control services, because these services should be provided by the Office of Project Development and Management (OPDM). 123
   a. Recommend addition of Budget Bill language to limit the number of personnel-years in OSA which provide basic architectural and engineering services.
   b. Recommend that OPDM, prior to budget hearings, specify what resources it will require to assume full responsibility for managing the state's capital outlay program.
   c. Recommend Budget Bill language which would give OPDM more control over use of Architecture Revolving Fund monies by OSA.
3. ***Office of the State Architect. Reduce Item 1760-001-602 by $980,000 (11.9 personnel-years).*** Recommend reduction in requested number of prison construction inspectors, because 126

DEPARTMENT OF GENERAL SERVICES—Continued

requested staffing level is not justified by prison construction schedules.

4. ***Office of the State Architect. Reduce Item 1760-001-001 by $4,827,000 (4 personnel-years and project funds) and Item 1760-001-666 by $80,000 (1 personnel-year).*** Recommend deletion of the OSA asbestos abatement program in accordance with recommendations for state asbestos abatement programs contained in our *Perspectives and Issues.* 127
5. Office of the State Architect. Underground Tanks. Withhold recommendation on $2 million from the General Fund and $4 million reappropriated from the Special Account for Capital Outlay, pending receipt of updated cost information and an updated plan for installing permanent leak monitoring systems in state-owned underground tanks. 127
6. ***Office of Local Assistance. Reduce Item 1760-001-344 by $1,410,000 (28.4 personnel-years).*** Recommend deletion of a program for allocating asbestos abatement funds which is not necessary under the current policies of the State Allocation Board. 129
7. ***Office of Local Assistance. Reduce Item 1760-001-001 by $326,000 (3.8 personnel-years).*** Recommend deletion of an inadequate program for review of federally required asbestos management plans. If the Legislature wants a substantive review of these plans, OLA should specify, prior to budget hearings, the resources required for such a review. 129
8. ***Office of Real Estate and Design Services. Reduce Item 1760-001-002 by $646,000.*** Recommend deletion of funds for new "proactive asset management program" pending (a) enactment of enabling legislation and (b) completion of computerized property inventory mandated by prior legislation. 131
9. ***Office of Energy Assessments. Reduce Item 1760-001-666 by $822,000.*** Recommend reducing funds because (a) cost of new program for centralized procurement of natural gas ($348,000) can be funded within department's existing expenditure authority and (b) a further reduction ($474,000) is warranted to eliminate overbudgeting of consultant contracts. 133

   Further recommend Budget Act language directing (a) department to provide a progress report on new program and (b) Department of Finance to identify savings resulting from program and transfer savings to appropriate funds.
10. ***Office of Buildings and Grounds. Transfer from Building Rental Account (BRA) to General Fund.*** Recommend transfer from BRA to General Fund of $2,985,000 of savings resulting from recommended reductions of BRA expenditures. 135
11. ***Office of Buildings and Grounds. Reduce Item 1760-001-001 by $29,000 and Item 1760-001-666 by $546,000.*** Delete funds for a new asbestos monitoring/maintenance program because statewide standards for monitoring, em- 135

ployee training and program organization need to be developed.

12. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $75,000.*** Recommend reducing funds for a special repair project to eliminate overbudgeting for inflation. 137
13. ***Office of Buildings and Grounds. Reduce Item 1760-001-666 by $2,421,000.*** Recommend deleting funds for two special repair projects, the need for which the department has not substantiated. 138
14. Office of Buildings and Grounds. Withhold recommendation on $640,000 requested under Item 1760-001-666 for special repair projects at the San Francisco State Office Building/-Annex pending clarification of (a) the department's plans to vacate tenants and proceed with major seismic and other code-related renovations of buildings and (b) the relationship of special repair projects to those activities. 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 4,269.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $461.2 million from various funds to support activities of the Department of General Services in 1989-90. This is $24.9 million, or 5.7 percent, above estimated current-year expenditures.

Departmental Expenditures by Program

The programs with the largest proposed budget-year expenditures are Telecommunications ($129 million), Buildings and Grounds ($65.7 million), Building Rental ($51.5 million), Procurement ($51.1 million), and State Printing ($43.7 million). Table 1 shows department expenditures, by program, for the past, current, and budget years.

As Table 1 indicates, the single major change in proposed program expenditures is the $10 million increase in telecommunications expenditures. The increase is due primarily to a one-time increase to purchase new microwave equipment for client agency projects.

DEPARTMENT OF GENERAL SERVICES—Continued

Table 1
Department of General Services
Distribution of Program Expenditures
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Change from 1988-89* Amount	Percent
Property Management Services:					
Architectural consulting and construction services	$47,982	$41,414	$43,620	$2,206	5.3%
Building rental	45,087	48,877	51,490	2,613	5.3
Building standards	514	606	533	−73	−12.0
Buildings and grounds	59,198	64,200	65,781	1,581	2.5
Energy assessments	2,241	3,224	3,614	390	12.1
Facilities planning and development	2,168	2,279	2,406	127	5.6
Local assistance	8,431	10,598	11,430	832	7.9
Real estate and design services	8,466	8,705	9,517	812	9.3
Subtotals, Property Management Services	($174,087)	($179,903)	($188,391)	($8,488)	(4.7%)
Statewide Support Services:					
Administrative hearings	$5,489	$5,890	$6,000	110	1.9%
Fleet administration	22,220	26,289	24,904	−1,385	−5.3
Insurance and risk management	10,974	13,497	14,239	742	5.5
Legal services	1,420	1,368	1,418	50	3.7
Management technology and planning	7,680	7,430	7,909	479	6.4
Procurement	46,208	47,623	51,127	3,504	7.4
Records management	2,847	2,469	2,642	173	7.0
Small and minority business	1,425	1,508	1,593	85	5.6
State police	21,864	22,183	23,540	1,357	6.1
State printing	40,019	41,118	43,708	2,590	6.3
Support services	14,698	14,590	15,533	943	6.5
Telecommunications	104,621	118,978	129,015	10,037	8.4
Subtotals, Statewide Support Services	($279,465)	($302,943)	($321,628)	($18,685)	(6.2%)
Administration:					
Administrative services	$3,944	$3,719	$3,904	$185	5.0%
Executive	1,567	1,652	1,716	64	3.9
Fiscal services	6,078	6,264	6,587	323	5.2
Subtotals, Administration	($11,589)	($11,635)	($12,207)	($572)	(4.9%)
Totals, All Programs	$465,141	$494,481	$522,226	$27,745	5.6%
Distribution of Intrafund Services	−60,566	−58,251	−61,034	−2,783	−4.8%
Total Net Expenditures	$404,575	$436,230	$461,192	$24,962	5.7%

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 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 27 percent of the department's costs are funded by direct support, with the balance—73 percent—supported from "earned" revenues.

Table 2
Department of General Services
Total Expenditures, By Source of Funds
1987-88 through 1989-90
(dollars in thousands)

Funding Source	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent of Total 1989-90*
Direct Support:				
General Fund	$9,103	$22,040	$20,356	4.4%
General Fund (Special Accounts)	82,210	79,578	81,264	17.6
Architecture Public Building Fund	7,109	9,927	8,791	1.9
Energy Resources Programs Account	1,206	1,224	1,293	0.3
State School Building Aid Fund	435	623	769	0.2
State School Building Lease-Purchase Fund	7,294	8,219	9,933	2.1
California Fairs Insurance Fund	1,520	2,050	2,151	0.5
Various Special Funds/Accounts	1,098	751	508	0.1
Subtotals, Direct Support	($109,975)	($124,412)	($125,065)	(27.1%)
Revolving Funds:				
Architecture Revolving Fund	$14,967	$13,975	$19,230	4.2%
Service Revolving Fund	278,216	297,226	316,897	68.7
Surplus Personal Property Revolving Fund	1,417	617	—	—
Subtotals, Revolving Funds	($294,600)	($311,818)	($336,127)	(72.9%)
Total Expenditures	$404,575	$436,230	$461,192	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 4,328.7 personnel-years are proposed for the budget year—a net increase of 60.3 personnel-years (1.4 percent) above the current-year level. About 46 percent of the department's staff are budgeted in property management services, and about 49 percent in statewide support services, with the balance in administration.

Table 3
Department of General Services
Distribution of Personnel-Years, By Program
1987-88 through 1989-90

	Personnel-Years			*Percent*
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*of Total 1989-90*
Property Management Services:				
Architectural consulting and construction services	321.8	319.9	348.5	8.1%
Building standards	7.0	7.0	6.7	0.2
Buildings and grounds	1,219.0	1,227.2	1225.3	28.2
Energy assessments	11.3	11.0	11.9	0.3
Project management and development	28.0	32.1	32.1	0.7
Local assistance	160.0	215.3	219.5	5.1
Real estate services	118.1	140.5	143.6	3.3
Subtotals, Property Management Services	(1,865.2)	(1,953.0)	(1,987.6)	(45.9%)
Statewide Support Services:				
Administrative hearings	54.4	61.4	61.4	1.4%
Fleet administration	147.7	149.3	149.4	3.5
Insurance and risk management	24.2	25.0	20.9	0.5

DEPARTMENT OF GENERAL SERVICES—Continued

Legal services	20.1	19.5	19.5	0.5
Management technology and planning	125.3	130.7	130.7	3.0
Procurement	272.2	279.4	280.3	6.5
Records management	36.9	38.7	41.6	1.0
Small and minority business	21.3	23.5	24.3	0.6
State police	357.6	401.0	403.8	9.3
State printing	405.8	408.3	408.3	9.3
Support services	191.0	191.7	191.7	4.4
Telecommunications	347.0	364.3	382.1	8.8
Subtotals, Statewide Support Services	(2,003.5)	(2,092.8)	(2,114.0)	(48.8%)
Administration:				
Administrative services	76.1	67.1	70.0	1.6%
Executive	22.6	24.0	24.0	0.6
Fiscal services	131.8	132.3	133.1	3.1
Subtotals, Administration	(230.5)	(223.4)	(227.1)	(5.3%)
Totals	4,099.2	4,269.2	4,328.7	100%

Proposed Budget-Year Changes

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

Table 4
Department of General Services
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Special Funds*	*Revolving Fund*	*Total*
1988-89 Expenditures (Revised):	$22,040	$102,372	$311,818	$436,230
Distribution of Intrafund	—	—	58,251	58,251
Total Expenditures	$22,040	$102,372	$370,069	$494,481
Baseline Adjustments:				
Salary increase adjustment	$189	$663	$6,091	$6,943
Pro rata charges	—	−123	−1,204	−1,327
Price Increase	—	290	3,471	3,761
Miscellaneous adjustments	−2,422	3,119	−40,754	−40,057
Subtotals, Baseline Adjustments	(−$2,233)	($3,949)	(−$32,396)	(−$30,680)
Workload Changes:				
Administration	—	—	$154	$154
Management Technology and Planning	—	—	416	416
Support Services	—	—	1,394	1,394
Fleet Administration	—	—	263	263
State Printing	—	—	1,650	1,650
Procurement	—	—	9,917	9,917
Fiscal Services	—	—	124	124
State Police	—	—	348	348
Records Management	—	—	97	97
Small and Minority Business	—	—	106	106
Telecommunications	—	—	5,086	5,086
Buildings & Grounds	$230	—	11,116	11,346
Real Estate & Design	—	$16	263	279
State Architect	—	14,574	—	14,574
Local Assistance	290	2,064	—	2,354
Subtotals, Workload Changes	($520)	($16,654)	($30,934)	($48,108)

Program Changes:				
Insurance and Risk Management (Workers' Compensation)	—	—	−$119	−$119
Telecommunications (Planning for Transportation)	—	—	367	367
Telecommunications (Microwave Equipment)	—	—	7,616	7,616
Buildings and Grounds (Asbestos Maintenance)	$29	—	546	575
Buildings & Grounds (Intrafund)	—	—	518	518
Real Estate & Design (Asset Management)	—	$696	—	696
Real Estate & Design (Asbestos Notifications)	—	—	25	25
Energy Assessments (Centralized Natural Gas Purchases)	—	—	348	348
State Architect (FAX and CADD Equipment)	—	148	—	148
Project Development and Management (Data Processing)	—	—	2,823	51
Local Assistance (Asbestos Accreditation)	—	92	—	92
Local Assistance (Space Savers)	—	(60)	—	(60)
Subtotals, Program Changes	($29)	($964)	($9,324)	($10,317)
Total Expenditures	$20,356	$123,939	$377,931	$522,226
Distribution of Intrafund	—	—	−61,034	−61,034
1988-89 Expenditures (Proposed)	$20,356	$123,939	$316,897	$461,192
Change in Net Expenditures from 1988-89				
Amount	−$1,684	$21,567	$5,079	$24,962
Percent	−7.6%	21.1%	1.6%	5.7%

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

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.
- Building Standards Commission.

OFFICE OF THE STATE ARCHITECT

The Office of the State Architect (OSA) provides five major services:

- Architectural/engineering (A/E) consulting for state construction projects;
- Construction inspection for state projects;
- Project management and accounting for state construction projects;

DEPARTMENT OF GENERAL SERVICES—Continued

- Plan checking and inspection pursuant to state statutes concerning access for the handicapped, earthquake safety for schools and hospitals, and earthquake and fire safety for state-owned or leased fire stations, police stations, and emergency communication centers;
- Mitigation of hazardous conditions in state-owned facilities (asbestos abatement, PCB removal, and repair, removal and monitoring of underground tanks).

The budget proposes $43.6 million for support of OSA activities in 1989-90. This is an increase of $2.2 million, or 5.3 percent, above estimated 1988-89 expenditures. The budget request, however is $2.8 million, or 7 percent, above the amount actually appropriated for OSA in the 1988 Budget Act. This is because the Governor's estimate of current year expenditures includes $460,000 of proposed deficiency spending and $179,000 for proposed increases in employee compensation. The office has 319.9 personnel-years in the current year.

Major changes in the OSA budget for 1989-90 are:

- An increase of $6,001,000 (72.6 limited-term personnel-years) to provide inspection services at state prison construction sites;
- An increase of $140,000 in operating expenses and equipment to test the effectiveness of computer assisted design and drafting for certain A/E tasks.
- A reduction of $2,243,000 that reflects the workload-related expiration of 35.6 limited-term personnel years.
- A reduction of $569,000 (eight personnel-years) that reflects workload-related staff reductions in OSA's toxics programs.

We recommend approval of the OSA budget, except for the items noted below. We also recommend changes to improve the effectiveness and efficiency of the state's capital outlay 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 (1760-012-001, 1760-022-001, and 1760-017-001 respectively.

The 1989 Budget Bill includes a total of $10,355,000 under Item 1760-001-001 for programs to remediate hazardous conditions involving PCBs, asbestos and underground tanks at state facilities. Budget documents provided by the department indicate the following spending plan for these funds:

- $2,613,000 for PCBs.
- $2,915,000 for underground tanks.
- $4,827,000 for asbestos.

In effect, however, the budget provides a pool of funds for abatement of hazardous conditions in state facilities, and permits apportionment of funds among the three hazardous material programs at the discretion of the administration.

This proposal is contrary to the Legislature's actions in past years. In the 1987 and 1988 Budget Acts, 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 1988 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 language similar to that in the 1988 Budget Act.

As discussed below, we are withholding recommendation on the expenditures proposed in the budget for asbestos abatement and underground tank repair/removal, and recommending deletion of funds proposed for asbestos abatement.

Office of Project Development and Management (OPDM), Not OSA, Should Manage the State's Capital Outlay Program.

We recommend a reduction of $2.9 million (38 personnel-years) under Item 1760-001-602 from the Architecture Revolving Fund to delete OSA project management and control services, because these services should be performed by the department's Office of Project Development and Management (OPDM). In addition, we recommend Budget Bill language to limit the number of personnel-years in OSA that provide architectural/engineering services.

We further recommend that OPDM, prior to budget hearings, specify for the Legislature what additional resources it will require to assume full responsibility for managing the state's capital outlay program.

Finally, we recommend Budget Bill language that would give OPDM more control over use of Architecture Revolving Fund monies by OSA.

Prior to 1986-87, OSA had overall responsibility for control of the state capital outlay project delivery system. As a result of OSA's poor management of the program, however, projects approved by the Legislature were consistently delivered late or at a cost that was over the budget. Consequently, in the 1985 and 1986 Budget Bills, the Legislature included language—subsequently vetoed by the Governor—that required the Department of General Services to form a capital outlay control unit separate from OSA. This unit was to perform the following project management tasks:

- Assist departments in developing appropriate conceptual designs and cost estimates for proposed projects;
- Contract for project design and engineering services with either OSA or private consultants (based on cost of services and OSA workload requirements);
- Contract for construction services;
- Develop and maintain project schedules;
- Communicate with client departments, Department of Finance, and design and construction contractors;
- Maintain the legislatively approved cost and scope of projects.

This change was designed to improve the efficiency and effectiveness of the capital outlay program. Operationally, the capital outlay control unit was to assume all project management responsibilities and OSA was to

DEPARTMENT OF GENERAL SERVICES—Continued

provide architectural/engineering (A/E) services by interagency agreement on a cost and workload basis, similar to agreements with private consultants. The OSA, therefore, would have incentives to perform its A/E work in a more timely and cost effective manner. The capital outlay control unit was to be responsible for assuring that all phases of project design and construction were completed on time and within the budget approved by the Legislature.

In 1986-87, the Department of General Services acted to form the Office of Project Development and Management (OPDM). The OPDM was to have substantially the same responsibilities as the capital outlay control unit specified by the Legislature in the previous Budget Bill language. After a two-year transition of responsibilities (from OSA to OPDM), OPDM was to manage *all* state capital outlay projects by 1988-89.

OSA Still Exercises Substantial Control Over the State Capital Outlay Process, Despite Legislative Intent and Administrative Reorganization. The transition of project management responsibility from OSA to OPDM has not occurred. OSA continues to act more as the state's capital outlay manager than as the state's A/E consultant and construction inspector. For example:

- The OSA continues to manage the substantial majority of state capital outlay projects, from preschematic development through construction. The OSA's project management workload includes major state building programs in the Department of Corrections and the Department of Parks and Recreation.
- The OSA remains the administration's lead agency for project development. The OSA, not OPDM, takes the lead in reviewing proposals submitted by departments and in developing schedules, scope, and budget information for review by the administration and the Legislature. For example, the OSA prepared documentation for the recently proposed $140 million renovation of two state office buildings in San Francisco with no meaningful participation by OPDM.
- The OSA handles virtually all public contracting for the state capital outlay program. It has 12.1 personnel years devoted to this function, while OPDM has one.
- The OPDM does not manage *any* project for which OSA is the A/E consultant. If OSA designs a project, OSA retains control of scheduling, changes in scope and cost, project review and administration, and communication with departments, contractors, and the Legislature. According to OSA, one third (25.2 personnel-years) of the resources budgeted for its Architecture and Engineering Unit will be used for project management.
- The OPDM does not yet have a management information system capable of supplying the data necessary for tracking progress and expenditures for all capital outlay projects. Consequently, OPDM depends on OSA to generate its quarterly capital outlay status report for the Legislature.
- Finally, OSA may draw funds from the Architecture Revolving Fund to fund design and construction of projects, without obtaining approval from OPDM.

The state, therefore, currently suffers the administrative inefficiency of two agencies attempting to perform the same management function. The OPDM manages some projects, but should manage all. OSA manages most projects, but should manage none. Although OPDM has existed for two years, our recent conversations with capital outlay personnel in various departments indicate confusion about which agency, OSA or OPDM, is ultimately responsible for the development and management of capital outlay projects.

Changes Needed to Improve the Effectiveness and Efficiency of the State's Capital Outlay Program. In order to improve delivery of the state's capital outlay projects administered by the Department of General Services, we recommend the following changes.

1. *Reduce the OSA Budget by $2.9 million and 38 personnel years to delete all project management and control services performed by OSA.* This action would delete (a) 25.2 personnel years in the A/E Unit, which, according to OSA, are devoted to management of capital outlay projects, (b) 1.6 personnel-years in the same unit, devoted to preparation of budget packages (preliminary cost estimates and design information for the Department of Finance and the Legislature), and (c) 11.1 personnel-years in the Contract Services Unit, devoted to obtaining external contracts for project design and construction. We believe it is essential that OPDM perform these functions if the capital program is to become more efficient and effective.

Our recommendation does not affect the 50 personnel-years that OSA indicates are required for basic A/E work in 1989-90. The Budget Bill, however, does not include a long-standing provision under Item 1760-001-602 which limits the number of basic A/E staff in the budget year to the number required by OSA to accomplish its projected A/E workload. This provision, which first appeared in the 1972 Budget Act, required OSA to maintain a prudent but reasonably constant level of in-house staff to perform basic A/E services, thus preventing abrupt hiring of state employees in peak capital outlay periods and abrupt layoffs in slower periods. Consequently, we recommend that the following provision be added to Item 1760-001-602:

> The staff assigned to basic architecture and engineering services within the Office of the State Architect shall not exceed 50 personnel years during the 1989-90 fiscal year.

Prior to budget hearings, OPDM should advise the Legislature of any additional resources it will need in the budget year to assume full responsibility for management of the entire state capital outlay program, including all projects which OSA currently manages.

2. *Adopt Budget Act language requiring interagency agreements between OPDM and OSA.* To assure that design services provided by OSA are more timely, cost effective and responsive to the state's needs, OSA should enter into interagency agreements with OPDM. These agreements should be similar to contracts with private consultants for similar services. Progress payments for work performed would then be made through OPDM to OSA, as is the practice for private consultants.

Currently, moneys appropriated for capital outlay projects are deposited in the Architecture Revolving Fund (ARF), upon approval by the Department of Finance. The OSA charges its costs to the ARF, and receives funds for design services without any accountability for work accomplished. In addition, OSA makes payments to construction contrac-

DEPARTMENT OF GENERAL SERVICES—Continued

tors from the ARF without obtaining authorization from OPDM, even though the projects were to be under OPDM's management. Consequently, OPDM is unable to effectively track and control expenditures by OSA on a project-by-project basis.

To properly manage the state's capital outlay program, *OPDM* must have control over payments from the ARF to *all* providers of design services, *including* OSA. The OSA should receive payments from the ARF on the same contractual basis as other A/E providers, subject to the timeliness and quality of its work. Consequently, we recommend that the Legislature adopt the following provision under Item 1760-001-602:

> The Office of Project Development and Management, in consultation with the Office of the State Architect, shall determine which projects the Office of the State Architect will design using in-house professional staff. The projects shall be selected taking into consideration the projects which the State Architect determines the Office of the State Architect can accomplish within the time frames established for 1989-90 and the professional staff assigned to basic and nonbasic architectural and engineering services by Item 1760-001-602 of this act.
>
> The Office of Project Development and Management shall negotiate a fee for services with the Office of State Architect for each project assigned to that office. The Office of Project Development and Management shall enter into an interagency agreement with the Office of the State Architect which sets forth the project schedule and the fees for each phase of the project. The Office of Project Development and Management shall make project payments to the Office of the State Architect, based on a set percentage completion of each phase of each project. No payment from the Architecture Revolving Fund shall be made to the Office of the State Architect without written authorization by the Office of Project Management and Development. The interagency agreement and payment schedule for each project shall be similar to those negotiated by the Office of Project Development and Management with private architectural/engineering consulting firms.

Repeal Government Code Section 14950, which requires the Governor to appoint a State Architect with the approval of the Senate. This action requires a statutory change. We have therefore included a detailed discussion of it in our *Summary of Recommended Legislation.* As long as the State Architect remains a Governor's appointee, it will be difficult for the Director of General Services, another Governor's appointee, and the Director of OPDM, a Career Executive Assignment (CEA) position, to effectively exercise control over OSA's role in the capital outlay process. The Legislature could remove this difficulty by making the State Architect a CEA position, to be appointed by the Director of General Services.

Too Many Inspectors Requested for Prison Construction.

We recommend a reduction of $980,000 (11.9 personnel-years) under Item 1760-001-602 from the Architecture Revolving Fund, because construction of three new state prisons will start later than estimated by OSA.

The budget requests $6 million (72.6 limited term personnel-years) to provide construction inspection services for seven new state prisons. The Department of Corrections, however, indicates that construction at three of the seven (Wasco, Delano, and Imperial County) will begin later than estimated in developing this request. Our recommended reduction is based on the most recent schedules available from the Department of Corrections and the workload projections submitted by OSA for these three prisons.

In addition, the Department of Corrections indicates that construction of two other prisons, both located in Los Angeles County, *may* begin later than estimated by OSA. We anticipate that the construction schedules for these two prisons will be more firmly established prior to budget hearings.

Asbestos Abatement Program Should be Targeted to Demonstrated Health Risks

We recommend reductions of $4,827,000 (four personnel-years and abatement project funds) under Item 1760-022-001 from the General Fund, and $80,000 (one personnel-year) under Item 1760-001-666, from the Service Revolving Fund, based on recommendations for state asbestos abatement programs contained in our **Perspectives and Issues.**

The budget requests $4,907,000 to support an asbestos abatement program for state-owned buildings operated and maintained by General Fund agencies. In our 1989-90 *Perspectives and Issues* ("State Asbestos Abatement Programs"), however, we recommend that the Legislature fund asbestos abatement projects only when concentrations of airborne asbestos are 0.1 fibers per cubic centimeter or higher. Establishment of such a standard would enable the Legislature to set funding priorities for asbestos abatement in cases of demonstrated health risk. The department has not identified any projects which exceed the 0.1 fibers per cubic centimeter standard.

Underground Tanks: Updated Tank Monitoring Plan Needed

We withhold recommendation on $2 million (operating expenses and equipment) under Item 1760-017-001 from the General Fund, and reappropriation of $4 million under Item 1760-490 (appropriated under Item 1760-017-036 of the 1987 Budget Act from the Special Account for Capital Outlay), pending receipt of updated cost information and an updated plan for installing permanent leak monitoring systems in state-owned underground tanks.

The budget requests $2 million for installation of automated leak monitoring systems in 335 state-owned underground tanks which contain fuels or other hazardous substances. In addition, the budget requests reappropriation of funds appropriated for the underground tank program in the 1987 Budget Act, including $4 million which OSA plans to spend for installation of leak monitoring systems in 670 additional state-owned tanks.

Under federal EPA regulations, the state must replace existing single-walled underground tanks by the end of 1989-90, *or* install EPA-approved permanent leak monitoring systems in or around the tanks. The Legislature, in the 1987 Budget Act, provided $5 million for installation of such systems for 815 state-owned tanks. The *OSA has not yet installed any of the funded systems.* This delay has occurred for two reasons. First, under state law, prior to installing monitoring devices, county authorities must approve a leak detection plan. The OSA indicates that it encountered significant delays in receiving the necessary approvals, but has now received approvals from about 60 percent of the counties. Second, OSA delayed installation of these systems until it completed (in November

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1988) a cost effectiveness study of automated leak monitoring systems. At this time, OSA anticipates that it will spend $500,000 before the end of 1988-89 to install leak monitoring systems on 80 state-owned tanks in three counties.

The OSA's cost estimates are based on an assumption made in *1987* that counties would require ground water and soil monitoring as the primary leak detection methods. In view of the delay in this program, coupled with recent changes in the technology available for leak detection and the willingness of many counties to accept alternative leak detection methods, OSA should review its original proposal and cost estimates.

In order to expedite this program and set priorities with the funds available, OSA should provide the Legislature with an updated plan for tank monitoring, based on actual leak detection agreements between the state and the counties. This plan should include the estimated number and type of leak detection systems necessary to comply with federal, state and county regulations, a description of any other steps which the state must take to comply with state and federal mandates concerning existing underground tanks, and a description of how and when any such steps should be taken. We understand that this information is available to OSA, and should require minimal effort to compile. In addition, prior to budget hearings, bids received on monitoring systems to be installed in the current year should be available. This competitive bidding information will aid OSA in reviewing the current cost estimates.

OFFICE OF LOCAL ASSISTANCE

The Office of Local Assistance (OLA) provides administrative support to the State Allocation Board. It has primary responsibility for administering several programs which provide funding to local public school districts for acquisition and development of school sites, construction of new school buildings, and reconstruction or maintenance of existing school buildings. The OLA also administers programs which fund the placement of portable classrooms, construction of child care facilities, abatement of asbestos in school facilities, and installation of air conditioning in year-round schools.

The budget requests $11,430,000 for OLA in 1989-90. This is an increase of $832,000, or 7.8 percent, above estimated 1988-89 expenditures. The budget request, however, is $1,614,000, or 16 percent, higher than expenditures actually approved by the Legislature in the 1988 Budget Act. This is because the Governor's estimate of current year expenditures includes $782,000 in proposed deficiency spending. The major changes in the OLA budget for 1989-90 are:

- An increase of $1,556,000 (31.3 two-year limited term personnel-years) to administer allocation of funds provided by Proposition 79 for asbestos abatement and air conditioning in public K-12 schools.
- An increase of $326,000 (3.8 limited term personnel-years) to continue review of federally required asbestos management plans for schools.
- An increase of $273,000 (5.7 three-year limited term personnel-years) to administer the Emergency Portable Classroom Program at the increased funding level provided by Ch 1299/87 (SB 115).
- A reduction of $1,220,000 based on a workload-related expiration of 26.6 limited-term personnel-years.

Asbestos Program Not Justified Under Current Abatement Policy

We recommend a reduction of $1,410,000 (28.4 personnel-years) under Item 1760-001-344 from the State School Building Lease-Purchase Fund to delete the proposed staffing level for allocating asbestos abatement funds, because it is not necessary under the current policies of the State Allocation Board.

The budget requests $1,410,000 (28.4 personnel-years) to allocate bond revenues potentially set aside under Proposition 79 to fund asbestos identification and abatement in K-12 public schools. The administration plans to establish this program in the current year through deficiency spending of $486,000 from the State School Building Lease-Purchase Fund.

Background. Proposition 79 *permits* the State Allocation Board to set aside *up to* $100 million from $800 million in bond revenues to assist K-12 public schools with asbestos identification and abatement. The OLA is responsible for reviewing applications from school districts for these funds, to assure that proposed projects meet funding criteria established by the board. The OLA also reviews applications for funding of asbestos abatement from the Asbestos Abatement Fund (AAF). The AAF is funded solely by transfers from the General Fund, and has received no new appropriation of General Fund monies since 1986.

Current Board Policy Does Not Require the Proposed Staffing. Proposition 79 does not provide any clear guidance as to how the board should allocate funds for asbestos identification and abatement. The current policy of the board is to provide Proposition 79 asbestos funds to school districts only when a school has been closed by order of the Department of Industrial Relations (DIR) or by court order, because of an indoor asbestos hazard. In such cases, the board will provide 75 percent of the cost of removing asbestos containing materials. Over the past five years, one school has been closed by DIR or the courts because of an asbestos hazard.

The current policy of the board, therefore, will require OLA to review very few, if any, new applications for asbestos abatement funding. This workload could easily be absorbed, on a priority basis, by the OLA staff who administer the Asbestos Abatement Fund. Consequently, we recommend deletion of the proposed staffing.

Recommended Policy on State Funding for Asbestos Abatement. In our 1989-90 *Perspectives and Issues* ("State Asbestos Abatement Programs"), we recommend that the Legislature fund asbestos abatement projects only when concentrations of airborne asbestos are 0.1 fibers per cubic centimeter or higher. Establishment of such a standard would enable the Legislature to set funding priorities for asbestos abatement in cases of demonstrated health risks.

State's Review of AHERA Asbestos Management Plans Is Inadequate

We recommend a reduction of $326,000 from the General Fund (3.8 personnel-years) under Item 1760-001-001 to delete an inadequate OLA program to review AHERA asbestos management plans. If the Legislature wants a substantive review of AHERA plans, OLA should specify, prior to budget hearings, the resources which would be required.

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The budget requests $326,000 (3.8 personnel-years) to continue OLA's nonsubstantive review of federally required asbestos management plans for K-12 schools into the budget year.

Background: AHERA and the State's Response. The federal Asbestos Hazard Emergency Response Act (AHERA) requires all K-12 schools to conduct asbestos surveys of school facilities, and prepare an asbestos management plan to address any asbestos containing material that is identified. In addition, AHERA requires a state agency designated by the Governor to receive all management plans. A school must implement its plan if the state agency does not disapprove the plan within 90 days after receipt. In California, the Governor has designated OLA as the agency to receive and review management plans. The OLA received a General Fund appropriation of $1.1 million (19 personnel-years) in the 1988 Budget Act to review AHERA management plans. Congress, however, recently acted to extend the deadline for completion of AHERA management plans from October 12, 1988 to May 9, 1989. OLA anticipates that it will receive approximately 7,000 management plans, *half* of the total amount to be reviewed, at the last minute. Consequently, OLA expects some plan review workload to extend into the budget year.

Administration Ignores Legislature's Concerns About the Quality of OLA Plan Reviews. In October 1988, the Director of Finance notified the Legislature that he intended to approve a request from OLA to accomplish review of virtually all asbestos management plans under contract with the Franchise Tax Board (FTB). We learned at that time that OLA is performing a nonsubstantive review of the plans. The review consists only of making sure that all required pieces of the plan are present, and that all the blanks in certain OLA forms are properly filled in. The Chair of the Joint Legislative Budget Committee notified the director that he did not concur with the FTB contract, and requested that the director notify him of what steps OLA would take to assure a substantive review of the management plans. In December 1988, however, the director gave notice that he intended to approve a budget revision to let the FTB contract proceed, in spite of objections from the Legislature.

Proposed Program Does Not Merit Funding. The $326,000 requested by OLA would continue the current OLA plan review program into the budget year, including the contract with FTB. While the nonsubstantive review of the management plans does not violate the letter of related federal regulations, such a review (1) does not justify expenditure of further General Fund monies, (2) neglects a significant opportunity for the state to assure that accurate, consistent information is available to support school district applications for funding under the provisions of Proposition 79 pertaining to asbestos, and (3) gives the false impression to schools that the state has reviewed and approved management plans on their substantive merits.

None of the functions that OLA and FTB perform under the current review process are specifically required by federal regulation. Moreover, there is no more benefit to the *state* under this process than if the management plans were simply received by OLA, as required, and permitted to sit *unexamined* for 90 days until school districts must implement them. Under these circumstances, we recommend deletion of the $326,000 for the proposed continuation of this review program.

If the Legislature wants a substantive review of the AHERA management plans, as we believe was its intent in appropriating funds last year, then OLA should provide the Legislature, prior to budget hearings, with an estimate of the resources required to review the *quality* of the AHERA management plans from public K-12 schools it has yet to examine. We suggest that review of the plans, at a minimum, should include steps to:

- Verify the qualifications of management planners and asbestos inspectors retained by school districts to produce management plans;
- Assure consistency of recommended abatement actions with asbestos conditions which are reported to exist in a school;
- Assure that the more than 25 asbestos consultants involved statewide in producing management plans for schools undertake asbestos assessments and develop plans using consistent guidelines and criteria.

OFFICE OF REAL ESTATE AND DESIGN SERVICES

The Office of Real Estate and Design Services (OREDS) acts as the state's agent in acquiring and selling real property, identifying surplus state property and managing acquired property prior to its transfer to other departments. In addition, OREDS is responsible for providing well-planned, functional and economical quarters in state owned and leased facilities to accommodate agencies' space needs.

The budget proposes $9.5 million in 1989-90 for support of OREDS. This amount consists of $7.3 million from the Service Revolving Fund and $2.2 million from the Property Acquisition Law Account in the General Fund. This is an increase of $812,000, or 9.3 percent, above estimated current-year expenditures. Most of the increase in the budget ($696,000) is for a proposed new "Proactive Asset Management Program," which is discussed below. The other significant budget changes are (1) a $154,000 augmentation for increased planning/leasing workload and (2) a $125,000 augmentation to cover increased rent for OREDS headquarters in Sacramento. The terms of the lease signed by OREDS in 1986 provide for escalating rent payments which make the proposed augmentation necessary. The lease terms are consistent with the notification provided to the Legislature, pursuant to Government Code requirements, prior to signing the lease.

Proactive Asset Management Program

We recommend a reduction of $646,000 under Item 1760-001-002 to delete a proposed asset management program which is premature because (1) enabling legislation has not been enacted and (2) a computerized property inventory mandated by prior legislation has not been completed.

The Proposal. The budget includes $696,000 under Item 1760-001-002 (Property Acquisition Law Account) for a new "Proactive Asset Management Program." This amount includes $50,000 for a study of potentially necessary modifications to a computerized property inventory being developed by the department pursuant to prior legislation. Under the proposed program, OREDS staff would be augmented by 4.5 positions to more aggressively identify and manage under-utilized state properties and, by leasing and selling these properties, increase state revenues. The department would rely heavily on consultant services to carry out the

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program. The proposal includes $310,000 for consultant contracts, including contracts for financial analysis, EIR preparation, site planning and marketing.

Background. The department's proposal is meant to build upon legislative direction to improve state property utilization/management embodied in Ch 444/86 and Ch 907/86. Chapter 444 directed the department to carry out a pilot project of identifying under-utilized state property within a geographic region to be determined by the department. As part of the pilot project, the department was to hire a private consultant to evaluate opportunities for proactive asset management within the project area. The legislation required the department to submit the consultant's evaluation/recommendations to the Legislature.

The consultant's report, submitted to the Legislature in July 1988, concluded that there were significant opportunities for revenue generation from state property in the project area (the City of San Diego and surrounding communities). Among other things, the consultant recommended that the state establish a public corporation to manage and develop the state's real property assets. The public corporation envisioned by the consultant would have a broad grant of authority for managing, developing and disposing of property, would have a non-civil service staff and would make extensive use of contracted consulting services. The department neither endorsed nor rejected the consultant's recommendations when it submitted the consultant's report to the Legislature. The budget proposal, however, does not include the establishment of a public corporation or the use of non-civil service staff.

Chapter 907 directed OREDS to develop a centralized computer inventory of state properties by January 1, 1989 and to prepare a report by that date of all surplus properties and other properties with no identified current or projected use. The legislation also requires the Auditor General to report to the Legislature by January 1, 1990 on the department's compliance with the legislation. At the time this analysis was prepared, the department was one year behind schedule in preparing the inventory, with estimated completion by January 1990.

Proposal is Premature. Although the department is behind schedule in its development of a statewide property inventory, our review indicates that the department has been conscientious in its attempts to implement Ch 444/86 and Ch 907/86 and to improve the state's management of real property. We also believe that the state needs a more aggressive asset management program. However, the specific form that such a program should take, what type of entity should administer it, and the authority over the use/disposition of state property that the Legislature should delegate to this entity, are significant policy issues that need to be addressed in enabling legislation considered by appropriate policy, as well as fiscal, committees. Moreover, as a practical matter, completion of the statewide property inventory is a prerequisite for any successful asset management program.

In view of the above, the budget's proposal to commence an asset management program in 1989-90 is premature. We therefore recommend a reduction of $646,000 under Item 1760-001-002 to delete the program from the budget. This recommendation would leave $50,000 in the budget for the proposed study of potentially necessary modifications to the computerized property inventory. In our report on recommended legislation issued in January 1989, we recommend that legislation be enacted to establish a property asset management program.

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 $3,614,000 for support of OEA in 1989-90, consisting of $931,000 from the Energy Resources Programs Account (ERPA) in the General Fund and $2,683,000 from the Service Revolving Fund (SRF). This is an increase of $390,000, or 12 percent, above estimated current year expenditures. However, the amount requested for 1989-90 exceeds actual 1987-88 expenditures by $1,373,000, or *61 percent.* Part of the increase ($290,000) is due to a proposed new program whereby OEA would administer centralized procurement of natural gas for state facilities. The remainder of the increase above 1987-88 expenditures is due primarily to overbudgeting of consultant contracts. Both of these increases are discussed below.

Budget Increase Not Needed to Fund New Program

We recommend a reduction of $822,000 in Item 1760-001-666 because (1) the cost of the proposed program for centralized procurement of natural gas ($348,000) can be funded within the department's current level of expenditure authority and (2) a further reduction ($474,000) is warranted to eliminate overbudgeting of consultant contracts.

We further recommend that the Legislature adopt Budget Bill language directing (1) the department to provide a progress report on the new program and (2) the Department of Finance to identify savings resulting from the program and transfer the savings to the General Fund and other funds, as appropriate.

Natural Gas Procurement Proposal. The budget proposes $348,000 under Item 1760-001-666 for OEA and the department's Office of Procurement to jointly administer a new program of centralized procurement of natural gas for up to 75 state facilities. Under the proposal, OEA's staff would be increased by one position and its budget would be augmented by $290,000, including $220,000 for consultant contracts. The remainder of the proposed augmentation ($58,000) would fund an additional position in the Office of Procurement. Both positions would be limited-term to June 30, 1991.

The department is proposing centralized natural gas procurement to take advantage of recent regulatory changes that have made the market for natural gas sales more open and competitive. Prior to the regulatory changes, state facilities had to buy natural gas from local utilities at rates set by the Public Utilities Commission. The regulatory changes permit facilities to purchase gas from alternative suppliers at negotiated rates. The elimination of the local monopoly of utilities creates the opportunity to negotiate reductions in natural gas prices. According to the department, the proposed centralized negotiation/purchases of natural gas would save the state an estimated $3 million annually (about 5 percent of current natural gas purchases).

Overbudgeting of Consultant Contracts. Our review indicates that the gas procurement proposal has merit. We recommend, however, that the program be funded within the department's current level of expenditure authority. The department has more than adequate spending authority

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without the proposed augmentation because OEA has consistently overbudgeted for consultant contracts. As Table 5 shows, during the last three fiscal years for which actual data are available (1985-86 through 1987-88) OEA has overbudgeted consultant contracts by $3.1 million. In 1987-88 the overbudgeting totaled $950,000. The OEA proposes spending authority for contracts of $2.7 million in 1989-90. This proposed amount for contracts exceeds 1987-88 expenditures by $1.3 million and is $1.2 million more than OEA has ever spent for contracts in a fiscal year. By consistently overbudgeting in OEA, the department has additional spending authority within the Service Revolving Fund that would be available for transfer to other programs, without any requirement for legislative review.

Table 5
Department of General Services
Office of Energy Assessments
Consultant Contracts
1985-86 through 1987-88
(dollars in thousands)

	1985-86	*1986-87*	*1987-88*
Budgeted	$2,406	$2,406	$2,406
Expended	1,078	1,542	1,456
Amount Overbudgeted	$1,328	$864	$950

Apart from the consultant contracts associated with the gas procurement proposal, the nature and extent of OEA's work to be carried out under consultant contracts in the budget year has not changed materially from prior years. We therefore recommend reducing Item 1760-001-666 by $822,000—the amount by which OEA consultant contracts were overbudgeted in 1987-88 ($950,000) less the amount needed for the non-contract portions of the gas procurement proposal ($128,000). This would still leave the department with a 21 percent increase above the amount expended in 1987-88 for OEA consultant contracts *and* the additional funds needed for the non-contract portions of the gas procurement proposal.

Language Needed to Guide Program Implementation. In order to assure that (1) savings generated by the gas procurement program accrue to appropriate funds and (2) the Legislature receives the information it needs to assess the benefits of continuing the program, we recommend adoption of the following supplemental report language:

> The amount appropriated for support of the Department of General Services under Item 1760-001-666 includes $348,000 to establish a natural gas centralized procurement program to be jointly administered by the Office of Procurement and the Office of Energy Assessments. The Department of General Services shall report to the chairs of the fiscal committee in each house and the chair of the Joint Legislative Budget Committee by January 1, 1991 on the status of the program, including program expenditures, savings generated by the program for each client department, and recommendations for continuance, termination, and/or revisions to the program. The Department of Finance shall report to the chairs of the fiscal committee in each house and the chair of the Joint Legislative Budget Committee by January 10, 1990 and January 10, 1991. This report shall identify, by client department and funding source, actual and estimated savings in natural gas expenditures resulting from the program. The

report also shall document the corresponding expenditure reductions included in the Governor's annual budget.

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 $65.8 million for support of OBG in 1989-90. This is an increase of $1.6 million, or 2.5 percent, above estimated current-year expenditures. The budget request, however, represents an increase of $3.2 million, or 5.1 percent, above the current year budget approved by the Legislature. This is because estimated current year expenditures include $1.6 million of *deficiency* authorizations requested by the Director of Finance. The proposed budget growth includes $1.4 million in 1989-90 (and $827,000 in the current year) for inflationary price increases for utilities. The budget also includes $575,000 in 1989-90 (and $809,000 in the current year) for a new asbestos monitoring/maintenance program.

Transfer of Savings from Building Rental Account to General Fund

We recommend the transfer from the Building Rental Account to the General Fund of $2,985,000 of savings resulting from our recommended reductions to the Building Rental Account portion of the OBG budget.

Of the $65.8 million proposed for expenditure by OBG in 1989-90, a total of $46.4 million is from the Building Rental Account (BRA). The primary source of revenue into the BRA is rent paid by state agencies for office space owned by the Department of General Services. All agencies renting office space from OBG will pay rent in 1989-90 of 92 cents per square foot per month. Funds for these rental payments are incorporated into each agency's 1989-90 budget.

In our analysis of the OBG budget below, we make a number of recommendations which, if adopted, would reduce BRA expenditures. Since BRA revenues would not be affected, the reduced amount of expenditures would generate a corresponding surplus in the BRA. In order to maximize the Legislature's flexibility in meeting statewide needs we recommend transferring the savings resulting from our recommendations ($2,985,000) from the BRA to the General Fund.

Asbestos Monitoring/Maintenance

We recommend reducing Item 1760-001-001 (General Fund) by $29,000 and Item 1760-001-666 (Service Revolving Fund) by $546,000 to delete a proposed asbestos monitoring/maintenance program. We further recommend transferring the Building Rental Account portion of the Service Revolving Fund savings ($489,000) to the General Fund.

The budget includes $575,000 for OBG to train and equip maintenance personnel to conduct asbestos monitoring and perform repair and maintenance projects which involve asbestos-containing materials. This amount consists of $29,000 from the General Fund under Item 1760-001-001 and $489,000 from the BRA plus $57,000 in reimbursements under Item 1760-001-666. In a letter submitted December 28, 1988, pursuant to Section 27.00 of the 1988 Budget Act, the Director of Finance advised the

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Legislature of his intent to authorize deficiency expenditures in the current year totaling $809,000 for the start-up of this new program.

Department Has Not Substantiated Need for Program of this Magnitude. Our review indicates that the department is proposing a maintenance program for asbestos without first defining the specifics of the problem it is designed to address. Specifically, it has not (1) based its request on a survey conducted by the Office of the State Architect of the asbestos conditions in buildings served by OBG or (2) identified the number/frequency of maintenance activities which would disturb asbestos-containing materials. Absent such information, the need for additional training and equipment funds is unclear. Moreover, there are no statewide standards in place for asbestos monitoring/maintenance on which the Legislature can base an evaluation of this program (or similar programs which may be proposed by other departments). In view of the above, we recommend that the Legislature not fund at this time the proposed monitoring/maintenance program.

In our 1989-90 *Perspectives and Issues* ("State Asbestos Abatement Programs") we recommend that the Legislature establish a task force that would, among other things, recommend statewide standards for asbestos monitoring/maintenance programs. The proposed task force, which would include representatives from the Department of General Services, would report to the Legislature in the fall of 1989 on standards for asbestos monitoring, training of maintenance employees, types and quantities of special equipment, and organization of asbestos programs.

If the Legislature acts to form the recommended task force and adopt standards for asbestos monitoring/maintenance programs, an OBG proposal consistent with these standards would merit legislative consideration as part of the 1990-91 Budget. In the meantime OBG can take the following actions being taken by other departments: (1) use existing special repair funds to conduct necessary repairs which involve disturbing asbestos-containing materials, (2) use registered asbestos contractors where existing equipment and staff training are insufficient to conduct such repairs in accordance with state and federal regulations, and (3) provide asbestos equipment and training for employees on a priority basis, using existing operating expense and equipment funds.

Special Repairs

The budget includes $5.1 million for 41 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 6
Department of General Services
Office of Buildings and Grounds
1989-90 Special Repair Projects
Projects for Which We Recommend Approval
(dollars in thousands)

Type of Project	*Number of Projects*	*Department Request and Analyst Recommendation*
1. Heating, ventilation, air conditioning repairs	14	$674
2. Roof repairs/replacement	1	46
3. Electrical repair and load test	2	32
4. Parking lot/sidewalk repairs	4	97
5. Painting and window/drapery replacement	4	309
6. Floor and carpet replacement	1	20
7. Install security systems	2	23
8. State Capitol projects	3	61
9. Miscellaneous	3	94
Totals	34	$1,356

We recommend approval of $1,356,000—consisting of $100,000 in Item 1760-001-001 and $1,256,000 in Item 1760-001-666—requested for 34 projects outlined in Table 6.

Our review of the 34 special repair projects shown in Table 6 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 $75,000 in Item 1760-001-666 and approval in the reduced amount of $568,000 for the first phase of retrofitting gas turbine engines at the Central Plant.

The budget requests $643,000 for the first phase of retrofitting the six gas turbine engines at the Central Plant in Sacramento. These engines power about 75 percent of the Central Plant's cooling capacity, which provides air conditioning to 5.5 million square feet of state office space in downtown Sacramento, including the Capitol. The department proposes to retrofit two turbine engines each year over the next three years, with an estimated cost of $435,000 beyond the budget year. (Costs in the first year are higher to cover the purchase of accessory equipment needed for all six engines.) The retrofits are needed because the manufacturer has informed the department that parts and service will no longer be available for the turbines, which were installed in the Central Plant in 1968. According to the manufacturer, the retrofits will extend the useful lives of the turbines by 20 years.

We agree that the retrofits are needed. The budget request, however, adds $107,000 to the amount quoted by the manufacturer in December 1987, assuming that the cost will rise by 20 percent between the time of the estimate and commencement of the work—little more than a year and a half. The department has not specified why inflation in this case should outpace what is anticipated for construction projects generally over the same period (about 6 percent). We therefore recommend a reduction of $75,000 to eliminate excessive budgeting for anticipated inflation.

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C. Projects for Which We Recommend Deletion

We recommend deletion of $2,421,000 requested under Item 1760-001-666 for two projects the need for which the department has not substantiated.

We recommend deletion of funds for the following two projects at the state office building located at 751 N Street, Sacramento:

- $2,126,000 to replace/upgrade the heating, ventilation and air conditioning (HVAC) system, and
- $295,000 to replace 270 dual-paned windows.

This building, occupied by the Employment Development Department (EDD), was completed and occupied in 1983. The HVAC system is served in part by solar collectors suspended above the slanting face of the building's south side (facing "N" Street). The windows proposed for replacement are also located on this side of the building.

HVAC System. According to the department, the current HVAC system fails to perform to design specifications. The department also indicates that the amount of supplemental steam supplied from the central plant to the building is higher than anticipated because the solar collectors do not perform according to design. Among the other problems cited by the department are poor ventilation and inadequate cooling temperatures within the building. Moreover, the Director of EDD has advised the department that the current conditions are not tolerable and must be improved.

According to the documentation submitted to the Legislature with the budget request, the department (based on a consultant's study) proposed to solve the problem by replacing major components of the existing system with a different type of solar collection system and new air conditioning chiller units. According to department staff, however, this proposal was abandoned before the budget was published. Instead, the department is awaiting the results of yet another consultant's study (due in February 1989) which will examine several alternative solutions. Thus, according to staff, the $2,126,000 request in the budget is merely a "placeholder."

Based on information received from the department, it is obvious that the building occupants are dissatisfied with the interior conditions and some improvements are necessary. On the other hand, the same information indicates that, except for one instance when there was an equipment failure, the interior temperatures during the summer were within the normal range of the state's indoor temperature standard. The information also appears to indicate that building ventilation would be adequate if various adjustments and minor modifications are made to the ventilation system. Consequently, at the time this analysis was prepared, the department had not substantiated the need to extensively modify the HVAC system in the manner requested. Thus, based on available information, we recommend deletion of the $2,126,000.

If, based on the consultant's report *and* a thorough reevaluation of the HVAC system, the department finds that major improvements are necessary, a submittal to the Legislature detailing the needs would warrant consideration. In this event, we recommend that the department give serious consideration to the alternative of expanding the chiller capacity of the Central Plant and connecting the building to the Central

Plant's system. This would not only provide a reliable cooling system, but could at the same time provide additional chiller capacity that will be needed at the Central Plant to provide cooling to new state buildings currently under design.

Replacement of Windows. The budget requests $295,000 to replace 270 dual-paned windows on the slanting south side of the building. According to the department, faulty seals have allowed moisture inside the panes, causing "unsightly and unsanitary" conditions. According to the department's documentation for this project, the faulty seals appear to be due to "an inherent design error and/or manufacturer's error."

The department has not been able to justify this proposal on other than an aesthetic basis. Specifically, the department has not substantiated that either an unsafe or unsanitary condition exists. Moreover, if the situation is due to design and/or manufacturer error, it should be the designer and/or manufacturer's responsibility to correct the problem. Finally, the department has not identified what changes will be made so that the same condition will not occur with replacement of the windows. Consequently, it is not clear that the proposed expenditure would be effective. Accordingly, we recommend deletion of the $295,000 requested for window replacement.

D. Projects for Which We Withhold Recommendation

We withhold recommendation on $640,000 requested in Item 1760-001-666 for four projects at the San Francisco State Office Building and Annex pending clarification of (1) the administration's plans to vacate tenants and proceed with major seismic and other code-related renovations of the buildings and (2) the relationship of the special repair projects to those activities.

As shown in Table 7, the budget includes $640,000 under Item 1760-001-666 for four special repair projects at the San Francisco State Office Building and adjoining Annex.

Table 7
Department of General Services
1989-90 Special Repair Projects
San Francisco State Office Building and Annex
(dollars in thousands)

Project	*Department Request*
1. Replace roof	$454
2. Grout removal/repaint exterior	167
3. Sidewalk repair	11
4. Carpet replacement	8
Total	$640

The department's five-year capital outlay plan includes a major renovation project at the San Francisco State Office Building and Annex, involving seismic retrofitting and other alterations to meet various code requirements. The scope of the project is extensive. Its estimated cost, including costs to lease space for state tenants displaced during the renovations, exceeds $140 million. At a hearing of the Joint Legislative Budget Committee in December 1988, the department's director and staff testified that renovations are needed because the building and annex do not meet code requirements intended for the safety of building occupants.

DEPARTMENT OF GENERAL SERVICES—Continued

Given the uncertainty on renovating the building and whether tenants will vacate, two of the special repair projects—roof replacement and exterior grout removal/painting—may be premature or even unnecessary. At least one of the other projects—carpet replacement—would be unnecessary if state tenants are to be vacated. In view of the above, the department needs to clarify (1) its plans to vacate tenants and proceed with major renovations and (2) the relationship of the special repair projects to those activities. Pending this clarification from the department, we withhold recommendation on the $640,000 requested for special repairs at the San Francisco buildings.

STATEWIDE SUPPORT SERVICES

EVALUATION OF PROCUREMENT AND CONTRACT TRAINING

Chapter 1226, Statutes of 1985, required the Director of General Services to establish training programs for state personnel working in the areas of goods procurement and service contracting. The Office of Procurement within the DGS is to provide procurement training and the Department of Personnel Administration (DPA) is to provide training in service contract management. The legislation further required the DGS to report to the Legislative Analyst on the effectiveness of the programs. The Legislative Analyst was required to evaluate the programs on the basis of those reports as well as interviews with employees who had participated in the training classes.

In this analysis we evaluate the effectiveness of these two training programs by applying the following two criteria:

1. Is the training provided to all those who need it (those with primary responsibility within their departments for procurement and contracting), and
2. Do those who attend the training classes learn what they need to know to perform their job in compliance with state policy and legal requirements.

To answer the first question, we reviewed attendance statistics provided by DPA and DGS, and conducted a survey of randomly selected state agencies to determine whether or not those performing procurement and contract duties had taken the respective training classes. To answer the second question, we relied on review of course content, personal evaluation by participants, and an assessment of the quality of participants' work.

Evaluation of Contracts Training

Is the Training Provided To All Those Who Need It?

The State Training Center within the DPA offers a four-day class entitled "Managing the Service Contract Process" six to eight times a year. The class is available to all departments on a voluntary basis at a cost of $285 per student ($365 in Los Angeles).

Chapter 1226 states that the intent of the Legislature is for the employee in each state agency who has the primary responsibility for preparing and administering contracts to receive training. The attendance data provided by DPA did not indicate either job titles or duties of those taking the course. We were able to determine, however, that most employees responsible for contracts in departments which use substantial contract services had taken the training course. Of the fifteen agencies with the most contract activity in the state, all but one had sent employees to the training class. Training center personnel indicated that students with all levels of responsibility, from clerical to managerial, currently take the class.

Table 8 shows that 290 employees from 54 agencies (out of a total of 115 state agencies) have taken the class since its inception in 1986-87.

Table 8
Department of Personnel Administration
State Training Center
Employees and Agencies
Represented at Contract Training
1986-87 and 1987-88

	Number of Employees Trained	*Number of Agencies Represented*
1986-87	114	35
1987-88	176	39
Total	290	54 [a]

[a] The agencies represented do not add to 54 because some agencies sent students in both 1986-87 and 1987-88.

Our telephone interviews of class participants and other contract employees selected at random indicated that all contracts personnel were aware of the course. None reported that the class was unavailable to them due to cost or other reasons. Those who had not taken the class had received on-the-job training from more experienced coworkers or supervisors and by reading the State Administrative Manual.

Do Class Participants Learn What They Need to Know to Perform Their Jobs in Conformity With State Policy and Legal Requirements?

Course Content. Based on our review of the curriculum and conversations with participants, the course appears to be very comprehensive. The major topics are:

- Procedures and techniques for contract solicitations, award and management;
- Four phases of contracting;
- Mandatory and suggested solicitation language;
- Developing bid evaluation procedures; and
- Conducting cost analysis.

Both students and training personnel thought the class was technically rigorous and offered an intensive review of the purpose and procedures of state contracting.

Participant Evaluations. In written evaluations, students have consistently rated the course very favorably. On a scale of zero to 10 (where 10 was most favorable), students in 1986-87 gave the course an average rating of 8.9; ratings for the eight courses in 1987-88 dropped slightly to an average of 8.7. These evaluations were verified through a telephone survey which revealed that students thought the course rated highly on such factors as meeting its stated objectives and instructor effectiveness. When asked how the course could have been improved, the answer most frequently given was that more specialized instruction specific to a

DEPARTMENT OF GENERAL SERVICES—Continued

particular type of contracting problem (such as EDP services) should be provided.

These responses corresponded to comments from training center staff who identified two problem areas. First, they found it difficult to offer detailed instruction on specialized areas in contracting requested by some of their students due to lack of time. Second, some students had trouble understanding the material due to the amount and complexity of the information presented. This was especially true of those who had been on the job for a short time or did not have a strong educational background.

Outside Assessment of Impact on Work Performed. The report on effectiveness of contract training prepared by DGS provided statistics on contract performance for all state agencies. The performance measure used in the report is the number of drafting (substantive) errors General Service's legal staff found in their regular contract review. The report also contained information on the number of contracts written and the number of students trained for these same departments.

Table 9 shows that in 1986-87 the average drafting error rate among those agencies that sent employees to training was significantly lower (5.5 percent) than the average drafting error rate for all agencies (10.4 percent). The average drafting error rate for participating agencies with the most contract activity was 9.6 percent, also lower than the statewide average. In 1987-88, however, the average error rate for those agencies that sent employees to training was higher (13.4 percent) than that of all state agencies (12.1 percent). The average 1987-88 error rate for participating agencies with the most contract activity (11.5 percent) was lower than the statewide average.

Table 9
Department of General Services
Office of Legal Services
Average Drafting Error Rates Among State Agencies
1986-87 and 1987-88

	All Agencies	*Participating Agencies*	*Participating Agencies With Most Contract Activity*
1986-87	10.4%	5.5%	9.6%
1987-88	12.1%	13.4%	11.5%

Among the 1987-88 participating agencies there were two with especially high drafting error rates (44 percent and 51 percent). Personnel at the state training center indicated that both of these agencies had been negotiating contracts during that year that were much larger and more complex than anything they had written previously, and had requested special help from the center in writing the contracts. If the average error rates for these two agencies are removed from the participating group (38 total in the group), the error rate for participating agencies falls to 7.9 percent, well below the statewide average.

Our evaluation of the contracts training program, based on review of drafting error rates, participant evaluations, and results of the telephone survey, is that the class is helpful to those who write and manage state contracts, and improves the quality of those contracts. Our review further indicates, however, that employees working with large and complex contracts need help with specific problems that cannot be included in a general class.

Evaluation of Procurement Training

The Office of Procurement within the DGS offers a general one-day class on state policies and legal requirements for procurement. The class is offered free of charge once a quarter, usually in Sacramento but also occasionally in Los Angeles. In addition, the Office of Procurement offers special training classes to individual state agencies upon request. These individual classes have been conducted in Fresno, San Francisco, Santa Rosa, Redding, San Luis Obispo, Los Angeles, Riverside, and Chino.

Most state agencies are required to do their purchasing through the Office of Procurement when purchasing goods valued at more than $10,000. (Goods valued at more than $10,000 require a formal competitive bid process while those valued at less than $10,000 require only an informal, telephone bid process.) Some agencies that often make large purchases are granted "delegated" authority, however, to do their own procurement for goods valued at up to $100,000. In order to obtain delegated authority, an agency is required to send its procurement employees to the procurement training class.

To date, 1,376 employees from 100 state agencies have participated in the procurement training program. Procurement personnel state that agencies desiring training for their employees currently have to wait approximately eight weeks until a class is available. Telephone interviews with employees working in procurement within departments selected at random indicated that all of those questioned were aware of the class and thought that it was available to them. In a survey conducted by the Office of Procurement, responses from 92 departments indicated that 83 percent knew the classes were available.

Do class participants learn what they need to know to perform their jobs in conformity with state policy and legal requirements?

Course Content: Our review of the course outline indicates that the procurement training covers the following topics:

- Competitive bidding, legal requirements and state procedures.
- Procurement processes and scheduling.
- Quality control.
- Vendor prequalification.
- Materials management.
- State preference programs.
- Prompt payment procedures.

Participant Evaluations: Following the training classes, the Office of Procurement asked participants to evaluate the class on a scale of one to 10 (10 being the highest score) with respect to the following:

1. Overall quality of instruction.
2. Usefulness to their work.
3. Amount of information that was new to them.

The students gave the course an average ranking of 8.4 on the first two questions and 5 on the third. The favorable responses to the first two questions were verified through a telephone survey in which participants stated that the class was a valuable experience and useful to them in their work. The less favorable rating on the third item was also confirmed by telephone contacts.

DEPARTMENT OF GENERAL SERVICES—Continued

Apparently, most of those taking the class have worked in procurement for some time and already have significant experience in the field.

Outside Assessment of Impact on Work Performed. The DGS' report on procurement training did not provide any objective measure of the impact of the class on agencies' procurement practices. When questioned, however, Office of Procurement personnel reported that they found, in their regular audits of agencies with delegated authority, that training did improve both timeliness and accuracy of deliveries. The results of the Office of Procurements' survey mentioned above, also indicated that 82 percent of those responding reported that the class improved their performance with respect to these two criteria.

Our analysis indicates that the procurement training program provided by the DGS is helpful to those who take it. The Office of Procurement currently maintains no objective records measuring performance of those taking the training course, however. Such records would be an objective indicator of the impact of training on departments' procurement activities. They could also help the Office of Procurement to make changes in its training course to better meet the needs of the students. The one-day course could be updated on an annual basis to spend less time on material most participants are already familiar with and, instead, emphasize material that is new to them.

State and Consumer Services Agency
STATE PERSONNEL BOARD

Item 1880 from the General Fund — Budget p. SCS 137

Requested 1989-90	$13,601,000
Estimated 1988-89	24,681,000
Actual 1987-88	24,760,000
Requested decrease (excluding amount for salary increases) $11,080,000 (−45 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1880-001-001—Support	General	$11,528,000
Reimbursements	—	2,073,000
Total		$13,601,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Career Opportunities Development Program. Recommend that the Department of Finance report to the fiscal committees, prior to budget hearings, on the programmatic and fiscal effects of the proposed elimination of the Career Opportunities Development program on various state programs and agencies. 146

2. Unallocated Reduction. Recommend that the SPB provide the fiscal committees, prior to budget hearings, with a specific plan for implementing the proposed 20 percent reduction. 148

GENERAL PROGRAM STATEMENT

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

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

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 301.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $13.6 million for support of the State Personnel Board in 1989-90. This is $11.1 million, or 45 percent, below estimated expenditures for the current year. The proposed expenditures consist of an appropriation of $11.5 million from the General Fund and $2.1 million in reimbursements. The General Fund amount is

Table 1
State Personnel Board
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Merit system administration	165.2	217.2	212.8	$21,149	$23,583	$14,035	−40.5%
Appeals	37.6	—[a]	—[a]	2,670	—	—	—
Local government services	—	—	—	849	881	899	2.0
Administrative services	76.8	84.1	84.1	4,000	4,761	4,978	4.6
Distributed administrative service	(76.8)	(84.1)	(84.1)	−3,908	−4,544	−4,761	4.8
Unallocated reduction	—	—	—	—	—	−1,550	—[b]
Totals	279.6	301.3	296.9	$24,760	$24,681	$13,601	−44.9%
Funding Sources							
General Fund				*$21,120*	*$20,858*	*$11,528*	*−44.7%*
Reimbursements				*3,640*	*3,823*	*2,073*	*−45.8%*

[a] In 1988-89 the Appeals program was consolidated with the Merit system administration program.
[b] Not a meaningful figure.

STATE PERSONNEL BOARD—Continued

$9.3 million, or 45 percent, below estimated current-year expenditures. Reimbursements are expected to decrease by $1.8 million, or 46 percent, below estimated current-year amounts.

The reduction in the SPB budget is due to the elimination of the Career Opportunities Development program, and the imposition of an unallocated reduction. Table 1 summarizes expenditures and personnel-years for each of the board's programs, for the past, current, and budget years. The baseline adjustments and workload changes proposed for the budget year are displayed in Table 2.

Table 2
State Personnel Board
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements*	*Totals*
1988-89 Expenditures (Revised)	$20,858	$3,823	$24,681
Baseline Adjustments			
Personal services	1,242	185	1,427
Operating expense	—	25	25
Expiring program reductions	−139	−125	−264
Unallocated 20 percent reduction	−1,550	—	−1,550
Subtotals, baseline adjustments	(−$447)	($85)	(−$362)
Workload Changes			
Merit system oversight	$172	—	$172
Psychological screening	—	$57	57
Exam certification	—	130	130
On-line automated selection system	−115	230	115
Decentralized testing information pilot	50	—	50
Medical office support	25	—	25
Eliminate Career Opportunities Development Program	−9,015	−2,252	−$11,267
Subtotals, workload changes	(−$8,883)	(−$1,835)	(−$10,718)
1989-90 Expenditures (Proposed)	$11,528	$2,073	$13,601
Change from 1988-89:			
Amount	−$9,330	$1,750	−$11,080
Percent	44.7%	45.8%	44.9%

ANALYSIS AND RECOMMENDATIONS

Elimination of Career Opportunities Development Program.

We recommend that the Department of Finance report to the Legislature prior to budget hearings on the programmatic and fiscal effects of the proposed elimination of the Career Opportunities Development program on various state programs and agencies.

The Governor's Budget proposes the elimination of the Career Opportunities Development (COD) program, for a General Fund savings of $9 million and a reduction of 7.6 personnel-years in the 1989-90 budget for the State Personnel Board (SPB). The COD program currently provides on-the-job training for disabled individuals, welfare recipients, and other economically disadvantaged persons, including participants in the state's Greater Avenues for Independence (GAIN) program. The goal of the

COD program is to help reduce welfare dependency by helping disadvantaged persons start careers in public service.

The SPB administers the COD program through contracts with other state departments, counties, and nonprofit organizations. Under these contracts, the SPB pays 80 percent to 90 percent of the trainee's salary and benefits and the entity providing the training pays the remainder.

We have two major concerns regarding the proposed elimination of the COD program. First, the Governor's Budget indicates that the training opportunities currently provided by the COD program "can best be realized through the administration's policies at the state level and will continue at the local level through the GAIN program as implemented through the Department of Social Services." The budget, however, does not provide any detail regarding how these training opportunities will actually be provided and coordinated at the state level.

Second, the budget does not account for a number of fiscal and programmatic effects that the proposed elimination will have on a variety of state programs. Our analysis indicates that the elimination of the COD program would affect the following programs:

- *The COD-Funded Training Programs for Disabled Individuals Provided by the Department of Rehabilitation (DOR).* In the current year, the DOR receives approximately $2 million in COD funds from the SPB and matches them with federal funds on an 80/20 (federal/state) basis. The federal matching funds result in roughly $8 million in additional federal funds being available to the DOR for training programs for disabled individuals. Thus, the DOR's budget for 1988-89 includes approximately $10 million for COD-related activities. The 1988 Budget Act requires the DOR to use $2 million of these funds to purchase on-the-job training services for disabled individuals from the SPB. The DOR will use the remaining $8 million to provide vocational rehabilitation services to disabled individuals. The administration's proposed 1989-90 budget for DOR does not reflect elimination of the $2 million in COD funds *nor* the loss of roughly $8 million in federal funds that would result from the elimination of the COD program. It is also not clear to what extent eliminating these funds will affect the state's ability to deliver training services to disabled individuals.
- *The SPB Disability Unit.* The 1988 Budget Act requires the DOR to provide $472,000 to the SPB to support administrative activities and related costs in the board's disability unit in the current year. The SPB uses these funds to support over 8 positions in its disability unit. While the budget eliminates the funding for these positions, it does *not* reflect the elimination of the positions from the *SPB's* authorized positions schedule.
- *The GAIN Program.* The SPB advises that it has contracted for approximately 175 training slots for GAIN participants in the current year. The budget does not indicate how the GAIN program will be able to develop additional training slots to meet the caseload previously served through the COD program. Nor does the budget indicate whether the SPB will continue to assist counties in identifying opportunities in state service for GAIN clients.
- *AFDC and SSI/SSP Programs.* Most of the COD funds available in the current year are used to provide training for individuals who meet federal income poverty levels. Many individuals would other-

wise be eligible to receive aid payments through AFDC and SSI/SSP programs. In fact, many COD participants are actually receiving welfare at the time that they are initially referred to the COD program. Therefore, the proposed elimination of the COD program could result in increased welfare program costs. The budget does not include any funding for these increased welfare costs.

- *State Agencies That Employ COD Participants.* COD participants work in a variety of state departments, including the Department of Social Services, the Department of Corrections, and the Department of Developmental Services. The budgets for these departments include funds to pay for 10 percent to 20 percent of the salaries and benefits of the COD participants. The Governor's Budget does not specify how the employing departments will handle the workload formerly covered by their COD employees.

Conclusion. The proposed elimination of the COD program will affect several state programs in 1989-90. The budget, however, does not reflect the effects of the proposed elimination on state agencies other than the SPB. Without a better understanding of the implications of this proposal for other state agencies and programs, the Legislature will not be able to assess the merits of the proposed change. We therefore recommend that the Department of Finance report to the Legislature prior to budget hearings on the programmatic and fiscal effects of the proposed elimination of the COD program on various state programs and agencies.

Twenty Percent Unallocated Reduction

We recommend that the SPB provide the fiscal committees, prior to budget hearings, with a specific plan for implementing the proposed 20 percent reduction.

The budget proposes to reduce SPB's General Fund budget by $2.6 million, about 20 percent, over a two-year period: $1.5 million in 1989-90 and $1.1 million in 1990-91. While the budget does not propose to reduce a specific number of positions, the SPB indicates that over 60 positions from various units would be eliminated. The administration indicates that the reduction is based on its policy determination that SPB can absorb the reduction without adversely affecting its primary responsibilities.

Given the magnitude of the proposed reduction, however, the Legislature cannot know whether *its priorities* will continue to be served by the SPB. Currently, the SPB has numerous responsibilities including (1) recruiting; (2) conducting examinations; (3) resolving appeals on medical issues, discrimination cases, and adverse actions; and (4) overseeing the affirmative action/equal employment opportunity efforts of state agencies. In the past session, the Legislature demonstrated a particular interest in SPB's affirmative action oversight responsibility.

Consequently, to enable the Legislature to evaluate this proposal, we recommend that the SPB provide the fiscal committees, prior to budget hearings, with a specific plan for implementing the proposed reduction.

Affirmative Action and Merit Oversight Division

Chapter 144, Statutes of 1988 (ACR 145—Chacon), directed our office to evaluate the SPB's Affirmative Action and Merit Oversight Division as part of our analysis of the 1989-90 Budget Bill. Accordingly, in this analysis, we provide an overview of the division's activities and the allocation of its staff for the current year. The SPB indicates that funding and staffing levels for this division will be reduced in the budget year due to (1) the imposition of an unallocated 20 percent reduction and (2) the elimination of the Career Opportunities Development program. At the time we prepared this analysis, the SPB had not determined the specific effects of these reductions.

Program Overview. Within the last 10 years, the state has decentralized much of its civil service testing and selection responsibilities away from the SPB to the various state departments. The SPB, however, retains overall responsibility for overseeing the state's civil service selection system and affirmative action efforts. The SPB meets its responsibilities in these areas primarily through the Affirmative Action and Merit Oversight Division.

The division is organized around three main functions: (a) department merit and affirmative action oversight, (b) special employment programs, and (c) exam administration.

- *Merit and Affirmative Action Oversight.* This unit reviews testing and selection programs of 68 decentralized state agencies. It reviews all phases of the employee selection process such as design of test questions, application review standards, and affirmative action impact. The oversight unit also reviews the affirmative action efforts of all state departments.
- *Special Employment Programs.* These programs are designed to make the staff of the state civil service system more representative of California's population. These programs include advocacy and demonstration projects that use innovative approaches towards making the civil service system more accessible to underrepresented groups. This in turn is intended to contribute to the success of state departments in reaching their affirmative action goals.
- *Exam Administration.* Although civil service testing has been decentralized extensively to state departments, the SPB still directly administers a sizeable number of exams. This responsibility is carried out by the exam services unit. The exams directly administered by the SPB are primarily: (a) servicewide exams for job classifications commonly used by many departments, such as some clerical positions, (b) exams for departments that have not complied with SPB standards, and (c) exams for 20 small state departments.

Budget and Staffing Overview. The Affirmative Action and Merit Oversight Division has an operating budget of about $16.2 million in the current year. This amount includes $10 million for the COD. These funds are used primarily to reimburse departments participating in the COD program.

The division has 139 staff overall. Excluding eight staff for COD administration, it has 131 staff to administer its primary responsibilities. Table 3 shows the distribution of staff within the division's units for the current year.

STATE PERSONNEL BOARD—Continued

Table 3
State Personnel Board
Affirmative Action and Merit Oversight Division [a]
1988-89 Staffing

Function	*Number of Positions*	*Percent of Total*
Administration	5	3.6%
Department Oversight	30	21.6
Special Employment Programs		
Disabled program	9	6.5
Women's program	4	2.9
Hispanic employment program	5	3.6
Recruitment	5	3.6
Career opportunities development program	8	5.8
Other programs	3	2.2
Subtotal, employment programs	(34)	(24.5)
Exam Administration Services		
Field offices	34	24.5
Exam processing and certification	36	25.9
Subtotal, exam services	(70)	(50.4)
Total 1988-89 Staffing	139	100.0%

[a] Does not reflect the effects of the unallocated reduction or the elimination of the COD program.

Major Activities of the SPB Oversight Function. One of SPB's primary missions is the oversight of department's selection and affirmative action efforts. This responsibility is primarily carried out in the oversight function of the Affirmative Action and Merit Oversight Division. Typically, analysts are assigned to review all aspects of selection and affirmative action activity within one or more departments. The SPB has developed the following three-step model for implementing its oversight responsibilities:

1. *Establish Policies, Procedures, and Guidelines.* The division provides these guidelines so that departments will have adequate guidance to follow SPB directives in examination and selection of employees, and in affirmative action efforts. To accomplish this, SPB has issued manuals and policy memoranda. The board indicates that it has not always been able to reach its goals in this area due to staffing limitations. For example, the Affirmative Action Manual apparently has not been updated since the early 1980s.

2. *Provide Ongoing Assistance.* The division provides this assistance in order to help departments to correctly interpret SPB policies. This also involves the preapproval of department examination plans when the board has determined that the department is not fully competent to administer an exam on its own. The SPB indicates that much of the workload of the oversight function is concentrated in this area.

3. *Audit Department Selection and Affirmative Action Activities.* The division conducts post-audits in order to identify problems and propose corrections. For example, a department's compliance with SPB's examination and selection guidelines could be reviewed and a comprehensive review of a department's affirmative action plan could be undertaken. The board originally intended to meet with each department once each year in an annual department planning and assessment meeting. The SPB

indicates that it has been unable to maintain this schedule and currently attempts to meet with departments once every three years.

Summary

The activities in the oversight area primarily consist of providing advice and guidance on selection and affirmative action activities to personnel staff in various state agencies. Also, a significant amount of workload appears to be concentrated in preapproving specific examination plans for compliance with SPB examination and selection guidelines, and affirmative action impact. The board indicates that it has been unable to reach its goals in providing departments with up front guidance, and in post auditing department activities due to staffing limitations.

Proposed Reductions Will Impact Division. The Governor's Budget proposes an unallocated 20 percent reduction ($1.5 million in 1989-90 and $1.1 million in 1990-91) and elimination of the Career Opportunities Development program ($11.3 million). These proposals, if adopted, would reduce the department's budget by over 44 percent, beginning in 1989-90. A reduction of this magnitude will significantly impact the funding and staffing levels, and programmatic activities of the Affirmative Action and Merit Oversight Division. In our judgment, the board's affirmative action efforts will bear a disproportionate share of the reductions in the board's budget, given the workload requirements placed on the board by the Constitution and current statutes. At the time this analysis was written, the SPB had not yet determined how the reductions in its budget will be implemented, or the extent to which the scope of the division's activities will be affected. For this reason, we have recommended (please see previous issue) that the board report this information to the Legislature prior to budget bearings. Absent such information, the Legislature cannot determine whether *its priorities* will continue to be served.

State and Consumer Services Agency
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 1900 from various funds — Budget p. SCS 143

Requested 1989-90	$45,439,000
Estimated 1988-89	43,842,000
Actual 1987-88	40,792,000
Requested increase (excluding amount for salary increases) $1,597,000 (+3.6 percent)	
Total recommended reduction	None

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1900-001-001—Social Security administration	General	$55,000
1900-001-815—Retirement administration	Judges' Retirement	259,000
1900-001-820—Retirement administration	Legislators' Retirement	154,000
1900-001-830—Retirement administration	Employees' Retirement	39,995,000
1900-001-950—Health Benefit administration	Public Employees' Contingency Reserve	3,756,000
1900-001-962—Retirement administration	Volunteer Firefighters' Length of Service Award	$70,000
Reimbursements		1,150,000
Total		$45,439,000

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, the PERS has 709.8 personnel-years.

Table 1 summarizes the prior, current and proposed budget-year expenditures for PERS. It shows that the Governor proposes $40 million to finance the system's Retirement program and $3.8 million to finance the Health Benefits program. The other single largest item is $22 million for administration that is distributed among the system's other programs.

Table 1
Public Employees' Retirement System
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Program	Personnel-Years Actual 1987-88	Personnel-Years Est. 1988-89	Personnel-Years Prop. 1989-90	Expenditures Actual 1987-88	Expenditures Est. 1988-89	Expenditures Prop. 1989-90	Percent Change From 1988-89
Retirement	603.4	614.0	613.5	$35,807	$38,734	$40,052	3.4%
Social security	11.0	10.7	8.9	590	403	419	3.9
Health benefits	75.4	77.4	74.7	3,650	3,576	3,830	7.1
PERS System Redesign Project	8.3	7.7	7.6	745	1,129	1,138	0.8
Administration (distributed to other programs)	(275.3)	(283.1)	(282.9)	(19,315)	(21,726)	(22,193)	2.1
Totals	698.1	709.8	704.7	$40,792	$43,842	$45,439	3.6%
Funding Sources							
General Fund				*$59*	*$58*	*$55*	*−5.2%*
Judges Retirement Fund				*227*	*235*	*259*	*10.0*
Legislators' Retirement Fund				*136*	*134*	*154*	*14.9*
Public Employees' Retirement Fund				*35,906*	*38,840*	*39,995*	*2.9*
Public Employees' Contingency Reserve Fund				*3,558*	*3,495*	*3,756*	*7.5*
Volunteer Firefighters' Length of Service Award Fund				*10*	*62*	*70*	*12.9*
Reimbursements				*896*	*1,018*	*1,150*	*12.9*

Table 2
Public Employees' Retirement System
Proposed 1989-90 Budget Changes
(dollars in thousands)

	All Funds
1988-89 Expenditures (Revised)	$43,842
Baseline Adjustments	
Employee compensation adjustment	$1,306
Adjustments for one-time expenditures	−154
Price increase	262
Pro rata decrease	−189
Salary savings revision	−5
Subtotal, baseline adjustments	($1,220)
Workload Changes	
Actuarial valuations	$35
Personnel analyst	21
Investment office support	17
Data processing support	19
Actuarial office programmer	27
Health benefits controller support	49
Social security reconciliation	141
Subtotal, workload changes	($309)
Program Changes	
Publications unit graphic artist	$26
Health benefits booklets	42
Subtotal, program changes	(68)
Total Expenditures, 1989-90 (Proposed)	$45,439
Change from 1988-89:	
Amount	$1,597
Percent	3.6%

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 2 summarizes the significant changes proposed in the PERS budget in 1989-90. The largest workload change ($141,000) will add seven positions for ongoing Social Security reconciliations. The program changes are (1) $26,000 to add a graphic artist to the publications unit, and (2) $42,000 to print health benefit booklets for the new PERS-CARE health plan.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $45.4 million (including $1,150,000 in reimbursements) from various funds for the administrative support of the PERS in 1989-90. This is $1.6 million, or 3.6 percent, above estimated current-year expenditures.

Our analysis indicates that the amount requested to carry out the PERS' existing responsibilities is reasonable.

State and Consumer Services Agency

STATE TEACHERS' RETIREMENT SYSTEM

Item 1920-001 from the State Teachers' Retirement Fund and other funds — Budget p. SCS 150

Requested 1989-90	$26,002,000
Estimated 1988-89	22,888,000
Actual 1987-88	20,292,000
Requested increase $3,114,000 (excluding amount for salary increases) (+14 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1920-001-835—Retirement administration	State Teachers' Retirement	$25,600,000
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 Administration	66,000
Reimbursements		239,000
Total		$26,002,000

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 330,000 active and retired members. The system is managed by the State Teachers' Retirement

Board, and is under the administrative jurisdiction of the State and Consumer Services Agency.

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

The STRS has 320.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $26 million for 1989-90. This amount includes funding for client services ($9.3 million), administration ($8.3 million), and system operations ($7.4 million). Table 1 shows STRS expenditures, by program, for the past, current, and budget years. Table 1 also indicates that the STRS proposes to fund 337.1 personnel-years in the budget year—a net increase of 16.8 personnel-years from the current-year level.

Table 1
State Teachers' Retirement System
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Proposed 1989-90*	*Change From 1988-89 Amount*	*Change From 1988-89 Percent*
Administration					
Executive office	$636	$663	$1,047	$384	57.9%
Legal office	661	737	832	95	12.9
Administration and program analysis	577	633	608	−25	−3.9
Administrative services	593	589	716	127	21.6
Fiscal and audit services	4,161	4,216	5,063	847	20.1
Subtotals, administration	($6,628)	($6,838)	($8,266)	($1,428)	(20.9%)
Investment Services	$768	$948	$1,102	$154	16.2%
Client Services					
Administration	$253	$322	$670	$348	108.1%
External operations	2,163	2,672	2,692	20	0.7
Member services	4,596	4,855	5,927	1,072	22.1
Subtotals, client services	($7,012)	($7,849)	($9,289)	($1,440)	(18.3%)
Operation Systems					
Administration	$125	$107	$152	$45	42.1%
Accounting	1,061	1,222	1,509	287	23.5
Data processing	4,698	5,924	5,684	−240	−4.1
Subtotals, operation systems	($5,884)	($7,253)	($7,345)	($92)	(1.3%)
Total Expenditures	$20,292	$22,888	$26,002	$3,114	13.6%
Funding Sources					
Teachers' Retirement Fund:					
Administration	*$19,948*	*$22,583*	*$25,697*	*$3,114*	*13.8%*
Retirees' Purchasing Power Protection Account	*(97)*	*(97)*	*(97)*	—	—
Teacher Tax Shelter Annuity Fund	*61*	*66*	*66*	—	—
Reimbursements	*283*	*239*	*239*	—	—
Personnel Years	306.3	320.3	337.1	16.8	5.2%

STATE TEACHERS' RETIREMENT SYSTEM—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget requests $26 million from the State Teachers' Retirement Fund (STRF), two other special funds, and reimbursements for administrative support of the STRS in 1989-90. This is a net increase of $3.1 million, or 14 percent above estimated current-year expenditures. This net increase includes the following:

- $1.7 million for pro rata charges,
- $594,000 for employee compensation.
- Reductions in expenditures for external operations (-$651,000) and member services (-$108,000) reflecting one-time expenditures in 1988-89 to increase the level of service and improve communication between STRS and its members,
- $1.2 million and 16.8 personnel-years for member services to expedite benefit payments. This figure includes $322,000 for member services administration to develop workload measures and standards for STRS' new automated benefit processing procedures, and
- A $306,000 redirection from Fiscal and Audit Services to the Executive Office to transfer certain audit functions.

Table 2 shows the specific changes proposed for the budget year.

Table 2
Teachers' Retirement System
Proposed 1989-90 Budget Changes
(dollars in thousands)

1988-89 Expenditures (Revised)	$22,888
Baseline Adjustments	
Pro rata charges	$1,741
Employee compensation	594
Price increase	129
One-Time Expenditures:	
External operations	−651
Benefit payment information to members	−134
Member services	−108
Alternative retirement plan development	−100
Equipment purchase	−15
Subtotal, baseline adjustments	($1,456)
Workload Adjustments	
Member services	$1,155
Data processing	−328
Internal audits	143
Subtotal, workload adjustments	($970)
Program Changes	
External operations	$511
Accounting	177
Subtotal, program changes	($688)
1989-90 Expenditures (Proposed)	$26,002
Change from 1988-89	
Amount	$3,114
Percent	13.6%

State and Consumer Services Agency

STATE TEACHERS' RETIREMENT SYSTEM
Local Assistance—Purchasing Power Protection

Item 1920-111 from the State Teachers' Retirement Fund — Budget p. SCS 150

Requested 1989-90	$163,515,000
Estimated 1988-89, General Fund	132,626,000
Actual 1987-88, General Fund	124,215,000
Requested increase $30,889,000 (+23 percent)	
No recommendation	163,515,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS
Analysis page

1. Purchasing Power Protection. No recommendation on the $163.5 million proposed to provide purchasing power protection benefits from the State Teachers' Retirement Fund (STRF) rather than the General Fund because this is a policy decision to be made by the Legislature. 158
2. Proposal for Legislation to Guarantee State-Financed Benefit. Recommend that the Legislature not adopt administration's proposal because: (1) it would legally obligate the state to pay the cost of such benefits in perpetuity, and thus reduce legislative budgetary discretion in future years, (2) it would add to the STRF's unfunded liability, and (3) such benefits could be provided by school districts. 159

GENERAL PROGRAM STATEMENT

Current law authorizes the payment of "purchasing power protection" benefits from the General Fund. These benefits are *supplemental* to a member's regular retirement allowance. Statute permits benefits to be paid to provide all retirees with up to 75 percent of the purchasing power of their original retirement allowance. A portion of the purchasing power benefits are required by law ($33.6 million in 1989-90); the balance is *discretionary* on the part of the Legislature depending on the level of protection it wants to insure. In recent years, the Legislature has appropriated funds sufficient to provide 68.2 percent of retirees' original purchasing power. These benefits are administered by the State Teachers' Retirement System (STRS).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $163.5 million from the State Teachers' Retirement Fund (STRF) to provide purchasing power benefits in 1989-90. In previous years, the benefits have been paid from the General Fund. Proposed expenditures for 1989-90 are $30 million, or 23 percent, above expenditures in the current year. The increase is due to

STATE TEACHERS' RETIREMENT SYSTEM
Local Assistance—Purchasing Power Protection—Continued

the anticipated effects of inflation which (1) increase the cost to provide 68.2 percent of original purchasing power to retirees already receiving such payments, and (2) increase the pool of retirees whose retirement benefits are below the 68.2 percent payment threshold. Table 1 shows the appropriations, levels of benefits provided, and the funding sources for this item since its authorization in 1983-84.

Table 1
State Teachers' Retirement System
Purchasing Power Protection
Program Summary
1983-84 through 1989-90
(dollars in millions)

	Appropriations	*Benefit Levels*	*Fund*
1983-84	$21	59.0%	General
1984-85	40	—[a]	General
1985-86	72	65.0	General
1986-87	111	68.2	General
1987-88	128	68.2	General
1988-89	136	68.2	General
1989-90	164	68.2	State Teachers' Retirement

[a] Not available.

ANALYSIS AND RECOMMENDATIONS

Purchasing Power Protection

The administration presents a two-part proposal for providing purchasing power protection. First, it proposes to fund this benefit ($163.5 million) from the State Teachers' Retirement Fund (STRF) rather than the General Fund in the budget year. Second, it will propose legislation to (1) make the benefits a guaranteed part of STRS' benefit package, and (2) annually increase General Fund support to school districts in order to pay for them. We examine each proposal separately in this analysis.

Budget-Year Proposal

We make no recommendation on the $163.5 million requested from the STRF for purchasing power protection benefits because this is a policy decision to be made by the Legislature.

In reviewing the Governor's proposal to provide $163.5 million from the STRF for purchasing power protection in the budget year, the Legislature may wish to consider its options. For example, the Legislature can (1) provide an alternative benefit level at a reduced cost and (2) fund the benefit from the General Fund rather than the STRF.

The Legislature has the following options with respect to the level of benefits it provides.

- Provide the minimum amount required by law—$33.6 million.
- Provide the full amount necessary to pay 68.2 percent of original purchasing power—$163.5 million.
- Provide some intermediate level of purchasing power protection.

Table 2 shows the cost to provide various levels of purchasing power protection to retirees.

Table 2
State Teachers' Retirement System
Purchasing Power Protection
Alternative Benefit Levels
1989-90
(dollars in millions)

Levels of Benefit	*Numbers of Beneficiaries*	*Cost of Benefit*
50.0%	29,868	$25.8
55.0	39,840	55.8
60.0	45,582	92.8
65.0	51,568	134.9
68.2	55,074	163.5

Once the Legislature has determined the level of benefits it wants to provide, it may decide to provide them from the General Fund or the Retirement Fund. In making this decision, the Legislature should consider:

- *General Fund.* Paying the benefits from the General Fund is consistent with past actions, and current retirement law. Furthermore, it is fiscally sound because it pays the full cost of the benefit at the time it is granted. It would increase, however, budget year demands on the General Fund.
- *STRF.* Paying the benefits from the STRF would relieve the General Fund of the cost to provide this benefit in the budget year. It would accomplish this, however, by borrowing against assets in the retirement fund. Using the STRF to pay the benefits would increase the unfunded liability (shortage of assets when compared to liabilities) of the fund by the amount of the appropriation. Currently, the STRF has an unfunded liability of approximately $10 billion which is growing annually because contributions from school districts and teachers do not cover the ongoing cost to finance retirement benefits.

In our view, the decisions about how much purchasing power protection to provide and from which fund to pay it are policy decisions that must be made by the Legislature. It is the Legislature that will have to balance the needs of retired teachers against the state's General Fund resources. Accordingly, we make no recommendation on the $163.5 million requested from the Retirement Fund to pay purchasing power protection benefits in the budget year.

Proposal for Legislation to Guarantee State-Financed Benefit

We recommend that the Legislature not adopt the Governor's proposal for legislation because (1) it would legally obligate the state to pay the cost of such benefits in perpetuity, and thus, reduce legislative budgetary discretion in future years, (2) it would add to the STRF's unfunded liability, and (3) such benefits could be provided by school districts.

The budget indicates that the administration will propose legislation making purchasing power protection at the 68.2 percent level a permanent part of STRS' retirement package. It further proposes to pay for

STATE TEACHERS' RETIREMENT SYSTEM
Local Assistance—Purchasing Power Protection—Continued

these benefits by increasing employer (school district) contributions to STRS by 1/2 percent of teacher payroll per year. The state would, however, reimburse school districts for this mandated local cost. Preliminary estimates indicate that the full cost of the benefit may be as high as $400 million annually in 1989 dollars (4 percent of payroll). By phasing it in at 1/2 percent of payroll per year, the state would not begin paying the full cost of the benefit until 1996-97. In the intervening years, the fund would accumulate hundreds of millions of dollars in additional unfunded liability.

Below we outline the fiscal and policy implications of the Governor's proposed legislation for the Legislature to consider.

- *Proposal Further Reduces Legislative Budgetary Discretion.* The proposal represents a major future financial commitment of General Fund dollars ($400 million annually in 1989 dollars when fully implemented). Moreover, it would make the state *legally liable* for these General Fund payments in perpetuity because, once promised, retirement benefits constitute a vested right to employees. In our view, legislation to guarantee a specified level of purchasing power protection for STRS members appears to run contrary to the administration's other recommendations which would eliminate statutory COLAs and other restrictions which obligate budgetary expenditures.
- *Proposal Adds to the STRF's Unfunded Liability.* The STRF currently has a $10 billion unfunded liability (shortage of assets when compared to liabilities). The proposed legislation would add hundreds of millions of dollars to this unfunded liability by phasing in the cost of promised benefits over eight years.
- *Purchasing Power Benefits Could Be Provided By School Districts.* School districts, as local employers, make decisions and pay the costs for all other forms of teacher compensation. The Legislature could authorize them to make the decisions and pay the costs for providing purchasing power protection as well. As an alternative to the Governor's proposal, legislation could be enacted providing *optional* purchasing power protection benefits to be elected by teachers and school districts. In this way, the Legislature would make inflation protection one more element of teacher compensation available to teachers and school districts.

Conclusion and Recommendation. Our review of the fiscal and policy implications of the proposal for legislation to make purchasing power protection a state-financed addition to STRS' benefit package indicates that it is *not* a desirable policy for the following reasons:

- Once the state promises the benefits, it cannot legally reduce them.
- The proposal would be one more constraint in determining legislative spending priorities and allocating General Fund dollars in future budgets.
- The proposal would increase the STRF's already seriously unfunded liability.
- The Legislature could authorize school districts to provide these benefits as a local option.

Accordingly, we recommend that the Legislature not adopt the Governor's proposal for the enactment of legislation which would establish purchasing power protection as a state-financed addition to STRS' retirement package.

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 155

Requested 1989-90	$1,246,137,000
Estimated 1988-89	1,164,184,000
Actual 1987-88	998,291,000
Requested increase (excluding amount for salary increases) $81,953,000 (+7.0 percent)	
Total recommended reduction	592,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
1960-001-001—Support	General	$2,563,000
1960-001-592—Support	Cal-Vet Farm and Home	1,039,000
1960-101-001—Local assistance	General	1,250,000
1970-011-001—Veterans' Home	General	25,608,000
1970-011-890—Veterans' Home	Federal Trust	11,807,000
Reimbursements		8,070,000
Total, Budget Bill appropriations		$50,337,000
Continuing Appropriation—Support	Cal-Vet Farm and Home	19,250,000
Continuing Appropriation—Loans	Cal-Vet Farm and Home	1,171,113,000
Continuing Appropriation—Support	Cal-Guard Farm and Home	27,000
Continuing Appropriation—Loans	Cal-Guard Farm and Home	5,410,000
Total		$1,246,137,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Equipment for Veterans' Home. Reduce Item 1970-011-890 by $328,000.*** Recommend deletion in federal funds proposed for equipment purchases because request is premature. 164
2. ***Implementation of Medi-Cal cost avoidance program. Reduce reimbursements in Item 1960-101-001 by $238,000 and Item 1960-001-001 by $26,000.*** Recommend reduction in reimbursements to accurately reflect the workload level eligible for reimbursement. 164

GENERAL PROGRAM STATEMENT

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

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

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 1,273.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $1.2 billion from various state and federal funds for support of the DVA and the Veterans' Home of California in 1989-90. This is an increase of $81.9 million, or 7 percent, above estimated current-year expenditures. The increase reflects the following changes:

- An increase of $1.6 million, or 5.7 percent, in *General Fund* support for departmental administration and the Veterans' Home. This primarily results from increases proposed at the Veterans' Home to fund increasing workers' compensation costs and price increases for operating expenses and equipment.
- A net increase of $79.8 million, or 7.1 percent, in *special funds*. Nearly all of this increase is in the Cal-Vet loan program, primarily to reflect increased loan costs. The net special fund request also reflects a decrease of $887,000, or 14 percent, in the Cal-Guard loan program because of the declining workload resulting from the decision to not accept new loan applications.
- An increase in *federal funds* of $721,000, or 6.5 percent, primarily reflects proposals for one-time expenditures to equip various facilities at the Veterans' Home that are proposed to be renovated or are in the process of renovation.
- A decrease in *reimbursements* of $176,000, or 2.1 percent, primarily reflects decreased receipts from member fees at the Veterans' Home.

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
1987-88 through 1989-90
(dollars in thousands)

Expenditures By Funding Source	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
General Fund				
Departmental administration	$2,544	$2,522	$2,563	1.6%
Veterans Service Offices	1,000	1,250	1,250	—
Veterans' Home	23,888	24,054	25,608	6.5
Subtotals, General Fund	($27,432)	($27,826)	($29,421)	(5.7%)
Veterans Farm and Home Building Fund				
Loan program administration	$17,650	$21,494	$20,287	-5.6%
Loans, debt service, taxes	927,676	1,089,208	1,171,113	7.5
Subtotals, Cal-Vet Fund	($945,326)	($1,110,702)	($1,191,402)	(7.3%)
California National Guard Members Farm and Home Building Fund				
Loan program administration	$60	$57	$27	-52.5%
Loans, debt service, taxes	8,227	6,267	5,410	-13.7
Subtotals, Cal-Guard Fund	($8,287)	($6,324)	($5,437)	(-14.0%)
Federal Trust Fund—Veterans' Home	$10,852	$11,086	$11,807	6.5%
Reimbursements				
Departmental administration	$148	$198	$216	9.0%
Local assistance	—	228	542	138.0
Veterans' Home	6,246	7,820	7,312	-6.5
Subtotals, Reimbursements	($6,394)	($8,246)	($8,070)	(-2.1%)
Totals, Expenditures	$998,291	$1,164,184	$1,246,137	7.0%

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
1987-88 through 1989-90
(dollars in thousands)

Programs	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Cal-Vet Farm and Home Loan	$945,326	$1,110,702	$1,191,402	7.3%
Cal-Guard Farm and Home Loan	8,287	6,324	5,437	-14.0
Veterans Claims and Rights	2,935	3,441	3,774	9.7
Veterans' Home	41,743	43,717	45,524	4.1
Administration (distributed)	(1,696)	(1,816)	(1,898)	4.5
Totals	$998,291	$1,164,184	$1,246,137	7.0%
Personnel-years				
Cal-Vet Farm and Home Loan	264.1	279.3	279.3	—
Cal-Guard Farm and Home Loan	4.2	2.4	1.5	-37.5
Veterans Claims and Rights	34.2	35.3	35.5	—
Veterans' Home	907.3	956.6	960.7	0.4
Administration (distributed)	(31.7)	(35.2)	(35.2)	—
Totals	1,209.8	1,273.6	1,277.0	0.3%

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

ANALYSIS AND RECOMMENDATIONS

Questionable Equipment Requests

We recommend a reduction of $328,000 in federal funds proposed to pay for specified equipment at the Veterans' Home. (Reduce reimbursements in Item 1970-011-890 by $328,000.)

In four separate requests, the department proposes to spend a total of $721,000 in federal funds for the purchase of equipment to furnish four facilities at the Veterans' Home that are in various stages of renovation. We have concerns regarding two of these proposals as discussed below.

Equipment Request for $328,000 is Premature. Two of the proposals include funding for equipment to furnish two hospital wings (Wing AA and Wing E) at the Veterans' Home that are to be renovated at some future time. The DVA advises that some of the equipment it proposes to purchase for these wings requires a long "lead time" from the date of order and payment to the date of receipt. The DVA, however, has yet to review working drawings for the proposed renovations and the budget proposes no funds for this purpose in 1989-90 (this issue is discussed further in the capital outlay item, 1970-301). Because the renovation of these wings is in such an early phase, the department will have adequate lead time to order and receive the equipment in 1990-91. Therefore, we recommend a reduction of $328,000 in federal funds requested for these equipment purchases.

Proposal Overestimates the Reimbursements Available for New Program

We recommend a reduction of $264,000 in reimbursements because the department has overestimated the amount that it will receive from the Department of Health Services for implementation of a new Medi-Cal Cost Avoidance Program. (Reduce reimbursements in Item 1960-101-001 by $238,000 and Item 1960-001-001 by $26,000.)

The department proposes to spend $600,000 of reimbursements from the Department of Health Services (DHS) to support the DVA and the County Veterans' Services Organizations (CVSOs) in implementing the Medi-Cal cost avoidance program which was authorized by Ch 1424/87 (AB 1807, Longshore). This program authorizes the DVA to enter into an agreement with DHS to assist the CVSOs in obtaining federal funds to reimburse them for 50 percent of the administrative costs incurred in transferring veterans from the Medi-Cal program to the Veterans' Administration medical assistance program.

We are concerned with this proposal because DVA has been unable to justify its estimate of $600,000, and because this amount is substantially higher than the amount proposed by DHS for reimbursement. According to estimates provided by DHS, $336,000 will be available to reimburse DVA for the program in 1989-90 through an interagency agreement. This figure is based on estimates of the number of CVSOs that will participate in the program (28), as well as the proportion of veterans who are currently receiving Medi-Cal benefits (10 percent) and who will be transferred to the Veterans' Administration medical assistance program. Based on our review of DHS's estimates, the amount contained in the interagency agreement appears reasonable. Accordingly, we recommend that $238,000 be reduced from the support schedule of the CVSOs (Item

1960-101-001) and that $26,000 be reduced from the support schedule of DVA (Item 1960-001-001).

Business, Transportation and Housing Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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

Requested 1989-90	$22,833,000
Estimated 1988-89	21,970,000
Actual 1987-88	19,390,000
Requested increase (excluding amount for salary increases) $863,000 (+3.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Staff Augmentation. Recommend that the Department of Alcoholic Beverage Control (ABC) report to the fiscal committees, prior to budget hearings, on the effect of the staffing augmentation received in 1987-88. 167

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 23 district and branch offices throughout the state, as well as a headquarters in Sacramento. The department has 421.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $22.8 million for support of the ABC in the budget year. This amount includes an appropriation of $22 million from the General Fund and $863,000 in reimbursements. The total amount provided for support of the ABC is $863,000, or 3.9 percent, above estimated current-year expenditures. This increase primarily is due to the full-year costs of salary increases provided in the current year.

Table 1 provides a summary of expenditures and personnel-years for the department's three programs in the prior, current, and budget years.