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.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 1
Department of Alcoholic Beverage Control
Program 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*
Licensing	190.4	202.2	199.0	$11,437	$11,916	$12,393	4.0%
Compliance	129.6	171.0	169.0	7,953	10,054	10,440	3.8
Administration (distributed)	48.0	48.0	48.0	(2,212)	(2,385)	(2,539)	6.5
Totals	368.0	421.2	416.0	$19,390	$21,970	$22,833	3.9%

General Fund Revenues Projected to Increase

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

Table 2 provides a summary of actual, estimated, and proposed revenues by fiscal year. As shown in the table, the department estimates that its activities will generate revenues to the General Fund of $32.6 million in 1989-90. This is an increase of $794,000, or 2.5 percent, over estimated current-year revenues. The increase largely is attributable to the projected growth in the number of active licenses and the amount of fines paid in lieu of license suspension (offers in compromise).

Table 2
Department of Alcoholic Beverage Control
License Fees and Miscellaneous General Fund Revenues
1987-88 through 1989-90
(dollars in thousands)

	Actual 1987-88	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Out-of-state beer certificates	$10	$11	$11	—
Original license fees	2,778	2,837	2,887	1.8%
Transfer fees	4,219	4,220	4,220	—
Special fees	346	345	345	—
Service charges	175	180	180	—
Annual fees	18,338	18,522	18,648	0.7
Offers in Compromise	2,325	2,400	3,000	25.0
Ten percent surcharge on annual fees	1,752	1,769	1,781	0.7
Caterer's authorization, permits, and manager's certificates	375	400	400	—
Surcharge on annual fees for administrative hearings	822	830	836	0.7
Modification of conditions	19	20	20	—
Penalty assessments	282	285	285	—
Miscellaneous income	5	5	5	—
Sale of documents	1	1	1	—
Sale of confiscated property	4	4	4	—
Totals	$31,451	$31,829	$32,623	2.5%

ANALYSIS AND RECOMMENDATIONS

Report Needed on Effect of Staff Augmentation on ABC Enforcement Activities and Backlog

We recommend that the ABC report to the fiscal committees, prior to budget hearings, on efforts to reduce its complaint backlog and fill currently vacant positions.

During deliberations on the 1987-88 budget, the department requested $3.1 million from the General Fund for a staffing augmentation of 64 personnel-years with the intention of eliminating the backlog of alcohol-related complaints that ABC had accumulated. At that time ABC estimated that it had a complaint backlog of over 3,000 cases. Prior to the augmentation, ABC had been using overtime funds to address as many complaints as possible.

In response to the request, the Legislature approved the augmentation to ABC's budget and provided 50 investigators, 13 support staff, and 1 attorney. These positions were authorized beginning July 1987.

Augmentation Has Had Little Effect So Far. Since the department received the additional staff, there has been very little change in the size of the backlog and in the number of investigations. For example, the backlog in 1986-87 (prior to the augmentation) was 2,810 cases. In 1987-88 (the year of the augmentation) the backlog was 3,132. The department estimates that the backlog will remain fairly stable through the current year. Revenues generated by the department have also remained fairly stable. They are projected to increase by a total of $1.1 million, or less than 4 percent, over the two-year period from 1987-88 to the budget year.

Some Positions Still Vacant. According to the department, it has encountered difficulties in filling its investigator and support positions. Because many of these employees are peace officers who must be certified by the Peace Officer Standards and Training Commission, there is a longer lead time in filling the positions than with regular civil service positions. Also, at the time the 64 new positions were authorized, ABC had about 25 vacancies in previously authorized positions. So, ABC actually had to fill almost 90 positions. Currently, the department has about 13 of its investigator positions vacant. Most of these positions are in the Los Angeles area. Approximately 10 supervisory staff and support positions are vacant as well. In an effort to address the recruitment problems the department has been experiencing, the Department of Personnel Administration has recently allowed ABC to fill these positions at a slightly higher salary level than is generally authorized.

Because of the apparent small effect the additional positions have had on ABC's backlog, as well as the difficulties ABC has encountered in filling its investigator positions, we recommend that the department provide a report to the Legislature outlining further actions it plans to take to reduce the complaint backlog and to expedite the hiring of investigative staff.

Business, Transportation and Housing Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 2120 from the Alcoholic Beverage Control Appeals Fund — Budget p. BTH 3

Requested 1989-90	$493,000
Estimated 1988-89	451,000
Actual 1987-88	287,000
Requested increase (excluding amount for salary increases) $42,000 (+9.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members meet once each month, alternating between Los Angeles and San Francisco. Pursuant to Ch 1335/88 (SB 2316, Dills), board members are paid an annual salary of $25,000. Previously, they received a per diem payment of $100 for each day that the board members spent reviewing decisions of the Department of Alcoholic Beverage Control. The board has 7.1 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $493,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1989-90. This amount is $42,000, or 9.3 percent, more than estimated current-year expenditures. The proposed change for 1989-90 primarily results from an increase in personal services, which reflects the full-year cost of the board member salaries authorized by Ch 1335/88.

Business, Transportation and Housing Agency
STATE BANKING DEPARTMENT

Item 2140 from various funds — Budget p. BTH 5

Requested 1989-90	$12,382,000
Estimated 1988-89	11,745,000
Actual 1987-88	11,347,000
Requested increase (excluding amount for salary increases) $637,000 (+5.4 percent)	
Total recommended reduction	164,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2140-001-136—Support	State Banking	$12,033,000
2140-001-240—Support	Local Agency Deposit Security	249,000
Reimbursements		100,000
Total		$12,382,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Salary Savings and Reimbursements. Reduce Item 2140-001-136 by $164,000.*** Recommend adjustments to reflect higher salary savings and reimbursements, based on prior years' experience. 171
2. Funding for Staff Benefits and New Positions. Recommend that the Department of Finance and the State Banking Department jointly report to the Legislature prior to budget hearings regarding deficiencies in the funding for staff benefits and two new data processing positions. 172

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from losses that may result when a bank or other financial entity under the department's jurisdiction fails. Banks have the option of being federally or state chartered. Only state chartered entities are subject to regulation by this department.

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

The programs of the department are supported by revenues from (1) annual assessment of institutions licensed by the department, (2) various other license and examination fees, and (3) sale of publications.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. The department has a staff of 188 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The department proposes total expenditures of $12.4 million in 1989-90, which is $637,000, or 5.4 percent, more than the estimated current-year

STATE BANKING DEPARTMENT—Continued

Table 1
State Banking Department
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*
Licensing and supervision of banks and trust companies	129.8	135.1	135.1	$7,349	$8,101	$8,346	3.0%
Payment instruments	4.8	5.0	5.0	229	243	236	−2.9
Certification of securities	0.1	0.1	0.1	2	3	3	—
Supervision of California Business and Industrial Development Corporations	0.3	0.3	0.3	18	24	27	12.5
Administration of local agency security	4.5	5.0	5.0	116	113	109	−3.5
Departmental administration	38.4	42.5	46.2	3,633	3,261	3,661	12.3
Totals	177.9	188.0	191.7	$11,347	$11,745	$12,382	5.4%
Funding Sources							
State Banking Fund				*$10,954*	*$11,394*	*$12,033*	*5.6%*
Local Agency Deposit Security Fund				*234*	*251*	*249*	*−0.8*
Reimbursements				*159*	*100*	*100*	—

Table 2
State Banking Department
Proposed 1989-90 Budget Changes
(dollars in thousands)

	State Banking Fund	*Local Agency Deposit Security Fund*	*Reimbursements*	*All Funds*
1988-89 Expenditures (Revised)	$11,394	$251	$100	$11,745
Baseline Adjustments				
Cost increases for salaries and operating expenses	532	2	—	534
Increased facilities operations expenses	157	—	—	157
One-time funding of office automation equipment	−41	−1	—	−42
Reduced pro rata charges	−82	−3	—	−85
Subtotals, Baseline Adjustments	($566)	(−$2)	—	($564)
Workload Changes				
Additional office automation and legal staff	42	—	—	42
Training officer	31	—	—	31
Subtotals, Workload Changes	($73)	—	—	($73)
1989-90 Expenditures (Proposed)	$12,033	$249	$100	$12,382
Change from 1988-89:				
Amount	$639	−$2	—	$637
Percent	5.6%	−0.8%	—	5.4%

expenditures. To fund the proposed expenditures, the budget requests $12,033,000 from the State Banking Fund and $249,000 from the Local Agency Deposit Security Fund. In addition, the department anticipates $100,000 in reimbursements.

Table 1 shows expenditures and personnel-years for the department's activities in the past, current, and budget years. Table 2 summarizes the budget changes proposed for 1989-90.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following proposed changes:

- *Baseline adjustments* for (1) cost increases in salaries and operating expenses ($534,000); (2) higher rent and other facilities operation expenses resulting from the relocation of the department's headquarters in San Francisco ($157,000); (3) one-time adjustment for office automation equipment purchased during 1988-89 (−$42,000); and (4) lower pro rata charges (−$85,000); and
- *Workload changes* consisting of (1) additional staff for office automation and the legal division ($42,000); and (2) a training officer to coordinate the department's expanded training programs ($31,000).

Technical Adjustments for Salary Savings and Reimbursements

We recommend a reduction of $164,000 from the State Banking Fund to correct for underestimated levels of salary savings and reimbursements. (Reduce Item 2140-001-136 by $164,000.)

Our analysis indicates that, based on past experience, the budget underestimates salary savings and reimbursements. Adjusting for the underestimation in these two items, we recommend a combined reduction of $164,000 from the State Banking Fund, as follows:

1. ***Underestimated Salary Savings (Reduce Item 2140-001-136 by $105,000).*** The budget proposes $196,000 in salary savings for the department in 1989-90—an amount equal to 2.5 percent of total salaries and wages. Salary savings result from employee turnover, delays in filling positions and filling vacated positions at, or close to, the minimum step of the salary range.

Our analysis, however, indicates that the 2.5 percent rate is lower than the actual salary savings rate realized by the department during the last several years.

Table 3
State Banking Department
Estimated Versus Actual Salary Savings and Rates
1985-86 through 1987-88
(dollars in thousands)

	Salary Savings Amounts		*Salary Savings Rate* [a]	
	Estimated	*Actual* [b]	*Estimated*	*Actual*
1985-86	$201	$407	3.4%	6.9%
1986-87	154	444	2.4	7.0
1987-88	158	256	2.3	3.8

[a] Salary savings amount divided by the estimated salaries and wages.
[b] Estimated salaries and wages minus actual salaries and wages.

Table 3 shows that, from 1985-86 through 1987-88, the department realized a level of salary savings for each year that ranged from 3.8

STATE BANKING DEPARTMENT—Continued

percent to 7 percent of total salaries and wages. Thus, based on past experience, the salary savings rate proposed for 1989-90 appears too low.

In order to reflect a more realistic level of salary savings, we recommend applying a 3.8 percent rate—the lowest rate experienced by the department during the three-year period—to the total salaries and wages proposed for 1989-90. This increases salary savings by $105,000 above the amount budgeted. This adjustment permits a corresponding reduction of $105,000 in the amount requested from the State Banking Fund.

2. ***Underestimated Reimbursements (Reduce Item 2140-001-136 by $59,000).*** For 1989-90, the budget projects $100,000 in reimbursements, primarily from fees charged by the department for financial examination of the entities under its supervision and from the sale of various publications.

Table 4 compares the anticipated reimbursements with the amounts actually received from 1985-86 through 1987-88 and shows that the department has underestimated its reimbursements each year.

Table 4
State Banking Department
Budgeted Versus Actual Reimbursements
1985-86 through 1987-88
(dollars in thousands)

	Reimbursements		
	Budgeted	*Actual*	*Excess*
1985-86	$100	$200	$100
1986-87	100	170	70
1987-88	100	159	59

Thus, based on past reimbursement experience, the level projected for 1989-90 appears too low. Accordingly, we recommend increasing the amount budgeted for reimbursements in 1989-90 from $100,000 to $159,000, the lowest amount of actual reimbursements received during the 1985-86 through 1987-88 period. Correspondingly, we recommend a reduction of $59,000 in the appropriation from the State Banking Fund.

Underbudgeted Staff Benefits and Unfunded Positions Need Explanation

We recommend that prior to the budget hearings, the Department of Finance and the State Banking Department jointly report to the Legislature on (1) why staff benefits for the State Banking Department are underbudgeted and why two data processing analysts approved in the department's budget are not funded, (2) how the State Banking Department plans to correct these shortages, and (3) the effect of that plan on the ability of the department to fulfill its statutory responsibilities.

Our review indicates two deficiencies in the department's proposed funding for personal services.

1. ***Underestimated Staff Benefits.*** The budget requests $1.8 million for staff benefits in 1989-90. This amount equals a rate of about 24 percent of salaries and wages.

Our analysis shows that, based on past experience, this rate for staff benefits is too low, and the budget appears to have underestimated staff benefits for 1989-90. As Table 5 shows, actual staff benefits have been consistently higher than budgeted during the past three years, at rates well above the 24 percent proposed for 1989-90.

Table 5
State Banking Department
Budgeted Versus Actual Expenditures and Rates for Staff Benefits
1985-86 through 1987-88
(dollars in thousands)

	Staff Benefit Amounts			*Staff Benefit Rate*	
	Budgeted	*Actual*	*Underbudgeted*	*Budgeted*	*Actual*
1985-86	$1,480	$1,652	$172	28%	30%
1986-87	1,577	1,643	66	26	28
1987-88	1,511	1,816	305	24	28

In order to pay for a higher than budgeted level of staff benefits, the department may have to keep some positions unfilled or redirect funds from operating expenses to personal services.

2. ***Unfunded Data Processing Analyst Positions.*** For 1989-90, the department proposes to add two data processing analyst positions, at a cost of $91,000 to maintain a newly installed office automation system. Because the department does not have any data processing staff, the addition of these positions was recommended by the Department of Finance's Office of Information Technology (OIT) and by the vendor of the equipment as essential for the smooth operation of the system.

The Department of Finance approved the department's request for the positions, but disapproved the $91,000 to fund them. Thus, to fill the two new positions, the department will have to redirect resources from other activities.

Our analysis indicates that redirecting existing resources to fund the higher staff benefits and the two new positions may jeopardize the department's ability to fulfill its statutory responsibilities, including timely examination of the financial entities it regulates. Our review further shows that the State Banking Fund has sufficient resources to finance the department's personal services requirements adequately. The budget projects a fund balance of $4.8 million at the end of 1989-90. This amount is about 40 percent of the department's proposed budget and is well in excess of a prudent reserve needed for unanticipated expenditures and cash flow purposes. Consequently, there appears to be no analytical basis for underbudgeting staff benefits and not funding the two new positions.

Accordingly, we recommend that prior to the budget hearings, the Department of Finance and the State Banking Department jointly report to the Legislature on (1) why staff benefits are underbudgeted and why the two approved data processing analyst positions are not funded; (2) how the State Banking Department plans to correct these deficiencies; and (3) the effect of that plan on the ability of the department to carry out its statutory responsibilities.

Business, Transportation and Housing Agency

DEPARTMENT OF CORPORATIONS

Item 2180 from the General Fund — Budget p. BTH 11

Requested 1989-90	$22,271,000
Estimated 1988-89	21,182,000
Actual 1987-88	19,117,000
Requested increase (excluding amount for salary increases) $1,089,000 (+5.1 percent)	
Total recommended reduction	None
Recommendation pending	95,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2180-001-001—Support	General	$9,685,000
Reimbursements	—	12,586,000
Total		$22,271,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Salary Savings. Recommend that the Department of Corporations and the Department of Finance jointly report to the Legislature prior to budget hearings regarding how the Department of Corporations will meet its budgeted salary savings requirement and the impact on the department. 176
2. Personal Computer and Printer Acquisition. Withhold recommendation on $95,000 proposed for personal computers and printers, pending receipt of information justifying the request. 176

GENERAL PROGRAM STATEMENT

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

Under the *Investment* program, the department approves securities and franchises offered for sale and conducts investigations to enforce the various pertinent laws. It also certifies securities broker-dealers and investment advisors to operate in California and regulates their activities.

The *Lender-Fiduciary* program licenses, examines and regulates check sellers, credit unions, escrow offices, industrial loan companies, consumer and commercial finance lenders, and trading stamp companies.

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

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

The department has 355.7 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $22.3 million in 1989-90 which is $1.1 million, or 5.1 percent, above the estimated total expenditures in the current year. Of the total expenditures, the budget requests that $9.7 million be funded from the General Fund and $12.6 million be reimbursed by various assessments and fees.

Table 1 shows the personnel and budget requirements of the department for the past, current, and budget years. Table 2 summarizes the significant budget changes proposed for 1989-90.

Table 1
Department of Corporations
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*
Investment	157.2	170.6	171.5	$8,593	$8,951	$9,420	5.2%
Lender-fiduciary	122.8	124.0	117.0	6,933	7,698	8,088	5.1
Health care service plan	42.1	43.1	43.0	2,607	3,547	3,776	6.5
Administration	16.9	18.0	18.0	984	986	987	0.1
Totals	339.0	355.7	349.5	$19,117	$21,182	$22,271	5.1%
Funding Sources							
General Fund				*$8,925*	*$9,251*	*$9,685*	*4.7%*
Reimbursements				*10,192*	*11,931*	*12,586*	*5.5*

Table 2
Department of Corporations
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Reimbursements*	*Total*
1988-89 Expenditures (Revised)	$9,251	$11,931	$21,182
Baseline Adjustments			
Salary increases	515	592	1,107
Increased salary savings	−184	−199	−383
Price increases	57	61	118
Equipment replacement	46	49	95
Subtotals, baseline adjustments	($434)	($503)	($937)
Workload Changes			
Additional staff for Health Care program	—	$39	$39
Support staff for examiners	—	78	78
Subtotals, workload changes	—	($117)	($117)
Program Changes			
Consumer services staff	—	$35	$35
1989-90 Expenditures (Proposed)	$9,685	$12,586	$22,271
Change from 1988-89			
Amount	$434	$655	$1,089
Percent	4.7%	5.5%	5.1%

DEPARTMENT OF CORPORATIONS—Continued

ANALYSIS AND RECOMMENDATIONS

Excessive Salary Savings Requirement Needs Explanation

We recommend that, prior to the budget hearings, the Departments of Corporations and Finance jointly report to the Legislature on: (1) how the Department of Corporations plans to meet its budgeted salary savings requirement and (2) the impact on the department's programs, if that requirement is not met through normal attrition.

The budget proposes salary savings of $1,079,000 for the Department of Corporations in 1989-90. This amount equals 7.2 percent of budgeted salaries and wages and is $383,000 (or 55 percent) higher than the estimated salary savings for the current year.

Salary savings result from employee turnover, delays in filling positions, and filling vacated positions at, or close to, the minimum step of the salary range. Thus, the amount of savings budgeted should reflect the department's experience with employee turnover and its ability to fill positions.

Our analysis indicates that the amount budgeted for salary savings in 1989-90 is significantly higher than the amounts realized in the past. The department's actual salary savings ranged between 5 percent to 5.5 percent of salaries and wages during the past five years. Consequently, in order to meet the higher salary savings level of 7.2 percent, the department may have to keep positions vacant and, thus, reduce its program activities.

Given the Legislature's expressed desire that the Department of Corporations maintain the quality and timeliness of its regulatory activities, we recommend that prior to the budget hearings, the Department of Corporations and the Department of Finance report to the Legislature regarding (1) how the Department of Corporations will meet its budgeted salary savings requirement; and (2) how the department's programs will be affected if that requirement is not met through normal turnover and attrition.

Proposed Computers and Printers Need to be Justified

We withhold recommendation on $95,000 (including $46,000 from the General Fund and $49,000 from reimbursements) requested for computers and printers, pending submission of justification by the Department of Corporations.

The Department of Corporations proposes to buy 20 personal computers, associated software and 13 laser printers for a total cost of $95,000 in order to replace obsolete and worn out word processing equipment.

Our review of this proposal indicates that it is not properly justified for two reasons:

1. ***Information to Justify Proposed Purchase is Missing.*** At the time this analysis was prepared, the department was unable to provide written documentation regarding the type and unit costs of the equipment to be purchased. In addition, the need for the proposed equipment was not identified in the department's latest Information Management Annual Plan submitted to the Office of Information Technology (OIT). Consequently, we have no basis to evaluate whether the amount requested is warranted.

2. ***The Proposal is Not Coordinated with the Department's Office Automation Project.*** The department is currently preparing a feasibility study report for an office automation system which will involve departmentwide use of personal computers. Our analysis shows that the request for the replacement computer equipment has not been coordinated with the plan for department automation. We think that coordination in the purchase of any computer and associated equipment is essential to ensure that the equipment to be acquired during the budget year will be compatible with the computer equipment contemplated for the office automation system.

We recognize the department's need to replace the worn out word processing equipment. However, without the necessary information to justify the request, we have no basis to recommend approval of this proposal. Therefore, we withhold recommendation on $95,000, pending receipt of information from the department to justify the requested equipment. This information ought to address how the replacement equipment would be a coordinated part of the departmentwide automation effort.

DEPARTMENT OF COMMERCE

Item 2200 from the General Fund and various funds — Budget p. BTH 18

Requested 1989-90	$36,849,000
Estimated 1988-89	43,009,000
Actual 1987-88	20,763,000
Requested decrease (excluding amount for salary increases) $6,160,000 (−14 percent)	
Total recommended reduction	8,000,000
Recommendation Pending	6,580,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2200-001-001—Support	General	$13,943,000
2200-101-001—For transfer to Competitive Technology Fund	General	6,580,000
2200-101-164—For transfer to Rural Economic Development	Outer Continental Shelf Land Account	(8,000,000)
2200-101-922—Local Assistance	Economic Development Grant and Loan	3,200,000
Statutory Appropriation—Support	Rural Economic Development	23,000
Statutory Appropriation—Support	Hazardous Waste Reduction Loan Account	130,000
Statutory Appropriation—Local Assistance	Rural Economic Development	10,300,000
Statutory Appropriation—Local Assistance	Competitive Technology	(6,580,000)
Statutory Appropriation—Local Assistance	Hazardous Waste Reduction Loan Account	1,400,000
2200-490—Reappropriation	—	—
Reimbursements	—	1,273,000
Total		$36,849,000

DEPARTMENT OF COMMERCE—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Rural Infrastructure Funds. Delete Item 2200-101-164.*** Recommend deletion of $8 million requested to fund infrastructure grants and loans to rural communities because the need for additional funds in 1989-90 has not been demonstrated.	180
2. Competitive Technology. Withhold recommendation on $6.6 million requested for additional budget-year Competitive Technology program grants pending receipt of additional program information.	182

GENERAL PROGRAM STATEMENT

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

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

The department is headed by a director who is appointed by the Governor. In addition, the department receives guidance from a 21-member advisory council representing a cross section of the state's economy. The department has 123.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Total expenditures of $36.8 million are proposed for support of the department in 1989-90. This is a decrease of $6.2 million, or 14 percent, below estimated current-year expenditures. The budget proposes appropriations of $20.5 million from the General Fund in 1989-90. This is $7.5 million, or 58 percent, more than estimated General Fund expenditures for the current year. Most of this increase represents the administration's proposed transfer of $6.6 million to the Competitive Technology Fund for additional grants. The department's proposed budget also includes a $210,000 augmentation for salary savings. This augmentation is intended to offset the department's increased costs for merit salary adjustments and position upgrades, which the budget requires most other departments to absorb.

The largest change in the department's proposed budget is an appropriation of an additional $8 million for the Rural Economic Development Infrastructure Program, to be funded from Outer Continental Shelf Lands Act monies. The department's proposed budget also receives support from the Economic Development Grant and Loan Fund ($3.2 million) and reimbursements ($1.3 million).

Table 1 displays the department's budget for the past, current and budget years by program. Table 2 shows the proposed changes in the department's expenditures for 1989-90.

Table 1
Department of Commerce
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*
Business Development	20.7	22.7	23.6	$3,340	$3,198	$3,434	7.4%
California Film Commission	6.5	7.6	7.6	652	740	765	3.4
Competitive Technology	—	4.8	4.8	—	6,996	7,079	1.2
Marketing and Communications	6.2	6.2	6.2	476	466	492	5.6
Tourism	9.7	10.9	10.9	7,812	5,514	5,401	−2.0
Local Development	14.4	16.2	16.2	6,649	21,285	14,959	−29.7
Small Business	10.9	16.2	14.2	1,056	4,002	3,902	−2.5
Economic Research	9.4	8.5	8.5	778	808	817	1.1
Administration (distributed)	27.1	30.4	30.4	(1,641)	(2,012)	(2,165)	7.6
Totals	104.9	123.5	122.4	$20,763	$43,009	$36,849	−14.3%
Funding Sources							
General Fund				*$15,195*	*$13,013*	*$20,523*	*57.7%*
Rural Economic Development Fund				*2,675*	*16,722*	*10,323*	*−38.3*
Unitary Fund				—	*25*	—	*−100.0*
Special Account for Capital Outlay				—	*6,996*	—	*−100.0*
Hazardous Waste Reduction Incentive Account				*3,200*	—	—	—
Hazardous Waste Reduction Loan Account				*−3,170*	*1,630*	*1,530*	*−6.1*
Federal Trust Fund				*403*	*45*	—	*−100.0*
Small Business Expansion Fund				*−204*	—	—	—
Economic Development Grant and Loan Fund				*2,383*	*3,200*	*3,200*	—
Reimbursements				*281*	*1,378*	*1,273*	*−7.6*

Table 2
Department of Commerce
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Special Funds*	*Reimbursements*	*All Funds*
1988-89 Expenditures (revised)	$13,013	$45	$28,573	$1,378	$43,009
Baseline Adjustments:					
Job Training (JTPA) grants	—	—	—	−200	−200
Small business local assistance	—	—	—	−75	−75
Tourism brochures	—	—	—	−30	−30
Rural economic development	—	—	−14,400	—	−14,400
Competitive technology	416	—	−6,996	—	−6,580
Hazardous waste reduction	—	—	−100	—	−100
Federal Grants	—	−45	—	—	−45
Supercomputer study	—	—	−25	—	−25
Employee compensation and benefits	256	—	1	—	257
Subtotals, Baseline Adjustments	($672)	(−$45)	(−$21,520)	(−$305)	(−$21,198)

DEPARTMENT OF COMMERCE—Continued

Program Changes:					
Competitive technology	6,580	—	—	—	6,580
Increased position utilization	210	—	—	—	210
Business development workload	48	—	—	—	48
Rural Economic Development	—	8,000	—	—	8,000
Job Training (JTPA) grants	—	—	—	200	200
Subtotals, Program Changes	($6,838)	($8,000)	(—)	($200)	($15,038)
1989-90 Budget Request	$20,523	$8,000	$7,053	$1,273	$36,849
Change from 1988-89:					
Amount	$7,510	$7,955	−$21,520	−$105	−$6,160
Percent	57.7%	—[a]	−75.3%	−7.6%	−14.3%

[a] Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

Rural Infrastructure Loan Funds Adequate For Now

We recommend deletion of $8 million in additional funding for rural infrastructure loans because the need for increased funding in 1989-90 has not been demonstrated. (Delete Item 2200-101-164.) Further recommend adoption of a new control section in the Budget Bill to transfer these monies to the General Fund.

Background. The Rural Economic Development Infrastructure Program (REDIP) was created by Ch 1147/86 (SB 2117). This program is intended to provide assistance to rural areas in financing infrastructure projects. These projects may help rural areas to retain, expand or attract businesses, thereby creating jobs and improving local economic conditions. Chapter 1147 also created the Rural Economic Development Infrastructure Panel to oversee the program, review applications, and to make the final decisions on the distribution of grant and loan funds. The authority for the program expires on July 1, 1991. The budget requests the transfer of $8 million from the Outer Continental Shelf Lands Act Account (federal "8g" funds) to the Rural Economic Development Fund to support additional grants and loans in the budget year.

Status of Existing Funds. To date, a total of $20 million has been appropriated for the REDIP program. The Governor's Budget indicates that the fund will also have $2 million in interest earnings by the end of the current fiscal year, so that a total of $22 million is available for the program. Table 3 shows the department's most recent estimates as to the total amount of grant and loan funds that will be expended in the current year — by applications awarded to date, applications under review, and potential applications. As the table shows, the program had awarded $6.1 million for REDIP loans and $860,000 for REDIP grants as of January 1, 1989.

Table 3
Department of Commerce
Rural Economic Development Infrastructure Program
Anticipated Grant and Loan Activity
1988-89
(dollars in thousands)

	Amount
Funds previously appropriated for infrastructure projects	$20,000
Interest earnings per Governor's Budget	2,214
Total funds available	$22,214
Grants awarded to rural small business development centers[a]	−$750
REDIP Program:	
Loans awarded	−6,065
Grants awarded	−860
Loan applications submitted	−3,276
Grant applications submitted	−1,175
Potential applications identified	−3,498
Department expenses	−83
Total, potential funding commitments	−$15,707
Balance Available	$6,507

[a] Chapter 1147, Statutes of 1986, allows uncommitted interest earnings to be used to support rural small business development centers.

Although the Governor's Budget anticipates that all but $2.8 million of the available funding will be expended by June 30, 1989, Table 3 shows the department's revised estimates which indicate that approximately $6.5 million will remain uncommitted at year end. As of the preparation of this analysis, however, *none* of the program's funds had actually been disbursed.

Department's Expectations Optimistic. Our analysis indicates that the department's expectations concerning the level of program activities are optimistic, for several reasons. First, it is not likely that all of the funds which have already been awarded for local projects will actually be disbursed. This is because the program regulations require that applicants be able to demonstrate that they have secured other financing sources, or have been denied other sources of financing. In addition, they must also demonstrate that the total costs of their projects can be covered by all of the financing sources, including REDIP funds. Our review of the program indicates that funding sources for many of the projects have not been fully secured when the department submits the application to the review panel. In recognition of this situation, the department has requested that these projects be given a conditional approval by the panel, pending the fulfillment of the financing and other program requirements. The department has not been able to disburse any of the funds that have been committed for these projects in the past year, because the projects are experiencing difficulties in meeting the program's requirements. It is not likely that all of these projects will ultimately satisfy the requirements.

Second, the review panel has not yet determined the adequacy of the 11 applications now being reviewed by the department. While the department plans to present eight of these applications to the panel within the next several months, it is likely that these projects also will be approved on a conditional basis.

DEPARTMENT OF COMMERCE—Continued

Finally, the department has identified only four additional localities that may potentially submit applications for funding. It is not clear based on past experience if these applicants will be able to meet the minimum criteria of the program, since only three of the 10 potential applicants named by the department in the past year have actually submitted applications. Thus, it appears unlikely that all of the potential applicants will submit a formal application.

On this basis, it is not realistic to assume that the department will be able to award all of the funds it expects to be awarded in the current year. Thus, it appears that more than the $6.5 million shown in Table 3 will remain uncommitted at the end of the current year.

Additional Funds Not Needed. The department is unable to demonstrate a need for additional funds beyond those which are now available. As noted above, the department has identified only four potential additional applicants, and it is unlikely that all of these applications will result in funding commitments. Because the department is unable to demonstrate a need for funds beyond those which are now available, and because there are enough available funds for additional applications beyond those projected by the department, we recommend that further funding for the program await the identification of additional applicants. Adoption of this recommendation would free up $8 million that could be used for General Fund proposes, and in our analysis of the general control sections, we are recommending the adoption of a new control section to transfer these monies to the General Fund.

Competitive Technology Program — Local Assistance

We withhold recommendation on the $6.6 million requested for local assistance grants pending receipt of additional program information.

The Competitive Technology Program was created by Ch 1332/88 (SB 2223) and Ch 1318/88 (AB 4260) to provide grants for projects which focus on making the results of research carried out in universities more accessible to private sector companies wishing to take advantage of the commercial potential of this research. The budget requests $6.6 million from the General Fund to increase funding for local assistance grants for the Competitive Technology Program. This is in addition to the $6.6 million provided for grants in the current year. The budget anticipates that all of the existing funds will be committed in the current year.

At the time this analysis was prepared, the department had not awarded any of the available funds. At that time, the program was still in the preliminary stages of development, and had just begun its solicitation of applicants. The department indicated that it had no information as to the potential number of applicants. Consequently, the department was unable to demonstrate that the demand for funds will exceed the funds already provided in the current year.

The department plans to begin to award grants in May of 1989 and disburse these funds beginning July 1, 1989. Information on the applications received by the department during the second half of the current fiscal year will provide a better basis for determining the demand for additional program funds. Therefore, we withhold recommendation on the additional $6.6 million requested in the budget for local assistance grants, pending receipt and review of additional project information.

Business, Transportation and Housing Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various special funds — Budget p. BTH 31

Requested 1989-90	$282,119,000
Estimated 1988-89	132,046,000
Actual 1987-88	132,247,000
Requested increase (excluding amount for salary increases) $150,073,000 (+114 percent)	
Recommended reductions from the General Fund	485,000
Recommended reductions from special funds	505,000
Total recommended reduction	990,000
Recommended reversion of special fund balance to the General Fund	872,000
Recommendation pending	945,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2240-001-001—Support	General	$6,522,000
2240-001-245—Support	Mobilehome Park Revolving	2,722,000
2240-001-451—Support	Manufactured Home License Fee Account	1,909,000
2240-001-530—Support	Mobilehome Park Purchase	323,000
2240-001-635—Support	Rural Predevelopment Loan	189,000
2240-001-648—Support	Mobilehome-Manufactured Home Revolving	12,301,000
Ch 27/88—Support	Earthquake Safety Bond Account	945,000
2240-001-813—Support	Self-Help Housing	169,000
Ch 1429/88—Support	Petroleum Violation Escrow Account	187,000
Control Section 23.50—Support	State Legislation Impact Assistance Grant	329,000
2240-001-890—Support	Federal Trust	1,564,000
2240-001-929—Support	Housing Rehabilitation Loan	562,000
2240-001-936—Support	Homeownership Assistance	224,000
2240-001-938—Support	Rental Housing Construction	650,000
2240-001-980—Support	Urban Predevelopment Loan	234,000
2240-001-985—Support	Emergency Housing Assistance	152,000
Subtotal, support		($28,982,000)
2240-101-001—Local assistance	General	$4,400,000
Health and Safety Code Section 50782—Local assistance	Mobilehome Park Purchase	2,500,000
Health and Safety Code Section 50516—Local assistance	Rural Predevelopment Loan	2,000,000
Ch 48/88—Local assistance	Homebuilding and Rehabilitation Fund	75,000,000
Ch 27/88—Local assistance	Earthquake Safety Bond Account	75,000,000

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Health and Safety Code Section 50697.1—Local assistance	Self-Help Housing	356,000
Ch 1429/88—Local assistance	Petroleum Violation Escrow Account	1,813,000
Control Section 23.50—Local assistance	State Legalization Impact Assistance Grant	4,030,000
2240-101-890—Local assistance	Federal Trust	66,954,000
Health and Safety Code Section 50517.5—Local assistance	Farmworker Housing Grant	100,000
Health and Safety Code Section 50661—Local assistance	Housing Rehabilitation Loan	1,700,000
Health and Safety Code Section 50778—Local assistance	Homeownership Assistance	429,000
Health and Safety Code Section 50740—Local assistance	Rental Housing Construction	2,433,000
Government Code Section 16370—Local assistance	Special Deposit—Office of Migrant Services Account	1,015,000
Health and Safety Code Section 18070—Local assistance	Mobilehome Recovery	50,000
Health and Safety Code Section 50531—Local assistance	Urban Predevelopment Loan	2,976,000
Health and Safety Code Section 50800.5—Local assistance	Emergency Housing Assistance	620,000
Subtotal, local assistance		($241,376,000)
Reimbursements		$11,761,000
Total Funding		$282,119,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Propositions 77 and 84. Withhold recommendation on 17.5 positions and $945,000 to administer Proposition 77, pending receipt of plans and timelines for implementing Propositions 77 and 84 and information on the extent to which the department intends to use taxable bonds to finance the bond programs. 187
2. ***Farm Labor Housing Rehabilitation Loan Account. Add Item 2240-495 to revert $872,000.*** Recommend reversion of the unused balance in the Farm Labor Housing Rehabilitation Loan Account to the General Fund. 189
3. ***Energy Conservation. Reduce PVEA expenditures by $187,000.*** Recommend reduction and deletion of 3 positions because the department's request is premature. 189
4. ***Homeless Mentally Disabled Persons. Reduce Item 2240-001-001 by $154,000.*** Recommend reduction because the positions are not needed on a workload basis. 190
5. ***Community Development Block Grant Administration. Reduce Item 2240-001-001 by $239,000.*** Recommend reduction because the department cannot justify an increase in the level of funding for administration. 191
6. ***Technical Recommendation. Reduce Item 2240-001-001 by $92,000 and various other funds by $318,000.*** Recommend reduction to correct for underbudgeted salary savings. 191

GENERAL PROGRAM STATEMENT

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

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

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

The department has 585.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $282.1 million from various sources, including federal funds and reimbursements, for the Department of Housing and Community Development (HCD) in 1989-90. This is $150.1 million, or 114 percent, above estimated current-year expenditures. Excluding federal funds, expenditures in 1989-90 are budgeted at $213.6 million, which is $141.9 million, or 198 percent, above estimated current-year expenditures. The large increase between the two years is attributable to the passage of two housing bond measures (Propositions 77 and 84) during the 1988 elections.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1990. As indicated in the table, the department is supported by the General Fund (4 percent), special funds (68 percent), federal funds (24 percent), and reimbursements (4 percent).

Table 1
Department of Housing and Community Development
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
Codes and standards	224.1	251.3	248.1	$16,617	$17,461	$18,637	6.7%
Community affairs	172.7	187.2	200.0	114,366	113,320	262,139	131.3
Housing policy development	21.5	22.8	23.6	1,264	1,265	1,343	6.2
Administration	105.8	124.1	125.1	(7,219)	(7,827)	(7,974)	(1.9)
Totals	524.1	585.4	596.8	$132,247	$132,046	$282,119	113.7%
Funding Sources							
General Fund				*$29,486*	*$16,305*	*$10,922*	*−33.0%*
Mobilehome Park Revolving Fund				*1,957*	*2,237*	*2,722*	*21.7*
1987 Southern California Earthquake Account				*−129*	*127*	—	*−100.0*
Manufactured Home License Fee Account				*1,812*	*1,828*	*1,909*	*4.4*
Mobilehome Park Purchase Fund				*1,012*	*7,739*	*2,823*	*−63.5*
Rural Predevelopment Loan Fund				*2,257*	*2,176*	*2,189*	*0.6*
Mobilehome-Manufactured Home Revolving Fund				*11,266*	*11,771*	*12,301*	*4.5*
Earthquake Safety and Housing Rehabilitation Fund				—	*561*	*75,945*	—[a]

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Home Building and Rehabilitation Fund	—	—	75,000	—[a]
Self-Help Housing Fund	2,721	2,590	525	−79.7
Petroleum Violation Escrow Account	—	—	2,000	—[a]
California Housing Trust Fund[b]	(10,000)	(4,000)	—	−100.0
Farm Labor Rehabilitation Loan Account	45	533	—	−100.0
State Legalization Impact Assistance Grant	—	2,814	4,359	54.9
Farmworker Housing Grant Fund	859	104	100	−3.8
Housing Rehabilitation Loan Fund	6,241	638	2,262	254.5
Homeownership Assistance Fund	2,205	1,250	653	−47.8
Rental Housing Construction Fund	5,162	3,066	3,083	0.6
Special Deposit Fund—Office of Migrant Services Account	1,609	1,015	1,015	—
Special Deposit Fund—Senior Shared Housing	533	500	—	−100.0
Urban Predevelopment Loan Fund	3,392	1,635	3,210	96.3
Rural Communities Facilities Fund	316	228	—	−100.0
Mobilehome Recovery Fund	21	50	50	—
Emergency Housing and Assistance Fund	6,543	2,730	772	−71.7
Reimbursements	5,498	11,809	11,761	−0.4
Subtotals, state funds	($82,806)	($71,706)	($213,601)	(197.9%)
Federal Trust Fund	$49,441	$60,340	$68,518	13.6%
Totals, All Funds	$132,247	$132,046	$282,119	113.7%

[a] Not a meaningful figure.
[b] Monies appropriated from this fund are transferred to other HCD funds, from which they are counted as expenditures.

The department anticipates receiving approximately $68.5 million in federal funds in the budget year. Forty percent of this funding, $27.5 million, is for the Small Cities portion of the federal Community Development Block Grant Program (CDBG). The HCD first assumed statewide management of the program in October 1982.

Proposed Budget-Year Changes

Table 2 summarizes the major changes in the department's proposed budget for 1989-90. The most significant adjustments proposed by the budget, which are not discussed elsewhere in this analysis, are as follows:

- The discontinuation of transfers ($4 million in the current year) of tidelands oil monies to the California Housing Trust Fund (CHTF). This would eliminate all funding for the Senior Citizens' Shared Housing Program and reduce the level of funding for the state Emergency Shelter Program and the California Self-Help Program.
- The deletion of General Fund support ($2.5 million in the current year) for the Farmworker Housing Grant Program.
- A reduction in HCD's General Fund support budget of $440,000.
- An additional $7.9 million in federal funds—$3 million for the development of seasonal housing for migrant farm workers, $2 million to provide emergency shelter to the homeless, and $2.9 million for a program to rehabilitate rental housing.

Table 2
Department of Housing and Community Development
Proposed 1989-90 Budget Changes
(dollars in thousands)

	General	*Special*	*Federal*	*Reimburse-ments*	*Totals*
1988-89 Expenditures (Revised)	$16,305	$43,592	$60,340	$11,809	$132,046
Baseline Adjustments					
Price increase	—	$90	$8	$32	$130
Employee compensation	$264	715	58	250	1,287
Statewide indirect costs	—	244	17	—	261
Subtotals, baseline adjustments	($264)	($1,049)	($83)	($282)	($1,678)
Workload Changes					
One-time expenditures	$3,288	-$866	-$2	-$20	-$4,196
Staffing adjustments	—	214	76	26	316
Federal funding adjustments:					
Office of Migrant Services' migrant housing	—	—	3,000	—	3,000
Federal Emergency Shelter Program	—	—	2,000	—	2,000
Century Freeway Housing Program	—	—	—	−254	−254
Loan repayments	—	330	—	—	330
Other	8	−428	—	−7	−427
Subtotals, workload changes	(−$3,280)	(−$770)	($5,074)	(−$255)	($769)
Program Changes					
Propositions 77 and 84 loans and grants	—	$150,000	—	—	$150,000
Proposition 77 administration	—	945	—	—	945
California Housing Trust Fund programs	—	−4,000	—	−$90	−4,090
Farm Labor Housing Rehabilitation Program administration	—	−33	—	—	−33
Rural Communities Facilities Program administration	—	−92	—	—	−92
Farmworker Housing Grant Program	−$2,500	—	—	—	−2,500
Community Development Block Grant administration	573	—	—	—	573
Petroleum Violation Escrow Account administration	—	187	—	—	187
Rental Housing Rehabilitation	—	—	$3,018	—	3,018
Internal audit staff	—	40	3	15	58
Unallocated reduction	−440	—	—	—	−440
Subtotals, program changes	(−$2,367)	($147,047)	($3,021)	(−$75)	($147,626)
1989-90 Expenditures (Proposed)	$10,922	$190,918	$68,518	$11,761	$282,119
Change from 1988-89:					
Amount	−$5,383	$147,326	$8,178	−$48	$150,073
Percent	−33.0%	338.0%	13.6%	−0.4%	113.7%

ANALYSIS AND RECOMMENDATIONS

Propositions 77 and 84—Many Unanswered Questions

We withhold recommendation on 17.5 positions and $945,000 requested from the Earthquake and Rehabilitation Bond Account to administer Proposition 77, pending receipt of the department's plans and timeline for implementing Propositions 77 and 84 and information on the extent to which the department intends to use taxable bonds to finance the bond programs.

Background. In 1988, the Legislature enacted and the voters approved the California Earthquake Safety and Housing Rehabilitation Bond Act

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

(Proposition 77) and the Housing and Homeless Bond Act (Proposition 84). These measures authorize the state to sell a total of $450 million of general obligation bonds for the purpose of constructing, rehabilitating or improving housing for low-income and homeless people. Table 3 displays the eight programs which are to receive bond funds under the terms of Propositions 77 and 84.

Table 3
Department of Housing and Community Development
Programs Supported by the California Earthquake Safety and Housing Rehabilitation Bond Act (Proposition 77) and the Housing and Homeless Bond Act (Proposition 84)
(dollars in millions)

Existing Programs	*Purpose of Funds*	*Prop 77*	*Prop 84*
Rental Housing Construction Program	Loans to construct rental housing and grants for rent subsidies	—	$200.0
Special User Housing Rehabilitation Loan Program (SUHRLP)	Loans to acquire and/or rehabilitate group homes, apartments, and residential hotels and motels	$70.0 [a]	25.0 [b]
Deferred Payment Rehabilitation Loan Program (DPRLP)	Loans to rehabilitate single-family and rental units	— [a]	—
Emergency Shelter Program	Grants to rehabilitate and operate shelters	—	25.0
Office of Migrant Services	Grants to build and operate seasonal housing for migrant farm workers	—	10.0
New Programs			
Earthquake-Safety Rehabilitation Program	Loans to rehabilitate apartments to make them earthquake safe	80.0	—
Family Housing Demonstration Program	Loans and grants for housing, construction, supportive services, and job training	—	15.0
Home Purchase Assistance Program	Loans to assist first-time homebuyers	—	25.0
Totals		$150.0	$300.0

[a] The measure allots $70 million to SUHRLP and DPRLP and does not specify the division of funds between the two programs.

[b] These monies are to be used solely to acquire and/or rehabilitate residential hotels.

Bond Act Implementation. The administration has not presented a complete program for implementing the housing bond acts. While the budget provides $945,000 from the Earthquake and Rehabilitation Bond Account to establish 17.5 positions to administer Proposition 77, *no funds or positions are proposed in the budget to administer Proposition 84.* Moreover, while the budget indicates that the department will issue a total of $150 million of bond program loans and grants in the budget year, the department has not determined (1) how this amount will be divided among the housing programs or (2) when these loans and grants will be available. In order for the Legislature to have the information it needs to oversee implementation of the bond acts, the department should submit the following information in advance of budget hearings: (1) a proposal for administering Proposition 84, (2) timetables for implementation of the bond acts, and (3) a summary, by program, of the amount of loans and grants to be made in the budget year under each bond act.

Bond Sale. At the time this analysis was prepared, there were several outstanding questions regarding the use of bond proceeds. Because resolution of these issues could affect housing programs and/or General Fund costs, the department should submit answers to these questions to the Legislature before budget hearings. Specifically:

- Does federal tax law permit the department to use *tax-exempt* bonds to finance (1) program administration, such as the 17.5 positions proposed to implement Proposition 77, and (2) each of the housing programs specified in the bond acts? According to staff reviewing this matter at the HCD and the Treasurer's office, the answer to these questions may be no.
- If tax-exempt bonds cannot be used to finance administration and certain housing programs, does the Treasurer have the authority to sell *taxable* bonds for these purposes? Federal tax law generally permits the proceeds of taxable bonds to be used for a wider range of activities than tax-exempt bonds. The state Attorney General is reviewing this issue.
- If the Treasurer has the authority to sell taxable *and* tax-exempt bonds for Propositions 77 and 84, what policies and procedures will the HCD establish to ensure that the *minimum* amount of taxable bonds will be sold? Although using taxable bonds may offer certain programmatic and administrative advantages, we estimate that the yearly debt service cost to the General Fund for taxable bonds would be in the range of *15 percent greater* than for tax-exempt bonds.

Pending receipt of the information detailed above and answers to the questions relating to the bond sale, we withhold recommendation on the 17.5 positions and $945,000 requested to administer Proposition 77.

Idle Balance in the Farm Labor Housing Rehabilitation Loan Account

We recommend that the Legislature revert the remaining balance of $872,000 in the Farm Labor Housing Rehabilitation Loan Account to the General Fund. (Add Item 2240-495.)

Chapter 1584, Statutes of 1985, established the Farm Labor Housing Rehabilitation Loan Program (FLHRLP) in order to increase the supply of low-cost housing for farm workers. This program was designed to provide low-interest loans to owners of farm labor camps for the rehabilitation of substandard housing units. Due to various program design problems, HCD had made only one loan as of the program's sunset date on January 1, 1989. Based on information provided by HCD, the remaining balance in the program's Farm Labor Housing Rehabilitation Loan Account will be $872,000 as of June 30, 1989.

Since the budget does not contain a spending plan for the $872,000, we recommend that these remaining funds be reverted to the General Fund. Alternatively, if it is still the Legislature's wish to provide housing for farm workers, it could transfer the balance in the Farm Labor Housing Rehabilitation Loan Account to the Farmworker Housing Grant Program (FHGP) which otherwise would not receive any funding in 1989-90 under the Governor's Budget. The FHGP has been more successful than the FLHRLP in increasing the supply of housing for farm workers.

Request for Energy Conservation Administration Positions Premature

We recommend deletion of three positions and $187,000 from the Petroleum Violation Escrow Account because the department's request is premature.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Chapter 1429, Statutes of 1988 (AB 2487 Hauser), appropriated $2 million from the Petroleum Violation Escrow Account (PVEA) to the HCD to implement two energy conservation programs for low income households. Specifically, the measure requires the HCD to finance energy conservation rehabilitation of housing for (1) farmworkers ($1 million) and (2) the elderly and handicapped ($1 million). The PVEA funds are appropriated to the states by the federal government from monies recovered from oil companies in restitution for petroleum price overcharges. The federal government requires that the states use these funds for energy conservation programs.

The budget proposes $187,000 from the PVEA to establish three positions to administer the energy conservation programs. The budget indicates that the $1,803,000 remaining in the appropriation will be spent on energy conservation projects during the budget year.

Our analysis indicates that the department's proposal is premature, because there are numerous outstanding questions regarding the activities, administration and funding of the energy programs. For example, the HCD has not yet determined: (1) what program activities would be consistent with federal guidelines for PVEA funds, (2) whether the HCD will administer the energy conservation programs directly or contract with local agencies, or (3) whether the federal government will permit PVEA funds to pay the administrative costs of the energy conservation programs.

Given the lack of detail in the department's proposal and the many outstanding questions, we recommend deletion of the proposed positions and $187,000. In addition, the department should formulate a proposal for administering Chapter 1429 during the budget year and submit it for consideration in the 1990-91 budget.

Transfer of Funds Does Not Justify Additional Staff

We recommend deletion of $154,000 from the General Fund and four positions requested to administer funds transferred to two of the department's housing programs because total workload for these programs will decline in 1989-90. (Reduce Item 2240-001-001 by $154,000.)

Chapter 36, Statutes of 1987 (AB 1213 Bronzan), requires that funds appropriated to the Department of Mental Health (DMH) for services to homeless mentally ill adults be transferred to HCD if the funds have not been encumbered by local mental health programs within two years of the original appropriation. The measure requires HCD to use these funds to provide specified housing for homeless mentally disabled persons under two existing housing programs—the Emergency Shelter Program (ESP) and the Special User Housing Rehabilitation Loan Program (SUHRLP).

In June 1988, HCD received from DMH its first transfer of $5 million which, according to budget estimates, will be spent in the current year. To administer the transfer in the current year, the department augmented its existing program staff by administratively establishing five positions. The budget requests that four of these five positions be permanently established to administer future transfers.

Our analysis indicates that the four positions are not warranted on a workload basis because the total workload for both programs is projected to decline in the budget year. The department estimates that it will spend $10.1 million, including the DMH transfer, for the ESP and SUHRLP programs in the current year with the assistance of 11 permanent staff and the five temporary staff hired through the administrative process. In 1989-90, the department plans to spend $6.6 million, an amount 35 percent below current-year expenditures, assuming that DMH makes another $5 million transfer to HCD. The magnitude of the expenditure decline suggests that the ESP and SUHRLP programs can be administered in the budget year with existing departmental staff. Consequently, we recommend deletion of $154,000 and four positions requested for the two programs.

Block Grant Administration Costs Not Justified

We recommend a $239,000 reduction from the General Fund, because the department cannot justify an increase in the level of funding for block grant administration. (Reduce Item 2240-001-001 by $239,000.)

The budget proposes a $500,000 increase in General Fund support for the administration of the Community Development Block Grant (CDBG) program. The CDBG program provides federal grants for economic and community development activities, on a competitive basis, to small cities and counties.

Our analysis indicates that $261,000 of the $500,000 requested is needed in order to maintain current program levels. This amount would replace certain *federal* CDBG administrative funds which will not be available to the department in the budget year. The department, on the other hand, has not justified the need for the remaining $239,000 of the proposal. This amount represents a general increase in administration which is not supported by any increased program need or other workload. Accordingly, we recommend a reduction of $239,000 from the amount proposed for CDBG administration.

Technical Recommendations

We recommend a reduction of $410,000 ($92,000 General Fund) to correct for underbudgeted salary savings. (Reduce Item 2240-001-001 by $92,000 and various other funds by $318,000.)

All state agencies experience savings due to vacancies in authorized positions, staff turnover, delays in filling new positions, and filling positions at the first step of the salary range. Since the magnitude of these savings generally is somewhat predictable, based on past patterns, an amount equal to the estimated savings is deducted from the budget for salaries and wages.

Our review indicates that HCD historically realizes salary savings which significantly exceed the amount estimated in the budget. For example, HCD realized $285,000 in *excess* salary savings in 1986-87, and $452,000 in 1987-88. In the first five months of 1988-89, HCD has experienced salary savings of $1,054,000. Since this amount is only $199,000 below the amount originally budgeted for salary savings, it is likely that HCD will realize excess salary savings in 1988-89 as well.

This information indicates that the amount of salary savings HCD has budgeted for 1989-90 is significantly understated. Consequently, we recommend that the amount budgeted for salary savings in 1989-90 be increased from $1,065,000 to $1,475,000 or by a total of $410,000. This adjustment is based on an average of the department's actual salary savings from 1985-86 through 1987-88.

Business, Transportation and Housing Agency
CALIFORNIA HOUSING FINANCE AGENCY

Item 2260 from the California Housing Finance Fund — Budget p. BTH 54

Requested 1989-90	($9,051,000) [a]
Estimated 1988-89	(8,650,000) [a]
Actual 1987-88	(7,896,000) [a]
Requested increase (excluding amount for salary increases) $401,000 (+4.6 percent)	
Total recommended reduction	None

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

GENERAL PROGRAM STATEMENT

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

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

The agency is governed by an 11-member Board of Directors, and has 126.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

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

According to CHFA staff, board action on a final proposed budget for 1989-90 is not expected until March 1989. The agency's 1989-90 preliminary budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend $9,051,000 in 1989-90, an increase of $401,000, or 5 percent, over estimated current-year expenditures. The proposed amount reflects increases in personal services costs ($295,000) and statewide pro rata charges ($106,000).

Evaluation of Senior Citizens' Housing Bond Program

Chapter 1359, Statutes of 1986 (AB 2051—Davis), established a bond program to finance rental housing for senior citizens. This measure authorized CHFA to sell up to $200 million in revenue bonds to provide below market-rate loans to developers of this housing. It requires that 40 percent of all units financed be reserved for low- or moderate-income seniors and that the remaining units be made available to other seniors regardless of their incomes. The measure also created the Senior Citizens' Housing Annuity Account to provide payments to housing sponsors in order to reduce rents for low- or moderate-income seniors.

Chapter 1359 requires our office to evaluate in the *Analysis of the 1989-90 Budget Bill*, CHFA's implementation of this program. Our review indicates that CHFA has not issued any bonds or made any loans since the programs' inception on January 1, 1987. The CHFA indicates that two factors have made this program unattractive to developers, and therefore, not feasible to implement. First, the annuity account which would provide rent subsidies for tenants has not been funded, and thus, from a developer's perspective, it would be financially difficult to rent 40 percent of a project's units at below-market rents as required by Chapter 1359. Second, the statute caps developers' profits at 6 percent of project costs. Since other CHFA bond programs have no caps, developers presumably would prefer, given a choice, to pursue financing under the other CHFA bond programs.

The Legislature could pursue one of two options with regard to this program. First, it could terminate this program by repealing its statutory authorization and allow CHFA to continue serving seniors under its other bond-funded rental housing programs. Since January 1, 1987, CHFA has committed or loaned under its other bond programs $14 million for six rental projects that will provide 364 housing units for senior citizens. Federal law governing the issuance of these multifamily bonds requires that 20 percent to 40 percent of these units be reserved for seniors who meet income criteria more stringent than those required by Chapter 1359.

As a second option, the Legislature could fund the annuity account. This option *may* enable CHFA to implement the Chapter 1359 program, and thus, finance senior housing at a faster rate than it is doing currently under its other bond programs. According to CHFA, if developers were assured of an annuity, they would be likely to accept the cap on profits. If the Legislature chooses to fund the annuity, $3 million to $5 million annually from the General Fund would be needed *each year* for 30 years ($90 million to $150 million) to support $200 million in loans.

In our view, the decision whether to terminate the program or continue it by funding the program's annuity, in hopes of *potentially* speeding up the current rate of development, is a policy decision that should be made by the Legislature based on (1) whether it considers the current rate of production to be adequate, and (2) whether the priority accorded to funding the annuity is higher than other legislative priorities.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

Accordingly, we make no recommendations with regard to this program.

State and Local Agencies' Use of Housing Revenue Bonds

Chapter 1611, Statutes of 1988, requires our office to annually report specified information regarding housing financed with tax-exempt revenue bonds issued by CHFA and certain local government agencies. This report is based on information submitted by the CHFA and the California Debt Allocation Committee (CDAC).

Our review of this information indicates the following:

- *Multifamily Housing*. The CHFA and the reporting local agencies have produced about 19,000 multifamily rental units since 1979 that are specifically reserved for occupancy by low-income households. Of these, 18,235 units were occupied at the time CDAC and CHFA completed their surveys. Most of the units (90 percent) are one or two bedroom units occupied in 77 percent of the cases by small, one and two member, households. Only 9 percent of all occupied units housed families with four or more members. With the exception of 367 units developed by CHFA, all reserved units were occupied by households earning at or below the low-income level.
- *Single-Family Housing*. The CHFA and the reporting local jurisdictions financed 21,749 single-family units with the proceeds of revenue bonds. Of these units, about 60 percent are occupied by small households consisting of one or two members. Single-family revenue bond financing for single-family homes benefits moderate-income households more often than low-income households. Seventy-three percent of loans made from local agency bond proceeds benefited moderate to above moderate-income level households. Only 27 percent of local agency financing benefited low-income households; and no very-low income households were served under single-family programs.
- *Geographical Distribution*. Five urban counties — Los Angeles, Sacramento, San Diego, San Bernardino, and Alameda — account for 59 percent of all multifamily housing and 47 percent of all single-family housing financed with revenue bonds.

Tables 1 and 2 below show the specific information required by Chapter 1611. Table 1 provides information on the types of housing financed with tax-exempt revenue bonds, occupant statistics, and the types of sponsors. The data provided by CDAC and CHFA have certain limitations which are indicated in the footnotes. Table 2 shows the distribution of this housing by county.

Table 1
California Housing Finance Agency
Housing Financed By Tax-Exempt Revenue Bonds
1979 through 1988

	Multifamily Housing			*Single-Family Housing*		
	State[a]	*Local*[b]	*Total*	*State*[a]	*Local*[b]	*Total*
Number Of Units	12,467	52,819	65,286	17,716	4,033	21,749
Number of targeted units	9,781	9,244	19,025	17,716	4,033	21,749
Number of occupied targeted units	9,463	8,772	18,235	—	—	—
Household Size Of Occupied Targeted Units:[c]						
One and two members	7,607	6,436	14,043	10,442	2,704	13,146
Three members	938	1,519	2,457	3,254	663	3,917
Four or more members	918	759	1,677	4,020	464	4,484
Household Income Levels for Occupied Targeted Units:						
Very-low income	8,095	2,616	10,711	N/A[d,e]	—	—
Low income	1,001	6,156	7,157	N/A	1,078	1,078
Moderate income	367	—	367	N/A	2,002	2,002
Above moderate income	—	—	—	N/A	953	953
Unit Size:[f]						
Studio	471	510	981	N/A[d]	27	27
One and two bedrooms	10,266	7,902	18,168	N/A	1,833	1833
Three and more bedrooms	1,730	360	2,090	N/A	1,669	1669
Other	—	—	—	N/A	206	206
Monthly Rent/Mortgage Payment	$50-$500+	$121-$890	$50-$890	$140-$1,348	$206-$1,492	$140-$1,492
Per Unit Expenditure of Bond Proceeds	$40,700	$53,000	—	$143,300	$89,800	—
Development Projects (local) And Units (state) By Type Of Sponsor:[g]						
For-profit	1,634	256	—	N/A[d]	341	341
Nonprofit	1,930	8	—	N/A	9	9
Limited dividend	8,903	4	—	N/A	—	—
Length Of Time Rental Units Reserved For Targeted Groups:						
1990-1995	N/A[d]	2,309	2,309	—	—	—
1996-2001	N/A	5,753	5,753	—	—	—
2002-2007	N/A	775	775	—	—	—
2008-2013	N/A	309	309	—	—	—
Permanent	N/A	98	98	—	—	—

[a] The CHFA data are cumulative as of June 30, 1988 for all multifamily units it has financed. CHFA reported detailed data on only those single-family units financed since 1982, or 17,716 units of a total of 28,810 units.

[b] CDAC data are cumulative for bonds authorized and issued from January 1, 1985 through June 30, 1988 by cities, counties, and redevelopment agencies, and from January 1, 1986 through June 30, 1988 for housing authorities. CDAC received and reported data on $4.7 billion of the $6.7 billion (70 percent) in bonds issued by local agencies with requirements to report to CDAC.

[c] Household sizes were not reported for 58 rental units and 202 single-family units financed by local agencies.

[d] N/A indicates that the information is not available.

[e] CHFA does not report data on household income by moderate-, low-, and very-low income categories.

[f] Unit size was not reported for 298 single-family dwellings financed by local governments. CHFA information on multifamily units is based on its total of all units developed — 12,467 — rather than the total of occupied, targeted units.

[g] The nonprofit category includes units developed by local governments.

CALIFORNIA HOUSING FINANCE AGENCY—Continued

Table 2

California Housing Finance Agency
Geographical Distribution Of Housing
Financed By Housing Revenue Bonds By County
1979 through 1988

	Multifamily Housing			*Single-Family Housing*		
County	*State*	*Local*	*Total*	*State*	*Local*	*Total*
Alameda	984	627	1,611	1,505	211	1,716
Contra Costa	522	361	883	1,533	360	1,893
Fresno	494	572	1,066	1,686	—	1,686
Kern	140	—	140	653	69	722
Los Angeles	3,782	2,150	5,932	4,179	1,256	5,435
Marin	25	—	25	63	6	69
Orange	458	311	769	1,815	573	2,388
Riverside	1,026	383	1,409	1,144	132	1,276
Sacramento	1,119	610	1,729	3,690	58	3,748
San Bernardino	641	1,402	2,043	1,651	241	1,892
San Diego	1,386	1,255	2,641	2,405	205	2,610
San Francisco	633	342	975	432	67	499
San Mateo	196	141	337	294	4	298
Santa Clara	383	238	621	1,542	115	1,657
Solano	441	202	643	585	40	625
Sonoma	234	20	254	706	135	841
Stanislaus	100	168	268	439	—	439
Tulare	—	—	—	636	138	774
Ventura	—	254	254	510	198	708
Yolo	426	63	489	583	42	625
All other counties	1,444	145	1,589	2,759	183	2,942
Total	14,434 [a]	9,244	23,678	28,810 [a]	4,033	32,843

[a] CHFA does not break out in its geographical distribution targeted units from all units it finances.

Business, Transportation and Housing Agency
DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund — Budget p. BTH 57

Requested 1989-90	$35,367,000
Estimated 1988-89	33,487,000
Actual 1987-88	29,703,000
Requested increase (excluding amount for salary increases) $1,880,000 (+5.6 percent)	
Total recommended reduction	None
Recommendation pending	178,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2290-001-217—Support	Insurance	$35,092,000
2290-002-217—Advisory panel	Insurance	75,000
Chapter 1503/88 (AB 3798)—Rate Comparison Report	Insurance	200,000
Total		$35,367,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Personal Computer Acquisition. Withhold recommendation on $178,000 proposed for personal computers and software, pending receipt of information to justify request. 200
2. Transfer of Funds for Health Insurance Counseling and Advocacy Program (HICAP). Recommend adoption of Budget Bill language to ensure timely transfer of funds budgeted for program. 200

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business that is regulated entirely by the states, rather than by the federal government. In California, the Department of Insurance is responsible for regulating the activities of insurance and title companies, as well as insurance agents and brokers, in order to protect the policyholders. Currently, there are about 1,900 insurers generating total premiums of about $50 billion in California.

The department carries out its responsibilities through three major programs: (1) regulation, (2) fraud control, and (3) tax collection and audit. The cost of administering the department is prorated among these programs. Under the Regulation program, the department: (1) examines the qualifications, business conduct and financial records of insurers, agents and brokers to prevent incompetence, discrimination and fraud in the business; (2) investigates complaints against licensees and enforces the law and regulations against violators; and (3) provides insurance-related information and assistance to the public.

The department also investigates insurance fraud under the Fraud Control program, and collects, as well as audits, various insurance taxes from insurance companies and brokers under the Tax Collection program.

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

The department has 490 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an expenditure of $35.4 million from the Insurance Fund to support the department in 1989-90. This is an increase of $1.9 million, or 5.6 percent, over estimated current-year expenditures.

Table 1 shows the department's expenditures for the past, current and budget years. Table 2 summarizes the significant changes proposed for the budget year.

DEPARTMENT OF INSURANCE—Continued

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

	Personnel-Years			Expenditures			Percent Change
Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*From 1988-89*
Regulation	335.8	356.4	364.9	$21,924	$24,539	$25,994	5.9%
Fraud control	23.5	27.0	27.0	1,767	1,786	1,895	6.1
Tax collection and audit	3.0	4.0	4.0	240	265	337	27.2
Administration	107.2	102.6	103.5	5,772	6,897	7,141	3.5
Totals	469.5	490.0	499.4	$29,703	$33,487	$35,367	5.6%

Table 2
Department of Insurance
Proposed 1989-90 Budget Changes
(dollars in thousands)

1988-89 Expenditures (Revised)	$33,487
Baseline Changes	
Salary adjustments	$1,054
One-time expenditures	−322
Price increases	108
Reduced pro rata charges	−199
Subtotal, baseline adjustments	($641)
Workload Changes	
Increased regulatory and administrative staff	$133
Additional investigative staff	402
Increased data processing costs	326
Subtotal, workload changes	($861)
Program Changes	
Rate comparison report	$200
Personal computers and software	178
Subtotal, program changes	($378)
1989-90 Expenditures (Proposed)	$35,367
Changes from 1988-89:	
Amount	$1,880
Percent	5.6%

ANALYSIS AND RECOMMENDATIONS

Proposition 103-Related Expenses Not Funded in Proposed Budget

The implementation of Proposition 103, approved by voters on November 8, 1988, increases substantially the administrative and regulatory workload and expenditures of the Department of Insurance beginning in the current year. However, the proposed budget does not recognize any expenditures for this activity in either the current or budget year.

Additional Workload. Our review shows that, in order to implement the measure, the department has to:

- Establish regulations and monitor insurance companies for compliance with rate reductions and operational rules mandated by the measure.

- Hold hearings to determine if an insurer is threatened with insolvency when the insurer requests an exemption from the rate reduction.
- Review and approve proposed changes in all property-casualty insurance rates before they can go into effect, beginning November 8, 1989. In addition, the department must hold public hearings whenever the proposed rate changes exceed certain percentages. Currently, the department does not routinely review rates before they take effect.
- Facilitate the establishment of a nonprofit corporation to represent the interests of insurance consumers, and provide consumers—upon request and for a reasonable fee—with rate comparisons for each personal (that is, noncommercial) type of property-casualty insurance offered in California.

These additional responsibilities and functions will require an expansion of the department's data processing capabilities as well as additional staff support.

Current-Year Costs to the Department. Portions of Proposition 103 are currently under legal challenge. However, regardless of the legal challenges, the Department of Insurance must be ready with the administrative and regulatory structure to implement provisions of the measure as they become effective and operative.

At the time this analysis was prepared, the department had estimated that about 150 personnel-years and $5 million (including $2 million for data processing costs) would be needed to begin implementation of the measure.

Budget-Year and Future-Year Costs. Preliminary estimates also show that the first full-year (1989-90) costs to implement the measure will require about 300 persons and $15 million to $16 million. Ongoing annual costs thereafter may be somewhat lower or higher, depending on workload and the extent to which insurance companies comply with the provisions of the measure.

Funding Source. The department indicates that it intends to finance its Proposition 103-related costs for both the current and budget years from reserves in the Insurance Fund, anticipated to be $13.7 million at the end of 1988-89, and from increased fees levied on the insurance industry. The department also plans to charge licensees for the actual cost of any administrative work which results from requests by licensees (such as insolvency hearings).

While no funding requests have been included in the proposed budget, the department indicated—at the time this analysis was prepared that by early February 1989 it plans to submit to the Department of Finance a proposed deficiency appropriation and an amendment to the 1989-90 budget to finance these costs in the current and budget years. We will review these proposals when they are submitted to the Legislature.

1989-90 Budget Proposal

We recommend approval of the following changes:

- *Baseline changes* totaling $641,000;
- *Workload changes* totaling $861,000; and
- *Program change* of $200,000 for rate comparison report.

DEPARTMENT OF INSURANCE—Continued

Proposed Computers Need to be Justified

We withhold recommendation on $178,000 requested for personal computers and software, pending submission of justification by the Department of Insurance.

The Department of Insurance proposes to buy 28 personal computers and associated software for a total cost of $178,000 in an ongoing effort to automate the operation of the department. The proposed acquisition is in addition to the 26 units added in the past two years and 38 computers being added during 1988-89.

Our review of this proposal indicates that it is not properly justified for two reasons:

1. ***Information to Assess and Justify Need for Proposed Computers is Missing.*** At the time this analysis was prepared, the department was unable to provide written documentation which assesses and justifies the need for these computers and software, as required by the state's Computer Acquisition Policy and by the department's own budgeting procedures. Such information is necessary in order to (a) evaluate computer usage, (b) determine competing needs for computers within the department, and (c) maximize the benefits from the allocation of the equipment. Consequently, we have no analytical basis to evaluate the need for this proposed equipment.

2. ***Proposal is Not Coordinated with the Department's Office Automation Project.*** The department has contracted with a consultant to prepare a feasibility study report for an office automation system which will involve departmentwide use of personal computers. The report will also consider the expanded use of computers in administering Proposition 103, enacted by the voters last November. Our analysis indicates that the request for the 28 personal computers and software has not been coordinated with the plan for department automation. Such coordination is essential to ensure that the computers and software to be acquired will be compatible with the type and use of computer equipment contemplated for the department's office automation system.

While we recognize the potential benefit of increased use of computer technology in state departments, in the absence of (a) adequate justification of needs and (b) coordination with the department's overall automation project, we are unable to recommend approval of this request. Thus, we withhold recommendation on $178,000, pending receipt of justification for this project. This information ought to address how the requested equipment would be a coordinated part of the departmentwide automation effort.

Funding for Health Insurance Counseling and Advocacy Program

We recommend that the Legislature adopt Budget Bill language in Item 2290-001-217 to ensure the timely transfer of funds budgeted for the Health Insurance Counseling and Advocacy Program from the Department of Insurance to the California Department of Aging.

The budget requests $2.6 million from the Insurance Fund to the Department of Insurance to support the Health Insurance Counseling and Advocacy Program (HICAP) during 1989-90.

Program and Funding History. The HICAP was established to assist elderly Californians to (1) understand the federal Medicare health insurance coverage, (2) evaluate what additional coverage they might need to supplement Medicare coverage, and (3) avoid the purchase of unnecessary or duplicative health insurance coverage. The program also provides legal assistance to Medicare beneficiaries having problems with their health insurance coverage. These services are provided by local agencies or private entities under contract with the California Department of Aging (CDA) which is responsible for administering HICAP.

Prior to 1986-87, the program was funded from the General Fund.

Insurance Fund Now Pays for HICAP. Since 1987-88, the program has been funded out of the Insurance Fund. The 1987 Budget Act appropriated $1.5 million from the Insurance Fund to the Department of Insurance with specific language directing the department to allocate the funds to the CDA for the program. For the current year, however, the 1988 Budget Act does not contain similar language to direct the transfer of $2.6 million for the program. Instead, this amount is to be transferred through an interagency agreement between the two departments. Similarly, for 1989-90, the budget proposes that the transfer be accomplished through an interagency agreement.

Language Providing Transfer of Funds is Preferable. Our review shows that, to date, no interagency agreement has been approved by the Department of General Services, and none of the money allocated for 1988-89 has been transferred. Program services have been funded out of other monies available to the CDA. Because it is the Legislature's intent that HICAP activities be financed from the Insurance Fund, money appropriated for that purpose should be transferred promptly. To ensure that the transfer occurs promptly in 1989-90, we recommend that the Legislature adopt the following Budget Bill language in Item 2290-001-217:

> Of the funds appropriated in this item, $2,644,000 shall be transferred to the California Department of Aging for the support of the Health Insurance Counseling and Advocacy Program.

Business, Transportation and Housing Agency
DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 61

Requested 1989-90	$25,121,000
Estimated 1988-89	23,821,000
Actual 1987-88	22,406,000
Requested increase (excluding amount for salary increases) $1,300,000 (+5.5 percent)	
Total recommended reduction	None

DEPARTMENT OF REAL ESTATE—Continued

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2320-001-317—Support	Real Estate	$24,573,000
Reimbursements	—	548,000
Total		$25,121,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Funding of Staff Benefits. Recommend that the Department of Real Estate and the Department of Finance jointly report to the Legislature prior to budget hearings regarding deficiency in budgeted staff benefits. 203

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for protecting the public by (1) enforcing the Real Estate Law, and (2) regulating offerings of subdivided property, real property securities, and certain other real estate transactions.

To carry out its responsibilities, the department administers four programs: (1) *Licensing and Education,* which conducts licensing examinations throughout the state and maintains ongoing real estate research projects and continuing education activities; (2) *Regulatory and Recovery,* which investigates and may prosecute violations of real estate law by licensees; (3) *Subdivisions,* which administers the subdivision law and publishes filings with relevant information on subdivided property for sale; and (4) *Administration,* which provides management and administrative support for the department.

The department has 371 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $25.1 million in 1989-90. This is $1.3 million, or 5.5 percent, more than the estimated current-year expenditures. The proposed expenditures consist of $24.6 million from the Real Estate Fund and $0.5 million from reimbursements.

Table 1 shows the department's expenditures for the past, current and budget years. Table 2 summarizes the significant changes proposed for the budget year.

Table 1
Department of Real Estate
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*
Licensing and education	67.9	73.0	75.8	$4,132	$4,999	$5,129	2.6%
Regulatory and recovery	156.7	165.0	171.9	10,569	9,791	12,122	23.8
Subdivisions	66.3	74.5	74.5	3,657	4,351	3,768	−13.4
Administration	55.5	58.5	60.0	4,048	4,680	4,102	−12.3
Totals	346.4	371.0	382.2	$22,406	$23,821	$25,121	5.5%
Funding Sources							
Real Estate Fund				*$21,805*	*$23,273*	*$24,573*	*5.5%*
Reimbursements				*601*	*548*	*548*	—

Table 2
Department of Real Estate
Proposed 1989-90 Budget Changes
(dollars in thousands)

1988-89 Expenditures (Revised)	$23,821
Baseline Adjustments	
Salary increases	$688
Increased pro rata charges	82
Price increases	74
Consultant services	−75
Subtotal, baseline adjustments	($769)
Workload Changes	
Increased licensing and cashiering	$105
Reduced data processing needs	−38
Subtotal, workload changes	($67)
Program Changes	
Increased regulation of mortgage loan brokers and mortgage bankers	$366
Investigation of corporate license applicants	98
Subtotal, program changes	($464)
1989-90 Expenditures (Proposed)	$25,121
Change from 1988-89	
Amount	$1,300
Percent	5.5%

ANALYSIS AND RECOMMENDATIONS

Underbudgeted Staff Benefits Need Explanation

We recommend that, prior to budget hearings, the Department of Real Estate and the Department of Finance jointly report to the Legislature on (1) why staff benefits are underbudgeted for the Department of Real Estate, (2) how the Department of Real Estate plans to correct this shortage, and (3) the effect of that plan on the department's ability to fulfill its responsibilities.

The budget requests $3.3 million for staff benefits in 1989-90. This amount is the same as the amount estimated to be spent for staff benefits during the current year. The budget, however, proposes (1) a net staff increase of 11.2 personnel-years and (2) salary adjustments of $688,000, both of which will increase expenditures for staff benefits in 1989-90.

The $3.3 million budgeted for staff benefits equals a rate of 26.5 percent of salaries and wages. Our review of the department's actual expenditures for staff benefits during the recent past years, however, shows staff benefit rates as high as 33 percent in 1987-88. Thus, based on past experience, the proposed staff benefits rate is too low and the department appears to have underbudgeted staff benefits for 1989-90.

Significantly underbudgeted staff benefits would require the department to keep some positions unfilled or redirect funds from operating expenses to personal services in order to pay for staff benefits. These actions would run counter to the Legislature's intent—as expressed by recently enacted laws—that the department increase its regulatory activities, especially over mortgage loan brokers.

DEPARTMENT OF REAL ESTATE—Continued

Accordingly, we recommend that the Department of Real Estate and the Department of Finance report to the Legislature prior to budget hearings on (1) why staff benefits are underbudgeted; (2) how the Department of Real Estate plans to correct this deficiency; and (3) the effect of that plan on the ability of the department to fulfill its statutory responsibilities.

Business, Transportation and Housing Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 66

Requested 1989-90	$9,535,000
Estimated 1988-89	9,189,000
Actual 1987-88	8,791,000
Requested increase (excluding amount for salary increases) $346,000 (+3.8 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2340-001-337—Support	Savings Association Special Regulatory	$9,488,000
Reimbursements	—	47,000
Total		$9,535,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Funding Problem. Recommend that the Department of Savings and Loan report to the Legislature prior to budget hearings, regarding the magnitude and effects of the funding problem the department faces, and potential solutions. 205

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan protects the savings and investments of the public by regulating the activities and examining the financial records of state-licensed savings and loan associations.

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

The department has 141.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $9,535,000 for support of the department in 1989-90. This is $346,000, or 3.8 percent, more than estimated current-year expenditures. This includes $9.5 million from the Savings Association Special Regulatory Fund and reimbursements of $47,000.

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

Table 1
Department of Savings and Loan
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*
Examination	78.6	82.2	81.3	$5,123	$5,408	$5,630	4.1%
Appraisal	20.0	20.0	19.6	1,407	1,409	1,453	3.1
Licensing	5.0	4.7	4.5	524	529	553	4.5
Administration	31.3	34.9	34.4	1,737	1,843	1,899	3.0
Totals	134.9	141.8	139.8	$8,791	$9,189	$9,535	3.8%
Funding Sources							
Savings Association Special Regulatory Fund				*$8,765*	*$9,142*	*$9,488*	*3.8%*
Reimbursements				*26*	*47*	*47*	*—*

Table 2
Department of Savings and Loan
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Savings Association Special Regulatory Fund
1988-89 Expenditures (Revised)	$9,142
Baseline Adjustments	
Salary increases	326
Price increases	69
Lower pro rata charges	−49
Subtotal, baseline adjustments	($346)
1989-90 Expenditures (Proposed)	$9,488
Change from 1988-89:	
Amount	$346
Percent	3.8%

ANALYSIS AND RECOMMENDATIONS

Department Faces Potential Funding Problem

We recommend that, prior to the budget hearings, the Department of Savings and Loan report updated information to the Legislature on: (1) the shrinking revenue base which finances the department's activities; (2) the impact of reduced revenues on the department's ability to regulate effectively the savings and loan associations under

DEPARTMENT OF SAVINGS AND LOAN—Continued

its jurisdiction; and (3) the options proposed by the department to address the potential funding problem.

The budget proposes to spend about $9.5 million from the Savings Association Special Regulatory Fund to finance the department's activities during 1989-90. Revenues to the regulatory fund, however, are projected to be $7.5 million during the same period. Thus, expenditures will exceed revenues by nearly $2 million.

Table 3
Department of Savings and Loan
Savings Association Special Regulatory Fund
Fund Condition
1986-87 through 1989-90
(dollars in thousands)

	Actual 1986-87	*Actual 1987-88*	*Estimated 1988-89*	*Projected 1989-90*	*Change from 1988-89*
Beginning reserves	$4,325	$4,478	$2,894	$2,129	−$765
Revenues	7,208	7,181	8,377	7,514	−863
Total resources	$11,533	$11,659	$11,271	$9,643	−$1,628
Expenditures	7,070	8,765	9,142	9,488	346
Ending reserves	$4,463	$2,894	$2,129	$155	−$1,974

As shown in Table 3, the department's expenditures have exceeded revenues it collected from assessments and fees beginning in 1987-88. The department is able to sustain expenditures in excess of annual revenues by drawing down reserves accumulated in past years. The table shows, however, that these reserves will essentially be depleted by the end of 1989-90, leaving a balance of only $155,000. This amount is about 1.6 percent of total expenditures proposed for 1989-90 and, in our judgment, does not provide an adequate reserve to cover unforeseen expenditures or unanticipated delays in the payment of assessments by licensed associations.

In anticipation of this funding shortage, the department is essentially proposing a baseline budget for 1989-90.

State-Chartered Associations Decreasing in Number. Table 3 also shows that revenues in 1989-90 are projected to be $863,000 (10 percent) less than the amount estimated for 1988-89. This decline is primarily the result of a decrease in the number of state-chartered associations which, in turn, reduces the total assets subject to assessment by the department. For instance, several insolvent state associations have converted from state to federal charter as a result of mergers with other associations or takeover by federal authorities. According to the department, the recent conversion of one large association alone accounts for a loss of about $500,000 in assessments in 1989-90. The anticipated loss of another 8 to 10 smaller associations from the state-chartered roll accounts for the balance of the projected assessment revenue loss.

In addition, there is an effort currently underway by savings and loan associations—including some large state-chartered institutions—to convert to state-chartered savings banks and be licensed by the State Banking Department, in order to be eligible for insurance by the Federal Deposit Insurance Corporation (FDIC) instead of the Federal Savings and Loan Insurance Corporation (FSLIC). By obtaining FDIC insurance, the converted institutions can reduce their costs because they would not have to pay the substantial surcharge, in addition to the regular assessments, currently imposed by the FSLIC.

Options to Address the Funding Problem. Our analysis indicates that additional revenues will be needed if the department's regulatory activities are to continue beyond 1989-90. The following alternatives should be considered:

1. Increase the Assessment Rate. Assessments on assets make up about 94 percent of the revenues to the regulatory fund. Revenues for 1989-90 are projected based on a rate of 99 cents per $1,000 of assets and represent an increase of 5.3 percent over the 1988-89 rate. Our review indicates that a one-cent increase in the rate could generate about $140,000 in additional assessment, based on the total assets projected for 1989-90. However, as the rate increases, the incentive for associations to change to federal charter would be greater, thereby reducing the total assets subject to assessment.

2. Charge for Certain Financial Examinations. Currently, the department does not charge for the costs of regular examination of institutions. However, it does charge for additional costs incurred as a result of delays in the examination caused by an institution. In contrast, the Federal Home Loan Bank of San Francisco, the department's federal counterpart, recently discontinued assessments in favor of charging specific, hourly fees for examining its licensees and all those institutions insured by the FSLIC. While discontinuing assessments may not be desirable for the department, charging licensees for follow-up and special examinations would place the cost burden more equitably on those institutions requiring more review and regulation from the department.

3. Increase Licensing and Other Fees. Our analysis indicates that the department has not reviewed its fees since 1983-84 to determine whether these fees cover the respective costs of various administrative services provided by the department. For example, the department estimates the cost of processing an application for acquisition to be about $7,500. However, the current fee is only $750. A review of the department's fee structure would identify those fees which should be revised to more adequately cover administrative costs associated with the services provided.

4. Consider Consolidation with the State Banking Department. If a significant number of state-chartered institutions convert to federal charter or opt to be licensed by the State Banking Department as savings banks, the continued need and function of the Department of Savings and Loan should be examined. In addition, the alternative of consolidating the department with the State Banking Department for joint regulation of state-chartered banks and savings and loans associations ought to be evaluated in an attempt to make state regulation of these financial institutions more cost-effective.

Discussions with the department indicate that it is in the process of reviewing various options, including those discussed above, to avert the funding problem it faces. In order to provide updated information to the Legislature on this issue, we recommend that, prior to budget hearings, the Department of Savings and Loan report on: (1) the shrinking revenue base which finances its budget, (2) the impact of the reduced

DEPARTMENT OF SAVINGS AND LOAN—Continued

revenues on its regulatory activities, and (3) the options it proposes to implement in order to address the funding problem.

CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 69

Requested 1989-90	$1,520,000
Estimated 1988-89	1,383,000
Actual 1987-88	1,167,000
Requested increase (excluding amount for salary increases) $137,000 (+9.9 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2600-001-042–Support	State Highway Account	$155,000
2600-001-046–Support	Transportation Planning and Development Account	1,365,000
Total		$1,520,000

GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC) is responsible for programming and allocating funds appropriated by the Legislature for highway, transit and aviation purposes. The commission also assists the administration and the Legislature in the development of transportation policies. Specifically, the commission's major responsibilities include:

- Annual adoption of a five-year State Transportation Improvement Program (STIP).
- Allocation among eligible transportation projects of funds appropriated by the Legislature for transportation purposes.
- Evaluation of the Department of Transportation's annual budget and of the adequacy of current state transportation revenues.
- Reporting annually to the Legislature on policies adopted by the CTC, major project allocations made in the previous year, and significant transportation issues facing the state.

The CTC consists of nine part-time members appointed by the Governor. In addition, one member each from the Senate and the Assembly serve as ex-officio members of the commission.

The commission has 12 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $1,520,000 for support of the commission's activities in 1989-90. This is $137,000, or 9.9 percent, more than estimated expenditures in the current year. The proposed funding includes $155,000 from the State Highway Account and $1,365,000 from the Transportation Planning and Development Account in the State Transportation Fund.

The proposed increase in commission expenditures consists of a one-time increase of $41,000 for the purchase of personal computers, $19,000 for increased consultant and phone costs, and $77,000 to cover other cost increases.

Business, Transportation and Housing Agency
SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 70

Requested 1989-90	$2,000,000
Estimated 1988-89	2,000,000
Actual 1987-88	2,000,000
Requested increase: None	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Program Funding Level. Recommend that the Legislature review proposed uses of Transportation Planning and Development Account revenues and either (a) direct additional funds to the State Transportation Assistance program, or (b) eliminate program funding and reexamine the statutory formula which specifies the use of account funds. 209

GENERAL PROGRAM STATEMENT

The Special Transportation Programs item provides funding for the State Transportation Assistance (STA) program. Under the STA program, local transportation agencies receive funds on a formula basis for capital and operating assistance for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads.

ANALYSIS AND RECOMMENDATIONS

We recommend the Legislature review the proposed uses of sales tax revenues in the Transportation Planning and Development (TP and D) Account, and either (1) direct additional funds to the STA program to provide a meaningful program level, or (2) eliminate funding for the program and reexamine the statutory formula which specifies how revenues to the account are to be used.

The budget requests an appropriation of $2 million from the Transportation Planning and Development (TP and D) Account in 1989-90 for the

SPECIAL TRANSPORTATION PROGRAMS—Continued

STA program. This is the same amount as was provided in both the current and past years for the program.

Program Funding Sources. From the program's inception in 1979 through 1986-87, the STA program was funded from the so-called "spillover" sales tax revenue deposited in the TP and D Account. "Spillover" revenue is the "excess" revenue generated from a 4-3/4 percent sales tax on all taxable goods, *including* gasoline, as compared to a 5 percent rate on all taxable goods, *excluding* gasoline. In 1982, the portion of the spillover revenue which goes to the STA program was set at 60 percent.

Since 1985-86, due to a continued drop in gasoline prices, the spillover formula has resulted in no spillover revenues being transferred to the TP and D Account. In order to maintain a reasonable level of funding for the STA and other programs funded from the TP and D Account, the Legislature enacted Ch 1600/85 which, starting in 1987-88, also deposits into the account revenues from the sales tax on diesel fuel, up to a specified limit. Thus, starting in 1987-88, the STA program was to receive 60 percent of any spillover or diesel sales tax revenue transferred into the account.

Funding Level Below Statutory Formula. In each of the years since 1987-88, however, the STA program has not received the level of funding intended under law. Table 1 shows the level of TP and D Account sales tax revenues and STA funding intended under law and what actually was received for 1987-88 through 1989-90.

Table 1
Transportation Planning and Development Account
Sales Tax Revenue and STA Program Funding
(in millions)

	Sales Tax Revenue		*STA Program Allocation*	
	Statutory	*Actual*	*Statutory*	*Actual*
1987-88	$59.4	$18.3 [a]	$35.6	$2.0
1988-89	73.0	24.3 [b]	43.8	2.0
1989-90 (prop.)	80.0	80.0	48.0	2.0

[a] Transfer capped at $20 million by 1987 Budget Act. Amount does not include $1.7 million transferred from the account to the General Fund.
[b] Amount does not include $48.7 million transferred from the account to the General Fund.

During this three-year period, the STA program level intended under law averaged $42.3 million, while the program actually has been limited to a $2 million level.

For 1989-90, the budget proposes to transfer to the TP and D Account the full $80 million in sales tax revenue specified in law. Under the statutory formula, 60 percent of this amount, or $48 million, would go to the STA program, and the other 40 percent, or $32 million, would be available for the following activities:

- Transit Capital Improvement program.
- Department of Transportation planning and mass transportation activities.
- Intercity and commuter rail services.
- Partial support of the Institute of Transportation Studies at the University of California, the California Transportation Commission, and the Public Utilities Commission.

Instead, the budget proposes to allocate only $2 million to the STA program and direct the remaining $78 million to other activities listed above.

Proposed Amount Does Not Provide Meaningful Program Funding. STA program funds are divided among approximately 150 eligible local recipients. At a $2 million program level, the average grant is only about $13,000. In contrast, during the first seven years of the program, an average of $70 million per year was allocated among local recipients—or 35 times the current program level—with an average annual grant of about $450,000.

The individual grant amounts vary significantly because of the formulas which are used to allocate the funds among the local recipients. We estimate that, at the $2 million program level, about 35 eligible cities receive grants of less than $100. Further, 24 counties receive less than $5,000 each, with Alpine County receiving the smallest grant—a total of $57.

At the other extreme, the Southern California Rapid Transit District (SCRTD), the recipient of the largest average amount of funds, receives a total of about $520,000 at the $2 million program level. However, a grant of this size represents less than 0.1 percent of SCRTD's $550 million annual operating budget.

Whether additional funds should be redirected to the STA program from other activities supported by the TP and D Account is a policy decision that the Legislature has to make. However, in our judgment, a $2 million annual STA program does not provide any meaningful level of assistance to local transit operators, or to street and road construction programs in smaller or rural counties. Accordingly, we recommend that the Legislature review the proposed uses of sales tax revenues in the TP and D Account, and either (1) direct additional funds to the STA program to provide a meaningful program level in the budget year, or (2) eliminate funding for the program in the budget year and reexamine the statutory formula which specifies how the revenues to the account are to be used to determine if current law still expresses the state's funding priorities.

Business, Transportation and Housing Agency

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY

Items 2660 and 2660-301 from various funds — Budget p. BTH 72

Requested 1989-90	$3,885,088,000
Estimated 1988-89	3,841,760,000
Actual 1987-88	2,569,597,000
Requested increase (excluding amount for salary increases) $43,328,000 (+1.1 percent)	
Total recommended reduction	654,663,000
Recommended increase in reimbursements	2,600,000
Recommendation pending	807,000

1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund [a]	Amount
2660-001-041—Aeronautics, support	Aeronautics Account	$2,536,000
2660-001-042—Highway and mass transportation, support	State Highway Account	1,122,841,000
2660-001-045—Highway, support	Bicycle Lane Account	10,000
2660-001-046—Mass transportation and transportation planning, support	Transportation Planning and Development Account	32,400,000
2660-001-047—Mass transportation, support	Abandoned Railroad Account	56,000
2660-101-042—Highway and mass transportation, local assistance	State Highway Account	97,060,000
2660-101-045—Highway, local assistance	Bicycle Lane Account	635,000
2660-101-046—Mass transportation and transportation planning, local assistance	Transportation Planning and Development Account	48,677,000
2660-301-042—Highway, capital outlay	State Highway Account	263,507,000
2660-302-046—Mass transportation, capital outlay	Transportation Planning and Development Account	10,000,000
Total, Budget Act appropriations, state funds		$1,577,722,000
2660-001-890—Support	Federal	215,259,000
2660-101-890—Local assistance	Federal	315,540,000
2660-301-890—Capital outlay	Federal	1,240,072,000
Total, Budget Act appropriations, federal funds		$1,770,871,000
Prior appropriations		
Statutory—Highway, support	Toll Bridge Funds	$38,599,000
Statutory—Highway, support	State Highway Account	9,500,000
Statutory—Aeronautics, local assistance	Aeronautics Account	2,310,000
Statutory—Highway capital outlay	Special Account for Capital Outlay	2,971,000
Budget Act of 1983—Highway, capital outlay	State Highway Account	1,000,000
Budget Act of 1984—Highway, capital outlay	State Highway Account	2,000,000
Budget Act of 1985—Highway, capital outlay	State Highway Account	3,000,000
Budget Act of 1987—Highway, capital outlay	State Highway Account	125,639,000
Budget Act of 1988—Highway, capital outlay	State Highway Account	172,924,000
Statutory—Highway, capital outlay	Toll Bridge Funds	13,036,000
Total, prior appropriations, state funds		$370,979,000
Statutory—Highway capital outlay	Federal	$5,198,000

Budget Act of 1983—Highways, capital outlay	Federal	3,000,000
Budget Act of 1984—Highways, capital outlay	Federal	6,000,000
Budget Act of 1985—Highways, capital outlay	Federal	8,000,000
Budget Act of 1986—Highways, capital outlay	Federal	10,000,000
Budget Act of 1987—Highways, capital outlay	Federal	211,542,000
Budget Act of 1988—Highways, capital outlay	Federal	514,796,000
Total, prior appropriations, federal funds		$758,536,000
Minus, balance available in subsequent years		$1,165,365,000
Reimbursements		572,345,000
Total, all expenditures		$3,885,088,000

[a] All accounts are within the State Transportation Fund, except for the Special Account for Capital Outlay in the General Fund.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Highway Account Cash Balance. Recommend that prior to budget hearings, the department provide the fiscal committees with its projection of State Highway Account cash balances through 1990-91 based on its plan to implement the proposed budget. 221
2. Cash Management System. Recommend that the department submit a plan and schedule to implement its cash management system. 223
3. Delivery of Local Measure Projects. Recommend that the department include as part of its annual SB 140 delivery report, an assessment of its accomplishments on projects funded by local tax measures. 227
4. Deferral of Highway Projects. Recommend that prior to budget hearings, the department report to the fiscal committees on the highway projects it proposes to defer in the budget year. 231
5. ***Highway Capital Outlay. Reduce Item 2660-301-042 by $90 million and 2660-301-890 by $510 million.*** Recommend reduction because the department indicates it will defer about $600 million in highway projects in the budget year. 232
6. ***Engineering Consultants. Reduce Item 2660-001-042 by $15.8 million.*** Recommend reduction because the department has overstated the amount needed to fund consultant contracts in the budget year. 234
7. ***Staff for Oversight Work. Reduce Item 2660-001-042 by $1.5 million and 22.5 personnel-years (PYs).*** Recommend reduction because the department will need fewer staff to perform oversight responsibilities on toll road projects. 235
8. ***Cost for Local Engineering Work. Reduce Item 2660-001-042 by $2.6 million and increase reimbursements to Item 2660-001-042 by this amount.*** Recommend reduction because department underestimated the costs of project development work that ought to be funded by local agencies. 235
9. ***Congestion Relief Proposal. Reduce Item 2660-001-042 by $2,438,000 and 36.1 PYs.*** Recommend reduction because the full amount is not needed to accomplish the proposed workload. 237

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

10. ***Priority of Pavement Maintenance. Reduce Item 2660-001-042 by $1.3 million.*** Recommend reduction of funds proposed for low-priority roadside maintenance and recommend instead that the Legislature direct these funds toward other higher priority maintenance activities. 238
11. ***Need for Tarps. Reduce Item 2660-001-042 by $184,000.*** Recommend reduction because a study to determine whether tarps are needed has not yet been completed. 240
12. Caltrain Transition Plan. Recommend that the Legislature direct the department to develop and submit a plan to ensure the orderly transfer of Caltrain from the state to a new local district in 1990. 242
13. ***Abandoned Railroad Account. Add Item 2660-031-047; delete Item 2660-001-047 and increase Item 2660-001-046 by $56,000.*** Recommend transfer of Abandoned Railroad Account funds to Transportation Planning and Development Account in order to make funds available for broader range of activities. 243
14. ***Technical Adjustments. Reduce various items by $30,841,000 and add Budget Bill language.*** Recommend (a) reductions because funds are overbudgeted, and (b) the addition of Budget Bill language consistent with past legislative actions. 244
15. Pending Recommendations. Withhold recommendation on $807,000 pending further information from the department. 245

GENERAL PROGRAM STATEMENT

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

The department has 16,651 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $3.9 billion by Caltrans in 1989-90. This is about $43.3 million, or 1.1 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1987-88 through 1989-90.

Table 1
Department of Transportation
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*
Aeronautics	28.7	30.2	35.2	$5,621	$5,756	$35,384	514.7%
Highway transportation	13,682.7	14,712.5	15,108.6	2,434,686	3,525,627	3,636,166	3.1
Mass transportation	149.4	150.8	150.8	107,476	287,107	188,434	−34.4
Transportation planning	120.6	135.3	160.3	21,814	23,270	25,104	7.9
Administration (distributed)	1,536.2	1,622.2	1,626.9	(150,197)	(180,745)	(183,979)	(1.8)
Totals	15,517.6	16,651.0	17,081.8	$2,569,597	$3,841,760	$3,885,088	1.1%
Funding Source							
State Funds				*$1,330,407*	*$1,471,670*	*$1,576,399*	*7.1%*
Federal Funds				*1,100,776*	*1,941,154*	*1,736,344*	*−10.6*
Reimbursements				*138,414*	*428,936*	*572,345*	*33.4*

Significant Program Changes

Table 2 compares the department's proposed expenditures from various funding sources in 1989-90 with its estimated expenditures in the current year.

Table 2
Department of Transportation
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Aeronautics Account	*State Highway Account*	*Transportation Planning and Development Account*	*Federal Funds*	*Reimbursements*	*Other Funds*	*Total*
1988-89 Expenditures	$4,809	$1,257,295	$42,328	$1,941,154	$428,936	$167,238	$3,841,760
Baseline Adjustments	37	109,474	38,729	−250,715	125,996	−109,136	−85,615
Workload and Program Changes							
Aeronautics							
State operations	—	—	—	744	—	—	744
Local assistance	—	—	—	29,756	—	—	29,756
Highways							
State operations	—	46,729	2	9,473	5,310	−2,808	58,706
Capital outlay	—	—	—	—	—	—	—
Mass transportation							
Capital outlay	—	—	10,000	5,756	11,861	—	27,617
Transportation planning							
State operations	—	198	18	176	—	—	392
Administration							
State operations	—	11,473	—	—	242	13	11,728
Subtotals, workload and program changes	—	($58,400)	($10,020)	($45,905)	($17,413)	(−$2,795)	($128,943)
1989-90 Expenditures (proposed)	$4,846	$1,425,169	$91,077	$1,736,344	$572,345	$55,307	$3,885,088
Change from 1988-89:							
Amount	$37	$167,874	$48,749	−$204,810	$143,409	−$111,931	$43,328
Percent	0.8%	13.4%	115.2%	−10.6%	33.4%	−66.9%	1.1%

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

The department's budget for 1989-90 shows proposed changes in the following major areas:

- Increased resources to carry out various congestion relief strategies such as ridesharing, commute management, and traffic operations.
- Additional design and engineering staff to perform project development work on highway capital outlay projects funded by local sales tax measures and to oversee work on privately funded toll road projects in Orange County.
- Reduced resources to perform preliminary work on projects not yet scheduled in the 1988 STIP.
- Reduced maintenance and other highway activities to conserve state funds due to a projected shortfall.

Table 3 summarizes the major changes in proposed activities, by program for 1989-90.

Table 3
Department of Transportation
Summary of Major Changes [a]
1989-90
(dollars in millions)

	Amount	*Personnel-years*
Highway Transportation		
Highway maintenance contracts and materials purchases	−$32.9	—
Minor capital outlay projects	−17.0	—
Congestion relief strategies	14.1	139.7
Engineering consultant contracts	−10.0	—
Ridesharing	9.0	12.6
Staff increase for locally funded projects	7.7	89.0
Computer drafting and design equipment	6.0	2.1
Maintenance of new highway system inventory	5.6	82.0
Equipment expenditures	−4.6	—
Review Orange County toll road projects	3.1	46.5
Telecommunications conversion	2.5	—
Hazardous materials handling	2.2	20.4
Study of advanced roadway technologies	2.0	2.1
Roadside maintenance	1.4	—
Automated bridge records	1.3	0.5
Night maintenance	1.2	8.0
Mass Transportation		
Intercity rail capital improvements	20.0	—
Peninsula commute service improvements	7.6	—
Aeronautics Program		
FAA block grant delegation project	30.0	5.0
Transportation Planning		
Advanced transportation system development	0.4	9.5

[a] Changes do not include deferring the award of $600 million worth of capital outlay projects.

ANALYSIS AND RECOMMENDATIONS

Our review of the Department of Transportation's 1989-90 budget concentrates on three areas:

- First, we discuss highway transportation funding issues facing the Legislature.

- Second, as required by Ch 24/88 (SB 140, Deddeh), we review the department's performance with respect to project delivery and affirmative action objectives.
- Finally, we review specific budget issues within the department's highway and mass transportation programs, including a discussion of the extent to which the department's budget proposals are consistent with the Legislature's statutorily set priorities.

Overview of Significant Findings

Our review of the department's proposed budget for 1989-90 results in the following significant findings:

- The administration indicates $600 million in capital projects will be deferred to address a funding shortfall in the budget year.
- The 1989-90 budget proposal is predicated on additional transportation revenues being available to the State Highway Account (SHA) by 1990-91. If new revenues are not available, the shortfall in the 1990-91 budget is likely to be on the order of $500 million.
- If legislation to provide an assured source of additional transportation funding is not enacted by late 1989, the department would need to begin implementing policies to reduce *1989-90* expenditures in order to develop a balanced 1990-91 budget.
- The administration has not complied with the long-term funding plan requirement of Ch 24/88. Consequently, the Legislature has no information on the long-term funding solution envisioned by the administration over the next six years.
- In 1987-88, the department was able to deliver for advertising about $1 billion in highway construction projects. In the current year, the department has initiated various actions—such as using a project manager approach for project development—to improve further its project delivery.
- The budget includes proposals which may not be consistent with the priorities set out in statute for the use of state highway funds. Specifically, the department has not provided a list of the $600 million in projects for deferral, but indicates that, except for safety projects, all other projects would be funded on a first-come first-served basis. This could result in deferral of some high priority projects.
- The budget proposes virtually no preventive maintenance for two years while increasing funding for roadside maintenance. Preventive maintenance which costs about $5,000 per lane-mile forestalls rehabilitative work which costs about $100,000 per lane-mile.

Our detailed analysis of these and other issues follows.

Key Decisions Facing the Legislature

The Legislature will need to make a number of critical transportation funding decisions during 1989. While our analysis focuses on the problem of funding for the highway transportation program, efforts to address transportation funding problems also must consider the funding needs for other elements of the overall transportation system. With regard to highway transportation funding, we believe that the following are among the key decisions the Legislature will need to make in 1989.

Can transportation resources be increased in time to fund planned 1990-91 expenditures? The department's proposed 1989-90 budget as-

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

sumes that additional transportation revenues will be available in 1990-91. Can the Legislature and the Governor reach agreement on a measure to increase resources for transportation and, if voter approval is required, can that measure become effective in time to avert the need for further expenditure reductions during 1989-90?

What are the Legislature's transportation priorities and how can it best ensure that these priorities will be carried out? In the event an assured source of additional revenues is not available, the department would need to reduce expenditures during the budget year. Consequently, the Legislature will need to consider not only the priorities represented in the department's proposed budget, but also how best to ensure that any further reduction in expenditures is consistent with the Legislature's priorities.

What changes in current policy may be required to ensure that California is able to match available federal funds in the future? As discussed below, annual SHA revenues are insufficient to fund all support programs, including design and engineering, maintenance and highway operations. Consequently, if SHA funds are to be used *first* to match federal funds for capital outlay purposes, as required by current law, funding of nonproject support activities must be reduced. Alternatively, project design and development could be cut back if the size of the highway capital outlay program is to be permanently reduced. Thus, the Legislature will need to determine the appropriate level of funding for capital outlay support based on the level of capital outlay program it believes it will be able to fund in the future.

The Legislature also may need to consider other policy changes in order that the state can match federal funds in the future. This could include, for example, accelerating design and engineering work on projects to be funded through a combination of local and federal funds in order to reduce the need for SHA matching funds.

HIGHWAY TRANSPORTATION FUNDING

California finances its highway transportation program primarily with a combination of federal and state funds. Federal funds are derived from an excise tax on gasoline and are used mainly to pay for highway capital outlay expenditures. These funds also pay for about 28 percent of the support and engineering staff used to design and develop highway capital outlay projects.

State Highway Account funds—derived primarily from the state gas tax (9 cents per gallon) and truck weight fees—are used to pay for noncapital outlay activities, including highway maintenance and operations, engineering staff support, departmental administration, and local assistance. In addition, SHA money also is used to match federal funds available to California.

The discussion which follows focuses on the near-term funding issues facing the Legislature based on an assessment of the projected condition of the SHA through 1990-91. In *The 1989-90 Budget: Perspectives and Issues*, we discuss the shortfall in transportation funding over the next five years based on the State Transportation Improvement Program (STIP).

Budget Identifies Shortfall in Highway Funding

The department estimates that resources available in the SHA in 1989-90 would fall $666 million short of funding the support, local assistance, and capital outlay activities planned in the 1988 STIP. To address this SHA shortfall, the budget proposes the following adjustments in both the current and budget years:

Current Year:

- Reduce expenditures by $9.5 million by deferring acquisition of a new San Francisco district office.
- Change the accounting methodology for state operations contracts. Specifically, the budget proposes to measure expenditures at the time services are rendered, rather than at the time a contract is signed. This change in accounting procedures results in a one-time reduction in expenditures estimated at $70 million.

Budget Year:

- Provide one-time additional resources of $162 million in transfers from other accounts. This includes $122 million from the Motor Vehicle Account and $40 million from the State Highway Construction Revolving Fund.
- Reduce baseline expenditures in 1989-90 by about $48 million by reducing $33 million of maintenance contracts and materials purchases, $10 million of engineering contracts, and $4.6 million of equipment expenditures.
- Defer award of about $600 million of highway construction contracts beyond the budget year, thereby reducing cash outlays from the SHA in 1989-90 by an estimated $360 million for major projects and $17 million for minor projects. (This proposal is discussed in further detail below.)

In addition, the budget proposes to maintain SHA funding for mass transit rail projects at the current-year level of $64 million. This is $11 million below the target funding level specified in law.

Project Deferrals. The decision to defer $600 million of capital outlay projects beyond 1989-90 results from a shortfall in both state and federal funds available for these projects. In the past, the department's policy has been to fund projects from state funds where federal funds are not adequate to maintain project schedules. To backfill unavailable federal funds in the budget year, the department estimates that it would require state expenditures of about $360 million in 1989-90 to pay first-year costs on contracts with multi-year costs of about $600 million. Because of the condition of the SHA, the budget proposes to suspend this legislatively approved policy of backfilling unavailable federal funds, and to limit state capital outlay expenditures only to the amounts necessary to match available federal funds.

State Highway Account Cash Dwindling

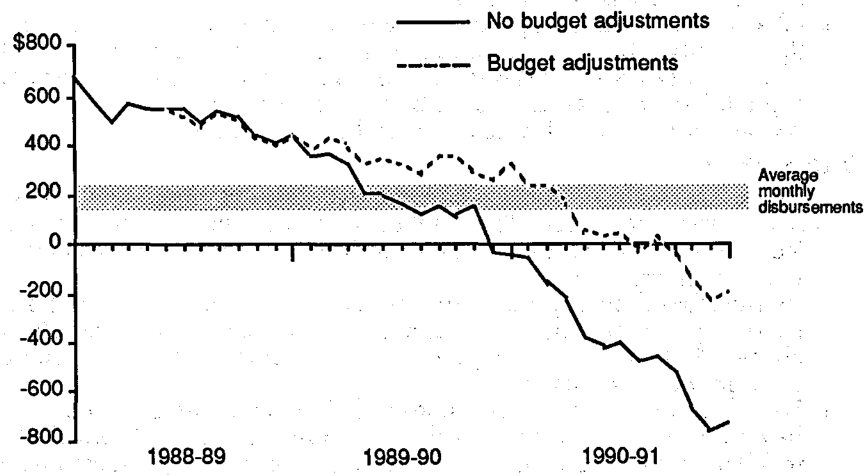
The administration believes that the proposed adjustments (discussed above) will allow it to avoid a shortfall in the SHA. At the time we prepared this analysis, the administration had not estimated the impact of these adjustments on the cash balance in the SHA in 1989-90. Therefore, we have developed estimates of these impacts as shown in Chart 1.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Chart 1

State Highway Account Projected Cash Balance[a]

1988-89 through 1990-91 (dollars in millions)



[a] LAO estimate for 1989-90 and 1990-91.

Cash Projection Without Budget Adjustments. As Chart 1 shows, the highway account would exhaust its entire cash balance by the end of 1989-90 *if* projects are advertised and awarded based on their currently scheduled dates. This estimate assumes that no action is taken to defer projects and support and local assistance expenditures are at levels projected by the department.

Caltrans has indicated that a cash reserve of about $200 million (equivalent to about one month of disbursements) is required in order to meet operational needs and to provide a reasonable reserve against unanticipated variations in monthly revenues or expenses. (The Department of Finance, however, indicated in a report in March 1987 that the SHA should maintain a cash balance in the range of $300 million to $400 million for this purpose.) This means that Caltrans could begin experiencing cash flow difficulties somewhat earlier than the end of 1989-90 to the extent that there are unanticipated variations in monthly revenues or expenses.

Cash Projection with Proposed Budget Adjustments. By comparison, Chart 1 shows that the actions proposed in the budget are projected to forestall the cash flow problem in the SHA until after the budget year, assuming that the deferred capital outlay projects are not funded until *1991-92.* However, cash reserves in the account would drop below the $200 million level early in the 1990-91 year and the SHA could run out of cash by about January 1991 if further reductions were not made or additional revenues were not available. Under the same assumptions, we would expect this general downward trend in cash balances to continue beyond the end of 1990-91.

Actual Deferral Plan Could Affect Cash Balance

We recommend that, prior to budget hearings, the department provide the fiscal committees with its projection of SHA cash balances through 1990-91 based on its budget implementation plan.

At the time this analysis was prepared, the department had not resolved a number of issues related to the implementation of the budget proposal, including the development of a specific list of projects to be deferred. Furthermore, it had not estimated the expected impact of the proposed adjustments on the cash condition of the SHA in 1989-90 and subsequent years and when the impact would occur. Consequently, in developing the cash projections presented above, we have made assumptions regarding the timing and mix of projects to be deferred.

Depending on the actual timing and mix of projects to be deferred, the impact of the administration's budget proposal could vary. In determining what actions to take to resolve the fund shortage, the Legislature will need a revised cash projection based on the department's detailed plan for implementing the budget. Therefore, we recommend that, prior to budget hearings, the department provide the fiscal committees with its projection of SHA cash balances through 1990-91 based upon its detailed plan for implementing the reductions reflected in the proposed budget.

SHA Shortfall Likely in 1990-91

As Chart 2 shows, the budget provides resources which are barely adequate to fund proposed program expenditures in 1989-90. However, a significant deficit is likely to occur in the SHA in 1990-91. This is because $162 million in resources available in 1989-90 are provided on a one-time basis, being transferred from the Motor Vehicle Account and State Highway Construction Revolving Fund. If these transfers are not available again beyond 1989-90, annual revenues in 1990-91 would fall about $160 million short of funding support and local assistance costs.

This funding shortfall could grow to about $200 million in order to pay outstanding contractual commitments on major construction contracts awarded in the current and budget years. (The actual amount of these commitments would depend on the department's specific project deferral plan.)

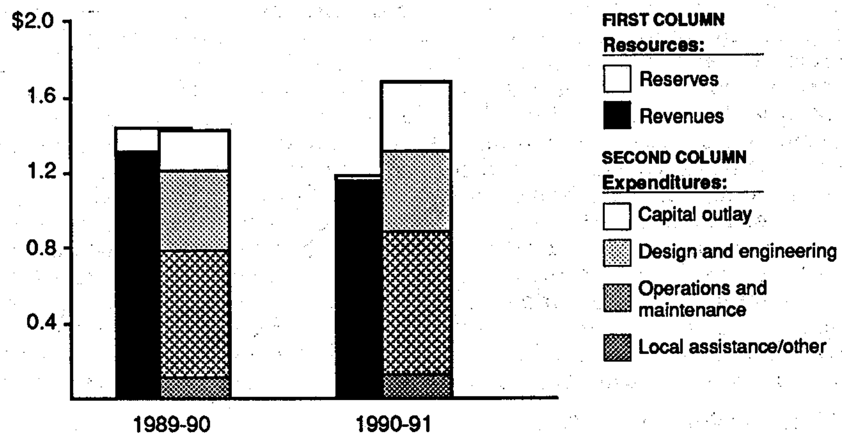
This estimate of the shortfall could increase to about $500 million as a result of providing funding for *new* capital outlay projects scheduled to be advertised for construction. Specifically, assuming no further revisions in project schedules beyond those already proposed in the 1989-90 budget, we estimate that SHA expenditures on new projects would be about $300 million in 1990-91 based on current advertising schedules. Therefore, *in the absence of new revenues, the shortfall in the 1990-91 budget is likely to be on the order of $500 million.* (This amount does *not* include $300 million which the Legislature indicated in Ch 24/88 that it intends to appropriate in 1990-91 to fund a new state-local transportation demonstration program.)

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Chart 2

State Highway Account Resources v. Expenditures

1989-90 and 1990-91 (in billions)[a]



[a] Based on *Governor's Budget* for 1989-90. LAO estimate for 1990-91 based on 1989 STIP Fund Estimate and information provided by Caltrans.

Action Needed in 1989-90 to Avert Shortfall in 1990-91. Our review of the proposed 1989-90 budget for transportation indicates that it cannot be implemented without an assured source of additional revenues in 1990-91. Because of the time needed to implement budgetary changes, action will be required in 1989-90 to address the projected 1990-91 shortfall. Two basic options are available to address this projected shortfall.

1. Increase Transportation Resources. The Legislature and the Governor could act to increase transportation resources available in 1990-91. This would require decisions to either (a) redirect resources from other areas of the state budget, (b) seek authorization to issue bonds, or (c) increase fees or taxes.

Given the limited appropriations authority currently remaining under the state's appropriations limit, an increase in taxes also would require the Legislature and the Governor to seek modifications to the limit. (The appropriations limit is discussed in greater detail in *The 1989-90 Budget: Perspectives and Issues.*) While the Legislature can increase taxes—such as the state's gas tax or truck weight fees—without voter approval, it would need to seek voter approval to modify or repeal the appropriations limit in order to use such revenues to fund transportation programs. Consequently, if proposals to modify the appropriations limit are not acted on by the voters until the next statewide election in June 1990, enactment of tax measures by the Legislature would not provide an assured source of additional revenues by the end of 1989 when the department prepares its 1990-91 budget.

2. Reduce Expenditures. If legislation to provide an assured source of additional transportation funding is not enacted by late 1989, the department would need to begin implementing policies to reduce 1989-90 expenditures in order to develop a balanced 1990-91 budget. This is because of the lead time needed to implement actions to reduce expenditures. We anticipate that actions would be required to (a) reserve funds to meet the statutory priority of matching federal money available in 1990-91 and (b) minimize 1990-91 reductions in high priority activities by reducing 1989-90 expenditures for lower priority work.

Administration Has Not Provided Funding Plan

Chapter 24, Statutes of 1988, requires the Governor to submit to the Legislature biennially at the time the budget is submitted a six-year transportation funding plan. The plan is required to cover the six-year period following the budget year, and must identify planned expenditures by program category and the amount of any shortfall in state resources available to fund those expenditures. In addition, it is required to identify new revenue sources necessary to address any funding shortfall. The first plan was due in January 1989 with the submission of the 1989-90 proposed budget.

As discussed above, our review of the proposed 1989-90 budget for transportation indicates that it cannot be implemented without an assured source of additional revenues in 1990-91. To date, the administration has not submitted the required plan to identify how it proposes to address this revenue shortfall. Consequently, the Legislature has no information on the long-term solution to funding problems envisioned by the administration over the next six years.

Cash Management System Not Yet Fully Implemented

We recommend that, by April 1, the department submit to the fiscal committees a plan and schedule for full implementation of its cash management system.

Our review shows that the department has not yet developed an adequate cash management system to monitor cash flow in the SHA. During the current year, the department is changing its practices for accounting of SHA transactions. The practical effect of these changes is that the department will be making contractual commitments that will be paid from future-year revenues, rather than limiting commitments to levels which could be funded out of resources available in the year the commitment is made. The effect of this change in accounting practices is to increase commitments against available cash. This change requires the development of a cash management system to insure that the department does not take on obligations which will outstrip its available cash. The department began development of such a system in 1987-88.

Our review of the department's cash management system development efforts to date leads to the following key conclusions.

Cash Flow Estimation Techniques Need Further Development. Department staff have developed a model for projecting SHA cash balances which uses aggregate *annual* data and estimates monthly revenues and expenditures based on historical averages. This procedure can be used to project longer-term trends in the SHA cash balance, but is unlikely to predict monthly variations in cash flows with any accuracy. While department staff have indicated that they are aware of this limitation, at the current time, they do not have a better system for forecasting cash balances.

Actions to Address Projected Cash Flow Imbalances Should be Analyzed. The department indicates that it has not developed a contingency plan of actions which it could take to respond to a projected cash flow problem and has not analyzed the amount of time necessary before such actions would take effect. Such analysis is needed to ensure that the department responds to any projected shortfall on a timely basis.

Department Lacks Specific Workplan for System Development. The department was unable to provide a specific schedule and description of work it plans to perform in order to complete development and implementation of the cash management system. In view of the projected SHA cash condition, such a plan is particularly needed to ensure timely completion and implementation of an adequate cash management system. Therefore, we recommend that by April 1 the department submit to the fiscal committees a detailed plan and schedule for implementation of its cash management system.

SB 140 REPORT

Chapter 24, Statutes of 1988 (SB 140, Deddeh), establishes long-range funding and programming levels for highway and mass transportation improvements in the State Transportation Improvement Program (STIP). In addition, the act requires that the STIP be used as a schedule for delivering highway projects. It also requires the Legislative Analyst to include annually in the *Analysis*, an assessment of the department's plan to deliver its highway capital outlay program.

The 1989-90 *Analysis* is the first to include our review of Caltrans' project delivery as required by Chapter 24.

Report Requirements. Chapter 24 requires that the Legislative Analyst's assessment include:

- An analysis of the progress the department has made in the prior year in delivering projects scheduled in the STIP, as adopted by the California Transportation Commission (CTC).
- An evaluation of the adequacy of the department's project delivery plan in ensuring that all federal, state, local, and private funds are used in a timely and efficient manner with a minimum of project delays.
- A review of the extent to which the department continues to meet its affirmative action goals for project development staff, including contracted engineering services.
- A review of the extent to which the department has met the statutorily established minority and women business enterprise goals.
- Any recommendations for improving the department's project delivery.

Total Highway Capital Outlay Delivery in 1987-88

In 1987-88, the department performed project design and engineering work on a combination of projects, including (1) projects scheduled in the STIP to be advertised for construction in 1987-88, (2) STIP projects scheduled to be advertised in years *prior* to 1987-88, and (3) other projects funded by local agencies or scheduled to be advertised in future years. (Projects are considered "delivered" when they are ready to be advertised for construction and the CTC has allocated funds to do so.) In 1987-88, the department was able to deliver about $1 billion in projects.

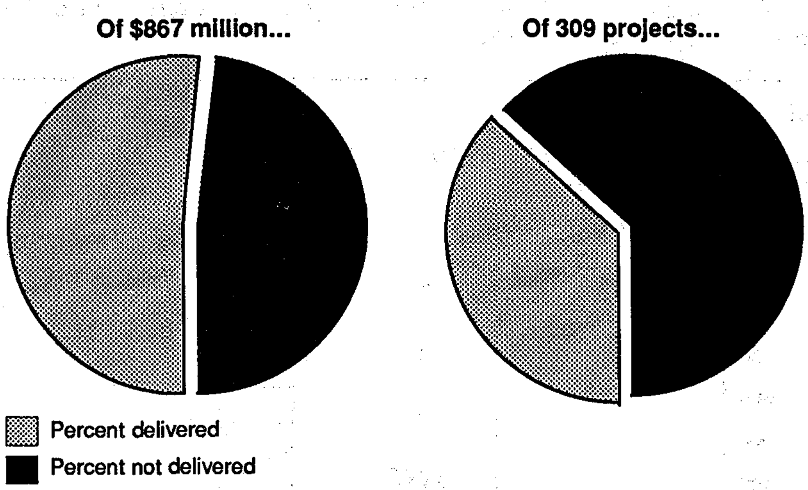
Delivery of 1987-88 STIP Projects

The 1987 STIP scheduled 309 major projects (each costing over $250,000) totaling $867 million to be advertised for construction in 1987-88. Chart 3 shows that of that dollar amount, the department delivered about $450 million, or about 52 percent. In terms of the number of projects, the chart shows that the department delivered 113, or about 37 percent, of the 309 projects scheduled for 1987-88.

The department was not able to deliver more of the 1987-88 STIP projects primarily because of its commitment to the Legislature to reduce a backlog of projects that were not advertised (prior to 1987-88) as scheduled.

Chart 3

Department of Transportation
Delivery of Major STIP Projects Scheduled for 1987-88



Delivery of Pre-1987-88 Projects

At the start of 1987-88, the department had accumulated a backlog of $511 million in highway projects (133 projects) that were to have been advertised in 1986-87 and earlier. In our view, these projects had not been delivered due to a lack of design and engineering staff resources, as well as overly optimistic scheduling of projects. To eliminate this backlog of projects, the Legislature allocated additional resources to the department to deliver 50 percent of these projects in 1987-88 and the remaining 50 percent equally over the current and budget years.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Our review shows that the department exceeded the 50 percent goal. In 1987-88, the department was able to deliver about $281 million, or 55 percent of the dollar value, of backlogged projects. This resulted in 71 of the 133 projects (53 percent) being completed.

Delivery of Other Projects

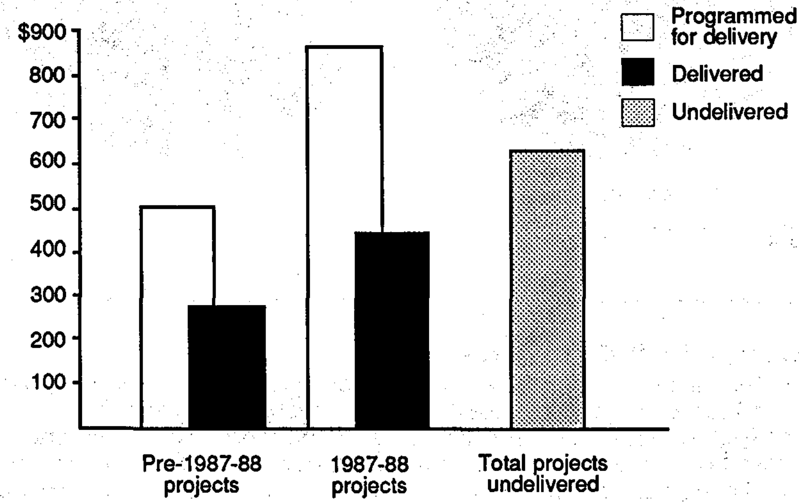
In 1987-88, the department delivered another $300 million worth of projects that were initially scheduled to be advertised in future years (after 1988-89). By advancing the design and engineering work on several interstate highway projects, the department was able to capture additional federal funds of this amount.

Prior STIP Projects Still to be Delivered

Despite the department's delivery performance in 1987-88, Chart 4 shows that a total of about $647 million in highway projects that were scheduled for advertising in 1987-88 or earlier still remain to be delivered. Of this amount, about two-thirds represent projects scheduled in 1987-88 and the remaining one-third include projects from 1986-87 and prior years. The department reports in its *Project Delivery Report and Delivery Plan* (also required by Ch 24/88) that its goal is to deliver all of these projects by September 30, 1990.

Chart 4

Department of Transportation Delivery of STIP Projects
1987-88 (in millions)



Efforts to Improve Project Delivery

In past *Analyses*, we indicated that a number of factors affected the department's ability to deliver projects as scheduled in the STIP. These factors include:

- The department's difficulties in filling registered engineering positions.
- The department's inability to realize the full amount of work planned to be contracted with consultants.
- Problems associated with obtaining environmental clearance and negotiating agreements with local agencies.

The department indicates that during the current year it has initiated various efforts and strategies to improve its project delivery performance. For instance, consistent with our recommendation in last year's *Analysis*, it has started to use a project manager approach to project development. Specifically, it assigns to a single manager the responsibility for setting and monitoring project schedules and insuring that resources are available to complete project tasks. In addition, the department has delegated increased authority to its district directors to take actions necessary to deliver projects.

No Recommendation at this Time. Because the department's efforts have been in effect for less than one year, we are unable to assess the extent to which these efforts will improve the department's delivery performance. Additional time is needed to allow these measures to be fully implemented. Consequently, at this time we are unable to make any recommendation for additional measures to improve the department's project delivery performance.

Adequacy of Project Delivery Plan

The department's highway project delivery plan estimates that the department would need 8,667 PYs in 1989-90 to deliver all highway projects funded by federal, state and local sources. This estimate includes about 7,500 PYs for projects funded by state and federal dollars, and about 1,100 PYs for locally funded projects. Our review indicates that the department's staff request appears adequate to deliver state and federally funded projects adopted in the STIP. However, to the extent the department does not fill budgeted positions, it would be unable to deliver all of these projects as scheduled.

Plan Should Monitor Delivery of Local Measure Projects

We recommend that the Legislature adopt supplemental report language requiring the department to include, as part of its annual Project Delivery Report and Delivery Plan, an assessment of its accomplishments in achieving specified project milestones on state highway projects funded by local measures.

In accordance with Chapter 24, the department has identified approximately 630 STIP highway projects—each with a cost of over $1 million—for which delivery performance will be monitored. For each of these projects, the department has established six milestone dates by which various project activities are to be completed. In next year's plan, the department is required to report on its accomplishments in regard to these milestones.

Delivery Plan Does Not Include All Projects. Our review indicates that the department's delivery plan monitors only a portion of the

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

projects scheduled in the STIP—those funded from state and federal sources. Delivery performance on projects funded by local tax measures, however, is not included in this plan. The department indicates that because it is not responsible for all the design and engineering work required for these projects, they are not subject to the milestone reporting requirement. Because the department's plan does not monitor the progress on all projects, we are unable to assess, as required by Chapter 24, whether this plan ensures that projects funded by local sources will be completed in a timely manner.

While the department is not responsible for all phases of the development of locally funded projects, we see no reason why it cannot monitor and report on those activities for which it is responsible. This information would enable the Legislature to assess the extent to which work on local measure projects is progressing and identify any problems associated with completing work on these projects. For these reasons we recommend that the Legislature adopt the following supplemental report language:

> The department shall include, as part of its annual Project Delivery Report and Delivery Plan, an assessment of its accomplishments in achieving project milestones on state highway projects funded by local measures. This report shall identify and report on those project milestones for which the department is the responsible agency for project development work.

Affirmative Action Goals For Project Development

The department employs approximately 17,000 persons. About one-third of these staff perform project development work including environmental assessments, design and engineering, and oversight of state highway construction projects. The department indicates that its affirmative action goal is to achieve a mix of employees which is consistent with the mix that exists in the California private sector labor force.

To assess the department's achievement of affirmative action goals, we reviewed the extent to which the department's employee mix is the same as that of the private labor force. If the mix is the same, then the department has achieved "labor force parity."

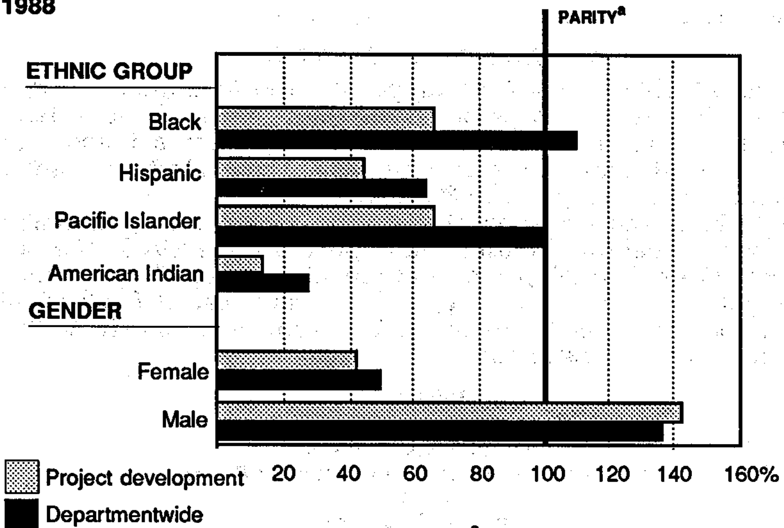
Project Development is Below Labor Force Parity

Chart 5 shows that on a *departmentwide* basis, the department has achieved parity for Pacific Islanders, and it *exceeds* parity for Blacks. In contrast, it is below parity for Hispanics, American Indians and women.

For *project development* staff, Chart 5 shows that the department is below parity for each of the selected employee groups except for male staff. According to the department, this is due to a number of factors. For instance, the majority of project development positions require persons with engineering degrees—a field which has traditionally been dominated by white males. In addition, the department indicates that the pool of available women and minorities with engineering degrees is small and it must compete with private sector consulting firms and other governmental engineering agencies for these staff.

Chart 5

Department of Transportation
Extent Workforce Achieves Private Sector Labor Force Parity
1988



[a] Private sector parity based on 1980 U.S. Census.

The department's 1988-89 affirmative action plan does not provide specific goals for project development staff. Rather, the plan establishes departmentwide hiring and promotional targets for employee groups which are below labor force parity, including:

- A 20 percent Hispanic hiring goal for certain districts.
- A 10 percent goal for hiring Blacks in professional job categories.
- Increase by 2 percent the total number of women employed by the department.

Affirmative Action Goals for Contracted Project Work

Chapter 24 also requires an assessment of the department's progress in contracting out engineering services work. According to the department, engineering consultant firms must show evidence that they have an adopted affirmative action plan for its staff in order to be eligible to contract with the department. It, however, does not retain information regarding the extent to which these goals are attained. Consequently, the department was unable to provide us with information on the extent to which private consultants attain these goals.

Caltrans Attainment of MBE/WBE Goals

Chapter 9, Statutes of 1988 (SB 516, Bergeson), authorizes the department to contract directly with private consultants to perform various project development services. In addition, Chapter 9 requires that of such contracts, 15 percent be with minority business enterprises (MBEs) and 5 percent be with women business enterprises (WBEs). These goals pertain to the total dollar value of consultant contracts awarded.

Insufficient Information to Assess Attainment of Goals

Because Chapter 9 became effective on January 1, 1989, the department indicates that it has advertised and executed only a limited number

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

of contracts which are required to meet the MBE and WBE goals. Consequently, we are unable to assess the extent to which the department has attained goals pertaining to minority and women business enterprise firms.

HIGHWAY TRANSPORTATION

Of the total 1989-90 expenditures proposed in the department's budget, $3.6 billion (94 percent) is proposed for the Highway Transportation program. This is an increase of $109 million, or 3.1 percent, above the estimated expenditures in the current year. The budget proposes to increase staff for the program by 396 PYs.

Table 4 shows the proposed changes in expenditures and funding sources for the Highway Transportation program in 1989-90. The SHA will finance $1.4 billion (37 percent) of the total proposed expenditures, and the federal government will fund an additional $1.7 billion (46 percent). The remaining $604 million (17 percent) will come from other state funds and reimbursements.

Table 4
Department of Transportation
Highway Transportation
Proposed Program Changes and Funding Sources
1989-90
(dollars in thousands)

	Personnel-Years	Expenditures: State Operations	Local Assistance	Capital Outlay	Total
1988-89 Expenditures (Estimated)	14,712.5	$1,285,831	$311,953	$1,929,205	$3,526,989
Proposed Changes					
Rehabilitation	19.6	4,521	—	86,615	91,136
Operational improvements	19.5	4,737	—	−182,520	−177,783
Local assistance	—	626	3,592	—	4,218
Program development	−13.0	2,365	—	—	2,365
New facilities	90.4	109	—	111,756	111,865
Operations	171.9	20,106	−19,550	—	556
Maintenance	107.7	76,820	—	—	76,820
Subtotals, proposed changes	(396.1)	($109,284)	(−$15,958)	($15,851)	($109,177)
1989-90 Expenditures (proposed)	15,108.6	$1,395,115	$295,995	$1,945,056 [a]	$3,636,166
Funding Sources					
State Highway Account		*$1,122,232*	*$33,060*	*$205,268*	*$1,360,560*
Federal funds		*209,461*	*262,300*	*1,199,789*	*1,671,550*
Other state funds		*38,609*	*635*	*16,007*	*55,251*
Reimbursements		*24,813*	—	*523,992*	*548,805*

[a] Figure does not reflect the deferral of $600 million in highway projects.

Is Budget Consistent With Current Statutory Priorities?

Current law specifies priorities for the programming, budgeting and expenditure of state highway funds. Specifically, it requires that funds be expended to maximize the use of federal funds. It further requires that expenditures be based on the following sequence of priorities:

- Operations, maintenance, and rehabilitation of the state highway system.

- Safety improvements (other than additional lanes) to reduce fatalities and the number and severity of injuries.
- Operational improvements—such as auxiliary lanes and ramp meters—to enhance system capacity without adding highway lanes.
- New facilities.
- Compatibility improvements, including landscaping and soundwalls.

Our review, however, shows that the budget includes proposals which may not be consistent with these statutory priorities. For instance, the budget requests to:

- Increase work on litter pickup and roadside maintenance while reducing work on road pavements,
- Deliver capital outlay projects mostly on a first-come first-served basis (that is, as initially scheduled to be advertised) and defer a total of $600 million in highway projects, and
- Cut back preliminary engineering and design work on projects which are not yet adopted into the STIP, while increasing the amount of work on projects funded by local sales tax measures.

Given the shortage of state funds in 1989-90, the Legislature will have to determine how limited resources should be allocated, and whether the changes proposed in the budget are appropriate. Our review of these proposals are discussed in greater detail later in this *Analysis*.

Highway Capital Outlay

Budget Overstates Capital Outlay Program Magnitude

The Governor's Budget shows a total highway capital outlay expenditure program in 1989-90 of $2 billion from all sources. Our review indicates, however, that highway capital outlay expenditures in the Governor's Budget were not adjusted after the decision was made to defer $600 million of highway projects. Consequently, the budget overstates highway capital outlay expenditures by this amount.

Capital Outlay Deferral Policy Warrants Review

We recommend that, prior to budget hearings, the department report to the fiscal committees on the projects it plans to fund and those it plans to defer in 1989-90.

Table 5 shows the major capital outlay projects scheduled to be advertised for construction with state and federal money in 1989-90, by categories and according to their statutory priority. Of the $1.2 billion in state and federal funds for projects, the budget proposes to defer $600 million.

Table 5
Department of Transportation
Major Capital Outlay Projects Planned in 1989-90[a]
(dollars in millions)

	Projects to be Advertised	
Statutory Priority	*Amount*	*Number*
Rehabilitation	$310	202
Safety	53	50
Operational improvements	21	21
Capacity enhancement	800	115
Compatibility	13	24
Total	$1,197	412

[a] Project costs reflect state and federal funds only. Local and private sources are excluded.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

At the time this analysis was prepared, the department had not yet identified a list of the projects to be deferred. The department indicates, however, that it is currently in the process of developing a deferral list, based on two criteria. First, all safety projects would be funded. Second, other projects would be funded in the order that they are initially scheduled to be advertised. *Consequently, the last $600 million of nonsafety projects scheduled for advertising in 1989-90 would be deferred.*

This *first-come first-served* policy may result in the deferral of high priority projects (as specified in law) while lower priority projects are funded. In order that the Legislature is informed on the types of projects that would be deferred using this policy and the potential implications of their deferral, we recommend that prior to budget hearings the department report to the fiscal committees on the projects it plans to fund and those it plans to defer in 1989-90. This report should identify the type of each project, its cost, and the source of funding for the project. The report should also summarize, by project category, the dollar value of projects proposed to be funded and those proposed to be deferred. Finally, the department should indicate the criteria used to develop the deferral list.

Capital Outlay Appropriation Exceeds Available Funds

We recommend a reduction of $90 million from the SHA and $510 million from federal funds because (1) state and federal resources are inadequate to fund these appropriations, and (2) the department has indicated that it will be deferring this portion of its highway capital outlay program beyond the budget year. (Reduce Items 2660-301-042 and 2660-301-890 by $90 million and $510 million, respectively.)

To fund the 1989-90 capital outlay program, the department is requesting appropriations of $263 million in SHA funds and $1.2 billion in federal funds.

The appropriations are based on the cost of the projects the department expects it will advertise during 1989-90 *if funds were available.* However, due to less federal money being available and a shortage of state funds to backfill federal dollars, the budget proposes to defer construction of about $600 million in projects beyond the end of 1989-90, possibly well into 1990-91.

In order to reflect more accurately the lower amount of funds available, we recommend that the Legislature reduce the capital outlay appropriations by the amount of the proposed project deferrals.

Highway Capital Outlay Support

For 1989-90, the budget proposes $557 million and 8,667 PYs in state and contracted staff in order to engineer, design and review highway capital outlay projects. Table 6 summarizes the staff resources proposed to accomplish project development work and how these resources will be used.

Table 6
Department of Transportation
Capital Outlay Support
1988-89 and 1989-90
(Personnel-Years)

Resources[a]	*1988-89 Authorized*	*1989-90 Proposed*	*Proposed Change*
Sources:			
State staff	6,983	7,108	125
Contracts	1,047	982	−65
Cash overtime	293	295	2
Student assistants	280	282	2
Totals	8,603	8,667	64
Uses:			
STIP	7,122	7,198	76
Pre-STIP	450	325	−125
Local tax measure	771	922	151
Other local projects	260	222	−38
Totals	8,603	8,667	64

[a] Resources do not include administrative support staff.

Budget Proposes Small Increase in Project Development Staff. Unlike the past two years (1987-88 and 1988-89) when the department increased significantly its resources to deliver highway projects, the proposed budget provides only a minimal net increase of 64 PYs—less than 1 percent—in capital outlay support resources. While this total increase is small, Table 6 shows that the budget proposes a substantial increase of 151 PYs to perform additional work for projects funded by local tax measures and toll road projects. Staffing for STIP projects and for administering consultant contracts will increase by only 76 PYs.

Development on Pre-STIP Projects Will Decrease. According to the department, the proposed staffing for 1989-90 will allow it to deliver all of the highway projects as scheduled in the 1988 STIP. However, it will reduce by 125 PYs the amount of work on projects not yet adopted into the STIP ("pre-STIP projects") as well as projects which require long lead times for development. This work typically involves performing preliminary assessments of a project's cost and scope. These assessments are required *before* a project can be included in the STIP.

Reducing development work on projects prior to their adoption in the STIP will not, in the short run, impact significantly the department's ability to delivery highway projects. However, less work on pre-STIP projects will reduce the number of projects the department can develop for adoption in future STIPs. This, in turn, will restrict the department's ability to perform design and engineering work which is needed to get projects ready for construction.

What is the Appropriate Level of Project Development Activity?

The decision to maintain resources for project design and engineering on STIP projects is based on the *assumption* that *additional revenues will be forthcoming* in the future to fund construction of these projects. Thus, the budget is proposing that project development be kept as a high priority activity, so that design and engineering work can continue. Any projects designed but for which there are not available funds would be placed "on the shelf" awaiting future funding.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

Given the shortage of funds in 1989-90, the Legislature will have to decide whether to continue the existing level of project development while deferring project construction or to increase project construction at the expense of less design and engineering activities. If the Legislature decides to provide additional revenue to expand the capital outlay program, then "shelf" projects would be needed and project development work must be continued. In fact, failure to have "shelf" projects ready for construction would risk potential delays in utilizing the new revenues to provide highway improvements.

If, however, the Legislature determines that new revenues are not likely, then the level of project development effort proposed in the budget would not be justified and resources should be reduced or redirected to other priority activities.

Department Has Not Fully Realized Contracting Efforts

The budget proposes to continue to contract with private consultants for the equivalent of about 982 PYs in engineering work, as shown in Table 6. The objective of these contracts is to increase the department's delivery of highway projects without adding more staff internally.

Our review indicates, however, that the department has yet to fully realize the personnel-years of work for which it has planned to contract with consultants. From 1986-87 through 1988-89, the department was allocated a total of $183 million to contract for 1,822 PY equivalents of engineering and design work. Table 7 shows that based on contracts executed by October 1, 1988, the department estimates that from 1986-87 through 1988-89 it will have realized about 388 PYs, or 21 percent, of work out of the 1,822 anticipated from all outstanding contracts. While additional work will be realized from contracts advertised and executed after October 1, we anticipate that total work realized will fall short of the amount planned.

Table 7
Department of Transportation
Project Work Performed by Consultants [a]
1986-87 through 1988-89
(in personnel-years)

		Personnel-Years Realized			
	Personnel-Years Planned	*Actual 1986-87*	*Actual 1987-88*	*Estimated 1988-89*	*Total*
1986-87	270	10	71	21	102
1987-88	505	—	17	210	227
1988-89	1,047	—	—	59	59
Totals	1,822	10	88	290	388

[a] Actual and estimated contract PYs based on contracts executed as of October 1, 1988.

Department Overbudgets Funds for Engineering Contracts

We recommend a reduction of $15.8 million from the SHA because the department has overbudgeted the amount needed to fund work performed by consultants. (Reduce Item 2660-001-042 by $15.8 million.)

For the budget year, the department proposes about $115 million for 982 PY equivalents of contracted engineering services in order to deliver highway projects funded by state and local sources.

Our review of the department's request indicates it is overstated. This is because 155 of the 982 PYs of work to be realized in 1989-90 have been partially funded in previous budget requests. The department's contracting plan shows that only $1.8 million is needed to pay the remaining costs of these services in 1989-90. The budget, however, requests funds to pay the full cost for this work. Thus, the department's request is overstated by $15.8 million and, therefore, we recommend that the department's request be reduced by this amount.

Department Overbudgets Staff to Oversee Toll Road Projects

We recommend a reduction of 22.5 PYs and $1.5 million from the SHA because the department has overbudgeted the amount of staff needed to perform oversight responsibilities on toll road projects. (Reduce Item 2660-001-042 by 22.5 PYs and $1.5 million.)

The budget requests 46.5 PYs and $3.1 million to perform oversight activities on three toll road projects which will be designed and constructed by the Orange County Transportation Corridor Agency. Chapter 1106, Statutes of 1988 (AB 3744, Eastin), requires the department to provide this oversight. According to the department, the proposed staff will provide policy and procedural direction and will oversee a management consultant group hired by the corridor agency. In turn, the management group will be responsible for the actual day-to-day review of consultants that perform engineering, design, right-of-way acquisition and construction activities for these projects.

The department indicates that based on past experience, a staffing level equal to about 20 percent of the personnel required by the management group would be needed to provide this oversight. It further estimates that there will be about 225 persons in the management group. However, our review indicates that the department's request is overstated. This is because the transportation corridor agency currently employs about 85 consultants to perform various management activities related to the toll road projects. The corridor agency further projects this number to increase only to about 120 persons by the end of 1989, rather than the 225 cited by the department.

Applying the department's 20 percent factor for oversight staff, we estimate that the department will need only 24 PYs in 1989-90. Accordingly, we recommend a reduction of 22.5 PYs and $1.5 million to reflect more accurately the level of oversight needed.

Department's Cost for Reimbursed Engineering Work Is Too Low

We recommend a reduction of $2.6 million in the SHA and an increase of the same amount in reimbursements because the department has underestimated the cost of project development work on state highway projects to be funded by local agencies. (Reduce Item 2660-042-001 by $2.6 million and increase reimbursements by $2.6 million.)

For the budget year, the department proposes 138.5 PYs to perform detailed engineering and design, and other project development activities on state highway projects funded by local agencies. The total cost for these PYs, estimated at $11.2 million, will be reimbursed by the local agencies.

Our review indicates that the department underestimates the amount of reimbursements it should receive because it fails to reflect the full cost of performing engineering work for locally funded projects. For instance,

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

the department uses a mix of state staff and private consultants to engineer and design highway projects, at an average cost of about $100,000 per one PY of work. The department, however, estimates reimbursements at $81,000 per PY for engineering work on locally funded projects—about $19,000 per PY too low. Consequently, the department has underbudgeted by $2.6 million the amount of reimbursements it should receive for its cost to perform this work. Accordingly, we recommend a reduction of $2.6 million from the SHA and a corresponding increase in reimbursements.

Measures of Project Productivity

The *Supplemental Report of the 1988 Budget Act* requires the department to recommend indicators which can be used to assess the productivity and effectiveness of its project development staff. The language also requires the Legislative Analyst to evaluate the indicators recommended by the department.

The department has recommended the following indicators: (1) capital outlay funds expended per personnel-year equivalent of project development staff, (2) total capital outlay funds expended annually, and (3) engineering costs compared to total project costs.

Analyst's Review. In our view, each of the indicators proposed by the department has advantages and disadvantages. As a result, we believe none of these indicators alone provides a complete assessment of the department's productivity and efficiency in developing highway capital outlay projects. However, if these indicators are used together, they can give a reasonable assessment of whether the department is developing projects in a productive and efficient manner. Our review of each of the indicators follows.

1. ***Capital Outlay Funds Expended Per Personnel-Year Equivalent of Project Development Staff.*** While this indicator measures to some extent staff productivity, it does not accurately portray whether staff are being employed in an efficient and effective manner at any one time. For instance, there is a long lag time (often several years) between the time design and engineering work is conducted and the time a construction contract is awarded. Consequently, the total capital outlay funds expended per person may be low when the department is expanding its design and engineering activities.

2. ***Total Capital Outlay Funds Expended Annually.*** This indicator measures total production, but in our view, it does not reflect how effective and efficient project development staff are in producing projects. This is because the indicator does not take into consideration the resources required to produce the level of output. Consequently, this indicator should not be used *alone* to measure the department's productivity.

3. ***Engineering Costs.*** In our view, engineering costs as a percent of project cost is the most useful of the three productivity indicators in measuring the effectiveness of the department in delivering projects. This is because the indicator measures the department's actual costs to perform preliminary, detail engineering and design and construction inspection in order to get projects constructed. However, because of the department's system of recording costs associated with individual projects, only direct costs of performing project development activities are captured. Costs indirectly related to a project—such as management and overhead expenses—are not included. To the extent these indirect costs are reflected in the indicator, it would provide a more accurate measure of the total staff resources needed to produce capital outlay projects.

Highway Operations

Budget Focuses Additional Resources on Congestion Problems

The budget reflects the administration's plan to direct additional resources in 1989-90 to reducing traffic congestion on state highways. The Governor's overall congestion reduction strategies include:

- Directing *all* state agencies in urban areas to (1) develop and implement a program to reduce state employee commute trips by 10 percent, (2) utilize more flexible work schedules for their employees, and (3) reschedule routine commercial deliveries to non-commute periods.
- Extending to state employees certain ridesharing incentives—such as subsidies for transit passes, financial incentives for vanpool drivers, and compensated travel time for employees using transit or vanpools.
- Reconfirming existing statutory requirements that the Department of General Services (1) site state office buildings near transit services (Ch 718/79) and (2) conduct a demonstration project on telecommuting for state employees (Ch 185/87).
- Directing Caltrans to establish an Office of Traffic Improvement to oversee various congestion reduction efforts, and to implement an ongoing public education program to encourage ridesharing among Californians.

The Caltrans budget proposes an additional $26.3 million for congestion-related programs, including increased efforts in traffic operations and ridesharing promotional activities. No additional funding is provided for the individual department's employee incentive programs. Presumably, departments would have to absorb any associated costs within their existing budgets.

Congestion Reduction Proposal Overfunded

We recommend a reduction of $2,438,000 (and 36.1 PYs) in the amount requested for traffic operation strategies to reduce congestion, because the amount is not needed to accomplish the department's goals. (Reduce Item 2660-001-042 by $2,438,000).

The budget requests an additional $14.1 million in 1989-90 to increase activities in 16 different areas of traffic operations. These activities are proposed as strategies to relieve congestion, and include such diverse activities as checking the operation of ramp meters and traffic signals, reviewing the traffic impacts of private development proposals, and running traffic operation centers in major urban areas. However, some activities—such as computerizing the department's log of traffic signs and conducting speed zone studies—would have little effect on reducing traffic congestion.

Regardless of their ultimate effect on traffic congestion, most of the proposed increases appear fairly reasonable. However, our review does identify several areas of concern. Accordingly, we recommend a reduction of $2,438,000 in the amount requested for the following reasons:

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The proposal does not account fully for additional resources received in the current year. The department received an increase of nearly $13 million in the current year for many of the same activities addressed in the budget-year request. However, not all of the current-year resources were recognized in determining the increases needed in the budget year. For example, the department failed to account for the work which would be accomplished with a $1 million augmentation in the current year to contract with students and local governments to conduct certain activities related to conventional highways. After accounting for all oversights of this type, the department's request should be reduced by $1,880,000.

The proposal includes funds in anticipation of the passage of new legislation. The department's request includes $227,000 to conduct a study of the economics and operational features of extra-long vehicles (such as triple trailer trucks). The department indicates that the funds would be spent only if legislation passes during the budget year to require the study. (Similar funds were provided in the current-year Budget Act, but the money will revert because the related legislation did not pass in 1988.) Given the uncertainty of whether the department will be required to do the study, we recommend that the $227,000 be deleted from the Budget Bill and instead be included in any measure requiring the study.

The proposal budgets resources twice for certain aspects of the highway system. The department's proposal includes staff resources to check the operation of *all* ramp meters and traffic signals in the state highway system on a regular basis during the budget year. However, within the same proposal, the department also requests additional staff to allow intensive monitoring of ramp meters and signals which are included in the SMART Corridor Demonstration Project. The request for the SMART project does not take into account the resources already budgeted for the same type of work statewide. Thus, the department budgets twice for activities related to the same equipment. We agree that the more intensive level of monitoring of the SMART project meters and signals is appropriate. However, we recommend, in turn, that the standard allocations for the same equipment be deleted from the budget, for a savings of $181,000 (and 3.4 PYs).

The proposal includes funds for work which will not be accomplished in the budget year. The department's request includes $500,000 to contract for the development and implementation of a traffic operations center (TOC) simulator. The simulator would be use to train staff and analyze how TOCs can work better. However, only $350,000 of the amount requested is for work which will be accomplished in the budget year. The department indicates that the remaining $150,000 can be deferred until 1990-91 when the actual training and analysis would begin. Accordingly, we recommend a reduction of $150,000 in the amount requested for the budget year.

Highway Maintenance

Budget Places Priority on Roadside Rather Than Road Surface Maintenance

We recommend the deletion of $1.3 million from the SHA requested for additional litter pickup and graffiti removal, and recommend instead that the Legislature consider directing these resources to higher

priority activities such as the department's preventive maintenance program. (Reduce Item 2660-001-042 by $1.3 million.)

The department requests an increase of $1.4 million to increase its roadside maintenance efforts. In particular, the department indicates it would use $1 million to increase the frequency of litter pickup in unpaved and landscaped areas, $300,000 to remove graffiti from walls along highways in Los Angeles County, and $100,000 to control rodents on the highway system, also in Los Angeles County.

At the same time, the department is proposing to reduce certain maintenance contracts and material purchases in both the current and budget years in order to address an anticipated SHA funding shortfall. Table 8 provides a summary of the department's planned *reductions* in the maintenance program.

Table 8
Department of Transportation
Proposed Reductions in Maintenance Activities
1988-89 and 1989-90
(dollars in millions)

	1988-89	*1989-90*
Contracts:		
Flexible roadbed (Chip seal)	$17.9	$20.0
Rigid roadbed	2.5	1.5
Structures	0.2	2.0
Traffic control	2.1	1.4
Maintenance stations	1.0	—
Leaking underground storage tanks	4.1	—
Materials	7.0	8.0
Totals	$34.8	$32.9

Virtually No Preventive Maintenance For Two Years. Table 8 shows that the major portion of the savings—$18 million in the current year and $20 million in the budget year—will be accomplished by reducing contracted work to apply chip seals to certain road pavements. The department received $20 million as a base augmentation in 1986-87 to support an ongoing program of preventive maintenance because the department successfully argued that the state's road system had reached a point where additional resources were needed to establish an aggressive preventive maintenance program. Preventive maintenance, which costs about *$5,000* per lane-mile forestalls the need for pavement rehabilitation which costs about *$100,000* per lane-mile. The Legislature agreed with the department's proposal, and provided a $20 million augmentation to start the program. The department's current proposal essentially would eliminate the preventive maintenance program, for 1988-89 and 1989-90, leaving only 10 percent of the funds in the current year and *no* funds in the budget year.

Given the limited amount of funds available in the SHA, we question whether additional resources should be directed to roadside maintenance, while other programs are being reduced or eliminated. In our judgement, activities such as preventive maintenance, which protect the structural integrity of the highway system, have a higher priority than cosmetic activities such as litter pickup and graffiti removal.

The $100,000 requested for rodent control seems reasonable given the public health implications of not addressing the problem. However, we recommend that the remaining $1.3 million requested for litter pickup

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and graffiti removal be deleted from the budget, and that the Legislature instead consider directing these funds to other higher-priority maintenance activities.

Need for Tarps Depends on Outcome of Study

We recommend a reduction of $184,000 from the SHA because the need to purchase tarps to cover the department's trucks depends on the outcome of a budget-year study. (Reduce Item 2660-001-042 by $184,000.)

The budget includes $325,000 from the SHA for the department to comply with the provisions of Ch 1486/88 (AB 3220, Katz), which places additional conditions on the transport of aggregate materials. Among other things, Chapter 1486 requires that vehicles used to transport aggregate materials (1) be equipped with splash flaps and release gate flaps, and (2) have their loads covered. The department is requesting the following amounts in order to outfit its trucks: (1) $141,000 for truck flaps and (2) $184,000 for tarps to cover the trucks.

Chapter 1486 also requires the Public Utilities Commission (PUC) to report to the Legislature by April 1, 1990 on the effectiveness of flaps in reducing vehicular damage. The measure states that it is the intent of the Legislature to repeal the requirement that aggregate loads be covered, if the use of flaps reduces damage significantly. Consequently, the measure also delays the operative date after which aggregate loads must be covered, so that the outcome of the study is known before the cover requirement takes effect.

The department indicates that it is requesting funds to purchase tarps in the budget year, before the results of the study are known, because Chapter 1486 requires that loads be covered by April 1, 1990. However, our reading of the measure indicates that the cover requirement is not effective until September 1, 1990. Thus, the purchase of tarps could wait until 1990-91. Further, purchasing tarps in the budget year could prove to be unnecessary and a waste of SHA money, depending on the results of the PUC study. Accordingly, we recommend deletion of the $184,000 requested for the purchase of tarps in 1989-90.

MASS TRANSPORTATION

The Mass Transportation program is the second largest program within the Caltrans budget, with expenditures that account for approximately 5 percent of the department's total budget. As shown in Table 9, a total of $188 million is proposed for expenditure in 1989-90 in seven different mass transportation activity areas. The budget year amount consists of $37 million for state operations, $123 million for local assistance, and $28 million for capital outlay. The program for 1989-90 represents a decrease of $99 million, or 34 percent, from estimated current-year expenditures. The proposed decrease in expenditures results from the elimination of one-time costs for capital outlay projects ($97 million) and baseline adjustments for programs related to special legislation ($2 million).

The budget proposes a staffing level of 150.8 PYs for the program—the same level as in the current year.

Table 9
Department of Transportation
Mass Transportation
Budget Summary
1987-88 through 1989-90
(dollars in thousands)

	Personnel-Years			Expenditures			
Expenditure Category	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
State Operations							
Full mobility transportation	20.8	23.0	23.0	$1,174	$1,242	$1,325	6.7%
Transit operator assistance	29.3	43.6	43.6	2,462	2,784	2,931	5.3
Interregional public transportation	38.9	42.3	42.3	26,142	30,095	27,557	−8.4
Transfer facilities and services	25.1	30.0	30.0	2,093	3,323	3,449	3.8
Transportation demonstration projects	1.8	5.1	5.1	279	809	522	−35.5
Work for others	0.6	6.8	6.8	42	1,783	1,804	1.2
Ridesharing	32.9	—	—	7,168	—	—	—
Subtotals	149.4	150.8	150.8	($39,360)	($40,036)	($37,588)	(−6.1%)
Local Assistance							
Transit operator assistance				$61,015	$122,584	$123,229	0.5%
Interregional public transportation				3,950	90	—	−100.0
Subtotals				($64,965)	($122,674)	($123,229)	(0.5%)
Capital Outlay							
Transit operator assistance				$84	—	—	—
Interregional public transportation				1,991	$103,421	$27,617	−73.3%
Transfer facilities and services				1,076	20,976	—	−100.0
Subtotals				($3,151)	($124,397)	($27,617)	(−77.8%)
Totals				$107,476	$287,107	$188,434	−34.4%
Funding Sources							
State Funds				*$44,005*	*$103,048*	*$142,072*	*37.9%*
Federal Funds				*53,619*	*141,484*	*23,608*	*−83.3*
Reimbursements				*9,852*	*42,575*	*22,754*	*−46.6*

State Capital Assistance Sees Slight Increase in Budget Year

The budget proposes a total of $109 million in state funds for grants to local operators for transit improvements in the budget year, an increase of about $9 million over the current-year funding level. These funds are allocated by the CTC based upon its ranking of applicant projects. The state funds would be available under two different programs—$64 million under the Article XIX Guideway program and $45 million under the Transit Capital Improvement program.

Article XIX Guideway Program. Article XIX of the California Constitution authorizes the use of SHA funds for the improvement of exclusive public mass transit guideways. This program essentially competes with state highway operations, maintenance, and improvement programs which are funded from this same source. However, Ch 24/88 establishes a target funding level of $75 million annually from the SHA for the Article XIX Guideway program. The $64 million level proposed in the budget is $11 million short of this goal.

Transit Capital Improvement Program. Under the Transit Capital Improvement program, those sales tax revenues which are deposited into

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

the Transportation Planning and Development (TP and D) Account can be used for the following types of capital improvement projects: (1) public rail transit projects and rolling stock, (2) acquisition of abandoned railroad rights-of-way, (3) stations for transferring between various modes of transportation, (4) grade separation projects, and (5) bus rehabilitation. The budget proposes $45 million from the TP and D Account for this program in 1989-90. This proposed allocation is possible mainly because the budget proposes to allocate to the State Transportation Assistance program only $2 million of the $48 million required under statute. (Please see discussion under Item 2640).

Department Should Have Caltrain Transition Plan for Budget Year

We recommend that the Legislature direct the department to develop and submit to the Legislature, prior to the conclusion of budget hearings, a specific plan of action to ensure that the state takes all steps necessary for an orderly transition of Caltrain operating responsibilities from the state to the new local district.

In June 1980, Caltrans contracted with Southern Pacific Railroad (SP) to continue providing passenger rail service on the San Francisco Peninsula. Under the contract, Caltrans assumed certain financial and operational responsibilities, including providing a subsidy to SP to pay operating costs not covered by fare revenues. This contract will expire at the end of 1989-90 and the administration has stated that Caltrans will not operate the service, either by itself or as part of a joint powers agency, after June 30, 1990.

Chapter 1434, Statutes of 1988 (SB 2628, Morgan) establishes a new local administrative structure—the Peninsula Rail Transit District—to operate Caltrain (as the service is called) after the state's current contract with SP expires. However, the creation of the district and its assumption of operating responsibilities are contingent on the following conditions:

- ***Financing.*** The new district will be formed only after each of the boards of supervisors of Santa Clara, San Mateo and San Francisco Counties is satisfied with the plan to finance the acquisition and operation of the service.
- ***Transfer of Assets.*** The new district will have the authority to operate the system only after it acquires certain Caltrain assets (including stations, facilities and equipment) currently owned or leased by Caltrans, and the right-of-way between San Francisco and San Jose.

We recognize that many issues exist which must be resolved before a satisfactory financing plan can be developed and the transfer takes place, including (1) the extension of the service to downtown San Francisco, (2) the acquisition of right-of-way between San Francisco and San Jose, (3) the conditions under which state funds are available for the construction of a new maintenance yard, and (4) the need for a state operating subsidy.

Despite these outstanding issues, however, the department must take preparatory steps to facilitate a smooth transfer by the end of the budget year. The department has identified a partial list of events which must take place before the transfer can occur. It has also indicated that it will develop a budget proposal for 1990-91 to implement the transfer.

In our judgment, a budget proposal for 1990-91 will be too late to deal with problems associated with the transfer. If the state is committed to pulling out of the Caltrain service at the end of the budget year, we believe that Caltrans should have a specific plan of action to ensure that the transfer is completed by June 1990 so that the service will not be disrupted. Accordingly, we recommend that the Legislature direct the department to prepare and submit a full transition plan prior to the conclusion of budget hearings. The plan should not only identify all milestones which must be accomplished, but also target dates for achieving those goals, and what specific actions the department will take to achieve the goals.

Return Account Balance to Original Source

We recommend that the Legislature transfer the account balance of approximately $470,000, and a related support appropriation of $56,000, from the Abandoned Railroad Account to the Transportation Planning and Development Account, where the funds would be available for a wider range of purposes. (Add Item 2660-031-047; Delete Item 2660-001-047; Increase Item 2660-001-046 by $56,000.)

Chapter 1130, Statutes of 1975, created the Abandoned Railroad Account (ARA) to provide a dedicated source of funds for acquiring abandoned railroad right-of-way in cases where they could be used for public transportation purposes. The ARA received its funding from two transfers totaling $6.5 million from the Transportation Planning and Development (TP and D) Account—an initial transfer of $3.5 million in Chapter 1130, and an additional transfer of $3 million in Ch 1098/77.

In the past, ARA funds have been used to acquire right-of-way to widen streets and highways, extend transit guideways, and establish equestrian trails, bicycleways and pedestrian paths. However, no new appropriations for projects have been made since 1983, due in part, to the fact that alternative funding sources (such as the TP and D Account and the SHA) are available for the same type of acquisitions.

In the 1985 Budget Act, the Legislature adopted language to transfer all funds not needed for outstanding projects from the ARA to the TP and D Account. Despite this effort, about $470,000 remains available in the ARA in the budget year. The budget proposes only an appropriation of $56,000 from the ARA for administrative costs in 1989-90.

Given the duplicative nature of the ARA and prior legislative actions, we see no reason to maintain a balance of funds in the ARA. Further, TP and D Account funds can be used for a wider range of purposes. Accordingly, we recommend that following item be added to the Budget Bill to transfer the ARA balance and any interest due the account to the TP and D Account:

> 2660-031-047—For transfer by the State Controller from the Abandoned Railroad Account, State Transportation Fund to the Transportation Planning and Development Account (046), State Transportation Fund, the unencumbered balance as of June 30, 1989 plus any interest income paid into the Abandoned Railroad Account during 1989-90.

Similarly, we recommend that the minor support appropriation of $56,000 also be shifted from the ARA to the TP and D Account, by deleting Item 2660-001-047, and increasing Item 2660-001-046 by the same amount.

DEPARTMENT OF TRANSPORTATION—SUPPORT AND CAPITAL OUTLAY—Continued

In our January 1989 *Summary of Recommended Legislation*, we further recommend the enactment of legislation to abolish the ARA, because of the duplicative nature of the program it supports.

Technical Recommendations

We recommend various technical budget adjustments for a total reduction of $30,841,000 as follows:

- Reduce $30 million in federal funds requested to participate in the Federal Aviation Administration's two-year block grant delegation project. The department is withdrawing the proposal because new federal guidelines preclude the use of a portion of the federal funds to pay the state's administrative costs (Item 2660-101-890).
- Delete $410,000 and 10 PYs requested for increased accounting workload because the department has miscalculated workload standards used to support this request (Item 2660-001-042).
- Reduce by $335,000 from the SHA and 6.4 PYs because the department overestimated the staffing resources required to perform preliminary work on specified highway projects (Item 2660-001-042).
- Reduce by $96,000 from the SHA because certain equipment operating costs are doublebudgeted in the amount requested to maintain increases in the state highway system inventory (Item 2660-001-042).

We also recommend the following technical change to Budget Bill language:

- Add the following Budget Bill language under Item 2660-302-046, consistent with past legislative actions and California Transportation Commission policy, to ensure that equal nonstate matching funds are required for $10 million in state-funded improvements to the San Diego-Los Angeles-Santa Barbara rail service:

  These funds may be used for capital improvements to the San Diego-Los Angeles-Santa Barbara rail service, provided that an equal amount of matching funds is provided from other nonstate sources.

Proposals Recommended for Approval

We recommend approval of the following major changes to the department's budget which are not discussed elsewhere in this *Analysis*:

- $9.1 million and 12.6 PYs for increased activities to promote ridesharing among the state's workforce.
- $7.6 million for capital improvements to the Peninsula Commute service (Caltrain).
- $6 million and 2.1 PYs to increase the amount of computer-aided design and drafting equipment due to staff increases in the current year.
- $3.4 million to shift certain maintenance activities to the nighttime and to provide better handling of hazardous materials by maintenance staff.
- $2.5 million for the next phase of the department's telecommunications conversion.
- $2.1 million from the SHA for oversight of highway projects funded from local sources.

- $2 million and 2.1 PYs for the department to develop and test new technologies for traffic control and collision avoidance.

Pending Recommendations

We withhold recommendation on the following:

- An increase of $405,000 from toll bridge funds to increase toll collection staff, pending the department's review of processing rates given the new uniform tolls on San Francisco Bay area bridges.
- An increase of $402,000 from various funds and 9.5 PYs to expand the department's current Advanced Transportation System Development pilot program, pending the receipt of additional information from the department on the benefits of the current pilot program.

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS

Items 2660-490 through 2660-493
from various funds — Budget p. BTH 88

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Building Capital Outlay. Recommend that prior to budget hearings, the department inform the Legislature on how it plans (a) to acquire the new District 4 office building and (b) why it cannot propose the office building through the normal capital outlay process.	246

ANALYSIS AND RECOMMENDATIONS

Capital Outlay (Item 2660-490)

We recommend approval.

The budget proposes that the unliquidated encumbrances of specified appropriations made in the Budget Acts of 1983, 1984, 1985, and 1986, be reappropriated until June 30, 1990. These appropriations were made to provide state and federal funds for highway capital outlay purposes. The department indicates that reappropriating these funds would allow the projects to be paid upon completion.

In addition, the department requests the reappropriation of specified unencumbered amounts, also from the same appropriations, to be available until June 30, 1990. The department indicates that these amounts will allow for payment of any potential claims on construction projects funded out of these appropriations.

Local Assistance (Item 2660-491)

We recommend approval.

The budget proposes that the unliquidated encumbrances of specified state and federal funds appropriated in the 1988 Budget Act for local assistance purposes be reappropriated. The reappropriation would allow local projects to be paid upon completion, when the encumbrances will be liquidated.

SAFCO and Outer Continental Shelf Funds (Item 2660-492)

We recommend approval.

DEPARTMENT OF TRANSPORTATION—REAPPROPRIATIONS—Continued

The budget proposes that the unencumbered and unliquidated balances of funds from the Special Account for Capital Outlay (SAFCO) appropriated in Ch 407/85 and federal Outer Continental Shelf funds appropriated in Ch 1440/85 be reappropriated until June 30, 1990. These appropriations were made for highway capital outlay purposes. However, delays in constructing these projects has resulted in the department not encumbering and liquidating the funds made available for these purposes. Reappropriating these funds would allow the projects to be paid upon completion.

Building Capital Outlay (Item 2660-493)

We recommend that prior to budget hearings, the Department of Transportation inform the Legislature on (1) how it plans to acquire the new District 4 office building and to occupy this facility by 1991, and (2) why it cannot propose the office building through the normal capital outlay process.

The budget proposes that as of June 30, 1989, the unencumbered and unliquidated balances of funds appropriated in Ch 1472/88 (SB 2381, Deddeh) be reappropriated until September 28, 1990. Chapter 1472 appropriated $10 million to the Department of Transportation to pay the initial costs of acquiring a new building for the District 4 (San Francisco) office. The new building is to be occupied in 1991.

The department had planned to encumber these funds in the current year. However, in order to avert a State Highway Account shortfall in the budget year, the department is proposing to defer the expenditure of these funds. The reappropriation would allow the department to delay expenditure of the money until September 1990.

Timely Acquisition of Building In Question. The department initially requested that funds to acquire the building be provided through Chapter 1472, instead of the normal capital outlay process because it indicated that the normal capital outlay process was too slow to allow occupancy of the office building by 1991. Consequently, the Legislature appropriated funds in Chapter 1472 to ensure that the building would be acquired in a timely manner. The department's current expenditure plan, however, will delay acquisition of the building by one year. In our view, given the significant lead time required to complete necessary modifications to the building, it is unclear whether the department can meet the 1991 occupancy date specified by Chapter 1472.

Consequently, we recommend that the department inform the Legislature prior to budget hearings, on how it intends to acquire the building in late 1990, make the alterations necessary to accommodate District 4 personnel, and still occupy the building in 1991. Moreover, given this delay, the department should inform the Legislature why it cannot propose the District 4 office building through the normal capital outlay process in the Budget Bill as a capital construction project.

Business, Transportation and Housing Agency

OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds Budget p. BTH 96

Requested 1989-90	$14,646,000
Estimated 1988-89	14,942,000
Actual 1987-88	14,196,000
Requested decrease (excluding amount for salary increases) $296,000 (−2.0 percent)	
Total recommended reduction	None

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2700-001-044—Support	State Transportation, Motor Vehicle Account	$302,000
2700-001-890—Support and state grants	Federal Trust	6,961,000
2700-101-890—Local assistance	Federal Trust	7,363,000
Reimbursements	—	20,000
Total		$14,646,000

GENERAL PROGRAM STATEMENT

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

The office has 25.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $14.6 million (all funds) in 1989-90. This is a reduction of $296,000, or 2 percent, from the estimated current-year level. The proposed decrease results from a decrease of $661,000 for grants to state agencies, and an increase of $365,000 for grants to local agencies and support of the office.

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

OFFICE OF TRAFFIC SAFETY—Continued

Table 1
Office of Traffic Safety
Summary of Expenditures
1987-88 through 1989-90
(dollars in thousands)

Program	*Actual 1987-88*	*Est. 1988-89*	*Prop. 1989-90*	*Percent Change From 1988-89*
Administration	$1,557	$2,024	$2,189	8.2%
Grants to state agencies	5,957	5,755	5,094	−11.5
Grants to local agencies	6,682	7,163	7,363	2.8
Totals	$14,196	$14,942	$14,646	−2.0%
Funding Sources				
Motor Vehicle Account, State Transportation Fund	*$243*	*$290*	*$302*	*4.1%*
Federal Trust Fund	*13,888*	*14,632*	*14,324*	*−2.1*
Reimbursements	*65*	*20*	*20*	*—*

Our review indicates that the proposed expenditures for the office appear to be reasonable.

Business, Transportation and Housing Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from various funds Budget p. BTH 99

Requested 1989-90	$553,884,000
Estimated 1988-89	502,879,000
Actual 1987-88	494,031,000
Requested increase (excluding amount for salary increases) $51,005,000 (+10 percent)	
Total recommended reduction	737,000
Recommendation pending	847,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2720-001-044—Support	Motor Vehicle Account, State Transportation	$536,089,000
2720-001-840—Support	Motorcyclist Safety	1,849,000
2720-001-847—Support	Asset Forfeiture	2,000,000
2720-001-890—Support	Federal Trust	2,731,000
2720-011-044—Payment of deficiencies	Motor Vehicle Account	(2,000,000)
2720-021-044—Advance purchase of vehicles	Motor Vehicle Account	(5,000,000)
Reimbursements	—	11,215,000
Total		$553,884,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Traffic Officer Personnel. Recommend the adoption of supplemental report language requiring the department to develop a staffing methodology to be used to determine all future requests for traffic officers for general patrol functions.	251
2. New Offices. Recommend deletion of Budget Bill language in Item 2720-001-044 authorizing the CHP to enter into a lease with an option to purchase 12 offices.	252
3. ***Inspection Facility. Reduce Item 2720-001-044 by $490,000.*** Recommend reduction because facility occupancy date is delayed.	253
4. Inhalation Hazards Route Program. Withhold recommendation on $708,000 for inhalation hazards route program pending final program plan.	253
5. Traffic Records System. Recommend nine positions for traffic records system be two-year limited-term positions because they will most probably not be needed after 1990-91.	254
6. Truck Terminal Inspection Program. Recommend the adoption of supplemental report language to require quarterly progress reports on the implementation of a truck terminal inspection program.	255
7. Replacement Vehicles. Withhold recommendation on $139,000 for new and replacement vehicles pending receipt of updated vehicle price information.	256
8. ***Technical Adjustment. Reduce Item 2720-001-044 by $247,000.*** Recommend a reduction to eliminate overbudgeting for telecommunications operating expenses.	256

GENERAL PROGRAM STATEMENT

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

The department has 8,241.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests a total of $553.9 million for expenditure by the CHP in 1989-90. This is $51.0 million, or 10 percent, above estimated expenditures in the current year. This increase, however, is misleading. In the current year, $41.6 million in CHP retirement commitments will be funded from a surplus in the Public Employees' Retirement System Fund. Therefore, the department's expenditures for 1988-89 do not represent its total retirement benefit commitments. In the budget year only $16.9 million will be funded from the surplus. Adjusting for the retirement benefits contributions, the budget proposes an increase of $26.3 million, or 4.8 percent, above current-year expenditures.

The CHP also proposes a staffing level of 8,591.9 personnel-years in the budget year. This is an increase of 350.4 personnel-years, or 4.3 percent,

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

over the current level. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the CHP's budget proposed for 1989-90.

Table 1
Department of the California Highway Patrol
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*
Traffic management	6,848.5	7,225.3	7,477.5	$441,747	$447,076	$490,627	9.7%
Regulation and inspection	774.4	826.5	927.1	42,563	44,487	51,609	16.0
Vehicle ownership security	160.6	189.7	187.3	9,721	11,316	11,648	2.9
Administration (distributed)	(1,414.2)	(1,473.2)	(1,389.3)	(84,206)	(98,884)	(101,711)	(2.9)
Totals	7,783.5	8,241.5	8,591.9	$494,031	$502,879	$553,884	10.1%
Funding Sources							
Motor Vehicle Account, State Transportation Fund				*$481,121*	*$486,322*	*$536,089*	*10.2%*
Driver Training Penalty Assessment Fund				*96*	*152*	—	*−100.0*
Motorcyclist Safety Fund				*1,087*	*1,360*	*1,849*	*36.0*
Federal Trust Fund				*2,366*	*2,766*	*2,731*	*−1.3*
Asset Forfeiture Fund				—	*2,000*	*2,000*	—
Petroleum Violation Escrow Account				—	*150*	—	*−100.0*
Special Deposit Fund - Federal Asset Forfeiture Account				*71*	—	—	—
Reimbursements				*9,290*	*10,129*	*11,215*	*10.7*

Table 2
Department of the California Highway Patrol
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Motor Vehicle Account	*Reimbursements*	*Other*	*Totals*
1988-89 Expenditures (Revised)	$486,322	$10,129	$6,428	$502,879
Baseline Adjustments				
Employee compensation increase	24,479	—	—	24,479
Elimination of one-time costs	−36,768	—	−302	−37,070
Price increase	1,123	—	—	1,123
Full-year cost of new programs	5,900	—	—	5,900
PERS rate reduction	−6,113	—	—	−6,113
Other base adjustments, including retirement contributions	27,732	440	46	28,218
Subtotals, baseline adjustments	($16,353)	($440)	(−$256)	($16,537)
Workload and Program Changes				
Additional traffic officers	$10,493	—	—	$10,493
Motorcyclist safety program	—	—	$408	408
Vehicle emissions violation patrol	—	$646	—	646
Telecommunications services	10,568	—	—	10,568
Truck terminal inspection program	3,771	—	—	3,771
Motor carrier safety program	1,209	—	—	1,209
Drug task force staff	500	—	—	500
Golden Gate Communications Center	755	—	—	755
Internal audit functions	65	—	—	65

Public awareness cellular phones	60	—	—	60
DUI cost recovery program	134	—	—	134
Vehicle and equipment replacement	686	—	—	686
Flight operations	2,566	—	—	2,566
Data processing services	1,407	—	—	1,407
Traffic enforcement for HOV facilities	271	—	—	271
Facilities operation staff	194	—	—	194
Administrative support staff	532	—	—	532
Recruitment for Hispanic traffic officers	203	—	—	203
Subtotals, workload and program changes	($33,414)	($646)	($408)	($34,468)
1989-90 Expenditures (Proposed)	$536,089	$11,215	$6,580	$553,884
Change from 1988-89:				
Amount	$49,767	$1,086	$152	$51,005
Percent	10.2%	10.7%	2.4%	10.1%

ANALYSIS AND RECOMMENDATIONS

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

- Baseline adjustments totaling $16.5 million; and
- Budget change proposals for (1) flight operations ($2.6 million), (2) Golden Gate Communications Center ($755,000); (3) automotive equipment replacement ($547,000); and (4) other proposals totaling $2.5 million.

Staffing Methodology Lacking to Substantiate Traffic Officers' Need

We recommend that the Legislature adopt supplemental report language directing the CHP to develop a staffing methodology to be used to determine all future requests for traffic officers for general patrol functions that is primarily based on service level standards identified by the department.

The department requests $10.5 million from the Motor Vehicle Account (MVA) to support 150 additional state traffic officers and 30 related support personnel. Twenty-four of the officers are earmarked for specific functions (drug task forces and hazardous materials task forces), while the remaining 126 officers are for statewide assignment. According to the department, the increased staff are necessary because its workload has increased while the number of uniformed officers has remained fairly constant.

This proposal is in addition to the 165 uniformed officers provided for in the current year and the 150 uniformed officers provided by Ch 1157/87. The proposed increase would bring the number of uniformed officers from 5,717 in 1987-88 to 6,252 in 1989-90—an increase in force of 9.4 percent.

Information to Assess Staff Increase Still Lacking. In our *1988–89 Analysis of the Budget Bill*, we indicated that there was not adequate information to evaluate the department's staffing request, and consequently we made no recommendation on the 165 positions requested for the current year. The Legislature, while approving the positions, directed the department to report by December 1, 1988 on its plan and timeline to develop a traffic officer staffing methodology based on service level standards.

The department submitted a report in December as required. However, the report does not identify a methodology to determine traffic officer needs. Consequently, it does not provide the essential information needed by the Legislature in order to evaluate the department's request for additional traffic officers for 1989-90. Because of a lack of workload information to justify the request, we can make no recommendation on $10.5 million for 150 uniformed officers and 30 related support staff requested for 1989-90. Whether the positions ought to be added is basically a policy issue to be made by the Legislature.

No Staffing Methodology Until 1991. The report's timeline indicates that a staffing needs assessment model will not be complete until December 1990 at the earliest. As a result, a staffing model will only be available for use to review budget requests for the 1991-92 fiscal year at the earliest.

The department, however, also plans to make similar staffing requests for an additional two years (1990-91 and 1991-92) which would augment uniformed officers by another 300 personnel-years. Given the department's schedule to develop a staffing methodology, the Legislature will be able to evaluate only the 1991–92 request using a methodology that is based on service level standards.

Earlier Development of Staffing Methodology is Essential. The Legislature needs to determine the level of services to be provided by uniformed officers and to allocate the appropriate amount of resources for that purpose. Therefore, it is essential that the department give high priority to the development of a staffing methodology that is based on service level standards. Our review shows that the development of such a methodology could be accelerated. For instance, CHP may be able to adopt and modify a model recently developed at Northwestern University, or a State of Illinois model which the department has partially tested in the current year.

To ensure that the CHP develops a staffing methodology, we recommend that the Legislature adopt the following supplemental report language:

> The California Highway Patrol shall develop a staffing methodology to be used to determine all future requests for uniformed officers for general patrol functions. The needs assessment methodology shall be based primarily on service level standards identified by the department.

Need for 12 Offices Not Demonstrated

We recommend the deletion of Budget Bill language in Item 2720-001-044 which authorizes the California Highway Patrol to enter into a lease with an option to purchase 12 offices because the department has not demonstrated their need.

In 1989-90, the department plans to begin leasing additional space for 12 area and division offices—in Newhall, Malibu, Baldwin Park, East Los Angeles, Indio, Modesto, Ontario, West San Jose, San Luis Obispo, Santa Ana, South Lake Tahoe and the Coastal Division. The department also requests the authority to enter into a lease with option to purchase agreement for each of the facilities. Under each of the proposed agreements, exercise of the purchase option at the first possible date would result in a purchase price of over $2 million. Current law requires that departments must receive permission from the Legislature before entering into such agreements.

Our review indicates that the department has not substantiated the need for these facilities. In our view, before the Legislature is able to approve the leasing of these facilities, the proposed facilities ought to be justified on a program as well as cost basis. The following information for each facility would provide this justification: (1) a Program Planning Guide that identifies on a workload and program basis why the existing facilities are inadequate and substantiates the need for the proposed facility, (2) an economic analysis of a lease with purchase option financing versus capital outlay financing, and (3) the estimated lease and purchase costs of the facility and the basis of these estimates. The CHP, however, has not provided this information. Consequently, we recommend deletion of the Budget Bill language for the 12 facilities from Item 2720-001-044.

In the event that the CHP is able to substantiate the need for these facilities, we recommend that the Budget Bill language granting the department a lease-purchase authority be inserted under the department's capital outlay appropriation item (Item 2720-301-044). This is because if the purchase option on these facilities is exercised, purchase of the facility would be budgeted as a major capital acquisition. Additionally, this placement of the language would be consistent with the Legislature's past practice.

Inspection Facility Occupancy Date Delayed

We recommend a reduction of $490,000 from the Motor Vehicle Account for overbudgeting of personnel and operating expenses for the Rancho California truck inspection facility because the facility will be ready for occupancy later than expected. (Reduce Item 2720-001-044 by $490,000.)

The budget requests $864,000 and 19 positions for personnel, operating expenses and equipment for the new Rancho California inspection facility near the San Diego County and Riverside County border. The Department of Transportation (Caltrans) is responsible for building and maintaining the inspection facility, and the CHP is responsible for staffing and operating it. The department's request assumes that the facility would be open for the entire 1989-90 year.

Caltrans, however, informs us that the facility will not be ready for occupancy until April 1990 at the earliest. Consequently, the CHP will only be required to staff the facility for the last three months in 1989-90 and operating expenses will be substantially lower than requested. The department, however, informs us that it is necessary to train staff one month prior to the opening of the inspection facility. Thus, adjusting for the lower expenses needed to operate the facility in 1989-90 and allowing for staff training costs, we recommend a reduction of $490,000 from the Motor Vehicle Account.

Inhalation Hazards Route Program Plan May Be Revised

We withhold recommendation on $708,000 from the Motor Vehicle Account and 11 positions to establish routes for the transportation of inhalation hazards pending receipt of the department's final route program plan, including a proposed schedule for route establishment.

Chapter 1384, Statutes of 1988 (AB 2705, Katz), requires the CHP to develop and establish routes for the transportation of inhalation hazards —hazardous materials which are highly toxic when inhaled and spread rapidly. The use of these routes is required starting January 1, 1992.

In order to establish the routes, the CHP has to develop regulations, complete risk assessments for alternative routes (similar to environmen-

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

tal impact assessments), and hold public hearings on the proposed routes. The department estimates that the entire process will take at least two and one-half years. Consequently, Chapter 1384 appropriated $410,500 from the Motor Vehicle Account in 1988-89 to allow the department to immediately start work on the program.

In the budget year, the department is requesting $708,000 and 11 positions to continue the development of these routes. The request is based on the CHP's initial plan of hiring technical staff to perform risk assessments of routes. However, the department now informs us that it is reassessing its program plan, and will most probably contract for the risk assessments. In this case, the staffing needs of the program would be different than proposed. Consequently, while additional funding is warranted, we have no analytical basis on which to evaluate the amount requested until the Legislature receives the most current program plan.

Additionally, the department indicates that it most likely will not start work on the program in the current year because it has not yet finalized its program plan. However, because the process of identifying and establishing the required routes is complex and may run into unforeseen delays, it is essential that the department finalizes its program plan as soon as possible, in order to insure that it will establish the routes by the statutory deadline of January 1, 1992.

Due to the above concerns, we withhold recommendation on the department's request for $708,000 and 11 positions pending receipt of the department's final inhalation hazards route program plan which details how the department plans to develop and establish the required routes. In order to ensure that the routes are established by the statutory deadline of January 1, 1992, the department's program plan also should contain a timeline for route establishment.

Limited-Term Positions for Traffic Records System

We recommend that the nine positions requested to support the department's Statewide Integrated Traffic Records System be two-year limited-term positions because these positions will most probably not be needed after 1990-91 (Item 2720-001-044).

The department is requesting nine positions (four program technicians and five key data operators) to enter information into the Statewide Integrated Traffic Records System (SWITRS) which is an information database on the state's fatal and injury accidents. The department has been using overtime to handle increasing SWITRS-related workload, but a significant backlog still remains. Approximately three of the nine positions requested will be allocated to process the backlog.

While the department is requesting additional staff resources, it is also preparing a proposal to buy new data processing equipment to streamline the entry of information into the system. Installation of the equipment would result in a savings in staff time currently used to process SWITRS documents. The department anticipates that it will be able to purchase the equipment in 1990-91.

Because the impact of new data processing equipment on future staffing productivity is not yet known, and future workload is uncertain, the nine positions should be restricted to two-year limited-term. The limited-term positions would allow the department to meet 1989-90 workload needs as well as continue the higher level of staffing while the department installs data processing equipment. In the event that the equipment is not purchased, the department can reassess its needs for permanent positions at that time. Accordingly, we recommend that the nine positions to enter information into the SWITRS database be two-year limited-term positions.

Truck Terminal Inspection Program

We recommend the adoption of supplemental report language requiring the department to submit quarterly reports in 1989-90 to the Legislature on its truck terminal inspection program (Item 2720-001-044).

The budget requests $3.8 million and 59.8 personnel-years to implement Ch 1586/88 (AB 2706, Katz) which requires the department starting July 1, 1989 to conduct truck *terminal* inspections every 25 months. Motor carriers who own multiple trucks are required to pay an inspection fee of $400 per terminal, while the terminal inspection fee for the owner of a single truck is $100. Fee revenues are intended to fully cover program costs. Any program revenues remaining at the end of the fiscal year are to be dedicated to *roadside* safety vehicle inspections in the following year. Consequently, the first year of roadside safety inspections is 1990-91.

Our review of the department's plan to implement the truck terminal inspection program raises the following concerns. First, the proposed staffing level may not be adequate to successfully perform the required inspections. While the department concurs with this assessment, it is unable to determine a more accurate number of positions, because the department's projected program workload data are not reliable.

Second, the department does not have a cost-accounting system that can track annual truck inspection program costs. Such a system is necessary in order to calculate the fee revenues to be dedicated to roadside safety vehicle inspections in each succeeding year.

Finally, the department indicates that its revenue estimates are uncertain because it does not have a precise count of the number of terminals and number of terminal owners who will pay either a $400 or a $100 fee. Because the Legislature intended the program to be fully self-financing and to generate additional revenues for the roadside safety inspections, it is important that the department be able to make accurate projections of program revenues.

Because the Legislature has a strong interest in improving truck safety, it is important that the Legislature be kept informed of the department's ability to implement this program and address the issues raised above. While Chapter 1586 requires that the CHP report on the program by September 1, 1990, in our view, progress reports during the program's implementation will provide the Legislature with additional information to insure that the program is carried out successfully. Consequently, we recommend the following supplemental report language.

> The department shall submit to the Legislature quarterly progress reports during 1989-90 on its truck terminal inspection program that shall include (1) the number of terminal inspection applications, (2) the number of completed terminal inspections, (3) program costs, and (4) fee revenues collected and the number of terminals that paid $100 and $400.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Request for Replacement Vehicles Will be Amended

We withhold recommendation on $139,000 requested to replace existing vehicles and purchase new ones, pending receipt of updated information on vehicle prices.

The department is requesting $139,000 above its baseline budget to replace and purchase certain new vehicles. This amount is based on past years' vehicle prices that were available at the time of the budget request. The department will be receiving more current vehicle price data, and will be able to adjust its request for replacement and new vehicles accordingly. Consequently, we withhold recommendation on $139,000 requested to purchase vehicles pending the receipt of updated information.

Technical Budgeting Issue

We recommend a reduction of $247,000 from Item 2720-001-044 to correct for funds overbudgeted for telecommunications operating expenses.

Business, Transportation and Housing Agency

DEPARTMENT OF MOTOR VEHICLES

Item 2740 from various funds Budget p. BTH 110

Requested 1989-90	$423,172,000
Estimated 1988-89	385,592,000
Actual 1987-88	354,969,000
Requested increase (excluding amount for salary increases) $37,580,000 (+9.8 percent)	
Total recommended reduction	1,298,000

1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2740-001-001—Support—Anatomical donor designation	General	$64,000
2740-001-044—Support	Motor Vehicle Account, State Transportation	275,280,000
2740-001-054—Support—New Motor Vehicle Board	New Motor Vehicle Account	1,059,000
2740-001-064—Support	Motor Vehicle License Fee Account, Transportation Tax	133,161,000
2740-001-516—Support—Undocumented vessel registration	Harbors and Watercraft Revolving	3,612,000
2740-001-890—Support	Federal Trust	417,000
2740-011-044—Payment of deficiencies	Motor Vehicle Account	(1,000,000)
Reimbursements	—	9,579,000
Total		$423,172,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Magnetic Stripe Driver License. We make no recommendation on the department's request for $4.3 million to issue magnetic stripe driver licenses. Further recommend that, if the Legislature approves the project concept, it adopt Budget Bill language directing the department to implement a commercial driver license magnetic stripe demonstration project. 260
2. ***New Field Offices. Reduce Item 2740-001-044 by $424,000.*** Recommend reduction for lease expenses because the department has not justified the need for three facilities. 262
3. ***Asbestos Abatement. Reduce Item 2740-001-044 by $640,000.*** Recommend reduction of $640,000 and 1.9 personnel-years for staff and funding related to asbestos abatement work based on recommendations for state asbestos abatement programs contained in our *Perspectives and Issues.* 263
4. Microfilming Documents. We make no recommendation on the department's request to contract with Prison Industries Authority to prepare documents for microfilming. Further recommend that the department report to the Legislature at budget hearings on the measures it plans to take to ensure that vehicle owners' personal information is adequately protected. 263
5. ***Technical Adjustment. Reduce Item 2740-001-044 by $234,000.*** Recommend a reduction to eliminate overbudgeting for lease expenses. 264

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership and promoting public safety on California's roads and highways. Additionally, the department provides various revenue collection services for state and local agencies. To carry out these responsibilities, the department administers four programs to aid the driving public: (1) Vehicle and Vessel Identification and Compliance, (2) Driver Licensing and Personal Identification, (3) Driver Safety, and (4) Occupational Licensing and Investigative Services. These programs are implemented by the department's Divisions of Headquarters Operations, Field Operations, Investigation and Occupational Licensing, and Electronic Data Processing. Administrative support services are provided to the other divisions by the Division of Administration. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

The department has 7,635.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $423.2 million for support of the Department of Motor Vehicles in 1989-90. This is an increase of $37.6 million, or 9.8 percent, above estimated expenditures in the current year. The budget also proposes 7,983.6 personnel-years in 1989-90—an increase of 348.1 personnel-years above the 1988-89 level.

To fund the department's programs, the budget requests $275.3 million from the Motor Vehicle Account (MVA), State Transportation Fund, and

DEPARTMENT OF MOTOR VEHICLES—Continued

$133.2 million from the Motor Vehicle License Fee Account, Transportation Tax Fund in 1989-90. In addition, the budget projects $9.6 million in reimbursements.

Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years. Table 2 summarizes the major changes in the DMV's budget proposed for 1989-90.

Table 1
Department of Motor Vehicles
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*
Vehicle/vessel identification and compliance	3,650.6	3,703.6	3,865.1	$197,308	$211,697	$230,098	8.7%
Driver licensing & personal identification	1,936.6	1,935.6	2,031.1	93,747	102,826	115,127	12.0
Driver safety	938.7	1,027.9	1,093.8	41,164	46,827	51,911	10.9
Occupational licensing and investigative services	412.5	417.3	426.5	21,884	23,183	24,977	7.7
New Motor Vehicle Board	16.0	18.7	18.7	866	1,059	1,059	—
Administration [a]	501.7	532.4	548.4	(44,344)	(47,940)	(50,509)	5.4
Totals	7,456.1	7,635.5	7,983.6	$354,969	$385,592	$423,172	9.8%
Funding Sources							
General Fund				*$53*	*$64*	*$64*	—
Motor Vehicle Account, State Transportation Fund				*233,026*	*250,796*	*275,280*	*9.8%*
New Motor Vehicle Board Account				*866*	*1,059*	*1,059*	—
Motor Vehicle License Fee Account, State Transportation Tax Fund				*107,580*	*121,360*	*133,161*	*9.7*
State Bicycle License and Registration Fund				*35*	*39*	—	—
Harbors and Watercraft Revolving Fund				*3,242*	*3,183*	*3,612*	*13.5*
Federal Trust Fund				*289*	*468*	*417*	*−10.9*
Reimbursements				*9,878*	*8,623*	*9,579*	*11.1*

[a] Administrative costs are distributed to other programs.

Table 2
Department of Motor Vehicles
Proposed 1989-90 Budget Changes
(dollars in thousands)

	Motor Vehicle Account	*Motor Vehicle License Fee Account*	*Other*	*Total*
1988-89 Expenditures (Revised)	$250,796	$121,360	$13,436	$385,592
Baseline Adjustments				
Employee compensation	8,086	3,974	523	12,583
Price increase	1,435	651	6	2,092
Pro rata adjustment	−556	—	−93	−649
One-time costs	−1,466	−721	−51	−2,238
New legislation	−4,081	—	—	−4,081
Funding allocation adjustment	−1,595	1,633	−38	0
Subtotals, baseline adjustments	($1,823)	($5,537)	($347)	($7,707)

Workload and Program Changes				
Workload increase	8,946	4,406	665	14,017
Continuing EDP automation	2,847	1,400	—	4,247
Automation of vehicle dealers	639	—	—	639
Magnetic stripe driver license	2,075	—	—	2,075
Monitoring activities	467	90	—	557
Asbestos abatement projects	429	211	—	640
New legislation	7,258	157	283	7,698
Subtotals, workload and program changes	($22,661)	($6,264)	($948)	($29,873)
1989-90 Expenditures (Proposed)	$275,280	$133,161	$14,731	$423,172
Change from 1988-89:				
Amount	$24,484	$11,801	$1,295	$37,580
Percent	9.8%	9.7%	9.6%	9.8%

ANALYSIS AND RECOMMENDATIONS

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

- Baseline adjustments totaling $7.7 million; and
- Budget change proposals for (1) additional staff due to increased workload ($14 million), (2) continuing and new electronic data processing applications ($4.9 million), and (3) implementation of new legislation and increase in monitoring activities ($8.2 million).

Condition of the Motor Vehicle Account

The Governor's Budget proposes to transfer $122.0 million from the MVA to the State Highway Account to fund a shortfall projected in that account. This transfer would leave the MVA with a projected reserve of $47.3 million by the end of 1989-90. This amount is equivalent to 5.1 percent of the account's projected 1989-90 resources.

Projections Appear Reasonable. Our review shows that, although revenues to the account are projected to be higher than previously anticipated, the projections appear to be reasonable for several reasons.

First, new vehicle sales as well as the rate of vehicle re-registration have been higher than anticipated, resulting in an increase in vehicle registration fee revenues. In addition, DMV is implementing a new revenue collection program to increase the collection of expired registrations. This program is estimated to bring in to the MVA an additional $7.9 million in the current year, and $11.9 million in 1989-90 and annually thereafter. In the budget year, the trend in higher registration fee revenues is projected to continue, and revenues are projected to grow by 4.8 percent over current estimated revenue levels.

Second, the implementation of various new programs are anticipated to result in additional revenues. For instance, Ch 1586/88 (SB 2706, Katz), which requires commercial truck owners to pay a fee for truck terminal inspections mandated by law, is projected to generate $10.2 million in MVA fees in 1989-90 and $8.0 million annually thereafter.

Finally, the MVA will realize a one-time savings of $58.5 million in 1988-89 and 1989-90 as a result of lower expenditures from the account for highway patrol retirement benefits. In the current and budget years, instead of paying all highway patrol retirement benefits from the

DEPARTMENT OF MOTOR VEHICLES—Continued

MVA—the usual funding source for these benefits—part of the benefits will instead be paid for by a surplus in the highway patrol retirement category under the Public Employees' Retirement System (PERS).

Magnetic Stripe Driver License Project Raises Policy Issue

We make no recommendation on $4.3 million requested from the Motor Vehicle Account for the production of magnetic stripe driver licenses and identification cards because this is a policy decision that should be made by the Legislature. We further recommend that if the Legislature approves the concept of the project, it adopt Budget Bill language requiring that magnetic stripe driver licenses be implemented initially as a demonstration project and the costs and benefits of these licenses be evaluated.

The department proposes to begin issuing credit card-like driver licenses and identification cards in 1989-90. Currently, the department contracts for the production of laminated cards at a cost of 38 cents per card. Beginning in 1989-90, the department proposes to issue cards using the same material used for commercial credit cards, and to incorporate a magnetic stripe on the back of each card containing driver identification information. The cost per card is projected to be 80 cents. According to DMV, under the new card system, the contractor producing the cards would also be responsible for storing, in digitized form, driver photos and signatures.

Project Costs Are Uncertain. Our review shows that the costs of the project are not certain. The department initially projected that magnetic stripe licenses would cost about $4.3 million in 1989-90 and annually thereafter through 1992-93. This is $2.1 million above current program costs. Consequently, the budget requests an augmentation of $2.1 million for 1989-90 to pay for the increased costs of the cards. Beginning in 1993-94, when the new cards would be used for renewal driver licenses, total costs are projected to increase to about $6.5 million annually. Thus, over a five-year period, the total cost of producing the cards would be about $12 million higher than the existing type of cards.

However, subsequent to the release of the Governor's Budget, the department informed us that costs could be higher than anticipated by $1 million in 1989-90. As a consequence, the costs of the project over five years also could be significantly higher.

Costly Program Has Few Offsetting Savings. The department indicates that the magnetic stripe cards have numerous advantages. For instance, the DMV would be able to issue renewal licenses by mail beginning in 1993-94 that include a driver's photo and signature. This information would improve the usefulness of the renewal license for identification purposes. The new cards also cannot be tampered with as easily as the cards used currently. Neither of these benefits would result, however, in quantifiable savings to the department. The department indicates that, to the extent the storage of information on the magnetic stripe allows easier access to driver information (by using magnetic stripe readers), minor savings would result. However, the projected saving of 2.3 personnel-years in annual staff would not start until 1993-94. Thus, strictly from a fiscal perspective, the proposal is costly with few offsetting savings.

The CHP Will Test New Cards. The new cards also would benefit law enforcement agencies and the courts by providing more direct access to driver information. In fact, the California Highway Patrol (CHP) plans to test this technology in a pilot program at truck weight scale locations during 1989-90. Officers would capture identification information from newly issued magnetic stripe commercial driver licenses using magnetic stripe readers in an attempt to determine if this method increases the accuracy of driver information recorded on the citation and offers time savings.

Project Raises a Policy Issue Concerning Security of Confidential Driver Information. The proposal will change the way driver information is stored and used, and therefore raises policy issues regarding the security and access of this information. Under the new system, photos and signatures would be stored digitally by the contractor at a non-DMV location. Additionally, when producing the renewal licenses, the contractor would have access to all of the driver's information at one time, including name, address, and digitized signature and photo. In both these instances there is potential for improper use of this information.

Whether this change in policy on the use and storage of confidential driver information is appropriate is a policy issue that the Legislature has to decide. Consequently, we make no recommendation on whether the new type of cards should be implemented.

A Demonstration Project Would Allow Evaluation of Costs and Benefits. If the Legislature determines that the DMV should proceed with implementation of the magnetic stripe cards, we recommend that the project be carried out initially as a demonstration project. This is because, in our view, the project's benefits should be more adequately evaluated relative to the increased cost of using the magnetic stripe cards.

For instance, one of the main benefits that the department cites is the card's usefulness to law enforcement agencies and the courts. However, according to the department, no other state currently uses the same type of magnetic stripe technology for driver licenses. Consequently, its usefulness to these entities has not yet been tested.

In our judgment, a demonstration project involving the issuance of the new cards to a select group of drivers—for example, commercial drivers—would allow the department to evaluate the program's costs and benefits. Such a demonstration project would enable the CHP to assess the card's usefulness to law enforcement agencies. Additionally, DMV could review the adequacy of its security precautions for confidential driver information as well as the impact of the use of these cards on its workload.

Accordingly, we recommend that, if the Legislature decides that the magnetic stripe cards be used for driver licenses, the following Budget Bill language be adopted directing that the project be conducted as a demonstration project.

> Provide that no more than $2.1 million of the funds appropriated in this item be available to the Department of Motor Vehicles to implement a magnetic stripe commercial driver license demonstration project. Any amount not needed for that purpose shall be reverted on June 30, 1990. In addition, the department shall submit a report to the Legislature by December 1, 1990 which evaluates the costs and benefits of the magnetic stripe cards. The report should include an evaluation of (1) the adequacy of the security of confidential driver

DEPARTMENT OF MOTOR VEHICLES—Continued

information, (2) the results of the CHP pilot project, and (3) the impact of the cards on the DMV's workload.

Need for New Field Offices Not Demonstrated

We recommend (1) a reduction of $424,000 requested for leasing new field offices in Corona, Redding and Sacramento and (2) the deletion of Budget Bill language which authorizes the DMV to enter into a lease with an option to purchase the three field offices because the department has not demonstrated their need. We further recommend that Budget Bill language which authorizes a lease for a field office in Escondido be transferred from the department's support budget (Item 2740-001-044) to its capital outlay budget (Item 2740-301-044). (Reduce Item 2740-001-044 by $424,000.)

The budget requests an additional $735,000 to lease new field offices in Corona, Redding, Sacramento and Escondido.

Corona, Redding and Sacramento Field Offices. The department plans to lease additional space for three field offices—Corona, Redding and Sacramento—and requests an increase of $424,000 to pay for the higher lease expenses of these facilities. The department also requests the authority to enter into a lease with option to purchase agreement for each of the facilities. Under each of the proposed agreements, exercise of the purchase option at the first possible date would result in a purchase price of over $2 million. Current law requires that departments must receive permission from the Legislature before entering into such agreements.

Our review indicates that the department has not substantiated the need for these facilities. In our view, before the Legislature is able to approve the leasing of these facilities, the proposed facilities ought to be justified on a program as well as cost basis. The following information for each facility would provide this justification: (1) a Program Planning Guide that identifies on a workload and program basis why the existing facilities are inadequate and substantiates the need for the proposed facility, (2) an economic analysis of a lease with purchase option financing versus capital outlay financing, and (3) the estimated lease and purchase costs of the facility and the basis of these estimates. The DMV, however, has not provided this information.

Consequently, we recommend deletion of the Budget Bill language for the three facilities from Item 2740-001-044, and a reduction of $424,000 from the department's budget.

Escondido Field Office. Our review shows that the request for this facility is warranted on a workload and program basis. Consequently, we recommend approval of $311,000 in lease expenses for this field office. We also recommend the approval of Budget Bill language to authorize the department to enter into a lease with a purchase option for a purchase price of over $2 million on the Escondido office. However, if the purchase option is subsequently exercised, purchase of the facility would be budgeted as a major capital acquisition. Consequently, we recommend that the Budget Bill language granting the department a lease-purchase authority be deleted from the department's support budget (Item 2740-001-044), and instead be inserted under the capital outlay appropriation item (Item 2740-301-044). This would be consistent with the Legislature's past practice.

Asbestos Abatement

We recommend a reduction of $640,000 and 1.9 personnel-years requested for asbestos abatement work based on recommendations regarding state asbestos abatement programs contained in our Perspectives and Issues. (Reduce Item 2740-001-044 by $640,000.)

The budget requests a total of $640,000 for asbestos abatement activities. Of this amount, $115,000 is for 1.9 personnel-years to (1) coordinate asbestos abatement projects and (2) develop monitoring and maintenance programs for asbestos in buildings. The remaining $525,000 is to contract for asbestos removal and abatement work.

Request for Personnel to Develop Maintenance Programs is Premature. Currently there are no statewide standards for the monitoring and maintenance of asbestos in state facilities. Consequently, we have no workload basis to evaluate whether the department's request for personnel to develop asbestos maintenance programs is warranted. In our *1989-90 Perspectives and Issues*, we indicate that statewide standards for monitoring and maintaining asbestos are needed to enable state agencies to plan and budget for these efforts. Accordingly, we recommend that the Legislature establish an asbestos abatement task force that would, among other things, recommend statewide standards to be applied in buildings. (Please see section on "State Asbestos Abatement Program.") Consistent with that recommendation, and because standards have not yet been adopted, we recommend deletion of funding for this staff function.

Potentially No Abatement Work Will be Needed. In our *Perspectives and Issues* discussion of the state asbestos abatement programs, we also 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 projects where demonstrated health risks are identified. The DMV has not identified any projects which exceed the 0.1 fibers per cubic centimeter standard, and therefore a project coordinator would not be needed. Consequently, we recommend a reduction of $640,000 for personnel and funding for asbestos abatement.

Prison Inmates to Prepare Documents for Microfilming

We make no recommendation on $275,000 requested from the Motor Vehicle Account to contract with Prison Industries Authority (PIA) to prepare documents for microfilming because it is a policy decision that should be made by the Legislature. We further recommend that, if the Legislature approves the concept of the project, the department report to the Legislature at budget hearings on the measures that it will take in its contract with PIA to ensure that vehicle owners' personal information is adequately protected while documents are handled by prison inmates.

The budget requests $275,000 in order to contract with Prison Industries Authority (PIA) to prepare 26 million vehicle registration documents for microfilming. Preparation involves removing staples, repairing (such as taping) documents and aligning them for microfilming. Documents include titles of vehicle ownership and supporting documents. The DMV staff would microfilm the documents in-house once they are readied. The department also indicates that it plans to extend and enlarge the PIA contract beyond 1989-90.

DEPARTMENT OF MOTOR VEHICLES—Continued

Our analysis shows that it would cost the department less to use prison inmates to prepare documents than using in-house staff, and the funding request to prepare the documents for microfilming is justified.

Proposal Raises Policy Issue. The proposal raises a policy issue regarding adequate protection of vehicle owners' personal information. The department indicates that it will assign a department investigator to review the PIA procedures before a final contract is prepared in order to ensure that access to vehicle registration documents is not abused. But our analysis shows that these procedures may not be adequate. For instance, the department suspended its mail sorting contract with PIA in January 1989 because questions were raised regarding adequate security of information on the mail documents.

We believe that the issue of adequate protection of vehicle owners' personal information is one of policy that the Legislature has to decide. Consequently, we make no recommendation on the proposed PIA contract.

In the event that the Legislature approves the concept of the project, we recommend that the department report to the Legislature at the time of budget hearings on the measures that it plans to take to ensure that vehicle owners' personal information is adequately protected while documents are handled by prison inmates.

Technical Budgeting Issue

We recommend a reduction of $234,000 from Item 2740-001-044 to correct for funds overbudgeted for lease expenses for various field offices because the effective date of approximately 18 leases is later than originally estimated.

DEPARTMENT OF MOTOR VEHICLES—REVERSION

Item 2740-495 to the Motor
Vehicle Account Budget p. BTH 117

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert to the unappropriated reserve of the Motor Vehicle Account (MVA), the unexpended balances remaining in appropriations made by Ch 673/87, Ch 881/87 and Ch 1509/88.

- Chapter 673 appropriated $38,770 from the MVA to the Department of Motor Vehicles in 1987-88 to establish a program to exempt specified vehicles used for the transportation of senior citizens and handicapped persons from the payment of weight fees. Currently, there is an unexpended balance of $19,000.
- Chapter 881 appropriated $47,837 from the MVA to the Department of Motor Vehicles in 1987-88 to establish an all-terrain vehicle safety program. Currently, there is an unexpended balance of $16,000.
- Chapter 1509 appropriated $5,407,000 from the MVA to the Department of Motor Vehicles in 1988-89 to pay the costs of implementing

the commercial drivers license program. An unexpended balance of $1,417,000 is anticipated to remain by June 30, 1989.

All of these appropriations were made effective for three years. However, the department informs us that, in general, a statutory appropriation is used to fund the first-year costs of a new program. Program costs in subsequent years are funded through an annual budget appropriation. As a result, the department will revert any unexpended balance of the initial appropriation after the first-year program costs have been determined.

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

Item 2780 from the Stephen P. Teale Data Center Revolving Fund — Budget p. BTH 124

Requested 1989-90	$82,265,000
Estimated 1988-89	69,743,000
Actual 1987-88	51,788,000
Requested increase (excluding amount for salary increases) $12,522,000 (+18 percent)	
Total recommended reduction	670,000

1989–90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
2780-001-683	Stephen P. Teale Data Center Revolving	$82,230,000
Reimbursements	—	35,000
Total		$82,265,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Space Expansion. Reduce Item 2780-001-683 by $670,000.*** Recommend reduction because the center has overbudgeted the amount needed to meet additional space needs. 267

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Data Center, one of the state's three consolidated data centers, provides centralized electronic data processing services to state agencies in order to minimize the total cost of data processing to the state. The costs of operating the center are reimbursed fully by approximately 165 client agencies.

The data center has 376.9 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests $82,265,000 for the expansion and operation of the data center in 1989-90. This consists of $82,230,000 from the Stephen P. Teale Data Center Revolving Fund and $35,000 in reimbursements. The

STEPHEN P. TEALE DATA CENTER—Continued

budget request represents an increase of $12,522,000 (18 percent) and 12.5 personnel-years over estimated current-year expenditures.

Table 1 summarizes the changes proposed in the data center's budget for 1989-90.

Table 1
Stephen P. Teale Data Center
Proposed 1989-90 Budget Changes
(dollars in thousands)

	TDC Revolving Fund	*Reimburse-ments*	*Total*
1988-89 Expenditures (Revised)	$69,708	$35	$69,743
Baseline Adjustments			
Delete one-time costs	−3,146	—	−3,146
Salary and benefits	832	—	832
Price increase	637	—	637
Pro rata increase	87	—	87
Subtotals, baseline adjustments	(−$1,590)	—	(−$1,590)
Workload Changes			
Equipment acquisition	12,201	—	12,201
Increased personnel	1,012	—	1,012
Additional leased space	1,150	—	1,150
Subtotals, workload changes	($14,363)	—	($14,363)
Program Change Proposals			
Adjust for new program changes started in current year	−1,665	—	−1,665
Statewide Connectivity Program	787	—	787
Geographic Information System	377	—	377
New facilities study	250	—	250
Subtotals, program changes	(−$251)	—	(−$251)
1989-90 Expenditures (Proposed)	$82,230	$35	$82,265
Change from 1988-89:			
Amount	$12,522	—	$12,522
Percent	18.0%	—	18.0%

ANALYSIS AND RECOMMENDATIONS

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

- Increases of $12.2 million for data processing equipment and $1 million for personnel to meet increased workload demands of Teale's client agencies.
- An additional $787,000 to continue the Statewide Connectivity Program, which installs an electronic network that allows different types of personal computers to communicate. This program was started in the current year under augmentation authority granted to the Director of Finance in the 1988 Budget Act.
- An increase of $377,000 to complete implementation of the Geographic Information System, a map-based data storage and manipulation system—another new program which was started in the current year under the augmentation provision in the 1988 Budget Act.

- A one-time increase of $250,000 to study the long-term facility needs of the data center.

Space Expansion Overbudgeted

We recommend a reduction of $670,000 from the Teale Data Center Revolving Fund because the amount budgeted to lease and modify additional space exceeds the amount needed based on more recent cost estimates.

The budget includes an increase of $1,150,000 to lease and modify additional space to accommodate continued growth in the data center's operations. This increase is in addition to a base level augmentation of $400,000 approved by the Department of Finance for the same purpose in the current year. Thus, a total of $1,550,000 would be available in the budget year to pay for additional leased space.

The total amount requested was based on preliminary estimates by data center staff of the amount of space needed and the unit costs associated with that space. Since that time, however, data center staff have refined the estimate of needed space and the Department of General Services has negotiated a rental rate below what was anticipated. Based on this new information, and allowing sufficient funds to pay for modifications and increased utilities, only $880,000 should be needed in the budget year to address the additional space needs. Accordingly, we recommend a reduction of $670,000 in the amount requested from the Teale Data Center Revolving Fund.

SEA GRANT PROGRAM

Item 3110-001 from the General Fund — Budget p. R 1

Requested 1989-90	$525,000
Estimated 1988-89	525,000
Actual 1987-88	520,000
Requested increase—None	
Recommend transfer of support from General Fund to Cigarette and Tobacco Products Surtax Fund	525,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***Program Support. Reduce Item 3110-001-001 by $525,000 and add new Item 3110-001-236 at $525,000.*** Recommend transfer of program support to Cigarette and Tobacco Products Surtax revenue because program goals generally are consistent with the requirements of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). Further recommend adoption of Budget Bill language requiring that funds be used in a manner consistent with Proposition 99. 268

GENERAL PROGRAM STATEMENT

The National Sea Grant College Program Act of 1966 authorizes federal grants to institutions of higher education and other agencies engaged in