# BUSINESS TRANSPORTATION AND HOUSING

## DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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

| | |
|---|---|
| Requested 1991-92 | $23,888,000 |
| Estimated 1990-91 | 24,011,000 |
| Actual 1989-90 | 22,811,000 |
| Requested decrease $123,000 (−0.5 percent) | |
| Total recommended reduction | None |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2100-001-001—Support | General | $23,052,000 |
| Reimbursements | — | 836,000 |
| Total | | $23,888,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Greater Interagency Coordination Needed. Recommend adoption of supplemental report language directing the Department of Alcoholic Beverage Control (ABC) to enter into a memorandum of understanding with the Department of Alcohol and Drug Programs (DADP) specifying (a) the ABC's role in the state's strategy to reduce alcohol-related problems, (b) projects the ABC could implement to address its role including joint projects with the DADP, and (c) estimated costs and potential funding sources for its projects. 189

### 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 396.9 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $23.9 million for support of the ABC in the budget year. This amount includes an appropriation of $23.1 million from the General Fund and $836,000 in reimbursements. The total amount provided for support of the ABC is $123,000, or 0.5 percent, below estimated current-year expenditures. This decrease is primarily due to an unallocated trigger-related reduction of $583,000. This reduction is included in the proposed budget for the department in lieu

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of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

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

**Table 1**
**Department of Alcoholic Beverage Control**
**Program Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | *Percent Change From* |
|---|---|---|---|---|---|---|---|
| | *Actual 1989-90* | *Est. 1990-91* | *Prop. 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Prop. 1991-92* | *1990-91* |
| Licensing | 193.1 | 192.1 | 190.3 | $12,580 | $13,268 | $13,528 | 2.0% |
| Compliance | 160.1 | 158.4 | 156.5 | 10,231 | 10,743 | 10,943 | 1.9 |
| Administration (distributed) | 46.7 | 46.4 | 46.2 | (2,400) | (2,685) | (2,734) | 1.8 |
| Unallocated reduction | — | — | — | — | — | −583 | —[a] |
| Totals | 399.9 | 396.9 | 393.0 | $22,811 | $24,011 | $23,888 | −0.5% |

[a] Not a meaningful figure.

## General Fund Revenues Projected to Remain Constant

The ABC is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various other 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**
**Department of Alcoholic Beverage Control**
**License Fees and Miscellaneous General Fund Revenues**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Actual 1989-90* | *Est. 1990-91* | *Prop. 1991-92* | *Percent Change From 1990-91* |
|---|---|---|---|---|
| Out-of-state beer certificates | $11 | $11 | $11 | — |
| Original license fees | 2,819 | 2,850 | 2,900 | 1.8% |
| Transfer fees | 4,272 | 4,300 | 4,325 | 0.6 |
| Special fees | 350 | 350 | 355 | 1.4 |
| Service charges | 146 | 150 | 155 | 3.3 |
| Annual fees | 18,800 | 18,825 | 18,830 | — |
| Offers in compromise | 2,351 | 2,500 | 2,500 | — |
| Ten percent surcharge on annual fees | 1,780 | 1,795 | 1,795 | — |
| Caterer's authorization, permits, and manager's certificates | 408 | 410 | 410 | — |
| Surcharge on annual fees for administrative hearings | 891 | 891 | 891 | — |
| Modification of conditions | 24 | 25 | 25 | — |
| Penalty assessments | 273 | 275 | 275 | — |
| Miscellaneous income | 5 | 5 | 5 | — |
| Sale of confiscated property | 6 | 6 | 6 | — |
| Sale of documents | 1 | 1 | 1 | — |
| Totals | $32,137 | $32,394 | $32,484 | 0.3% |

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 $32.5 million in 1991-92. This is an increase of $90,000, or 0.3 percent, over estimated current-year revenues. The increase primarily is attributable to the projected growth in the number of active licenses.

### Governor Proposes Increase in Alcohol Taxes

The Governor's Budget proposes raising excise taxes on alcoholic beverages in order to provide a new funding source for specified substance abuse treatment programs and for local health and mental health programs. The administration estimates that its proposal, which will require the enactment of legislation, will generate $190 million in 1991-92. We discuss the revenue implications of the administration's proposal in Part II, *The 1991-92 Budget: Perspectives and Issues.* We discuss the administration's proposed expenditure of the additional alcoholic beverage tax monies in our analyses of the Departments of Alcohol and Drug Programs (please see Item 4200), Health Services (Item 4260), and Mental Health (Item 4440).

## ANALYSIS AND RECOMMENDATIONS

### Greater Interagency Coordination Needed To Reduce Alcohol-Related Problems

***We recommend the adoption of supplemental report language directing the ABC to enter into a memorandum of understanding with the Department of Alcohol and Drug Programs (DADP) specifying (1) the ABC's role in the state's strategy to reduce alcohol-related problems, (2) projects the ABC could implement to address its role including joint projects with the DADP, and (3) estimated costs and potential funding sources for its projects.***

The DADP is the lead state agency in preventing alcohol-related problems. For several years, the DADP has been implementing a strategy that is based on controlling the availability of alcohol through community organization. The DADP has actively promoted the role of the ABC in this strategy by funding several projects which assist community organizations in working with their local ABC offices. For example, the DADP's *Manual for Community Planning to Prevent Problems of Alcohol Availability* includes one chapter titled "Working with the ABC" which outlines how communities can work with the ABC to prevent community-level problems associated with alcohol outlets. The DADP distributed this manual to all county alcohol program administrators to assist them in designing alcohol prevention programs for their counties. In the *1990-91 Budget: Perspectives and Issues*, we reviewed drug prevention programs and found the DADP's community organization approach to alcohol-related problems to be one of the most promising approaches in the field of prevention.

Although the DADP has been very active in promoting the ABC's role in preventing alcohol-related problems, our review found that the ABC

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued**

has done relatively little in this area. The DADP advises that in the last eight years the ABC has participated in only three of the DADP's projects aimed at preventing alcohol-related problems. In addition, the ABC designated no funding for any of these projects — all three were fully funded by the DADP.

***The ABC Should Have More Active Role.*** Given that the Alcoholic Beverage Control Act specifically states that one purpose of the act is "to promote temperance in the use and consumption of alcoholic beverages" and that the DADP has adopted a statewide prevention strategy which assumes the ABC is a major participant, our analysis indicates that the ABC needs to take a more formalized role in this strategy. We therefore recommend that the Legislature adopt supplemental report language directing the ABC to enter into a memorandum of understanding with the DADP specifying ABC's role in the state strategy to reduce alcohol-related problems.

The following language is consistent with this recommendation:

> The Department of Alcoholic Beverage Control (ABC) shall enter into a memorandum of understanding with the Department of Alcohol and Drug Programs (DADP) specifying (1) the ABC's role in the state's strategy to reduce alcohol-related problems, (2) projects the ABC could implement to address its role, including joint projects with the DADP, and (3) estimated costs and potential funding sources for its projects.

## ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

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

| | |
|---|---|
| Requested 1991-92 | $535,000 |
| Estimated 1990-91 | 536,000 |
| Actual 1989-90 | 457,000 |
| Requested decrease $1,000 (−0.2 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. The board has seven personnel-years in the current year.

### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The budget proposes an appropriation of $535,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1991-92. The amount is $1,000, or 0.2 percent, below estimated current-year expenditures. The proposed reduction primarily results from the elimination of one-time administrative costs incurred in the current year related to the change in board members receiving a salary rather than per diem payments. We believe that the board's proposal is reasonable. Consequently, we recommend that the request be approved.

## STATE BANKING DEPARTMENT

Item 2140 from various funds — Budget p. BTH 5

| | |
|---|---|
| Requested 1991-92 | $15,461,000 |
| Estimated 1990-91 | 16,067,000 |
| Actual 1989-90 | 14,467,000 |
| Requested decrease $606,000 (−3.8 percent) | |
| Total recommended reduction | None |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2140-001-136—Support | State Banking | $15,040,000 |
| 2140-001-240—Support | Local Agency Deposit Security | 262,000 |
| Reimbursements | — | 159,000 |
| Total | | $15,461,000 |

| SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS | *Analysis page* |
|---|---|
| 1. Liquidation Expenses. The department anticipates requesting a deficiency appropriation in 1991-92 to fund ongoing costs of liquidating a trust company. | 195 |

### 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

**STATE BANKING DEPARTMENT—Continued**

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 and has 196 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The department proposes total expenditures of $15.5 million in 1991-92, which is $606,000, or 3.8 percent, less than estimated current-year expenditures. To finance the proposed expenditures, the budget requests $15 million from the State Banking Fund and $262,000 from the Local Agency Deposit Security Fund. In addition, the department expects to collect $159,000 in reimbursements.

Table 1 shows the personnel and expenditures for the department in the past, current and budget years. Table 2 summarizes the budget changes proposed for 1991-92.

**Table 1**
**State Banking Department**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Licensing and supervision of banks and trust companies | 131.9 | 133.1 | 138.1 | $10,230 | $10,732 | $10,076 | −6.1% |
| Payment instruments | 5.9 | 9.0 | 9.0 | 371 | 499 | 484 | −3.0 |
| Certification of securities | 0.1 | 0.1 | 0.1 | 2 | 2 | 2 | — |
| Supervision of California Business and Industrial Development Corporations | 0.2 | 0.3 | 0.3 | 12 | 25 | 25 | — |
| Administration of local agency security | 5.4 | 6.0 | 6.0 | 203 | 209 | 208 | −0.5 |
| Departmental administration | 42.6 | 47.5 | 50.2 | 3,649 | 4,600 | 4,666 | 1.4 |
| Totals | 186.1 | 196.0 | 203.7 | $14,467 | $16,067 | $15,461 | −3.8% |
| Funding Sources | | | | | | | |
| *State Banking Fund* | | | | *$14,042* | *$15,646* | *$15,040* | *−3.9%* |
| *Local Agency Deposit Security Fund* | | | | *254* | *262* | *262* | — |
| *Reimbursements* | | | | *171* | *159* | *159* | — |

**Table 2**
**State Banking Department**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *State Banking Fund* | *Local Agency Deposit Security Fund* | *Reimbursements* | *All Funds* |
|---|---|---|---|---|
| 1990-91 Expenditures (Revised) | $15,646 | $262 | $159 | $16,067 |
| *Baseline Adjustments* | | | | |
| Salary increases | 480 | 14 | — | 494 |
| Reduced salary savings | 455 | 8 | — | 463 |
| PERS rate reduction | −150 | −4 | — | −154 |
| Increased facilities operations | 176 | — | — | 176 |
| One-time office automation | −514 | −18 | — | −532 |
| Deficiency appropriation | −1,288 | — | — | −1,288 |
| Subtotals, baseline adjustments | (−$841) | — | — | (−$841) |
| *Program and Workload Changes* | | | | |
| Training conference | 45 | — | — | 45 |
| Update of examination manual | 82 | — | — | 82 |
| Additional administrative staff | 108 | — | — | 108 |
| Subtotals, program and workload changes | ($235) | — | — | ($235) |
| 1991-92 Expenditures (Proposed) | $15,040 | $262 | $159 | $15,461 |
| Change from 1990-91 | | | | |
| Amount | −$606 | — | — | −$606 |
| Percent | −3.9% | — | — | −3.8% |

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

### Examination of Banks and Trust Companies

Current state law requires the department to examine its licensees — including mainly state-chartered banks and trust companies — as often as deemed necessary by the State Banking Superintendent, but at least once every two years. This is because timely and thorough financial examinations are essential for the State Banking Department to monitor the financial soundness of licensees.

In order to meet the statutory requirement, the department schedules about half of its licensees for examinations annually. Full financial examinations are conducted by teams of examiners who analyze and review licensees' management and financial documents and practices on location. Licensees are rated on a scale of 1 to 5 according to their capital adequacy, asset quality, management, earnings and liquidity conditions (referred to as the "CAMEL" rating). The highest rating is 1 and the lowest is 5. Between examinations, the department also monitors the financial and management health of licensees through in-house review of quarterly financial statements submitted by the licensees.

Institutions with a low rating of 4 or 5 are considered problem institutions and are monitored more closely and examined more frequently than once every two years. Follow-up examinations of these institutions may be either full or partial examinations in which only selected aspects of a licensee's operation — those identified as requiring

**STATE BANKING DEPARTMENT—Continued**

improvements — are examined. In the event of serious problems, the department has the authority to issue various regulatory orders and ultimately, take over a problem institution.

Table 3 shows the department's examination activities from 1986 through 1991.

**Table 3**
**State Banking Department**
**Financial Examinations of Licensees**
**1986 through 1991**

| Year | Number of Licensees[a] | Number of Examiners[b] | Full Examinations[c] Scheduled | Full Examinations[c] Completed | Follow-up Examinations[d] | Number of Problem Licensees[e] |
|---|---|---|---|---|---|---|
| 1986 | 412 | 103.3 | 230 | 239 | 10 | 47 |
| 1987 | 409 | 110.0 | 220 | 244 | 11 | 45 |
| 1988 | 398 | 113.7 | 214 | 230 | 16 | 22 |
| 1989 | 393 | 113.5 | 212 | 225 | 15 | 18 |
| 1990 | 398 | 116.0 | 215 | 213 | 12 | 16 |
| 1991 | 403 | 125.0 | 237 | n/a | n/a | n/a |

[a] Includes state-licensed banks, California branches of foreign banks, trust companies and business and industrial development corporations.
[b] Personnel-years of examiners as of beginning of each year.
[c] Includes statutorily required and follow-up full examinations.
[d] Includes partial examinations to follow up on problems discovered in statutory, full examinations.
[e] Includes licensees with low "CAMEL" ratings of 4 and 5.
n/a - not available

Table 3 shows that the department has consistently met its statutory examination requirement over the five-year period through 1990, examining about half of its total licensees annually. However, the department has completed fewer full examinations each year since 1987 even though the number of examiners available has increased and the number of licensees subject to examination has slightly declined.

According to the department, this is because it has devoted more staff resources for follow-up examinations in order to monitor the performance of problem licensees. This monitoring effort is one reason that the number of problem licensees has declined since 1987, as shown in Table 3.

***Additional Training of Examiners Proposed for 1991-92.*** In order that examiners can keep up with the technical and structural changes in the banking industry in recent years, the department also has provided laptop computers and updated analytical training for its examiners, including appraisal training for evaluating real estate and other investments made by licensees. In addition, it has added two examiners with investigative experience to assist in the review of licensees' management practices. For 1991-92, the department requests an increase of $127,000 to update its examination manual and provide additional departmentwide cross-training for its regulatory staff. Our review shows these requests to be warranted.

**Deficiency Appropriation Request Expected for Liquidation Expenses**

***We find that the department will likely request a deficiency appropriation in 1991-92 to fund the ongoing liquidation of a trust company.***

In May 1989, the department began liquidation of one of its licensed trust companies upon discovering that the licensee had depleted its operating capital after substantial losses in its student loan business. About 1,600 investors were at risk of losing approximately $30 million in trust funds.

As a liquidator, the department must settle various legal challenges, and continue to service existing loans made by the licensee in order to protect investors' principal. To carry out these responsibilities, the department requested and received to date two deficiency appropriations from the State Banking Fund: $1.6 million in 1989-90 and $1.2 million in the current year. Costs have been mainly for private counsel with trust expertise to represent the department in civil lawsuits. Private counsel is necessary because the department does not have the authority to represent itself in civil matters and the Attorney General could not provide the legal expertise needed.

The department anticipates the liquidation process to extend over a long period of time and expects liquidation-related expenditures to continue in 1991-92. However, the department cannot estimate the funds needed for these expenses until it evaluates the status of the pending lawsuits in the fall of 1991. The department indicates that at that time it will request a deficiency appropriation from the State Banking Fund. Depending on the amount of assets still available after the final dissolution of the trust company, the State Banking Fund would be reimbursed for the department's costs of the liquidation.

## DEPARTMENT OF CORPORATIONS

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

| | |
|---|---|
| Requested 1991-92 | $26,154,000 |
| Estimated 1990-91 | 24,485,000 |
| Actual 1989-90 | 24,317,000 |
| Requested increase $1,669,000 (+6.8 percent) | |
| Total recommended reduction | None |

**DEPARTMENT OF CORPORATIONS—Continued**

**1991–92 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2180-001-001—Support | General | $10,476,000 |
| 2180-001-323—Support | Commodity Merchant Account | 315,000 |
| Reimbursements | — | 15,363,000 |
| Total | | $26,154,000 |

## SUMMARY OF MAJOR FINDINGS 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. 199
2. Deficit Likely in Investment Program. Recommend enactment of legislation to increase assessments and fees authorized under the Investment program in order that fee revenues will fully cover costs of the program. 200
3. Regulation of Health Plans. Recommend enactment of legislation to limit the regulatory responsibilities of the Department of Corporations over the delivery of Medicare benefits in order to minimize duplicating federal regulatory responsibilities. 201
4. Examination Goals. Recommend that the Department of Corporations report to the Legislature prior to the budget hearings regarding how it proposes to meet specified goals for examining certain licensees and the potential impact on consumers, if these goals are not met. 202

## 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. Revenues generated by the program also are deposited in 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 390.1 personnel-years in the current year.

## MAJOR ISSUES

- ☑ Anticipated deficit in the Investment program will require General Fund subsidy. Program assessments and fees should be increased to make program self-supporting.
- ☑ Department of Corporations' oversight of the delivery of Medicare benefits duplicates and — at times conflicts with — federal regulatory responsibilities.
- ☑ Department of Corporations will not be able to meet examination goals for industrial loan companies and finance lenders.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $26.2 million in 1991-92, which is $1.7 million, or 6.8 percent, above the estimated total expenditures in the current year. Of the total expenditures, the budget requests that $10.5 million be funded from the General Fund and $15.4 million be reimbursed by various assessments and fees. In addition, $315,000 is proposed to be transferred from the Commodity Merchant Account in the General Fund to implement the California Commodities Law. The General Fund portion of the proposed budget also includes an unallocated trigger-related reduction of $212,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 shows the personnel and expenditures of the department for the past, current, and budget years. Table 2 summarizes the significant budget changes proposed for 1991-92.

## DEPARTMENT OF CORPORATIONS—Continued

### Table 1
### Department of Corporations
### Budget Summary
### 1989-90 through 1991-92
### (dollars in thousands)

| | Personnel-Years | | | Expenditures | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Investment | 158.5 | 157.0 | 163.8 | $10,364 | $9,965 | $10,632 | 6.7% |
| Lender-fiduciary | 126.7 | 144.8 | 153.1 | 8,301 | 9,279 | 9,951 | 7.2 |
| Health care service plan | 54.7 | 68.6 | 77.2 | 3,865 | 4,000 | 4,527 | 13.2 |
| Administration | 20.1 | 19.7 | 19.4 | 1,787 | 1,241 | 1,256 | 1.2 |
| Unallocated trigger reduction | — | — | — | — | — | −212 | — [a] |
| Totals | 360.0 | 390.1 | 413.5 | $24,317 | $24,485 | $26,154 | 6.8% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$10,163* | *$10,456* | *$10,476* | *0.2%* |
| *Reimbursements* | | | | *14,154* | *14,029* | *15,363* | *9.5* |
| *Commodity Merchant Account* | | | | — | — | *315* | — [a] |

[a] Not a meaningful figure.

### Table 2
### Department of Corporations
### Proposed 1991-92 Budget Changes
### (dollars in thousands)

| | *General Fund* | *Reimbursements* | *Total* |
|---|---|---|---|
| 1991-92 Expenditures (Revised) | $10,456 | $14,029 | $24,485 |
| *Baseline Adjustments* | | | |
| Salary increases | 232 | 273 | 505 |
| Reduced salary savings | — | 312 | 312 |
| Increased operating and equipment expenses | — | 120 | 120 |
| Unallocated reduction | −212 | — | −212 |
| Subtotals, baseline adjustments | ($20) | ($705) | ($725) |
| *Workload Changes* | | | |
| Additional examiners for brokers and credit unions | — | $384 | $384 |
| Additional legal staff for health plans | — | 137 | 137 |
| Funding medical consultants | — | 108 | 108 |
| Subtotals, workload changes | — | ($629) | ($629) |
| *Program Change* | | | |
| California Commodity Law | $315 [a] | — | $315 |
| 1991-92 Expenditures (Proposed) | $10,791 | $15,363 | $26,154 |
| Change from 1990-91: | | | |
| Amount | $335 | $1,334 | $1,669 |
| Percent | 3.2% | 9.5% | 6.8% |

[a] From the Commodity Merchant Account in the General Fund.

## ANALYSIS AND RECOMMENDATIONS

***We recommend approval*** of the department's proposed budget, including the following significant changes:

- ***Baseline adjustments*** of $725,000, consisting of salary increases, lower salary savings, increased operating expenses, and an unallocated reduction in General Fund expenses.
- ***Workload changes*** of $629,000, consisting of funds for additional staff to examine broker-dealers and credit unions more frequently and to process the increasing workload resulting from changes proposed by health plans.
- ***Program change*** of $315,000 to implement the California Commodities Law, enacted by Ch 969/90 (AB 4254, Johnston) to regulate commodity transactions and to prohibit fraudulent trading activities, such as "boiler-room" operations. Chapter 969 establishes the Commodity Merchant Account in the General Fund as a depository for assessments imposed on commodity traders in California. The budget-year costs for the support of 6.6 personnel-years of regulatory staff will be funded entirely from these assessments.

### Excessive Salary Savings Requirement Needs Explanation

***We recommend that, prior to 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 $1.3 million for the Department of Corporations in 1991-92. This amount equals 7.2 percent of budgeted salaries and wages and is $91,000 (or 7.3 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 1991-92 is significantly higher than the amounts realized in the past. The department's actual salary savings ranged between 2.7 percent to 4.6 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 regulatory activities.

Maintenance of regulatory activities is essential in order to protect consumers. Therefore, 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 it cannot meet the salary savings level through normal turnover and attrition. Specifically, the department should be prepared to inform the Legislature about (1)

**DEPARTMENT OF CORPORATIONS—Continued**

options (for example, not filling vacancies or filling them with lower-salaried employees) it has available to meet its budgeted salary savings requirement and (2) the impact of each of these options on the department's ability to fulfill its regulatory responsibilities.

**Investment Program Should be Self-Supporting**

***We recommend the enactment of legislation to increase the assessments and fees on the Investment program in order that program revenues will fully fund the costs of the program.***

The department's Investment program is responsible for regulating the sale of securities and for registering franchises in California. Costs of the program are financed from the General Fund. In turn, all revenue generated by the program from such sources as assessments and fees on licensed securities broker-dealers are deposited in the General Fund.

Table 3 shows program revenues and expenditures since 1987-88. In 1987-88 and 1988-89, program revenues exceeded program expenditures (as they had consistently done in the years prior to 1987-88), resulting in net revenues for the General Fund.

**Table 3**
**Department of Corporations**
**Investment Program**
**General Fund Revenues and Expenditures**
**1987-88 through 1991-92**
**(dollars in thousands)**

| | *1987-88* | *1988-89* | *1989-90* | *Est. 1990-91* | *Prop. 1991-92* |
|---|---|---|---|---|---|
| Revenues | $10,197 | $8,973 | $8,978 | $9,461 [a] | $10,522 |
| Expenditures | 8,921 | 8,770 | 10,163 | 10,452 | 10,471 |
| Surplus (Deficit) | 1,276 | 203 | (1,185) | (991) | 51 |

[a] Revised estimate by the department, based on total collections of $4.1 million through December 1990.

In 1989-90, however, revenues fell $1.2 million short of expenditures, and the program in effect required a General Fund subsidy. According to the department, the deficiency was primarily the result of increased enforcement costs for the program and costs associated with a fire in the department's Los Angeles office in March 1989.

***Deficiency Appropriation for Current Year Will Likely be Needed.*** Table 3 further shows that in the current year, program revenues again will fall short of expenditures by an estimated $1 million. According to the department, it collected about $4.1 million in fee revenues through December 1990. This amounts to only 40 percent of the $10.2 million the department initially was projected to collect during 1990-91. The department indicated that fee revenues have been lagging because of a reduction in the securities and franchising activities. As a result, the department now estimates a lower revenue collection of $9.5 million for 1990-91. If program expenditures remain at the level estimated for the current year, the department will face a deficiency of about $1 million in the Investment program for 1990-91 and will likely be requesting a General Fund deficiency appropriation.

***Revenues Projected for 1991-92 May Not Materialize.*** For 1991-92, the budget projects revenues to barely cover proposed expenditures, as shown in Table 3. However, if the current-year downturn in securities and franchise fee revenues continues in the budget year, it is unlikely that the department will be able to collect sufficient fee revenues to fully support a $10.5 million program in 1991-92. As a result, program expenditures will again exceed projected revenues resulting in a deficit, instead of the small surplus projected at the time the 1991-92 budget was prepared.

Because all other financial regulatory programs are *fully* supported by fees and assessments imposed on licensees and their activities, we find no analytical basis for applying a different standard to the regulation of securities brokers and franchisers. In order that the program is fully self-funding and to avoid a General Fund subsidy, the department can either reduce expenditures or raise fees, or do both. A reduction in expenditures would entail cutting back regulatory efforts and possibly not filling positions. This could adversely affect the department's ability to effectively administer and enforce this program. Alternatively, fees and assessments charged to licensees could be increased to raise additional revenues for the program. For instance, our review indicates that some fees levied in connection with the issuance and sale of certain types of securities have not been changed since 1968 and ought to be adjusted to reflect the higher cost of review and processing. Accordingly, we recommend that legislation be enacted to increase assessments and fees under the Investment program to generate sufficient revenues annually to make this program self-supporting in future years.

**Duplicative Regulatory Activities Should be Eliminated**

***We recommend enactment of legislation to limit the regulatory responsibilities of the Department of Corporations over the delivery of Medicare benefits by health plans in order to minimize duplication and conflict with federal regulatory responsibilities.***

***Background.*** Currently, health plans which provide Medicare benefits to Californians are regulated by both the federal and state governments. At the federal level, these health plans are regulated by the Health Care Financing Administration (HCFA) which contracts with them to provide Medicare benefits. The HCFA also monitors the delivery of these benefits for compliance with provisions of the contract and federal law regulating the program.

At the state level, the Department of Corporations (DOC) has general regulatory responsibility over the operation of all health plans licensed in California, including those which deliver Medicare benefits. The department reviews, compares, and monitors the types and extent of all health benefits (including Medicare) delivered by each health plan to Californians. It also monitors the financial and management viability of all health plans licensed and operating in California.

***Federal and State Duplication.*** Although the regulatory focus of the HCFA and the DOC differ, some of their oversight activities duplicate

**DEPARTMENT OF CORPORATIONS—Continued**

each other. Specifically, both agencies must review all marketing materials offered by plans before the materials can be sent to Medicare beneficiaries. Also, both review plan benefits.

The duplicative review of plan benefits may result in conflicting requirements imposed on a health plan. This is because the DOC review compares the Medicare benefits, approved by HCFA, to the prevailing health benefit standard in the community. This focus has sometimes led state regulators to require a health plan to provide additional Medicare benefits — beyond those required by HCFA — to subscribers so that the benefits match the higher prevailing standards in the community. In compliance with such requirements by the DOC, a health plan must either absorb the higher costs of the additional benefits or not provide the expanded benefits at all to its Medicare members. In the latter case, the package of health benefits available to Medicare patients from that health plan would be reduced.

*Legislative Remedy Needed.* In order to minimize duplication and conflict with federal regulatory oversight of the provision of Medicare benefits, we recommend the enactment of legislation which would (1) delete the requirement that the DOC review and approve marketing materials for Medicare benefits and (2) prevent state regulators from requiring expansion of benefits not provided by Medicare contracts.

Eliminating the department's review of marketing materials for Medicare benefits will reduce the DOC's overall workload for reviewing and approving changes proposed by health plans licensed in California.

### Meeting Examination Goals Needs Explanation

***We recommend that, prior to budget hearings, the Department of Corporations report to the Legislature on: (1) how it proposes to meet the specified goals for examining certain licensees under its jurisdiction and (2) the potential impact on consumers if these goals are not met.***

Current law requires the DOC to examine the financial condition of credit unions, industrial loan companies and health plans at specified frequencies. Federally insured credit unions and industrial loan companies (which includes most of them) must be examined annually. Health plans are required to be examined at least once every five years, but current DOC policy calls for a three-year examination cycle. For other groups of licensees, the department has adopted, by internal policy, various examination cycles.

Table 4 shows the examination cycle for various licensee groups and the percentage of the total number of licensees examined by the DOC from 1987-88 through 1989-90. The table shows that the department has met its examination goals only for health plans for all three years. Moreover, the department annually examined, on average, less than one-third of all industrial loan companies, and the examination rate of credit unions also fell short of that required by law. Similarly, the department was not able to examine its other licensees as frequently as it deems appropriate.

**Table 4**
**Department of Corporations**
**Percent of Licensees Examined**
**1987-88 through 1989-90**

| *Licensees* | *Examination Cycle* | *Percent of Licensees Examined* | | |
|---|---|---|---|---|
| | | *1987-88* | *1988-89* | *1989-90* |
| Credit Unions | Annual | 72% | 70% | 71% |
| Industrial loan companies | Annual | 24 | 27 | 38 |
| Health plans | Triennial | 32 | 33 | 42 |
| Escrow companies | Annual | 42 | 53 | 63 |
| Finance lenders | Biennial | 9 | 12 | 7 |
| Broker-dealers | Every 2-1/2 years | 14 | 29 | 31 |

The department indicates that as a result of additional examiners authorized in the current year, it will be able to examine all escrow licensees starting in 1990-91. For the budget year, the department is requesting six additional positions to examine credit unions annually as required by law and three examiners to meet the examination cycle for broker-dealers. Our review shows that these requests are warranted.

Our analysis, however, indicates that the department still will not be able to examine industrial loan companies on an annual cycle, and finance lenders once every two years. This is because the department is not proposing to increase the number of examiners assigned to these two programs.

Because these lending institutions handle substantial amounts of investors' funds and make significant sums of business and consumer loans, the department ought to monitor the activities of these licensees on a regular basis. Consequently, we recommend that, prior to budget hearings, the department report to the Legislature on: (1) how it proposes to meet the examination requirement and goal for industrial loan companies and finance lenders respectively and (2) the potential impact on consumers if these goals are not met.

## DEPARTMENT OF COMMERCE

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

| | |
|---|---|
| Requested 1991-92 | $41,905,000 |
| Estimated 1990-91 | 44,493,000 |
| Actual 1989-90 | 44,125,000 |
| Requested decrease $2,588,000 (−5.8 percent) | |
| Total recommended reduction | None |
| Recommended reversion of funds to the General Fund | 4,600,000 |

## DEPARTMENT OF COMMERCE—Continued
## 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2200-001-001—Support | General | $15,106,000 |
| 2200-001-147—Support | Unitary | 1,900,000 |
| 2200-001-440—Support | Petroleum Underground Storage Tank Financing Account | 150,000 |
| 2200-001-890—Support | Federal Trust | 102,000 |
| Statutory Appropriation—Support | Rural Economic Development | 142,000 |
| Statutory Appropriation—Support | Competitive Technology | 994,000 |
| Statutory Appropriation—Support | Hazardous Waste Reduction Loan Account | 130,000 |
| Statutory Appropriation—Support | Small Business Expansion | 125,000 |
| 2200-101-001—Local assistance | General | 7,171,000 |
| 2200-101-439—Local assistance | Underground Storage Tank Cleanup | 4,000,000 |
| 2200-101-890—Local assistance | Federal Trust | 3,931,000 |
| 2200-101-922—Local assistance | Economic Development Grant and Loan | 810,000 |
| Statutory Appropriation—Local assistance | General | 5,000,000 |
| Statutory Appropriation—Local assistance | Rural Economic Development | 1,050,000 |
| Statutory Appropriation—Local assistance | Competitive Technology | 6,580,000 |
| Statutory Appropriation—Local assistance | Petroleum Underground Storage Tank Financing Account | 1,727,000 |
| Statutory Appropriation—Local assistance | Hazardous Waste Reduction Loan Account | 940,000 |
| Statutory Appropriation—Local assistance | Federal Trust | 3,931,000 |
| Reimbursements | — | 904,000 |
| Less loan repayments | — | −2,277,000 |
| Total | | $41,905,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Small Business Development Center Expansion. Federal matching funds may be lost if department fails to respond adequately to federal audit findings. 207
2. Earthquake Loan Guarantees. Recommend Budget Bill language to revert unencumbered Disaster Relief funds to the General Fund, because funds are no longer necessary. (Increased General Fund resources of $4.6 million.) 208
3. Audits of Federal Funds. Recommend that the department report at budget hearings on the status of: (a) potential General Fund deficiencies of $2.1 million and (b) the department's plans to address internal control weaknesses. 209
4. Competitive Technology Program. Large allocations for support costs reduce program impact. 210

## GENERAL PROGRAM STATEMENT

The principal mission of the Department of Commerce (DOC) 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.
6. Promoting film-making 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 146.3 personnel-years in the current year.

## MAJOR ISSUES

- ☑ Small Business Development Center expansion threatened if federal matching funds are lost.
- ☑ Department may be required to return up to $2.1 million in federal grant and loan funds.
- ☑ Unused earthquake funds available for legislative priorities.

### OVERVIEW OF THE BUDGET REQUEST

Total expenditures of $41.9 million are proposed for support of the department in 1991-92. This is a decrease of $2.6 million, or 6 percent, below estimated current-year expenditures. The budget proposes appropriations of $22.3 million from the General Fund in 1991-92. This is $519,000, or 2 percent *less* than estimated General Fund expenditures in the current year.

The largest changes in the department's proposed budget include: (1) an additional $5 million to expand the Small Business Development Center program ($1 million from General Fund and $4 million from the Federal Trust Fund) and (2) an additional $4 million for continued funding of the Underground Storage Tank Replacement program pursuant to Ch 1366/90 (SB 2004, Keene). The department's proposed budget also receives support from the Economic Development Grant and Loan Fund ($810,000) and reimbursements ($904,000).

The Governor's Budget includes an unallocated trigger-related reduction of $609,000 in funding for the department. This reduction is included in the department's proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

**DEPARTMENT OF COMMERCE—Continued**

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 1991-92.

**Table 1**
**Department of Commerce**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Business development | 22.3 | 25.4 | 25.5 | $3,414 | $3,655 | $3,527 | −3.5% |
| California Film Commission | 7.4 | 8.3 | 8.3 | 778 | 839 | 827 | −1.4 |
| Competitive technology | 4.6 | 4.6 | 11.3 | 2,106 | 7,132 | 8,114 | 13.8 |
| Marketing and communications | 5.8 | 5.8 | 5.8 | 500 | 520 | 504 | −3.1 |
| Tourism | 12.0 | 12.0 | 12.0 | 6,474 | 8,011 | 8,174 | 2.0 |
| Local development | 15.8 | 17.9 | 18.7 | 19,146 | 12,765 | 6,504 | −49.0 |
| Small business | 17.2 | 20.5 | 21.7 | 10,902 | 10,640 | 14,013 | 31.7 |
| Economic research | 8.5 | 8.3 | 8.3 | 805 | 931 | 851 | −8.6 |
| Administration (distributed) | 32.6 | 33.5 | 34.7 | (2,387) | (2,926) | (2,749) | −6.0 |
| Unallocated reduction | — | — | — | — | — | −609 | —[a] |
| Totals | 126.2 | 136.3 | 146.3 | $44,125 | $44,493 | $41,905 | −5.8% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$28,411* | *$26,758* | *$27,277* | *1.9%* |
| *State Enterprise Loan Fund* | | | | *750* | — | — | — |
| *Rural Economic Development Fund* | | | | *13,950* | *1,044* | *562* | *−46.2* |
| *Unitary Fund* | | | | — | *3,925* | *1,900* | *−51.6* |
| *Underground Storage Tank Cleanup Fund* | | | | — | — | *4,000* | —[a] |
| *Main Street Fund* | | | | *56* | — | — | — |
| *California Competitive Technology Fund* | | | | *−5,775* | *−5* | *994* | —[a] |
| *Disaster Relief Fund* | | | | *1,000* | *2,553* | — | —[a] |
| *Special Account for Capital Outlay* | | | | *784* | — | — | — |
| *Petroleum Underground Storage Tank Financing Account* | | | | *220* | *5,164* | *1,539* | *−70.2* |
| *Hazardous Waste Reduction Loan Account* | | | | *1,955* | *495* | *792* | *160.0* |
| *Federal Trust Fund* | | | | *179* | *1,715* | *4,033* | *235.2* |
| *Small Business Expansion Fund* | | | | *−577* | *154* | *125* | *−18.8* |
| *Economic Development Grant and Loan Fund* | | | | *1,574* | *807* | *−221* | —[a] |
| *Reimbursements* | | | | *1,598* | *1,883* | *904* | *−52.0* |

[a] Not a meaningful figure.

**Table 2**
**Department of Commerce**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Federal Funds* | *Special Funds* | *Reimbursements* | *All Funds* |
|---|---|---|---|---|---|
| 1990-91 Expenditures (Revised) | $26,758 | $1,715 | $14,137 | $1,883 | $44,493 |
| *Baseline Adjustments:* | | | | | |
| Pier 45 improvements | — | — | −2,000 | — | −2,000 |
| Disaster relief grants | — | — | −2,762 | −245 | −3,007 |
| Federal grants | — | −1,705 | — | −781 | −2,486 |
| Supercomputer Center study | — | — | −25 | — | −25 |
| Hazardous Waste Program regulations | — | — | −80 | — | −80 |
| Loan repayments | — | — | −1,436 | — | −1,436 |
| Loans | — | — | −3,163 | −35 | −3,198 |
| Competitive Technology Program expansion | — | — | 475 | — | 475 |
| Competitive Technology Program technical assistance | — | — | −120 | — | −120 |
| Chaptered legislation | −34 | — | — | — | −34 |
| Employee compensation/benefits | 162 | — | 1 | 9 | 172 |
| Subtotals, baseline adjustments | ($128) | (−$1,705) | (−$9,110) | (−$1,052) | (−$11,739) |
| *Program Changes:* | | | | | |
| Competitive Technology Program support | — | — | 644 | — | 644 |
| Small Business Development Center expansion | 1,000 | 4,023 | — | — | 5,023 |
| Environmental engineer | — | — | — | 73 | 73 |
| Underground storage tank loans | — | — | 4,020 | — | 4,020 |
| Unallocated reduction | −609 | — | — | — | −609 |
| Subtotals, program changes | ($391) | ($4,023) | ($4,664) | ($73) | ($9,151) |
| 1991-92 Budget Request | $27,277 | $4,033 | $9,691 | $904 | $41,905 |
| Change from 1990-91: | | | | | |
| Amount | $519 | $2,318 | −$4,446 | −$979 | −$2,588 |
| Percent | 1.9% | 135.2% | −31.4% | −52.0% | −5.8% |

## ANALYSIS AND RECOMMENDATIONS

### Small Business Development Center Expansion Threatened

***The budget's proposed expansion of the Small Business Development Center program is threatened by the potential loss of federal Small Business Administration funds if the department fails to adequately respond to federal audit findings.***

The budget proposes an appropriation of $1 million from the General Fund for the expansion of the Small Business Development Center (SBDC) Program. This program, established in 1983, provides managerial and technical assistance to existing and potential businesses.

The program has been administered by the DOC, in conjunction with the Chancellor's Office for California Community Colleges (COCCC). The program currently includes 16 centers throughout the state.

The DOC and the COCCC recently entered into an initial Cooperative Agreement with the federal Small Business Administration (SBA) to fund and administer the SBDC program, in accordance with federal SBDC program guidelines and requirements. Under this proposal, the DOC was

**DEPARTMENT OF COMMERCE—Continued**

designated as the lead agency for all SBDCs. The initial Cooperative Agreement provides federal matching funds of $1.4 million in the current year and $4 million in the budget year to be used towards the development of five new SBDCs and increased support for 11 of the existing SBDCs. The department's existing expenditures for this program will be counted towards the SBA's matching fund requirements for the current year. The additional $1 million General Fund appropriation proposed in the budget will be used to meet the matching fund requirements for 1991-92.

Based upon recent audit findings, however, it appears that the receipt of SBA matching funds for 1991-92 is contingent upon the DOC's ability to overcome several program deficiencies by December 31, 1991 (the end of the first SBA funding period). The SBA notified the department of these deficiencies following its recent audits of the existing SBDCs. The deficiencies focus on the need to establish program milestones, proper oversight, and standardized recordkeeping procedures. In addition, the state must work to expand the areas of academic involvement in the program and adopt policies to ensure that the SBDC services do not compete with the private sector. If these deficiencies are not corrected by December 31, 1991, the SBA intends to cancel the state's allocation of funds for the program. If the SBA cancels the state's allocation, it will be forced to forgo the program expansion contemplated by the new Cooperative Agreement. According to the department, all deficiencies are expected to be corrected prior to this deadline.

**Unused Disaster Relief Funds Should Be Shaken Loose**

***We recommend the adoption of Budget Bill language to revert $4.6 million in unencumbered Disaster Relief funds to the General Fund, because the program has expired and the funds are uncommitted. (Add Budget Bill language and Item 2200-495.)***

Chapters 11 and 12, Statutes of 1989, First Extraordinary Session (SB 12x, Mello and AB 40x, Farr), authorized the Governor to allocate monies from the Special Fund for Economic Uncertainties (SFEU) to the DOC for loan guarantees to assist small businesses and agriculture-related enterprises suffering economic losses as a result of the Loma Prieta earthquake. Five million dollars was appropriated to the department for this purpose in 1989-90.

The disaster relief monies were transferred to private financial institutions (outside of the centralized State Treasury System), and used as collateral for earthquake relief loans made by these private financial institutions. The department contracted with nonprofit Regional Development Corporations to issue the loan guarantees. Overall, 46 loan guarantees were approved for a total guarantee amount of approximately $2.8 million.

Our review indicates that all applications received by the program deadline of September 1, 1990 have been funded. At this writing, outstanding guarantees total approximately $900,000. Based on information provided by the department, we estimate that by June 30, 1991, outstanding guarantees will have declined to approximately $400,000, and the earthquake guarantee fund balance will total approximately $5 million (including adjustments for interest earnings and loan defaults). Because the state's liability for earthquake loans is limited to the outstanding loan guarantees, only $400,000 is necessary to provide guarantees for outstanding loans in the budget year. Thus, as of June 30, 1991 there will be approximately $4.6 million of these funds remaining uncommitted.

Because existing law does not provide a mechanism to return these unused earthquake guarantee funds to the state, they will not be available for appropriation in 1991-92 unless the Legislature takes action to require that they be returned. In order that the Legislature have the opportunity to decide how those funds should be used, we recommend: (1) the adoption of Budget Bill language to require the Executive Director of the Office of Small Business, within the DOC, to transfer *all* unencumbered earthquake guarantee funds to the Small Business Expansion Fund, and (2) the addition of Item 2200-495, to revert these funds to the General Fund on or before June 30, 1991. These actions would result in a General Fund transfer of $4.6 million in 1990-91. The following language would be needed to accomplish the transfer:

Add to Item 2200-001-001:

(1) On or before June 30, 1991, the Executive Director of the Office of Small Business shall return all unencumbered earthquake loan guarantee funds authorized by Chapters 11 and 12, Statutes of 1989, First Extraordinary Session, to the Small Business Expansion Fund.

Add Item 2200-495:

2200-495—Reversion, Department of Commerce. As of June 30, 1991, the unencumbered balance of the appropriation provided in the following citation shall revert to the General Fund as follows:

(1) Chapters 11 and 12, Statutes of 1989, First Extraordinary Session — Small Business Expansion Fund.

**Federal Audits Reveal Internal Control Weaknesses**

***The department may be required to return up to $2.1 million in federal funds as a result of its failure to adequately document their expenditure. We recommend that the department report at budget hearings on the status of these potential deficiencies and its plans to address its internal control weaknesses.***

The federal Economic Development Administration (EDA) recently required the DOC to provide independent financial and compliance audits of federal grants for the Century Freeway program and the Sudden and Severe Economic Dislocation (SSED) program. The EDA also directed the department to reconstruct interest earnings and estimate fund balances for the California Innovative Development (CID) and SSED loan programs. The department contracted with the accounting firm of Deloitte and Touche in July of 1990 to provide these auditing services.

**DEPARTMENT OF COMMERCE—Continued**

***Inadequate documentation of federal grant expenditures could result in General Fund deficiencies of up to $1.1 million.*** The primary findings of the financial and compliance audit of EDA *grant* programs indicate that the department failed to comply with federal grant reporting and procedural requirements. According to the audit, this was the result of an inadequate grant financial management system. According to the results of the audit, *60 percent* ($1.1 million) of the department's federal grant expenditures failed to include sufficient documentation. These findings could result in serious financial consequences to the state. Specifically, the department could be required to refund up to *$1.1 million* to the EDA.

***Inadequate documentation of federal loan expenditures could result in additional General Fund deficiencies of up to $1 million.*** Other audit findings indicate that the department failed to provide the full state match required to obtain the federal loan funds, and to comply with loan documentation requirements. Serious internal control weaknesses were also evident. According to the audit, the impact of these particular findings could result in a potential refund to the EDA of *$500,000 to $1 million.*

***Inadequate internal control system results in unauthorized expenditures.*** Our review of the audits shows that *additional* audit exceptions were found that indicated *department-wide internal control deficiencies.* Specifically, the audit's findings indicated a lack of systematic administrative/accounting procedures. The audit also found that *federal grant funds were used to fund personal services contracts in violation of federal grant rules.*

***Improvements to administrative/accounting internal control procedures necessary.*** The audits made several recommendations to improve the department's administrative/accounting internal control procedures. The more important of these recommendations directed the department to conduct an organizational review and performance audit of the department, establish departmental cash management policies, cease using program funds to pay for personal services contracts, and to implement an internal audit function.

At this writing, the organizational review and performance audit of the department and the internal audit function had not yet been initiated. In order that the Legislature be kept up-to-date with the department's efforts to improve their internal control procedures, we recommend that the department report at budget hearings on the progress of the department's efforts to implement the recommendations of the audits. We also recommend that the department report on the status of the potential funding deficiencies.

**Competitive Technology Program's Support Costs on the Rise**

***The department's increasing expenditure of Competitive Technology Fund interest earnings for administrative costs reduces the amount of these funds that are available for program grants.***

The Competitive Technology Program was established in 1988 to provide grant funds to projects that transfer the results and knowledge of technology research to the private sector, and to enhance technology in industry through collaborative research. Eligibility to receive funds under this program is limited to public agencies and to not-for-profit and nonprofit organizations. The budget proposes that $8.1 million be provided for the Competitive Technology Program in the budget year, including a $6,580,000 General Fund appropriation for additional grants. The remaining $1.5 million, or *19 percent*, of total funding is proposed for the administrative costs of the program.

The program's $1.5 million support expenses are from the General Fund ($540,000) and the Competitive Technology Fund (CTF) ($994,000). The General Fund amount will provide support for five permanent positions. The $944,000 for support expenses from its statutory CTF appropriation is an increase of $524,000 over the current-year level of funding from this source. The expenditure of CTF interest earnings for program support expenses is authorized by Ch 1023/90 (AB 3073, Woodruff).

The department's practice of spending CTF interest earnings to fund support expenditures began in 1989-90. Specifically, the department expended interest earnings of $413,000 in 1989-90, although the legislation authorizing this practice was not enacted until September 1990. The department also is projected to spend $470,000 for CTF administrative costs in 1990-91. These expenditures were not identified in the 1990-91 Governor's Budget, so that they were not reviewed by the Legislature during the 1990 budget process.

Our review indicates that the large allocations of CTF interest earnings for support costs reduce the potential impact of the program, because these expenditures decrease the funds that would otherwise be available for Competitive Technology grants. Further, because existing law does not limit the amount of interest earnings that may be used for program support, the DOC could expend up to $1.1 million, or the *entire* amount of 1991-92 CTF interest earnings, for program support. Because the expenditure of interest earnings is not authorized in the Budget Bill, these expenditures are not subject to the same level of review as most other state expenditures.

As a result, it is not clear what level of support for this program is actually needed or appropriate. For example, the department indicates that the additional expenditures it has identified for 1991-92 will fund increased oversight of existing grant projects and increased "peer review" of new grant applications. The increased oversight was proposed to accommodate increased workload due to additional grants and "longer expected project completion times." No justification was provided for the increased peer review funding. In either case, the Legislature has no information as to what the department expects to be gained from the expenditure of additional funds.

## UNITARY FUND PROGRAMS

Item 2225 from the Unitary Fund — Budget p. BTH 31

| | |
|---|---|
| Requested 1991-92 | $2,000,000 |
| Estimated 1990-91 | 2,000,000 |
| Actual 1989-90 | 2,025,000 |
| Requested increase: None | |
| Total recommended reduction | None |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2225-001-147—For transfer to the General Fund | Unitary | ($15,600,000) |
| 2225-002-147—Support | Unitary | (3,500,000) |
| Statutory Appropriation | Unitary | 2,000,000 |
| Total | | $2,000,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Unitary Fund Revenues. The expenditure of Unitary Fund revenues creates a General Fund liability. 213

### GENERAL PROGRAM STATEMENT

The Unitary Fund was established by Ch 660/86 (SB 85, Alquist), to address state and local infrastructure financing needs. It is supported by the annual "election fees" paid by corporations who elect to have their income apportioned for state tax purposes on the basis of their domestic, as opposed to worldwide, business activities. This method of determining a corporation's state tax liability has become known as the "water's-edge method."

Election fee revenues deposited in the Unitary Fund are to be used exclusively for infrastructure financing and economic development. Chapter 660 established two accounts within the Unitary Fund for this purpose. Two-thirds of the Unitary Fund revenues are allocated to the Future Infrastructure State Targeted Account (FISTA) and the other one-third to the Local Project Account for Non-Transient Spending (LPANS).

Chapter 660 specified that the money in these accounts are to be appropriated by the Legislature for the specific purposes authorized in the law prior to their expenditure. Of the amount allocated to the FISTA, 80 percent is to be disbursed by the California Development Review Panel for capital improvement projects submitted by local agencies. The remaining 20 percent is to be allocated for various export programs and the California Small Business Bond Insurance Corporation. The measure does not specify uses or limitations on funds allocated to the LPANS account. Existing law also provides for an allocation of Unitary Fund revenues for the Supercomputer Center Account, which is used to support the San Diego Supercomputer Center.

## ANALYSIS AND RECOMMENDATIONS

### The Expenditure of Unitary Funds Creates General Fund Risk

Several lawsuits have been filed challenging the state's authority to impose the water's-edge election fee. In response to the requests of the plaintiffs in these cases, the courts have required that election fee revenues collected by the state be impounded until the litigation is resolved, in order that the monies be available for the payment of refunds should the plaintiffs prevail in their efforts to have the election fee invalidated. As of June 1990, these impounds totaled approximately $14 million.

In response to language contained in Ch 611/90 (SB 2177, Alquist), which specifies that election fee refunds may be paid from the General Fund, the State Controller has released all of the Unitary Fund revenues that have been impounded. As a result, the General Fund now bears the liability for refunds on all election fee payments.

A state appellate court recently found the state's worldwide combination method of taxation to be constitutionally invalid, as it applies to foreign-parent companies doing business in California *(Barclays' Bank v. Franchise Tax Board)*. While this ruling is being appealed by the state, a decision unfavorable to the state's position would have negative implications for both the election fee revenues and for state Bank and Corporation Tax revenues. Resolution of this litigation is not expected to occur prior to the 1992-93 fiscal year. However, an unfavorable decision may require the refund of all election fee revenues previously collected, regardless of whether or not they have already been expended by the state. As noted above, the General Fund now bears the liability for these refunds.

# DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 2240 from the General Fund and various funds — Budget p. BTH 33

| | |
|---|---|
| Requested 1991-92 | $340,805,000 |
| Estimated 1990-91 | 412,818,000 |
| Actual 1989-90 | 224,118,000 |
| Requested decrease $72,013,000 (−17.4 percent) | |
| Recommended reversion to the General Fund | 190,000 |
| Recommendations pending | 7,298,000 |

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

## 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2240-001-001—Support | General | $6,552,000 |
| 2240-001-245—Support | Mobilehome Park Revolving | 4,232,000 |
| 2240-001-415—Support | Manufactured Home License Fee Account | 2,183,000 |
| 2240-001-530—Support | Mobilehome Park Purchase | 389,000 |
| 2240-001-635—Support | Rural Predevelopment Loan | 228,000 |
| 2240-001-648—Support | Mobilehome-Manufactured Home Revolving | 12,551,000 |
| Health and Safety Code Section 50661.7—Support | California Disaster Housing Rehabilitation | 2,412,000 |
| Health and Safety Code Section 50882—Support | Family Housing Demonstration Account | (249,000) |
| Chs 30/88 and 48/88—Support | Home Building and Rehabilitation | 2,410,000 |
| Ch 27/88—Support | Earthquake Safety and Housing Rehabilitation Bond Account | 2,488,000 |
| 2240-001-813—Support | Self-Help Housing | 232,000 |
| Ch 1429/88—Support | Petroleum Violation Escrow Account | 177,000 |
| 2240-001-890—Support | Federal Trust | 1,796,000 |
| 2240-001-929—Support | Housing Rehabilitation Loan | 766,000 |
| Health and Safety Code Section 50661—Support | Housing Rehabilitation Loan | (2,556,000) |
| 2240-001-936—Support | Homeownership Assistance | 265,000 |
| 2240-001-938—Support | Rental Housing Construction | 794,000 |
| Health and Safety Code Section 50740—Support | Rental Housing Construction | (1,350,000) |
| 2240-001-980—Support | Urban Predevelopment Loan | 274,000 |
| 2240-001-985—Support | Emergency Housing and Assistance | 170,000 |
| Health and Safety Code Section 50800.5—Support | Emergency Housing and Assistance | (246,000) |
| Subtotal, support | | ($37,919,000) |
| 2240-101-001—Local assistance | General | $4,224,000 |
| 2240-102-001—Local assistance | General | 33,100,000 |
| 2240-103-001—Local assistance | General | 4,200,000 |
| Health and Safety Code Section 50782—Local assistance | Mobilehome Park Purchase | 2,472,000 |
| Health and Safety Code Section 50516—Local assistance | Rural Predevelopment Loan | 2,961,000 |
| Health and Safety Code Section 50661.7—Local assistance | California Disaster Housing Rehabilitation | (37,300,000) |
| Health and Safety Code Section 50882—Local assistance | Family Housing Demonstration Account | (8,500,000) |
| Chs 30/88 and 48/88—Local assistance | Homebuilding and Rehabilitation | 123,842,000 |
| Ch 27/88—Local assistance | Earthquake Safety and Housing Rehabilitation Bond Account | 43,500,000 |
| 2240-101-843—Local assistance | California Housing Trust | (3,000,000) |
| 2240-101-890—Local assistance | Federal Trust | 71,500,000 |
| Health and Safety Section 50517.5—Local assistance | Farmworker Housing Grant | 125,000 |
| Health and Safety Code Section 50661—Local assistance | Housing Rehabilitation Loan | 500,000 |
| Health and Safety Code Section 50778—Local assistance | Homeownership Assistance | 600,000 |

| | | |
|---|---|---|
| Health and Safety Code 50740—Local assistance | Rental Housing Construction | 2,410,000 |
| Government Code Section 16370—Local assistance | Special Deposit—Office of Migrant Services Account | 2,015,000 |
| Health and Safety Code Section 18070—Local assistance | Mobilehome Recovery | 300,000 |
| Health and Safety Code Section 50531—Local assistance | Urban Predevelopment Loan | 2,414,000 |
| Health and Safety Code Section 50800.5—Local assistance | Emergency Housing and Assistance | 2,000,000 |
| Subtotal, local assistance | | ($296,163,000) |
| Reimbursements | | $6,723,000 |
| Total Funding | | $340,805,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. California Disaster Assistance Program (CALDAP). Recommend that the department report at budget hearings on the amount needed to fund CALDAP loans in 1991-92. Withhold recommendation on $2.4 million and 50.5 positions requested for administration of the CALDAP pending receipt of workload data supporting the request. 219
2. Propositions 77, 84, and 107 Update. Recommend that the HCD submit a report to the Legislature, prior to budget hearings, on the department's progress in implementing the bond measures. 220
3. Propositions 77, 84, and 107 Budget. Withhold recommendation on $4.9 million and 90 positions to implement the bond programs, pending receipt of workload data. 222
4. Office of Migrant Services. Recommend the adoption of supplemental report language directing the department to develop and submit a plan to balance the ongoing costs and revenues of the program. 223
5. ***Technical Recommendations. Add Item 2240-495 to revert $190,000 to the General Fund and eliminate six positions.*** Recommend reversion because funds are no longer needed. Recommend elimination of positions to administer State Legalization Impact Assistance Grants (SLIAG), because the department will no longer receive SLIAG funds in 1991-92. 226

## 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.
- To identify and define problems in housing, and devise appropriate solutions to these problems.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

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 702.4 personnel-years in the current year.

## MAJOR ISSUES

- ☑ Estimate of need for disaster assistance continues to grow.
- ☑ Migrant farmworker housing program faces uncertain fiscal future.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $340.8 million from various sources, including federal funds and reimbursements, for the HCD in 1991-92. This is $72 million, or 17 percent, below estimated current-year expenditures. Excluding federal funds, expenditures in 1991-92 are budgeted at $267.5 million, which is $80.3 million, or 23 percent, below estimated current-year expenditures.

Table 1 presents a summary of departmental expenditures, by program and funding source, for the three-year period ending June 30, 1992. As indicated in the table, the department is supported by the General Fund (14 percent), special funds (62 percent), federal funds (22 percent), and reimbursements (2 percent).

**Table 1**
**Department of Housing and Community Development**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | Personnel-Years | | | Expenditures | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Codes and standards | 235.7 | 248.6 | 261.9 | $19,147 | $19,767 | $21,128 | 6.9% |
| Community affairs | 200.9 | 277.3 | 275.3 | 203,583 | 391,483 | 318,215 | −18.7 |
| Housing policy development | 22.8 | 25.5 | 28.3 | 1,388 | 1,568 | 1,798 | 14.7 |
| Administration | 138.1 | 151.0 | 153.9 | (7,845) | (10,599) | (10,869) | 2.5 |
| Unallocated reduction | — | — | — | — | — | −336 | —[a] |
| Totals | 597.5 | 702.4 | 719.4 | $224,118 | $412,818 | $340,805 | −17.4% |
| Funding Sources | | | | | | | |
| *General Fund*[b] | | | | *$22,688* | *$105,395* | *$48,076* | *−54.4%* |
| *Mobilehome Park Revolving Fund* | | | | *2,786* | *3,276* | *4,232* | *29.2* |
| *Manufactured Home License Fee Account* | | | | *1,949* | *2,188* | *2,183* | *−0.2* |

| | | | | |
|---|---|---|---|---|
| *Mobilehome Park Purchase Fund* | *5,913* | *6,430* | *2,861* | *−55.5* |
| *Rural Predevelopment Loan Fund* | *930* | *3,167* | *3,189* | *0.7* |
| *Mobilehome-Manufactured Home Revolving Fund* | *12,675* | *12,637* | *12,551* | *−0.7* |
| *California Disaster Housing Rehabilitation Fund* | *696* | *2,696* | *2,412* | *−61.3* |
| *Home Building and Rehabilitation Fund* | *88,848* | *136,976* | *126,252* | *−7.8* |
| *Earthquake Safety and Housing Rehabilitation Bond Account* | *31,786* | *47,466* | *45,988* | *−3.1* |
| *Self-Help Housing Fund* | *510* | *627* | *232* | *−63.0* |
| *Petroleum Violation Escrow Account* | *20* | *1,801* | *177* | *−90.2* |
| *California Housing Trust Fund*[c] | — | *(3,000)* | *(3,000)* | — |
| *State Legalization Impact Assistance Grant (SLIAG)* | *659* | *665* | — | *−100.0* |
| *Farmworker Housing Grant Fund* | *860* | *1,406* | *125* | *−91.1* |
| *Housing Rehabilitation Loan Fund* | *2,125* | *1,985* | *1,266* | *−36.2* |
| *Homeownership Assistance Fund* | *158* | *2,813* | *865* | *−69.2* |
| *Rental Housing Construction Fund* | *2,484* | *2,808* | *3,204* | *14.1* |
| *Special Deposit Fund—Office of Migrant Services Account* | *647* | *1,705* | *2,015* | *18.2* |
| *Mobilehome Recovery Fund* | *51* | *75* | *300* | *300.0* |
| *Urban Predevelopment Loan Fund* | *3,315* | *4,856* | *2,688* | *−44.6* |
| *Emergency Housing and Assistance Fund* | *157* | *2,447* | *2,170* | *−11.3* |
| *Reimbursements* | *5,173* | *6,427* | *6,723* | *4.6* |
| *Subtotals, State Funds* | *($184,430)* | *($347,846)* | *($267,509)* | *−23.1%* |
| *Federal Trust Fund* | *$39,688* | *$64,972* | *$73,296* | *12.8%* |
| *Totals, All Funds* | *$224,118* | *$412,818* | *$340,805* | *−17.4%* |

[a] Not a meaningful figure.

[b] For accounting purposes, the Governor's Budget includes in the General Fund expenditure total for 1989-90 $62.4 million transferred from the General Fund for disaster assistance. The $62.4 million will actually be expended in the current year, and is included in this table in the General Fund expenditure total for 1990-91.

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

The department anticipates receiving approximately $73.3 million in federal funds in the budget year. Of this amount, $33.8 million, or 46 percent, is for the Small Cities portion of the federal Community Development Block Grant (CDBG) Program.

**Proposed Budget-Year Changes**

Table 2 summarizes the major changes in the department's proposed budget for 1991-92. The most significant adjustments proposed by the budget, which are not discussed elsewhere in this analysis, are as follows:

- An increase of $8.3 million in federal funds.
- A decrease of $3.6 million in the amount provided to assist mobilehome park residents in purchasing mobilehome parks. This decrease primarily reflects the current-year expenditure of surplus funds in the Mobilehome Park Assistance Fund.
- A decrease of $1.3 million in the amount provided to construct or rehabilitate housing for farmworkers through the Farmworker Housing Grant (FWHG) program. This decrease primarily reflects the proposed elimination of new funds for the FWHG program in 1991-92. The FWHG fund received $1 million from the California Housing Trust Fund in the current year.
- An increase of $863,000 and 12 positions to conduct maintenance inspections of mobilehome parks as required by Ch 1175/90 (AB 925, O'Connell). These costs will be offset by an increase in the annual fees paid by mobilehome park operators.

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

**Table 2**
**Department of Housing and Community Development**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *General* | *Special* | *Federal* | *Reimburse-ments* | *Total* |
|---|---|---|---|---|---|
| 1990-91 Expenditures (revised) [a] | $105,395 | $236,024 | $64,972 | $6,427 | $412,818 |
| *Baseline Adjustments* | | | | | |
| Unallocated reduction | ($336) | — | — | — | ($336) |
| Employee compensation | 164 | 495 | 34 | 105 | 798 |
| Data wiring costs | — | 92 | 5 | 1 | 98 |
| Decreased pro rata | — | (354) | (3) | — | (357) |
| Earthquake assistance funded in special session legislation and deficiency request | (94,569) | — | — | — | (94,569) |
| One-time equipment purchases | — | (704) | (6) | — | (710) |
| Other miscellaneous adjustments | — | (68) | — | 63 | (5) |
| Subtotals, baseline adjustments | ($94,741) | ($539) | $30 | $169 | ($95,081) |
| *Changes in Amount of Local Assistance Provided* | | | | | |
| Proposition 77 loans and grants | — | ($1,406) | — | — | ($1,406) |
| Propositions 84 and 107 loans and grants | — | (10,550) | — | — | (10,550) |
| California Disaster Assistance program budget request | $37,300 | — | — | — | 37,300 |
| State Legalization Impact Assistance Grants (SLIAG) | — | (600) | — | — | (600) |
| Mobilehome Park Purchase Assistance Program | — | (3,580) | — | — | (3,580) |
| Farmworker Housing Grant Program | — | (1,281) | — | — | (1,281) |
| Federal programs | — | — | $8,300 | — | 8,300 |
| All other programs | — | (6,186) | — | — | (6,186) |
| Subtotals, changes in local assistance | $37,300 | ($23,603) | $8,300 | — | $21,997 |
| *Workload Changes* | | | | | |
| Staffing for mobilehome park inspections | — | $863 | — | — | $863 |
| Employee housing inspections | — | — | — | $144 | 144 |
| Housing element review | $150 | 38 | — | — | 188 |
| Workload reporting system implementation | — | 62 | — | — | 62 |
| Elimination of SLIAG funding | — | (65) | — | — | (65) |
| Administration | (28) | (70) | ($6) | (17) | (121) |
| Subtotals, workload changes | $122 | $828 | ($6) | $127 | $1,071 |
| 1991-92 Expenditures (proposed) | $48,076 | $212,710 | $73,296 | $6,723 | $340,805 |
| Change from 1990-91 | | | | | |
| Amount | ($57,319) | ($23,314) | $8,324 | $296 | ($72,013) |
| Percent | −54.4% | −9.9% | 12.8% | 4.6% | −17.4% |

[a] Amount shown for the General Fund includes $62.4 million transferred from the General Fund to a special fund for disaster assistance in 1989-90. Actual expenditure of the funds will occur in the current year.

In addition, the Governor's Budget includes an unallocated trigger-related reduction of $336,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

## ANALYSIS AND RECOMMENDATIONS

### California Disaster Assistance Program

***We recommend that the department report at budget hearings on the amount needed to fund the California Disaster Assistance Program in 1991-92.***

***We withhold recommendation on $2.4 million and 50.5 positions requested for administration of disaster assistance pending receipt of workload data supporting the request.***

The budget requests $37.3 million from the General Fund to assist victims of the Loma Prieta earthquake ($33.1 million) and other natural disasters ($4.2 million) through the California Disaster Assistance Program (CALDAP). The CALDAP provides low-interest deferred payment loans to homeowners and owners of rental housing whose property has been damaged by a natural disaster. The budget request is in addition to $64 million appropriated for the program in Ch 4x/89 and Ch 6x/89 (SB 3x, Marks and SB 4x, Leroy Greene) and $32.2 million proposed to be funded in the current year through a deficiency authorization.

According to the Department of Finance (DOF), the General Fund will be reimbursed for the earthquake-related portion of these expenditures from the Disaster Relief Fund (DRF), which receives its revenues from the quarter-cent sales tax increase established by Ch 13x/89 and Ch 14x/89 (AB 48x, Areias and SB 33x, Mello). However, the DOF's December estimate of the total amount that will be spent by the state in response to the Loma Prieta earthquake exceeds its estimate of DRF revenues by $176.4 million.

In addition to the $37.3 million requested in the budget for local assistance, the department plans to spend $2.4 million from the California Disaster Housing Rehabilitation Fund to support administration of the program in 1991-92. Monies in this fund are continuously appropriated to the department. The $2.4 million will support 50.5 positions that were established in the 1990 Budget Act. These positions were established on a two-year limited-term basis.

***Estimate of Need Continues to Grow.*** According to the department, the $37.3 million requested in the budget is based on the applications for the CALDAP loans submitted as of November 30, 1990. As of mid-January 1991, the number of applications had increased. At that time, the department estimated that it may need up to $47.3 million in the budget year to fund all eligible applications. The department expects its estimate of the amount needed in the budget year for the CALDAP loans to continue to grow as additional applications are received.

***Legislative Concerns Regarding Program Administration Still Unanswered.*** During last year's budget process, the HCD was unable to provide the Legislature with meaningful workload information to justify establishment of the 50.5 positions it was requesting to administer the

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

CALDAP. Because it did not want to impede the provision of disaster assistance, the Legislature approved the positions, with the understanding that the department would have better workload data to support the positions in 1991-92 due to a workload study the department is undertaking in the current year.

In order to have the opportunity to revisit the staffing of the CALDAP when better information became available, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* requiring the HCD to provide, by January 1, 1991, various information related to the workload associated with administration of the CALDAP and an estimate of the number and type of positions that would be needed to administer the program in 1991-92.

Because the department's implementation of the workload study was delayed, it had not collected sufficient workload data to comply with the January 1 deadline contained in the supplemental report language.

***Recommendation.*** Because the $37.3 million requested in the budget for the CALDAP loans no longer reflects the department's estimate of the amount that will be needed in 1991-92, we recommend that the department report at budget hearings and provide an updated estimate based on the number of applications submitted at that time.

The department has advised us that it will have workload data on the CALDAP administration by March 1991. Therefore, we withhold recommendation on $2.4 million and 50.5 positions requested to administer the CALDAP pending receipt of that information.

**Propositions 77, 84, and 107 — Update and Budget Request**

***We recommend that the HCD report to the Legislature, prior to budget hearings, on the department's progress in implementing the bond measures. The report should outline statutory, regulatory, funding, or other changes needed to ensure full implementation of each of the programs.***

**Background**

Over the last three years, the Legislature has enacted and the voters approved three general obligation bond measures to fund affordable housing programs: the California Earthquake Safety and Housing Rehabilitation Bond Act of 1988 (Proposition 77), the Housing and Homeless Bond Act of 1988 (Proposition 84), and the Housing and Homeless Bond Act of 1990 (Proposition 107). In this section, we discuss the department's (1) progress in making loans and grants under the various housing programs and (2) budget proposal for implementation of the housing programs.

**Progress in Making Loans and Grants**

As Table 3 indicates, at the time this *Analysis* was prepared, $262.2 million or 62 percent of Propositions 77 and 84 funds were committed to specific housing developments. In addition, the department indicates that it expects to commit a substantial portion of Proposition 107 funds (approved by the voters in June 1990) in the budget year. This level of loan and grant activity represents a significant and commendable effort by the department — just one year ago, less than 4 percent of Propositions 77 and 84 bond funds were committed.

**Table 3**
**Department of Housing and Community Development**
**Propositions 77, 84, and 107 Bond Programs**
**Loans and Grants Awarded by December 31, 1990**
**(in millions)**

| | *Bond Authorizations* | | | | *Loan/Grant* |
|---|---|---|---|---|---|
| *Program/Purpose* | *Prop. 77* | *Prop. 84* | *Prop. 107* | *Total Authorized* | *Awards To Date* |
| *California Housing Rehabilitation Program* | | | | | |
| Seismic and health and safety rehabilitation of multifamily housing.......... | $37 [a] | — | — | $37 | $7.3 |
| Health and safety rehabilitation of multifamily and owner-occupied housing. | 113 [a] | — | — | 113 | 68.4 |
| Acquisition and rehabilitation of residential hotels.......................... | — | $25 | $15 | 40 | 21.2 |
| *Rental Housing Construction Program* | | | | | |
| Construction of multifamily housing.... | — | 200 | 100 | 300 | 145.1 |
| *Emergency Shelter Program* | | | | | |
| Construction and rehabilitation of emergency shelters.................... | — | 25 | 10 | 35 | 20.2 |
| *Family Housing Demonstration Project* | | | | | |
| Construction of family housing.......... | — | 15 | — | 15 | — |
| *Office of Migrant Services* | | | | | |
| Construction and rehabilitation of migrant farmworker centers............ | — | 10 | — | 10 | — |
| Totals................................. | $150 | $275 | $125 | $550 | $262.2 |

[a] Proposition 77 authorized a total of $150 million for the CHRP program. Of this amount, $80 million was to be used for seismic renovation of multifamily structures and $70 million for health and safety rehabilitation of multifamily and owner-occupied housing. Because the HCD received few applications for seismic renovation funds, the Director of HCD *transferred* $43 million of the funds for seismic renovation to the funds for health and safety rehabilitation. (Proposition 77 authorizes such transfers once every two years.) Table 3 shows the *revised* amounts available for seismic and health and safety rehabilitation.

Our review of the HCD's loan and grant activity indicates, however, that the department's success in implementing the various housing programs has been uneven. As Table 3 shows, no funds have been committed under two of the five bond programs — the Family Housing Demonstration Program (FHDP) and the Office of Migrant Services (OMS). While the department explains that the delays associated with the innovative FHDP have been addressed and that the program will be granting loans shortly, the problems associated with the OMS program may be more difficult to remedy. (We discuss the problems related to the OMS bond program more fully in the section below on migrant farmworkers.)

Table 3 also shows that the department is experiencing significant difficulties administering the California Housing Rehabilitation Program's (CHRP) seismic reinforcement component. Of the $150 million

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

Proposition 77 authorized for the CHRP, $80 million was to be used to reinforce masonry on multifamily structures against damage from earthquakes and $70 million was to be used for general health and safety rehabilitation of multifamily and single-family residences. The department informs us that it received few requests for funds for seismic renovation and, therefore, transferred $43 million of the funds for seismic improvements to the funds for general health and safety renovation. Even with this substantial reduction in program size, however, the department still has committed less than 20 percent of the funds available for seismic improvement purposes. Finally, the department indicates that it *does not* anticipate significant demand for funds for seismic rehabilitation in the budget year.

*Recommendation.* In order for the Legislature to have oversight over Propositions 77, 84, and 107 bond program administration, particularly the three programs which have experienced delays or other difficulties, we recommend that the HCD report to the legislative fiscal committees prior to budget hearings. This report should (1) indicate the dollar amount of loans and grants made for each of the bond programs and (2) identify any statutory, regulatory, fiscal, or other changes needed to ensure full implementation of each of the housing programs.

**Insufficient Information on Budget Proposal**

*We withhold recommendation on $4.9 million and 90 positions to implement the bond programs, pending receipt of data from an ongoing workload study.*

The budget proposes $4.9 million and 90 positions to administer the bond programs in 1991-92. As in the past three years, the budget proposes to charge all costs of administering the housing bond programs to the bond funds. Thus, the Legislature faces a direct trade-off between funds spent for program administration and funds spent building and rehabilitating housing.

Last year, in response to concerns from both the Legislature and the administration that the HCD (1) was spending a substantial portion of bond funds for program administration and (2) lacked basic workload data to justify its large number of bond implementation staff, the department agreed to undertake a major workload study. The HCD agreed to provide our office with preliminary workload data by the time this *Analysis* was prepared. The HCD advises, however, that the workload study was delayed, and the data necessary to review its budget request will not be available until early spring.

*Recommendation.* Without basic workload information, we are unable to review the department's budget proposal. Accordingly, we withhold recommendation on the $4.9 million and 90 positions proposed for implementation of the bond programs.

**Migrant Farmworker Housing Program Faces Uncertain Fiscal Future**

***We recommend the adoption of supplemental report language directing the department to develop a plan to balance the ongoing costs and revenues of the Office of Migrant Services Program.***

***Office of Migrant Services.*** Through the department's Office of Migrant Services (OMS), the state owns 25 migrant farmworker family housing centers, and contracts with local housing authorities for the operation of these and one locally owned center. These 26 centers provide a total of 2,148 housing units, as well as day-care and laundry facilities to migrant farmworker families during the six-month period when most of the state's crops are harvested — generally mid-spring to early fall.

During the last five years, the department reports that demand for the units has increased. In 1985, local housing authorities turned away 438 farmworker families because the centers were full. In 1990, 1,027 families were turned away for that reason. Although an additional 100 units will be available in 1991 due to the construction of an additional center in Riverside County, the department estimates that the number of families turned away will increase to 1,120 in 1991.

At the same time that demand for the OMS units is increasing, some older units will be lost during the next several years as they continue to deteriorate. During the last five years, about 250 old, dilapidated units have been removed from the OMS stock. According to the department, most of the OMS centers were constructed as temporary housing — intended to last a period of five years. Of the 26 centers currently operating, 17 were built between 1965 and 1975 using single-wall — rather than frame — construction. An additional four centers contain some units constructed in this fashion. Although the department has managed to provide these units for significantly longer than the original five-year period, many of these older centers are becoming increasingly run-down and expensive to maintain.

***No Takers for $10 Million in Bond Funds.*** In order to provide additional housing for migrant farmworker families, the Legislature included $10 million for the OMS in the Housing and Homeless Bond Act put before and approved by the voters in November 1988. These bond funds may only be used for the development of new migrant housing units or the reconstruction of old, dilapidated units. The department issued a notice of funding availability (NOFA) for these funds in March of 1990. As of mid-January 1991, no applications had been submitted for the funds.

According to the department, local government and nonprofit entities have been reluctant to apply for bond funds for several reasons. The department believes that two primary factors have been: (1) the requirement that the applicant provide a 75-percent match and (2) the department's inability to commit to providing funds for center operations.

The department has eliminated the 75-percent match requirement and plans to issue a new request for proposal for the bond funds during

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

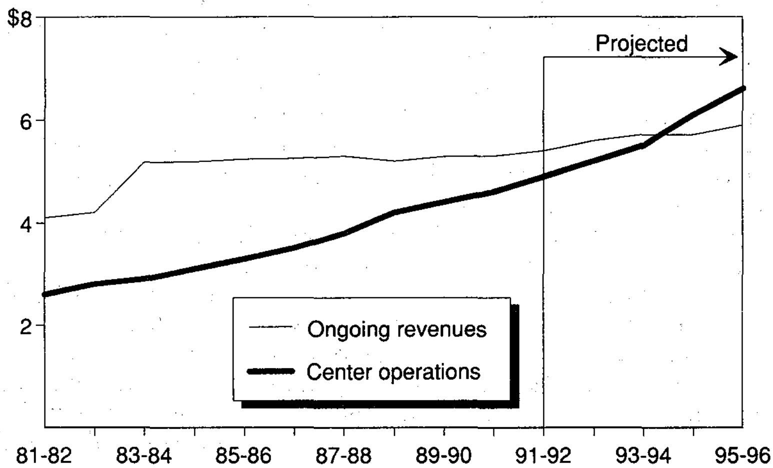
February of 1991. Based on discussions with local housing authorities, the department anticipates that this change may result in applications to reconstruct existing centers, because existing centers already have a commitment of operating funds from the state. However, the department believes that local and nonprofit agencies will remain reluctant to apply for bond funds to develop new centers without a commitment from the department that it will provide funds for center operations. The department currently lacks the resources to commit to providing operating funds to new centers.

***Need to Balance Ongoing Costs and Revenues.*** The OMS has two sources of ongoing revenue: (1) rents paid by migrant farmworker families of between $3.25 and $6.50 per day and (2) $4.2 million from the General Fund as part of the department's baseline budget.

**Chart 1**

**Annual Cost of Operating Migrant Housing Centers Will Surpass Ongoing Revenues**

**1981-82 through 1995-96 (in millions)**




As shown in Chart 1, the amount available each year from rents and the General Fund has increased at a slower rate than the amount needed to operate the OMS centers. As a result, the gap that previously existed between the program's ongoing revenue sources and the cost simply of operating centers has narrowed considerably. Whereas a portion of ongoing revenues was previously used to fund the costs of repairing and rehabilitating existing units, reconstructing old centers and constructing new centers, ongoing revenues must now be spent almost entirely to support center operations.

Without an increase in projected revenues or a decrease in projected operating costs, the amount needed to operate centers will exceed ongoing revenues by 1994-95.

The combination of an aging stock and a decline in the availability of ongoing revenues to fund repair and rehabilitation needs, has resulted in the deferral of an increasing amount of repair requests. Requests from local housing authorities for funds to repair and rehabilitate units will rise from $1.8 million in 1985-86 to an estimated $4.2 million during 1991-92. Despite the infusion of $500,000 from the California Housing Trust Fund (CHTF) in 1990-91 and a budget request for $1 million from the CHTF for 1991-92, the amount of unfunded requests will grow from $1.2 million in 1988-89 to approximately $2.8 million in 1991-92.

Based on projections of repair and rehabilitation needs provided by the department, even if the CHTF continues to provide $1 million annually to repair and rehabilitate the OMS centers, we estimate that the backlog of repair requests will grow from $2.6 million in 1991-92 to $6.1 million in 1995-96. Without the CHTF monies, the backlog will grow to over $10 million by 1995-96.

***State Funding Constraints Indicate Need for Creative Response.*** Although the General Fund is an obvious potential source of additional ongoing revenue for the OMS, it is oversubscribed in both the current and budget years. Moveover, absent major structural budgetary reforms, the General Fund will continue to lack the resources and flexibility needed to meet even its existing constitutional and statutory commitments.

The CHTF is another potential funding source, however, it is not a reliable source of additional ongoing revenue, due to the uncertain nature of its annual funding level. This uncertainty rests in the volatility of tidelands oil revenue, which provides funds for the CHTF, and the intense competition among other state programs for these funds.

These constraints on the program's traditional state funding sources indicate a need to look at new revenue sources and potential cost-saving measures in providing for the long-term operation of the program.

***Recommendation.*** As a first step in resolving the program's need to balance ongoing costs and revenues, we recommend that the Legislature direct the department to develop and submit a plan for addressing the problem. This plan should address ongoing costs and revenues in three areas: (1) operating costs for new bond-funded centers, (2) the growing backlog of deferred repair and rehabilitation needs, and (3) long-term operation of existing centers.

In developing its plan, the department should evaluate a wide range of options, including cost-cutting measures, shifting a greater share of the costs of providing migrant farmworker housing to employers, charging rent based on income, charging for all or a portion of utility costs, instituting a flat rent increase, and tapping new local, federal, or private

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

funding sources. The department's evaluation of any option that would increase the amount paid by tenants should include a discussion of its effect on the affordability of the units to migrant farmworker families.

In submitting its plan to the Legislature, the department should include a description of any required statutory or regulatory changes and a timetable for implementation of its proposal.

The following supplemental report language will implement our recommendation:

The department shall develop a plan for addressing the projected imbalance between costs and revenues in the migrant farmworker housing program, including (1) operation of new centers developed using bond funds, (2) outstanding and ongoing repair and rehabilitation needs, and (3) long-term operation of migrant farmworker housing centers. In developing its plan, the department should evaluate a wide range of cost-control and revenue options. The department shall submit its plan to the legislative fiscal and housing policy committees by November 1, 1991, including a description of any required statutory or regulatory changes and a timetable for implementation.

### Technical Recommendations

***We recommend two technical budget adjustments that will eliminate six positions and revert $190,000 to the General Fund.***

- Eliminate six positions associated with the administration of State Legalization Impact Assistance Grants (SLIAG), because the department will no longer receive SLIAG funds in 1991-92.
- Revert unspent portion ($190,000) of funds appropriated in Ch 6x/89 (SB 4x, Leroy Greene) for the purpose of housing earthquake victims at state-owned migrant housing centers, because funds are no longer needed. Adoption of the following Budget Bill language would implement our recommendation:

2240-495—Reversion, Department of Housing and Community Development. As of June 30, 1991, the unexpended balance of the appropriation provided in Chapter 6x, Statutes of 1989, for the purpose of housing earthquake victims at state-owned migrant housing centers shall revert to the General Fund.

# CALIFORNIA HOUSING FINANCE AGENCY

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

| | |
|---|---|
| Requested 1991-92 | $9,472,000 [a] |
| Estimated 1990-91 | 9,498,000 [a] |
| Actual 1989-90 | 8,768,000 [a] |
| Requested decrease $26,000 (−0.3 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 supported 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 130.5 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 1991-92 is not expected until March 1991. The agency's 1991-92 preliminary budget is displayed in the Governor's Budget for informational purposes only. It shows that the CHFA plans to spend $9.5 million in 1991-92, a decrease of $26,000, or 0.3 percent, below estimated current-year expenditures. The proposed amount reflects increases in personal services costs ($166,000) and decreased statewide pro rata charges ($192,000).

**CALIFORNIA HOUSING FINANCE AGENCY—Continued**

**State and Local Agencies' Use of Mortgage Revenue Bonds**

Chapter 1611, Statutes of 1988 (AB 3285, Maxine Waters), requires our office to annually report specified information regarding housing financed with tax-exempt mortgage revenue bonds issued by the CHFA and local government agencies. In completing the following report, we relied heavily on statutorily required reports submitted by the CHFA and the California Debt Advisory Commission (CDAC). As we discussed last year in the Analysis (please see pages 232 - 235), numerous inconsistencies in the manner in which the CHFA and the CDAC collect and report data make it impossible for us to provide all the information requested by the Legislature. Wherever possible, however, we provide estimates of the data requested.

***How Many Units of Affordable Housing Were Produced Through the Mortgage Revenue Bond Program?*** In 1989-90, the CHFA and local agencies produced over 10,000 units of affordable housing through the mortgage revenue bond program. Nearly three-quarters of this housing was single-family homes; the remainder was multifamily housing. The CHFA and local agency mortgage revenue bond program provided assistance to more households than the Department of Housing and Community Development provided under all its housing programs combined. Thus, the mortgage revenue bond program represents one of the state's largest affordable housing programs.

***What Income Groups Benefited From the Program?*** State and federal housing policy divide households into four income categories ("very low," "low," "moderate" and "above moderate" income), based upon the household's income, county of residence and family size. While most state and federal housing programs use these income categories in granting assistance and reporting data, the CHFA and local agencies do not. It is extremely difficult, therefore, to ascertain which income groups are the principal beneficiaries of the mortgage revenue bond program.

Based upon our review of the households assisted, we conclude that most of the households purchasing single-family homes probably fall in the "moderate" and "above moderate" income categories. In addition, most of the households living in multifamily housing probably fall into the "low" and, to a lesser extent, "very low" income categories. Until better data are collected, however, exact classification of these households — or a comparison of the local and CHFA housing program — is impossible.

***What Size Households Were Assisted?*** As we found last year, most of the households assisted through the mortgage revenue bond program were individuals and small families. Less than one in four of the households consisted of four or more people. Interestingly, while more than one-half of the purchasers of single-family homes were individuals or two-person households, *nearly two-thirds of the homes acquired had three or more bedrooms*. Thus, purchasers of single-family homes tend to be very amply housed. Virtually all of the multifamily housing units, on the other hand, had just one or two bedrooms.

***How Long Will the Housing Remain Affordable?*** Federal and state laws specify that households living in units financed with mortgage revenue bonds must meet certain income guidelines. In the case of the single-family homes, these income limits only pertain to a household's income at the time it acquires the home. There are no restrictions on the resale of homes financed with mortgage revenue bonds. In the case of multifamily residences, on the other hand, the income limits extend over a number of years and apply to future occupants. As Table 1 indicates, most the multifamily projects financed by local agencies will be reserved for low-income occupancy for at least 10 years. The policy of the CHFA is to require that all targeted multifamily housing units remain affordable to lower income Californians for 30 years.

***Where is the Housing Being Produced?*** Most of the single-family homes financed through this program are located in areas of the state with relatively moderate housing costs and significant amounts of new housing construction. In 1989, six counties — Sacramento, Fresno, San Bernardino, Tulare, Kern and Riverside Counties — accounted for more than two-thirds of all the single-family home loans.

Few households living in areas of the state with high housing costs benefited from the program. This is because the program offers only modest financial assistance to home buyers and other subsidies to help households afford a higher cost home are limited. In addition, we find that (1) the statutory requirement that local agencies reserve 60 percent of all loan funds for the purchase of newly constructed homes and (2) the difficulties the CHFA and certain local agencies have had in arranging home loans for condominiums and townhouses, further impede the ability of this program to serve high cost areas. This is because the housing that tends to be the most affordable to moderate income Californians in high costs areas is resale condominiums and townhouses.

In the case of multifamily housing, four urban counties — Riverside, San Bernardino, Los Angeles and Alameda — accounted for two-thirds of the housing production. Because of the complexities of issuing multifamily mortgage revenue bonds, generally only large counties and the CHFA participate in this program.

***What is the Cost of the Mortgage Revenue Bond Program?*** As we discussed last year, there is no direct cost to the state to operate the CHFA and local agency mortgage revenue bond program. The state, however, pays an indirect cost because purchasers of mortgage revenue bonds are not required to pay personal income tax on the interest they earn on these bonds. In addition, sales of housing bonds increase the public sector's demand for financial capital. This may in turn increase the interest rate that the state pays on other bonds. We estimate that the state revenue loss associated with the CHFA and local agency housing bond program is probably in the range of tens of millions of dollars annually.

Tables 1 and 2 below show the specific information required by Chapter 1611. Table 1 provides information on the types of housing financed with mortgage revenue bonds, occupant statistics, and the types of sponsors. Table 2 shows the distribution of housing by county. The data

**CALIFORNIA HOUSING FINANCE AGENCY—Continued**

provided by the CDAC and the CHFA have serious limitations which are indicated in the footnotes.

## Recommendation

In order that the Legislature can obtain all the information it has requested to evaluate the mortgage revenue bond program, it is imperative that the CHFA and the CDAC develop consistent reporting

**Table 1**
**California Housing Finance Agency**
**Housing Financed by Mortgage Revenue Bonds**
**1989-90**

| | *Multifamily Housing* | | | *Single-Family Housing* | | |
|---|---|---|---|---|---|---|
| | *CHFA* | *Local*[a] | *Total* | *CHFA* | *Local*[a] | *Total* |
| Number of units | 325 | 9,599 | 9,924 | 5,406 | 1,885 | 7,291 |
| Number of targeted units | 272 | 2,563 | 2,835 | 5,406 | 1,885 | 7,291 |
| Number of occupied targeted multifamily units | 94 | 1,443 | 1,537 | — | — | — |
| *Household size of occupied targeted units* | | | | | | |
| One and two members | N/A[b] | 1,117 | 1,117 | 2,766 | 1,240 | 4,006 |
| Three members | N/A | 206 | 206 | 1,110 | 318 | 1,428 |
| Four or more members | N/A | 120 | 120 | 1,530 | 327 | 1,857 |
| *Household income levels for occupied targeted units* | | | | | | |
| Very low income | 64 | 629[c] | 693 | N/A[b] | — | — |
| Low income | 30 | 814 | 844 | N/A | 1,317[c] | 1,317 |
| Moderate income | — | — | — | N/A | 562 | 562 |
| Above moderate income | — | — | — | N/A | 6 | 6 |
| *Unit size* | | | | | | |
| Studio | — | 31[d] | 31 | N/A[b] | — | — |
| One bedroom | 241 | 608 | 849 | N/A | 172 | 172 |
| Two bedroom | 31 | 709 | 740 | N/A | 556 | 556 |
| Three and more bedrooms | 0 | 55 | 55 | N/A | 1,157 | 1,157 |
| Monthly rent/mortgage payment | $101-$500+ | $312-$948 | $101-$948 | $613[e] | $337-$1,059 | — |
| Per unit expenditure of bond proceeds | $65,791 | $50,116 | — | $78,973 | $89,824 | — |
| *Development projects by type of sponsor* | | | | | | |
| For profit | 1 | 34 | 35 | N/A[b] | 96 | 96 |
| Nonprofit or local government | 3 | 4 | 7 | N/A | 1 | 1 |
| Limited dividend | — | — | — | N/A | — | — |
| *Length of time multifamily projects are reserved for targeted groups* | | | | | | |
| 1995-2000 | — | 10 | 10 | — | — | — |
| 2001-2010 | — | 11 | 11 | — | — | — |
| 2011-2030 | 4 | 6 | 10 | — | — | — |
| 2031-2040 | — | 2 | 22 | — | — | — |

[a] Note on data limitations. The CDAC does not report annual data summarizing local agency housing production. We estimate local housing production by including all housing loans originated before July 1, 1990 using the proceeds of housing bonds issued by a local agency in 1988-89. In addition, our report may underestimate local housing production because some local agencies have not submitted reports to CDAC — or included incomplete entries in their reports.

[b] N/A indicates that this information is not collected by the agency or is not currently available.

[c] These income categories assume a household of four. Given that most units are occupied by smaller sized households, these income categories may understate household income levels significantly.

[d] Local agencies did not report information on the size of 40 units.

[e] Average mortgage payment.

procedures. The Business, Transportation and Housing Agency supervises the CHFA and is responsible for state policy matters pertaining to housing. Accordingly, we recommend, in our review of its budget proposal under Item 0520-001-001 (please see pages 34–35) that the Business, Transportation and Housing Agency convene a task force, with legislative representation, charged with identifying steps that the CHFA and the CDAC can take to (1) increase the consistency between their reports and (2) ensure that their reports enable the Legislature to ascertain whether legislative objectives for the mortgage revenue bond program are being attained.

**Table 2**
**California Housing Finance Agency**
**Geographical Distribution of Housing**
**Financed by Mortgage Revenue Bonds**
**in 1989-90**

| | *Targeted Units of of Multifamily Housing* | | | *Single-Family Housing* | | | *Totals All* |
|---|---|---|---|---|---|---|---|
| *County* | *CHFA* | *Local*[a] | *Subtotals* | *CHFA* | *Local*[a] | *Subtotals* | *Housing* |
| Alameda | 200 | 146 | 346 | 53 | — | 53 | 399 |
| Contra Costa | — | 148 | 148 | 164 | 83 | 247 | 395 |
| Fresno | — | 96 | 96 | 1,085 | — | 1,085 | 1,181 |
| Kern | — | 133 | 133 | 557 | — | 557 | 690 |
| Los Angeles | — | 358 | 358 | 108 | — | 108 | 466 |
| Merced | — | — | — | 159 | — | 159 | 159 |
| Monterey | — | 150 | 150 | 25 | — | 25 | 175 |
| Orange | — | 132 | 132 | 10 | — | 10 | 142 |
| Riverside | — | 801 | 801 | 228 | 278 | 506 | 1,307 |
| Sacramento | 51 | 119 | 170 | 826 | 509 | 1,335 | 1,505 |
| San Bernardino | — | 388 | 388 | 254 | 493 | 747 | 1,135 |
| San Diego | — | — | — | 160 | — | 160 | 160 |
| San Joaquin | — | — | — | 121 | — | 121 | 121 |
| Solano | — | 59 | 59 | 62 | — | 62 | 121 |
| Stanislaus | — | — | — | 164 | — | 164 | 164 |
| Tulare | — | — | — | 655 | — | 655 | 655 |
| Yuba | — | — | — | 95 | — | 95 | 95 |
| All Other Counties | 21 | 33 | 54 | 680 | 522[b] | 1,202 | 1,256 |
| Totals, 1989-90 revenue bond financed housing production | 272 | 2,563 | 2,835 | 5,406 | 1,885 | 7,291 | 10,126 |

[a] Note on data limitations. The CDAC does not report annual data summarizing local agency housing production. We estimate local housing production by including all housing loans originated before July 1, 1990 using the proceeds of housing bonds issued by a local agency in 1988-89. In addition, our report may underestimate local housing production because some local agencies have not submitted reports to CDAC — or included incomplete entries in their reports.

[b] All of these single-family homes are in southern California and were financed by a multi-county housing authority.

# DEPARTMENT OF INSURANCE

Item 2290 from the Insurance Fund and the California Residential Earthquake Recovery Fund — Budget p. BTH 57

| | |
|---|---|
| Requested 1991-92 | $71,187,000 |
| Estimated 1990-91 | 68,826,000 |
| Actual 1989-90 | 59,250,000 |
| Requested increase $2,361,000 (+3.4 percent) | |
| Total recommended reduction | 991,000 |
| Recommendation pending | 22,078,000 |

## 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2290-001-217—Support | Insurance | $66,458,000 |
| 2290-001-285—Support | California Residential Earthquake Recovery | 1,054,000 |
| 2290-002-217—Support | Insurance | 75,000 |
| 2290-101-217—Local assistance | Insurance | 3,500,000 |
| Ch 1165/90—Study | Insurance | 100,000 |
| Total | | $71,187,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Proposition 103. Withhold recommendation on $21 million requested for implementation of Proposition 103 pending receipt of updated workload information from the department. 234
2. Consulting Contract Funds. Withhold recommendation on $1.1 million proposed for external consulting contracts, pending receipt of information to justify request. 236
3. Earthquake Insurance Program. Recommend adoption of supplemental report language directing the Department of Insurance to provide workload justification in future years. Further recommend a $1.1 million loan from the Insurance Fund for program implementation, to be repaid. 236
4. ***Imaging and Telecommunication Equipment. Reduce Item 2290-001-217 by $991,000.*** Recommend reduction because the request is premature. 237

## 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 companies, agents, and brokers. Currently, there are about 2,000 insurers generating total premiums of about $60 billion in California.

The department carries out its responsibilities through three major programs: (1) regulation, (2) fraud control, and (3) tax collection and audit. 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 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.

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

The department has 795.6 personnel-years in the current year.

## MAJOR ISSUES

☑ **Because recent Proposition 103-related regulatory actions taken by the Insurance Commissioner will affect the workload of the Department of Insurance, the Legislature needs updated workload information to evaluate the adequacy of the department's budget.**

☑ **Timely implementation of the residential earthquake insurance program is threatened by uncertainty of funding.**

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $70.1 million from the Insurance Fund and $1.1 million from the California Residential Earthquake Recovery Fund for total expenditures of $71.2 million to support the department in 1991-92. This is an increase of $2.4 million, or 3.4 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**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Regulation | 459.4 | 585.2 | 597.4 | $34,781 | $42,279 | $43,639 | 3.2% |
| Fraud control | 30.6 | 43.7 | 43.7 | 6,455 | 7,713 [a] | 7,770 [a] | 0.7 |
| Tax collection and audit | 3.9 | 3.8 | 3.8 | 336 | 354 | 358 | 1.1 |
| Earthquake Recovery Fund management | — | — | 13.3 | — | — | 1,054 | — [b] |
| Administration | 139.9 | 162.9 | 163.8 | 17,678 | 18,480 | 18,366 | −0.6 |
| Totals | 633.8 | 795.6 | 822.0 | $59,250 | $68,826 | $71,187 | 3.4% |
| Funding Sources | | | | | | | |
| *Insurance Fund* | | | | *$59,250* | *$68,826* | *$70,133* | *1.9%* |
| *California Residential Earthquake Recovery Fund* | | | | — | — | *1,054* | — [b] |

[a] Includes $3.5 million allocation to district attorneys for prosecuting insurance fraud cases.
[b] Not a meaningful figure.

**Table 2**
**Department of Insurance**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *Insurance Fund* |
|---|---|
| 1990-91 Expenditures (Revised) | $68,826 |
| *Baseline Adjustments* | |
| Salary adjustments | 1,592 |
| Higher pro rata charges | 730 |
| One-time expenditures | −1,891 |
| PERS rate reduction | −435 |
| Subtotal, baseline adjustments | (−$4) |
| *Workload Changes* | |
| Additional examiners and other staff | $931 |
| Increased operating costs | 1,581 |
| Reduced consultant services | −1,201 |
| Subtotal, workload changes | ($1,311) |
| *Program Change* | |
| Residential earthquake insurance program | $1,054 [a] |
| 1991-92 Expenditures (Proposed) | $71,187 |
| Changes from 1990-91: | |
| Amount | $2,361 |
| Percent | 3.4% |

[a] From the California Residential Earthquake Recovery Fund.

## ANALYSIS AND RECOMMENDATIONS

### Recent Regulatory Actions Will Affect Proposition 103-Related Workload

***We withhold recommendation on $21 million requested by the Department of Insurance for continued implementation of Proposition***

***103 in 1991-92, pending receipt of information from the department regarding how recent regulatory actions taken by the Insurance Commissioner will affect the department's workload.***

The Department of Insurance (DOI) is requesting $21 million to continue implementation of Proposition 103 during 1991-92. This amount includes $20 million for staff salaries and operating expenses and $1 million for office automation.

Our review indicates that recent regulatory actions taken by the new Insurance Commissioner will likely increase the Proposition 103-related regulatory workload of the department from the level expected when the Governor's Budget was developed.

***Department Began to Implement Rate-Related Provisions of Proposition 103 in 1990.*** Proposition 103 — adopted by the voters in November 1988 — requires that property-casualty insurance rates be substantially "rolled back" under certain conditions. In addition, the proposition requires the Insurance Commissioner to review and approve all changes in property-casualty rates before they can take effect. By mid-1990, the DOI completed hearings on the rate-rollback and the prior approval standards and procedures and the Commissioner adopted regulations to implement the rate provisions.

The rate-rollback regulations were subsequently challenged by two insurers that were ordered by the Commissioner to reduce certain property-casualty rates. To date, no decision has been rendered by the administrative law judge and the department has not ordered other rate rollbacks. On the other hand, the prior approval standards were used by the department to review insurers' applications for changes in property-casualty rates. By the end of 1990, the department reviewed about 2,500 of the 4,000 applications received, approving about 2,250 and disapproving the remaining 250.

***Regulatory Actions by the New Commissioner Will Likely Increase Workload.*** In January 1991, the new Insurance Commissioner imposed a freeze on all property-casualty rates affected by Proposition 103 which have not yet received official approval from the DOI. In addition, the Commissioner indicated his intention to (1) repeal the existing rollback and prior approval regulations and (2) adopt new regulations during 1991.

Our analysis indicates that these actions will likely increase the department's regulatory workload above that which served as the basis for the 1991-92 budget request. Consequently, in order that the Legislature may evaluate the appropriateness of the department's budget request, the DOI should provide updated workload projections for 1991-92, taking into account the effect of the regulatory actions taken by the Commissioner.

Accordingly, we withhold recommendation on the department's request of $21 million for Proposition 103-related expenditures, pending receipt of updated workload information from the department.

**DEPARTMENT OF INSURANCE—Continued**

**Private Consulting Contracts Need to be Justified**

***We withhold recommendation on $1,078,000 requested for external consultant and professional services pending submission of justification by the Department of Insurance.***

The budget proposes to spend $1.1 million on external (private) consultant and professional services. At the time this analysis was prepared, the department could not provide any specific information on how this proposed amount would be spent or the specific services to be provided by the contractors.

Accordingly, we withhold recommendation on the $1.1 million budgeted for private contractors, pending receipt of justification for the proposed amount.

**Implementation of Residential Earthquake Insurance Program**

***We recommend the adoption of supplemental report language directing the Department of Insurance to provide workload justifications for the residential earthquake insurance program as part of the department's 1992-93 budget request.***

***We further recommend that (1) $1.1 million requested for the residential earthquake insurance program be funded from a loan from the Insurance Fund and (2) the Legislature adopt Budget Bill language requiring the repayment of the loan once adequate revenues are collected in the California Residential Earthquake Recovery Fund.***

Chapter 1165, Statutes of 1990 (SB 2902, Hill), establishes a basic residential earthquake insurance program. Chapter 1165 requires insured owners of single-family residential property to pay, and insurers to collect, an earthquake insurance surcharge on their residential insurance policy beginning July 1, 1991. The surcharge is to be established by the Insurance Commissioner, based on the vulnerability of the property to earthquakes and is to be deposited in the California Residential Earthquake Recovery Fund. Money in the fund may be used for (1) the repair of earthquake-caused structural damage to insured residential property, (2) reinsurance, (3) the costs of administering the program, (4) retrofit loans for low-income homeowners, and (5) reimbursing insurers for their administrative costs for collecting the surcharge.

Our review shows that the department may not begin to collect the surcharge until some time in 1991-92. However, even then, the California Residential Earthquake Recovery Fund might not receive the amount of surcharge revenues that is projected in the budget.

***Funding of Initial Start-Up Costs Has Not Been Provided.*** For the program to become operative July 1, 1991, the department must, among other things, establish actuarially based rates for the surcharges prior to 1991-92. The department indicates that it will probably contract out for rating and fiscal control services in the current year. However, to date, no contracts have been awarded. Furthermore, Chapter 1165 does not provide any funds for these start-up costs. The department indicates that it may request a loan from the Insurance Fund to cover current-year expenses.

***Budget-Year Workload Information is Not Available.*** The budget proposes $1.1 million from the California Residential Earthquake Recovery Fund and a staff of 13.3 personnel-years to support the program in 1991-92. Although the department can provide no workload data to justify the requested amount, we recommend approval of the request in order that the department may implement the new program in a timely manner. In order that the Legislature can assess the appropriateness of the program's staffing level in future years, we recommend that the Legislature adopt the following supplemental report language directing the department to submit program workload justification for its 1992-93 budget request.

> The Department of Insurance shall provide workload justifications for the residential earthquake insurance program as part of the department's 1992-93 budget request.

***Budget-Year Funding is Uncertain.***The budget further projects that surcharge revenues of $250 million will be collected into the recovery fund during 1991-92. However, our review indicates that the availability of these funds is uncertain for two reasons. First, a rating structure — based on earthquake damage risk — for the setting of surcharges may not be prepared by July 1991. Until that rating structure is established, no surcharge revenues will be collected. Second, the projected surcharge revenues may not materialize because Chapter 1165 does not provide authority to the Department of Insurance to enforce collection of the surcharges. Consequently, depending on when surcharges are collected and the level of collection, funding for the program in 1991-92 is not certain. Thus, the department may again need a loan from the Insurance Fund.

In order to ensure funding of the program's implementation in 1991-92, we therefore recommend that a loan of $1.1 million be provided from the Insurance Fund. We further recommend the adoption of the following Budget Bill language requiring the repayment of the loan once revenues are collected in the Recovery Fund.

> Provided that $1.1 million appropriated from the Insurance Fund shall be a loan for the 1991-92 implementation of the residential earthquake insurance program. The California Residential Earthquake Recovery Fund shall repay the Insurance Fund for the loan, with interest at the Pooled Money Investment Account rate, once sufficient revenues are in the Recovery Fund.

**Requests for Imaging and Telecommunication Equipment are Premature**

***We recommend a reduction of $991,000 from the Insurance Fund for the purchase of imaging and telecommunication equipment because the requests are premature. (Reduce Item 2290-001-217 by $991,000.)***

The budget requests $991,000 from the Insurance Fund to purchase certain high-technology equipment during 1991-92. The amount includes $465,000 for imaging equipment and $526,000 for telecommunication equipment such as cellular phones and hardware for video conferencing. The imaging equipment would provide access to certain hard copy files through electronic photography and computers.

**DEPARTMENT OF INSURANCE—Continued**

Our review indicates that the department is only exploring the use of the requested equipment. No specific proposals have yet been developed for their use. For instance, the department has yet to prepare a feasibility study report for the acquisition of the imaging equipment which is subject to the review and approval by the Office of Information Technology. Similarly, a proposal for the telecommunication equipment must first be approved by the Department of General Services. At the time this analysis was prepared, the department was unable to advise when the required reports would be prepared and submitted to the control agencies.

Consequently, the requests for the imaging and telecommunication equipment are premature. Given the long lead-time usually required to develop the proposals and to obtain approval from oversight agencies, it is unlikely that the DOI would be able to purchase the requested equipment in the budget year. Therefore, we recommend that the funds for the equipment — $991,000 — be deleted.

## OFFICE OF REAL ESTATE APPRAISERS

Item 2310 from the Real Estate Appraisers Regulation Fund — Budget p. BTH 62

| | |
|---|---|
| Requested 1991-92 | $1,296,000 |
| Estimated 1990-91 | 930,000 |
| Actual 1989-90 | None |
| Requested increase $366,000 (+39 percent) | |
| Total recommended reduction | None |

**1991-92 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2310-001-400—Support | Real Estate Appraisers Regulation | $1,203,000 |
| Ch 491/90—Interest | Real Estate Appraisers Regulation | 93,000 |
| Total | | $1,296,000 |

**SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS** *Analysis page*

1. Office Location. Recommend adoption of Budget Bill language limiting the Office of Real Estate Appraisers to one facility location. 240

**GENERAL PROGRAM STATEMENT**

Chapter 491, Statutes of 1990 (AB 527, Hannigan) created the Office of Real Estate Appraisers (OREA) effective January 1, 1991, to establish licensing, certification, and regulation programs for certain real estate appraisers. Specifically, the OREA was established in response to federal requirements (under the Financial Institutions Reform, Recovery and Enforcement Act of 1989) that appraisers engaging in real estate appraisal activities involving federally related transactions (that is, where lenders and loans involved in the transactions are insured by a federal agency) be state licensed or certified, beginning July 1, 1991.

The federal law also specified that the licensing, certification, and regulation of appraisers should not be done by the same state entity which licenses and regulates real estate brokers and salespersons. For this reason, the OREA is established as a separate office under the supervision of the Business, Transportation and Housing Agency, and not within the Department of Real Estate.

In addition to administering the certification and licensing programs, the office must also investigate complaints against certified or licensed appraisers.

In the current year — in this case, January through June 1991 — the office has a staff of 7.5 personnel-years.

## OVERVIEW OF THE BUDGET REQUEST

The budget requests $1.3 million for 1991-92 to support the first full-year operation of OREA. This is $366,000, or 39 percent, more than the estimated current-year (six months) expenditures for the office.

The proposed expenditures consist of $1.2 million for support of the OREA and $93,000 for interest payable to the Real Estate Fund in 1991-92. The interest amount represents a 10 percent rate of interest required by Chapter 491 to be paid on (1) a start-up loan of $730,000 appropriated by that act and (2) a supplemental loan of $200,000 which the office plans to request in legislation during 1990-91.

Table 1 shows the personnel-years and expenditures for the office in the current and budget years.

**Table 1**
**Office of Real Estate Appraisers**
**1990-91 and 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | *Expenditures* | | |
|---|---|---|---|---|---|
| *Program* | *Est. 1990-91 (6 months)* | *Prop. 1991-92* | *Est. 1990-91 (6 months)* | *Prop. 1991-92* | *Change from 1990-91* |
| Licensing, administration and regulation | 7.5 | 21.0 | $930 | $1,203 | 29.4% |
| Interest on loans [a] | | | — | 93 | —[b] |
| Totals | | | $930 | $1,296 | 39.4% |
| Funding Sources | | | | | |
| *Real Estate Appraisers Regulation Fund* | | | *$930* | *$1,296* | *39.4%* |
| *Real Estate Fund (Ch 491/90)* | | | *730* | — | *–100.0* |
| *Real Estate Fund (pending legislation)* | | | *200* | — | *–100.0* |

[a] Pursuant to Ch 491/90 (AB 527, Hannigan), which requires interest payment of 10 percent per annum on loan to be repaid to the Real Estate Fund within four years.
[b] Not a meaningful figure.

**OFFICE OF REAL ESTATE APPRAISERS—Continued**

## ANALYSIS AND RECOMMENDATIONS

### Office Should be Limited to One Location

***We recommend that the Legislature adopt Budget Bill language limiting the Office of Real Estate Appraisers to one facility location.***

The budget requests $1.2 million from the Real Estate Appraisers Regulation Fund to support 20 staff for the first full-year operation of the OREA.

In order to implement Chapter 491, the OREA is planning to set up an office in at least two locations: Sacramento and Los Angeles. Our analysis indicates that having two locations for this office is not justified based on staffing and workload levels. First, given the size of the office, dividing a staff of 20 between two locations would limit the effective and efficient operations of the office at either location. For instance, the office would have to devote limited staff for the administrative support and operations of two offices instead of being able to concentrate staff resources to licensing and certification activities. As a result, part of the licensing and regulatory staffs' time might have to be spent on administrative duties. Second, the office does not have an estimate of its total licensing and certification workload to substantiate the need for two office locations. Because the licensing/certification requirement applies only to certain appraisers, it cannot be estimated at this time with any confidence what portion of the existing approximately 12,000 appraisers would apply for certification or licensure. Until the office has a reasonable estimate of its workload, locating an office at two sites is premature.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 2310-001-400 to limit the OREA to one location:

> The Office of Real Estate Appraisers shall be limited to a single facility location for its staff and operations.

## DEPARTMENT OF REAL ESTATE

Item 2320 from the Real Estate Fund — Budget p. BTH 64

| | |
|---|---|
| Requested 1991-92 | $34,407,000 |
| Estimated 1990-91 | 26,858,000 |
| Actual 1989-90 | 25,532,000 |
| Requested increase $7,549,000 (+28 percent) | |
| Total recommended increase in reimbursements | 352,000 |
| Total recommended reduction | None |

## 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2320-001-317—Support | Real Estate | $33,859,000 |
| Reimbursements | — | 548,000 |
| Total | | $34,407,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

| | *Analysis page* |
|---|---|
| 1. ***Reimbursements. Increase by $352,000.*** Recommend increase to correct for underbudgeting of reimbursements. | 243 |
| 2. Audit Rate. Recommend the department explain prior to budget hearings (a) how it proposes to meet its goal for auditing escrow and mortgage brokers once every four years and (b) the rationale for reducing the rate of auditing licensees. | 244 |

## 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 382.6 personnel-years in the current year.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $34.4 million in 1991-92. This is $7.5 million, or 28 percent, more than the estimated current-year expenditures. The proposed expenditures consist of $33.9 million from the Real Estate Fund and $548,000 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.

**DEPARTMENT OF REAL ESTATE—Continued**

**Table 1**
**Department of Real Estate**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | Personnel-Years | | | Expenditures | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Licensing and education | 78.1 | 76.5 | 82.8 | $5,396 | $5,472 | $10,663 | 94.9% |
| Regulatory and recovery | 160.5 | 174.0 | 184.4 | 11,902 | 13,428 | 14,563 | 8.4 |
| Subdivisions | 74.9 | 75.1 | 74.4 | 4,200 | 4,339 | 4,454 | 2.7 |
| Administration | 59.6 | 57.0 | 56.8 | 4,034 | 3,619 | 4,727 | 30.6 |
| Totals | 373.1 | 382.6 | 398.4 | $25,532 | $26,858 | $34,407 | 28.1% |
| Funding Sources | | | | | | | |
| *Real Estate Fund* | | | | *$24,657* | *$26,310* | *$33,859* | *28.7%* |
| *Reimbursements* | | | | *875* | *548* | *548* | — |

**Table 2**
**Department of Real Estate**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *Real Estate Fund and Reimbursements* |
|---|---|
| 1990-91 Expenditures (Revised) | $26,858 |
| *Baseline Adjustments* | |
| Salary increases | 705 |
| Increased pro rata charges | 92 |
| PERS rate reduction | −162 |
| Increase in other operating expenses | 42 |
| Subtotal, baseline adjustments | ($677) |
| *Workload Changes* | |
| Additional staff to monitor licensees | $778 |
| Staff to reduce licensing backlog | 308 |
| Subtotal, workload changes | ($1,086) |
| *Program Changes* | |
| Endowments for real estate education and research | $4,500 |
| Fellowship and grant program | 300 |
| Office automation | 986 |
| Subtotal, program changes | ($5,786) |
| 1991-92 Expenditures (Proposed) | $34,407 |
| Change from 1990-91: | |
| Amount | $7,549 |
| Percent | 28.1% |

## ANALYSIS AND RECOMMENDATIONS

### Expansion of Education and Research Program

The budget requests $5.6 million from the Education and Research Account of the Real Estate Fund to promote education and research in the field of real estate in 1991-92. This represents a substantial expansion of the current-year's program level of $800,000, which includes: (1) $150,000 each to the University of California at Berkeley and at Los Angeles to support their respective centers for real estate and (2)

$500,000 for research grants (chosen under an open-competition process) on a variety of real estate topics.

In 1991-92, the department proposes to expand this program by $4.8 million. First, it proposes an increase of $300,000 annually for real estate research grants and fellowships. Second, it proposes to provide $4.5 million in one-time endowments to various universities, as follows:

- $1.5 million each to the University of California at Berkeley and at Los Angeles to expand education and research activities in their centers for real estate.
- $1 million to the California State University system to augment its Real Estate Scholarship and Internship Grant Endowment Program in order to provide more financial assistance to minority and disadvantaged students.
- $500,000 to the Community College Real Estate Education Scholarship Program to expand financial assistance to minority students.

Our review indicates that the proposed expenditures are consistent with statutory requirements on the use of the Education and Research Account money. With these expenditures, there will still be a $10 million reserve in the Education Research Account at the end of 1991-92.

**Reimbursements Will be Higher**

*We recommend an increase of $352,000 in budgeted reimbursements because fingerprint check fees are underestimated.*

For 1991-92, the budget proposes $548,000 in reimbursements, all from fingerprinting fees charged by the department. Fingerprints are required by the department to ensure that license applicants do not have a criminal record.

Our analysis indicates that the department has underestimated its reimbursements for 1991-92. As a comparison, the department collected $875,000 in reimbursements in 1989-90 — $327,000 more than projected for 1991-92. For the current year, the department has collected $447,000 in reimbursements through the end of 1990 from fingerprinting fees, and we estimate that it will likely collect at least $900,000 by the end of 1990-91. Based on the past- and current-years' experience, we estimate that reimbursements in 1991-92 also will be significantly higher than that projected in the budget.

The primary reason for the higher reimbursements is the increase in the fee charged by the Department of Justice for checking fingerprints. Effective September 1, 1990, that fee was increased from $19 to $27. The Department of Real Estate increased its fingerprinting fee by the corresponding amount, but did not reflect the higher reimbursements in the Governor's Budget.

In order to correct for the underestimation, we recommend that the reimbursements to the Department of Real Estate for 1991-92 be increased by $352,000 to $900,000 — an amount equivalent to that estimated for the current year.

**DEPARTMENT OF REAL ESTATE—Continued**

**Rate of Auditing Licensees will be Lower**

***We recommend that the Department of Real Estate report to the Legislature prior to budget hearings on: (1) how it proposes to meet its goal of auditing all licensed mortgage and escrow brokers at least once every four years and (2) the rationale for reducing the rate of auditing licensees.***

Current law does not specifically require the department to audit its licensees. The department, however, has adopted an internal policy to audit as often as deemed necessary, but at least once every four years, licensees who frequently hold and handle trust funds (such as, deposits, rents, and escrow funds) for consumers. These licensees include mainly mortgage brokers, property managers, and escrow brokers who are not licensed by the Department of Corporations. For instance, mortgage brokers alone handled nearly $5 billion in clients' trust funds in 1989-90. The department also audits annually a random sample of residential real estate brokers who occasionally handle funds for their clients.

Table 3 shows the number of audits conducted by the department from 1987-88 through 1989-90 and the percentage of the total number of the licensees who were audited in each year. During this period, audit staff had remained fairly constant at about 30 personnel-years annually. The table shows that the department has not been able to meet its own goal of auditing various licensees on a four-year cycle. Since 1987-88, audits of mortgage brokers have declined, while increased efforts have been placed on auditing property managers. In 1989-90, the department was able to audit only 19 percent of all mortgage brokers. Additionally, the department has been able to audit only a small percentage of escrow brokers.

**Table 3**
**Department of Real Estate**
**Number of Audits and Percent of Licensees Audited [a]**
**1987-88 through 1989-90**

| | *1987-88* | | *1988-89* | | *1989-90* | |
|---|---|---|---|---|---|---|
| *Licensees* | *Number of Audits* | *Percent of Licensees* | *Number of Audits* | *Percent of Licensees* | *Number of Audits* | *Percent of Licensees* |
| Mortgage brokers | 569 | 32% | 353 | 20% | 388 | 19% |
| Property managers | 241 | 16 | 266 | 16 | 503 | 27 |
| Escrow brokers | 25 | 3 | 30 | 4 | 160 | 5 |

[a] Number of regular audits completed, excluding follow-up audits or audits triggered by clients' complaints.

***Audit Workload Will Increase in 1991-92.*** The department projects a significant increase in the number of mortgage brokers as well as escrow brokers during 1990-91. By 1991-92, there will be about 45 percent more mortgage brokers and 15 percent more escrow brokers than in 1989-90. In order to handle the additional audit workload, it is requesting an increase of $205,000 for four additional auditors — an increase of about 13 percent over 1989-90 staff. Our review shows that an increase in staff is warranted.

However, given the increases in licensees who handle trust funds, our analysis indicates that, even with the additional audit staff requested, the department's audit rate (in terms of percentage of licensees audited) will be lower in 1991-92 than in 1989-90.

In order that the Legislature can be informed on how the department plans to adequately monitor licensees, we recommend that the department explain to the Legislature prior to budget hearings how it proposes to meet its goal for auditing escrow and mortgage brokers once every four years, and the reason why, despite the department's own policy, it proposes to reduce the rate of auditing licensees.

**Reversion — Item 2320-495**

*We recommend approval.*

The budget proposes to revert to the Real Estate Fund the unencumbered balance from the $65,000 appropriated in Ch 969/89 (AB 983, Bane) for developing by January 1, 1991 a booklet on common environmental hazards that affect real property. The work has been completed and the remaining unencumbered amount of $12,000 ought to be reverted to the Real Estate Fund.

## DEPARTMENT OF SAVINGS AND LOAN

Item 2340 from the Savings Association Special Regulatory Fund — Budget p. BTH 69

| | |
|---|---|
| Requested 1991-92 | $4,263,000 |
| Estimated 1990-91 | 4,485,000 |
| Actual 1989-90 | 7,122,000 |
| Requested decrease $222,000 (−4.9 percent) | |
| Total recommended reduction | 103,000 |

**1991-92 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2340-001-337—Support | Savings Association Special Regulatory | $4,241,000 |
| Reimbursements | — | 22,000 |
| Total | | $4,263,000 |

**DEPARTMENT OF SAVINGS AND LOAN—Continued**

| SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS | *Analysis page* |
|---|---|
| 1. Future Need for Department. Recommend enactment of legislation to (a) terminate the issuance of new state charters for savings and loan associations and (b) consolidate the Department of Savings and Loan with other financial regulatory departments to eliminate future need for the department. | 247 |
| 2. Facilities Operations. Recommend that the Department of Savings and Loan report to the Legislature, prior to budget hearings, on how it proposes to reduce its facilities operations. | 248 |
| 3. ***In-State Travel Expenses. Reduce Item 2340-001-337 by $103,000.*** Recommend reduction to correct over-budgeted in-state travel expenses. | 249 |

## GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for protecting 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 department has 44.7 personnel-years in the current year.

## MAJOR ISSUES

☑ **A state charter option for savings and loan associations and a separate state department to regulate them are no longer needed.**

## OVERVIEW OF THE BUDGET REQUEST

The budget requests $4.3 million for support of the department in 1991-92. This is $222,000, or 4.9 percent, less than estimated current-year expenditures. The request includes $4.3 million from the Savings Association Special Regulatory Fund and reimbursements of $22,000.

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

**Table 1**
**Department of Savings and Loan**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | Personnel-Years | | | Expenditures | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Examination | 54.9 | 24.8 | 24.7 | $4,155 | $2,544 | $2,492 | −2.0% |
| Appraisal | 13.1 | 5.1 | 3.8 | 1,011 | 525 | 419 | −20.2 |
| Licensing and legal assistance | 3.7 | 2.0 | 2.0 | 529 | 338 | 327 | −3.3 |
| Administration | 21.3 | 12.8 | 12.4 | 1,427 | 1,078 | 1,025 | −4.9 |
| Totals | 93.0 | 44.7 | 42.9 | 7,122 | 4,485 | 4,263 | −4.9% |
| Funding Sources | | | | | | | |
| *Savings Association Special Regulatory Fund* | | | | *$6,958* | *$4,463* | *$4,241* | *−5.0%* |
| *Reimbursements* | | | | *164* | *22* | *22* | — |

**Table 2**
**Department of Savings and Loan**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *Savings Association Special Regulatory Fund and Reimbursements* |
|---|---|
| 1990-91 Expenditures (Revised) | $4,485 |
| *Baseline Adjustments* | |
| Salary increases | 156 |
| Lower pro rata charges | −171 |
| Subtotal, baseline adjustments | (−$15) |
| *Workload Change* | |
| Reduction due to declining number of licensees | −$207 |
| 1991-92 Expenditures (Proposed) | $4,263 |
| Change from 1990-91: | |
| Amount | −$222 |
| Percent | −4.9% |

## ANALYSIS AND RECOMMENDATIONS

### Need for Department of Savings and Loan is Eliminated

***We recommend the enactment of legislation to terminate the issuance of state charters for savings and loan associations and require that all existing state-chartered savings and loan associations doing business in California convert to federally chartered savings and loan associations or state, or federally chartered banks.***

***We also recommend the enactment of legislation to consolidate the State Banking Department, the Department of Savings and Loan, the Lender-Fiduciary Program of the Department of Corporations, and the Mortgage Broker Program of the Department of Real Estate into a new Department of Financial Services.***

Currently, savings and loan associations in California may choose to be chartered under either federal law or state authority. All associations, however, are required to be federally insured.

**DEPARTMENT OF SAVINGS AND LOAN—Continued**

Until 1989, state law had provided state-chartered associations certain competitive advantages over their federal counterparts, including more favorable capital requirements and investment authority. However, due primarily to the enactment of the federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), these competitive advantages have essentially been eliminated. Without the competitive advantages afforded by state law, there is little economic benefit for state-chartered associations to maintain their state charter. Consequently, a state charter will no longer be a favored option for savings and loan associations to operate in California. In fact, the Department of Savings and Loan indicates that the number of state-chartered associations has decreased from about 130 in 1989-90 to 65 in the current year, and is projected to decrease further to about 45 by the end of 1991-92.

*The Long-Term Approach: Terminate State-Chartered Associations.* Because a separate state charter option for savings and loan associations is no longer economically beneficial, we recommend — as we did in a letter to Members of the Legislature in January 1990 — the enactment of legislation to terminate the issuance of additional state savings and loan charters and the conversion of all existing state-chartered savings and loan associations to federally chartered banks. Elimination of a state charter option for savings and loan associations will also eliminate the state regulatory workload and, therefore, the need for the Department of Savings and Loan.

*The Interim Approach: Consolidation With Other Departments.* Also in the January 1990 letter to the Legislature, we indicated that the state's regulatory structure has not changed to keep pace with the changes that have occurred in recent years in the financial service industry. Primarily as a result of federal and state regulation, the functional differences which existed among various financial institutions have virtually been eliminated.

The continued fragmentation of regulatory efforts limits the state's ability to effectively regulate the financial services industry. To improve regulatory coordination and achieve more effective and efficient administration of these programs, we recommended that legislation be enacted to consolidate the State Banking Department, the Department of Savings and Loan, the Lender-Fiduciary Program in the Department of Corporations, and the Mortgage Broker Program in the Department of Real Estate into a new Department of Financial Services.

Until all state-chartered savings and loan associations are eliminated, interim regulatory efforts could be provided by the regulatory staff of this consolidated department.

**Facilities' Operations Should be Reduced**

***We recommend that, prior to the budget hearings, the Department of Savings and Loan report to the Legislature on how it proposes to reduce its facilities' operations in response to the substantial reductions in its regulatory staff.***

The department is supported from assessments and various fees imposed on its licensees. Because the number of state-licensed associations has declined dramatically in recent years, the department has to reduce its operations to avoid a funding deficit. For the current year, it reduced its regulatory staff by more than 50 percent — from 93 personnel-years to 44.7 personnel-years. For 1991-92, the department proposes a further slight staff reduction — to 42.9 personnel-years.

While the department has significantly reduced its staff, our review indicates that it has not taken steps to examine how it might operate more efficiently in other areas. For instance, the department still maintains offices in San Francisco and Los Angeles with space adequate for a staff of about 120 personnel-years — the level in 1988-89. Currently, only about one-half of the space leased at each location is needed. As the lease has already expired for the San Francisco space and will terminate June 30, 1991 for the Los Angeles office, the department has the option to either (1) relocate to smaller, more economical space at each location; or (2) consider consolidating its operation in one location. Either approach would reduce lease and facility operation expenses. In addition, consolidation into one location could improve internal coordination and communications and could further reduce other operating costs.

In order to ensure that the department examines its options to operate most efficiently with a reduced level of staff, we recommend that the department report to the Legislature — prior to the budget hearing — on how it proposes to further reduce its facilities' operations during 1991-92.

**In-State Travel Overbudgeted**

*We recommend a reduction of $103,000 from Item 2340-001-337 to correct overbudgeted in-state travel expenses. (Reduce Item 2340-001-337 by $103,000.)*

The budget requests $223,000 for in-state travel by the department's employees during 1991-92. Travel expenses are incurred mainly for examinations of state-chartered associations.

Our review indicates that the proposed amount substantially overstates the amount needed because the department's regulatory staff and workload have significantly declined. For instance, the department spent $236,000 in 1989-90 for in-state travel by its 93 personnel-years of staff, or $2,538 per personnel-year, to regulate about 130 state-chartered associations. By the end of 1991-92, however, the department's 42.9 personnel-years of staff will regulate about 45 associations, or $5,198 per personnel-year.

We find no analytical basis for a doubling of travel per staff member in order to examine substantially fewer associations. Furthermore, the department cannot provide justification for the requested amount. If an average of $2,800 per staff member (after allowing for cost adjustments) is provided for travel expenses in 1991-92, a total of $120,000 would be adequate. Accordingly, we recommend that the department's request be reduced by $103,000 to correct for overbudgeting.

# CALIFORNIA TRANSPORTATION COMMISSION

Item 2600 from the State Transportation Fund — Budget p. BTH 71

| | |
|---|---|
| Requested 1991-92 | $11,281,000 |
| Estimated 1990-91 | 1,434,000 |
| Actual 1989-90 | 1,352,000 |
| Requested increase $9,847,000 (+687 percent) | |
| Total recommended reduction | None |

## 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2600-001-042—Support | State Highway Account, State Transportation | $150,000 |
| 2600-001-046—Support | Transportation Planning and Development Account, State Transportation | 1,251,000 |
| 2600-125-183—Local assistance | Environmental Enhancement and Mitigation Demonstration Program | 9,880,000 |
| Total | | $11,281,000 |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Proposition 116. Recommend the California Transportation Commission report at budget hearings on how it plans to administer the Proposition 116 rail program, including its ability to meet statutory application review deadlines. 252
2. Clean Air and Transportation Improvement Fund. Recommend adoption of supplemental report language stating legislative intent that the annual Governor's Budget include a display of the condition of the Clear Air and Transportation Improvement Fund. 253

## GENERAL PROGRAM STATEMENT

The California Transportation Commission (CTC) is responsible for the adoption of specified multi-year transportation capital outlay programs. The commission is also responsible for the allocation of funds appropriated by the Legislature to carry out those programs, and for assisting the administration and the Legislature in the development of transportation policies. Beginning in 1990-91, the CTC is also responsible for administering the grant program created by the *Clean Air and Transportation Improvement Act of 1990* (Proposition 116) that was approved by voters in June 1990.

Specifically, the major responsibilities of the commission include:

- Adopting a seven-year State Transportation Improvement Program (STIP) every two years.
- Adopting a four-year Highway Systems Operation and Protection Plan (HSOPP) every two years.

- Allocating funds appropriated by the Legislature for transportation capital outlay among eligible projects ready for construction.
- Estimating funds available for transportation capital outlay and, if it determines that funds may not be adequate to meet the state's 10-year funding goals, advising the Legislature that those goals may not be met.
- Reporting annually to the Legislature on policies adopted by the commission, 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.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $11.3 million by the CTC in 1991-92. This is $9.8 million (687 percent) more than in the current year. Table 1 summarizes CTC expenditures and staffing for the prior, current and budget years.

**Table 1**
**California Transportation Commission**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Administration | 11.2 | 12.0 | 13.5 | $1,352 | $1,434 | $1,401 | −2.3% |
| Environmental enhancement and mitigation | — | — | — | — | — | 9,880 | —[a] |
| Totals | 11.2 | 12.0 | 13.5 | $1,352 | $1,434 | $11,281 | 686.7% |
| Funding Sources | | | | | | | |
| *State Highway Account* | | | | *$139* | *$152* | *$150* | *−1.3%* |
| *Transportation Planning and Development Account* | | | | *1,213* | *1,282* | *1,251* | *−2.4* |
| *Environmental Enhancement and Mitigation Demonstration Program Fund* | | | | — | — | *9,880* | —[a] |

[a] Not a meaningful figure.

The large increase in proposed expenditures mainly reflects the implementation in the budget year of the Environmental Enhancement and Mitigation Demonstration Program created by Ch 106/89 (AB 471, Katz). The budget proposes $9.9 million in grants to governmental and nonprofit agencies for transportation-related environmental enhancement and mitigation projects in 1991-92. Grant funds will be allocated by the CTC while administration of the grants will be handled by the Department of Transportation (Caltrans) through an interagency agreement.

Other smaller proposed budget changes include a shift of $44,000 from temporary contract services to support 1.5 personnel-years of permanent

**CALIFORNIA TRANSPORTATION COMMISSION—Continued**

secretarial support, an increase of $33,000 in salary and benefit adjustments, and reductions of $52,000 in pro rata costs and $14,000 in other operating expenses.

## ANALYSIS AND RECOMMENDATIONS

### Transportation Programming and Funding

The voters' approval of Proposition 111 (*The Traffic Congestion Relief and Spending Limitation Act of 1990*) and Proposition 108 (*The Passenger Rail and Clean Air Bond Act of 1990*) at the June 1990 primary election has resulted in major increases in transportation resources through increased motor vehicle fuel taxes, truck weight fees, and authorization of general obligation bonds for rail projects. At the time the Legislature placed Propositions 111 and 108 before the voters, it also enacted Ch 105/89 (SB 300, Kopp) and Ch 106/89 (AB 471, Katz) making major reforms in transportation programs and the transportation capital outlay programming process. *Our discussion of transportation programming and funding issues, including issues related to the CTC, is included in our review of the Department of Transportation (please see Item 2660).*

### Administration of Proposition 116

***We recommend that the CTC report at budget hearings on (1) the commission's plans for the administration of Proposition 116 and (2) its ability to meet application review deadlines specified in Proposition 116.***

In June 1990, voters approved Proposition 116 — the *Clean Air and Transportation Improvement Act of 1990* — which authorizes the state to sell $1.99 billion in general obligation bonds to provide funds mostly for rail capital outlay over future years.

***The CTC is Responsible for Administration of Proposition 116.*** Proposition 116 also establishes the Clean Air and Transportation Improvement Fund. Bond proceeds will be deposited in the fund and are continuously appropriated to the CTC to be allocated as grants to eligible projects. Proposition 116 specifies that, once a grant application is received, the CTC must begin review within 30 days, and approve or deny the application within 180 days. Additionally, the measure allows $10 million to be allocated by the CTC to pay grant administrative expenses, and further allows the CTC to use the services of Caltrans in administering the program.

In December 1990, the CTC adopted guidelines for the Proposition 116 rail program. Consequently, grant applications may now be filed with the commission. The CTC indicates that, at this time, it has not received any applications. However, based on discussions with local agencies, the CTC estimates that it may receive applications for as much as $300 million in the current year, and $150 million in 1991-92.

***Budget Requests No Additional Staff to Implement Proposition 116.*** While there will be an increase in grant review and approval workload for the CTC, neither CTC nor Caltrans has requested resources for the administration of the grant program in the Governor's Budget. The CTC indicates that the main reason is that it had not finalized plans for the program's implementation at the time the budget was prepared, but will do so soon. The commission indicates that it is considering adding staff in the current year on an administrative basis, and may request permanent staff for 1991-92 at a later date through an amendment to the Budget Bill. Caltrans also indicates that the department may request positions for 1991-92 at a later time, depending on its role in the final CTC implementation plan.

***Requests May be Too Late to Allow Timely Review of Applications.*** As discussed above, rail applications are required to be reviewed within 180 days. Because the CTC is only in the preliminary stages of determining how the program will be administered, and a significant number of applications are expected to be submitted in the current year, there is a concern that the CTC may not be able to review applications in the required time frame.

***Analyst's Recommendation.*** In order to address this concern, we recommend that the CTC report at the time of budget hearings on (1) their plans for the administration of Proposition 116, including the use of Caltrans staff, and (2) their ability to meet Proposition 116 statutory application review deadlines.

### Clean Air and Transportation Improvement Fund

***We recommend that the Legislature adopt supplemental report language stating its intent that the annual Governor's Budget include a display of the Clean Air and Transportation Improvement Fund in order that the Legislature be informed of the transactions in the fund.***

Because monies in the Clean Air and Transportation Improvement Fund are continuously appropriated to the CTC, they will not be subject to appropriation by the Legislature in the annual Budget Act. Additionally, the Governor's Budget does not contain any information regarding the condition of the fund. Consequently, the Legislature has no information on the amount of grant expenditures made annually from the bond money.

Given the size of the Proposition 116 program ($1.99 billion) and its effect on the state's rail transportation system, we think that the Legislature ought to be informed on the progress of the bond program. To provide that information, the Governor's Budget should include a display of the condition of the Clean Air and Transportation Improvement Fund. This display would provide information such as the amount of grants made in the past and current year, the amount of grants projected to be allocated in the budget year, and the remaining bond funds available for future allocations.

Accordingly, we recommend that the Legislature adopt the following supplemental report language:

> It is the intent of the Legislature that the Governor's Budget include a display of the Clean Air and Transportation Improvement Fund including actual, estimated, and proposed fund expenditures in the past, current, and budget years.

# SPECIAL TRANSPORTATION PROGRAMS

Item 2640 from the Transportation Planning and Development Account, State Transportation Fund — Budget p. BTH 73

| | |
|---|---|
| Requested 1991-92 | $66,000,000 |
| Estimated 1990-91 | 43,250,000 |
| Actual 1989-90 | 5,642,000 |
| Requested increase $22,750,000 (+53 percent) | |
| Total recommended reduction | None |

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. State Transportation Assistance. Recommend that the Legislature amend this item to conform to actions taken in Item 2660 regarding the Transportation Planning and Development Account. 254

## 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

### Funding Level for STA Program

***We recommend that the Legislature amend this item of the Budget Bill (Item 2640-101-046) to conform to the actions it takes on the use of Transportation Planning and Development (TP and D) Account funds under Item 2660-101-046.***

The budget requests $66 million from the TP and D Account in 1991-92 for the STA program. This is $22.8 million, or 53 percent, above expenditures in the current year. Because the STA program is funded on a formula basis, this increase is primarily the result of an increase in projected revenues to the TP and D Account in the budget year.

Our analysis of all the proposed changes to the use of TP and D Account money is under the Department of Transportation item in this *Analysis*. (Please see Item 2660.) As a result, we recommend that the

Legislature take up this item when it considers Item 2660 and that it conform this item to the actions on the funding level of other TP and D Account supported programs.

## DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY

Items 2660, 2660-301, 2660-325, and 2660-399 from various funds — Budget p. BTH 75

| | |
|---|---|
| Requested 1991-92 | $5,216,305,000 |
| Estimated 1990-91 | 5,148,550,000 |
| Actual 1989-90 | 3,595,316,000 |
| Requested increase $67,755,000 (+1.3 percent) | |
| Total recommended reduction | 2,345,000 |
| Total recommended fee increases | 7,583,000 |
| Recommendation pending | 912,411,000 |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund [a] | Amount |
|---|---|---|
| 2660-001-001—Highway, support | General | $11,799,000 |
| 2660-001-041—Aeronautics, support | Aeronautics Account | 3,135,000 |
| 2660-001-042—Highway, mass transportation, transportation planning, and aeronautics, support | State Highway Account | 1,103,395,000 |
| 2660-001-045—Highway, support | Bicycle Lane Account | 10,000 |
| 2660-001-046—Aeronautics, mass transportation and transportation planning, support | Transportation Planning and Development Account | 52,412,000 |
| 2660-025-042—Highway, Proposition 111, support | State Highway Account | 264,842,000 |
| 2660-101-042—Highway, and mass transportation, local assistance | State Highway Account | 35,100,000 |
| 2660-101-045—Highway, local assistance | Bicycle Lane Account | 530,000 |
| 2660-101-046—Mass transportation and transportation planning, local assistance | Transportation Planning and Development Account | 32,427,000 |
| 2660-125-042—Mass transportation, Proposition 111, local assistance | State Highway Account | 64,000,000 |
| 2660-125-046—Mass transportation, Proposition 111, local assistance | Transportation Planning and Development Account | 37,100,000 |
| 2660-301-001—Highway, capital outlay | General | 33,000,000 |
| 2660-325-042—Highway, Proposition 111, capital outlay | State Highway Account | 650,913,000 |
| 2660-301-756—Mass transportation, capital outlay | Passenger Rail Bond | 329,777,000 |
| 2660-399-042—Highway, capital outlay | State Highway Account | 5,000,000 |
| Total, Budget Act appropriations, state funds | | $2,623,440,000 |
| 2660-001-890—Support | Federal Trust | $314,984,000 |
| 2660-101-890—Local assistance | Federal Trust | 257,984,000 |
| 2660-301-890—Capital outlay | Federal Trust | 754,764,000 |
| Total, Budget Act appropriations, federal funds | | $1,327,732,000 |

## DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued

| | | |
|---|---|---|
| Prior appropriations | | |
| Statutory—Highway, support | Consolidated Toll Bridge Funds | $63,054,000 |
| Statutory—Highway, support | State Highway Account | 6,749,000 |
| Statutory—Highway, support | Disaster Relief | 450,000 |
| Statutory—Aeronautics, local assistance | Aeronautics Account | 2,320,000 |
| Statutory—Aeronautics, local assistance | Local Airport Loan Account | 2,000,000 |
| Statutory—Highway, local assistance | Seismic Safety Retrofit Account | 10,827,000 |
| Statutory—Highway, local assistance | Local Jurisdiction Energy Assistance Account | 1,000,000 |
| Statutory—Mass transportation, local assistance | Rideshare Vanpool Revolving Loan and Grant | 4,118,000 |
| Statutory—Mass transportation, local assistance | Guaranteed Return Trip | 109,000 |
| Budget Act of 1990—Mass transportation, Proposition 111, local assistance | State Highway Account | 48,000,000 |
| Budget Act of 1990—Mass transportation, local assistance | Transportation Planning and Development Account | 11,562,000 |
| Budget Act of 1986—Highway, capital outlay | State Highway Account | 2,000,000 |
| Budget Act of 1987—Highway, capital outlay | State Highway Account | 10,000,000 |
| Budget Act of 1988—Highway, capital outlay | State Highway Account | 10,000,000 |
| Budget Act of 1989—Highway, capital outlay | State Highway Account | 49,762,000 |
| Budget Act of 1990—Highway, capital outlay | State Highway Account | 97,144,000 |
| Budget Act of 1990—Highway, Proposition 111, capital outlay | State Highway Account | 415,108,000 |
| Statutory—Highway, capital outlay | Seismic Safety Retrofit Account | 39,304,000 |
| Statutory—Highway, capital outlay | Consolidated Toll Bridge Funds | 29,041,000 |
| Total, prior appropriations, state funds | | $802,548,000 |
| Budget Act of 1986—Highway, capital outlay | Federal Trust | $10,000,000 |
| Budget Act of 1987—Highway, capital outlay | Federal Trust | 10,000,000 |
| Budget Act of 1988—Highway, capital outlay | Federal Trust | 10,000,000 |
| Budget Act of 1989—Highway, capital outlay | Federal Trust | 132,184,000 |
| Budget Act of 1990—Mass transportation, capital outlay | Federal Trust | 3,000,000 |
| Total, prior appropriations, federal funds | | $165,184,000 |
| Minus, balance available in subsequent years | | $734,004,000 |
| Minus, unexpended balance | | 156,653,000 |
| Reimbursements | — | 1,188,058,000 |
| Total, all expenditures | | $5,216,305,000 |

[a] All accounts are within the State Transportation Fund, except for the Local Jurisdiction Energy Assistance Account in the General Fund.

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

| | *Analysis page* |
|---|---|
| 1. Funds Available for Capital Outlay. Lower revenues and higher noncapital costs are likely to result in at least $275 million less for capital outlay through 1991-92 than estimated in the 1990 State Transportation Improvement Program. | 266 |
| 2. New Projects Not Adequately Defined. New projects added to the 1990 State Transportation Improvement Program did not have statutorily required reports necessary to adequately identify scope and cost. Recommend that the Cali- | 267 |

fornia Transportation Commission and the Department of Transportation report by April 15 on actions they intend to take to ensure scope and costs of projects are adequately identified in the 1990 State Transportation Improvement Program, and to ensure reports will be completed on projects to be added in later programs.

3. Earthquake Repair and Seismic Retrofit. The current transportation capital outlay program does not include about $1.5 billion of earthquake repair and seismic retrofit work over the period from 1990-91 through 1996-97. 268
4. Budget Information. Recommend the adoption of supplemental report language requiring the Governor's Budget document to include staffing and expenditure data for each program element. 269
5. Funding for Seismic Retrofit Work. The Legislature needs to decide how to provide funding for about $1.5 billion in earthquake restoration and seismic retrofit work between now and 1996-97. Without additional funds, this work will displace funding for other highway projects in the 1990 State Transportation Improvement Program period. 270
6. Seismic Retrofit. Because the Department of Transportation has not submitted a statutorily required plan for retrofit of state bridges which was due January 1, 1991, the Legislature needs this information to assess the appropriate funding level for the program in 1991-92. Recommend the Department of Finance report by April 15 on its proposals for funding seismic retrofit projects. Further recommend that, following receipt of the report, the Legislature amend the Budget Bill to fund seismic retrofit at levels consistent with the priority placed on this work by the Legislature. 271
7. State-Local Transportation Partnership Program. Recommend that the Legislature decide, based on its own priorities, whether to approve a $50 million reduction in appropriations for the program. 274
8. Legislative Oversight Impeded by Department of Transportation Failure to Report. Recommend that the Department of Transportation report to the fiscal committees by April 15 on why it has been late in submitting required reports and what actions it has taken to ensure future compliance with reporting deadlines. 276
9. Capital Outlay Support. Withhold recommendation on $880 million and 10,956 personnel-year equivalents requested for capital outlay support until the Department of Transportation provides adequate justification for its request. 277
10. Consultant Contracting. Recommend the Department of Transportation report to the fiscal committees on the impact of the court's order regarding consultant engineering practices on the department's operations and staffing adequacy. 278

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

11. Attainment of Minority and Women Business Goals. We are unable to review the Department of Transportation attainment of minority and women business enterprise goals for engineering contracts because the department has failed to submit its statutorily required report on accomplishments to the Legislature. 281
12. Research and Development. Withhold recommendation on $21.3 million for research and development pending review of a report on the policy and fiscal implications of the advanced technology program. 282
13. Research and Development Center. Contrary to legislative direction, the department has expended resources for a research and development center. Recommend the adoption of Budget Bill language prohibiting funds not explicitly approved by the Legislature to be used for the planning and development of a research and development center. 282
14. Permits. Recommend adoption of Budget Bill language requiring the department to recover $11.9 million in fees for the issuance of encroachment permits. 283
15. ***Rest Area Maintenance. Reduce Item 2660-001-042 by $890,000.*** Recommend reduction because request to increase state forces to maintain rest areas is overbudgeted by 11.8 personnel-years. Withhold recommendation on $486,000 pending the outcome of labor negotiations. 285
16. Transportation Planning and Development Account. We make no recommendation on transfer of $25 million from the account to General Fund to pay debt service on rail bonds. Further recommend that the California Transportation Commission, the State Treasurer and the Department of Transportation report at budget hearings on issues related to the transfer. 289
17. ***Transportation Planning and Development Account. Reduce Item 2660-021-042 by $785,000.*** Recommend reduction of the transfer from the State Highway Account to the Transportation Planning and Development Account to accurately reflect highway planning activity costs. 290
18. ***Transportation Planning and Development Account. Increase Item 2640-101-046 by $9 million, reduce Item 2660-101-046 by $9.5 million.*** Recommend increase State Transportation Assistance Program and reduce Transit Capital Improvement Program so that the programs are funded at levels consistent with the Transportation Planning and Development Account statutory formula. 291
19. Timely Use of Funds for Rail Projects. Recommend that the California Transportation Commission and the Department of Transportation report at budget hearings on why the 293

Timely Use of Funds policy has not been monitored and enforced. Further, recommend the Legislature adopt supplemental report language requiring the commission to report in its annual report on compliance with its Timely Use of Funds policy.

20. Commuter and Urban Rail Transit Projects. Projects were not reviewed prior to their inclusion in the 1990 State Transportation Improvement Program. Recommend the California Transportation Commission and the Department of Transportation report at budget hearings on issues related to the review of these projects. 295
21. ***Intercity Rail Program. Reduce Item 2660-001-046 by $175,000.*** Recommend reduction to eliminate overbudgeting for workload. 296
22. Intercity Rail Service. Recommend the adoption of Budget Bill language to restrict the use of $3.5 million to expanded intercity rail service. 296
23. Peninsula Commute Service. Actions have been taken towards meeting statutory requirements to transition operation of the service to local control. 297
24. Rideshare Program. Withhold recommendation on $10.5 million for rideshare marketing from the Federal Trust Fund pending receipt of a survey to evaluate marketing effectiveness. 297
25. Data Base Development Project. Recommend that the department provide fiscal committees with an explanation of the impact of redirecting funds from other programs to finance budget year development costs. 298
26. Tort Costs. Tort payments and legal costs will be $50.6 million in 1991-92 — 23 percent of the department's administrative budget. 299
27. Recruitment Incentives. Withhold recommendation on $125,000 for a recruitment incentive program, pending receipt of implementation plans from the department. 300
28. Salary Savings. Recommend that the Department of Transportation report to the fiscal committees, at the time of budget hearings, on how the proposed salary savings requirement will affect the department's ability to carry-out its programs. 301
29. Technical Recommendation. Recommend deletion of language erroneously included under Item 2660-125-042. 301

## 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

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

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 18,144.7 personnel-years (PYs) in the current year.

## MAJOR ISSUES

☑ We find that the state's transportation capital outlay program

- Could be underfunded by at least $275 million *below* the amounts required for 1990-91 and 1991-92.
- Includes about $910 million to pay higher costs of projects remaining from the 1988 STIP. The higher costs reduce the amount of funds available for other transportation needs.
- Includes $795 million in new capacity projects — 67 percent of the total — which do not have defined scope and cost.
- Does not yet account for $1.5 billion in earthquake restoration and seismic retrofit costs.

☑ In order to undertake additional earthquake restoration and seismic retrofit work in 1991-92, the Legislature will need to identify capital projects to defer or new funding sources to utilize.

☑ At the end of 1989-90, the department had a backlog of about $1.2 billion in undelivered highway capital outlay projects.

☑ The department has expended funds on the development of a research center despite the Legislature's disapproval of funds for these activities in the current year.

## MAJOR ISSUES—Continued

☑ About $2.5 billion in commuter and urban rail projects have been included in the 1990 STIP without prior review by the CTC or Caltrans as required by statute.

☑ With the passage of Propositions 108 and 116, the rail capital outlay program has expanded significantly. The budget proposes an appropriation of $330 million for Proposition 108 grants. (Proposition 116 funds are continuously appropriated for allocation by the CTC and therefore are not reflected in the budget.)

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $5.2 billion by Caltrans in 1991-92. This is about $68 million, or 1.3 percent, *more* than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1989-90 through 1991-92.

**Table 1**
**Department of Transportation**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Aeronautics | 26.1 | 31.2 | 33.7 | $5,992 | $9,342 | $8,352 | −10.6% |
| Highway Transportation | 14,983.5 | 16,000.6 | 17,139.1 | 3,377,550 | 4,528,828 | 4,438,164 | −2.0 |
| Mass Transportation | 128.3 | 216.1 | 269.3 | 185,844 | 580,097 | 740,308 | 27.6 |
| Transportation Planning | 146.1 | 213.0 | 213.0 | 25,930 | 30,283 | 29,481 | −2.6 |
| Administration (Distributed) | 1,721.5 | 1,683.8 | 1,774.1 | (176,985) | (207,110) | (218,252) | 5.4 |
| Totals | 17,005.5 | 18,144.7 | 19,429.2 | $3,595,316 | $5,148,550 | $5,216,305 | 1.3% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$1,600,366* | *$2,280,082* | *$2,691,984* | *18.1%* |
| *Federal Funds* | | | | *1,742,149* | *1,908,655* | *1,336,263* | *−30.0* |
| *Reimbursements* | | | | *252,801* | *959,813* | *1,188,058* | *23.8* |

### Significant Program Changes

Table 2 summarizes the major changes in proposed activities in 1991-92 by funding source.

**Table 2**
**Department of Transportation**
**Proposed 1991–92 Budget Changes**
**(dollars in thousands)**

| | *General Fund* | *Aeronautics Account* | *State Highway Account* | *State Highway Account (Proposition 111)* | *Transportation Planning and Development Account* | *Disaster Relief Fund and Seismic Safety Account* | *Passenger Rail Bond Fund* | *Federal Funds* | *Reimbursements* | *Other Funds* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1990–91 Expenditures (Revised) | $4,300 | $6,453 | $1,184,389 | $555,640 | $87,839 | $27,935 | $300,000 | $1,908,655 | $959,813 | $113,526 | $5,148,550 |
| *Baseline Adjustments* | | | | | | | | | | | |
| Employee compensation | — | 65 | 7,495 | 8,764 | 428 | — | — | 3,210 | 578 | 856 | 21,396 |
| Pro rata adjustment | — | — | −95 | — | — | — | — | — | — | — | −95 |
| Carryover legislation | — | — | 5,249 | — | — | — | — | — | — | — | 5,249 |
| One-time current year costs | −4,000 | −1,400 | −24,954 | — | −4,136 | −13,808 | — | −3,071 | — | −1,927 | −53,296 |
| Permanent redirection | — | — | −6,941 | — | 2,733 | — | — | — | 4,208 | — | 0 |
| Current year capital outlay | −300 | — | −74,699 | −258,792 | −154 | −4,677 | −300,000 | −1,388,976 | −904,856 | −25,595 | −2,958,049 |
| Local assistance (carryover) | — | — | −54,204 | 45,500 | 11,562 | 1,827 | — | — | — | −17,290 | −12,605 |
| Capital outlay (carryover) | — | — | 35,321 | — | — | 29,523 | — | −349,052 | −104,711 | −4,431 | −393,350 |
| Local assistance adjustment | — | — | — | — | 25,992 | — | — | −25,000 | — | −86 | 906 |
| Other | — | — | 40,027 | −40,027 | — | — | — | — | — | — | 0 |
| Subtotals, baseline adjustments | (−$4,300) | (−$1,335) | (−$72,801) | (−$244,555) | ($36,425) | (−$12,865) | (−$300,000) | (−$1,762,889) | (−$1,004,781) | (−$48,473) | (−$3,389,844) |
| *Workload & Program Changes* | | | | | | | | | | | |
| Aeronautics | | | | | | | | | | | |
| Aeronautics workload | — | $207 | — | — | — | — | — | — | — | — | $207 |
| Airport ground access | — | — | — | — | $780 | — | — | — | — | — | 780 |
| Land use planning handbook | — | 130 | — | — | — | — | — | — | — | — | 130 |
| Highways | | | | | | | | | | | |
| New capital outlay | $33,000 | — | — | $523,706 | — | $4,677 | $329,777 | $1,112,347 | $1,210,614 | $33,472 | 3,247,593 |
| Earthquake restoration/retrofit | 11,799 | — | — | — | — | — | — | 47,196 | — | — | 58,995 |
| Seismic retrofit/locals | — | — | — | — | — | — | — | 7,041 | 1,760 | — | 8,801 |
| Local tax measure workload | — | — | 20,219 | — | — | — | — | — | 19,038 | — | 39,257 |
| Rest area maintenance | — | — | 4,567 | — | — | — | — | — | — | — | 4,567 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Maintenance inventory | — | — | 7,772 | — | — | — | — | — | — | — | 7,772 |
| State/local partnership | — | — | 22 | 383 | — | — | — | — | — | — | 405 |
| Increased permit workload | — | — | 558 | — | — | — | — | — | — | — | 558 |
| Toll collection workload | — | — | — | — | — | — | — | — | — | 519 | 519 |
| Surveys workload | — | — | 5 | 3,217 | — | — | — | — | — | — | 3,222 |
| Environmental site mitigation | — | — | 66 | 586 | — | — | — | — | — | — | 652 |
| Traffic management workload | — | — | 77 | 1,291 | — | — | — | — | — | — | 1,368 |
| Smog inspection workload | — | — | 448 | — | — | — | — | — | — | — | 448 |
| Congestion relief | — | — | 507 | — | — | — | — | — | — | — | 507 |
| Materials testing | — | — | 14 | 984 | — | — | — | — | — | — | 998 |
| CADD equipment | — | — | 62 | 9,977 | — | — | — | — | — | — | 10,039 |
| Expert witnesses | — | — | — | 1,319 | — | — | — | 879 | — | — | 2,198 |
| Fleet replacement | — | — | 3,900 | — | — | — | — | — | — | — | 3,900 |
| Radio equipment | — | — | 1,060 | — | — | — | — | — | — | — | 1,060 |
| Traffic operations centers | — | — | 748 | — | — | — | — | — | — | — | 748 |
| STIP-related workload | — | — | 6,798 | — | — | — | — | — | 1,614 | — | 8,412 |
| Mass Transportation | | | | | | | | | | | |
| Mass transit workload | — | — | — | — | 2,279 | — | — | — | — | — | 2,279 |
| Intercity rail workload | — | — | — | — | 919 | — | — | — | — | — | 919 |
| Amtrack operating support | — | — | — | — | 3,944 | — | — | — | — | — | 3,944 |
| Rideshare program | — | — | — | — | 63 | — | — | 7,823 | — | — | 7,886 |
| Administration | | | | | | | | | | | |
| Tort workload | — | — | 1,348 | — | — | — | — | — | — | — | 1,348 |
| Labor relations workload | — | — | 388 | — | — | — | — | — | — | — | 388 |
| Accounting workload | — | — | 1,174 | — | — | — | — | — | — | — | 1,174 |
| Computer replacement | — | — | 1,277 | — | — | — | — | — | — | — | 1,277 |
| Recruitment | — | — | 740 | — | — | — | — | — | — | — | 740 |
| Salary savings adjustment | — | — | 4,607 | — | 105 | — | — | 882 | — | 245 | 5,839 |
| Price increase | — | — | 12,620 | — | 1,147 | — | — | 14,329 | — | 573 | 28,669 |
| Subtotals, workload & program changes | ($44,799) | ($337) | ($68,977) | ($541,463) | ($9,237) | ($4,677) | ($329,777) | ($1,190,497) | ($1,233,026) | ($34,809) | ($3,457,599) |
| 1991-92 Expenditures (Proposed) | $44,799 | $5,455 | $1,180,565 | $852,548 | $133,501 | $45,477 | $329,777 | $1,336,263 | $1,188,058 | $99,862 | $5,216,305 |
| Change from 1990-91: | | | | | | | | | | | |
| Amount | $40,499 | −$998 | −$3,824 | $296,908 | $45,662 | $17,542 | $29,777 | −$572,392 | $228,245 | −$13,664 | $67,755 |
| Percent | 941.8% | −15.5% | −0.3% | 53.4% | 52.0% | 62.8% | 9.9% | −30.0% | 23.8% | −12.0% | 1.3% |

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

## ANALYSIS AND RECOMMENDATIONS

### TRANSPORTATION PROGRAMMING AND FUNDING

In 1989, the Legislature enacted Ch 105/89 (SB 300, Kopp) and Ch 106/89 (AB 471, Katz) to reform and improve California's process for developing its multi-year transportation capital outlay program. These reforms were part of the *Transportation Blueprint for the Twenty-First Century*, a package of legislation enacted to provide $18.5 billion in additional resources over 10 years — through increases in motor vehicle fuel taxes, truck weight fees, and bonds for rail projects — along with a 10-year funding plan that specifies how the additional resources are to be used for transportation.

Chart 1 summarizes several key provisions of the state's transportation capital outlay program designed to promote accountability, including changes made by Chapters 105 and 106.

**Chart 1**

**Statutory Provisions to Promote Accountability in Transportation Capital Programs**

**Programming Limited to Anticipated Resources**

- Limits projects to funds reasonably anticipated to be available during the multiyear life of the capital program.

**Cost Containment**

- Requires previously adopted 1988 STIP projects to be reevaluated on a priority basis if their costs increase more than 20 percent.
- Requires project study reports on new capacity projects to clearly define scope and costs before adoption in the capital program.

**Commitment to Project Schedules**

- Specifies that the STIP is a schedule for *project delivery* defined as the date a project is to be advertised for construction.

**Project Monitoring**

- Requires Caltrans to report annually to the Governor and Legislature on project delivery performance.
- Requires the California Transportation Commission to review Caltrans project delivery prior to its biennial adoption of the STIP.

#### Fund Estimate and Adopted Capital Outlay Program Costs

In February, 1990, the California Transportation Commission (CTC) adopted the fund estimate for the 1990 State Transportation Improvement Program (STIP) which covers the first seven years — 1990-91 through 1996-97 — of the 10-year funding plan. As summarized in Table 3, the CTC estimated total resources of $27.1 billion for the seven-year STIP period. This includes $3 billion in general obligation bonds for rail which were scheduled by Ch 108/89 (AB 973, Costa) for voter approval over three elections. (The voters approved the first $1 billion of these bonds in June 1990. The other two $1 billion bond issues will be considered at the November elections in 1992 and 1994, respectively.) Total resources also include $16.5 billion anticipated from motor vehicle fuel taxes and truck weight fees (including about $7.7 billion from increases in these taxes and fees enacted by Chapters 105 and 106), and $7.6 billion anticipated from federal funds.

The CTC estimated support and local assistance expenditures over the STIP period of about $13.4 billion. In addition, CTC estimated that after support and local assistance expenditures were paid, there would be $13.7 billion available for capital outlay expenditures. However, as indicated in Table 3, the amount of capital outlay expenses actually programmed in the 1990 STIP was more — by about $74 million — at $13.8 billion.

The amount of resources and expenditures shown in Table 3 does not include up to $2 billion for rail projects to be funded under the *Clean Air and Transportation Improvement Act* — Proposition 116 — approved by the voters in June 1990. The schedule for expenditure of the Proposition 116 funds has not yet been determined.

**Table 3**
**Adopted Transportation Capital Program**
**Based on 1990 STIP Fund Estimate and Adopted Capital Costs**
**1990-91 through 1996-97**
**(dollars in millions)**

| | | *Expenditures* | | |
|---|---|---|---|---|
| *Sources* | *Resources* | *Support and Local Assistance* | *Capital Outlay* [a] | *Total* |
| State Highway Account | $16,472 | $10,840 | $5,707 | $16,547 |
| Passenger Rail Bond Funds | 3,000 | — | 2,999 | 2,999 |
| Federal Funds | 7,609 | 2,526 | 5,083 | 7,609 |
| Totals | $27,081 | $13,366 | $13,789 | $27,155 |

[a] As adopted in the 1990 STIP and other capital programs (1990 Highways Systems Operation and Protection Plan, 1990 and 1991 Transportation System Managements Plans, State-Local Transportation Partnership Program, Environmental Enhancement and Mitigation Demonstration Program).

## Additional State Resources Enable Expansion of Capital Outlay Program

Chart 2 shows the composition of the $13.8 billion state transportation capital program adopted for the seven-year period.

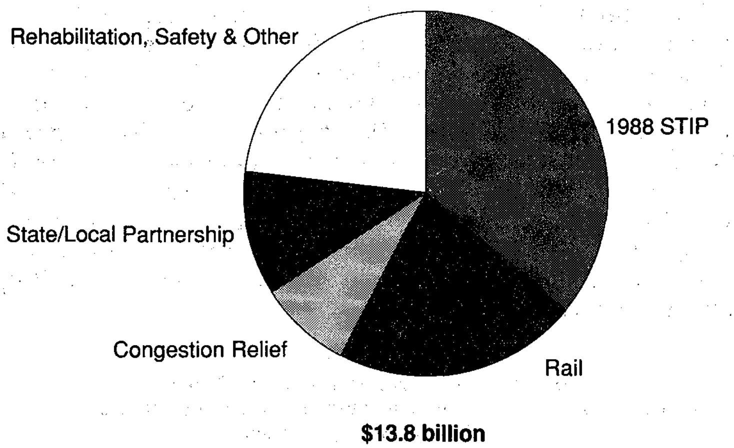
As shown in Chart 2, about $5 billion of the expenditures are for projects which were programmed for delivery in the 1988 STIP (1988-89 through 1992-93). The remaining $8.8 billion is for new projects, including $3.2 billion for rehabilitation and safety, $3 billion for intercity, commuter, or urban rail projects, $1.5 billion for state matching grants for locally funded projects under the State-Local Transportation Partnership Program, and about $1.1 billion for capacity expansion under the Flexible Congestion Relief Program.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

**Chart 2**

**Major Expansion Planned For Transportation Capital Expenditures**

**1990-91 through 1996-97**




Although the 1990 STIP fund estimate projects resources to nearly cover noncapital expenditures and pay for a $13.8 billion capital outlay program, our review shows that:

- ***Resources available for capital outlay are running at least $275 million below projections for 1990-91 and 1991-92.***
- ***Increases in 1988 STIP project costs have reduced funds available to carry out other projects.***
- ***Adequate actions have not been taken to define project costs and scope prior to STIP programming.***
- ***The capital program does not yet account for $1.5 billion in earthquake restoration and seismic retrofit costs.***

**Funds Available For Capital Outlay Running Below Projections**

***Lower than anticipated revenues and higher than anticipated support and local assistance costs are likely to result in at least $275 million less for capital outlay through 1991-92.***

Our review shows that total State Highway Account (SHA) and federal resources available for the capital outlay program are likely to be at least $275 million *less* through the first two years of the 1990 STIP (1990-91 and 1991-92) than estimated in the STIP. This is due to lower than expected resources and increases in non-capital outlay expenditures.

***Resources Anticipated to be Less.*** Resources for both capital outlay and noncapital outlay purposes are anticipated to run about $127 million *below* the levels projected in the current and budget years. This includes about $277 million *less* in state revenues partially offset by about $150 million *more* in federal funds.

Caltrans indicates that in estimating the amount of state revenues in the STIP, it did not account for the lag between when higher gas tax rates under Chapters 105 and 106 go into effect and the actual receipt of revenues into the SHA. Caltrans estimates that this accounts for about $100 million less in state revenues than estimated for the first two years of the STIP period. The remaining $177 million shortfall is primarily explained by slower economic growth and reduced fuel consumption due to increases in gas prices as the result of the Persian Gulf crisis and increased federal fuel taxes.

***Noncapital Expenditures Will be More.*** Support and local assistance expenditures estimated for the current year and requested for 1991-92 are higher than those indicated in the 1990 STIP fund estimate. Based on discussions with Caltrans to date, it appears that these expenditures are at least $150 million higher over 1990-91 and 1991-92 and could be more.

### 1988 STIP Projects Rescheduled at Higher Cost

In adopting the 1990 STIP, the CTC reviewed the delivery schedule for 417 projects which were in the previous (1988) STIP but were not yet delivered. Based on Caltrans' updated estimate of when the projects will be ready to advertise, about 265 projects were rescheduled to a later year and 18 projects were rescheduled for an earlier year. The schedules for 134 projects remained unchanged.

Caltrans also indicates that the current cost estimate of the 417 projects is about $910 million higher than when they were adopted in the 1988 STIP. The higher cost reflects both the inflationary effect of rescheduling the projects to a later date and cost increases due to changes in the projects' definition or scope. Because these cost increases must be funded from a fixed amount of resources expected during the 1990 STIP period, they reduce the amount of resources available to fund additional projects in the 1990 STIP to meet other high priority transportation demands.

### New STIP Projects Not Adequately Defined

***About 67 percent of new highway capacity projects added to the 1990 STIP did not have completed project study reports (PSRs) necessary to adequately identify their scope and costs.***

***We recommend that the CTC and Caltrans report to the fiscal committees by April 15, 1991 identifying actions they intend to take to ensure that the scope and cost of projects added to the 1990 STIP have been adequately identified, and to ensure that projects added to the 1992 and later STIPs have completed PSRs.***

Current law requires Caltrans to complete a project study report (PSR) on capacity increasing transportation projects *before* the CTC adopts them in the STIP. The purpose of this requirement is to ensure that both the scope and costs of projects have been adequately identified

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

before projects are programmed for funding so that major unanticipated cost increases or changes in schedules may be avoided once the project has been programmed.

Our review indicates that, despite the statutory requirement, $795 million in projects — 67 percent of highway capacity projects added to the 1990 STIP — did not have PSRs at the time the STIP was adopted. Furthermore, as discussed in greater detail later in this *Analysis* (please see page 295), applications of commuter and urban rail transit projects were not reviewed by CTC prior to inclusion of the projects in the 1990 STIP.

In order to ensure that project study reports are completed pursuant to current law and that current STIP programming reflects reasonable estimates of schedules and cost, we recommend that the CTC and Caltrans report to the fiscal committees by April 15, 1991 identifying actions they intend to take to ensure that the scope and cost of projects added to the 1990 STIP have been adequately identified, and actions the CTC intends to take prior to the adoption of the 1992 STIP to ensure that PSRs are completed on all capacity projects adopted in that, and subsequent, STIPs.

**Capital Outlay Program Does Not Include Earthquake Repair And Seismic Retrofit Costs**

***The current capital outlay program does not include about $1.5 billion of earthquake repair and seismic retrofit work over the seven-year period 1990-91 through 1996-97.***

As discussed in greater detail in a later section of this analysis, our review shows that the 1990 transportation capital outlay program does not include funding for a large portion of the statewide earthquake repair and seismic retrofit work that was identified following the 1989 Loma Prieta Earthquake. The Legislature will need to decide how best to provide funding for this work over the STIP period.

**Progress in Implementing 10-Year Funding Plan**

In addition to establishing a 10-year plan for expenditure of $18.5 billion in new revenues, Chapter 105 also requires the Legislative Analyst to provide a summary of the expenditures proposed for each element of the plan as part of the *Analysis*.

Table 4 compares the 10-year plan for expenditures to expenditures budgeted through the end of 1991-92 — the second year of the 10-year plan. The table also shows the percentage of 10-year planned expenditures to be carried out by the end of 1991-92 under the Governor's Budget. In the early years of the 10-year funding plan, it was anticipated that most of the new revenues would be used to complete projects in the 1988 STIP. The expenditures shown in Table 4 are consistent with this expectation with about $1 billion of the $2.4 billion through the first two years to be expended on 1988 STIP projects and correspondingly less being spent on other highway activities. As discussed later in this *Analysis* (please see page 274), the budget proposes to reduce expenditures for the State-Local Transportation Partnership Program by $22 million in 1991-92 by reducing the budget-year appropriation below the level the Legislature previously indicated it intended to appropriate.

**Table 4**
**Department of Transportation**
**10-Year Funding Plan**
**(dollars in millions)**

| *Element* | *10-Year Plan* | *Planned Accomplishment* 1991-92 | *Planned Accomplishment* As Percent of 10-Year Plan |
|---|---|---|---|
| 1988 STIP shortfall | $3,500 | $1,007 | 28.8% |
| Intercity, commuter and urban rail | 3,000 | 630 | 21.0 |
| Flexible Congestion Relief Program | 3,000 | — | — |
| City/county subventions — streets, roads and guideways | 3,000 | 347 | 11.6 |
| State-Local Transportation Partnership Program | 2,000 | 308 | 15.4 |
| Interregional road system | 1,250 | — | — |
| Traffic system management | 1,000 | 91 | 9.1 |
| Highway maintenance and rehabilitation | 1,000 | — | — |
| Transit operations and capital outlay | 500 | 50 | 10.1 |
| Soundwalls | 150 | — | — |
| Environmental Enhancement and Mitigation Demonstration Program | 100 | 10 | 10.0 |
| Totals | $18,500 | $2,443 | 13.2% |

### Governor's Budget Omitted Statutorily Required Detail

***We recommend the adoption of supplemental report language requiring the transportation portion of the Governor's Budget document to include staffing and expenditure data for each program element.***

Chapter 105 requires Caltrans to submit a budget that includes expenditure detail according to specific program elements. Last year, the Governor's Budget document was modified to provide the required information, but the 1991-92 Governor's Budget display omits it. The program element data is important because it assists the Legislature in performing its oversight responsibilities. Consequently, we recommend the adoption of the following supplemental report language:

> The transportation portion of the Governor's Budget shall include actual, estimated and proposed expenditure and staffing information for each program element as required by Chapter 105, Statutes of 1989.

## EARTHQUAKE RESTORATION AND SEISMIC RETROFIT

As a result of the October 1989 Loma Prieta Earthquake, Caltrans is faced with a formidable workload to repair or reconstruct damaged highway facilities in the San Francisco Bay Area. In addition, under the Seismic Retrofit Program enacted by Ch 17x/89 (AB 38x, Sher) and Ch 18x/89 (SB 36x, Kopp) all publicly owned bridges (including highway overpasses and other structures) must be retrofitted or replaced in order to meet higher seismic safety standards established following the Loma Prieta Earthquake.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

In reviewing the 1991-92 Governor's Budget, the Legislature will need to make at least three key decisions related to earthquake restoration and seismic retrofit:

- Whether to provide new resources for this earthquake and seismic retrofit work. Alternatively, the Legislature will need to decide which program expenditures to defer in order to fund this work.
- How much funding to provide for earthquake and seismic retrofit work in 1991-92.
- Whether to authorize the use of medium-term notes or certificates to finance a portion of the seismic retrofit work under the provisions of Ch 1328/90 (SB 196, Killea).

**How Should the Legislature Fund $1.5 Billion in Earthquake Work?**

***Under current law, about $1.5 billion of earthquake restoration and seismic retrofit work will displace funding for other highway projects over the 1990 STIP period. The Legislature will need to decide whether to provide additional resources for earthquake restoration and seismic retrofit work or whether to defer other planned expenditures.***

Caltrans' most recent estimate, made in September 1990, of the costs to repair and restore transportation facilities damaged by the Loma Prieta Earthquake and to carry out the seismic retrofit program established by Chapters 17x and 18x is about $2.6 billion.

Under current law, restoration of highways damaged in the earthquake must be ready to advertise by October 1992 in order to be eligible for federal emergency relief funds. State law also requires seismic retrofit of state bridges to be complete by December 31, 1994. State law, however, does not specify the time period within which retrofit of local bridges is to be accomplished.

***Available Emergency Relief Funds Fall Short of Estimated Costs.*** Caltrans assumes that it will receive about $875 million in federal emergency relief funds for the costs of emergency repair and restoration work. In addition, the Governor's Budget estimates that Caltrans would receive a total of about $175 million in revenues raised by the ¼ cent emergency sales tax (including $80 million appropriated in Chapter 18x). In total, these resources will provide about $1.1 billion for earthquake repair and seismic retrofit. This leaves about $1.5 billion of costs that would not be paid from federal or state emergency relief money.

If a new source of funding is not provided, Caltrans would have to spend highway funds that the state normally receives from the federal government or SHA resources in order to complete the earthquake repair and seismic retrofit work. This would displace an equivalent amount of other projects currently adopted in the capital outlay program.

***Legislature Will Face Funding Decision.*** The Legislature has placed a high priority on earthquake restoration and seismic retrofit work. In particular, the Legislature has made seismic retrofit of state bridges its highest priority transportation activity. In reviewing the 1991-92 budget, the Legislature will need to consider whether to provide new resources to accomplish this work in 1991-92 and subsequent years — for example, through accelerating the schedule for a higher gas tax enacted by Chapters 105 and 106, reimposing an emergency sales tax, borrowing against future revenues, or by seeking congressional action to provide additional federal funds. If additional resources are not made available, the Legislature will need to determine which planned expenditures in the 1990 STIP and the 10-year funding plan are to be deferred in order to fund earthquake restoration and seismic retrofit program costs.

**How Much Should the Legislature Provide for Seismic Retrofit in 1991-92?**

***Caltrans has not yet submitted a statutorily required plan and schedule, due January 1, 1991, for the seismic retrofit of state bridges. The Legislature needs this information to determine the level of funding and project priority for seismic retrofit for 1991-92.***

***We recommend that the Department of Finance (DOF) submit to the Legislature by April 15, 1991 its proposal for funding seismic retrofit projects to be awarded through 1991-92. We further recommend that, following receipt of Caltrans' seismic retrofit plan and the DOF proposal, the Legislature amend the Budget Bill to fund seismic retrofit of state bridges at levels consistent with the priority placed on this work by the Legislature.***

***Legislature Establishes Seismic Retrofit Program.*** Chapters 17x and 18x also provided that state costs of the seismic retrofit program would be paid from the Seismic Safety Retrofit Account (SSRA). Initial resources in the account were provided through the transfer of $80 million in ¼ cent emergency sales tax revenues from the Disaster Relief Fund. Of this amount, the Legislature appropriated $20 million to retrofit locally owned bridges and $60 million to retrofit state-owned bridges.

Chapter 265, Statutes of 1990 (SB 2104, Kopp) requires Caltrans to submit a multi-year plan and schedule by January 1, 1991 for completing the seismic retrofit work on state-owned bridges needing strengthening or replacement in order to meet seismic safety standards. The plan is to be based on the earliest dates when engineering can be completed and projects can begin construction and is to include the estimated annual and total costs of the program.

Chapter 265 also stated the Legislature's intent to provide additional funds needed to retrofit or replace all deficient state-owned bridges as soon as plans and specifications are prepared and contracts for the work are awarded. Chapter 1082, Statutes of 1990 (SB 1742, Leroy Greene) further requires that each annual budget include an amount recommended to be transferred from the SHA to the SSRA based on Caltrans' estimate of state funds necessary to fund the program in the budget year.

***Legislature Needs Plan in Order to Assess Seismic Retrofit Budget for 1991-92.*** At the time this analysis was prepared, Caltrans had not yet submitted the multi-year plan for completing the seismic retrofit work. Without cost estimates and schedule information required by Chapter 265, the Legislature is unable to fully assess whether additional funding

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

should be provided in 1991-92 to carry out the seismic retrofit program. For example, while Caltrans *previously* estimated (in September 1990) that about $100 million in seismic retrofit costs on state bridges would have to be paid from the ¼ cent emergency sales tax funds through 1991-92 — $40 million *more* than the $60 million appropriated to date from the SSRA for retrofit of state facilities — the budget is not proposing to transfer SHA funds to the SSRA, nor to make additional SSRA appropriations, to fund this additional $40 million in state costs.

***Analyst's Recommendations.*** Receipt of Caltrans' seismic retrofit plan should help to clarify the amount of SSRA funding required to carry out the program in the budget year. Consequently, we recommend that the Department of Finance submit to the Legislature by April 15, 1991 its proposal for funding seismic retrofit projects to be awarded through 1991-92. We further recommend that, following receipt of Caltrans' seismic retrofit plan and the DOF proposal, the Legislature amend the Budget Bill to transfer SHA funds to the SSRA and to make additional SSRA appropriations as needed to accomplish seismic retrofit of state facilities consistent with the priority placed on this work by the Legislature. This will, however, require reductions in other portions of the Caltrans budget.

**Should the Legislature Authorize Medium-Term Financing for Seismic Retrofit Work?**

In addition to requiring the transfer of funds annually for seismic retrofit work, current law also provides for medium-term financing — through notes or certificates — of this work under specified conditions. Chapter 1328, Statutes of 1990 (SB 196, Killea), requires the CTC to submit a report to the Legislature and the Governor annually by April 1, beginning in 1991, which identifies (1) seismic retrofit projects to be undertaken in the budget year, (2) the impact of funding such projects on 1988 STIP projects proposed for funding in the same year, and (3) an analysis of whether it is cost-effective to issue medium-term (up to five years) notes or certificates to provide additional budget-year resources to mitigate the effect of the additional seismic retrofit workload on the delivery of the affected 1988 STIP projects.

If the financing envisioned under Chapter 1328 is determined to be cost-effective, Chapter 1328 also allows the CTC to issue such notes or certificates if specific authorization to do so is obtained through the Budget Act. However, if medium-term financing is not shown to be cost-effective, the CTC would need to delay funding of projects contained in the currently adopted capital program, or Caltrans would need to reduce support or local assistance expenditures, to be able to fund the seismic retrofit program.

Once the Legislature receives the CTC report it will need to decide whether to grant authority through the Budget Act to issue notes or certificates or, alternatively, what other actions should be taken to fund seismic retrofit projects in the budget year.

## HIGHWAY TRANSPORTATION

Of the total 1991-92 expenditures proposed in the department's budget, $4.4 billion (85 percent) is for the Highway Transportation program. This is a decrease of $90 million, or 2 percent, from estimated expenditures in the current year. The budget proposes to increase staff for the program by 1,139 PYs.

As shown in Table 5, state funds will finance $2.2 billion (49 percent) of the total proposed expenditures, the federal government will fund an additional $1.2 billion (27 percent), and the remaining $1.1 billion (24 percent) will be reimbursed primarily from local (sales tax measures) and private (developer) funds.

**Table 5**
**Department of Transportation**
**Highway Transportation**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| *State Operations* | | | | | | | |
| Capital outlay support | 7,112.0 | 7,927.7 | 8,858.0 | $668,600 | $750,973 | $879,758 | 17.1% |
| Local Assistance | 265.0 | 270.0 | 283.3 | 22,736 | 23,430 | 26,300 | 12.2 |
| Program development | 306.1 | 320.9 | 339.1 | 27,856 | 47,992 | 42,126 | −12.2 |
| Operations | 1,376.7 | 1,411.2 | 1,442.3 | 133,655 | 111,157 | 115,976 | 4.3 |
| Maintenance | 5,923.7 | 6,070.8 | 6,216.4 | 613,720 | 682,015 | 721,491 | 5.8 |
| Equipment services | (736.0) | (739.3) | (741.8) | (107,785) | (102,135) | (110,216) | (7.9) |
| Subtotals | 14,983.5 | 16,000.6 | 17,139.1 | ($1,466,567) | ($1,615,567) | ($1,785,651) | (10.5%) |
| *Local Assistance* | | | | | | | |
| Local assistance | | | | $230,164 | $306,464 | $281,957 | −8.0% |
| Operations | | | | 5,082 | 2,100 | — | −100.0 |
| Subtotals | | | | ($235,246) | ($308,564) | ($281,957) | (−8.6%) |
| *Capital Outlay* | | | | | | | |
| Capital outlay projects | | | | $1,675,737 | $2,494,697 | $2,172,556 | −12.9% |
| State-Local Transportation Partnership | | | | — | 110,000 | 198,000 | 80.0 |
| Subtotals | | | | ($1,675,737) | ($2,604,697) | ($2,370,556) | (−8.9%) |
| Totals | | | | $3,377,550 | $4,528,828 | $4,438,164 | −2.0% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$1,452,348* | *$1,789,000* | *$2,151,802* | *20.3%* |
| *Federal Funds* | | | | *1,692,770* | *1,825,294* | *1,225,796* | *−32.8* |
| *Reimbursements* | | | | *232,432* | *914,534* | *1,060,566* | *16.0* |

## Highway Capital Outlay

About half of the proposed expenditures for the highway transportation program — $2.2 billion — will be for capital outlay projects. This is $321 million (13 percent) *less* than estimated current-year expenditures of $2.5 billion. Of the total highway capital outlay expenditures proposed for 1991-92, about $1.1 billion will be funded from SHA, state disaster assistance funds, and federal funds. The remaining amounts would be funded from local and private reimbursements and from toll revenues.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

Table 6 summarizes the highway capital outlay expenditures proposed by Caltrans for 1991-92.

**Table 6**
**Department of Transportation**
**Highway Capital Outlay**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in millions)**

| *Program* | *Actual 1989-90* | *Estimated 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
|---|---|---|---|---|
| Flexible congestion relief | $1,082 | $1,368 | $1,385 | 1.2% |
| Interregional road system | 131 | 122 | 93 | −24.0 |
| Soundwalls | 23 | 32 | 26 | −20.6 |
| Other highway construction | 59 | 30 | 66 | 124.9 |
| Rehabilitation and safety | 373 | 881 | 494 | −43.9 |
| Traffic systems management | 30 | 56 | 75 | 33.8 |
| Seismic retrofit [a] | — | 5 | 34 | 631.2 |
| Totals [b] | $1,698 | $2,495 | $2,173 | −12.9% |
| Funding Sources | | | | |
| *State Funds* | *$239* | *$254* | *$457* | *79.9%* |
| *Federal Funds* | *1,233* | *1,364* | *720* | *−47.2* |
| *Reimbursements* | *226* | *877* | *996* | *13.6* |

[a] State funds only.
[b] Detail may not add to totals due to rounding.

## Budget Proposes To Delay Project Awards

Caltrans indicates that under the proposed budget it plans to defer about $300 million of planned highway capital outlay expenditures beyond the end of 1991-92 because the SHA would not have sufficient cash to pay these costs in the budget year. The amount to be delayed assumes that Caltrans completes plans on all currently programmed projects on schedule. To the extent that the plans are not completed on schedule, the amount that would need to be delayed would be less than $300 million.

Caltrans staff indicates that projects being deferred would be in the categories of non-interstate or rehabilitation. Caltrans further indicates that it would fund seismic retrofit and safety projects as first priority and would also fund federal interstate completion (IC) projects to use remaining federal IC apportionments.

## State-Local Partnership Funding Reduced

***We recommend that the Legislature decide, based on its own priorities, whether to approve the proposed reduction in funding for the State-Local Transportation Partnership Program in 1991-92.***

Chapter 627, Statutes of 1990 (SB 2829, Kopp), expresses legislative intent to appropriate $250 million for the State-Local Transportation Partnership (SLTP) Program in 1991-92 and $200 million annually, thereafter. The budget, however, proposes to reduce appropriations for the program to $200 million in 1991-92 — $50 million below the intended funding level for the program in order to free up SHA resources to fund other portions of the budget. Because these appropriations are paid out over several years, this would actually reduce expenditures from the SHA by about $22 million in 1991-92. The effect of the proposed reduction would be to reduce the state matching rate on eligible projects applying for funding under the program.

The Legislature will need to decide, based on its own priorities, whether to approve the proposed reduction in the budget year for the State-Local Transportation Partnership Program.

### Capital Outlay Support

The budget proposes expenditures of about $880 million for capital outlay support in 1991-92. This is an *increase* of about $129 million (17 percent) over estimated current-year expenditures. This expenditure level will support a total of 10,956 PYEs of work — 1,184 PYEs more than estimated in the current year. The increase includes 930 PYs in departmental staff as well as a total of 254 PYEs of work to be obtained through consultants, student assistants and use of cash overtime.

Table 7 summarizes the overall staff resources — including both regular and temporary departmental staff as well as consultants, student assistants, and cash overtime — proposed in 1991-92 as compared with 1990-91. It also summarizes Caltrans' planned allocation of staff resources by type of work. As shown in Table 7, nearly all of the additional staff resources requested are to perform earthquake restoration and seismic retrofit work or to work on local tax measures or other locally sponsored work.

**Table 7**
**Department of Transportation**
**Capital Outlay Support**
**1990-91 and 1991-92**
**(Personnel-Year Equivalents)**

| | *1990-91 Estimated* | *1991-92 Proposed* | *Proposed Change* |
|---|---|---|---|
| *Sources:* | | | |
| State staff | 7,928 | 8,858 | 930 |
| Cash overtime | 353 | 379 | 26 |
| Student assistants | 148 | 155 | 7 |
| Engineering contracts | 1,207 | 1,428 | 221 |
| Other consultants | 136 | 136 | — |
| Totals | 9,772 | 10,956 | 1,184 |
| *Uses:* | | | |
| Basic program | 6,821 | 6,877 | 56 |
| Pre-STIP | 442 | 442 | — |
| Seismic retrofit | 245 | 430 | 185 |
| Earthquake repair/restoration | 75 | 359 | 284 |
| Regional Measure 1 (bay area toll bridges) | 214 | 214 | — |
| Local tax measure projects | 1,262 | 1,792 | 530 |
| Other locally/privately funded projects | 362 | 491 | 129 |
| Administrative pro rata | 351 | 351 | — |
| Totals | 9,772 | 10,956 | 1,184 |

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

### Legislative Oversight Impeded By Caltrans Failure to Provide Statutorily Required Reports

***We recommend that Caltrans report to the fiscal committees by April 15, 1991 on why it has been late in providing reports required by the Legislature. We further recommend that Caltrans report at that time on actions it has taken to ensure it meets reporting deadlines in the future.***

Current law requires Caltrans to submit to the Legislature several reports addressing project delivery, staffing and related issues in order to enable ongoing legislative oversight of Caltrans' capital outlay support performance and to provide a basis for evaluating program staffing needs. Throughout this *Analysis*, we make reference to reports which the department has yet to provide to the Legislature. Chart 3 identifies six reports and their current status.

**Chart 3**

**Caltrans Submits Key Reports Late[a]**

| Report | Due Date | Date Submitted |
|---|---|---|
| Project delivery plan | November 15, 1990 | January 16, 1991 |
| Project delivery progress | November 15, 1990 | January 16, 1991 |
| Project development cost | November 15, 1990 | January 16, 1991 |
| Staffing alternatives[b] | January 1, 1991 | Not yet submitted[c] |
| Seismic retrofit plan[b] | January 1, 1991 | Not yet submitted[c] |
| Minority and women business goals | January 1, 1991 | Not yet submitted[c] |

[a] Reports required annually unless otherwise indicated.
[b] One-time request.
[c] As of February 10, 1991.

As the chart shows, three reports including (1) Caltrans' *Project Delivery Plan* — estimated staffing needed to meet project schedules, (2) *Project Delivery* — progress in meeting schedules on STIP projects, and (3) *Project Development Costs* — costs of design and engineering on projects as a percentage of the project's construction costs, were not transmitted to the Legislature until January 16, 1991 — two months late.

Similarly, as of early February, the department had not submitted a report on staffing alternatives to meet projected capital outlay support workload. The report is intended to help identify the most cost-effective approach for Caltrans to accomplish its workload to design and engineer highway capital outlay projects. Neither has the department submitted the seismic retrofit plan (which was discussed in an earlier section of this analysis) and a report on its accomplishment in meeting minority and women business goals. (Please see discussion on page 281.)

The department's slowness in responding to the Legislature's direction and requests may have been caused by the increased workload resulting from the earthquake and the implementation of an expanded highway capital outlay program. Nevertheless, the department's failure to provide reports — particularly the seismic retrofit plan and information relating to staffing needs — in a timely manner impedes the Legislature's oversight of Caltrans performance and its review of the proposed budget. Therefore, we recommend that Caltrans report to the fiscal committees by April 15, 1991 on why it has been late in providing the required reports. We further recommend that Caltrans report at that time on actions it has taken to ensure it meets reporting deadlines in the future.

**Legislature Needs More Information To Evaluate Capital Outlay Support Request**

***We withhold recommendation on $880 million and 10,956 PYEs requested for capital outlay support until Caltrans provides adequate justification for its request.***

The department not only develops and oversees the construction of capital outlay projects scheduled in the STIP, and other related transportation capital outlay programs but, increasingly, it oversees the development and construction of projects funded by local and private sources. The department also is developing and overseeing construction of earthquake restoration and seismic retrofit projects.

Caltrans indicates that its staffing request for capital outlay support is based on the schedules contained in the 1990 STIP and related state capital outlay programs as well as the schedules established for locally funded projects and for seismic retrofit and earthquake restoration projects at the time the budget was developed.

***Caltrans Has Not Provided Requested Supporting Information.*** Caltrans estimates the number of staff needed to accomplish project development work through use of a computer model. The model estimates the staff needed over the multi-year life of a project based on the number of staff used to perform similar projects in the past. The staffing estimates for individual projects are then aggregated to arrive at an overall estimate of direct staff needed to carry out the program. Indirect staff — for supervision and for other activities not estimated within the model — are added to arrive at total staffing need.

To date, Caltrans has not provided the Legislature with (1) the multi-year computer-generated estimates used to develop its 1991-92 budget request and (2) a breakdown by activity of indirect PYs requested

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

for 1991-92. The department indicated that it will not make the information available until it completes the report on staffing alternatives required by the *Supplemental Report of the 1990 Budget Act.* As noted earlier, the staffing alternatives report was due January 1, 1991.

In our view, Caltrans' delay in providing the Legislature with basic supporting documentation for its budget request, which should be available at the time its budget is submitted to the Legislature, is unwarranted. Without the supporting documentation for its capital outlay request, the Legislature cannot evaluate the department's capital outlay support request and determine if the request is the most cost-effective method to accomplish work. Therefore, we withhold recommendation on $880 million and 10,956 PYEs requested for capital outlay support activities in 1991-92 pending receipt of the necessary documentation.

**Court Decision Likely To Affect Consultant Contracting**

***We recommend that Caltrans report to the fiscal committees by April 15, 1991 on the impact of the court's order that Caltrans change its consultant engineering contract practices. The report should identify the impact on Caltrans' operations and on the adequacy of its proposed staffing for 1991-92.***

Beginning in 1986-87, Caltrans expanded its use of consultant engineers to perform project development work. In 1988, the Legislature enacted Ch 9/88 (SB 516, Bergeson) to facilitate the department's ability to contract directly with private firms for engineering services.

The budget proposes $185 million to contract for 1,428 PYEs of consultant engineering services in 1991-92, about $22 million (13 percent) and 221 PYEs more than in the current year.

***Court Requires Individual Contract Reviews.*** Pursuant to the requirements of Chapter 9, the department adopted guidelines for determining the appropriateness of contracting with consultant firms. As a result of a lawsuit filed by the Professional Engineers in California Government (PECG) in Superior Court, the court issued an order in January, 1991 which found that Caltrans has not applied these guidelines appropriately in determining whether to contract for consultant services. Specifically, the court found that Caltrans had not reviewed individual contracts to determine if they meet the criteria set forth under the contracting guidelines. Instead, the court determined that the Director of Transportation had provided a blanket authorization to undertake a specified level of contracting without adequately establishing that such contracting met the adopted guidelines. Consequently, the court has required Caltrans to review any future contracts on an individual basis and to report periodically to the court on the contracting program.

***Caltrans Should Report on Impact of Court Order.*** The court order was issued after the Governor's Budget was submitted to the Legislature. At the time this analysis was prepared, Caltrans had not yet determined what impact the order would have on its ability to carry out the level of consultant contracting proposed for 1991-92.

Because the budget submitted to the Legislature relies heavily on use of consultants and was developed prior to the court's finding that Caltrans' contracting practices were not consistent with law, we recommend that Caltrans report to the fiscal committees by April 15, 1991 on the impact of the court's order. Specifically, Caltrans should identify the impact of the court order on its operations and on the adequacy of its proposed staffing for 1991-92.

**Analyst's Assessment of Project Delivery Performance in 1989-90**

Because of concern over project delays, the Legislature has enacted various requirements (summarized in Chart 3) to encourage the timely delivery of state highway projects. Chapter 24, Statutes of 1988 (SB 140, Deddeh), requires that the Legislative Analyst include, annually in the *Analysis,* an assessment of the department's progress in delivering projects as scheduled in the STIP.

Pursuant to Chapter 24, we have completed the following assessment of the department's delivery of projects as scheduled in the STIP for federal fiscal year 1989-90. *Project delivery* is defined in statute as occurring when a project is advertised.

***Caltrans Delivered Less Than One-Third of 1988 STIP Projects for 1989-90.*** In total, the 1988 STIP scheduled 413 major projects (projects with costs of over $250,000) with a value of $968 million (at the time the 1988 STIP was adopted) to be delivered in 1989-90. Our review shows that the department delivered 118 (29 percent) of these projects worth about $343 million (35 percent).

***Caltrans Unable to Deliver Projects According to STIP Schedules.*** The department has identified four principal reasons it was unable to deliver 1988 STIP projects as scheduled in the 1988 STIP. First, schedules adopted in the 1988 STIP were too optimistic. Second, it had to deliver a backlog of projects from prior years that were pending due to inadequate staff resources prior to 1987-88. Third, the department had to redirect staff resources to earthquake activities in 1989-90 following the October 1989 Loma Prieta earthquake. Finally, the department indicates that it delayed hiring staff and issuing consultant engineering contracts due to uncertainty about future funding prior to the June 1990 vote on Proposition 111.

***Total Project Delivery in 1989-90 Was Higher, but Still Short of the Department's Goal.*** In addition to delivering 1988 STIP projects that were scheduled for 1989-90, the department also planned to deliver during 1989-90 other backlogged projects from previous years, as well as projects scheduled for later years. In total, the department planned to deliver $1.5 billion in highway projects. However, our review shows that it delivered only about 215 major STIP projects worth about $987 million — about $541 million (35 percent) less than planned. (As noted earlier, the department also delivered about $100 million in earthquake-related projects during 1989-90.)

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

***Backlog of STIP Projects Increased by About $500 Million.*** Caltrans indicates that at the beginning of 1989-90 it had a backlog of undelivered STIP projects worth about $724 million. These were projects scheduled for delivery in the 1988 STIP *prior* to 1989-90. At the end of 1989-90, the department indicates that the backlog of undelivered STIP projects (1989-90 and prior) had increased by about $500 million to a total of about $1.2 billion.

### Project Development Costs

Chapter 105, Statutes of 1989 (SB 300, Kopp), requires Caltrans to keep its project development costs (that is, the costs of engineering and designing highway projects) from exceeding 20 percent of the value of projects awarded in a year. Chapter 105 also requires (1) the department to report by November 15 of each year on its project development costs in the preceding year and (2) the Legislative Analyst to assess annually in the *Analysis* the extent to which the department's project development costs meet the 20 percent standard.

The department indicates that the costs of project development in 1989-90 was about 14 percent of the value of projects awarded in that year. Caltrans had just submitted supporting documentation for this calculation at the time this analysis was being finalized. Consequently, we have not had an opportunity to review Caltrans estimates. Following such a review, we will report to the Legislature as necessary.

### Affirmative Action Goals for Project Development

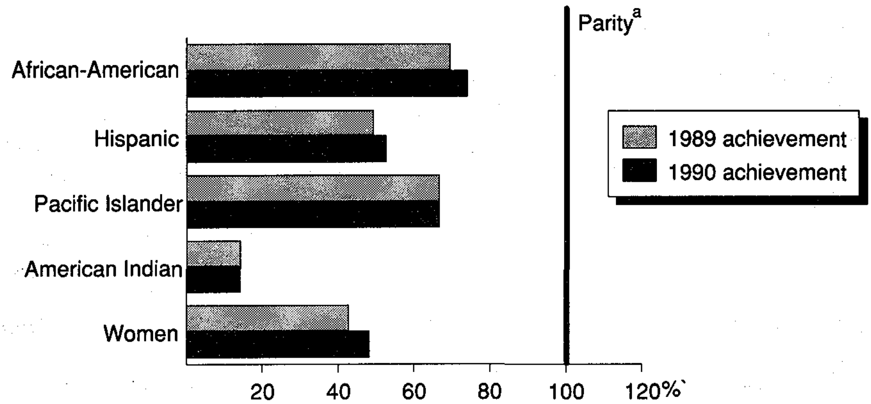
In response to the requirements of Chapter 24, the following discussion reviews the extent to which the composition of the department's project development staff — consisting primarily of engineers and technicians — achieves affirmative action goals. To assess the department's achievement of these goals, we evaluate the overall representation of its employees (by ethnicity and gender) relative to the mix found in the California private-sector labor force. If the mix is the same, then the department has achieved parity.

***Department Made Limited Progress in Meeting Overall Goals for Some Target Groups.*** Chart 4 shows the extent that the department's overall project delivery staff achieved labor-force parity in 1989 and 1990 for selected target groups. As shown by the chart, the representation of African-American and Hispanic groups as a percent of project development staff increased slightly — that is, moved closer to parity — in 1990 as compared to 1989. Representation of women, as a whole, also moved closer to parity during this period. The chart indicates, however, that target groups, such as American Indians and Pacific Islanders, were unchanged from the previous year.

**Chart 4**

**Attainment of Private Sector Labor Force Parity Project Development Staff**

**1989 versus 1990**




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

### Caltrans' Attainment of Minority and Women Business Goals

***We are unable to review Caltrans' attainment of minority and women business enterprise goals for engineering contracts because the department has failed to submit to the Legislature its statutorily required report on accomplishments.***

Under Ch 9/88 (SB 516, Bergeson) the department is authorized to contract directly with private consultants to perform various project development services such as environmental reviews, project engineering, and design on state highway projects. Additionally, Chapter 9 establishes goals of 15 percent for minority business enterprise (MBE) and 5 percent for women business enterprise (WBE) for engineering contracts. These goals are based on the total dollar value of contracts awarded by the department. The department is required to report to the Legislature annually by January 1 on its attainment of the MBE and WBE goals.

Chapter 24 requires the Legislative Analyst to also review, in the *Analysis*, the extent to which the department has met the MBE and WBE goals. At the time this analysis was prepared, Caltrans had not yet submitted its report to the Legislature. Consequently, we are unable to review the extent to which Caltrans has met the MBE and WBE goals established by Chapter 9.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

### Program Development

Program development provides for research and development, mapping and inventorying road systems, and developing and monitoring the STIP. The budget proposes an expenditure level of $42.1 million for program development, which is $5.9 million (or 12 percent) below the current year. The budget also proposes a staffing level of 339.1 PYs, an increase of 18.2 PYs or 5.6 percent over the current year.

#### Advanced Technology Report Needs Legislative Review

***We withhold recommendation on $21.3 million for research and development pending review of a report on the policy and fiscal implications of the research and development of advanced highway vehicle technologies.***

Resolution Chapter 165, Statutes of 1990 (ACR 162, Katz) and the *Supplemental Report of the 1990 Budget Act* directed Caltrans to report to the Legislature by December 1, 1990 on the policy and fiscal implications of research and development of advanced highway-vehicle technologies.

The department did not submit the report until January 7. Consequently, we did not have sufficient time to review the report and evaluate whether the department's request of $21.3 million is an appropriate level of funding for the advanced highway vehicle technology program in 1991-92. Accordingly, we withhold recommendation, pending review of the report.

#### Contrary to Legislative Direction, Planning for Research and Development Center Proceeds

***The department has expended resources for a research and development center even though the Legislature specifically directed the department not to proceed with preliminary planning of the center.***

***We recommend Budget Bill language prohibiting any funds not explicitly approved by the Legislature to be used for the planning and development of a research center.***

As part of the report on advanced highway technologies, Caltrans was also required to prepare an analysis of the need for a research and development center to test Intelligent Vehicle Highway System projects. The Legislature directed Caltrans to conduct the needs analysis after it specifically deleted the department's request to spend $1.1 million in the current year on a pre-engineering and conceptual plan for a research and development center.

Our review, however, shows that in the current year, the department has redirected resources from various functions to activities related to the development of the center that go beyond what was necessary to complete the needs analysis. For instance, contrary to legislative direction, the department has contracted with the Department of General Services' Office of Project Development and Management to develop a pre-engineering and conceptual plan for a research and development center.

*No Funds Are Requested for Center Development in Budget Year.* The budget does not request specifically, any funds for the development of the research center. However, given the department's noncompliance with legislative direction in the current year, it is likely that further redirection of resources will continue in the budget year, thereby enabling the department to circumvent legislative oversight.

In order that the Legislature be (1) informed of the department's plans regarding the development of a research center and (2) able to exercise adequate oversight, we recommend the adoption of the following Budget Bill language prohibiting any funds, not explicitly approved by the Legislature, to be used for the planning and development of a research center.

None of the funds appropriated in this item shall be used for the purpose of the planning and development of a research and development center without the prior authorization of the Legislature.

## Operations

The operations element includes programs for traffic operation centers, traffic control, property management, toll collection and permits issuance. The budget proposes an expenditure level of $116 million, an increase of $2.7 million or 2.4 percent over the current year. The budget also proposes a staffing level of 1,442.3 PYs, an increase of 31.1 PYs or 2.2 percent over the current year.

### Funding for Permits Issuance Falls Short of Workload Projections

***We recommend the adoption of Budget Bill language requiring the department to recover $11.9 million in fees for the issuance of encroachment permits.***

In the current year, the department estimates it will issue 171,000 transportation and 16,000 encroachment permits. Transportation permits are required before trucks are allowed to carry extra-legal loads on state highways. Encroachment permits are required in order to obtain access to state highway rights-of-way for activities such as utility placement or for planned events such as parades.

For 1991-92, the department requests a total of 256.7 PYs and $20 million to process and issue these permits. The request includes an increase of 10 PYs and $558,000 in order to accommodate an expected increase in the number and complexity of permit applications.

*Budget Not Adequate to Process Projected Workload.* Our analysis indicates that the request will not be adequate to process projected workload. Furthermore, our analysis shows that the department has consistently underbudgeted resources for processing of transportation and encroachment permits. As Table 8 indicates, the department has exceeded its budgeted staff and overtime allocation for the permits program every year from 1985-86 to the present. According to Caltrans, the shortfall between budgeted and expended resources is expected to widen in the budget year, even with the addition of 10 PYs.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

**Table 8**
**Department of Transportation**
**Budgeted Versus Expended Personnel-Years**
**Permits Issuance**

| *Year* | *Personnel-Years* [a] *Budgeted* | *Expended* | *Difference* |
|---|---|---|---|
| 1985-86 | 180.8 | 214.7 | 33.9 |
| 1986-87 | 205.1 | 220.9 | 15.8 |
| 1987-88 | 221.9 | 225.6 | 3.7 |
| 1988-89 | 223.9 | 250.5 | 26.6 |
| 1989-90 | 235.8 | 260.4 | 24.7 |
| 1990-91 (Estimated) [b] | 247.0 | 271.4 | 24.4 |
| 1991-92 (Projected) [b] | 256.7 | 284.3 | 27.7 |

[a] Personnel includes regular staff, temporary help, and cash overtime equivalents.
[b] Estimated and projected PYs are based on department workload.

***Staffing Shortfall Produces Negative Effects.*** Failure to adequately staff the permits program produces a number of negative effects. First, the department is unable to fully comply with current law, which requires the department to approve or deny encroachment permit applications within 60 days of the application. In 1989-90, Caltrans exceeded the 60-day limit on 261 permit applications, or less than 2 percent of the total. Second, failure to process a permit application within 60 days results in de facto approval of the permit. The lack of proper review of applications for use or access to highways could, in turn, result in unanticipated damage to the highway system such as that caused by excessive truck weights. Third, the department must redirect resources intended to support other critical programs such as maintenance and operations in order to process the permits workload.

***Automation Provides Some Efficiencies, but Not Enough.*** The department has taken steps to make permit issuance more efficient. Currently, it is in the process of automating the encroachment permit system. The system, anticipated to be operational by the budget year, is expected to save the equivalent of 3.1 PYs in 1991-92.

Despite these savings, the department contends it still may need as many as 27.7 PYs more than the budget allocates to process the workload. As a result, the department states it would have to redirect a significant number of staff from other programs to the permits program. In our view, robbing from one program to pay another is not a sound budgeting practice to solve chronic staffing shortfalls for an established ongoing program.

***Caltrans Can Collect Fees For Administrative Costs.*** Current law authorizes the department to charge fees to pay for the administrative costs of issuing encroachment and transportation permits. Thus, the department has the ability to offset workload-driven staffing requests with increases in revenue. To a large extent, this has worked well for the transportation permit program. In 1989-90, the department collected $3 million in transportation permit fees. This amount represented about 93 percent of the administrative costs of issuing these permits.

**Table 9**
**Department of Transportation**
**Encroachment Permit Revenues Versus Program Costs**
**1985-86 through 1989-90**
**(dollars in millions)**

| *Year* | *Cost* | *Revenue* | *Shortfall* | *Percent of Costs Paid by Fees* |
|---|---|---|---|---|
| 1985-86 | $10.5 | $2.8 | $7.7 | 26.6% |
| 1986-87 | 10.4 | 4.9 | 5.6 | 46.6 |
| 1987-88 | 12.3 | 2.9 | 9.4 | 23.7 |
| 1988-89 | 14.3 | 3.4 | 10.9 | 23.5 |
| 1989-90 | 12.1 | 3.9 | 8.2 | 32.6 |
| 1990-91 (first quarter) | 3.1 | 1.1 | 2.0 | 34.6 |

However, as Table 9 shows, costs of the encroachment permit program have been significantly higher than permit revenues for the period from 1985-86 to the present. In 1989-90, fee revenues paid only 33 percent of the costs of the program, leaving a program deficit of $8.2 million which was made up by SHA funds.

The department has informed us that it is conducting an internal audit of its encroachment permit fee revenue to determine how revenues can be increased to offset costs. It is not clear at this time, however, when the audit will be completed. In order to correct the staffing deficiency problem in future years, we think it is important that the department take prompt action to increase fee revenues in the budget year. Because fee revenues pay about 93 percent of the transportation permit program's administrative costs, we think it is reasonable to expect fee revenues to at least equal 93 percent of the encroachment permit program's administrative costs. We estimate that, for 1991-92, fee revenues of $11.9 million will cover 93 percent of the program's costs.

Consequently, we recommend the adoption of the following Budget Bill language requiring the department to raise encroachment permit fee revenues so they equal at least 93 percent of the administrative costs of the program:

Of the amount appropriated in this item, $11.9 million shall be recovered through encroachment permit fees to the State Highway Account.

## Maintenance

The maintenance program provides for the upkeep of roadbeds, roadsides, highway-related structures and equipment, and traffic control services such as snow removal.

The budget proposes maintenance expenditures of $721.4 million in 1991-92, an increase of $39.4 million, or 5.8 percent, over the current year. The proposed staffing level is 6,216.4 PYs, an increase of 145.6 PYs, or 2.4 percent, over the current year.

### State Personnel Board Nixes Rest Area Maintenance Contracts

***We recommend a deletion of 11.8 PYs and $890,000 from the SHA because the department's request for maintenance staff for roadside rest areas is overbudgeted. In addition, we withhold recommendation on***

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

***8.4 PYs and $486,000, pending the outcome of labor negotiations. (Reduce Item 2660-001-042 by $890,000.)***

For the past several years, the department has contracted with private firms and sheltered workshop groups to maintain the 90 roadside rest areas located along state highways. But in July 1990, the State Personnel Board (SPB) ruled that state law does not permit Caltrans to contract out this maintenance work. The SPB ruling, however, allows the department to continue contracts with sheltered workshop groups for the maintenance of 38 rest areas. The SPB will also allow contracts for 10 rest areas in remote locations if agreed to by labor unions representing janitors and maintenance workers. In addition, the department has informed us that it plans to contract for the maintenance of another seven rest areas in remote locations that have always been maintained through contracts.

For 1991-92, the department requests a total of $5 million to perform most of the rest area maintenance work with departmental staff on an ongoing basis. The request includes redirecting $1.5 million formerly available for contracts and an increase of $3.5 million to support an additional 86.8 PYs of staff. The department also requests a one-time increase of $1 million for equipment.

*Caltrans Requests More PYs Than Needed.* Our analysis shows that the department has requested 11.8 more PYs than needed to comply with the SPB ruling to perform the projected maintenance work. There are three major differences between our recommended staffing level and the department's.

*Too Many Supervisors for Too Few Workers.* First, the department proposes to hire 9 supervisors and 12 lead workers to direct 67 maintenance workers and janitors. This equals a supervisor/lead worker to maintenance worker ratio of about 1 to 3. The department has not justified on a program basis why so many supervisors are needed. Lacking a program basis to support this high ratio, we recommend reducing the number of supervisors by seven to bring the supervisor/lead worker to maintenance worker ratio to 1 to 5. This staffing ratio is consistent with that used by the Department of General Services and the Department of Parks and Recreation for staffing for similar activities. Second, the department's request includes 4.8 PYs to maintain seven rest areas in remote locations that will continue to be contracted out. Third, the department has not justified the need for $43,000 to purchase an additional cargo truck with a 15-foot hoist for the task of cleaning and resupplying rest rooms and performing minor landscape work. This is because the department already owns several of these hoists for highway maintenance work.

For these reasons, we recommend a deletion of 11.8 PYs and $890,000 from the department's request.

*Some Contracted Work Depends on Labor Negotiations.* While the department will be maintaining most of the rest areas, it is still proposing to contract out the maintenance of 10 rest areas in remote locations.

However, this proposal depends on the outcome of labor negotiations currently under way. Consequently, we withhold recommendation on 8.4 PYs and $486,000, pending the outcome of labor negotiations during spring 1991.

## MASS TRANSPORTATION

The Mass Transportation program is the second largest program in the Caltrans budget, and accounts for approximately 14 percent of the department's total expenditures. The budget requests $740.3 million in expenditures in 1991-92. This represents an increase of $160.2 million, or 28 percent, above total estimated expenditures for 1990-91. The budget also proposes a staffing level of 269.3 PYs for the Mass Transportation program — 53.2 PYs (25 percent) more than in the current year.

Table 10 summarizes the Mass Transportation program expenditures by program element for the prior, current, and budget years. Additionally, Table 11 summarizes the program's 1991-92 planned expenditures by activity and fund source.

**Table 10**
**Department of Transportation**
**Mass Transportation**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| *State Operations* | | | | | | | |
| Full mobility transportation | 21.8 | 23.0 | 23.0 | $1,358 | $1,345 | $1,355 | 0.7% |
| Mass transportation | 33.1 | 46.1 | 77.6 | 2,767 | 4,221 | 6,397 | 51.6 |
| Interregional public transportation | 42.4 | 53.9 | 72.4 | 28,178 | 36,505 | 40,286 | 10.4 |
| Transfer facilities and services | 28.2 | 30.0 | 30.0 | 2,506 | 3,722 | 3,801 | 2.1 |
| Transportation demonstration projects | 2.3 | 5.1 | 5.1 | 387 | 536 | 560 | 4.5 |
| Work for others | 0.5 | 0.5 | 0.5 | — | 1,464 | 1,484 | 1.4 |
| Rideshare | — | 57.5 | 60.7 | — | 33,992 | 42,870 | 26.1 |
| Subtotals | 128.3 | 216.1 | 269.3 | ($35,196) | ($81,785) | ($96,753) | (18.3%) |
| *Local Assistance* | | | | | | | |
| Mass transportation | | | | $99,726 | $139,851 | $155,641 | 11.3% |
| Interregional public transportation | | | | 500 | — | — | — |
| Rideshare | | | | — | 5,109 | 4,227 | −17.3 |
| Subtotals | | | | ($100,226) | ($144,960) | ($159,868) | (10.3%) |
| *Capital Outlay* | | | | | | | |
| Mass transportation | | | | $7,829 | — | — | — |
| Interregional public transportation | | | | 10,044 | $353,352 | $483,687 | 36.9% |
| Transfer facilities and services | | | | 32,549 | — | — | — |
| Subtotals | | | | ($50,422) | ($353,352) | ($483,687) | (36.9%) |
| Totals | | | | $185,844 | $580,097 | $740,308 | 27.6% |
| Funding Sources | | | | | | | |
| *State Funds* | | | | *$127,335* | *$464,997* | *$515,249* | *10.8%* |
| *Federal Funds* | | | | *38,248* | *70,614* | *98,360* | *39.3* |
| *Reimbursements* | | | | *20,261* | *44,486* | *126,699* | *184.8* |

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

**Table 11**
**Department of Transportation**
**Mass Transportation**
**1991-92 Planned Expenditures by Activity and Fund Source**
**(dollars in thousands)**

| *Activity* | *TP & D Account* | *State Highway Account* | *Passenger Rail Bond Fund* | *Federal Funds* | *Reimbursements* | *Other Funds* | *Total* |
|---|---|---|---|---|---|---|---|
| *State Operations* | | | | | | | |
| Caltrain | $12,513 | — | — | $1,158 | $10,062 | — | $23,733 |
| TCI/Proposition 108 | 3,500 | — | — | — | — | — | 3,500 |
| Intercity rail | 2,435 | — | — | — | — | — | 2,435 |
| AMTRAK services | 16,312 | — | — | — | — | — | 16,312 |
| Rideshare | 2,609 | — | — | 36,735 | 3,471 | $55 | 42,870 |
| Federal program administration | 600 | — | — | 891 | — | — | 1,491 |
| Other support | 1,227 | $937 | — | 1,399 | 2,849 | — | 6,412 |
| Subtotals | ($39,196) | ($937) | — | ($40,183) | ($16,382) | ($55) | ($96,753) |
| *Local Assistance* | | | | | | | |
| TCI | $77,057 | — | — | — | — | — | $77,057 |
| Article XIX Guideways | — | $64,000 | — | — | — | — | 64,000 |
| Rideshare | — | — | — | — | — | $4,227 | 4,227 |
| Federally funded program | — | — | — | $14,584 | — | — | 14,584 |
| Subtotals | ($77,057) | ($64,000) | — | ($14,584) | — | ($4,227) | ($159,868) |
| *Capital Outlay* | | | | | | | |
| Caltrain | — | — | — | $35,000 | $32,417 | — | $67,417 |
| AMTRAK services | — | — | — | 7,193 | 77,300 | — | 84,493 |
| Proposition 108 — rail | — | — | $329,777 | 1,400 | 600 | — | 331,777 |
| Subtotals | — | — | ($329,777) | ($43,593) | ($110,317) | — | ($483,687) |
| 1991-92 Expenditures (Proposed) | $116,253 | $64,937 | $329,777 | $98,360 | $126,699 | $4,282 | $740,308 |

**Transportation Planning and Development Account**

Transportation Planning and Development (TP and D) Account funds are expended primarily on three programs: (1) operating assistance to local transportation agencies for public mass transit systems (known as the State Transportation Assistance - STA - program), (2) the state's mass transportation program which includes local assistance for transit capital improvements (known as the TCI program), and (3) transportation planning in the Department of Transportation.

The account derives its revenues from three sources. The largest source is sales tax on diesel fuel. A second source is the sales tax on the increase in gas tax resulting from the passage of Proposition 111. The third source is the "spillover" transfer from the Retail Sales Tax Fund which is calculated according to a statutory formula using three variables — the level of total retail sales in the state, the level of gasoline consumption, and the level of gasoline prices. Generally, a "spillover" results when gas prices are rising at a higher rate than taxable sales.

***Account Revenues May Fluctuate Because "Spillover" Amount Projected in Budget Year is Uncertain.*** The budget projects total TP and D Account revenues of $182.8 million in 1991-92, including $17.7 million in "spillover" retail sales tax transfer. The projected transfer assumes gasoline prices would stay relatively elevated in 1991, due to the Persian Gulf war.

Unlike the other two sources of TP and D Account revenues, the "spillover" is very sensitive to changes in any one of the three variables used in the transfer formula and, in particular, to changes in gas prices. For example, everything else being the same, a one-cent change in gas price (sustained over 1991) would cause a $6.2 million change in "spillover" revenues projected for 1991-92. Because of the continuing uncertainty as to the outcome of the war, gas prices will likely be in a volatile state in 1991. Consequently, the spillover transfer could be significantly higher or lower than projected, thereby affecting total funds available in the TP and D Account in 1991-92.

### Use of TP and D Account for Debt Payments Raises Policy Issue

***We make no recommendation on the transfer of $25 million from the TP and D Account to the General Fund to pay debt service on rail bonds because this is a policy decision that should be made by the Legislature. Further, we recommend that the CTC, the State Treasurer, and Caltrans report at budget hearings on (1) updated projections for bond sales in the current and budget years, (2) resulting debt service costs, and (3) necessary adjustments to the TCI and STA programs.***

The voters' approval of Propositions 108 and 116 authorizes the state, beginning in 1991, to issue bonds for rail projects totaling $2.99 billion over multi-years. The budget proposes to transfer from the TP and D Account to the General Fund an amount sufficient to pay current- and budget-year debt service costs for bonds issued under both measures. Although the Budget Bill does not specify a specific amount to be transferred, the Governor's Budget estimates the amount at $25 million. This amount was estimated by assuming that $85 million in Proposition 116 bonds will be sold in the current year, and that $200 million each of Proposition 108 and Proposition 116 bonds will be sold in the budget year. To the extent a higher amount of bonds are issued, debt service costs would be greater necessitating a larger amount to be transferred.

***Transfer Raises Policy Issue Which the Legislature Has to Decide.*** Current law designates the TP and D Account as a trust fund which can be used only for transportation planning and mass transportation purposes. Thus, the use of TP and D Account funds to pay for debt service of rail bonds under Propositions 108 and 116 is consistent with statutory limitations on the use of the TP and D Account. Furthermore, the proposed use would reduce the total demand on General Fund resources. However, the proposed use would reduce the money available for the STA and TCI programs by a corresponding amount. Whether the TP and D Account should be used to pay debt service in lieu of funding other mass transportation programs in 1991-92 is a matter of legislative priorities and is a policy issue which the Legislature must decide. Consequently, we make no recommendation on the transfer of $25 million from the TP and D Account to the General Fund.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

***Debt Service Payments Will Grow in Future Years.*** Because neither the CTC nor Caltrans has adequate information at the present time to project precisely when bond proceeds will be needed, it is difficult to project debt service costs. However, as an illustration, Table 12 shows projected debt service costs assuming bonds are sold at the levels proposed in the Governor's Budget for the current and budget years and a total of $500 million in bonds are sold in each subsequent year.

**Table 12**
**Department of Transportation**
**Rail Bond Debt Service Versus TP and D Account Resources**
**1991-92 through 1995-96**
**(dollars in millions)**

| | | | *Projected* | | |
|---|---|---|---|---|---|
| | *1991-92* | *1992-93* | *1993-94* | *1994-95* | *1995-96* |
| Debt service [a] | $25.0 | $78.4 | $136.4 | $191.6 | $244.7 |
| TP and D Account resources [b] | 218.9 | 188.6 | 204.3 | 225.1 | 253.8 |

[a] Figures for 1992-93 through 1995-96 reflect Legislative Analyst's Office projections based on 7 percent interest rate and 20-year amortization.
[b] Governor's Budget — 1991-92; Caltrans estimates — 1992-93 through 1995-96.

As Table 12 shows, to the extent debt service costs are paid from the TP and D Account in the future, there will be increasingly smaller amounts of funds in the TP and D Account for other mass transportation and planning activities.

***Actual Debt Service May be Higher Than Estimated in the Governor's Budget.*** According to both the Treasurer's Office and the CTC, the schedule to issue $485 million of bonds in the current and budget years was based on preliminary information. More recent information from the CTC indicates that additional bond proceeds may be needed. For example, the CTC is now projecting that in the current and budget years it may allocate $450 million in projects from Proposition 116 funds alone. These Proposition 116 funds, which are continuously appropriated to the commission, coupled with Proposition 108 allocations would most probably necessitate a higher level of debt service in 1991-92.

***Analyst's Recommendation.*** Because the amount of TP and D Account funds used to pay debt service in the current and budget years will directly affect resources available to the STA and TCI programs, we recommend that the CTC, the State Treasurer, and Caltrans report at budget hearings on (1) updated projections for bond sales in the current and budget years, (2) resulting debt service costs, and (3) necessary adjustments to the TCI and STA programs.

**Reimbursement to TP and D Account for Planning Incorrectly Estimated**

***We recommend a reduction of $785,000 from the SHA to accurately reflect the amount that has to be transferred to the TP and D Account to pay for highway planning activities (Item 2660-021-042).***

Current law requires that the SHA reimburses the TP and D Account for the pro rata share of highway planning activities that are funded from TP and D Account funds. The budget proposes this transfer at $17.4 million.

However, our analysis shows that the costs of the highway planning activities proposed for 1991-92 total $16.6 million. Accordingly, this lower amount should be paid from the SHA to the TP and D Account, and we recommend that the transfer be reduced by $785,000 to accurately reflect highway planning costs. The department concurs with our estimate, stating that the budgeted amount was based on an earlier, higher estimate of highway planning activities which has since been revised downward.

**TP and D Account Statutory Formula Incorrectly Interpreted**

***We recommend that funding for the STA program be increased by $9 million, and that funding for the TCI program be decreased by $9.5 million so that the programs are funded at levels consistent with the requirements of the TP and D Account statutory formula. (Increase Item 2640-101-046 by $9 million, reduce Item 2660-101-046 by $9.5 million.)***

The TP and D Account resources come primarily from revenues from sales tax on diesel and gas and from the "spillover" transfer discussed earlier. In addition, the account receives a transfer from the SHA for highway planning costs. Finally, the account balance also accrues interest and income from surplus money investments, estimated in the budget year at $7 million.

***Use of TP and D Account Resources is Statutorily Specified.*** Resources in the account first are to be used to fund various mass transportation and planning activities. Then, 50 percent of the remaining funds in the account must be appropriated to the STA program, while the other 50 percent are available for allocation among the TCI program, rail operations, or the Rideshare program.

***Funding Levels of STA and TCI Programs are Inconsistent with Statutory Formula.*** The budget proposes a funding level for the STA program of $66 million. Our review shows that this amount is lower than called for by the statutory formula. This is because the budget in determining the funding level for the STA program did not consider the beginning reserves and interest earned in the account. Instead, account reserves available at the beginning of 1991-92 as well as any interest earned during the year are proposed to be used for the TCI program. Consequently, the proposed TCI program funding level is correspondingly higher.

***Analyst's Recommendation.*** Applying the statutory formula (and adjusting the transfer from the SHA to the TP and D Account for planning activities to the appropriate level), we estimate that the STA program ought to be funded at $75 million, while the TCI program funding level ought to be $56 million. Consequently, we recommend that funding for the TCI program be reduced by $9.5 million (from $65.5

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

million to $56 million), and that funding for the STA program be increased by $9 million (from $66 million to $75 million). However, if the Legislature decides to adjust the amount of the transfer from the TP and D Account to the General Fund to pay rail bond debt service, these funding levels would have to be adjusted accordingly.

## Rail Program

### Rail Capital Outlay Program Expands

The passage of Proposition 108 — *The Passenger Rail and Clean Air Bond Act of 1990*, and Proposition 116 — *The Clean Air and Transportation Improvement Act of 1990* provides a significant infusion of funds to expand the state rail capital outlay program. Proposition 108, a legislative measure, authorizes $1 billion in general obligation bonds for rail capital outlay. Two additional $1 billion bond issues are scheduled to be placed before the voters in the November 1992 and 1994 elections. (The 1990 STIP assumes the passage of both of these measures and has programmed $3 billion in Proposition 108 funded projects.) Proposition 116, an initiative measure, authorizes $1.99 billion in general obligation bonds, also for rail capital outlay.

Table 13 shows that funding for rail capital outlay programs came from four fund sources between 1989-90 and 1991-92. Because the Clean Air and Transportation Improvement Fund is continuously appropriated to the CTC, no appropriation of these funds is included in the Budget Bill. At the time this analysis was prepared, the CTC had not yet received program applications, and therefore it could not estimate the amount of fund allocations it will make in the budget year.

**Table 13**
**Department of Transportation**
**Rail Capital Outlay Program**
**Appropriations**
**1989-90 through 1991-92**
**(dollars in millions)**

| | Year | | |
|---|---|---|---|
| *Program (Fund)* | *1989-90* | *1990-91* | *1991-92* |
| TCI (TP and D Account) | $44.6 | $39.5 | $65.5 |
| TCI - Article XIX Guideway (SHA) | 64.0 | 64.0 | 64.0 |
| Proposition 108 (Passenger Rail Bond) | — | 300.0 | 330.0 |
| Proposition 116 (Clean Air and Transportation Improvement) | — | —[a] | —[a] |
| Totals | $108.6 | $403.5 | $459.5 |

[a] Proposition 116 funds are continuously appropriated to the CTC for allocation. At the time of this analysis, CTC had no projection of the amount that will be allocated.

As Table 13 indicates, there are currently four state programs each providing funds for rail capital outlay projects. Each program has a different funding source and different funding eligibility criteria. The TP and D Account and SHA (Guideway) funds provide money for the annual TCI grant program. The TP and D Account funds can be used for the following types of projects: (1) mass transit guideways and rolling stock, (2) railroad rights of way, (3) grade separations, (4) bus rehabilitation, (5) intermodal transfer stations, (6) ferries, and (7) short-line railroads. As we indicated earlier, the amount of TP and D Account funds available annually for the TCI program is determined according to a statutory formula.

The SHA (Guideway) funds can be used for mass transit guideways only in counties where voters have approved the use of these funds for such purposes. There is no statutory limitation on the amount of SHA funds that can be used for guideway capital outlay projects.

Proposition 108 funds will support two component programs — the Commuter and Urban Rail Transit (CURT) program and the Intercity Rail program. Projects to be funded under both programs are included in the STIP. The CURT projects must be included in a Regional Transportation Improvement Program (RTIP) before they can be included in the STIP. Intercity rail projects are developed and managed by Caltrans for inclusion in the STIP.

Proposition 116 funds are designated by the measure to specific projects. These projects fall into five categories: rail, bicycle, ferry, non-urban counties, and miscellaneous. Certain Caltrans intercity rail projects also will be funded from the Proposition 116 rail program.

**Rail Projects Slow in Using State Funds**

***We recommend that the CTC and Caltrans report at budget hearings on (1) why the CTC's Timely Use of Funds policy for rail projects has not been monitored and enforced and (2) what actions the CTC plans to take to insure the funds are used in a timely manner. Additionally, we recommend that the Legislature adopt supplemental report language stating its intent that the CTC, in its annual report, provide information on compliance with its Timely Use of Funds policy.***

Current law allows state funds for rail capital outlay projects under the TCI and Article XIX Guideway programs to be encumbered within three years, or liquidated within five years. Funds must be reappropriated by the Legislature to continue to be available if they are not allocated or liquidated in the required time period.

***More Stringent Policy Adopted by CTC.*** In 1988, the CTC adopted a Timely Use of Funds Policy for rail projects funded under the TCI and Article XIX Guideway programs in order to ensure that local agencies use state funds promptly. The policy requires that prior to receiving state funds for a rail project, a local agency must demonstrate that it can encumber (have under contract) state funds within three months from the end of the fiscal year in which the funds are appropriated. Caltrans is responsible for monitoring compliance with the policy. A similar policy will apply to projects funded from both Proposition 108 and Proposition 116 bond funds.

***Local Agencies Have Not Complied with Policy.*** Our review shows that in general local agencies have not complied with the CTC policy. In addition, discussions with CTC and Caltrans indicate that neither agency monitors compliance with this policy on a consistent basis and no actions

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have been taken to induce recipient agencies to comply.

Table 14 shows the extent to which funds appropriated in 1987-88 through 1989-90 have been encumbered. The table shows that by the end of November 1990, only 10.5 percent of the $108.6 million appropriated in 1989-90 was encumbered, whereas the entire amount should have been encumbered by September 30, 1990 according to the CTC policy. Similarly, less than half of the funds appropriated in 1988-89 were encumbered 16 months *after* the end of the year the funds were made available.

**Table 14**
**Department of Transportation**
**Percent of Guideway and TCI Appropriations Encumbered**
**1987-88 through 1989-90**
**(dollars in millions)**

| *Year* | *Guideway/TCI Appropriation* | *Encumbered as of 11/30/90* | *Percent of Appropriation Encumbered* |
|---|---|---|---|
| 1987-88 | $44.9 | $42.3 | 94.2% |
| 1988-89 | 64.0 | 31.6 | 49.2 |
| 1989-90 | 108.6 | 11.4 | 10.5 |

Source: Caltrans.

***Timely Use of Funds is Essential.*** This is because a major goal of the transportation capital outlay program is to provide necessary funds to local agencies so that rail capital outlay projects that are ready for construction can proceed promptly, and passenger service can be provided as quickly as possible. However, our review shows that under the TCI/Guideway program, funds are not expended in a timely manner, they are instead being "banked" for specific projects. (This has been particularly true in the case of projects where the CTC has made a multi-year funding commitment.) Consequently, the goal of the program cannot be met.

Secondly, the allocation of limited resources to projects which do not utilize the funds promptly as scheduled prevents other projects from being funded promptly.

In addition, if the CTC were to enforce a policy that requires funds to be spent as scheduled, this would create an incentive for local agencies to provide the state with accurate project costs and schedules. This will be especially important in the Proposition 108 and 116 bond programs because of federal requirements that stipulate that bond funds be used in a timely manner.

***Analyst's Recommendation.*** In order to insure that local agencies use allocated state funds promptly, we recommend that both the CTC and Caltrans report at budget hearings on (1) why the CTC's Timely Use of Funds Policy has not been monitored and enforced and (2) what actions the CTC intends to take to ensure that funds are used in a timely manner.

We further recommend that the Legislature adopt the following supplemental report language:

It is the intent of the Legislature that the CTC include in its annual report, starting in 1991, a status report on rail projects' compliance with the Timely Use of Funds policy. In addition, for each project where compliance has not been achieved, the report shall indicate what actions the CTC has taken or intends to take to insure compliance.

**Commuter and Urban Rail Transit Projects Not Reviewed**

***We find that individual Commuter and Urban Rail Transit projects were not reviewed by the CTC prior to their inclusion in the 1990 STIP. Therefore, we recommend that the CTC and Caltrans report at budget hearings on specified issues related to the review of Commuter and Urban Rail Transit projects.***

The CTC's guidelines for the Commuter and Urban Rail Transit (CURT) program specify that the CTC, in cooperation with Caltrans, will review CURT projects prior to their inclusion in the STIP. The guidelines (1) detail project eligibility criteria (including timely use of funds) which must be met before a project is eligible for evaluation and (2) specify supplementary information, including a project expenditure plan, to be provided for use in project evaluation. Additionally, the guidelines state that projects should be evaluated with respect to the contributions they make to the total regional transportation system and coordination with other rail systems and transportation modes.

***The CTC Did Not Review Individual Projects Prior to Their Inclusion in the STIP.*** The CTC programmed virtually all $2.5 billion (to be funded from Proposition 108 bond money) in CURT projects into the 1990 STIP *without* reviewing the supplementary project information or requesting that Caltrans perform this review. (The CTC essentially followed regional priorities in programming these projects.) In fact, the CTC was not able to confirm that it had received the supplementary information for all CURT projects included in the 1990 STIP.

Because supplementary project information has not been reviewed either by the CTC or Caltrans, it is possible that projects included in the STIP may not meet minimum eligibility criteria. Additionally, neither the CTC nor Caltrans can verify the accuracy of the project expenditure plans. Consequently, (1) the CURT portion of the STIP may not reflect accurate project costs and schedules and (2) neither the CTC nor Caltrans can provide the State Treasurer with accurate information on when bond proceeds will be needed by local agencies. Finally, these projects have not been reviewed with respect to their contribution to a coordinated transportation network — a major goal of the Legislature's new transportation policies.

***Recent Actions May Provide for Additional Review of CURT Projects.*** The CTC in December 1990 informed all regional transportation planning agencies that it intends to review the 1990 STIP projects during the off-year between STIP adoptions — beginning in 1991-92. Additionally, Caltrans has requested 35 PYs to administer the CURT program in 1991-92, including project review. Finally, the CTC has scheduled a workshop with local agencies in February 1991 to begin project review.

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

***Analyst's Recommendation.*** Although these actions appear to be the initial step to review the CURT projects, the department and commission still have not developed a coordinated plan for project review.

In order that the Legislature be informed on how the CTC and Caltrans will review projects to ensure effective administration of the CURT program, we recommend that the CTC and Caltrans report at budget hearings on what type of review will be conducted, who will perform the reviews, and when reviews of all STIP projects will be completed.

**Intercity Rail Program Overbudgeted**

***We recommend a reduction of $175,000 from the TP and D Account and 2.7 PYs for overbudgeting of staff and related expenses in the Intercity Rail program because a lower workload than anticipated has materialized. (Reduce Item 2660-001-046 by $175,000.)***

The department is requesting nine PYs to accommodate increased workload in the intercity rail program which is projected to result from intercity rail projects in the 1990 STIP funded from Proposition 108 bonds. This program is responsible for the development and project management of intercity rail capital projects.

At the time the department developed its request, it assumed a higher level of funding for intercity rail projects than was subsequently approved in the 1990 STIP. Consequently, the department states that it only needs an additional 6.3 PYs, rather than 9 PYs for intercity rail project workload funded from the Proposition 108 bond funds in the budget year. Accordingly, to adjust for the decrease in personnel and related costs, we recommend a reduction of 2.7 PYs and $175,000 from the TP and D Account.

**Negotiations in Progress on Expansion of Intercity Rail Service**

***We recommend that the Legislature adopt Budget Bill language to restrict the use of $3.5 million from the TP and D Account to operating expenses on expanded intercity rail service to insure that the funds are only used for their budgeted purpose (Item 2660-001-046).***

The department contracts with Amtrak for intercity rail services. Current Amtrak services include service on the Bakersfield-Oakland (San Joaquin) line, the San Diego-Los Angeles-Santa Barbara (San Diegan) line and associated feeder bus service. In the budget year, the department proposes to extend service on the San Joaquin line from Stockton to Sacramento and initiate service on the Sacramento-Oakland-San Jose line, beginning in October 1991. The department is requesting $3.5 million from the TP and D Account to fund operating expenses (including marketing) of the new services. Our analysis shows that this request represents reasonable cost estimates for the new services.

However, discussions with the department indicate that before the new services can start, the department must successfully conclude negotiations with both the Southern Pacific Railroad and the Santa Fe Railroad. Additionally, the department is currently exploring various options for the lease or acquisition of equipment necessary for the operation of the new services. Consequently, it is likely that the new services would not be initiated until after October.

In order to insure that the requested funds will be used only for expanded intercity rail service, we recommend that the Legislature adopt the following Budget Bill Language:

Notwithstanding Section 14037 of the Government Code, $3,463,000 available in this item can be used only for operating costs on expanded intercity rail service.

### Peninsula Commute Service Will Transition to Local Operation

***Some actions have been taken towards meeting statutory requirements to turn over the operation of the Peninsula Commute Service to local control.***

***Statute Requires Caltrain Transition to Local Control by July 1, 1992.*** The department contracts with the Southern Pacific Railroad (SP) for the operation of the Peninsula Commute Service (Caltrain). Chapter 1283, Statutes of 1989 (SB 928, Morgan) requires that the contract be assigned to the Peninsula Corridor Study Joint Powers Board (JPB) — the local agency designated to assume operation of the service — starting July 1, 1992. Additionally, the state is authorized to provide operating support for the service only through 1992-93.

The department and the JPB are taking steps to transition the service to local operation. The department reports that it has developed a transition plan to transfer the Caltrain service to local operation by July 1, 1992, and possibly earlier, if the JPB desires. The JPB reports that it signed a letter of intent in January 1991 with the SP to purchase the Caltrain and related rights-of-way for $268 million. (The letter of intent includes additional purchase options.) It is generally believed that without purchase of the rights-of-way, a local agency would not be able to successfully operate Caltrain. For example, it would be difficult to make necessary service improvements and achieve reductions in operating costs to make the service financially viable.

Currently, the JPB is in the process of securing funding necessary for the purchase. It requested $47.5 million in TCI funds for 1991-92 (the request includes an equal local match commitment), and plans to submit an application for $173 million in Proposition 116 funds. With this state money, the JPB will be able to fund the purchase of the rights-of-way.

## Rideshare Program

### Effectiveness of Rideshare Marketing Not Yet Evaluated

***We withhold recommendation on $10.5 million from the Federal Trust Fund for rideshare marketing contract costs pending receipt of a survey which evaluates the effectiveness of the rideshare marketing campaign (Item 2660-001-890).***

The department proposes to increase its rideshare marketing contract by $2 million for a total of $10.5 million in the budget year. In the current

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

year, the rideshare marketing contractor develops media campaigns and provides media coverage and public relations in the four major metropolitan areas of Los Angeles, San Diego, Sacramento, and the Bay Area. In the budget year, the department proposes to increase television coverage in the four major metropolitan areas and expand marketing to the Fresno, Bakersfield and Stockton areas.

The department is currently in the process of evaluating the effectiveness of its marketing campaign. To this end, a consultant conducted an initial survey to provide a baseline measure of the levels of public awareness and usage of ridesharing. The consultant is now conducting a follow-up survey to determine the change in awareness and usage of ridesharing as a result of the marketing campaign. The department expects the follow-up survey to be completed in March 1991.

Without this survey, we are unable to evaluate the effectiveness of the current marketing campaign and if an increase in marketing is merited. Consequently, we withhold recommendation on $10.5 million pending receipt of the follow-up marketing survey.

## ADMINISTRATION

The Administration program provides for the business, legal, personnel, management, and technical services necessary to support the department. The budget proposes an expenditure level of $218.3 million for administration, an increase of $11.1 million or 5.4 percent over the current year. The budget also proposes a staffing level of 1,774.1 PYs, an increase of 90.3 PYs or 5.4 percent over the current year.

### Data Base Development Projects Need Additional Oversight

*We recommend that prior to budget hearings, the department provide the fiscal committees with an explanation of the impact of redirecting funds from various programs to finance one-time computer data base development costs in the budget year.*

Caltrans has begun a 10-year project to improve the effectiveness of its key data bases and link them into a unified system. According to the department, the new system is needed because the current data bases are obsolete, costly to maintain, and, in general, cannot respond to information requests in a quick and effective manner. Based on our review, the proposed new system would improve the department's ability to obtain information and would also enhance the oversight capability of the Legislature. The department estimates the entire project to cost $61 million.

At the time this analysis was prepared, the department reported it was in the process of selecting a data base management system (DBMS)—the computer hardware and software necessary to make the overall system work. Once that task is finished, the department plans to begin converting its human resources and project management data bases to the new system in the current year. Both systems are scheduled for completion in February 1993. The other three phases of the data base project are scheduled to begin as follows: roadway network — January 1993; maintenance — January 1995; and equipment — January 1997.

While we agree that the department's key data bases should be improved, we have two major concerns about the project.

1. ***Major Computer Projects Seldom On Time or On Budget.*** This is because recent experience shows that it has taken the department longer than estimated to implement similar type projects, resulting in higher than expected costs and delays in realizing program benefits. For example, the life-cycle cost of the department's accounting automation project has grown from $3.4 million when the project was first approved in 1986 to an estimated $8.8 million in the current year. Because of cost overruns, the department has delayed for two years the development of two of the seven original project components. Similarly, due to delays in testing of the DBMS, the development of the human resources data base already is 13 months behind its original schedule.

2. ***Project Management and Human Resources Data Bases to be Funded Through Redirections.*** In 1991-92, the department proposes to redirect $3.8 million to fund one-time development costs for both projects. The $3.8 million consists of $3.5 million from "contingency funds" and office equipment expenses and another $307,000 from the support of the Office of Computer Services and the Division of Personnel Management. In our view, some of these redirections, particularly for the project management data base, do not provide a firm funding source for the development of the projects and could strain other programs.

For example, redirections are proposed even though all of the programs from which funds are to be redirected anticipate workload in excess of what existing funding levels can accommodate.

Consequently, we recommend that prior to budget hearings, the department provide the fiscal committees with an explanation of the impact of redirecting funds to finance the project management and human resources data base projects in the budget year.

### Torts Payments Are an Increasing Drain on Resources

***The cost of paying and defending tort claims against the department will be $50.6 million in 1991-92, accounting for 23 percent of the department's administrative budget. Furthermore, if current trends continue, the costs of paying and defending tort cases is likely to increase in future years.***

The department is requesting $50.6 million to pay the cost of defending and paying tort claims in 1991-92. The amount includes $13.1 million for staff and other legal defense costs and $37.5 million for tort settlements and jury awards. The budget assumes that the level of paid tort claims does not increase over the current year. *Our review shows that tort-related costs would comprise 23 percent of all departmental administrative costs in 1991-92.*

While the budget requests $37.5 million for tort payments, the department indicates it faces a potential liability of $126.5 million in 48 cases that may be resolved in the current or budget year. This amount includes only

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

cases seeking more than $1 million and does not include cases likely, in the department's opinion, to be dismissed by the courts. The department faces an additional multi-million dollar liability from claims seeking less than $1 million.

The cost of tort payments has increased rapidly in recent years from $10.9 million in 1986-87 to $37.9 million in 1989-90. Our analysis shows that the average size of the awards has also increased. For example, in 1986-87 the average amount paid per judgement/settlement was $59,144. In 1989-90, the average was $131,861, an increase of 123 percent over the three-year period. The increase reflects the rapid rise in the number of million-dollar-or-more judgments against the department in recent years.

Whether tort payments will continue to increase is difficult to predict. On the one hand, the department engages in several activities to reduce its tort exposure in addition to proposing to enhance its ability to defend cases. For 1991-92, it is requesting to increase attorney and support resources by 24.9 PYs and $1.3 million. On the other hand, liability levels are not likely to decline because of the state's exposure to claims. For example, the rule of joint and several liability is frequently cited as a cause of the dramatic increase in tort costs. Under this rule, the department could pay up to 100 percent of the damages awarded even if it is found responsible for only 1 percent of the loss.

In summary, the cost of paying and defending tort claims consumes a significant share of SHA resources that, in the absence of such claims, could be used to fund other departmental programs. Furthermore, if current trends persist, the costs of paying and defending tort cases is likely to increase in future years.

**Recruitment**

***We withhold recommendation on $125,000 from the SHA for a recruitment incentive program pending receipt of an implementation plan for the program.***

Chapter 1553, Statutes of 1990 (AB 4151, Clute), requires the department to develop and implement a recruitment incentive program for hiring and retaining highway engineers. The department is authorized to spend $125,000 annually on the program.

The department's preliminary plans call for granting 100 loans of $1,250 each annually to collegiate engineering students at selected colleges and universities in California. At the time this analysis was prepared, the department had not yet developed specific details of the incentive program, including costs of program administration, development of loan payback standards, selection criteria of participants, and other pertinent details. Caltrans has indicated that these details will be developed in March. Consequently, we withhold recommendation on $125,000 for the development and implementation of a recruitment incentive program pending receipt of the department's implementation plan.

### Salary Savings Rate is Too High

***We recommend that Caltrans report to the fiscal committees, at the time of budget hearings, on how the proposed salary savings requirement will affect the department's ability to carry out its programs.***

The budget proposes $56.3 million in salary savings in 1991-92 — an amount equal to 6.6 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 indicates that the 6.6 percent rate is higher than the actual savings rates realized during the last several years. Table 15 shows that, from 1985-86 through 1989-90, the department realized a salary savings rate consistently lower than what was actually budgeted. During the period displayed, the average salary savings rate for Caltrans was 4.3 percent compared to a budgeted level of 5.3 percent.

**Table 15**
**Department of Transportation**
**Estimated Versus Actual Salary Savings**
**1985-86 through 1989-90**
**(dollars in millions)**

| | *Salary Savings Amounts* | | *Salary Savings Rate* | |
|---|---|---|---|---|
| *Year* | *Estimated* | *Actual* | *Estimated* | *Actual* |
| 1985-86 | $22.7 | $20.1 | 4.7% | 4.3% |
| 1986-87 | 33.5 | 31.4 | 6.4 | 6.3 |
| 1987-88 | 29.0 | 27.0 | 5.2 | 5.1 |
| 1988-89 | 27.3 | 16.5 | 4.5 | 2.8 |
| 1989-90 | 38.1 | 21.9 | 5.6 | 3.3 |
| Five-year average | | | 5.3% | 4.3% |

We can find no evidence to support the budget's contention that salary savings will be 6.6 percent — 2.3 percent above historic levels. Failure to achieve the proposed salary savings rate would force the department to hold open or leave vacant positions it has been authorized to fill, resulting in a corresponding reduction in work performed. In other words, an artificially high salary savings rate would have the same result as an arbitrary unallocated cut in departmental staffing.

Consequently, we recommend that Caltrans report to the fiscal committees, at the time of budget hearings, on how the proposed salary savings requirement will affect the department's ability to carry out its programs.

### Technical Recommendations

***We recommend that the Legislature delete Budget Bill provision 1 under Item 2660-125-042 because this provision, relating to highway program expenditures, was repeated in this Mass Transportation program item in error.***

### Capital Outlay — Lands and Buildings

The Governor's Budget proposes an appropriation in Item 2660-311-042 for capital outlay expenditures for lands and buildings projects in the Department of Transportation. Please see our analysis of the proposed Department of Transportation Capital Outlay Program (Item 2660-311)

**DEPARTMENT OF TRANSPORTATION — SUPPORT AND CAPITAL OUTLAY—Continued**

in the capital outlay section of this *Analysis* which is in the back of this document.

## DEPARTMENT OF TRANSPORTATION — REAPPROPRIATIONS

Items 2660-490 through 2660-495
from various funds Budget p. BTH 88

### 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 1986, 1987 and 1988 be reappropriated until June 30, 1992. 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, 1992. The department indicates that these amounts will allow for payment of any potential claims on construction projects funded out of these appropriations.

**Local Assistance — Reappropriation for Liquidation (Item 2660-491)**

*We recommend approval.*

The budget proposes that the unliquidated encumbrances of specified state funds appropriated in the Budget Acts of 1986 and 1989 for local assistance purposes be reappropriated without regard to fiscal year. The reappropriation would allow project savings to be used on previously funded projects. Furthermore, it would allow local projects to be paid upon completion, when the encumbrances will be liquidated.

**Special Legislation (Item 2660-492)**

***We recommend that the Legislature amend Item 2660-492 to limit the reappropriation of funds under Ch 1440/85 (AB 1024, O'Connell) to the amounts appropriated by that measure for a remaining project in Los Angeles County.***

The budget proposes that the unencumbered and unliquidated balances of four separate appropriations from various funds be reappropriated until June 30, 1992. These include:

- Federal Outer Continental Shelf funds appropriated in Ch 1440/85 (AB 1024, O'Connell) for two highway projects, one each in Los Angeles and San Bernardino Counties.

- Transportation Planning and Development Account funds (reimbursements only) appropriated in the 1986 Budget Act for San Francisco Peninsula Commuter Service projects.
- Local Jurisdiction Energy Assistance Account funds appropriated in Ch 1343/86 (SB 880, Leroy Greene) to provide technical assistance and equipment to local jurisdictions for the purpose of improving traffic flow efficiency.
- State Highway Account funds appropriated in Ch 1472/88 (SB 2381, Deddeh) to pay initial costs of acquiring a new building for the District 4 (San Francisco) office to be available for occupancy by August 30, 1993.

***Reappropriation for San Bernardino Project No Longer Necessary.*** The Governor's Budget reflects about $4.4 million in expenditures in the current year from the Federal Outer Continental Shelf funds appropriated by Chapter 1440. This is the balance of the funds remaining in the appropriation. The department indicates that it requested the reappropriation of these funds in the Budget Bill because both projects to be funded from the appropriation were scheduled late in the current year and the reappropriation would continue the availability of the funding if the awards were delayed into the budget year.

The department now indicates, however, that the project in San Bernardino County — to improve the interchange at Interstate 15 and Interstate 30 — has been canceled, and the $4 million in Chapter 1440 for that project is no longer needed. The project was canceled because a more extensive interchange project is planned to be funded through the State Transportation Improvement Program and the San Bernardino local sales tax measure. Therefore, we recommend that the Legislature amend Item 2660-492 to reappropriate only the funds originally appropriated under Chapter 1440, Section 27(a), for the Los Angeles project. This will result in the reversion of $4 million in Federal Outer Continental Shelf funds at the end of the current year to be available for other uses.

**Local Assistance — Reappropriation for Encumbrance (Item 2660-493)**

*We recommend approval.*

The budget proposes that the unencumbered and unliquidated balances of funds appropriated in the 1990 Budget Act for Transit Guideway, State-Local Transportation Partnership, and Traffic Systems Management projects be reappropriated. These appropriations would be available until June 30, 1993. The reappropriation would allow these local assistance capital projects to be treated in a similar manner to other capital outlay projects.

**Federal Reimbursements (Item 2660-494)**

*We recommend approval.*

The budget proposes that specified appropriations in the Budget Acts of 1979, 1981, 1982, 1983, 1984, 1985, and 1986 be reappropriated to enable collection of outstanding federal reimbursements. This would allow

**DEPARTMENT OF TRANSPORTATION — REAPPROPRIATIONS—Continued**

receipt of these federal funds once project accounting is complete and final settlement is reached on the amount of federally eligible costs to be paid on completed projects.

**Passenger Rail Bond Fund of 1990 (Item 2660-495)**

*We recommend approval.*

The budget proposes that the unencumbered and unliquidated balances of the Passenger Rail Bond Fund of 1990 appropriation made in the Budget Act of 1990 be reappropriated and remain available until June 30, 1993. The reappropriation would allow local assistance projects funded from the item to be treated in a similar manner to other capital outlay projects.

## OFFICE OF TRAFFIC SAFETY

Item 2700 from various funds Budget p. BTH 101

| | |
|---|---|
| Requested 1991-92 | $14,834,000 |
| Estimated 1990-91 | 18,953,000 |
| Actual 1989-90 | 14,993,000 |
| Requested decrease $4.1 million (−22 percent) | |
| Total recommended reduction | None |

**1991–92 FUNDING BY ITEM AND SOURCE**

| Item—Description | Fund | Amount |
|---|---|---|
| 2700-001-044—Support | Motor Vehicle Account, State Transportation | $320,000 |
| 2700-001-890—Support and state grants | Federal Trust | 7,131,000 |
| 2700-101-890—Local assistance | Federal Trust | 7,363,000 |
| Reimbursements | — | 20,000 |
| Total | | $14,834,000 |

**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. 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 26.5 personnel-years in the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes total expenditures of $14.8 million in 1991-92. This is a decrease of $4.1 million, or 22 percent, below the estimated current-year level, which reduces the proposed expenditure level for the office to the 1989-90 level.

The proposed decrease includes a decrease in federal grants to state agencies of $3.4 million and a reduction of $690,000 in federally funded OTS support. During the current year, OTS received additional federal funds of $4.5 million for grants to state agencies and for support of the office. California became eligible for these funds in 1989 after enacting the administrative suspension law under which a person's driver license is suspended when the person is arrested for drunk driving rather than only after the person is convicted of drunk driving. The federal program allows the OTS to apply for similar additional funds each year for four more years, but the funds are not guaranteed. Although the department plans to apply for the federal funds, the budget does not reflect their inclusion at this time.

## DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 2720 from various funds — Budget p. BTH 102

| | |
|---|---|
| Requested 1991-92 | $622,624,000 |
| Estimated 1990-91 | 569,976,000 |
| Actual 1989-90 | 544,135,000 |
| Requested increase $52,648,000 (+9.2 percent) | |
| Total recommended reduction | 900,000 |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2720-001-044—Support | Motor Vehicle Account, State Transportation | $604,796,000 |
| 2720-001-840—Support | Motorcyclist Safety | 1,726,000 |
| 2720-001-847—Support | Asset Forfeiture | 2,165,000 |
| 2720-001-890—Support | Federal Trust | 2,804,000 |
| 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 | — | 11,133,000 |
| Total | | $622,624,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Level of Service. Recommend that the California Highway Patrol report to the Legislature at budget hearings, the level of service the existing patrol force will provide in 1991-92. 308
2. Biennial Inspection of Terminals Program. The inspection cycle needs to be extended from two to three years, or program staff will need to be augmented. Further, we recommend that the Legislature enact legislation to (1) 309

**DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued**

charge a fee for every reinspection required by a truck terminal, and (2) raise the inspection fees in order to make the program self-supporting.

3. ***Traffic Operation Centers. Reduce Item 2720-001-044 by $900,000.*** Recommend reduction of funds and 10.3 personnel-years because the department has requested more personnel than is needed to staff the Traffic Operation Centers. 311

## 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, Administration, provides administrative services to the first three programs.

The department has 8,804.1 personnel-years in the current year.

## MAJOR ISSUES

- ☑ The CHP has a large backlog of truck terminals which have paid a required inspection fee, but have yet to be inspected under the Biennial Inspection of Terminals (BIT) program.
- ☑ Legislative action is required to raise BIT program inspection fees because contrary to legislative intent, the program is not self-supporting.

## OVERVIEW OF THE BUDGET REQUEST

The budget requests a total of $622.6 million for expenditure by the CHP in 1991-92. This is $52.6 million, or 9.2 percent, above estimated expenditures in the current year. However, this increase is misleading in that it does not reflect the entire amount of CHP retirement benefit commitments. In the budget year, $36 million in CHP retirement commitments will be funded from a surplus in the Public Employees' Retirement Fund.

The CHP also proposes a staffing level of 9,021.6 personnel-years in the budget year. This is an increase of 217.5 personnel-years, or 2.5 percent, over the current-year level. The increase includes an addition of 171 personnel-years for workload adjustments and new programs, and 46.5 personnel-years to reflect the full-year costs of traffic officers who were added in 1990-91.

**Table 1**
**Department of the California Highway Patrol**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | Personnel-Years | | | Expenditures | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Prop. 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Prop. 1991-92* | *Percent Change From 1990-91* |
| Traffic management | 6,085.9 | 6,347.4 | 6,533.0 | $483,282 | $508,566 | $555,539 | 9.2% |
| Regulation and inspection | 746.3 | 800.3 | 822.9 | 50,619 | 49,502 | 54,329 | 9.8 |
| Vehicle ownership security | 152.5 | 158.3 | 159.5 | 10,234 | 11,908 | 12,756 | 7.1 |
| Administration (distributed) | 1,449.9 | 1,498.1 | 1,506.2 | (95,513) | (112,756) | (126,689) | 12.4 |
| Totals | 8,434.6 | 8,804.1 | 9,021.6 | $544,135 | $569,976 | $622,624 | 9.2% |
| Funding Sources | | | | | | | |
| *Motor Vehicle Account, State Tranportation Fund* | | | | *$525,166* | *$553,384* | *$604,796* | *9.3%* |
| *Motorcyclist Safety Fund* | | | | *1,764* | *1,672* | *1,726* | *3.2* |
| *Federal Trust Fund* | | | | *2,823* | *2,734* | *2,804* | *2.6* |
| *Asset Forfeiture Fund* | | | | *277* | *2,140* | *2,165* | *1.2* |
| *Petroleum Violation Escrow Account* | | | | *—* | *150* | *—* | *–100.0* |
| *Reimbursements* | | | | *14,105* | *9,896* | *11,133* | *12.5* |

**Table 2**
**Department of the California Highway Patrol**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *Motor Vehicle Account* | *Reimbursements* | *Other* | *Totals* |
|---|---|---|---|---|
| 1990-91 Expenditures (Revised) | $553,384 | $9,896 | $6,696 | $569,976 |
| *Baseline Adjustments* | | | | |
| Employee compensation increase | 24,462 | — | — | 24,462 |
| Elimination of one-time costs | –14,763 | — | — | –14,763 |
| Full-year cost of new programs | 6,506 | — | — | 6,506 |
| PERS rate reduction | –1,056 | –2 | –2 | –1,060 |
| Pro rata increase | 7,555 | — | 79 | 7,634 |
| Other adjustments including retirement contributions | 4,711 | 45 | –78 | 4,678 |
| Subtotals, baseline adjustments | ($27,415) | ($43) | (–$1) | ($27,457) |
| *Workload and Program Changes* | | | | |
| Support for field operations | 687 | — | — | 687 |
| Telecommunication services | 9,498 | — | — | 9,498 |
| Traffic Operation Centers (TOCs) | 2,555 | — | — | 2,555 |
| Data processing services | 1,167 | — | — | 1,167 |
| Computers for patrol cars | 552 | — | — | 552 |
| Routing of radioactive materials | (62) | — | — | — |
| Insurance rate increases | 1,305 | — | — | 1,305 |
| Lease costs for CHP facilities | 1,998 | — | — | 1,998 |
| Dispatch center upgrades | 4,029 | — | — | 4,029 |
| Biennial Inspection of Terminals (BIT) | 1,402 | — | — | 1,402 |
| SAFE reimbursable positions | — | 1,998 | — | 1,998 |
| Administrative support | (55) | — | — | — |
| Conversion of reimbursements to revenues | 804 | –804 | — | — |
| Subtotals, workload and program changes | ($23,997) | ($1,194) | (—) | ($25,191) |
| 1991-92 Expenditures (Proposed) | $604,796 | $11,133 | $6,695 | $622,624 |
| Change from 1990-91: | | | | |
| Amount | $51,412 | $1,237 | –$1 | $52,648 |
| Percent | 9.3% | 12.5% | 0.0% | 9.2% |

## DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

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 proposal for 1991-92.

## ANALYSIS AND RECOMMENDATIONS

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

- Baseline adjustments totaling $27.5 million; and
- Workload and program changes including (1) $9.5 million for telecommunications equipment, (2) $4 million for dispatch center equipment upgrades, (3) $2 million for higher facility lease costs, (4) $2 million in reimbursements for additional staff to handle SAFE freeway callbox calls, (5) $1.9 million for data processing and field office support staff, (6) $1.3 million for insurance rate increases, (7) $552,000 to install computers in patrol cars in two Los Angeles areas, and (8) $117,000 redirected to fund 1.5 specialist positions.

### No Additional Traffic Officers Requested for Patrol — Staffing Methodology Still Being Developed

*We recommend that the CHP report to the Legislature at budget hearings on the level of service the existing patrol force will provide in 1991-92.*

In the current year, the CHP has about 5,500 traffic officers for patrol and traffic enforcement activities. This field force has been gradually expanded in the past few years. Since 1987, the CHP has added about 600 traffic officers to get to this staffing level.

In order to be able to evaluate how the CHP determines its level of field force, the Legislature, in the *Supplemental Report of the 1989 Budget Act*, directed the CHP to develop a staffing methodology which is to be the basis for traffic officer requests starting in the 1992-93 budget year. In addition, the staffing methodology is to be used to evaluate any staffing increase requested by the CHP for 1991-92.

The CHP has been developing the staffing methodology for the past two years. Some of the factors used in the formula to determine the appropriate number of officers include (1) the number of accidents occurring within CHP's jurisdiction, (2) the amount of time traffic officers spend on enforcement duties such as arresting drunk drivers, and (3) how frequently urban and rural roadways are patrolled. Some factors such as the number of accidents are beyond the CHP's control and are related to the growth in vehicle population. Other service level factors, such as the frequency of patrol on a rural roadway, are policy decisions and ought to be determined according to the Legislature's priorities.

A final report on the proposed methodology was due to the Legislature in January of 1991, but the report was not available at the time this analysis was prepared. Consequently, the Legislature is not able to (1) evaluate the appropriateness of CHP's staffing methodology, (2) assess what level of service the patrol force currently provides, and (3) determine what service levels are desirable.

For 1991-92, the CHP has not requested any additional traffic officers for patrol purposes. In order that the Legislature be informed on the appropriateness of the existing force of 5,500 traffic officers, we recommend that the department report at budget hearings on the level of service this force will provide in 1991-92.

**Implementation of the Biennial Inspection of Terminals (BIT) Program**

***We find that either the BIT inspection cycle will need to be extended from two to three years, or program staff will need to be augmented substantially because BIT workload is about 90 percent higher than originally anticipated.***

***We also recommend that the Legislature enact legislation to (1) charge a reinspection fee for every reinspection required by a truck terminal and (2) raise the BIT inspection fees to make the BIT program self-supporting.***

Chapter 1586, Statutes of 1988 (AB 2706, Katz), established the Biennial Inspection of Terminals (BIT) program. Under the BIT program, the CHP is required to inspect once every two years the truck "terminals" of people who use trucks and trailers as part of their business. A "terminal" is the place where the vehicles are garaged and maintained.

In establishing the BIT program, the Legislature specifically expressed its intent that the program be self-supporting. In order to fund the program, Chapter 1586 requires truck terminal operators to pay a $100 fee for the initial inspection of small terminals and $400 for large terminals.

To implement the BIT program, the CHP employs civilian inspectors to check the physical condition of trucks and trailers, the terminal operator's maintenance records, and driver records on location at the terminals. If the terminal fails the inspection, the terminal operator has 60 days to correct the problems at which time the CHP will reinspect the terminal. The CHP will continue to reinspect a terminal every 60 days until the terminal passes inspection.

The CHP estimates that about 42,000 truck terminals in the state will be subject to the BIT program. By July 1991 (the end of the first two years of the program) about 34,000 terminals will have signed up for inspection and paid the appropriate fee. Currently, no fee is charged for reinspection of a terminal which fails inspection.

***Program Implementation Has Significant Problems.*** Based on our review of the BIT program's operation to date, we find:

- Due to longer than expected time needed to do each inspection and a high reinspection rate, there is a large backlog of terminals that have paid a fee, but have not been inspected.
- The CHP will not be able to meet a two-year inspection cycle on an ongoing basis, given current staffing.
- Program fees do not support the costs of the program.

***Inspections Take Longer Than Expected and Reinspection Rate is High.*** Our review shows that the BIT program workload is much larger than the CHP originally estimated due to two factors. First, inspections take longer to complete than expected. At the start of the BIT program, the CHP estimated that each inspection would take an average of eight hours to complete. However, the CHP now estimates that, at best, each inspection takes 11 hours on average — about 38 percent longer than initially estimated.

Second, the CHP underestimated the number of terminals that would fail inspection and require a reinspection. Currently, 38 percent of the terminals inspected require at least one reinspection. Taken together, the longer inspection time and high reinspection rate have resulted in a volume of BIT workload which is 90 percent higher than the CHP originally anticipated.

***The BIT Program Has Large Backlog.*** As a result, the CHP anticipates that by July 1991, it will have inspected only about 53 percent, or 18,000 of the 34,000 terminals which will have signed up for the program during the first inspection cycle. This will leave a backlog of 16,000 terminals which have paid a fee but still need to be inspected.

To address the backlog, the CHP plans to extend the initial inspection cycle by six months to January 1992, as is allowed under Chapter 1586. Additionally, the budget proposes to add another 19 personnel-years — increasing the BIT staff to about 159 personnel-years. Our review indicates these positions are warranted. However, based on an inspection rate of 11 hours per terminal and the proposed staffing level, we estimate it will still take CHP another full year (until July 1992) to complete these inspections.

***Subsequent Inspection Cycles Also Will Take Longer.*** Our analysis also shows that on an ongoing basis, it will take the proposed staff close to three years to inspect a projected total of 42,000 terminals and conduct all reinspections. If the CHP were to inspect all terminals in two-year cycles beginning in 1992-93 (when it is estimated the current backlog will be eliminated), the CHP would need a total of about 230 personnel-years each year — about 70 more personnel-years than proposed for 1991-92.

***Program is Not Self-Supporting.*** Because the higher workload results in higher program costs, revenues from current BIT fees do not cover the costs of the program. For instance, by July 1991, the CHP will have collected about $10 million from 34,000 terminals. But, the CHP will have spent $18 million to inspect and reinspect these terminals, resulting in a cost overrun of $8 million. Our analysis further shows that on an ongoing basis, the BIT program will continue to experience significant overruns of about $7 million per inspection cycle.

***Reinspection Fee Ought to be Imposed.*** In order that additional revenues are available to fund the BIT program, we recommend that the Legislature enact legislation to charge a fee for terminal reinspection. Imposing such a fee will provide terminal operators an incentive to meet inspection requirements and reduce the need for reinspection. At the existing reinspection rate, we estimate that charging reinspection fees equal to the initial inspection fees of $100 and $400 would generate additional revenue of about $4.5 million over each inspection cycle.

***Increase in Initial Inspection Fees is Also Needed.*** In order to make the program self-supporting, initial inspection fees also should be raised because inspections take longer than previously estimated to perform, increasing the cost per inspection. Therefore, we further recommend that the Legislature enact legislation to raise the BIT inspection fees to fully cover the costs of inspections. While we do not propose specific amounts for the fee increases, raising the inspection fees to $150 and $450 for small and large terminals, respectively (and charging equivalent reinspection fees as recommended above) would raise sufficient revenue to cover the cost of inspecting 42,000 terminals, leaving no reserve.

## Too Many Staff Requested for Traffic Operation Centers

***We recommend deletion of $900,000 and 10.3 personnel-years from Item 2720-001-044 because the department has requested more personnel than is needed to staff the Traffic Operation Centers (TOCs).***

The CHP works jointly with the Department of Transportation (Caltrans) to monitor and control freeway traffic in the state's major urban areas. The TOCs are staffed by both departments and have equipment which tracks traffic flow and incidents. Having both CHP and Caltrans staff at the TOCs allows the departments to coordinate their responses to traffic incidents. Caltrans provides most of the staff and equipment for the TOCs and determines each center's hours of operation. The CHP provides one traffic officer to each center during operating hours.

Currently, there are six TOCs operating or planned in Los Angeles, Orange, Sacramento, San Bernardino, San Diego, and San Francisco. The Los Angeles TOC was established in the early 1970s. The other five centers have started or will start operating in the current year. The CHP currently staffs the TOCs with traffic officers and supervisors redirected from patrol duties.

For the budget year, the CHP requests $2.5 million and 33.3 personnel-years to permanently staff the six TOCs. However, the CHP's request is overstated because it overestimated the hours of operation for the five new TOCs. The request assumes that all five of the new TOCs will operate 24 hours daily in the budget year. However, according to the Caltrans' TOC plan, only two of the centers will operate 24 hours a day while the other three will operate only during peak commute hours.

To meet the planned hours of operation, we estimate the CHP will need $1.6 million and 23 personnel-years to staff the TOCs in 1991-92. Accordingly, we recommend a reduction in the department's budget of $900,000 and 10.3 personnel-years.

## Capital Outlay

The Governor's Budget proposes an appropriation of $1.1 million in Item 2720-301-044 for capital outlay expenditures for the California Highway Patrol. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

## DEPARTMENT OF MOTOR VEHICLES

Item 2740 from various funds Budget p. BTH 110

| | |
|---|---|
| Requested 1991-92 | $509,094,000 |
| Estimated 1990-91 | 466,374,000 |
| Actual 1989-90 | 425,957,000 |
| Requested increase $42,720,000 (+9.2 percent) | |
| Total recommended reduction | None |

### 1991–92 FUNDING BY ITEM AND SOURCE

| Item—Description | Fund | Amount |
|---|---|---|
| 2740-001-001—Support—Anatomical donor designation | General | $60,000 |
| 2740-001-044—Support | Motor Vehicle Account, State Transportation | 319,793,000 |
| 2740-001-054—Support—New Motor Vehicle Board | New Motor Vehicle Account | 1,300,000 |
| 2740-001-064—Support | Motor Vehicle License Fee Account, State Transportation | 169,465,000 |
| 2740-001-516—Support—Undocumented vessel registration | Harbors and Watercraft Revolving | 4,147,000 |
| 2740-001-890—Support | Federal Trust | 150,000 |
| 2740-011-044—Payment of deficiencies | Motor Vehicle Account | (1,000,000) |
| Reimbursements | — | 14,179,000 |
| Total | | $509,094,000 |

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis page*

1. Motor Vehicle Account. Increased revenue will be needed to balance the Motor Vehicle Account in future years, but the proposed fee increases could be delayed until July 1992. 315
2. Motor Vehicle Account. The Department of Motor Vehicles will collect $61 million from its sale of vehicle registration and driver license information in 1991-92. These revenues are not subject to restrictions of Article XIX of the State Constitution, and the Legislature could use a portion of these revenues for higher state priorities. 318
3. Employer Statement Program. Recommend that the Legislature adopt supplemental report language directing the department to report by November 30, 1991 on options for administering, in a cost-effective manner, drive tests currently conducted under the Employer Statement Program. Further recommend that 17 personnel-years requested for auditing be made limited-term for one year, to allow the program to continue for one more year. 318

4. Magnetic Stripe Driver License Program. Recommend that the department report prior to budget hearings on the impact of the recent court ruling on the implementation of the magnetic stripe license program and the department's proposed course of action in 1991-92. 320
5. Planned Nonoperation Program. Recommend that 26 personnel-years requested for the new Planned Nonoperation program be made limited-term for one year, because the program will have a large one-time workload in 1991-92 which will decline in subsequent years. 321

## 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 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 Division 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 8,492.1 personnel-years in the current year.

## MAJOR ISSUES

☑ **The Governor's Budget proposes to increase vehicle registration fees by $5, and driver license fees by $2, effective January 1992. Together these measures would increase Motor Vehicle Account revenue by $73.4 million in 1991-92, and about $150 million annually thereafter.**

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $509.1 million for the support of the DMV in 1991-92. This is an increase of $42.7 million, or 9.2 percent, above estimated expenditures for the current year. The budget also proposes 8,716 personnel-years in 1991-92 — an increase of 223.9 personnel-years above the 1990-91 level.

To fund the department's programs, the budget requests $319.8 million from the Motor Vehicle Account (MVA), State Transportation Fund, and

**DEPARTMENT OF MOTOR VEHICLES—Continued**

$169.5 million from the Motor Vehicle License Fee Account, Transportation Tax Fund. The budget also proposes expenditures of $1.3 million from the New Motor Vehicle Board Account, $4.1 million from the Harbors and Watercraft Revolving Fund, $150,000 from federal funds, and $60,000 from the General Fund. In addition, the budget projects $14.2 million in reimbursements.

The Governor's Budget includes an unallocated trigger-related reduction of $2,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

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 proposed budget for 1991-92.

**Table 1**
**Department of Motor Vehicles**
**Budget Summary**
**1989-90 through 1991-92**
**(dollars in thousands)**

| | *Personnel-Years* | | | *Expenditures* | | | |
|---|---|---|---|---|---|---|---|
| *Program* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Actual 1989-90* | *Est. 1990-91* | *Proposed 1991-92* | *Percent Change From 1990-91* |
| Vehicle/vessel identification and compliance | 3,793.7 | 4,138.2 | 4,284.8 | $232,230 | $255,959 | $278,988 | 9.0% |
| Driver licensing and personal identification | 1,998.7 | 2,111.9 | 2,155.5 | 115,587 | 123,476 | 136,299 | 10.4 |
| Driver safety | 1,089.5 | 1,247.6 | 1,265.2 | 52,127 | 59,556 | 64,215 | 7.8 |
| Investigative services | 415.4 | 436.1 | 442.0 | 24,936 | 26,199 | 28,292 | 8.0 |
| New Motor Vehicle Board | 17.4 | 18.6 | 21.4 | 1,077 | 1,184 | 1,300 | 9.8 |
| Administration (distributed) | 540.8 | 539.7 | 547.1 | (50,431) | (52,858) | (57,244) | (8.3) |
| Totals | 7,855.5 | 8,492.1 | 8,716.0 | $425,957 | $466,374 | $509,094 | 9.2% |
| Funding Sources | | | | | | | |
| *General Fund* | | | | *$64* | *$62* | *$60* | *−3.2%* |
| *Motor Vehicle Account, State Transportation Fund* | | | | *273,475* | *300,246* | *319,793* | *6.5* |
| *New Motor Vehicle Board* | | | | *1,077* | *1,184* | *1,300* | *9.8* |
| *Motor Vehicle License Fee Account, Transportation Tax Fund* | | | | *135,715* | *148,377* | *169,465* | *14.2* |
| *Harbors and Watercraft Revolving Fund* | | | | *3,344* | *3,565* | *4,147* | *16.3* |
| *Federal Trust Fund* | | | | *1,281* | *417* | *150* | *−64.0* |
| *Reimbursements* | | | | *10,982* | *12,523* | *14,179* | *13.2* |
| *Natural Disaster Reimbursements — Loma Prieta* | | | | *19* | *—* | *—* | *—* |

**Table 2**
**Department of Motor Vehicles**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *Motor Vehicle Account* | *Motor Vehicle License Fee Account* | *Other* | *Totals* |
|---|---|---|---|---|
| 1990-91 Expenditures (Revised) | $300,246 | $148,377 | $17,751 | $466,374 |
| *Baseline Adjustments* | | | | |
| Employee compensation | 4,476 | 2,223 | 334 | 7,033 |
| Limited term positions | −1,065 | −541 | — | −1,606 |
| One-time/annualized costs | 730 | 371 | −18 | 1,083 |
| Pro rata adjustment | 1,285 | — | 59 | 1,344 |
| Personal Identifier grant | — | — | −267 | −267 |
| Driver Safety savings | −318 | — | — | −318 |
| Dealer Automation | 149 | 272 | — | 421 |
| Financial responsibility: sunset | −1,078 | — | — | −1,078 |
| Funding allocation adjustment | −5,395 | 5,086 | 309 | — |
| New legislation | −4,082 | — | — | −4,082 |
| PERS deferral | 4,231 | 2,151 | 242 | 6,624 |
| Commercial Driver License savings | 61 | — | — | 61 |
| Board of Control | 4 | — | — | 4 |
| Unallocated reduction | — | — | −2 | −2 |
| Subtotals, baseline adjustments | (−$1,002) | ($9,562) | ($657) | ($9,217) |
| *Workload and Program Changes* | | | | |
| Workload increase | $13,895 | $7,319 | $738 | $21,952 |
| Electronic data processing enhancements | 2,268 | 717 | — | 2,985 |
| Occupational licensing | 1,129 | — | — | 1,129 |
| Asbestos abatement | 343 | 181 | — | 524 |
| Scheduling DUI hearings by phone | — | — | 582 | 582 |
| New legislation | 2,914 | 3,309 | — | 6,223 |
| New Motor Vehicle Board | — | — | 108 | 108 |
| Subtotals, workload and program changes | ($20,549) | ($11,526) | ($1,428) | ($33,503) |
| 1991-92 Expenditures (Proposed) | $319,793 | $169,465 | $19,836 | $509,094 |
| Change from 1990-91: | | | | |
| Amount | $19,547 | $21,088 | $2,085 | $42,720 |
| Percent | 6.5% | 14.2% | 11.7% | 9.2% |

## ANALYSIS AND RECOMMENDATIONS

***We recommend approval*** of the following budget changes:

- Baseline adjustments of $9.2 million.
- Workload and program changes including (1) $22 million for additional staff due to increased workload, (2) $3 million for automation enhancements, (3) $1.8 million to implement new legislation, (4) $582,000 for scheduling drunk driving hearings by phone, (5) $524,000 for asbestos abatement, (6) $180,000 for occupational licensing activities, and (7) $108,000 for additional personnel and furniture for the New Motor Vehicle Board.

### Budget Proposes Fee Increases to Balance Motor Vehicle Account in Future Years

***Increased revenue will be needed to balance the Motor Vehicle Account (MVA) in future years, but the proposed fee increases could be delayed until July 1992.***

**DEPARTMENT OF MOTOR VEHICLES—Continued**

The MVA derives most of its revenue from motor vehicle registration fees and driver license fees. In 1990-91, vehicle registration fees account for 77 percent of the expected $904 million in MVA revenues, and driver license fees make up another 11 percent of revenues into the account. The majority of MVA resources are used to support the activities of the DMV, the California Highway Patrol, and the Air Resources Board.

***Actions Were Taken to Raise Current-Year Revenues.*** In our last *Analysis* (see page 303), we indicated that the MVA would face a fund deficit in the current year if no additional revenue were raised. To avoid a shortfall, the DMV administratively:

- Increased the fee, from 80 cents to $2 per record, for the sale of driver license and registration information.
- Established a $100 driver license reinstatement fee for people who had their driver license revoked under the new administrative suspension program.
- Established an administrative fee to cover the costs of refunding vehicle license fees when a person's vehicle is stolen.

Additionally, legislation was enacted which:

- Established a Planned Nonoperation (PNO) program, under which a person must pay a $5 fee annually for each vehicle that will not be operated during the year and thus will not be subject to registration fees.
- Increased penalty fees for late registration.
- Extended until January 1993 the $1 vehicle registration surcharge imposed for support of some California Highway Patrol traffic officers.

As a result of these actions, the MVA is estimated to receive additional revenues in 1990-91 so that the account will have a reserve of $52 million by year end.

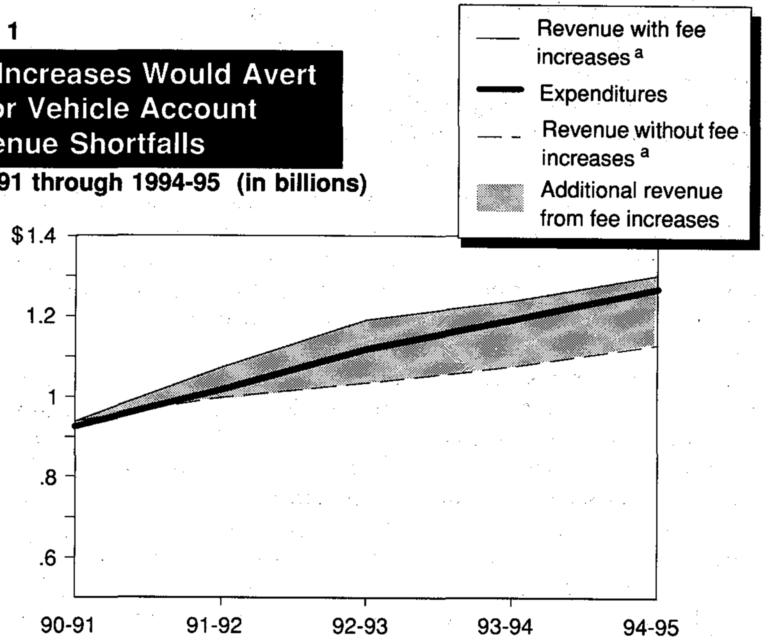
***Additional Revenues Need to be Raised to Keep Account in Balance in 1992-93.*** Our review indicates that, assuming current revenue growth trends continue, revenues to the MVA will fall short of expenditures proposed in the Governor's Budget by $18 million in the budget year, as shown in Chart 1. This funding gap will be covered by the $52 million reserve in the account, leaving the MVA with a balance of $34 million by the end of 1991-92.

However, in subsequent years, the account will experience fund shortfalls. Chart 1 shows that expenditures will continue to exceed revenues beyond 1991-92. Moreover, we find that, beginning in 1992-93, the reserve in the MVA (if any) will not be sufficient to make up the funding gap. Consequently, if expenditures continue to grow at the current rate, additional revenues will be needed to avoid shortfalls in the MVA.

**Chart 1**

**Fee Increases Would Avert Motor Vehicle Account Revenue Shortfalls**

**1990-91 through 1994-95 (in billions)**




[a] Revenue includes transfers.

***Budget Proposes Registration and Driver License Fee Increases.*** The budget proposes to increase (1) the vehicle registration fee by $5 — to $28 and (2) driver license fees by $2 — to $12 in 1991-92. Assuming that the fee increases become effective in January 1992, the budget projects additional 1991-92 MVA revenues of $73.4 million, including $65 million from vehicle registration fees and $8.4 million from driver license fees. On an annual basis, the higher fees will generate an additional $150 million. Raising these fees would require legislation.

Chart 1 also shows projected MVA revenues from 1991-92 through 1994-95 with the proposed fee increases. As the chart indicates, annual revenues to the MVA will exceed expenditures if the fee increases are implemented. Additionally, we estimate that, as a result of each year's surplus revenue, the reserve in the MVA will accumulate from $107 million in the budget year to about $260 million by 1994-95.

***Fee Increases Could be Delayed Until 1992-93.*** Because the account will have a balance of $34 million (or 3.3 percent of total expenditures from the account) in the budget year without the fee increases, our review shows that the proposed fee increases could be delayed until July 1992. Such a delay would reduce the size of the MVA reserve in future years. For instance, we estimate that the reserve would grow to $180 million by 1994-95 if the fee increases were delayed until July 1992.

**DEPARTMENT OF MOTOR VEHICLES—Continued**

**Significant Revenues Collected from Information Sale**

***The DMV will collect $61 million from its sale of vehicle registration and driver license information in 1991-92. These revenues are not subject to the restrictions of Article XIX of the State Constitution, and the Legislature could use a portion of these revenues for higher state priorities.***

The department sells driver license and vehicle registration information to financial institutions and insurance companies. In February 1990, the DMV raised the fee charged for this information from 80 cents to $2 per record. The department estimates it will collect $58 million in fee revenues in the current year, and projects revenues to be $61 million in 1991-92.

While these revenues are deposited into the Motor Vehicle Account, they are not fees or taxes imposed on vehicles and their operations or use. Consequently, these revenues are not subject to the restrictions of Article XIX of the State Constitution, and may be used if the Legislature so chooses, for purposes other than transportation and traffic enforcement.

Because the MVA will have a $34 million balance in 1991-92 *if* vehicle registration and driver license fees are not increased for the budget year, the Legislature could use up to that amount from the sale of information revenues for other activities of higher priorities. However, this would leave *no* balance in the MVA, which would not be prudent given the past volatility of the account. If the fees are increased in the budget year as proposed by the Governor's Budget, the Legislature could use the full $61 million for other purposes and still have a reasonable reserve of $46 million, or 4.5 percent of expenditures, in the MVA.

**Employer Statement Program Not Cost-Effective**

***We recommend that the Legislature adopt supplemental report language directing the DMV to report to the Legislature by November 30, 1991 on options for administering drive tests currently conducted under the Employer Statement Program in a cost-effective manner. We further recommend that the 17 personnel-years requested for auditing in the Employer Statement Program be made limited-term for one year, because the program is not cost-effective under new federal requirements.***

Drivers of commercial vehicles (trucks) are required to obtain a Commercial Driver License (CDL). To get a CDL, a driver must pass both a written and a driving skills test administered by the DMV. State and federal law allow the DMV to certify, under the Employer Statement Program, private firms and public agencies as "third-party testers" to administer the drive test to their own drivers. Under the program, the DMV only administers the written test, collects CDL fees, and processes the license.

In the current year, the DMV estimates it will administer 75,000 CDL drive tests. Another 15,000 drive tests will be administered by about 2,000 private firms and public agencies participating in the Employer Statement Program. To insure that third-party drive tests meet state and federal standards, the DMV audits about 15 percent of the participating firms annually, at a cost of $600,000 in 1990-91.

***A New Federal Law Requires Annual Audits of Each Participating Third-Party Tester Firm.*** States must meet this new federal requirement by April 1992 or risk losing federal highway funds. In order to continue the program and meet federal requirements, the DMV proposes to do annual audits of *all* third-party testing firms starting in 1992-93.

In the budget year, the DMV proposes to phase in the new auditing program and audit about 38 percent of all third-party testers. In order to perform the additional audits, the department proposes to add 17 personnel-years, which will increase total auditing costs to $1.6 million. Starting in 1992-93, the department will add additional staff, and total costs to audit all third-party testers will be about $2.8 million — $2.2 million more than in 1990-91. Based on our review, these audit costs seem fairly high. However, this is due primarily to the fact that a large number of firms participate in the program, but do only a few drive tests annually. On average, each of the 2,000 firms do only eight drive tests each year. Yet, under the new federal requirements, the DMV will be required to audit every one of these firms.

***Program is Not Cost-Effective — Alternative Needed.*** Table 3 compares the DMV cost to audit third-party testers in the current and next two fiscal years to the cost of the DMV doing a CDL drive test itself.

**Table 3**
**DMV Audit Cost per Drive Test**
**Versus Cost to Administer a Drive Test**
**1990-91 through 1992-93**

| | *Estimated 1990-91* | *Proposed 1991-92* | *Projected 1992-93* |
|---|---|---|---|
| Audit cost per third-party drive test | $42 | $105 | $185 |
| Cost per DMV drive test[a] | 36 | 40 | 42 |
| Difference | $6 | $65 | $143 |

[a] Estimated by Legislative Analyst's Office, based on department's estimate of total cost to the DMV to issue a CDL.

As the table indicates, the cost per drive test under the auditing program will rise from $42 in the current year to $105 in 1991-92 and $185 in 1992-93. Compared to the DMV drive test costs, audits of third-party drive tests will cost the DMV $65 more per test in 1991-92, and $143 more per test in 1992-93. As a result, it will cost the DMV $2.1 million more in 1992-93 and annually thereafter to audit the Employer Statement Program than to do the 15,000 drive tests itself.

Because of the high audit costs, the DMV should explore alternative ways to administer the 15,000 drive tests currently done each year by third-party testers.

***The DMV Could Do the Tests Itself Beginning in 1992-93.*** One option to meet the federal requirements would be for the DMV to abolish the Employer Statement Program and do the tests itself. Our review indicates that, while it would be more cost-effective for the DMV to do

**DEPARTMENT OF MOTOR VEHICLES—Continued**

all the CDL drive tests itself in 1991-92, the DMV will not have the physical capacity to do so until 1992-93. This is because the DMV anticipates a large increase in commercial drivers taking the CDL drive test in 1991-92 in order to comply with new state and federal requirements. Consequently, the DMV projects that its drive test workload will increase to 90,000 in 1991-92. Beginning in 1992-93, the workload will drop to 60,000, and we estimate that the DMV will have the capacity at that time to do the 15,000 drive tests currently done by third-party testers.

***The DMV Could Charge a Fee to Cover Audit Costs.*** Alternatively, the department could charge a fee to participating firms to cover the additional cost to audit third-party testers, as authorized by law. Currently, the DMV only charges participating firms a minor fee to cover the firm's initial certification costs.

***Department Should Propose Cost-Effective Alternative.*** Because of capacity limitations, third-party testers have to be used in 1991-92 to administer CDL drive tests, and the requested increase in 17 personnel-years for audit activities is warranted. However, given the increase in program costs, the DMV should explore alternatives to administer the CDL drive tests in a cost-effective manner, without risking the loss of federal funds. Consequently, we recommend the Legislature adopt the following supplemental report language directing the DMV to report on options for administering the drive tests currently conducted under the Employer Statement Program in a cost-effective manner.

> The Department of Motor Vehicles shall report to the Legislature by November 30, 1991 on options to administer the drive tests currently conducted under the Employer Statement Program in a cost-effective manner.

We further recommend that the 17 auditing personnel-years requested for 1991-92 be made limited-term for one year, so that the current Employer Statement Program may continue in the budget year.

**Magnetic Stripe Driver License Contract Dispute Unresolved**

***We recommend that the department report to the Legislature prior to budget hearings on (1) the impact of the recent superior court ruling on implementation of the magnetic stripe driver license program, (2) the DMV's proposed course of action for 1991-92, and (3) the likelihood that the DMV will be able to carry out those plans, because the court ruling makes it uncertain whether the DMV will be able to proceed with the magnetic stripe program in the budget year.***

In 1989-90 the DMV awarded a contract for the production of new credit card-like driver licenses and identification cards beginning in 1990-91. In response to a protest filed by a losing vendor, the Board of Control upheld the contract in May 1990, but the decision was appealed further. Even though the dispute has continued into the current year, the DMV has begun to issue the magnetic stripe licenses. The budget requests $6.7 million to fund the fully implemented program in 1991-92.

However, on January 22, 1991, a superior court judge set aside the decision of the Board of Control and required the board to reconsider the matter. At the time this analysis was prepared, the department had not yet determined how the superior court ruling would impact implementation of the magnetic stripe program. One possible outcome is that the department would stop production of the new licenses and re-bid the contract. Consequently, it is unclear whether the DMV will be able to go forward with the program in the budget year.

Accordingly, we recommend the department report to the Legislature prior to budget hearings on (1) the impact of the recent superior court ruling on implementation of the magnetic stripe driver license program, (2) the DMV's proposed course of action for 1991-92, and (3) the likelihood that the DMV will be able to carry out those plans. Once the department has indicated the most likely course of action for the budget year, the Legislature can adjust the amount requested for the issuance of driver licenses and identification cards accordingly.

**New Program Requires Certificate of Planned Nonoperation**

***We recommend that 26 personnel-years requested to implement the new Planned Nonoperation (PNO) program be made limited-term for one year, because the program will have a large one-time workload in 1991-92 which will decline in subsequent years.***

Under Ch 1352/90 (AB 2912, Eaves), a vehicle owner must annually either register a vehicle or certify with a PNO certificate that the vehicle will not be operated during the next year. A PNO certificate costs $5 and must be obtained from the DMV before the vehicle's previous registration or PNO certificate expires.

Prior to Chapter 1352, a vehicle owner could waive overdue registration fees long after the vehicle's registration had expired by certifying to the DMV that the vehicle had not been operated since the previous registration expired. In addition, the owner only had to certify nonoperation once and no fee was charged.

*Unregistered Vehicles Create Large One-time Workload*. The DMV's data base shows about 6 million vehicles with expired registrations for which the DMV does not know the operational status. In order to implement Chapter 1352 in the current and budget years, the department has a one-time workload of contacting the last known owners of all of these vehicles and processing their responses. The DMV anticipates that most of the responses will be from owners of those vehicles that are less than five years old because the older vehicles are more likely to have been scrapped. Consequently, only about 1.5 million of the vehicle owners are expected to respond during the current and budget years. After the budget year, the DMV plans to continue to contact only those owners who responded to the initial contact. Thus, beginning in 1992-93, the ongoing workload associated with the PNO program will be significantly less than in the budget year.

The DMV has requested 66 personnel-years to handle the 1991-92 PNO workload. However, beginning in 1992-93, we estimate that, on an ongoing basis, the department will need only 40 personnel-years to handle a smaller workload. Therefore, we recommend that 26 of the

**DEPARTMENT OF MOTOR VEHICLES—Continued**

personnel-years requested for the budget year be made limited-term for one year.

**Reversion—Item 2740-495**

*We recommend approval.*

The budget proposes to revert to the MVA the unencumbered balance from the appropriation made in Ch 1352/90 (AB 2912, Eaves). Chapter 1352 appropriated $8,265,000 to fund implementation of the new Planned Nonoperation program discussed above. The department anticipates that about $4.5 million of the appropriation will revert to the MVA. Ongoing funding of the program will be provided through the annual Budget Act.

**Capital Outlay**

The Governor's Budget proposes an appropriation of $6 million in Item 2740-301-044 for capital outlay expenditure by the DMV. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

## STEPHEN P. TEALE DATA CENTER

Item 2780 from the Stephen P.
Teale Data Center Revolving
Fund — Budget p. BTH 123

| | |
|---|---|
| Requested 1991-92 | $87,253,000 |
| Estimated 1990-91 | 86,310,000 |
| Actual 1989-90 | 69,387,000 |
| Requested increase $943,000 (+1.1 percent) | |
| Total recommended reduction | None |

**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 166 client agencies.

The data center has 395 personnel-years in the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget requests $87.3 million for the operation of the data center in 1991-92. This amount represents an increase of $943,000 (1.1 percent) over estimated current-year expenditures. Table 1 displays the major changes proposed in the budget. The proposed expenditures appear to be reasonable.

**Table 1**
**Stephen P. Teale Data Center**
**Proposed 1991-92 Budget Changes**
**(dollars in thousands)**

| | *TDC Revolving Fund* |
|---|---|
| 1990-91 Expenditures (Revised) | $86,310 |
| *Baseline Adjustments* | |
| Equipment reduction | −9,414 |
| Salary and benefits | 901 |
| Pro rata increase | 496 |
| Various operating expense reductions | −411 |
| Subtotal, baseline adjustments | (−$8,428) |
| *Workload and Program Changes* | |
| Equipment acquisition | 7,544 |
| Increased personnel | 1,043 |
| Air Resources Board database | 442 |
| Software maintenance | 342 |
| Subtotal, workload and program changes | ($9,371) |
| 1991-92 Expenditures (Proposed) | $87,253 |
| Change from 1990-91: | |
| Amount | $943 |
| Percent | 1.1% |