STATE AND CONSUMER SERVICES

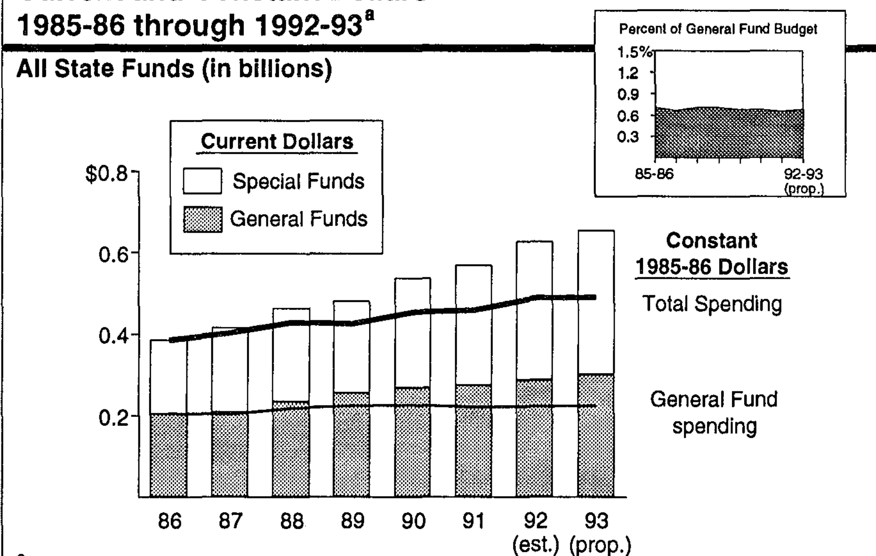
Overview of State and Consumer Services

Expenditures for state and consumer services programs are proposed to increase in the budget year due to a combination of program expansions stemming from recently enacted legislation and workload adjustments.

Expenditures for state and consumer services programs are proposed to total $655 million (excluding revolving fund expenditures by the Department of General Services), which is less than 1 percent of all state funds proposed in the Governor's Budget for 1992-93. This level of expenditures is an increase of $27.4 million, or 4.4 percent, over estimated expenditures in the current year.

Chart 1

State and Consumer Services Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]



[a] Data are for fiscal years ending in years shown.

Chart 1 shows that state and consumer services expenditures from all state funds have increased by $267 million since 1985-86, representing an average annual increase of 8.6 percent. Spending for these programs from the General Fund has increased at a less rapid average annual rate of 5.8 percent. As a result, special fund support now finances 54 percent of these programs compared to 47 percent in 1985-86.

The chart also shows that, when adjusted for inflation, expenditures for these programs increased by 27 percent since 1985-86, which represents an average annual increase of 3.3 percent. The General Fund component of these expenditures has increased at an average annual rate of 1.2 percent over the eight-year period, when adjusted for inflation.

MAJOR BUDGET CHANGES

Table 1

State and Consumer Services Programs
Proposed Major Changes for 1992-93

Department of Consumer Affairs	Requested: $226.8 million	Increase: $10.8 million (+5.0%)

- + $2.4 million for the Board of Accountancy's enforcement program
- + $3.2 million for the Contractors' State License Board
- + $3.4 million for the Medical Board of California's implementation of Ch 1597/90 (SB 2375, Presley), which requires the board to improve its disciplinary process

Franchise Tax Board	Requested: $232.3 million	Increase: $14.4 million (+6.6%)

- + $8.6 million for increased audit and tax compliance staff
- + $1.8 million for facilities and data processing equipment
- + $4.0 million for administrative costs

Department of General Services	Requested: $619.4 million	Increase: $8.3 million (+1.4%)

- + $9.1 million for support services programs
- − $1.5 million for property management services programs reflecting, in part, the transfer of hospital plan check workload to the Office of Statewide Health Planning and Development pursuant to Ch 865/91 (AB 47, Eastin)

The Governor's Budget generally proposes to maintain existing levels of expenditures for most administrative departments, provides some increases in audit, compliance, and enforcement programs, as well as additional funding to implement recently enacted legislation. Table 1 summarizes the major changes in this area.

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program which follows this overview.

- *Consolidations Within the Department of Consumer Affairs.* The Department of Consumer Affairs presently includes 37 regulatory boards, bureaus, programs, committees, and commissions. Each is responsible for licensing and regulating an occupational or professional group for the purposes of protecting the general public against incompetency and fraudulent practices. Our review indicates that the elimination of these regulatory agencies as separate entities and consolidation of their licensing, administrative, and regulatory programs in the Department of Consumer Affairs would improve the effectiveness and efficiency of these programs, and would result in better service to consumers at a lower cost.
- *PERS Savings Uncertain.* The budget assumes General Fund savings totaling $760 million between the current and budget years as a result of Ch 83/91 (AB 702, Frizzelle). This measure repealed the PERS' IDDA/EPDA purchasing power programs and provided for funds remaining in these accounts to be used to offset employer contributions beginning in 1991-92. A lawsuit has been filed challenging the constitutionality of this measure, thereby casting doubt on whether the state will, in fact, realize these savings. Moreover, legislative action will be required in order for the General Fund to realize the full $760 million in savings over the current and budget years, as assumed in the Governor's Budget.
- *STRS—Statutory General Fund Contributions.* The Governor's Budget indicates that the state will incur expenditures in 1992-93 of $705 million from the General Fund for amortization of the State Teachers' Retirement Systems' unfunded liability ($515 million) and purchasing power protection program ($190 million). This level of expenditure represents an increase of $220 million over current-year expenditures for these statutory programs. We estimate that these state expenditures will increase to $1.4 billion by 2000-01. This increase is due to the statutory formulas for General Fund support of these programs.

Museum of Science and Industry
Item 1100

Expenditures

Requested 1992-93	$9,816,000
Estimated 1991-92	9,720,000
Actual 1990-91	9,331,000
Requested increase $96,000 (+1.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Museum of Science and Industry (MSI) is an educational, civic, and recreational center located in Exposition Park in Los Angeles. The museum also has 26 acres of public parking, which are available for museum visitors, as well as to patrons of the adjacent coliseum, sports arena, and swimming stadium. These facilities are all located in Exposition Park, which is owned by the state and maintained through the museum.

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

Overview of the Budget Request

The budget proposes funding the MSI at essentially the current-year level.

The budget proposes an appropriation of $9.8 million from all funds (including $229,000 in reimbursements) to support the MSI and the MAHC in 1992-93. This is $96,000, or 1.0 percent, above estimated current-year expenditures, and is due to an increase in the pro rata charges allocated to the Exposition Park Improvement Fund.

The museum, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. (This reduction is 13 percent of the department's total budget from all funds.)

This reduction is proposed to be carried over into 1992-93 through the termination of the museum's contract with the State Police for security

MUSEUM OF SCIENCE AND INDUSTRY—Continued

services at the museum. The contract was, in fact, terminated effective December 1, 1991. Because the museum's baseline budget includes funding for an in-house security program, the termination of the contract with the State Police will not affect the level of security at the facility, and simply represents the elimination of a double-funding of security services.

Department of Consumer Affairs

Items 1120—1655

Expenditures

Requested 1992-93	$226,799,000
Estimated 1991-92	216,033,000
Actual 1990-91	194,241,000

Requested increase $10,766,000 (+5 percent)

Fiscal Recommendations

Total recommended reduction	$1,220,000
Total recommended increase	1,220,000

MAJOR ISSUES

- **Consolidation of Boards and Bureaus.** Independent regulatory boards and bureaus should be merged into the department and their staffs consolidated in order to improve regulatory effectiveness and efficiency.

Findings and Recommendations

	Analysis Page
1. **Insufficient Fund Reserves.** Recommend that specified boards report to the Legislature prior to budget hearings on actions taken to avoid deficiencies.	12
2. **Potential Deficits in Some Funds.** Recommend adoption of Budget Bill language to limit some boards' expenditures in order to avoid fund deficits.	13

3. **Athletic Commission Should Not Require General Fund Subsidy.** Recommend the enactment of legislation to change funding source for the commission from General Fund to special fund. Further recommend Budget Bill language to prohibit deficit spending by commission. 14
4. **Consumer Services Division Support. Reduce Item 1640-001-001 by $1,220,000 and increase Item 1655-001-702 by $1,220,000.** Recommend replacement of General Fund support for the division with special fund support. Further recommend enactment of legislation to make this funding shift permanent. 15
5. **Consolidation to Enhance Effectiveness.** Recommend enactment of legislation to merge all boards, bureaus, and other entities into the Department of Consumer Affairs (DCA) to improve regulatory effectiveness and efficiency. 16

General Program Statement

The DCA is responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices. The department has five major components: (1) 37 regulatory agencies, which include boards, bureaus, programs, committees, and commissions, (2) the Division of Administration, (3) the Division of Information Systems, (4) the Division of Investigation, and (5) the Division of Consumer Services. Each of the department's constituent regulatory agencies is statutorily independent of the department's control but is under the department's administrative umbrella. Only four bureaus and one program are under the direct statutory control of the Director of Consumer Affairs.

Overview of the Budget Request

The budget is essentially a workload budget with increases in expenditures for regulation and enforcement activities by several boards and bureaus proposed for 1992-93.

The budget proposes $226.8 million from various funds for support of the department and its constituent agencies in 1992-93. This is $10.8 million, or 5.0 percent, more than estimated expenditures in the current year. The increase is for additional resources to (1) regulate unlicensed activities among several trades, (2) improve information and complaint processing, and (3) expand investigative and enforcement activities.

Of the total expenditures proposed for 1992-93, $24.9 million is for support of the four divisions. The remaining $201.9 million is for support of the various boards and bureaus. Table 1 shows the expenditures and personnel-years for the department in prior, current, and budget years.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Table 1

Department of Consumer Affairs
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Boards and Bureaus	$170,975	$192,862	$201,930	4.7%
Divisions				
Consumer services	2,765	2,665	2,760	3.6
Administration	9,202	10,270	10,928	6.4
Investigation	4,517	4,875	5,603	14.9
Information systems	4,815	5,361	5,578	4.0
Building and maintenance	1,967	—	—	—
Subtotals, divisions	($23,266)	($23,171)	($24,869)	(7.3%)
Totals	**$194,241**	**$216,033**	**$226,799**	**5.0%**
General Fund	*$2,239*	*$1,943*	*$1,943*	—
Various special funds of the boards, bureaus, and the department	*185,770*	*210,557*	*220,981*	*5.0%*
Reimbursements	*6,232*	*3,533*	*3,875*	*9.7*
Personnel-Years	**2,203.8**	**2,359.5**	**2,445.8**	**3.7%**

Analysis and Recommendations

Boards and Bureaus

Our analysis indicates that the proposed 1992-93 budgets for most of the boards and bureaus raise no significant fiscal issues. Many of these entities have requested increases that simply offset the effects of inflation on their current programs. Others have requested additional funding for program and workload increases, which our review shows to be justified. Table 2 identifies those boards and bureaus whose budgets we recommend be approved as submitted.

Table 2

Department of Consumer Affairs Boards and Bureaus Recommend Approval as Budgeted 1992-93

(dollars in thousands)

Item	Board/Bureau	Actual 1990-91	Est. 1991-92	Prop. 1992-93	Percent Change From 1991-92
1120	Accountancy	$6,433	$7,156	$9,196	28.5%
1130	Architectural Examiners	3,554	3,937	4,183	6.2
1150	Automotive Repair	64,625	72,779	71,898	-1.2
1165	Barbering and Cosmetology[a]	5,288	5,871	6,688	13.9
1170	Behavioral Science	2,735	3,953	4,294	8.6
1180	Cemetery	321	367	364	-0.8
1200	Collection Agencies	1,427	1,556	1,805	16.0
1210	Private Investigators	6,738	7,227	7,842	8.5
1230	Contractors State License	37,768	34,567	37,768	9.3
1260	Dental Examiners	3,719	4,150	4,114	-0.9
1270	Dental Auxiliary	783	981	1,006	6.9
1280	Electronic Appliance Repair	1,293	1,245	1,365	9.6
1330	Funeral Directors	609	802	799	—[b]
1340	Geologists/Geophysicists	379	467	526	12.6
1350	Guide Dogs	47	39	39	—
1360	Home Furnishings	2,410	2,694	2,874	6.7
1370	Landscape Architects	460	690	597	-1.9
1390	Medical Board	19,487	26,579	28,622	7.7
1390	Dispensing Opticians	148	201	223	10.9
1400	Acupuncturists	853	945	906	-4.2
1410	Hearing Aid Dispensers	388	549	620	12.9
1420	Physical Therapy	738	885	948	7.1
1430	Physicians Assistant	468	640	676	4.8
1440	Podiatry	769	1,082	1,251	15.6
1450	Psychology	1,502	1,825	2,111	15.7
1455	Respiratory Care	814	1,046	1,197	14.4
1460	Speech Pathology	281	304	315	3.6
1470	Nursing Home Administrators	334	410	423	3.2
1480	Optometry	597	820	791	-3.5
1490	Pharmacy	3,227	3,479	4,043	16.2
1500	Professional Engineers	4,900	4,896	5,474	11.8
1510	Registered Nursing	9,841	11,284	10,869	-3.7
1520	Shorthand Reporters	671	744	761	2.3

Continued

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Item	Board/Bureau	Actual 1990-91	Est. 1991-92	Prop. 1992-93	Percent Change From 1991-92
1530	Structural Pest Control	2,966	2,911	2,663	-8.5
1540	Tax Preparers	941	1,314	1,383	5.2
1560	Veterinary Medicine	746	871	947	8.7
1570	Animal Health Technicians	115	120	135	12.5
1590	Vocational Nurse	3,439	3,104	3,355	8.1
1600	Psychiatric Technician	874	956	1,012	5.9

[a] Combined into a new Board of Barbering and Cosmetology effective July 1, 1992.
[b] Not a meaningful figure.

Insufficient Fund Reserves

We recommend that boards and bureaus with projected insufficient reserves in 1992-93 report to the Legislature prior to budget hearings on the steps they are taking to ensure sufficient reserves in their respective funds.

The various boards and bureaus in DCA are supported by revenues from licensing activities deposited in special funds or accounts. These funds should maintain a prudent reserve sufficient to cover any contingencies and unanticipated reduction in revenue collections and unforeseen expenditures. As a general rule and in the absence of statutory reserve requirements, an amount equal to about three months' operating expenses (or about 25 percent of annual expenditures) should be maintained. However, agencies which receive predictable and evenly distributed revenues can operate with lower reserves (down to about 15 percent of annual expenditures) without running into cash flow problems.

Our analysis of the proposed budget indicates that some of the boards and bureaus are likely to have fund balances during 1992-93 that fail to meet these standards. Table 3 shows the fund conditions for those boards and bureaus that do not appear to have adequate reserves. As a result, these agencies may run into cash flow problems during the budget year, and they should determine in advance what steps should be taken to avoid such problems.

Accordingly, we recommend that these agencies report to the Legislature prior to budget hearings on steps they are taking to assure that the balances in their respective funds will be sufficient to meet their cash flow needs during 1992-93.

Table 3

Department of Consumer Affairs Boards and Bureaus With Insufficient Reserves for 1992-93

(dollars in thousands)

Boards/Bureaus	Reserves 1991-92	Reserves 1992-93	Proposed Expenditure for 1992-93[a]	1992-93 Reserves As a Percent of Expenditures
Architectural Examiners	$955	—	$4,190	—
Athletic	96	$41	388	10.6%
Collection Agencies	387	229	1,798	12.7
Private Investigators	1,300	2	6,386	—
Contractors License	8,801	4,010	37,712	10.6
Funeral Directors	137	39	793	4.9
Hearing Aid Dispensers	29	—	611	—
Physical Therapy	60	—	883	—
Podiatry	372	65	1,247	5.2
Psychology	209	174	2,073	8.4
Respiratory Care	293	142	1,170	12.1
Optometry	204	—	785	—
Shorthand Reporters	79	—	465	—
Tax Preparers	325	53	1,368	3.9
Veterinary Medicine	211	63	921	6.8
Animal Health Technicians	30	—	135	—

[a] Expenditures are net of reimbursements.

Need to Prevent Potential Deficits

We recommend that the Legislature adopt Budget Bill language prohibiting specified boards from incurring a deficit in 1992-93. (Items 1130-001-706, 1210-001-769, 1410-001-208, 1420-001-759, 1480-001-763, 1520-001-771, and 1570-001-118.)

Table 3 also shows that six of the boards and bureaus listed do not have reserves budgeted for 1992-93. In addition, one entity has virtually no reserves. In general, these boards and bureaus do not anticipate raising sufficient revenues to meet their budget-year expenditures. Instead, the budget proposes to cover the revenue shortfall in 1992-93 with reserves from 1991-92. In our view, not budgeting for any reserve is undesirable and imprudent. To prevent potential deficits, the affected entities can increase revenues by adjusting fees and assessments, reduce expenditures, or do a combination of both.

In order to ensure that these boards and bureaus take appropriate action to avoid potential budget deficits, we recommend that the Legislature adopt the following Budget Bill language for the State Board of Architectural Examiners (Item 1130-001-706), Private Investigators of the Bureau of Collection and Investigative Services (Item 1210-001-769), the Hearing Aid Dispensers Examining Committee (Item 1410-001-208), the Physical Therapy Examining Committee (Item 1420-001-759), the State Board of Optometry (Item 1480-001-763), the Certified Shorthand Reporters Board (Item 1520-001-771), and the Animal Health Technician Examining Committee (Item 1570-001-118):

> Provided that this entity shall not expend an amount that will result in a deficit in this fund.

State Athletic Commission: General Fund Subsidy Should Be Terminated

We recommend that legislation be enacted to change the funding source of the commission's budget from the General Fund to a special fund. We further recommend that the Legislature adopt Budget Bill language to limit the commission's expenditures to the revenues collected in 1992-93.

The budget proposes $1.1 million to support the commission during 1992-93, including $388,000 from the Boxers' Neurological Examination Account and $684,000 from the General Fund.

Annually, the commission receives part of its support from a General Fund appropriation. In turn, revenues from various fees collected by the commission are deposited in the General Fund. Fee revenues in excess of the commission's annual expenditures remain as General Fund revenues. However, there is no assurance that fee revenues will cover expenditures fully. Any deficit is therefore funded from the General Fund.

Table 4 shows fee revenues and operating expenditures of the commission since 1987-88. The table shows that the commission has required a General Fund subsidy every year since 1987-88. For 1992-93, the Governor's Budget proposes a subsidy of $22,000 for the commission.

In our view, the commission, like other boards that license occupations and professions, ought to be self-supporting from assessments and fee revenues. We can find no analytical basis for the commission to be subsidized by the General Fund. With the General Fund available as a backup to fund any deficit, the commission is not required to live within its revenues and does not have to raise fees to cover expenditure increases, as other boards and bureaus must do.

Table 4

State Athletic Commission
General Fund Revenues and Expenditures
1987-88 through 1992-93

(In thousands)

	Fee Revenues	Expenditures	Surplus (Deficit)
1987-88	$596	$675	($79)
1988-89	696	742	(46)
1989-90	597	764	(167)
1990-91	683	759	(76)
1991-92 (estimated)	662	661	(1)
1992-93 (proposed)	662	684	(22)

In order to end the General Fund subsidy and make the commission self-supporting, we recommend the enactment of legislation to establish a special fund for the commission as the depository for all fees charged by the commission to support its budget, replacing the General Fund as a funding source for the commission's budget. We further recommend that the Legislature adopt the following Budget Bill language to limit the State Athletic Commission's (Item 1140-001-001) expenditures to the revenues collected:

> Provided that expenditures from this item shall be limited to the fee revenues deposited by the commission in the General Fund to support its budget for 1992-93.

Division of Consumer Services: No Justification for General Fund Support

We recommend that the Consumer Services Division be fully funded from the Consumer Affairs Fund in 1992-93. (Reduce Item 1640-001-001 by $1,220,000 and increase Item 1655-001-702 by $1,220,000. In addition, increase Items 1120 through 1600 in amounts to be determined by the DCA for a total of $1,220,000.)

We further recommend enactment of legislation to specify that funding of the Consumer Services Division of the DCA is to be provided entirely from the Consumer Affairs Fund.

The budget proposes expenditures of $2.7 million to support the Division of Consumer Services in 1992-93, including $1.5 million from the Consumer Affairs Fund and $1.2 million from the General Fund. The division is responsible for promoting and protecting consumer interests in their purchase of goods and services — in particular, services provided by various licensed professionals.

DEPARTMENT OF CONSUMER AFFAIRS—Continued

Based on our review, we conclude that the costs of the Consumer Services Division should be funded entirely by fee revenues received by the boards and bureaus in DCA, rather than the General Fund. This is because the activities of this division benefit both consumers and licensees. Such a funding arrangement would be similar to that of other regulatory departments (such as the Departments of Real Estate, Banking, Corporations, and Insurance) whose consumer-related activities and functions are supported entirely from their respective special funds.

We would note that there appears to be no analytical basis for the particular funding split between the two sources — about 55 percent from the Consumer Affairs Fund and about 45 percent from the General Fund.

For these reasons, we recommend that the Division of Consumer Services be funded by the Consumer Affairs Fund in 1992-93. Accordingly, we recommend that Item 1640-001-001 be reduced by $1,220,000 and that Item 1655-001-702 be increased by the same amount. In addition, we recommend that Items 1120 through 1600 be increased by amounts to be determined by the DCA for the pro rata allocation of the increase in Item 1655-001-702. Implementation of this funding change will free up $1.2 million from the General Fund in 1992-93 for other legislative priorities.

In order to ensure that the source of funding for the Division of Consumer Services is limited to the Consumer Affairs Fund and that the funding source remains in effect beyond 1992-93, we recommend enactment of legislation to provide that the division is to be funded entirely from the Consumer Affairs Fund.

Consolidation of Boards and Bureaus Would Enhance Program Effectiveness

We recommend enactment of legislation to (1) terminate all boards, bureaus, and commissions as separate entities under the DCA and (2) consolidate the licensing, regulatory, and administrative responsibilities into the DCA.

Currently, 37 boards and bureaus within the department license and regulate over 2 million practitioners of various occupations and professions. Of these agencies, only four bureaus and one program are statutorily under the direct control of the department. The others are under the statutory control of the appointed representatives (typically, board members) of the occupations and professions they license and regulate. All boards and bureaus generally have their own regulatory and administrative staffs. In 1991-92, these staff totaled about 1,450 positions. They also use the central support services of the department — such as accounting, budgeting, data processing, and investigative services — to varying degrees, depending on their size and workload.

Problems With the Current Framework. Our review indicates the following problems with this current organizational framework for administration and regulation of the occupations and professions:

- ***Regulatory Programs are Not Coordinated to Promote Consumer Protection.*** Currently, boards and bureaus administer their regulatory programs with separate staff and management, applying different regulatory standards and implementing regulatory programs designed towards their specific profession and licensees. This often hinders coordination of regulatory efforts among agencies, results in uneven enforcement activities and records, and limits the effectiveness and efficiency of the overall licensing and regulatory program in terms of its ability to protect consumers. For instance, boards maintain separate databases regarding their licensees' activities such as complaints filed against licensees and subsequent enforcement activities and dispositions. This makes it difficult for boards to cross-check licensees' records in order to prevent, where appropriate, licensees barred from one profession from becoming licensed in another profession. The fragmentation of licensing activities also makes it difficult for licensees as well as the general public to access the regulatory bodies. For instance, boards and bureaus maintain offices at different locations. There is not a centralized location (or telephone number) for the public to make inquiries, transact business, or file complaints with the boards.
- ***Conflict of Interest.*** Most appointed board members are representatives and practitioners of the occupations and professions they license and regulate. This may create conflicts of interest and diminish public confidence in the effectiveness of the regulatory program.

Consolidation of Regulatory Programs Would Be an Improvement. Our analysis indicates that consolidating the regulatory programs under a department would mitigate the problems with the current framework. Specifically, consolidation would:

- ***Improve Effectiveness and Efficiency of the Regulatory Programs.*** Regulatory activities would be more *effective* because licensing and enforcement activities would be performed by staff that are working under uniform guidelines and with an integrated database. License issuance and renewal, complaint processing, and investigations as well as enforcement actions would be coordinated. Information and records also can be maintained under a common database which will permit cross-checking of licensee records among the regulatory programs. Furthermore, consumer access will be greatly improved because they will be able to access one central location to obtain information and services relating to all licensed occupations.

  It would also improve program *efficiency* because with consolidation, there would be economies of scale such as having a pool of staff to perform license issuance and complaint processing, instead of each bureau, regardless of size, having its own specific staff for these purposes. Similarly, there would no longer be a need for each board and bureau to maintain separate and distinct offices. Thus, consolidation could result in potential savings of several million dollars annually once fully implemented.

- ***Mitigate the Perception of Conflict of Interest.*** Consolidation of boards and bureaus into a department would also reduce the potential for any conflict of interest that may arise from professional representatives regulating their own profession. By setting up advisory committees to assist the department to set licensing requirements, the department would be able to maintain licensing standards as under the current regulatory framework. The department would also be able to ensure that licensing requirements among occupations are not at odds with one another, and do not result in unnecessary barriers for individuals or businesses to become licensed.

To accomplish these results, we recommend that legislation be enacted to consolidate all boards, bureaus, and other related entities into one department, with advisory bodies comprised of representatives from various professions to assist the department's licensing and regulatory activities. Consolidation of these entities would result in potentially multimillion dollar savings annually to special funds from reducing the costs for administration and management overhead.

Department of Fair Employment and Housing
Item 1700

Expenditures

Requested 1992-93	$11,830,000
Estimated 1991-92	12,682,000
Actual 1990-91	14,512,000

Requested decrease $852,000 (-6.7 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Fair Employment and Housing (DFEH) enforces laws that promote equal opportunity in housing, employment, and public accommodations. The DFEH consists of two divisions: (1) the Enforcement Division, which is responsible for investigating and enforcing the state's anti-discrimination statutes, and (2) the Administrative Services Division, which provides administrative support, legal services, and the development of policy.

Overview of the Budget Request

The proposed DFEH budget is essentially a workload budget.

The budget proposes total expenditures of $11.8 million ($9.8 million from the General Fund) by the DFEH in 1992-93. This is $852,000, or 6.7 percent, less than estimated current-year expenditures. This reduction is due primarily to one-time expenditures in the current year.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 19 percent from the General Fund in 1991-92. (This reduction is 15 percent of the department's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Fair Employment and Housing Commission
Item 1705

Expenditures

Requested 1992-93	$762,000
Estimated 1991-92	762,000
Actual 1990-91	802,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

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

Overview of the Budget Request

The proposed FEHC budget is essentially a workload budget.

The budget proposes an appropriation of $762,000 from the General Fund to support the FEHC in 1991-92. This is no change from current-year expenditures.

This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 9 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Office of the State Fire Marshal

Item 1710

Expenditures

Requested 1992-93	$12,448,000
Estimated 1991-92	13,292,000
Actual 1990-91	13,192,000
Requested decrease $844,000 (-6.3 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Office of the State Fire Marshal (OSFM) has various responsibilities for protecting life and property from fires, including the following:

- Developing, maintaining, and enforcing fire and life safety standards for all state-owned or state-occupied structures, all educational and institutional facilities, organized camps, and all buildings over 75 feet in height.

- Developing, maintaining, and enforcing controls for portable fire extinguishers, automatic fire extinguishing systems, explosives, fireworks, and hazardous liquid pipelines.
- Training and certifying fire service personnel for fire fighting, fire prevention, and arson investigation.

Overview of the Budget Request

The OSFM's budget reflects various program changes and transfers of some program activities to other departments.

Program changes account for increases totaling $1,013,000 from various funds. These changes will provide more inspection activities in areas such as testing laboratories and fireworks manufacturing storage. This change also includes $392,000 from the Oil Refinery and Chemical Plant Safety Fund to establish an Oil Refinery and Chemical Plant Safety Preparedness Program, pursuant to Ch 924/91 (AB 100, Elder), and $24,000 in reimbursements to develop standards for childproof cigarette lighters, pursuant to Ch 904/91 (AB 757, Roybal-Allard). The overall budget, however, is decreased by $844,000 (6.3 percent), primarily due to the transfer of certain construction plan checking and inspection services from the OSFM to the Office of Statewide Health Planning and Development and the Office of the State Architect. These transfers, mandated by Ch 865/91 (AB 47, Eastin), reduce the OSFM budget by $2,282,000.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. (This reduction is 9.4 percent of the department's budget from all funds other than reimbursements.) This reduction is proposed to be carried over into 1992-93. In *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Franchise Tax Board
Item 1730

Expenditures

Requested 1992-93	$232,295,000
Estimated 1991-92	217,915,000
Actual 1990-91	202,036,000

Requested increase $14,380,000 (+6.6 percent)

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Budget Does Not Reflect Reduction in Workload.** We recommend that the FTB report at budget hearings as to the administrative cost impacts of eliminating the Renters' Tax Credit program. 25

General Program Statement

The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies. The FTB is responsible for administering California's Personal Income Tax (PIT), Bank and Corporation Tax, Homeowners' and Renters' Assistance programs, and the Political Reform Act audit program.

Overview of the Budget Request

The proposed budget for the FTB reflects significant expansions of its audit and collection staffs.

The budget proposes expenditures of $232 million in 1992-93. This is about $14 million, or 6.6 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the board from 1990-91 through 1992-93. This agency, unlike most other departments, was not subject to an unallocated reduction in its budget for 1991-92.

Table 1

Franchise Tax Board
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Personal Income Tax				
Processing/Taxpayer Assistance	$56,355	$60,828	$62,728	3.1%
Filing Enforcement	7,636	8,214	8,499	3.5
Audit	37,840	42,239	48,595	15.0
Collections	44,257	46,189	49,606	7.4
Other	48	146	132	-9.6
Subtotals	($146,136)	($157,616)	($169,560)	(7.6%)
Bank and Corporation Tax				
Processing/Taxpayer Assistance	$10,744	$11,548	$11,988	3.8%
Filing Enforcement	1,660	1,780	1,823	2.4
Audit	26,169	27,977	29,793	6.5
Collections	11,409	12,023	12,528	4.2
Other	1,082	1,155	1,183	2.4
Subtotals	($51,064)	($54,483)	($57,315)	(5.2%)
Homeowners' and Renters' Assistance	$2,028	$2,181	$2,237	2.6%
Political Reform Audit	1,077	1,138	1,138	—
Contract Work	1,731	2,497	2,045	-18.1
Totals	**$202,036**	**$217,915**	**$232,295**	**6.6%**
General Fund	*$199,812*	*$214,067*	*$227,775*	*6.4%*
Special funds	*437*	*1,346*	*1,337*	*-0.7*
Reimbursements	*1,787*	*2,502*	*2,045*	*-18.3*
Political Reform Act	—	—	*1,138*	—
Personnel-Years	**4,040.9**	**4,152.8**	**4,348.6**	**4.7%**

FRANCHISE TAX BOARD—Continued

The board's budget for 1992-93 proposes major changes in the following areas as shown in Table 2:

- Additional audit and compliance staff ($8.6 million and 193 personnel-years) for the purpose of increasing General Fund revenue by an estimated $98 million in 1992-93.
- Increased resources ($1.3 million) for one-time expenditures on data processing equipment and software to increase the capabilities of FTB's tax processing operation.
- Increased resources ($516,000) for ongoing costs resulting from consolidating FTB headquarters staff into a newly completed office building constructed for the FTB.

Table 2

Franchise Tax Board
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All Other Funds	Total
1991-92 Expenditures (revised)	$212,929	$4,986	$217,915
Baseline adjustments			
Managers' and supervisors' 5 percent pay reduction	-$383	—	-$383
Merit salary adjustments	4,100	—	4,100
Price increase for operating expenses	850	—	850
One-time costs	-1,018	—	-1,018
Other	420	-475	-55
Subtotals	($3,969)	(-$475)	($3,494)
Program and policy changes			
Income tax revenue enhancing activities	$8,595	—	$8,595
Data processing equipment and software	1,321	—	1,321
Consolidate headquarters' staff	516	—	516
Other	445	$9	454
Subtotals	($10,877)	($9)	($10,886)
1992-93 Expenditures (proposed)	$227,775	$4,520	$232,295
Change from 1991-92			
Amount	$14,846	-$466	$14,380
Percent	7.0%	-9.3%	6.6%

Analysis and Recommendations

We recommend that the FTB report at budget hearings as to the administrative cost impacts of eliminating the Renters' Tax Credit program.

As a part of the Governor's plan to address the state's fiscal dilemma, the budget proposes the elimination of the Renters' Tax Credit program (please see Item 9100 for further discussion of this proposal). This program provides a "refundable" tax credit to moderate- and low-income Californians who rent their principal place of residence for at least six months of the tax year. In conjunction with processing PIT returns, the FTB processes and validates requests for this credit.

If, as is proposed in the budget, legislation is enacted that eliminates the program, the FTB will no longer need to process or validate tax credit requests on approximately four million PIT returns in 1992-93. While there may be expenses associated with terminating this program, its elimination should result in a reduction in FTB's PIT return processing workload. In our view, this reduction *should* result in cost savings both in 1992-93 and in subsequent years. Therefore, we recommend that the FTB report to the Legislature at the time of budget hearings as to the administrative cost impact of eliminating the Renters' Tax Credit program.

Department of General Services
Item 1760

Expenditures

Requested 1992-93	$619,427,000
Estimated 1991-92	611,082,000
Actual 1990-91	545,740,000
Requested increase $8,345,000 (+1.4 percent)	

Fiscal Recommendations

Total recommended reduction	$2,895,000
Recommendation pending	2,794,000

MAJOR ISSUES

- **Prison Construction Inspections.** The budget includes increased funding for construction inspection at prison facilities for which the construction phases have been either delayed or are not provided for in the Governor's Budget.
- **Proactive Asset Management.** The status and future schedule for implementing this program is unclear. In addition, the program does not give the Legislature a meaningful role in decisions regarding state properties.
- **State Lease Costs.** The cost to the state of leased office space now exceeds $200 million annually, and will exceed $500 million annually by 1995-96. The Legislature can take several steps to ensure that the state's office space needs are actively and effectively managed.

Findings and Recommendations

Analysis Page

Property Management Services

1. **Office of the State Architect. Reduce Item 1760-001-602 by $2,176,000.** Recommend a reduction in increased prison construction inspections because the Governor's Budget does not propose appropriations for two new state prisons. In addition, withhold recommendation on $2,039,000, because the construction of two other state prison facilities has been delayed. 32
2. **Office of Real Estate and Design Services.** Withhold recommendation on $755,000 for support of the Proactive Assets Management Program, pending receipt of additional information from the department. 33
3. **State Lease Costs.** The cost to the state of leasing office space now exceeds $200 million annually. The Legislature can take several steps to ensure that the state's office space needs are actively and effectively managed. 36

State Support Services

4. **Office of Administrative Hearings. Reduce Item 1760-001-666 by $719,000.** Recommend deletion of funding for additional courtroom space because the office has not established the need for renovations. 39

General Program Statement

The Department of General Services (DGS) was established in 1963 in an effort to increase the overall efficiency and economy of state government operations. The DGS (1) provides support services on a centralized basis to operating departments, (2) performs management and support functions as assigned by the Governor and specified by statute, and (3) establishes and enforces statewide administrative policies and procedures. The department performs these functions through two major programs: property management and statewide support services.

Overview of the Budget Request

The budget for the DGS includes several workload changes that result in spending increases in the areas of support services and administration, which more than offset spending reductions in property management services.

The budget proposes expenditures of $619.4 million from various funds to support the activities of the DGS in 1992-93. This is $8.3 million, or 1.4 percent, above estimated current-year expenditures.

Departmental Expenditures by Program

Table 1 shows department expenditures, by major program area, for the past, current, and budget years. Budget-year expenditures for Property Management Services activities are $230.9 million, which is $1.5 million, or 0.6 percent, below current-year levels. This decrease is primarily due to the implementation of Ch 865/91 (AB 47, Eastin), which, among other things, transferred hospital plan review functions from the Office of the State Architect (OSA) to the Office of Statewide Health Planning and Development (OSHPD).

DEPARTMENT OF GENERAL SERVICES—Continued

Expenditures for Statewide Support Services programs are $374 million in the budget year, representing an increase of $9.1 million, or 2.5 percent, above current-year expenditures. This growth is due mainly to augmentations in the Office of Telecommunications to upgrade equipment in the Emergency Telephone Program ($4.5 million in increased local assistance), and implementation of the California Digital Exchange ($2.7 million in state operations).

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of nearly 12 percent from the General Fund in 1991-92. (This reduction is 0.1 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impacts of these reductions on various departments.

Table 1

Department of General Services
Distribution of Program Expenditures
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Property management services	$196,770	$232,354	$230,853	-0.6%
Statewide support services	335,122	364,809	373,955	2.5
Administration	13,848	13,919	14,619	5.0
Totals, all programs	**$545,740**	**$611,082**	**$619,427**	**1.4%**
Distribution of intrafund services	*($73,407)*	*($70,940)*	*($71,745)*	*1.1%*
Reimbursements	*(236)*	*(48)*	—	—
Total Net Expenditures	**$472,097**	**$540,094**	**$547,682**	**1.4%**
Personnel-Years	**4,305.2**	**4,547.8**	**4,566.8**	**0.4%**

Funding Sources for Departmental Expenditures

Table 2 presents a summary of the department's total expenditures, by source of fund, for the prior, current, and budget years. The table indicates that 23 percent of the department's costs are funded by direct appropriations, with the balance — 77 percent — supported from "revenues." These "revenues" are from amounts appropriated to other state agencies for payment to the DGS for providing services and procurements.

Table 2

Department of General Services
Total Expenditures by Source of Funds
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Funding Source				
Direct Appropriations				
General Fund	$2,155	$5,591	$5,592	—[a]
Various special funds/accounts	102,600	118,627	121,465	2.4%
Subtotals, direct support	($104,755)	($124,218)	($127,057)	2.3%
"Revenues" from State Agencies				
Architecture Revolving Fund	$19,384	$23,154	$26,715	15.4%
Service Revolving Fund	347,958	392,722	393,910	0.3
Subtotals, revolving funds	($367,342)	($415,876)	($420,625)	1.1%
Total Expenditures	**$472,097**	**$540,094**	**$547,682**	**1.4%**

[a] Not a meaningful figure.

DEPARTMENT OF GENERAL SERVICES—Continued

Proposed Budget-Year Changes

Table 3 shows the changes in proposed activities for 1992-93, by major funding source.

Table 3

Department of General Services
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Special Funds	Revolving Funds	Totals
1991-92 Expenditures (revised)	$5,591	$118,627	$415,876	$540,094
Distribution of Intrafund	—	—	70,988	70,988
Total Expenditures, 1991-92	$5,591	$118,627	$486,864	$611,082
Baseline Adjustments				
Pro rata charges	—	-$22	$1,052	$1,030
Price increase	$65	369	5,069	5,503
One-time expenditures	—	-14,327	-22,256	-36,583
Miscellaneous adjustments	-64	3,355	1,458	4,749
Subtotals, baseline adjustments	($1)	(-$10,625)	(-$14,677)	(-$25,301)
Workload Changes				
Administrative Hearings	—	—	$641	$641
Small and Minority Business	—	—	194	194
State Police	—	-$9	-660	-669
Management Technology and Planning	—	—	457	457
State Printing	—	—	707	707
Telecommunications	—	—	350	350
Telecommunications ("911")	—	4,471	—	4,471
Buildings and Grounds	—	—	2,652	2,652
Project Development and Management	—	—	471	471
State Architect[a]	—	10,000	10,530	20,530
Local Assistance	—	930	—	930
Fleet Administration	—	—	799	799
Subtotals, workload changes	(—)	($15,392)	($16,141)	($31,533)

Continued

	General Fund	Special Funds	Revolving Funds	Totals
Program Changes				
Administrative Hearings	—	—	$719	$719
Telecommunications (CALDEX)	—	—	2,699	2,699
Management Technology and Planning	—	—	-34	-34
Small and Minority Business (AB 341)	—	—	267	267
Fiscal Services (AB 341)	—	—	9	9
Building Standards Commission (AB 47)	—	—	77	77
State Architect (AB 47)	—	-$1,969	-55	-2,024
Real Estate and Design Services	—	18	407	425
Local Assistance	—	66	—	66
State Police	—	—	-47	-47
Fleet Administration	—	-44	—	-44
Subtotals, program changes	(—)	($1,929)	($4,042)	($2,113)
Total Expenditures	**$5,592**	**$121,465**	**$492,370**	**$619,427**
Distribution of Intrafund	—	—	-71,745	-71,745
1992-93 Expenditures (proposed)	$5,592	$121,465	$420,625	$547,682
Changes from 1991-92				
Amount	$1	$2,838	$4,749	$7,588
Percent	—	2.4%	1.1%	1.4%

[a] These items are zero-based annually because they are not permanent increases.

Analysis and Recommendations

Property Management Services

The property management services program has responsibility for planning, acquisition, design, construction, maintenance, and operation of state-owned facilities for state offices and employees.

We recommend approval of the functions within this program, except for those discussed below.

OFFICE OF THE STATE ARCHITECT

The OSA provides architectural and engineering consulting services, construction inspection, and project management of state projects. In addition, the office reviews plans for certain public buildings for access for the handicapped and earthquake safety. The office also oversees mitigation of hazardous conditions in state-owned buildings.

The budget for the OSA includes several program changes resulting in a minor net decrease from the office's current-year funding level. The budget proposes expenditures of $47.7 million by the office in 1992-93. This is about $2 million, or 4.0 percent, less than estimated current-year expenditures.

Major changes in the office's budget for 1992-93 are:

- A net increase of $2.8 million to provide inspections at state prison construction sites.
- A decrease of $2.2 million, due to a decrease in the backlog of K-14 projects awaiting structural safety plan checks.
- A decrease of $1.5 million, due to the transfer of the hospital plan checking program to the OSHPD.
- A decrease of $1.4 million for administering programs related to earthquake safety.

We recommend approval of the office's budget, except for the items noted below.

Too Many Inspectors Requested for Prison Construction

We recommend a reduction of $2,176,000 (22.9 personnel-years) for prison construction services, because the Governor's Budget does not propose appropriations for two new state prisons. (Reduce Item 1760-001-602 by $2,176,000.)

We withhold recommendation on an additional $2,039,000 (21.6 personnel-years) because construction of two other state prison facilities has been delayed, and the construction schedules are unknown.

The budget requests $10.5 million (107 limited-term personnel-years) to provide construction inspection services for projects at nine state prisons and six conservation camps.

Budget Does Not Propose Appropriations for Two New Prisons. The budget proposes $2,176,000 (22.9 limited-term personnel-years) for construction inspection services for new prisons in Susanville and Madera. However, due to the failure of the November 1990 Prison Construction Bond Act, these prisons are funded only through the design stages. Construction of the prisons cannot proceed without additional funding. Consequently, the office will not need the 22.9 personnel-years for inspection services for these two new prisons, unless the Governor proposes funding and the Legislature agrees that the projects should proceed to construction. Therefore, we recommend that funds for these positions be deleted.

Construction Delays Likely to Decrease Need for Funding. The budget proposes $772,000 (8.2 limited-term personnel-years) for construction inspection services for the Los Angeles Reception Center. This request is based on a construction start of November 1991. Construction has not begun, however, due to litigation concerning the project's environmental impact report.

In addition, the budget proposes $1,267,000 (13.4 limited-term personnel-years) for construction inspection services for the San Quentin Joint-Use Facility. This request is based on a projected construction start of May 1992. However, the Department of Corrections indicates that the construction schedule has been delayed indefinitely due to uncertainty regarding water availability.

Given the above, we withhold recommendation on the $2,039,000 proposed for the Los Angeles and San Quentin projects, pending receipt of revised construction schedules prior to budget hearings.

OFFICE OF REAL ESTATE AND DESIGN SERVICES

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

The proposed budget for the OREDS is essentially a workload budget. The budget proposes an appropriation of $10.7 million for support of the OREDS in 1992-93. This is an increase of $111,000, or 1.0 percent, over estimated current-year expenditures of $10.6 million. The proposed budget amount includes $9.4 million from the Service Revolving Fund; $835,000 from the General Fund, Property Acquisition Law Account; and $454,000 in transfers from other DGS Units.

Legislature Needs Additional Information on the Proactive Assets Management Program

We withhold recommendation on $755,000 for support of the Proactive Assets Management Program, pending receipt of additional information from the department.

The mission of the Proactive Asset Management (PAM) Program within the OREDS is to more aggressively manage the state's real estate portfolio to ensure its maximum use for state operations, and to maximize the state's revenues from the leasing and selling of unused state properties.

The Budget Proposes No Workload or Program Changes for the PAM Program

The budget proposes appropriations of $755,000 for continuation of the PAM Program in 1992-93. This amount includes appropriations of $473,000 from the Service Revolving Fund and $282,000 from the General Fund, Property Acquisition Law Account.

Background. Over the past several years, the Legislature and the Governor have taken several actions to encourage the proactive management of the state's real estate assets. Most recently, the Governor, in Executive Order W-18-91 dated October 31, 1991, declared that it is the state's policy to achieve the comprehensive planned management of the state's real estate assets. In addition, he stated his intent, when economically advantageous for the state, to own and consolidate the facilities needed for its operations.

According to the DGS, the state owns more than 3,100 properties covering in excess of 2.1 million acres. These properties include more than 18,600 structures totaling at least 157.5 million square feet.

During 1991-92, the PAM Program was to continue its review of state properties listed in the Statewide Property Inventory in the San Francisco Bay Area, Los Angeles, Sacramento, and San Diego. The purpose of these reviews was to determine whether state properties are under-utilized or surplus to state needs and, for those properties, to recommend potential development proposals. To ensure that necessary information was available to review the PAM Program's development proposals for such properties during consideration of the 1991-92 budget, the Legislature adopted language in the *Supplemental Report of the 1991 Budget Act* requiring the DGS to provide the following information by November 1, 1991: (1) the different development alternatives available for state properties, (2) proposed guidelines for recommending each of these alternatives, (3) a list of the properties identified as meriting development proposals, (4) a proposed schedule and action plan for undertaking development of these properties, (5) recommended guidelines and procedures to ensure Legislative oversight of the asset management program, and (6) recommendations for long-term funding of the PAM Program.

The Department's Report Lacks Information the Legislature Needs. At the time this analysis was prepared, the DGS had just submitted its response to the Legislature. Consequently, we were only able to perform a preliminary review of the report. The information provided by the department is summarized and discussed below.

The Report Includes No Discussion of the Development Alternatives Available for Under-utilized and Surplus Properties. Rather, it includes only a generalized list of potential development alternatives and indicates that further study of specific properties is needed before such alternatives can be proposed. The alternatives identified by the department include: entering into long-term ground leases and selling surplus properties to obtain revenue, executing lease-option or lease-purchase agreements to increase the state's equity interests, exchanging state property for other property that better meets the state's needs, and entering into joint powers agreements with other public entities to develop state projects with alternative financing.

While further study may be needed to finalize certain development alternatives for *specific* properties, a discussion of the merits of each potential development alternative under consideration by the department would be most useful to the Legislature. Without a complete understanding of the merits of these alternatives, it will not be possible for the Legislature or the department to assess development alternatives for specific properties.

The Report Does Not Contain Proposed Guidelines for Recommending Development Alternatives. Rather, the department indicates that further study is needed to evaluate specific properties for potential uses before developing proposed guidelines. It is unclear why the department believes that further study is needed to develop the guidelines, as well as apply the guidelines.

The Report Identifies 125 Properties, of 700 Properties Reviewed, That the Department Believes Merit Development. These properties fall into three categories: (1) properties capable of being used for additional program functions, (2) properties that no longer meet current program needs due to various types of obsolescence, and (3) properties not used for ongoing state program functions, including surplus properties and properties that are on hold for future expansion.

The Report Does Not Contain an Adequate Proposed Schedule and Action Plan. The department did not provide a time-line for the completion of its proposed activities or an adequate description of the activities that it plans to undertake. More information is needed so that the Legislature can evaluate what the department plans to accomplish and when it plans to carry out these activities.

The Report States That Legislative Oversight Should Occur After the Department Has Selected a Specific Development Plan. We believe that legislative review at this point in the process is too late. If the Legislature is to have a meaningful role in the decisions concerning these state properties, it must receive information on the various development options *before* a specific option is selected and pursued by the department. Otherwise, the Legislature will be asked to simply approve or disapprove a specific option for which the DGS, other state agencies, and private developers will have invested substantial amounts of time and money. Consequently, it is essential that the department modify the proposed process to assure legislative review and approval at an earlier and more meaningful point in the process.

The Department States That, in the Long Term, the PAM Program Will Be Self-Supporting. The department, however, states that the program's initial funding must come from an annual budget appropriation. The department provides no indication of when the program would become self-supporting.

There is No Apparent Coordination Between the PAM Program and the State's Capital Outlay and Leasing Programs. The department's response raises several questions about how the activities being undertaken by the program will be coordinated with the state's capital outlay and leasing processes. These three programs are responsible for providing space for state functions and promoting proper management of state assets. If these programs continue to be undertaken without close coordination, the state will not achieve an effective and efficient program for the proactive management of its assets.

In summary, the report lacks information needed by the Legislature to assess the PAM Program's activities and raises several questions about how the program's activities are coordinated with other DGS's asset management activities. Therefore, we withhold recommend on the $755,000 proposed for the PAM Program, pending receipt of additional information clarifying these issues.

Cost of Leasing Office Space for State Operations is Soaring

The amount and cost of state-leased office space has increased significantly over the last few years. Between 1985-86 and the current year, the *amount* of leased office space grew from 8.7 million square feet to 14 million square feet, or an increase of about 61 percent. In 1985-86, the state leased about 50 percent of all office space occupied by state agencies; today, it leases 66 percent of all of its office space. During this period, the costs increased sharply from $109.6 million to $236.2 million, or about 115 percent. The department estimates that, by 1995-96, the cost of leased office space will exceed $500 million annually.

Several Factors Contribute to the Widespread Use of Leased Office Space. The state's intent is to own more of its office space. Our review, however, indicates that little progress is being made in this direction. Several factors contribute to this lack of progress. These factors include: (1) inadequate coordination among those organizations within the DGS with responsibility for managing the state's office space needs, (2) the absence of a capital outlay plan for state offices, (3) the lack of a financing plan to construct new office facilities, and (4) limited oversight by the Department of Finance (DOF) of proposed leases.

There is a Lack of Coordination Among Organizations Within the DGS. Currently, three organizations within the department are responsible for managing the state's office space needs — the Office of Project Development and Management (OPDM), the OREDS, and the PAM Program within the OREDS.

The OPDM manages the state's capital outlay construction program, including determining the state's need for office facilities, making recommendations for meeting these needs, and developing plans for constructing additional office space. The OREDS is responsible for the state's leasing activities. These activities include assessing space requests from agencies to determine if they are appropriate, locating office space, negotiating and consummating leases, and managing the state's leases. The PAM Program is responsible for aggressively managing the state's real estate portfolio to ensure its maximum use for state operations and to maximize the state's revenues from the leasing and selling of unused state properties.

These organizations, however, have no apparent operating plan that integrates their activities relating to the management of the state's office space needs. Consequently, requests for construction of office facilities and requests for leased office space are considered individually. Projects are not evaluated or prioritized as part of an integrated capital outlay, leasing, and proactive assets management effort.

There is No Capital Outlay Plan for State Offices. As discussed in the capital outlay section of this *Analysis,* the DGS has not developed a plan to construct state-owned office space. Without such a planning document, the Legislature does not have the necessary information to assess the state's office space needs, set priorities for meeting these needs, or develop a financing plan to construct facilities.

The DOF is Not Required to Approve Leases. Under the current process, the agency requesting leased office space must only certify that funds are available to enter into the lease, and the DGS is responsible for approving the lease. The DOF is not required to review requests for leased space to assess their appropriateness in light of state budget priorities or workforce projections.

What Can Be Done to Improve the Current Process for Acquiring Office Space? To improve the process for acquiring office space and to achieve the state's goal of owning more of its office space, the DGS must undertake a coordinated effort to meet the state's space needs in the most cost-effective manner. This effort should include multi-year plans that identify space needs, and a "blueprint" for addressing these needs through use of available state-owned properties, construction of new facilities, and other methods, such as purchasing or leasing existing facilities. With such plans, the Legislature can evaluate needs and solutions, set priorities, and take the actions necessary to fulfill the state's need for office space in a rational and cost-effective manner.

DEPARTMENT OF GENERAL SERVICES—Continued

There are several steps that the Legislature can take to ensure that the state's office space needs are more actively and effectively managed. These steps include:

- Requiring the DGS to:
  - — Prepare an integrated operating plan for the activities carried out by the OPDM and OREDS (including the PAM Program).
  - — Prepare an integrated capital outlay and leasing plan for the state's office space.
  - — Prepare a financing plan for the construction of new office facilities.
  - — Develop clear criteria to guide the state's leasing activities.
- Requiring departments that would occupy DGS facilities to prepare projections of their five-year program and space needs.
- Requiring the DOF to:
  - — Approve all proposals for leases above a reasonable threshold (for example, $100,000 annual costs) that will commit the state to additional lease payments.
  - — Clearly identify additional leasing costs in the Governor's Budget.

Support Services Program

The support services program provides a variety of service and control functions to state agencies. We recommend approval of the proposed budgets for the functions within this program, except as discussed below.

OFFICE OF ADMINISTRATIVE HEARINGS

The Office of Administrative Hearings (OAH) conducts hearings and issues decisions on licensing, regulatory, and disciplinary matters for state and local public agencies. The office also provides reporting and transcript services.

The proposed OAH budget is essentially a workload budget, except for the proposed alterations to the Los Angeles office building. The budget proposes expenditures of $9.9 million from the SRF for support of the office in 1992-93. This is $947,000, or about 11 percent, above estimated expenditures for the current year. This increase is primarily due to the cost of proposed building renovations, continuation of the personal services augmentation made in the current year, and miscellaneous baseline changes.

Need For Building Renovations Not Established

We recommend deletion of $719,000 for additional courtroom space, because the office has not established the need for such renovations. (Reduce Item 1760-001-666 by $719,000.)

The budget includes $719,000 to (1) convert existing office space within the Los Angeles State Office Building into additional court and conference room space, (2) furnish the additional space, (3) install a new telephone system, and (4) relocate individual office space. The modifications are to be completed in two phases. Phase I includes conversion of vacant space into 21 individual offices and open-office space. Current staff will then be moved from the second floor to the new space. During Phase II, five additional courtrooms (bringing the total available to 12), one conference room, two waiting rooms, and a reception area will be created on the second floor.

The request submitted by the office indicates that the additional space is required to meet increased caseload. According to the office, the seven existing courtrooms are scheduled to capacity each day, and the office often uses up to three additional courtrooms that are also used by the State Personnel Board and/or the Workers' Compensation program.

For the past year, the office has been able to meet its scheduling needs through cooperation with other departments. The OAH has not provided any information to indicate that the same cooperative use of existing space cannot continue. Given the availability of existing state-owned space to accommodate this program, there is no need to spend over $700,000 to alter other space in the building. Under the circumstances, we recommend deletion of the requested $719,000 under Item 1760-001-666 from the SRF.

Capital Outlay

The Governor's Budget proposes several appropriations under Item 1760 for capital outlay expenditures. Please see our analysis of the proposed General Services Capital Outlay Program in the capital outlay section of this *Analysis*, which is in the back of this document.

State Personnel Board
Item 1880

Expenditures

Requested 1992-93	$14,515,000
Estimated 1991-92	14,841,000
Actual 1990-91	15,164,000
Requested decrease $326,000 (-2.2 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The State Personnel Board (SPB) has authority under the State Constitution and various statutes to adopt state civil service rules and regulations. An executive officer appointed by the board is responsible for administering the merit aspects of the state civil service system. (The Department of Personnel Administration is responsible for managing the nonmerit aspects of the state's personnel systems.) The board and its staff also are responsible for establishing and administering, on a reimbursement basis, merit systems for certain city, county, and civil defense employees, to ensure compliance with federal requirements. The SPB also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies, in accordance with state policy and federal law.

Overview of the Budget Request

The budget proposes a reduction in funding for the board due to the elimination of one-time funding augmentations.

The budget proposes total expenditures of $14.5 million for support of the SPB in 1992-93. This is $326,000, or 2.2 percent, below estimated expenditures for the current year. The proposed expenditures consist of an appropriation of $9.1 million from the General Fund and $5.4 million in reimbursements. The proposed General Fund appropriation is $195,000, or 2.1 percent, below current-year expenditures. This decrease reflects the elimination of funding for workload associated with statewide civil service lay-off processes. Reimbursements are expected to decrease by $131,000, or 2.4 percent, below estimated current-year amounts. The decrease in reimbursements is due primarily to the elimination of one-year funding for expedited appeals processing.

The board, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 15 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Public Employees' Retirement System
Item 1900

Expenditures

Requested 1992-93	$56,549,000
Estimated 1991-92	55,001,000
Actual 1990-91	53,694,000
Requested increase $1,548,000 (+2.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- The state's Public Employees' Retirement System employer contributions collected by the State Controller in the current year will exceed by $360 million ($200 million General Fund) the level specified in Control Section 3.60 of the 1991 Budget Act.
- In the absence of legislative action, $342 million of the $760 million in General Fund savings assumed by the budget will accrue, instead, to special funds.
- A lawsuit challenging several provisions of Chapter 83 has been filed in the Third Appellate Court by a coalition of employee groups, and may threaten $760 million in General Fund savings assumed by the budget.

Findings and Recommendations

		Analysis Page
1.	**The Office of the State Actuary.** No funds are appropriated in the budget for the Office of the State Actuary, established in Ch 83/91 (AB 702, Frizzelle). Instead, the budget provides current service level funding for the Public Employees' Retirement System's (PERS) in-house actuarial staff.	46
2.	**Current-Year State Contributions to the PERS.** The contributions actually collected by the State Controller are higher than the contributions specified in the 1991 Budget Act, and will result in higher current-year contributions of $360 million ($200 million General Fund and $160 million special funds).	47
3.	**Budget-Year State Contributions to the PERS.** The rates established in Control Section 3.60 of the Budget Bill will be updated in the May revision.	47
4.	**General Fund Savings from IDDA/EPDA Reserves.** In the absence of legislative action, $342 million of the $760 million in General Fund savings assumed for the current and budget years will accrue, instead, to special funds.	48
5.	**Court Challenge.** A lawsuit challenging the constitutionality of Chapter 83 has been filed in the Third Appellate Court by a coalition of state and local employee organizations. In the event that Chapter 83 is held unconstitutional, the state would not realize the $760 million General Fund savings assumed in the Governor's 1992-93 budget.	50

General Program Statement

The PERS administers retirement, health, and related benefit programs that serve over one million active and retired employees. The participants in these programs include state constitutional officers, members of the Legislature, judges, state employees, and most nonteaching school employees, and other employees of the 2,310 public agencies within California which have elected to contract for the benefits available through the system. The proportion of members is approximately one-third each for state employees, nonteaching school employees, and the employees of other local government agencies.

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

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

Overview of the Budget Request

The budget proposes expenditures for PERS in 1992-93 of $56.5 million, representing an increase of $1.5 million, or 2.8 percent, over estimated current-year expenditures. Table 1 summarizes the prior, current, and proposed budget-year expenditures for the system, by major program area. The Retirement Program accounts for $42.3 million, or nearly 75 percent, of the PERS' proposed budget for 1992-93. The system's Investment and Health Benefits Programs account for about 13 percent and 12 percent of the system's proposed budget, respectively. The budget includes $23.4 million for administration that is distributed among the system's other programs.

Table 1

Public Employees' Retirement System Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Retirement	$45,335	$40,850	$42,287	3.5%
Social Security	442	340	339	-0.3
Health Benefits	6,670	7,028	6,632	-5.6
Investment Operations	1,247	6,783	7,291	7.5
Administration (Distributed)	(24,065)	(22,779)	(23,359)	(2.5)
Totals	**$53,694**	**$55,001**	**$56,549**	**2.8%**
General Fund	*$53*	*$27*	*$27*	—
Judges' Retirement Fund	*275*	*275*	*272*	*-1.1%*
Legislators' Retirement Fund	*284*	*213*	*175*	*-17.8*
Public Employees' Health Care Fund	*299*	*696*	*735*	*5.6*
Public Employees' Retirement Fund	*45,863*	*46,921*	*48,792*	*4.0*
Public Employees' Contingency Reserve Fund	*6,156*	*6,108*	*5,789*	*-5.2*
Firefighters' Length of Service Award Fund	*10*	*74*	*74*	—
Reimbursements	*754*	*687*	*685*	*-0.3*
Personnel-Years	**783.5**	**778.9**	**758.1**	**-2.7%**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Table 2 summarizes the significant changes proposed in the PERS budget for 1992-93. As shown in Table 2, the $1.5 million increase in the PERS' support budget includes $555,000 in adjustments to the current-year baseline, $730,000 related to workload, and $263,000 resulting from program changes required by recently enacted legislation.

Table 2

Public Employees' Retirement System Proposed 1992-93 Budget Changes

(dollars in thousands)

	Public Employees' Retirement Fund
1991-92 Expenditures (revised)	$55,001
Baseline adjustments	
Various employee compensation adjustments	-$991
One-time expenditures	-820
Pro rata	1,577
Price increases	270
PERSCARE	407
Miscellaneous	112
Subtotal	($555)
Workload Changes	
Member Services Telephone Information Center	$65
Information and program development	44
Fiscal services	16
Legislative services	34
Investment operations	571
Subtotal	($730)
Program Changes	
Disability Retirement Application processing (Ch 778/91)	$144
Member Services — Unclaimed benefits (Ch 1095/91)	119
Subtotal	($263)
1992-93 Expenditures (proposed)	**$56,549**
Change from 1991-92	
Amount	$1,548
Percent	2.8%

Analysis and Recommendations

Below, we discuss the budget's proposals in the area of employer contribution rates, and the impact that Ch 83/91 (AB 702, Frizzelle) may have on these rates.

Background on Chapter 83

Chapter 83 was signed into law on June 30, 1991, amending numerous sections of the Public Employees' Retirement Law. The measure was a key component of the budget package for 1991-92, and the 1992-93 Governor's Budget was prepared assuming its successful and timely implementation. However, at the time that this analysis was prepared, several key provisions of the measure have yet to be implemented, posing possible threats to the proposed 1992-93 budget. In addition, a coalition of employee groups has filed a lawsuit in the Third Appellate District Court challenging the constitutionality of several provision of Chapter 83. Table 3 summarizes the major provisions of Chapter 83, the status of their implementation, and the extent of the threats posed to the proposed budget.

Table 3

Major Provisions of Assembly Bill 702 (Ch 83/91)

Provision	Fiscal Impact (millions)	Program Impact
Transfer of Actuarial Duties	Cost: Potential $3.0 over three-year period	Responsibility for actuarial assumptions, contribution rates, and valuations transferred to the Office of the State Actuary, appointed by the Governor; legislative review of employer contribution rates is curtailed. ***Status:*** Legislature rejected appointment; post vacant. ***Threat:*** Provision challenged in lawsuit.
Purchasing Power Programs	Unknown impact	Replaced existing IDDA/EPDA programs, funded through "excess earnings" on employee accounts, which provided up to 80 percent purchasing power protection; established new program, funded from up to 1.1 percent of employee earnings with maximum benefit of 75 percent purchasing power protection. ***Status:*** IDDA/EPDA repealed; new benefits as of 7/91. ***Threat:*** Provision challenged in lawsuit.

Continued

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Provision	Fiscal Impact (millions)	Program Impact
Employer Contributions Offset	Savings (cash flow): State: $760 Schools: $353 Locals: $848	Allows funds in IDDA/EPDA to be used to offset employer contributions to the PERS in 1991-92 and 1992-93 (partial-year impact); savings otherwise would have been realized in future years. ***Status:*** State contributions to PERS offset beginning with 1/31/92 transfer; Controller applied to *all* funds. ***Threat:*** Legislative action needed to specify if savings should accrue to General Fund only (as assumed in budget proposal); provision challenged in lawsuit.
Mandatory Second Tier	Savings: Tens of millions of dollars annually in long-term.	Employees who begin state service after 6/30/91 are required to be provided benefits under lower-cost PERS Tier II benefit plan (CSU and legislative employees excluded); requests that DPA develop an alternative to the Tier II plan by 6/30/92. ***Status:*** Mandatory Tier II implemented; DPA alternative plan status unknown.
PERS Semi-annual State Contribution	Savings (cash flow): $250 ($160 General Fund) in 1991-92	Changed the schedule of state contributions to PERS from quarterly to semi-annually; savings will be offset by higher-than-otherwise employer contributions in future years. ***Status:*** First semi-annual transfer on 1/31/92.
State Employer Health Benefits Contribution	Unknown impact	Employer contribution rates for active employees to be established by DPA (nonrepresented state employees) or through collective bargaining (represented employees); previously, state employer contribution was determined in the annual Budget Act. ***Status:*** Administration proposes "freezing" state employer contributions at 1990-91 levels for active employees

The following is a discussion of the impact of Chapter 83 on the proposed 1992-93 budget. Specifically, we address the status of (1) the Office of the State Actuary, (2) the current- and budget-year state contributions to the PERS, (3) the use of IDDA/EPDA reserves to offset these contributions, and (4) the court challenge to the measure.

No Funding for the Office of State Actuary

We find that no funds are appropriated for the Office of the State Actuary in the budget. Instead, the budget provides current service level funding for PERS' in-house actuarial staff.

Background. Chapter 83 transferred the responsibility for the PERS actuarial services from the PERS Board of Administration to the newly created Office of the State Actuary, with the State Actuary to be appointed by the Governor and confirmed by both houses of the Legislature. The State Actuary was given the authority to, among other things, establish the PERS' annual employer contribution rates, which the Legislature would subsequently be required to approve. The measure further specifies that costs for the State Actuary would be paid for with funds from the Public Employees' Retirement Fund.

Budget Proposal. The 1992-93 Governor's Budget does not provide funding for the Office of the State Actuary. The proposed budget does include approximately $1.2 million to fund PERS' existing in-house actuarial operation.

The PERS staff has indicated that, at the time a State Actuary is confirmed, additional funds will be necessary to finance the contracted cost. If additional funds are requested, the Legislature will need to consider which, if any, actuarial responsibilities should be retained by the PERS' in-house actuarial staff.

Legislature Rejects Governor's Appointment. The administration solicited competitive bids, and the Governor selected the actuarial firm of Towers, Perrin, Forster and Crosby (TPF&C) to serve as the State Actuary. This firm, however, was not confirmed by the Legislature. The Governor recently resubmitted this firm for legislative confirmation. Given this situation, the PERS Board has continued to assume responsibility for all actuarial functions, including development of actuarial assumptions and the calculation of 1992-93 employer contribution rates.

State Employer PERS Contribution Rates

We find that the level of state contributions to the PERS in the current year exceeds the level specified in the 1991 Budget Act by $360 million ($200 million General Fund). We also find that the final 1992-93 state employer contribution rates will likely be rates approved by the PERS Board of Administration, and may result in savings to the state of approximately $90 million ($50 million General Fund), compared to the costs included in the Governor's Budget.

Background. The state employer contribution rates are specified in Control Section 3.60 of the annual Budget Act. When the annual Budget Bill is introduced, the rates included in Control Section 3.60 reflect those in effect during the current year, and state employer contributions based on these rates are built into the support budgets of all state departments. Typically, these rates are updated in the May revision to reflect the budget-year rates approved by the PERS Board of Administration at their February or March meeting. Control Section 3.60 is then adjusted to conform to these final rates.

1991-92 Contribution Rates. The rates established in the 1991 Budget Act were *lower* than the rates approved by the PERS Board of Administration, and reflected the administration's assumption concerning the PERS earnings on investments (9.5 percent versus 8.5 percent approved by the board). Based on these lower employer contribution rates, the Budget Act assumed the total state contribution to the PERS in 1991-92 would be $640 million ($350 million General Fund). This represented a savings of approximately $360 million ($200 million General Fund) from the state contribution that would have been required under the rates approved by the PERS Board.

However, the State Controller — citing the lack of an actuarial basis for the budget's proposed 1991-92 contribution rates — is collecting from state agencies based on the higher rates approved by the PERS Board, rather than the rates called for in Control Section 3.60 of the 1991 Budget Act. This will effectively increase state contributions to the PERS in 1991-92 by an additional $360 million ($200 million General Fund). As discussed below, the increased General Fund cost may be offset by funds available in IDDA/EPDA.

1992-93 Contribution Rates. As has been the case in prior years, Control Section 3.60 of the 1992 Budget Bill, as introduced, reflects the employer contribution rates in effect during the current year (that is, the rates the Controller has been using). Employer contributions based on these rates have been built into the 1992-93 support budgets of all state agencies. Presumably, the control section will be adjusted in the May revision to reflect the final actuarially determined employer contribution rates for 1992-93.

Since a State Actuary has yet to be confirmed, in May the Legislature will most likely be presented with 1992-93 contribution rates as approved by the PERS Board of Administration. Furthermore, even if an actuary is confirmed before the budget is approved, it is not clear what input the new actuary will have on the contribution rate proposal for 1992-93.

At the PERS Board October 1991 meeting, the board approved a change in the actuarial interest earnings assumption for the 1992-93 actuarial valuation. The new rate of 8.75 percent is 0.25 percentage points higher than the current board-approved rate. This change should result in lower state contributions of about $90 million ($50 million General Fund). Several other assumptions, however, also factor into the calculation of the 1992-93 contribution rates. Therefore, the actual impact on employer costs will not be known until the final rates are established in May.

IDDA/EPDA Offset of the State's PERS Contributions

We find that legislative action will be required in order for the General Fund to realize the full $760 million in savings over the current and budget years, as assumed in the Governor's Budget.

Background. Chapter 83, repealed the IDDA/EPDA programs and specified that any funds remaining in these accounts as of June 30, 1991 be made available to offset employer contributions to the PERS. As of that date, a total of $1.96 billion was in the IDDA/EPDA. The most recent accounting of these funds by the PERS staff indicates that, of the total amount, $760 million would be available to offset the state's contributions to the PERS, $353 million would be available to school district employers, and $848 million would be available to local public agency employers.

The 1991 Budget Act. As discussed above, the 1991 Budget Act assumed a reduced level of state contributions to the PERS based on the rates established in Control Section 3.60. In determining the General Fund condition for the 1991 Budget Act, it was assumed that the funds available to the state from the IDDA/EPDA would be used exclusively to offset *General Fund* contributions to the PERS. On this basis, $350 million of the state's $760 million "credit" from the IDDA/EPDA would be used in 1991-92, leaving $410 million available to offset the state's General Fund contributions to the PERS in subsequent fiscal years.

The 1992-93 Budget Proposal. The Governor's Budget recognizes the decision of the State Controller to use higher current-year rates, resulting in proposed annual General Fund contributions to the PERS of $550 million in 1991-92 and 1992-93. Thus, the proposed budget reflects IDDA/EPDA offsets to General Fund contributions totaling $550 million in the current year and $210 million in the budget year. Accordingly, the entire amount available from IDDA/EPDA will be spent in these two fiscal years, with the budget-year General Fund costs being only partially offset by the IDDA/EPDA funds.

General Fund Savings from the IDDA/EPDA Offsets. As noted above, both the 1991 Budget Act and the proposed 1992-93 budget assume that the state's entire savings of $760 million from funds held in IDDA/EPDA will accrue exclusively to the General Fund.

Chapter 83 specifies that any funds remaining in the IDDA/EPDA, "shall be used to reduce employer contributions in fiscal year 1991-92 and subsequent years until those funds are depleted." The PERS Board has approved an implementation plan that provides for employer offsets from IDDA/EPDA reserves to be applied in proportion to their original funding source (that is, General Fund and special funds). The State Controller's Office has concurred with the board's position and will apply the state's IDDA/EPDA reserves against contributions from *all* funds. The result of this action is that the $760 million available to offset the state contribution to the PERS will offset approximately $418 million in General Fund contributions and $342 million in special fund contributions. Thus, it appears that, absent legislation clarifying the use of the IDDA/EPDA amounts solely to offset General Fund contributions, there would be a total General Fund shortfall of $342 million in the current and budget years.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

Court Challenge to Chapter 83

We find that, if the court rules unfavorably on the use of PERS reserves to offset employer contributions, the state will face a $760 million General Fund problem.

A lawsuit challenging the constitutionality of Chapter 83 has been filed in the Third Appellate Court by a coalition of state and local employee organizations. The suit challenges three provisions of the law: (1) the repeal of the existing purchasing power protection programs, (2) the capture of the IDDA/EPDA reserves to offset employer contributions, and (3) the transfer of actuarial responsibilities from the PERS Board of Administration to the Office of the State Actuary.

In the event that Chapter 83 is held unconstitutional, the state would not realize the $760 million General Fund savings assumed by the Governor's 1992-93 budget. At the time that this analysis was prepared, a date for oral arguments had not been set; however, a decision on this case is expected before the end of the fiscal year.

State Teachers' Retirement System

Item 1920

Expenditures

Requested 1992-93	$30,360,000
Estimated 1991-92	28,102,000
Actual 1990-91	28,132,000
Requested increase $2,258,000 (+8 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- The General Fund cost of statutory contributions to the State Teachers' Retirement System's programs is $705 million in 1992-93, and is projected to exceed $1.4 billion in 2000-01.

Findings and Recommendations

Analysis Page

1. **General Fund Statutory Contributions Fully Funded.** The level of General Fund support for the State Teachers' Retirement System's (STRS) programs in 1992-93 is $705 million, representing a $220 million increase over the current year. These funds represent the state's statutory contribution toward fully funding the STRS and providing for the protection of retired teachers' purchasing power. 53
2. **General Fund Cost to Exceed $1.4 Billion in 2000-01.** The cost to the General Fund of making the statutorily required contributions to the STRS is expected to reach $952 million in 1994-95, and we estimate that it will exceed $1.4 billion in 2000-01. 54
3. **School Land Bank Monies.** Recommend that the STRS report to the Legislature, at the time of budget hearings, on the status of the state's claim to revenues from the Elk Hills Naval Petroleum Reserve, and on the impact that the proposed transfer of $45 million in anticipated revenues from an eventual settlement, will have on the General Fund cost of benefits provided to retired teachers. 56

General Program Statement

The STRS was established in 1913 as a statewide system for providing retirement benefits to public school teachers. Currently, the STRS serves over 340,000 active and retired teachers.

The primary responsibility of the STRS Board and staff include: (1) maintaining a fiscally sound plan for funding statutorily defined benefits, (2) providing authorized benefits to members and their beneficiaries in a timely manner, and (3) furnishing pertinent information to teachers, school districts, and other interested groups.

Overview of the Budget Request

The budget proposes a $2.3 million increase to the State Teachers' Retirement System support budget, aimed primarily at improving the system's current level of service. An additional $705 million in statutory contributions from the General Fund is provided in the budget year as payments to amortize the system's unfunded liability and to make the state's contribution to the STRS supplemental benefit maintenance program.

The 1992-93 Governor's Budget proposes expenditures of $30.4 million for administration of STRS programs. This amount represents an increase of $2.3

million, or 8 percent, above estimated expenditures in the current year. Table 1 shows STRS expenditures for the past, current, and budget years.

Table 1

State Teachers' Retirement System Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Service to members and employers	$28,132	$28,102	$30,360	8.0%
Administration	(9,154)	(9,834)	(10,211)	3.8
Totals	**$28,132**	**$28,102**	**$30,360**	**8.0%**
Teachers' Retirement Fund	*$27,704*	*$27,797*	*$30,055*	*8.1%*
Teacher Tax Shelter Annuity Fund	*103*	*66*	*66*	—
Reimbursements	*325*	*239*	*239*	—
Personnel-Years	**357.5**	**379**	**394**	**4.0%**

Table 2 summarizes the changes proposed in the 1992-93 STRS budget, including baseline adjustments ($650,000), workload changes ($1,356,000), and program changes ($252,000). The most significant changes include:

- An increase of $1.1 million in pro rata charges for statewide administrative services.
- A decrease of $305,000 due to one-time expenditures in the current year.
- An increase of $425,000 and 12 personnel-years to improve the system's processing of death benefit applications.
- An increase of $252,000 and one personnel-year to improve review of disability allowance cases.
- An increase of $225,000 in one-time costs to reconfigure an existing area at STRS headquarters to meet expanding space needs.

Table 2

State Teachers' Retirement System
Proposed 1992-93 Budget Changes

(dollars in thousands)

	State Teachers' Retirement Fund
1991-92 Expenditures (Revised)	$28,102
Baseline Adjustments	
Pro Rata	$,1087
Adjustments for one-time expenditures	-305
Employee compensation adjustment (Section 3.60)	-160
Salary savings revision (Section 3.90)	-177
Price increase	205
Subtotal	($650)
Workload Changes	
Survivor benefits—improve processing of death benefit claims	$425
Survivor benefits—develop local area network	107
Disability services—review of disability applications	252
Accounting	135
Regional counseling services	212
Space redesign	225
Subtotals	($1,356)
Program Changes	
Develop pre-retirement educational program	$63
Legal office—real estate transactions and federal tax issues	89
Employer reporting improvements (Ch 543/91)	100
Subtotal	($252)
1992-93 Expenditures (proposed)	$30,360
Change from 1991-92	
Amount	$2,258
Percent	8.0%

Analysis and Recommendations

Statutory Contributions Fully Funded

We find that the $705 million in statutory contributions to the State Teachers' Retirement Fund (STRF) in 1992-93 represents an increase of $220 million above the level of current-year funding.

The STRS receives contributions from teachers and their employers totaling 16.25 percent of active teachers' payroll. This contribution amount is not sufficient to provide for the cost of teachers' basic retirement benefits, nor does it provide for the protection of retirees' purchasing power. The shortfalls are covered through annual transfers from the General Fund.

In the budget year, $705 million will be transferred from the General Fund to the STRF to fully fund the state's statutory obligations. This transfer represents a $220 million, or 45 percent, increase over the current-year level.

The total increase includes two components. First, it includes a $148 million increase in the cost to fully fund the actuarial cost of the STRS pursuant to the requirements of the Elder STRS Full Funding Act [Ch 460/90 (SB 1370, Cecil Green)]. This increase will bring the total amount transferred due to this act to $515 million in 1992-93. Second, it includes a $72 million increase in the state's contribution to guarantee a *minimum* purchasing power protection of 68.2 percent of retirees' original allowances — referred to as the supplemental benefit maintenance program. Thus, the total amount transferred to maintain purchasing power will be $190 million in the budget year.

Statutory Contributions Will Exceed $1.4 Billion by 2000-01

The General Fund cost to fully fund the STRS and provide protection of the retired teachers' purchasing power is expected to reach $952 million in 1994-95, and we estimate it will exceed $1.4 billion in 2000-01.

The General Fund will be required to transfer increasing levels of funding to the STRS in future years for two reasons. First, the amount required to satisfy the Elder STRS Full Funding Act will grow as the number of covered teachers and their salaries increase. Currently, these combined factors are expected to increase 7 percent per year. Second, the amount required by the state to fund the STRS supplemental benefit maintenance program will increase from 1.5 percent of payroll in 1992-93 to 2.5 percent of payroll in 1994-95. Thereafter, this General Fund cost will also continue to grow at an estimated 7 percent annual rate.

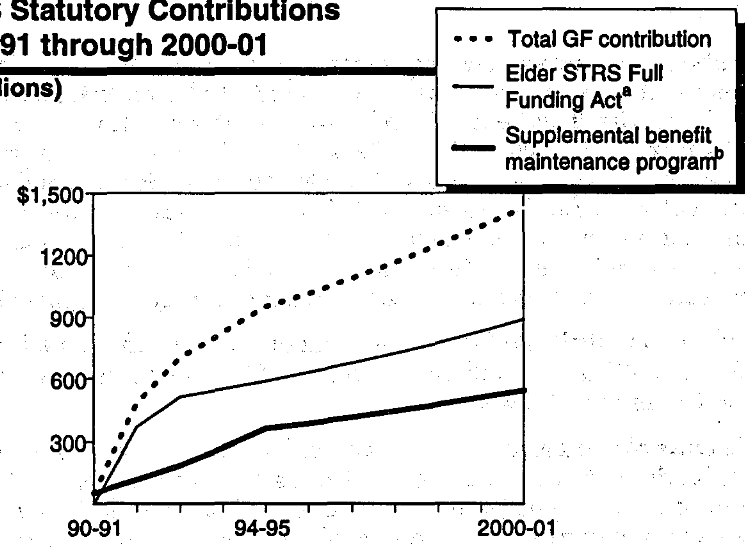
Chart 1 shows the projected amount of General Fund monies that will be required in order to fund these programs through the end of the decade. The chart indicates that by 1994-95, the General Fund cost is projected to grow to $952 million, an increase of 96 percent ($467 million) over the level provided in the current year. After 1994-95, the General Fund cost of these programs will grow at an estimated rate of 7 percent per year, and will exceed $1.4 billion in 2000-01.

In order for the Legislature to address this growing General Fund expense, it would need to focus on those factors that are driving the costs of the respective STRS statutory programs. The Legislature could choose to reduce the level of General Fund contributions under the Elder STRS Full Funding Act. For example, the Legislature could continue to fund the amortization of the system's unfunded liability, while requiring employer and employee contributions to pay for the full retirement cost for new teachers. This option is presented in our January 1992 publication, *Options for Addressing the State's Fiscal Problem.*

Chart 1

Projected General Fund Cost of STRS Statutory Contributions 1990-91 through 2000-01

(in millions)



[a] Equal to 4.3 percent of teachers' salaries in prior calendar year.
[b] Equal to specified percentages of teachers' salaries in prior fiscal year.

The primary cost-driver of the General Fund cost of the supplemental benefit maintenance program is the annual statutory increase in the percentage of teachers' payroll to be provided. The Legislature could choose to revise the funding formula for this program by:

- Capping the state's contribution at a level below the 2.5 percent required beginning in 1994-95. (We estimate that, for a 0.5 percent reduction, the General Fund would save in excess of $70 million annually.)
- Reducing the reserve requirement in the Supplemental Benefit Maintenance Account below the targeted three-year level.
- Lowering the level of purchasing power protection below 68.2 percent.

School Land Bank Fund Monies

We recommend that at the time of budget hearings, the State Teachers' Retirement System report to the Legislature on the status of the state's claim to revenues from the Elk Hills Naval Petroleum Reserve, and on the impact that the proposed transfer of $45 million from an eventual settlement would have on the General Fund cost of benefit payments made to retired teachers.

Background. Current law expresses legislative intent to provide retired teachers with a benefit not less than 75 percent of their original allowance when they retire. This benefit is to be financed through funds transferred to the STRF from the School Land Bank Fund. (This fund is supported by royalties from certain state properties referred to as "School Lands.") To the extent that such funds are not sufficient to provide the desired level of purchasing power protection, current law specifies that additional funds are to be transferred annually from the General Fund, to guarantee a *minimum* purchasing power protection of 68.2 percent of retirees' original allowance.

The amount available for transfer from the School Land Bank Fund to the STRF in 1992-93 is $3.1 million, down from $3.4 million in the current year, and $4.1 million in 1989-90.

Elk Hills Naval Petroleum Reserve. Under current law, the revenues from school lands within the area referred to as the Elk Hills Naval Petroleum Reserve are to be deposited in the School Land Bank Fund. The interest from these monies is to be transferred annually to the STRF for the supplemental benefit payments made to retired teachers.

The 1992-93 Governor's Budget reflects the receipt of $45 million from the settlement of the state's claim against the federal government for revenues derived from the Elks Hills Reserve. The Governor's Budget indicates that the $45 million is to be transferred to the General Fund, rather than deposited in the School Land Bank Fund as required by current law. The administration indicates it will seek legislation to make this transfer. Our review indicates, however, that the receipt of these funds in the budget year is unlikely because a settlement has not yet been reached with the federal government, and any eventual settlement would require approval by the U.S. Congress and the President. In view of this proposal, we recommend that the STRS report to the Legislature at budget hearings on the status of the state's claim against revenues from the Elk Hills Naval Petroleum Reserve, and on the impact that the proposed transfer of proceeds from an eventual settlement would have on the General Fund cost of benefit payments to retired teachers.

Department of Veterans Affairs and Veterans' Home of California
Items 1960 and 1970

Expenditures

Requested 1992-93	$1,012,622,000
Estimated 1991-92	1,006,200,000
Actual 1990-91	1,136,409,000

Requested increase $6,422,000 (+0.6 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Veterans Affairs (DVA) provides services to California veterans and their dependents, and to eligible members of the California National Guard. The principal activities of the DVA include: (1) providing low-interest home and farm loans to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds; (2) assisting eligible veterans and their dependents in obtaining federal and state benefits by providing claims representation, county subventions, and direct educational assistance to qualifying veterans' dependents; and (3) operating the California Veterans' Home in Yountville, which provides approximately 1,325 California war veterans with several levels of medical care, rehabilitation services, and residential services.

Overview of the Budget Request

The budget proposes no workload or significant program changes for the DVA and Veterans' Home, except for a small increase in bond debt service for the Cal-Vet Loan Program.

The budget proposes an appropriation of $1 billion for support of the DVA and the Veterans' Home in 1992-93. The proposed 1992-93 budget is approximately $6.4 million, or less than 1 percent, more than the estimated current-year expenditures. The budget increase is attributable primarily to the net program budget increase of $6.9 million for the Cal-Vet Farm and Home Loan Program to fund the program's bond debt service payments. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93. Although the department's estimated total

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

expenditures are slightly over $1 billion, the department's General Fund budget consists of only $31 million, or 3 percent, of the total.

Table 1

Department of Veterans Affairs and Veterans' Home of California Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Cal-Vet Farm and Home Loan	$1,080.6	$951.7	$958.7	0.7%
Cal Guard Farm and Home Loan	3.6	2.8	2.8	0.8
Veterans Claims and Rights	4.3	4.1	4.0	-0.1
Veterans' Home	47.9	47.6	47.1	-1.1
Administration (distributed)	(1.9)	(1.9)	(1.9)	0.3
Totals	**$1,136.4**	**$1,006.2**	**$1,012.6**	**0.6%**
General Fund	*$30.8*	*$30.9*	*$31.0*	*0.6%*
Special Account for Capital Outlay	*—*	*0.2*	*—*	*-100.0*
Bond funds	*1,084.2*	*954.5*	*961.5*	*0.7*
Federal funds	*12.1*	*11.8*	*11.4*	*-3.8*
Reimbursements	*9.3*	*8.8*	*8.7*	*-0.4*
Personnel-Years	**1,244.0**	**1,221.0**	**1,215.8**	**-0.4%**

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 5.1 percent from the General Fund support of the DVA and Veterans' Home in 1991-92. The current-year reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Capital Outlay

The Governor's Budget proposes an appropriation of $6 million in Item 1970-301 for capital outlay expenditures for the Veterans' Home. Please see our analysis of that item in the capital outlay section of this *Analysis,* which is in the back portion of this document.