STATE ADMINISTRATION

MAJOR ISSUES

Performance Budgeting Pilot Project Yields Mixed Results. The administration's performance budgeting pilot project has not materially changed the state budget process as it was intended to do. Nevertheless, evidence from the four departments participating in the project shows that it has generally helped them do a better job of managing their programs. The administration needs to identify the lessons learned from the project and advise the Legislature of its future direction. (See page H-11.)

Some Progress in Restructuring State Information Technology, But Much Remains to Be Done. Last year, the Legislature and Governor took a number of steps to reorganize the management of state information technology, including creation of a new Department of Information Technology. Our review found that little progress has been made toward resolving many of the major problems identified in 1994 in three independent reports. We recommend that the Legislature continue to closely monitor state information technology efforts and that it hold the new department accountable to produce the results desired by both the Legislature and the administration. (See page H-22.)

State Opportunities for Better Use of Telecommunications. The Department of General Services has been operating for the past four years without an annual strategic plan for state telecommunications, as required by law. We identify eight areas of telecommunications, such as videoconferencing, that the administration should focus on that can help improve the operations of state government. (See page H-64.)

Revised Development Plan for Capitol Area. The Department of General Services is preparing a revised master plan to guide development of state office and parking space and other land uses in the Capitol Area of Sacramento. We recommend the Legislature first approve any revisions to the Capitol Area Plan prior to funding preparation of an environmental impact report. We also recommend that the Legislature not authorize any new state office projects in downtown Sacramento until the environmental review process is completed. (See page H-76.)

New Veterans' Homes Should Be Put in the Slow Lane. Major delays in completion of a computer information system for the new veterans' home in Barstow—which has been deemed essential for the operation of the home—could cost the state significantly. As a consequence of the difficulties at Barstow, the significantly higher estimated General Fund costs of operating veterans' homes, and the uncertainty regarding future federal funding for elderly medical care and veterans' programs, we recommend that the Legislature place a one-year moratorium on development of additional veterans' homes. (See page H-103.)

Local Agencies Should Fund Local Law Enforcement. The budget proposes to establish an income tax "check-off" allowing taxpayers to designate whether 1 percent of their tax liability should be allocated to local agencies to augment police, sheriff, and prosecution programs. We think local law enforcement is more appropriately financed and controlled at the local level. If the Legislature wishes to provide additional revenues to cities and counties, we recommend that the Legislature partially reverse the property tax shift. (See page H-117 and Part V of the *Perspectives and Issues.)*

STATE ADMINISTRATION

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STATE ADMINISTRATION

OVERVIEW

Funding for state administration is proposed to increase slightly in the budget year, primarily because of increases in Motor Vehicle License Fund apportionments to local governments.

The budget proposes total expenditures for state administration of $6.5 billion in 1996-97, an increase of 2.5 percent above estimated current-year expenditures. Proposed General Fund spending for state administration is $2.9 billion, or 6.4 percent of all General Fund expenditures proposed in the Governor's Budget for 1996-97.

SPENDING BY MAJOR PROGRAMS

Figure 1 (see next page) shows state expenditures for nine major state administration programs for 1994-95 through 1996-97.

Shared Revenues

The largest program in state administration is the shared revenues program, which distributes state-collected revenue (primarily from vehicle license fees and gas taxes) to local government agencies. The $117 million increase in spending primarily reflects an increase in the Motor Vehicle License Fund apportionments to local governments as a result of growth in the fee revenues collected.

Local Government Financing

The Governor's Budget proposes to subvene $150 million (General Fund) to cities and counties for local law enforcement. Specifically, the state would create a check-off on personal income tax forms allowing taxpayers to decide whether 1 percent of their income tax liability should be distributed to local agencies for law enforcement purposes.

Figure 1

State Administration Budget Summary[a]

(Dollars in Millions)

	Actual 1994-95	Estimated 1995-96	Proposed 1996-97	Change From 1995-96	
				Amount	Percent
Shared Revenues					
General Fund	$0.1	$0.3	$0.3	—	—
Special funds	3,136.0	3,262.6	3,379.4	$116.8	3.6%
Totals	**$3,136.0**	**$3,262.9**	**$3,379.7**	**$116.8**	**3.6%**
Contributions to the STRS					
General Fund	$866.1	$901.3	$926.1	$24.8	2.8%
Transfer to the PERS					
General fund	$441.0	$463.9	$485.0	$21.1	4.5%
Special funds	200.0	210.9	220.5	9.6	4.6
Totals	**$641.0**	**$674.8**	**$705.5**	**$30.7**	**$4.5%**
Tax Relief					
General Fund	$475.8	$458.1	$464.7	$6.6	1.4%
Interest on General Fund Loans					
General Fund	$408.5	$295.6	$255.0	-$40.6	-13.7%
Health Benefits for Annuitants					
General Fund	$297.2	$275.9	$278.7	$2.8	1.0%
Franchise Tax Board					
General Fund	$281.1	$320.3	$234.8	$4.5	1.4%
Special funds	6.4	8.5	8.2	-0.3	-3.5
Totals	**$287.5**	**$328.8**	**$333.0**	**$4.2**	**1.3%**
Board of Equalization					
General Fund	$160.8	$172.3	$181.6	$9.3	5.4%
Special funds	18.0	22.2	22.5	0.3	1.4
Totals	**$178.8**	**$194.5**	**$204.1**	**$9.6**	**4.9%**

[a] Excludes reimbursements, revolving funds, and other nongovernmental cost funds. Details may not add to totals due to rounding.

Tax Relief

The state provides local property tax relief, both as subventions to local governments and as direct payments to eligible taxpayers, through seven different programs. The two largest are the Homeowners' Property Tax Relief (homeowners' exemption) and the Renters' Tax Relief (renters' credit) programs. The Governor's Budget proposes an expenditure of $393 million on the homeowners' exemption program in 1996-97, which comprises most of the $465 million budgeted for tax relief.

The renters' credit provides a refundable tax credit to Californians who rent their principal place of residence as of March 1 each year. The renters' credit program was suspended for three years, beginning in 1993, as one of many spending reductions enacted to address the state's budgetary problems. The program was reinstated beginning on January 1, 1996. The Governor's Budget, however, proposes eliminating this program effective January 1, 1996. The estimated cost for this program if it were not altered or discontinued in 1996-97 would be approximately $517 million.

Retirement

Public Employees' Retirement System. The Public Employees' Retirement System (PERS) is the retirement system for most state employees. The budget projects a $485 million General Fund payment for the PERS in 1996-97. The 1996-97 General Fund transfer is based on the 1994-95 state employee payroll, pursuant to Ch 71/93 (SB 240, Committee on Budget and Fiscal Review). Under the provisions of that legislation, General Fund contributions to the PERS are made two fiscal years in arrears. Thus, based on estimated state employee payroll in 1996-97, the General Fund transfer to the PERS in 1998-99 will be about $620 million.

As a result of a lawsuit filed by the PERS, the Superior Court in Sacramento County has ordered the state to immediately pay *all* deferred payments and to resume sending state funds to the PERS on a current, rather than deferred, basis. The state has appealed this decision and the budget assumes that the state will prevail on appeal. If the state loses the appeal, the General Fund impact would be about *$1.1 billion* in 1996-97.

State Teachers' Retirement System. The State Teachers' Retirement System (STRS) is the retirement system for teachers in public K-12 schools and community colleges. The STRS receives contributions from teachers and their employers. These contributions, however, are insufficient to provide for the cost of basic retirement benefits and the protection of retirees' purchasing power. The shortfalls are covered by annual transfers from the General Fund. These transfers are expected to increase by $25 million, from $901 million in the current year to $926 million in the budget year. The increase is due to an expected increase in teacher payrolls, which is the key factor in the statutory funding formulas.

Health and Dental Premiums. The budget also includes $279 million from the General Fund to pay the state share of health and dental insurance premiums for retired state employees and their qualifying beneficiaries. This is $2.8 million more than estimated current-year expenditures, which reflects an increase in the number of retirees.

Employee Compensation

The collective bargaining memoranda of understanding (MOU) that govern pay, benefits, and other working conditions for rank-and-file employees expired June 30, 1995. The MOU negotiations have been completed for only one of 21 bargaining units. Chapter 768, Statutes of 1995 (SB 544, Dills), ratified the MOU for highway patrol officers. The legislation included $16.1 million from special funds for compensation increases in 1995-96 for the highway patrol officers. The budget request for the California Highway Patrol includes $30 million for the 1996-97 cost of the MOU. The budget does not propose funds for new compensation increases for the other 21 bargaining units at this time.

We discuss employee compensation issues in further detail in the Crosscutting Issues section of this chapter.

MAJOR BUDGET CHANGES

Figure 2 portrays the changes in four major categories of expenditure (shared revenues, retirement benefits, tax relief, and local government financing) which reflect some of the increase in state administration spending in 1996-97. Also shown are selected changes in each of these categories.

The State's Retirement Programs

Retirement-related expenditures account for a significant part of state spending for the budget year. In 1996-97, state expenditures for various costs associated with public employee retirement (excluding University of California costs and nongovernmental cost funds) will total approximately $2.5 billion, including nearly $2 billion from the General Fund. As summarized in Figure 3 (see page 10), the General Fund provides for employer contributions and/or various other payments to four

Figure 2

State Administration
Proposed Major Changes for 1996-97
All State Funds

Shared Revenues	**Requested:** $3.4 billion **Increase:** $116.8 million	(+3.6%)

+ • $101.3 million due to increased vehicle license fee revenues

Retirement Benefits	**Requested:** $2.4 billion **Increase:** $71 million	(+3%)

+
- $30.7 million for transfers to the Public Employees' Retirement Fund
- $24.8 million for transfers to the State Teachers' Retirement Fund
- $12 million for Social Security/Medicare taxes
- $2.8 million for health and dental premiums for retirees

Tax Relief	**Requested:** $464.7 million **Increase:** $6.6 million	(+1.4%)

−
- $517 million reduction from the current law requirements due to proposed elimination of renters' credit (total spending on tax relief would otherwise have been higher by this amount in 1996-97)

Local Government Financing	**Requested:** $159.9 million **Increase:** $137.7 million	(+621%)

+
- $150 million for new income tax check-off to provide funds for local public safety

public employee retirement systems: the PERS, the STRS, the Judges' Retirement System, and the Legislators' Retirement System. In addition, the state (1) makes Social Security and Medicare contributions for most state employees and (2) contributes to the payment of premiums for health and dental benefit plans for retired state employees.

Figure 3

General Fund Costs for Retirement Programs[a] 1996-97

(In Millions)

Program	1996-97
Public Employees' Retirement	$485
State Teachers' Retirement	926
Judges' Retirement	57
Legislators' Retirement	1
Social Security and Medicare	283
Health and Dental Benefits for Annuitants	279
Total	**$2,031**

[a] Includes transfers to retirement trust funds for employer contributions, state mandates, retired judges' benefit payments, and other purposes. Does not include PERS and STRS administrative expenditures from trust funds. Excludes costs for University of California employees.

STATE ADMINISTRATION

CROSSCUTTING ISSUES

PERFORMANCE BUDGETING: WILL IT CHANGE THE BUDGET PROCESS?

The Governor's Performance Budgeting Pilot Program, now in its third year of implementation, has not materially changed the budget process and it is not clear that it will. At the same time, most of the participating departments indicate that the program has helped them to do a better job of managing their programs. Other state departments can benefit from the lessons learned from the pilot project, and the administration should institutionalize those aspects which can improve the performance of state programs.

In this section, we provide an update on the performance budgeting pilot program and discuss the common themes and issues which have emerged as the administration has implemented this program. We conclude with recommendations that we believe can help to make the pilot program more effective.

Background

What Is Performance Budgeting? Performance budgeting differs from the traditional approach to budgeting in that it attempts to determine whether a program is achieving its goals by focusing on outcomes, rather than processes or inputs. For example, instead of focusing on the number of parks and employees managed by the Department of Parks and Recreation, performance budgeting would review an array of performance measures including customer satisfaction with the park system, the extent to which the department is protecting wildlife habitat, and the degree to which the department has increased access to parks.

In order to implement performance budgeting, departments must identify performance *goals*, or outcomes, and the performance *measures* that will be used to determine whether progress is being made toward achieving the desired outcomes. Resources are then allocated to departments in order to achieve specific goals.

Governor Initiates Pilot Project. In January 1993, the Governor proposed to change the state's budgeting process by pilot testing performance budgeting in four state departments. According to the Governor's Budget, the pilot program was being proposed because the state's traditional budget process was "seriously dysfunctional." The administration indicated that performance budgeting, along with quality improvement, offered the potential for substantial savings, improved performance, enhanced citizen satisfaction, and greater accountability in the delivery of state services.

The Legislature responded to the Governor's initiative by enacting Ch 641/93—the Performance and Results Act of 1993 (SB 500, Hill)—which established the program, required budget "contracts" between pilot departments and the Legislature, and set January 1, 1996 as the completion date of the pilot project. Budget contracts are supposed to require departments to deliver specified outcomes for a specified level of funding. They must identify criteria for evaluating outcomes and specify provisions for reinvesting savings resulting from performance budgeting.

Chapter 672, Statutes of 1994 (SB 1609, Hill) requires that a draft budget contract be submitted to the fiscal subcommittees of the Legislature by January 31 if the contract is proposed to be effective in the ensuing fiscal year.

Finally, the Legislature enacted Ch 779/94 (AB 2711, Valerie Brown)—the State Government Strategic Planning and Performance Review Act—which (1) requires the Department of Finance (DOF) to identify state agencies which should either develop a strategic plan or update an existing one, and (2) requires those agencies to report annually to the Legislature on steps being taken to develop performance measures that could be used for performance budgeting or performance review.

Legislative Analyst Office's Initial Assessment of Performance Budget and Pilot Project. In October 1993 we released a report on performance budgeting, including an assessment of the Governor's pilot program to that date. Figure 4 summarizes the key findings from that report, which apply broadly to performance budgeting as it had been tried in several states and localities.

Figure 4

Performance Budgeting
Key Findings From Other States and Localities
LAO 1993 Report

- ✔ The manner in which performance budgeting is applied and the results it produces vary widely among the states
- ✔ In most instances, performance budgeting has *not* fundamentally changed the budget process
- ✔ Implementation costs are significant
- ✔ Performance measures need to focus on *outcomes*, not process
- ✔ Performance needs to be verified independently
- ✔ Performance budgeting requires a change in the Legislature's perspective towards the budget process
- ✔ The Legislature must be willing to accept a longer-term view of implementation and results

We noted in our report that the foundation of the Governor's pilot program—reshaping the state's budget process—would not be easy to accomplish because performance budgeting is a complex undertaking. Recognizing the important role the Legislature would have to play to ensure success of the project, we recommended the establishment of a joint legislative committee to oversee the pilot project and review the budgets of the pilot departments.

Current Project Status

The DOF is responsible for administering the performance budgeting pilot program which currently includes four departments:

- California Conservation Corps.
- Department of Consumer Affairs.
- Department of General Services.
- Department of Parks and Recreation.

The Departments of General Services, Consumer Affairs, and Parks and Recreation were among the original four departments selected to participate in the pilot. The fourth department—the Stephen P. Teale Data Center—is no longer a participant. The California Conservation Corps and the Department of Toxic Substances Control were added in 1994; however, the latter department dropped out in 1995.

Some Departments Are Ahead of Others. Not surprisingly, the rate of progress in implementing performance budgeting has varied among the participating departments. As noted above, establishing a performance budgeting system is complicated, and some of the pilot departments are larger and more complex than others. Other factors contributing to a variation in progress include:

- Whether a department already had a strategic plan in place.
- The difficulty in determining appropriate performance measures.
- Negotiations with the control agencies (DOF, State Personnel Board, and Departments of Personnel Administration and General Services) to increase administrative flexibility.
- The learning curve each department has had to undergo to get an idea of the magnitude of the effort and what a budget contract would actually look like.

Despite these factors, and although much remains to be accomplished, departments have completed most of the preliminary tasks to implement performance budgeting, such as developing a strategic plan and defining performance measures; however, most of the departments have not established the computer-based systems which are required to collect and maintain performance data and generate reports of actual performance.

Common Themes

Several common themes have emerged during the implementation of the pilot project as displayed in Figure 5.

Figure 5

Common Themes of the Performance Budgeting Pilot Program

✔ **Performance Impacts**

- Program has reoriented departmental management to focus on department's purpose, develop supporting business plans, and manage to achieve outcomes
- Participating departments have generally been energized by the pilot program and have been sincere in their efforts to improve performance
- In gathering data to measure performance, departments have discovered in many instances that such data do not exist

✔ **Fiscal and Budgetary Impacts**

- A significant investment of resources has been made
- Anticipated savings available for redirection have not materialized

✔ **Administrative Impacts**

- Many administrative flexibilities provided by current budget contracts appear to be relatively minor and nonquantifiable
- Other than the use of budget contracts, there has been no significant change in the budget process
- Controls on administrative flexibility have been identified which have questionable value

Departments Have Refocused on Their Purposes and Goals. Pilot departments have exerted a considerable amount of effort to redefine their organizations, update their mission statements, adopt strategic plans (along with performance measures and goals), and manage in accordance with those plans. Consequently, the pilot departments are focusing on performance *management*, which they believe is proving to be valuable to them and the programs they administer. Most of the mechanisms that have been put in place in pilot departments—strategic plans, goals, performance measures, and the means to capture and report progress—are viewed as basic and fundamental to a business enterprise. Consequently, these are practices which state departments should have been following all along. Nevertheless, if the pilot program goes no further than fostering performance management in state departments, and that management emphasis is maintained, the pilot program will have served a useful purpose.

Departments Energized. It is clear that a very real and positive result of the performance budgeting pilot program has been the enthusiasm observed in most of the pilot departments. In some departments we have observed that the enthusiasm permeates throughout the organization. This enthusiasm has in many cases been channeled into department-wide efforts to determine what's important, and to whom, and to develop plans and strategies to keep the focus on important goals and manage to achieve them. Whether the benefits of this enthusiasm will be lasting will depend on the extent to which departments are able to keep focused on their goals, maintain their plans and strategies, and manage effectively. This in turn depends on the extent to which department staff at all levels remain committed and involved.

Measuring Performance and Tying It to Budgets Is Difficult. In a number of instances, departments have discovered that there is little or no baseline performance data against which to measure improvement. Where this occurs, departments must establish a means of collecting the baseline data that will enable the periodic assessments of improvement which are at the heart of performance management.

Those pilot departments which have progressed to the point of attempting to present budgets in a performance-based format have indicated difficulty accomplishing this task. For example, the Department of Parks and Recreation, which had previously indicated that its 1996-97 budget would be presented in a performance-based format, has instead provided a *sample* format in the Governor's Budget and has postponed until 1997-98 presenting its budget in a new display. Similarly, the California Conservation Corps has experienced difficulties in its attempt to develop a new budget format which ties requested budget allocations to specific performance areas and outcomes.

Significant Resources Have Been Invested. In our October 1993 report we noted that the cost to implement the pilot project would be significant; and, in the *Analysis of the 1994-95 Budget Bill,* we recommended that the DOF advise the Legislature as to its estimate of costs and benefits associated with the administration's performance budgeting plans. To date, no such estimate has been provided. Because departments are absorbing the costs to implement performance budgeting, the costs are not apparent. However, several pilot departments have acknowledged that there has been a substantial investment in staff time alone, and some departments have contracted for consultants to help in the development of strategic plans.

In last year's *Analysis*, we estimated that the state's total investment in the pilot project would be about $5 million by the end of the current year. We have not updated this cost estimate for the budget year because departments are not uniformly accounting for their expenditures for performance budgeting. In addition, some of them argue that they would incur similar costs regardless of performance budgeting. This latter point is arguable, as it seems apparent that participation in the performance budgeting pilot program has caused departments to embark on planning and other activities they would not have otherwise undertaken.

"Redirected Savings" Have Not Occurred. One of the "carrots" made available to departments volunteering to participate in the pilot program is the ability to redirect 50 percent of savings resulting from performance budgeting. Chapter 641 requires that such "gainsharing" be specified in annual budget contracts. To date, none of the current budget contracts provide for gainsharing. We do not know whether any budget contract for 1996-97 will provide for gainsharing. This is because none of the departments had submitted proposed contracts at the time this analysis was prepared.

Increased Administrative Flexibility. A long-standing and frequent complaint of state managers at all levels has been the inability to get the job done effectively because of a myriad of controls on their ability to administer programs. One of the more attractive features of the performance budgeting pilot project to departments is the prospect of being provided additional administrative flexibility. Although the 1995-96 budgets for the pilot departments reflect a relaxation of certain administrative controls, it can be argued that much of this flexibility is relatively minor and should have been provided regardless of the pilot program. For example, the Director of General Services is authorized to augment the budget by up to 10 percent, without DOF approval, in order to cover unanticipated service requests from customer departments.

On the other hand, the number of specific administrative flexibilities provided pilot departments in 1995-96 budget contracts increased significantly from those provided in 1994-95. Moreover, some of the flexibilities are significant. For example, the current budget contract for the Department of General Services (DGS) provides administrative flexibility in 12 areas. The flexibility provided the DGS ranges from the specific exemption from requirements to purchase goods from the Prison Industry Authority, to the ability to obtain a waiver of specific provisions of civil service law, with the agreement of the State Personnel Board, except for provisions relating to discrimination, unlawful employment, or applicant fraud, or where a waiver would conflict with the merit principles of the California Constitution.

Results of Flexibilities Generally Nonquantifiable. For the most part, pilot departments are unable to quantify the benefits of the administrative flexibilities which they have been provided. While it is not clear whether these flexibilities will have a marked impact on departmental performance, it does not make sense to subject departments to controls which add cost unless they also add policy value and further important oversight. Eliminating such controls should help departments to better focus on fulfilling their missions.

Controls of Questionable Value Should Be Eliminated. It is important to distinguish between controls which are in place for good executive or legislative oversight purposes and those that do not add value to government programs but rather get in the way of departmental attempts to focus on their primary missions. Some of the flexibilities granted to the DGS in the current year, while not minor, still reflect reasonable changes which should help the department to better focus its resources on fulfilling its various program requirements. We believe that the pilot program has identified a number of controls which add little or no value to state government. For example, limiting to 60 working days the length of time for which an emergency appointment may be made without the approval of the State Personnel Board. (The California Conservation Corps was authorized under the pilot to make such appointments for up to nine months.) In our judgment, relief from administrative controls is always desirable where the value to the control agency is relatively minor compared to the workload or delay the control imposes on departments.

Where Is Performance Budgeting Going?

We recommend that the Department of Finance (DOF) and the performance budgeting pilot departments, advise the Legislature, during budget hearings, as to their evaluation of the pilot program and plans for performance budgeting in the future, including sharing with all state

agencies lessons learned from the pilot program and the extent to which the DOF plans to relieve other departments of administrative controls found to be unnecessary as the result of the pilot program. We further recommend that any plans to expand elements of the pilot program to other departments include standards and guidelines to ensure that there is no unwarranted duplication of effort.

Program Expectations Still to Be Met. In initiating the performance budgeting pilot project in 1993, the Governor identified a number of potential benefits to this budgeting approach. These benefits, and our assessment of the extent to which they have been realized, are shown in Figure 6. To date, performance budgeting has not realized the fundamental benefits initially envisioned by the administration, as shown in the figure.

Figure 6

Have Performance Budgeting Benefits Been Achieved?

Benefit	Met?	Comment
Change fundamentally the budget process	No	Only difference is budget contracts
Produce substantial cost savings	No	Unclear as to whether substantial savings will result
Improve program performance	Unclear	Not yet apparent
Enhance citizen satisfaction	Unclear	Has not been measured
Produce greater accountability	Unclear	A measure of accountability is expected under budget contracts

We believe that there are several reasons for this lack of significant results to date. First, significant improvements in performance do not occur "overnight" and tend to take some time. Second, the experiences of other states and local governments suggest that it takes time to radically change long-standing budget processes. In order to achieve such changes, it requires the commitment of both the administration and the Legislature to shed their old approaches to the budget. Third, the program got off to a slow start and has suffered to some extent because it has been implemented in the absence of a definitive plan, with the result that each of the pilot departments has been left to its own devices to define the program as it applies to them.

Progress May Have to Be Incremental. Given the administration's experiences to date with performance budgeting, it may be that the only way the state can attain a better budget system is to make incremental changes. That is why we believe it is important to identify successful elements of the pilot program experience, institutionalize them, and keep expectations realistic and clear as to how the pilot program can improve the overall budget system. In our judgment, the administration should determine what incremental steps should be taken statewide, because it is has the current experience with the pilot program to draw upon, and it has been assigned responsibility by the Legislature to work toward changing the budget process.

Evaluation of Pilot Program May Help Shed Light. In this regard, the DOF is required by Chapter 641 to report its evaluation of the pilot program. The report, which was due January 1, 1996, is required to address (1) the extent to which performance budgeting results in a more cost-effective and innovative provision of government services, (2) gainsharing rewards to each department in the program, and (3) the specific innovations which brought about gainsharing savings. The report had not been released at the time this analysis was prepared; however the DOF advises that the report will be available in time for budget hearings. The report may shed some light on the administration's plans for performance budgeting beyond the four pilot departments.

Standard Approaches Lacking. In last year's *Analysis* we noted that as a result of the independent approach to performance budgeting occurring in the pilot departments, there was no assurance that information technology systems necessary to make performance budgeting work would be developed in a manner which would prevent duplication of effort and the development of redundant computer applications. We also noted that without guidelines, the Legislature would not be assured that performance reports submitted by the pilot departments would be in a consistent, easy to read format. Consequently, the Legislature adopted supplemental report language requiring the DOF to develop guidelines for information technology systems and reporting formats. The guidelines had not been developed as of the preparation of this analysis.

Lessons Should Be Shared. As noted above, the pilot departments will have invested, by the end of the current year, approximately $5 million related to the performance budgeting pilot department. For the most part, the pilot departments believe that the performance management benefits have warranted this investment. Although two of the pilot departments recently agreed to collaborate to produce a performance budgeting newsletter, it is not clear as to the extent to which the lessons learned by the pilot departments will be shared with other departments which could benefit from improving their management practices, or when or how such sharing will occur. Given the state's significant investment in performance budgeting, it makes sense to share with *all* state agencies the important findings and recommendations developed by the DOF and the pilot departments as a result of their experience with the pilot program. This is important even if the official pilot program is not extended, because there is nothing to prevent other departments from independently implementing performance budgeting.

Analyst's Recommendation. In our review of the DOF, we recommend that the department provide the Legislature a status report on the pilot program at the time of budget hearings. In that regard, we believe there is merit in having a broader *administration* perspective on performance budgeting—one which reflects pilot department views as well as those of the DOF. This is because the pilot departments have learned much about what works, and what doesn't work in attempting to implement performance budgeting. Also, the pilot departments have supported one another in their mutual efforts to improve program performance through participation in the pilot program and have developed a core competency in management reform which can be useful to other state agencies.

Consequently, we recommend that the DOF and the performance budget pilot departments advise the Legislature, during budget hearings, as to their evaluation of the pilot program, and plans for performance budgeting in the future, including sharing with all state agencies lessons learned from the pilot program and the extent to which the DOF plans to relieve other departments of administrative controls found to be unnecessary as the result of the pilot program. We further recommend that any plans to expand elements of the pilot program to other departments include standards and guidelines to ensure that there is no unwarranted duplication of effort.

RESTRUCTURING THE MANAGEMENT OF INFORMATION TECHNOLOGY

In 1995, the Legislature enacted major legislation to reorganize and improve the state's information technology oversight responsibilities. In addition, the Governor initiated a number of actions intended to improve the state's implementation of information technology.

Aside from the reorganization, relatively little progress has been made toward resolving many of the major problems which three independent reports identified in 1994. (Portions of the following analysis were contained in our report entitled "State Information Technology: An Update," issued on January 23, 1996).

MAJOR PROJECT FAILURE AND THREE REPORTS PROMPT REFORM LEGISLATION

The highly publicized failure of a major Department of Motor Vehicles information technology project, at a cost to the state of at least $49 million, and the publication of three independent reports in 1994 citing numerous problems with other projects, resulted in the Legislature enacting information technology reform legislation (Ch 508/95, [SB 1, Alquist]) in 1995. This legislation eliminated the Office of Information Technology in the Department of Finance (DOF) and established the new Department of Information Technology (DOIT). Figure 7 displays the major features of Chapter 508.

Figure 8 summarizes the major responsibilities assigned by Chapter 508 to the DOIT.

Figure 7

Major Features of Recent Information Technology Reform Legislation (Ch 508/95, SB 1, Alquist)

- ✔ Eliminates the Office of Information Technology and creates the Department of Information Technology (DOIT), with expanded duties and authority. (See Figure 8 for details.)

Continued

- ✔ Establishes two information technology advisory bodies to provide advice to the DOIT. One advisory entity is comprised of senior state information technology managers; the other is comprised of nonstate government individuals.
- ✔ Establishes policy direction in key areas, including (1) public access to public information contained in state computer files, (2) development of a statewide strategy to facilitate computer-based information sharing among departments, and (3) improving the management of information technology projects.
- ✔ Limits the role of the Department of Finance regarding information technology projects to the approval of the expenditure of funds.

Figure 8

Department of Information Technology
Major Responsibilities Under Ch 508/95 (SB 1, Alquist)

- ✔ Oversee the management of information technology in state agencies, with authority to suspend or terminate projects.
- ✔ Develop and implement a strategy to facilitate information sharing among state computing systems.
- ✔ Determine which information technology applications should be statewide in scope, and ensure that such applications are not developed independently or duplicated by state agencies.
- ✔ Develop and maintain a computer-based file, accessible to the Legislature, of all approved information technology projects.
- ✔ Develop statewide policies and plans that recognize the interrelationships and impact of state activities on local governments, including local school systems, private companies that provide services to state agencies, and the federal government.
- ✔ Requires the Department of Information Technology to submit the following reports (due date):
  - Progress toward compliance with the provisions of the measure (July 1, 1996).
  - A plan for implementing the recommendations of the Governor's Task Force on Government Technology Policy and Procurement (October 1, 1996).
  - A method whereby the public may electronically access nonconfidential information via state telecommunications networks (January 1, 1997).
  - A preliminary assessment of the feasibility of consolidating the state's information technology activities (July 1, 1997).

Constructive Actions by the Administration

Since the airing of the state's information technology issues in the first half of 1994, the Governor and his administration have taken a number of constructive steps to address both the state's information technology situation in general, as well as specific information technology issues. These steps include:

- The creation of two Governor's task forces (May 11 and July 7, 1994), each of which issued a report on state information technology.
- The temporary establishment, on April 13, 1995, of the Governor's Office of Information Technology to assume the responsibilities formerly assigned the DOF's Office of Information Technology (subsequently replaced by the new DOIT).
- The transfer of project management responsibility for three major information technology projects from the Department of Social Services to the Health and Welfare Agency Data Center (May 22, 1995).
- The appointment by the Governor of a Chief Information Officer to lead the new DOIT (September 12, 1995).

ASSESSMENT OF THE CURRENT SITUATION

Much Remains to Be Accomplished

Given the magnitude of the state's information technology problems, it is clearly going to take time to rectify this situation, and we believe that the administration has taken some constructive steps in this direction. However, given the amount of time that has transpired since the state's information technology problems were made known—18 months—there has been relatively little progress made across state government in resolving these issues. Continuation of these problems will inhibit the ability of state departments to achieve an appropriate return on their investment of over $1 billion in new information technology applications.

Individual Departments Take the Initiative. Despite the lack of statewide progress in resolving many of the state's information technology problems, some departments are unilaterally implementing various recommendations made in the three information technology reports issued in 1994. These include the Department of Corrections and the Public Employees' Retirement System, which have, for example, employed quality assurance consultants to oversee implementation of major projects. In addition, the Franchise Tax Board (FTB) and the Department of Housing and Community Development (HCD) have utilized recent changes in state contracting policy to pay contractors out of either enhanced revenues (FTB) or reductions in program costs (HCD) resulting from a project. To the extent these individual departmental initiatives are successful, they may serve as useful models for information technology efforts in other departments. Clearly, the DOIT is the designated state agency to disseminate the lessons learned from these initiatives as it develops statewide policies in response to Chapter 508.

Several Major Projects Still Need Close Review. In our January 1996 report, we identify several major information technology efforts which have experienced various implementation difficulties. These projects continue to warrant legislative oversight because they face uncertain futures as to when they will be completed, how much it will cost to complete them, and the extent to which anticipated benefits will be realized. Many of these projects, along with other issues involving the application of information technology are addressed in this *Analysis* as part of our review of individual departmental budgets, and are listed below.

Additional Tasks and Challenges

In addition to the unresolved issues cited in the 1994 reports, we have identified additional tasks and challenges which we believe the administration should address as it implements Chapter 508. We address these tasks and challenges in more depth in this chapter in our review of the DOIT, and summarize them in Figure 9 (see next page).

WHAT CAN THE LEGISLATURE DO TO ENSURE THE SUCCESS OF REFORM EFFORTS?

The Legislature can help ensure that its efforts to position the state effectively in the information technology arena are successful by:

- Continuing to closely monitor state information technology efforts and ensuring that the administration addresses issues raised in three oversight reports.
- Holding the new DOIT accountable to produce the results sought by Chapter 508 but removing barriers which may inhibit the ability of the new department to fulfill its mission.
- Directing the administration to develop a new, more equitable funding methodology to support the DOIT.

Figure 9

Information Technology Tasks and Challenges Requiring Attention

✔ ***Clarification of Responsibilities.*** The respective information technology oversight roles of the Departments of Finance and Information Technology (DOIT) are not clear to many departments and need to be clarified.

✔ ***Method of Funding the Department of Information Technology Is Inequitable.*** The administration's funding of the department almost equally among two data centers and the General Fund is fundamentally flawed and should be replaced

✔ ***Year 2000 Program Conversion.*** The DOIT has taken positive steps to address the problem of converting the state's computer programs to accommodate the year "2000." Given the importance of this issue and the potential conversion costs (more than $50 million), it will be essential to move forward quickly in a well-planned, cost-effective manner.

✔ ***Use of the Internet.*** State use of the Internet is exploding, and while there are many benefits to be derived, cost and usage implications need to be addressed.

✔ ***Keeping the Legislature Informed.*** The flow of information from the administration to the Legislature relating to state information technology projects has been curtailed and needs to be restored.

✔ ***Assuring the Success of Information Technology Projects.*** In certain cases, the state should use independent experts to verify and validate proposed projects and work delivered by contractors in order to ensure project success.

We believe that the Legislature's continued attention to the state's information technology situation is warranted not only because of the considerable attention which the Legislature has given this matter in recent years and the size of the administration's information technology program (exceeding $1 billion annually), but because of the growing dependence of state operations on an information technology infrastructure. Unless identified flaws in that infrastructure are repaired, the ability of many state departments to maintain levels of service in an era of constrained funding runs the risk of being seriously compromised.

Significant Issues Noted in This Analysis

In this *Analysis* we discuss several specific departmental information technology programs and recommend actions to the Legislature regarding these programs. Figure 10 lists those departments and projects discussed elsewhere in this *Analysis*, where we have identified information technology issues.

Figure 10

Budgets With Information Technology Issues Identified in the 1996-97 *Analysis*

Departments	Issue
Board of Equalization	Migration of computer applications to Teale Data Center
California Community Colleges	Technology planning guide
California State Lottery	New gaming system
Corrections	Correctional Management Information System (CMIS)
Education	Educational Technology
Franchise Tax Board	Bank and Corporation Tax System
General Services	Telecommunications
Health and Welfare Agency Data Center	Various
Information Technology	Statewide planning and oversight
Motor Vehicles	New computer improvement project
Office of Emergency Services	Staffing level for new information technology unit
Resources Agency	California Environmental Resources Evaluation System (CERES)
Student Aid Commission	Financial Aid Processing System (FAPS)
Teale Data Center	Various
Veterans Affairs	Barstow Veterans' Home management system

OVERVIEW OF EMPLOYEE COMPENSATION ISSUES

A major portion of state government expenditures is for compensation of state employees. The Governor's Budget projects $12.2 billion for salary and wage expenditures for more than 276,000 authorized personnel-years in 1996-97 (including $3.8 billion and 87,000 personnel-years in higher education). Including benefits (such as contributions to retirement and health insurance), estimated employee compensation expenditures exceed $15 billion for the budget year.

In this overview we discuss the following compensation issues:

- The administration's decision not to propose new pay or benefit increases in the budget (except for higher education).
- The collective bargaining memorandum of understanding (MOU) for highway patrol officers approved last fall.
- Collective bargaining negotiations currently underway.
- Legislative oversight of state employee collective bargaining agreements.

Pay/Benefit Increases in Higher Education and California Highway Patrol Only

For salary/benefit increases, the budget proposes $156 million for higher education and $32 million for the California Highway Patrol. The budget does not propose funds for new pay or benefit increases for other state employees.

Higher Education. The budget includes $156 million from the General Fund for salary and benefit increases at the University of California and the California State University, as shown in Figure 11.

California Highway Patrol. The budget includes about $32 million in 1996-97 from various special funds in the California Highway Patrol's (CHP's) budget for the annualized costs of the highway patrol officer MOU approved by the Legislature in Ch 768/95 (SB 544, Dills). Figure 12 details these costs. (We discuss a fiscal issue related to this MOU in our analysis of the CHP's budget request.)

Figure 11

**Higher Education
Salary and Benefit Increases
1996-97 Governor's Budget
General Fund**

(In Millions)

University of California (UC)	
5 percent faculty salary increase, effective 10/1/96	$28.4
2 percent staff salary increase, effective 10/1/96	17.4
Full-year cost of 1995-96 salary increases	9.7
Merit salary adjustments	31.7
Subtotal	($87.2)
California State University (CSU)	
Salary and benefit increases to be negotiated	$64.4
Full-year cost of 1995-96 salary/benefit increases	4.2
Subtotal	($68.6)
Higher Education Total	**$155.8**

Figure 12

**California Highway Patrol Salary and Benefit Increases
1996-97 Governor's Budget
Motor Vehicle Account and Other Special Funds**

(In Millions)

Pay for additional half hour per day (lunch)	$19.5
Education attainment/incentive pay	10.7
Pay for 18 or more years of service	1.7
Increased base for overtime payment purposes[a]	1.9
Savings on health insurance premiums	-1.9
Total	**$31.9**

[a] 1996-97 Budget Change Proposal.

The MOU also included several provisions that attempt to streamline the personnel rule-making process, the process for appeal of minor disciplinary actions, and the layoff process. These provisions apply only to the highway patrol officers covered by the MOU. The administration, however, has expressed an interest in extending the same or similar provisions to other state employees through collective bargaining currently underway with the other bargaining units.

The patrol officer MOU expires June 30, 1997. The terms of the MOU, however, provide that the state and the employee representatives may reopen the agreement to bargain pay and benefit issues on or after March 1, 1996.

Other State Employees. Other state employees last received a general pay increase (3 percent) on January 1, 1995. The budget does not propose funds for new pay or benefit increases for these employees.

New Collective Bargaining Agreements Still Under Negotiation

The Department of Personnel Administration should report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations.

The Department of Personnel Administration (DPA) began negotiations in 1995 with the 21 bargaining units representing rank-and-file state employees (other than higher education) for new MOUs governing compensation and other terms and conditions of employment. These MOUs are to replace MOUs that expired June 30, 1995. At the time this *Analysis* was prepared, the DPA had concluded an MOU only with the bargaining unit for highway patrol officers (as discussed above). Under current law, the provisions of the 20 expired MOUs generally remain in effect pending adoption of replacement MOUs.

In our analysis of the DPA's budget request, we recommend that the DPA report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations.

Strengthen Legislature's Collective Bargaining Oversight

We continue to recommend that the Legislature adopt policies to assure that the Legislature will have the opportunity to fully review proposed collective bargaining agreements.

In our overview of employee compensation issues in the *Analysis of the 1995-96 Budget Bill*, we discussed at some length the need to strengthen the Legislature's oversight of proposed collective bargaining agreements. In order to assure the Legislature has the opportunity to appropriately review new MOUs, we continue to recommend that the Legislature adopt the following policies:

- Review the administration's MOU proposals (including final text and complete fiscal estimates) in the budget hearings and adopt, as appropriate, in the Budget Act. Any MOU that is not available in time for in-depth review during budget hearings should be referred to the budget committees and adopted, as appropriate, as an amendment to the Budget Act.
- Require a minimum time period between the submittal of the proposed MOUs to the Legislature and hearings on the proposal. This would give the Legislature sufficient time to study the MOUs to ensure that the fiscal and policy implications of the proposals are fully understood. Given the importance of these agreements, we suggest a 30-day review period.

STATE ADMINISTRATION

DEPARTMENTAL ISSUES

CONTRIBUTIONS TO JUDGES' RETIREMENT SYSTEMS (0390)

The state provides retirement benefits for municipal, superior, appellate, and Supreme Court judges, and their survivors, through either the Judges' Retirement System I (JRS I) or the Judges' Retirement System II (JRS II). Membership in the JRS II is mandatory for all judges taking office on or after November 9, 1994. These systems are administered by the Public Employees' Retirement System (PERS).

Judges' Retirement System I. Most revenue deposited in the JRS I fund comes from the following sources:

- ***Active members' contributions***, equal to 8 percent of members' salaries ($13 million in 1996-97).
- ***Fees on civil suits*** filed in municipal and superior courts (about $3 million).
- ***General Fund appropriations*** ($57 million in 1996-97), equivalent to 8 percent of the salaries of authorized judicial positions ($12.7 million) *plus any amount necessary to cover JRS I benefit payments each year* (an additional $44.3 million in the budget year under Item 0390).

Members of the JRS I earn retirement benefits equal to a percentage (up to 75 percent) of the *current* salary of the judicial office last held.

According to the budget, the JRS I will pay a projected $75 million in benefits to 1,298 annuitants in 1996-97.

Judges' Retirement System II. Chapter 879, Statutes of 1994 (SB 65, McCorquodale), created the JRS II. Unlike the JRS I—which is funded on a pay-as-you-go basis—the JRS II is on a prefunded basis. In this respect, the JRS II is like all of the other retirement systems funded by the state. The state and member judges contribute to the JRS II fund each month—8 percent of salary from the judges and 18.8 percent from the General Fund—to create a trust fund that should be adequate to cover future benefit payments.

Overstated Benefit Payments Lead to Overstated Budget Request

We recommend the Legislature reduce the General Fund request for the Judges' Retirement System I by $5 million to correct for over estimates in current-year and budget-year benefit payments. (Reduce Item 0390-001-0001 by $170,000 and Item 0390-101-0001 by $4,830,000.)

The Governor's Budget fund condition statement for the JRS I projects benefit payments to annuitants of $75.2 million in both 1995-96 and 1996-97, compared to actual payments in 1994-95 of $68.2 million. Actual benefit payments in the first six months of 1995-96 have totaled $35.6 million. Assuming a 3 percent annual growth rate in the number of annuitants—the average annual increase over the prior five years was 2.8 percent—we project that 1995-96 benefit payments will total $71.6 million and that 1996-97 payments will total $73.8 million. Our analysis indicates, therefore, that the budget overstates expenditure needs for the current year and budget year by a combined $5 million.

We recommend, therefore, that the Legislature reduce the General Fund appropriations for the JRS I by $5 million to correct for these over-estimated payments. (Reduce Item 0390-001-0001 by $170,000 and Item 0390-101-0001 by $4,830,000.) This corrective action would leave a JRS I fund balance of $8.4 million on June 30, 1997—the same amount shown in the Governor's Budget fund condition statement and more than adequate to meet the fund's cash flow needs. Without the corrective action the fund balance would grow to $13.4 million. This would serve no useful purpose, since the JRS I is a pay-as-you-go system, and would deny $5 million for higher priority state purposes in 1996-97.

Accurate Accounting of Judges' Retirement System II Fund Needed

We recommend that the Department of Finance (DOF) and the Public Employees' Retirement System (PERS) provide the budget committees a corrected fund condition statement for the Judges' Retirement System II (JRS II), with an accurate accounting of contributions to the fund. We further recommend that the DOF and the PERS report to the committees prior to budget hearings on measures to (1) assure accurate future reporting of contributions and (2) restore lost earnings to the JRS II fund.

The Governor's Budget fund condition statement for the JRS II fund is seriously inaccurate. For each of the fiscal years 1994-95 to 1996-97, it shows General Fund contributions into the fund exceeding judges' contributions by a ratio of about 1.3 to 1. Based on the requirements of current law, however, that ratio should be 2.35 to 1. At the time this analysis was prepared, the PERS and the DOF staff were unable to explain the discrepancy or provide correct fund amounts. Moreover, the PERS staff could not verify the true amounts of past or current judges' contributions into the JRS II fund because the Judicial Council and the courts, in their monthly payroll reports to the PERS, have failed to separately identify JRS I and JRS II members. One consequence of this reporting error is that legally required General Fund transfers to the JRS II fund have not been taking place. This reporting error would be a concern under any circumstance, but is of particular significance due to the trust fund nature of the JRS II fund.

In view of the above, we recommend that the DOF and the PERS provide the budget committees a corrected fund condition statement for the JRS II, with an accurate accounting of contributions to the fund. We further recommend that the DOF and the PERS report to the committees prior to budget hearings on measures to (1) assure accurate future reporting of contributions and (2) restore lost earnings to the JRS II fund.

DEPARTMENT OF INFORMATION TECHNOLOGY (0505)

The Department of Information Technology (DOIT), a new state department established by Ch 508/95 (SB 1, Alquist), is responsible for planning and overseeing the state's uses of information technology. The DOIT is responsible for ensuring that appropriate plans, policies, and procedures are in place to assure the successful implementation of information technology projects.

The budget proposes $2.5 million for support of this new department's operations in 1996-97, exactly twice the amount of estimated current-year expenditures (the department was created effective January 1, 1996). The proposed amount includes $837,000 from the General Fund and $1.7 million from reimbursements.

New Department Has Major Responsibilities

We recommend that the Department of Information Technology advise the Legislature at budget hearings as to its progress in fulfilling its responsibilities, including pending reporting requirements, staffing the new department, and clarifying the respective roles of the department and the Department of Finance regarding state information technology projects. The department should also point out any barriers it believes may impede it from achieving success.

Background. In June 1994, we issued *Information Technology: An Important Tool for a More Effective Government*, which identified a number of major problems in the state's use of information technology. (Please see the Crosscutting Issues section of this chapter for a broader discussion of state information technology). Two subsequent reports, one issued in September 1994 by a task force appointed by the Governor and the other by the Bureau of State Audits (December 1994), reached similar conclusions to those contained in our June 1994 report. Both the Legislature and the Governor took action as the result of these reports. The Governor issued several executive orders relating to information technology, including the temporary establishment of the Governor's Office of Information Technology to take over responsibilities assigned to the Office of Information Technology (OIT) in the Department of Finance (DOF).

The Legislature, through the 1994 and 1995 Budget Acts, placed various conditions on several major information technology projects, and in 1995 enacted Chapter 508, a major information technology reform measure, which eliminated the OIT and established the DOIT. Chapter 508 expanded the scope of responsibilities and authority of the DOIT, as compared to the former OIT, regarding the planning, uses, and management of the state's information technology activities. Figure 13 displays the major responsibilities assigned to the DOIT by Chapter 508.

Figure 13

Department of Information Technology
Major Responsibilities Under Ch 508/95 (SB 1, Alquist)

✔ Oversee the management of information technology in state agencies, with authority to suspend or terminate projects.

✔ Develop and implement a strategy to facilitate information sharing among state computing systems.

✔ Determine which information technology applications should be statewide in scope, and ensure that such applications are not developed independently or duplicated by state agencies.

✔ Develop and maintain a computer-based file, accessible to the Legislature, of all approved information technology projects.

✔ Develop statewide policies and plans that recognize the interrelationships and impact of state activities on local governments, including local school systems, private companies that provide services to state agencies, and the federal government.

✔ Requires the DOIT to submit the following reports (due date):

- Progress toward compliance with the provisions of the measure (July 1, 1996).
- A plan for implementing the recommendations of the Governor's Task Force on Government Technology Policy and Procurement (October 1, 1996).
- A method whereby the public may electronically access nonconfidential information via state telecommunications networks (January 1, 1997).
- A preliminary assessment of the feasibility of consolidating the state's information technology activities (July 1, 1997).

Much Remains to Be Accomplished. On January 23, 1996 we released a report entitled *State Information Technology: An Update*, in which we noted that while the administration has taken some constructive actions, there has been relatively little progress in resolving, across state government, the major issues discussed in the three 1994 reports. We pointed out some individual initiatives taken by several departments, suggesting that they could become models for other state projects to the extent they are successful. We also identified a number of current information technology projects that we believe warrant continued oversight by the Legislature. (In this *Analysis*, we also identify additional information technology issues in our review of other department's budgets.)

Many Positions Remain Unfilled. In September 1995, the Governor appointed a Chief Information Officer (CIO) who became the Director of the DOIT when the new department became effective on January 1, 1996. At the time this *Analysis* was prepared, approximately one-half of the 15 positions authorized the DOIT remained unfilled and the department was in the process of recruiting to fill the vacancies.

Clarification of Responsibilities Needed. In transferring state information technology oversight from the DOF to the DOIT, Chapter 508 specified a limited information technology oversight role for the DOF. Chapter 508 states that ". . . the role of the Department of Finance regarding the approval of information technology projects shall be limited to the approval of expenditure of funds on information technology projects." Anticipating this reduced role, the Legislature approved in the 1995 Budget Act a proposal from the DOF to eliminate the OIT, but retain ten of its positions. The purpose of these positions is to ensure that proposed technology projects are a good investment of state resources before project funding is included in the Governor's Budget.

Because the DOF has retained a measure of state information technology oversight due to its budget responsibility, departments are having to send information technology-related documents to both the DOIT and the DOF. The respective roles of the DOIT and the DOF regarding the review and approval of these documents are not clear to many departments. We expect that the two departments' information technology oversight roles will be clarified as the new CIO organizes and staffs the DOIT. Such clarification is important in order to facilitate the implementation of effective information technology systems.

Given the considerable effort on the Legislature's part dealing with information technology issues over the past two years, and the enactment of Chapter 508, we recommend that the CIO advise the Legislature at budget hearings as to the department's progress in fulfilling its responsibilities, including pending reporting requirements, staffing the new department, and clarifying the respective roles of the DOIT and the DOF regarding state information technology projects. In addition, the CIO should point out any barriers which he believes may impede the DOIT from achieving the success both the adminstration and the Legislature desire.

Legislature Not Being Kept Apprised Of Information Technology Projects

We recommend that the Legislature adopt supplemental report language requiring that the Department of Information Technology, in coordination with the Department of Finance, ensure that various notifications to the Legislature regarding information technology projects, which were required prior to the creation of the department, remain in the State Administrative Manual.

Notification Requirements Fall Between the Cracks. The State Administrative Manual (SAM) has for years required that the Legislature receive timely notification regarding new and modified information technology projects. These notifications have served to keep the Legislature apprised of significant developments in the state's uses of information technology. Since the transfer of project oversight authority from the DOF to the DOIT, there have been a number of instances where the Legislature has not been advised of new or modified projects. Part of the problem may be the lack of clarification of the respective roles of the DOIT and the DOF, as discussed above. The problem may also be due to the relative newness of the new oversight authority, and the limited number of positions which have been filled in that organization.

The DOIT has advised us that it is in the process of revising the SAM to reflect the transfer of information technology oversight responsibilities, and will in the meantime ensure that all required notifications are provided to the Legislature. Since it is not clear as to how the SAM will be revised with respect to notifications to the Legislature, we recommend that the Legislature adopt the following supplemental report language:

> The Department of Information Technonogy, in coordination with the Department of Finance, shall ensure that legislative notification requirements regarding information technology projects, which were contained in the State Administrative Manual prior to the department's creation, shall be retained and modified only to reflect the transfer of oversight authority from the Department of Finance to the Department of Information Technology.

Challenges and Opportunities

We recommend that in reporting to the Legislature in response to current statutory reporting requirements, the Department of Information Technology specifically address the following activities: (1) the use of independent verification and validation experts to assure the success of information technology projects, (2) conversion of state computer programs to accommodate the year 2000, and (3) the state's use of the Internet.

The DOIT is required to submit specific reports to the Legislature regarding its efforts to implement Chapter 508. The first report, due July 1, 1996, is a report of progress in complying with the provisions of the new law. We assume that the report will identify initiatives undertaken by the DOIT. We discuss below several issues which we encourage the DOIT to address in the July report.

Assuring the Success of Information Technology Projects. Among the recommendations contained in the 1994 reports was the recommendation to establish criteria to determine which information technology projects required outside assistance, and in such cases, hire experts to ensure that proposed information technology solutions are feasible and that the project is ultimately successful. The expertise contracted for in this type of work has been typically referred to as “quality assurance.” A specific type of quality assurance—“independent verification and validation (IV&V),”—has received some interest of late because it uses specific methodologies developed to ensure the success of highly critical defense projects. At the state level, the California Department of Corrections (CDC) is currently using an IV&V contractor to assist it and the prime contractor who was hired to develop and implement the CDC's flagship project—the Correctional Management Information System (CMIS). To the extent that the use of such experts results in more effective system implementations, the use should be made mandatory for complex projects or projects initiated by departments with little information technology experience. Given that the costs of information technology projects currently under development easily exceed $1 billion statewide, the DOIT should address specific plans for assuring project success through the use of outside qualified experts.

Converting Programs for the Year 2000. Many public and private sector computer programs were written in such a manner that they are unable to accommodate dates beyond December 31, 1999. Because many of the state's programs must deal with dates in the future, some departments have already had to temporarily modify existing programs in order to perform current work. The conversion cost is high for a number of reasons, primarily because of the complexities of finding the date and date calculations in the millions of lines of code in the state's computer programs, and because of the need for testing corrective changes. We believe the total state cost could exceed $50 million, based on estimates prepared by some of the departments which are addressing this need. Given the complexity of the issue, and the desirability of having some standard approaches and sharing conversion tools and methodologies, it is important that central oversight and guidance be provided. In that regard, we believe that the DOIT has taken positive steps to focus some attention on this matter. How the issue will ultimately be handled and funded remains an open question. The DOIT should address this issue in the July report.

Internet Usage Explodes. Like private corporations and other public organizations, state government has joined the rush to exploit the capability of the Internet to provide access to government information, as well as to access information which will assist government. Most of state government's Internet messages pass through the Stephen P. Teale Data Center, which is the state's link to an outside company providing, for a fee, access to the Internet. Given the increase in Internet traffic, the data center will have to consider upgrading its equipment to accommodate the traffic and maintain an adequate response time. Moreover, the companies which provide the Internet's communications “backbone” and those which provide access (for a fee) to the Internet will also have to upgrade their equipment in order to handle the phenomenal growth which the Internet is experiencing.

Other than paying the fee to gain access to the Internet, there are currently no direct charges for its use; however, given the impending need to upgrade equipment at all layers of the Internet, including the Teale Data Center, there are potential cost implications. For this reason, the DOIT should address Internet usage in its pending report.

Method of Funding the Department of Information Technology Is Inequitable

We recommend that the Department of Information Technology propose to the Legislature at budget hearings a more equitable method of funding the department's operations.

In the current and budget years, the DOIT's funding is being provided on an almost equal share basis by the General Fund, the Stephen P. Teale Data Center and the Health and Welfare Agency Data Center. The rationale for this method of funding appears to be twofold: (1) spread the cost of the services among those departments which use the data centers for information technology services and (2) minimize the use of new funds by redirecting existing funds from within the data centers.

This funding method is, however, inherently inequitable to the data centers and their client departments. This is because it excludes a large number of departments which have major information technology programs, and presumably receive services from the DOIT but make relatively limited use of the two data centers, thereby contributing little or nothing to their support. Figure 14 illustrates this inequity by comparing the approximate information technology expenditures for the two data centers and selected other departments for the 1994-95 fiscal year. As can be seen in this display, many departments with substantial information technology expenditures pay relatively little, or nothing, to the Teale or Health and Welfare data centers.

Figure 14

Information Technology Expenditures 1994-95

(In Millions)

Department	1994-95 Estimated Expenditures[a]	Amount Paid to HWDC[b]	Amount Paid to Teale[c]
Corrections	$34	—	$5
Employment Development	102	$36	—
Equalization	23	—	3
Franchise Tax Board	68	—	—[d]
Health Services	138	17	—[d]
Health & Welfare Agency Data Center	101	NA	—
Highway Patrol	45	—	—
Justice	33	—	—[d]
Motor Vehicles	64	—	17
Social Services	113	2	—[d]
Stephen P. Teale Data Center	77	—	NA
Transportation	45	—	12
Water Resources	29	—	—[d]

[a] Source: Senate Select Committee on Information Technology in State Governments.

[b] Health & Welfare Agency Data Center.

[c] Stephen P. Teale Data Center.

[d] Less than $100,000.

For this reason, we recommend that the DOIT provide the Legislature, at the time of budget hearings, with a more equitable method of funding the department's operations. For example, the administration could use a pro rata model to fund the department, assessing each agency a share based on its annual information technology expenditures. Another option would be direct billing of departments based on the amount of time DOIT staff expend related to specific departmental projects. Alternatively, the pro rata charge and direct billing methods could be combined to provide a more equitable billing approach.

In our analyses of the Teale and Health and Welfare data centers later in this chapter we also point out that the proposed method is inequitable and recommend that the funds budgeted for support of DOIT be deleted.

OFFICE OF EMERGENCY SERVICES (0690)

The Office of Emergency Services (OES) coordinates emergency activities necessary to save lives and reduce losses from disasters. The OES further acts as the state's conduit for federal assistance related to recovery from disasters.

The budget proposes $893 million in total expenditures in 1996-97. This is an increase of $34.3 million, or 4 percent, over estimated current-year expenditures.

Support Budget. Of the OES's total $893 million budget, $75.3 million is for direct support of the office. This includes $28.8 million from the General Fund, $38.7 million from federal funds, and the remainder ($7.8 million) from various other funds and reimbursements. The amount proposed for support is approximately $14.7 million, or 24 percent, more than estimated current-year expenditures. When compared to actual 1993-94 expenditures of $35 million, the proposed support budget reflects an increase of $40 million, or 114 percent, over the course of three fiscal years.

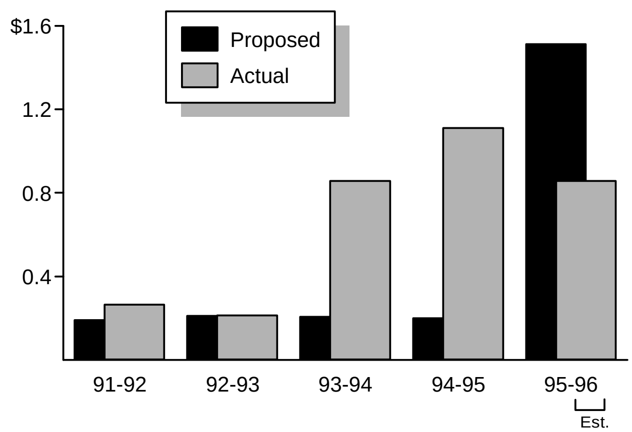
Local Assistance Budget. In addition to support costs, the budget includes $818 million for local assistance to pay claims from previous disasters. This is $19.6 million, or 2.5 percent, more than estimated current-year expenditures for local assistance. The proposed local assistance expenditures for the budget year include $729 million from federal funds, $86.9 million from the General Fund, and $1.8 million from the Nuclear Planning Assessment Special Account.

Proposed Budget Should Be Viewed as Very Rough Estimate. In recent years, actual expenditures by the OES have differed substantially from the amounts originally proposed in the Governor's Budget, as shown in Figure 15. This variation between proposed and actual expenditures largely has been due to the costs of unanticipated major disasters. Because the state's practice has not been to budget in advance for unanticipated disasters, some of the variation in Figure 15 is due to budgeting funds for disaster assistance *after* a disaster has occurred. However, part of the variation is also the result of the inability to project with reasonable accuracy the number of claims that the OES will process following a disaster, and the amount which will be awarded for approved claims. Consequently, the level of funding requested for the OES in the budget year should be viewed as a very rough estimate which may bear little resemblance to what the OES will actually spend in 1996-97.

Figure 15

Actual OES Expenditures Compared to Proposed Budgets 1991-92 Through 1995-96

(In Billions)



Audit Report May Facilitate Budget Assessment

We withhold recommendation on $50.7 million and 558 personnel-years for departmental operations, and $51.9 million proposed for the state's share of local agency recovery costs associated with past disasters, pending review of an audit of the Office of Emergency Services by the Bureau of State Audits, as well as additional information from the office justifying the proposed budget.

In our *Analysis of the 1995-96 Budget Bill,* we noted that the OES was experiencing difficulties coping with the substantial growth in its organization which had occurred as the result of a rapid series of major state disasters. We cited a number of concerns, including a lack of adequate information with which to evaluate the department's annual budget request. To help correct this situation, we recommended a comprehensive fiscal and performance review of the OES. The review was to be conducted by the Bureau of State Audits (BSA) in order to develop recommendations which, if implemented, would improve the office's administrative effectiveness.

Legislature Reduces Budget, Orders Audit. In response to this recommendation, the Legislature provided only nine-month funding for 340 requested positions, and adopted supplemental report language requiring the recommended audit. The audit report was released on January 31, 1996; however, we did not have sufficient time to review it in preparing this analysis.

Budget Includes Major Outlays for Positions and Disaster Payments. The proposed budget includes $50.7 million and 558 personnel-years for six specific areas of activity. According to the budget, the bulk of these funds and positions (approximately $48 million and 512 personnel-years) are justified on the basis of workload related to the 1995 winter storms and other recent disasters. Although the proposed funding level is identified in the Governor's Budget as an *increase* in the budget year, many of the positions are, in fact, current limited-term positions which are proposed for continuation in the budget year. In addition to this staffing request, the budget also proposes $51.9 million to pay local agencies the state's share of the cost of recovery from various disasters.

Lack of Information. At the time this analysis was prepared, the OES had presented the Legislature with information supporting only relatively minor budget changes. Thus, the budget, as presented, was not accompanied with sufficient detail to justify major portions of the proposed spending. Due to this lack of information and because the findings and recommendations of the BSA's audit may have a bearing on the proposed budget, we withhold recommendation on $50.7 million and 558 personnel-years for departmental operations, and $51.9 million proposed for the state's share of various local disaster recovery efforts, pending our review of the audit report and additional budget justification from the OES.

Legislature Should Review Method of Allocating Hazard Mitigation Funds

We recommend that the Office of Emergency Services advise the Legislature, during budget hearings, as to its proposal for allocating funds available for seismic hazard mitigation to public agencies, its plans to expand the number of public agencies receiving such funds, and its state statutory authority for allocating these funds. We further recommend that the Legislature specifically insure that the allocations made by the office are consistent with the Legislature's priorities.

Funds for Mitigation of Seismic Hazards. The OES, through the Hazard Mitigation Grant Program (HMGP), allocates funds for the mitigation of seismic hazards in public facilities. Funding is provided on a matching funds basis, with the federal government providing 75 percent and applicants providing 25 percent. According to the OES, federal funds available through the HMGP as the result of the 1994 Northridge earthquake could be approximately $650 million. These funds can be used for mitigation projects in Los Angeles, Orange, and Ventura Counties. The OES established the following priorities for allocating these funds:

- K-14 schools.
- Medical facilities.
- Essential buildings.
- High priority initiatives under the state Earthquake Hazard Mitigation Plan.

According to the OES, requests from 63 school districts to retrofit or replace ceilings and light fixtures, at a total cost of $142 million, have been recommended for approval by the Federal Emergency Management Authority (FEMA). In addition, the OES has recommended $9.5 million to relocate a school to a safer school site, and $29.7 million for seismic studies and mapping, of which $12.5 million has already been approved by the FEMA.

Current Practice Precludes Legislature's Involvement in Priority Setting. According to the OES, it decides how to allocate federal HMGP funds because under federal regulations the state has the authority to make such allocations, and in turn the state's administrative plan delegates these decisions to the Director of the OES. This process does not, however, provide the Legislature an opportunity to ensure that the allocations made by the OES are consistent with the *Legislature's* priorities regarding hazard mitigation. Moreover, the OES did not identify a state statutory authority for making the HMGP allocations.

The Legislature may well agree that funding for K-14 schools should be the highest priority, but may not agree with other priorities established by the administration, or with the definition of categories eligible for the HMGP funds. For example, the 1996-97 Governor's Budget includes $21.8 million to fund four seismic retrofit projects at the University of California, Los Angeles, from proposed general obligation bonds. The Legislature could decide that these projects should be considered for the HGMP funding, thus reducing the state's need for bond funds.

In our judgment, it is important that funds available to the state for hazard mitigation, a portion of which are state matching funds, be allocated in a manner that is consistent with the Legislature's priorities.

For this reason, we recommend that the OES advise the Legislature, during the budget hearings, as to its methodology for allocating hazard mitigation grant funds to public agencies, its plans for expanding the number of public agencies receiving such funds, and its state statutory authority for allocating these funds. We will be prepared to advise the Legislature as to courses of action it may wish to consider to make its preferences known for the expenditure of the HMGP funds, depending on the explanation and plans provided at the time by the OES. Such actions may include appropriating the HMGP funds in the Budget Bill, or modifying provisions of law to provide specific legislative direction regarding use of the funds.

STATE CONTROLLER (0840)

The State Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting on the financial condition of the state and local governments, (3) administering certain tax laws and collecting amounts due the state, and (4) enforcing unclaimed property laws. The Controller is also a member of various boards and commissions, including the Board of Equalization, the Franchise Tax Board, the Board of Control, the Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

The Governor's Budget proposes expenditures of $104 million ($61.9 million from the General Fund) to support the activities of the State Controller in 1996-97. This amount is virtually the same level as estimated current-year expenditures.

Implementing the Performance Audit

We recommend that the State Controller advise the Legislature, during budget hearings, as to the savings and performance improvements which have occurred to date, as well as the lessons learned, from the performance audit of her office which was reported in May 1995.

In early 1995, the Controller awarded a $394,000 contract to a private consulting firm to conduct a comprehensive performance audit of the operations of the State Controller's Office. According to the consultant's final report, which was issued in May 1995, the audit was intended to " . . . provide a bold and innovative assessment, with findings and recommendations that would immediately improve the performance of the office, and thus of California state government." The report identifies a number of significant deficiencies in the office, ranging from organizational structure to obsolete computer applications, and makes numerous specific recommendations to remedy the deficiencies and improve the office's effectiveness. According to the report, implementation of 13 specific recommendations would allow the Controller to eliminate 154 positions and save $27 million over a five-year period. The report identified specific achievable savings for each of the five years.

Immediate Budget Reduction Taken. The Controller, in response to the consultant's report, requested during the budget hearings last year that the Legislature reduce the 1995-96 proposed budget by $2.9 million, the amount recommended by the consultant as first-year achievable savings. The Controller also requested the elimination of 24.5 positions from the baseline budget, a little less than half the positions the consultant advised could be eliminated in the first year. These requests were approved by the Legislature and the Governor in the 1995 Budget Act.

Of the initial year savings of $2.9 million, $2 million reflects a one-time savings in postage. The remainder was achieved by eliminating 24.5 positions. According to the Controller's Office, savings of $4.5 million—the second-year amount recommended by the consultant—will be achieved in 1996-97 primarily through the elimination of additional positions that will be proposed in a Department of Finance (DOF) letter. This would result in a total reduction of 98.6 positions over the years 1995-96 and 1996-97. This reduction would be approximately two-thirds of the 154 position reduction the consultant believed achievable by the end of a two-year period.

Value of Performance Reviews. We believe that the Controller's actions to identify ways to improve the performance of the office through the use of a performance audit are commendable, and that many other departments would benefit from a comprehensive review of their performance. The Legislature has already indicated its interest in such reviews through passage of the Strategic Planning and Performance Review Act (Ch 779/94 [AB 2711, V. Brown]). That measure requires the DOF to recommend, by March 1 of each year, beginning in 1996, a plan for conducting performance reviews of state agencies that have completed strategic plans. We believe that performance reviews, properly conducted, can result in both savings and improved performance; however, we believe it is important to understand the limitations of such reviews and also the risks inherent in their use. In that regard, the Controller's recent performance audit can serve as a useful case study.

Not All Reductions Tied to Performance Improvement. While reductions to the Controller's budget have been made consistent with the auditor's recommendations, (with the exception of the total recommended position reduction), such reductions do not in of themselves ensure performance improvement. Our analysis of the reductions made in the current year and those proposed for the budget year indicates that several of the reductions are not tied to improving the performance of the Controller's operations. For example, in the current year the $2 million of postage savings is a one-time savings, and we have been advised that the Controller will request the restoration of these funds for 1996-97. (The Controller indicates that a like amount of savings will be identified in others parts of her budget for 1996-97.) In addition,

$501,000 counted toward meeting the cost reduction goal is in fact a budget change proposal made for 1995-96 which was subsequently withdrawn by the Controller after the Governor's Budget had been introduced. Consequently, a budget proposal which was not pursued is being counted as a savings. In the budget year, $321,000 of the reductions reflect payments no longer made to the Stephen P. Teale Data Center on behalf of certain users of the Controller's personnel and payroll systems because the data center is now billing the users directly. Thus, these savings are not directly attributable to the Controller's operations.

Identifying Permanent and Real Savings. If more performance reviews of state agencies are conducted, we believe that it is important that the Legislature understand how much of the proposed savings are in fact permanent and real. Otherwise, the true efficacy of performance reviews in identifying savings opportunities will be clouded. One-time savings should be clearly identified, and one-time savings that will require reinstatement in a subsequent fiscal year should also be clearly identified. Similarly, budget reductions which result from the elimination of pass-through funds should not be counted as savings. Additionally, it is important that reductions made pursuant to a performance review clearly distinguish between the elimination of excess positions which are vacant and those which can be reduced because of organizational consolidation, workload realignment, or some other efficiency that will in fact improve performance of the organization.

Determining the Feasibility of Performance Audit Recommendations. One of the recommendations made by the initial consultant hired by the Controller was to assess the office's role in maintaining the state's personnel and payroll systems. The consultant advised the Controller that the systems were obsolete and needed to be replaced, which would be a very costly endeavor. Soon after the consultant's report had been made public, the Controller announced her intention to transfer responsibility for these systems to the state personnel agency.

However, a subsequent report by another consultant concluded that transferring the responsibility for the state's personnel and payroll systems to another state agency would not be feasible, and the Controller has since decided to retain responsibility for these systems. We believe this illustrates the value of assessing the feasibility of major recommendations made in performance reviews, particularly where the fiscal and programmatic stakes are high.

How Will Improved Performance Be Validated? While it is important to identify and achieve budget and staffing reductions wherever possible, it is equally important to measure the impact of those reductions on the organization's operations, because that is how performance will ultimately be determined. Validation of performance improvement is difficult given the absence of performance objectives and the means to measure performance. It is not clear the Controller has a mechanism in place to validate the performance improvements.

Analyst's Recommendation. We believe that the Controller deserves credit for initiating a performance review of her office, and for taking steps to implement recommendations made in the consultant's report. We also believe that the experience gained from this effort can be useful to other departments contemplating similar reviews, by helping them to ensure that the reviews are maximally effective. For example, the effort to implement the consultant's report has already demonstrated the importance of validating the feasibility of major recommendations contained in performance reviews.

Both the administration and the Legislature would benefit by understanding clearly the types of savings realized as the result of performance reviews, and the extent to which a department's performance is actually improved. For all these reasons, we recommend that the Controller report to the Legislature, at the budget hearings, on the savings and performance improvements which have occurred to date, as well as the lessons learned from the performance review conducted of her office. Specifically, she should identify:

- Which savings in her office operations are one-time or ongoing.
- The number of positions to be eliminated in the current and budget years as well as how many of the reduced positions were vacant.
- How these changes have specifically improved the performance of the office and the measures being utilized to validate these improvements.
- The lessons learned from the performance review which are applicable to other state agencies.

STATE BOARD OF EQUALIZATION (0860)

The Board of Equalization (BOE) is one of the state's major tax collection agencies. It collects state and local sales and use taxes and a wide variety of business and excise taxes and fees, including those levied on gasoline, diesel fuel, cigarettes, and hazardous wastes. The BOE also oversees the administration of the property tax by county assessors and assesses property owned by public utilities. The BOE is also the final administrative appellate body for personal income and bank and corporate taxes, as well as for the taxes it administers.

The budget proposes expenditures of $297.8 million ($181.6 million General Fund) for the BOE in 1996-97. This total is $10.3 million, or 3.6 percent, more than estimated current-year expenditures. The majority of this increase is attributable to implementation costs of a new computer system for delinquent tax collection ($2.5 million), computer purchases for the audit program ($1.6 million) and merit salary adjustments ($2.2 million).

Augmentation Should Not Be Made for Prior Commitment

We recommend that the Legislature delete the $2.5 million augmentation associated with a contractual obligation the board made in prior years because the board should pay this cost from existing resources. (Reduce Item 0860-001-001 by $1.8 million and Item 0860-501-995 by $700,000.)

The board is requesting an augmentation of $1.8 million from the General Fund and $700,000 from local government reimbursements to make the final payment on an external consultant services contract it entered into in 1994.

Background. The BOE is in the process of moving its data processing systems from an in-house operation to the Stephen P. Teale Data Center. The justification for this effort is that the board would (1) administer its tax programs more effectively, (2) absorb increases in workload more efficiently, and (3) eliminate the costs associated with managing its own mainframe computer. The BOE expects the project to be completed at the end of 1996-97.

In September 1993, the BOE indicated that in-house staff lacked the expertise to complete the migration. It maintained that unless the project cost was increased by $6.2 million to bring in outside consultants, the scope of the project would have to be curtailed and the timetable for completion would have to be pushed back by at least a year. Consequently, the 1994-95 Governor's Budget increased the project cost to keep it within scope and on schedule.

The Legislature approved the $6.2 million General Fund augmentation and added budget language directing the BOE to (1) contract with a private consultant to provide project management expertise and (2) contract for any services the BOE deemed necessary to oversee the management contract to assure a successful project. The BOE received one bid totaling $15.8 million—$9.6 million (155 percent) over the BOE's estimate. The BOE awarded the contract on October 13, 1994, and the consultant began work on November 1, 1994. By awarding this contract, the board committed to an expenditure for which it did not have funding approval.

The BOE had a number of options available to it when the high bid was received. The BOE could have: (1) rebid the proposal with the intent of meeting competitive bidding requirements, thereby reducing the amount of the contract through competition; (2) rebid the proposal after advising the Legislature of the need for an augmentation and why the original cost estimates were significantly underestimated; (3) accept the bid and absorb the cost differential; or (4) delay accepting the bid until the necessary funding was approved by the Legislature. The BOE, however, chose to accept the bid in 1994, redirect funds to pay for $6.4 million of the overrun and seek a $2.5 million augmentation from the Legislature in 1996-97.

By accepting the bid and signing the contract, however, the BOE in effect certified that funds were available to pay for the contract. We do not believe it is a desirable precedent or prudent policy to allow departments to enter into contracts that obligate the Legislature to future appropriations. Consequently, we believe the Legislature should not approve the $2.5 million augmentation to the BOE in the budget year. Instead, the BOE should redirect resources to pay this cost as it did to pay for the other $6.4 million of the cost overrun. Therefore, we recommend that the Legislature reduce Item 0860-001-001 by $1.8 million and Item 0860-501-995 by $700,000.

Facility Plan Requires Further Review

We recommend that the Legislature delete a $411,000 augmentation requested for this project because the board has revised its plan and the augmentation is not needed. (Reduce Item 0860-001-001 by $291,000 and Item 0860-501-995 by $120,000.) In addition, we withhold recommendation on the board's plan to spend $1.4 million for equipment purchases associated with an office consolidation project until the board substantiates the revenue benefits of this level of spending.

The board is proposing to spend $1.8 million in the budget year on a field office consolidation project. The majority of these expenditures are for one-time costs related to new communications systems and modular furniture. Of this amount, $1.4 million is to come from the board's base budget. The budget requests an augmentation of $411,000 for the remainder.

Background. The BOE began implementation of a project during the current year to consolidate and/or relocate about 30 field offices over the next five years at an implementation cost of $7 million. The board indicates that it will pay for half of this cost from within existing resources and anticipated personnel savings from the elimination of supervisory positions, and request future-year General Fund augmentations for the remainder. Over 70 percent ($5 million) of the project cost is for expenditures on modular furniture. The board justifies this level of spending on the basis of tax revenues to be gained.

Modular Furniture in San Francisco Not Needed. After discussions with our office, the board reevaluated its plan and reduced its modular furniture needs for the existing San Francisco office. This office is scheduled to close in two and one-half years—after the board relocates to the new San Francisco State Service Center. As a result, the board has informed us that it will withdraw its request for the $411,000 augmentation in 1996-97. Accordingly, we recommend that the Legislature reduce Item 0860-001-001 by $291,000 and Item 0860-501-995 by $120,000.

Justification for Level of Spending. The board justifies spending $1.4 million from its base budget on the field office project on the basis of revenues to be gained from operational efficiencies and redirection of supervisory staff to audit positions. It is not clear to us, however, what direct revenue gain can be achieved from expenditures on modular furniture and telephone systems. Therefore, we withhold recommendation on the expenditure of $1.4 million from the board's base budget until the board provides further explanation of how the proposed spending is needed to increase revenues.

MUSEUM OF SCIENCE AND INDUSTRY (1100)

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

Associated with the CMSI is the California African-American Museum, established by the Legislature to preserve, collect, and display artifacts of African-American contributions in a wide variety of disciplines.

The budget proposes total expenditures of $7.5 million for the museum for 1996-97. This is about the same amount of expenditures budgeted for the current year. The total includes $5.6 million from the General Fund, $1.7 million from the Exposition Park Improvement Fund, and $232,000 in reimbursements.

Parking Revenue Shortfall Triggers Significant Cutbacks in Operations

We withhold recommendation on the museum's 1996-97 budget pending receipt and review of revised estimates of revenues to the Exposition Park Improvement Fund, and the museum's plans for layoffs and reductions of operating expenditures in the current and budget year to cover projected revenue losses. We further recommend that the museum report at budget hearings on its recommendations for restructuring the museum to stabilize its finances and possibly reduce its future dependence on the state General Fund.

Parking Fees a Major Revenue Source. Parking lots at Exposition Park have historically been a major source of revenue for the museum. For example, state expenditures for the CMSI totaled about $7.8 million in 1994-95, with $2 million, or about one-fourth, of the total expenditures supported from the Exposition Park Improvement Fund, which is funded primarily with parking lot receipts. A large portion of the parking lot revenues have ordinarily been paid by persons attending sporting events at the adjacent coliseum.

According to museum officials, the relocation of the National Football League Los Angeles Raiders to Oakland, and the subsequent loss of parking fees from football fans, has severely eroded the museum's funding base.

The Governor's Budget assumes that the parking revenues received in the current year will be $480,000 below the amount included in the 1995 Budget Act. The Governor's Budget assumes the $480,000 shortfall would continue during 1996-97.

However, museum officials have advised us that, depending on the results of a recent increase imposed for some museum parking rates, the budget presented to the Legislature may significantly *understate* the revenue loss because the rate changes may affect museum attendance and other revenue sources, such as the gift shop and the theater. The shortfall could be revised to as much as $1 million annually. Because museum parking rates changed only recently, museum officials believe they need several more months of actual experience before revising their revenue projections for 1996-97.

Cutbacks in Museum Operations. The Governor's Budget indicates that the museum has responded to the current-year revenue shortfall with a $1.3 million, or 62 percent, reduction in spending for operational expenses and equipment (OE&E). The OE&E cutbacks include reductions in funding for maintenance of museum buildings and facilities, utilities, communications, and other support operations.

The museum has also responded to the shortfall by holding vacant a significant number of its budgeted positions. As of December 1995, more than 30 of the museum's 142 state-funded positions—more than 20 percent of the total—were unfilled. We have been advised that as many as 20 additional staff members could be laid off during the current year to help cover the museum's funding shortfall.

The Governor's Budget proposes essentially to carry forward the reductions in OE&E expenditures into the budget year. However, the budget proposal presented to the Legislature assumes no change in staffing levels and thus does not reflect the significant number of vacancies or the expected layoffs.

1996-97 Budget Plan Needs Revision. Given the loss of football-generated parking revenues, we believe that the museum is taking significant and appropriate steps to ensure that its expenditures remain within its available revenues during the current fiscal year. We believe, however, that these changes and the potential for more reductions in revenues to the Exposition Park Improvement Fund should be factored into the proposed 1996-97 budget. Thus, we withhold recommendation on the proposal, pending revised parking revenue estimates and expenditure levels for staffing and OE&E that the museum could support within its available funding.

Museum Could Be Restructured. Because of the ongoing and severe revenue shortfall, museum officials are reexamining the museum's structure as a state agency and its relationship with the California Museum Foundation. The foundation, an auxiliary nonprofit organization funded with private donations, has been providing an ever-increasing share of financial and staff support for museum operations. The $9 million provided by the foundation in 1995-96 is expected to almost double to $16.8 million in 1996-97. The expansion of the foundation's role is closely tied to a plan to open a new exhibit hall, to be known as the California Science Center, in spring 1997.

Accordingly, we recommend that the museum also report at the time of budget hearings on its recommendations for restructuring the museum, perhaps through its association with the foundation, to stabilize museum finances and possibly reduce its future dependence on the state General Fund.

FRANCHISE TAX BOARD (1730)

The Franchise Tax Board (FTB) is one of the state's major tax collecting agencies. The FTB's primary responsibility is to administer California's Personal Income Tax and Bank and Corporation Tax. The FTB also administers the Homeowners' and Renters' Assistance programs and the Political Reform Act audit program. In addition, the FTB collects child support and motor vehicle registration delinquencies. The FTB consists of the Director of Finance, the Chair of the State Board of Equalization, and the State Controller. An executive officer is charged with administering the FTB's day-to-day operations, subject to the supervision and direction from the board.

The budget proposes expenditures of $340 million ($325 million General Fund) in the budget year, an increase of $4.3 million, or 1.3 percent, over estimated current-year expenditures. The increase is largely attributable to (1) merit salary increases and price increases ($7.7 million) and (2) legislative changes to employer wage and withholding reporting ($5 million), partially offset by a net reduction in expenditures for the Bank and Corporation Tax computer system ($6.3 million) and the elimination of 31 positions due to the automation of Department of Motor Vehicles bad debt collection ($900,000).

Proposed Contract Amendments Obligate State Funds Without Legislative Authorization

We recommend that the Franchise Tax Board not proceed with proposed amendments to a computer system contract that would obligate the state to pay an additional $5.7 million until the Legislature has reviewed and approved the proposal.

The FTB is entering the fourth year of a six-year project to purchase a new computing system for collection of bank and corporation taxes. When the FTB initiated the project, total expenditures to complete the system were estimated to be $113 million. The FTB, however, has requested the Department of Finance (DOF) to approve an additional $5.7 million in the current year for the project. The Governor's Budget does not include this proposal because the funds to pay for this added cost will not be needed until a future year.

Background. The new system has three components: (1) the Business Entities Tax System (BETS), which is the primary data base for the program; (2) the Collection Account Process System (CAPS) to help increase the FTB 's collection of outstanding assessments; and (3) the Pass-Through-Entity Automated Screening and Support System (PASS) to enhance the FTB's audit and enforcement capabilities.

The payment plan for this project differs from traditional state procurements. The vendors for this system finance all up-front project costs. The FTB repays the vendors as additional tax revenues are realized. Under this plan the vendor for each component receives 75 percent of projected additional annual tax revenues attributable to the new system subject to an overall “cap” on payments. If additional annual tax dollars come in slower than projected, the vendor is paid 75 percent of the *actual* additional amount collected, with the unpaid principal plus approximately 9 percent interest carrying over for payment in a subsequent fiscal year. The repayment schedule and cash flow projections show that the project will be paid for by 1998-99. If, however, actual revenues fall below the projected amounts, the plan calls for payments to be extended beyond the projected repayment schedule (up to four years longer) to pay the vendor for any unpaid principal plus interest.

The second and third elements of the project, the CAPS and the PASS, are progressing on schedule and are not anticipated to have any cost overruns. Under the BETS component, however, the FTB is proposing (outside the budget process) an amendment to increase the cost and capabilities beyond the scope of the original BETS contract. Most of these additional costs and capabilities appear to be for enhancements that may be desirable but are not necessary to complete the project as originally approved.

Proposed Amendment. In September 1995 the FTB submitted a Special Project Report addendum to the DOF proposing a $6.2 million amendment to the BETS contract. The FTB subsequently withdrew a $500,000 element of this amendment. The DOF has approved $3.9 million of the requested amount and deferred action on the remaining $1.8 million pending receipt of a separate feasibility study report.

At the time this *Analysis* was written, the FTB had not signed the $3.9 million contract amendment. It is not clear to us how the FTB can sign an amendment obligating state funds for which there is no expenditure authority. Therefore, we recommend that, prior to signing any contract amendments, the FTB present to the Legislature, at budget hearings, the proposal along with necessary data to clearly delineate the need for and expected annual revenues from each of the requested additional capabilities. To proceed otherwise places the state in the untenable position of having signed a contract and having the vendor undertake the agreed to work without first receiving the Legislature's approval to spend the state's money. This represents a highly undesirable administrative procedure that undermines the Legislature's constitutional responsibility to appropriate state revenues.

DEPARTMENT OF GENERAL SERVICES (1760)

The Department of General Services (DGS) is responsible for (1) providing a broad range of support services to operating departments and (2) performing management and oversight activities related to these support services. It provides these services primarily through two programs: statewide support and property management services.

The Governor's Budget proposes expenditures of $524 million from various funds ($11.2 million from the General Fund) to support the activities of the DGS in 1996-97. This reflects a net decrease of $15 million, or 2.8 percent, below estimated current-year expenditures. Approximately three-quarters of the department's funding is appropriated in other departments, and paid to the department for various services, primarily through the Service and Architectural Revolving Funds.

Statewide Support Services. Expenditures for statewide support services are $350 million in the budget year, representing an increase of $19 million, or 5.7 percent, above estimated current-year expenditures. This increase is based primarily on additional demand for printing services and the replacement of printing equipment ($9.7 million), increased material purchases to meet orders placed by customer departments ($5.1 million), and the continued replacement of microwave communications equipment ($2.2 million). The remainder of the proposed increase is for the increased cost of operating vehicles maintained by the department for state employee use, expansion of the State Records Center to accommodate an increase in documents sent by state agencies for storage, and continuation of the State Payphone Management Program.

Property Management Services. Proposed budget-year expenditures for property management services are $171 million, which is $34 million, or 18 percent less than current-year levels. The decrease is mainly due to one-time expenditures of $36 million in the current year for the local public buildings' portion of the 1990 earthquake safety bond funds. Other major changes include (1) an increase of $900,000 to address deferred maintenance needs in state office buildings, (2) a $500,000 increase to renovate state buildings for compliance with the American with Disabilities Act standards, and (3) a $600,000 increase to study the disposition and/or development of unused or underutilized state properties.

STATEWIDE SUPPORT SERVICES

Has Departmental Performance Improved?

Background. In our *Analysis of the 1993-94 Budget Bill*, we reviewed the performance of the department in carrying out its responsibilities, and concluded that performance was seriously inadequate in many areas. We recommended a fundamental rethinking of how the department provides support services to other state agencies, including an end to its monopolies and the introduction of competition to determine who should provide services to state agencies. The department agreed that there was a need for fundamental change.

Performance Budgeting. The department has indicated that a key part of its efforts to improve its services is its participation in the Governor's performance budgeting pilot program (it is one of four pilot departments). The department has invested substantial resources in performance budgeting. However, it is not clear that performance budgeting will in and of itself cause major improvements in departmental performance. This does not mean that the department has not realized benefits from its participation in the pilot project, or that it has not made progress in improving performance as the result of some other initiatives. (We discuss the state's performance budgeting pilot project in the Crosscutting Issues section of this chapter.)

Reform Initiatives Yield Mixed Results. The DGS cites as examples of improved performance several initiatives it has undertaken, including procurement reform, its seismic retrofitting of state-owned buildings, an assessment of the state's telephone network (CALNET), state office consolidation projects, and the California Multiple Awards Schedule (CMAS), which facilitates state agencies' acquisition of information technology equipment and services.

We believe that a number of the department's initiatives have resulted in improvements which have benefited its customers. The CAL-CARD, which allows agencies to make small purchases by credit card, is one such example. Others, such as procurement reform, remain untested in terms of improved performance or net benefits to customers.

On the whole, we believe that departmental performance has improved in some areas during the last three years, but major changes that reflect a fundamental rethinking of the department's role in providing services to state agencies has not yet been achieved because departmental efforts to make substantial changes are still in process (see our following discussion on telecommunications, for example). Nevertheless, we continue to believe that departmental executive management is committed to making the major changes which are essential to its customer departments in an era of cost-cutting efforts and demand for quality service at competitive prices.

It is not clear whether executive management reform efforts will be as successful as desired. In part, this is because it is difficult to transform the culture of a department which provides goods and services that other state agencies have been *forced* to use into a customer-oriented culture which must *compete* for work. In the following discussion, we cite two examples of the challenges and opportunities facing the department in improving its performance.

Statewide Telecommunications: Navigating Without a Map

We recommend the adoption of supplemental report language directing the Department of General Services to maintain the annual statewide telecommunications plan required by statute, and include in that plan specific annual objectives for improving the state's application of telecommunications technologies. We further recommend that the Legislature direct the department to assure implementation of the plan by coordinating closely with the Departments of Information Technology and Finance, and by monitoring state agency uses of telecommunications.

The DGS's Responsibilities. The department's Telecommunications Division is responsible for statewide telecommunications. This responsibility includes developing policies and plans for telecommunications, preparing an annual strategic telecommunications plan, and providing management oversight of statewide telecommunications systems developments. The department is also required to report annually to the Legislature on its actions to reduce costs and to plan and advocate the most advantageous use of telecommunications technology in state government.

Based on our review, we conclude that the department's performance of its telecommunications responsibilities has been inconsistent—successful in some applications but unsatisfactory in others. In this regard, ultimate success may require close coordination among the DGS, the Department of Finance (DOF), and the new Department of Information Technology, because of their statewide fiscal and information technology oversight roles. We discuss below our assessment of the department's performance in the area of telecommunications.

Strategic Plan Has Not Been Maintained. The department has not maintained an annual strategic plan for telecommunications. The last annual strategic plan report to the Legislature was in March 1992. Consequently, the department has been operating for four years without an updated strategic plan. At the same time, the state has expended millions of dollars on various telecommunications applications, some of which have not fulfilled their objectives, while others have either not been monitored adequately or pursued fully.

The department released on February 5, 1996, a consultant's report containing initial findings regarding alternative strategic telecommunications directions for the state. According to the department, the consultant's report will be used to update the strategic telecommunications plan. At the time this *Analysis* was prepared, it was not clear whether the updated plan would reflect the consultant's recommended strategic direction, or some other alternative. Given the growing dependence on telecommunications systems to carry out state programs, it is important that the state have an up-to-date strategic telecommunications plan, and that it be maintained on an annual basis as required by statute. Moreover, to allow the Legislature to evaluate the department's performance, the plan should include specific annual objectives for increasing the cost-effectiveness of state operations through the use of telecommunications.

Analyst's Recommendation. To ensure that the Legislature is informed of the department's performance, we recommend the following supplemental report language:

> The Department of General Services shall fulfill its statewide telecommunications oversight responsibilities by maintaining the annual strategic telecommunications plan required by state law, and include in that plan specific annual objectives for improving the state's application of telecommunications technologies to make government more cost-effective. The department shall coordinate closely with the Departments of Information Technology and Finance to ensure implementation of the annual plan, and shall monitor state agency uses of telecommunications to ensure that the uses are consistent with the annual plan.

Many Other Opportunities for Government Improvements Through Telecommunications

We recommend that the Legislature adopt supplemental report language requiring that the Department of General Services' strategic plan for telecommunications identify specific long-term goals, policies, procedures, and annual objectives for improving statewide benefits obtainable from (1) CALNET, (2) the capital area fiber optic cable loop, (3) state telephone usage, (4) telecommuting, (5) videoconferencing, (6) telemedicine, (7) facsimile transmission, and (8) electronic commerce.

We discuss below several telecommunications activities in which the department is either playing a lead role or otherwise has a statewide responsibility. While we believe that the department should get good marks for taking the lead in certain of these activities, we find that in many instances the opportunities for increasing the cost-effectiveness of state operations through various telecommunications applications have not been sufficiently pursued. In other instances, the department has not effectively fulfilled its statewide telecommunications oversight responsibilities.

CALNET. This is a statewide voice and data system estimated to cost $100 million when fully implemented. In last year's *Analysis*, we noted that CALNET was not breaking even and that the private contractor hired to install the system had failed to complete a key task, the delivery of a Network Management System. We noted that CALNET's viability was in question because it was losing business to outside competitors as state agencies determined that they could obtain better prices or services elsewhere. Since then, the department has amended the contract with the contractor, eliminating certain requirements the contractor was unable to meet and adjusting the value of the contract accordingly. This may reduce the amount the department pays the contractor, but the state is left with a system where state agencies continue to take their business elsewhere because they do not find CALNET to be a cost-effective service.

Downtown Fiber Optic Cable Loop Underutilized. In 1989, the department installed, at a cost of $883,000, a fiber optic cable loop in the Capital Area for the purpose of providing a communications link among downtown Sacramento state offices. (Fiber optic cable consists of bundled strands of glass threads which can carry, via light, voice, data, and video transmissions.) The department intended that the loop be a part of the CALNET system; however, the contractor winning the CALNET bid chose not to use the loop. Since then, a handful of state agencies are using the loop, and their payments for use of it are only enough to reimburse the department for its annual maintenance costs—$18,000—and not enough to pay off the original investment. Instead, according to the department, the installation expense is being recovered over a ten-year period by spreading the cost across the entire Telephone and Network Services Program.

State Telephone Usage: Susceptible to Abuse and Poorly Monitored. The DGS spent $1.6 million on telephone company services in 1994-95, including $200,000 for cellular phone charges. It advises that it monitors employee telephone usage on a decentralized basis by distributing telephone billing detail to the various operating units throughout the department. The bills are then scanned manually in an effort to determine any misuse, and employees who are found to have misused telephones are required to reimburse the department. Although this method is better than no monitoring, distributing responsibility widely does not ensure that all monitoring will be adequate.

Our review indicates that the department should explore methods of computer-based monitoring, using billing information which can be obtained from the telephone companies. Any improvements the department makes in reviewing telephone usage could be applied on a statewide basis.

Cellular Phones Especially Vulnerable. The department was unable to advise us as to how much the state spends on telephone usage, or how many cellular phones were in use by state agencies, despite the statutory requirement that the department oversee statewide uses of telecommunications. Recently published accounts of the misuse of cellular telephones in Los Angeles (both city and county governments) highlight the kinds of potential problems associated with providing cellular phones to employees for official business use. The problems cited in Los Angeles include the electronic theft of cellular phone numbers resulting in large charges which were billed to the public agency, charges for phones which were supposed to have been disconnected, and extremely high monthly charges for some individual employees—none of which were adequately monitored by the city or county, according to the reports. Add to these abuses the more typical employee misuse of an employer's telephone for extraordinary personal purposes, such as conducting a business, and it is apparent that the telephone is very susceptible to misuse. Therefore, its use needs to be monitored effectively.

Telecommuting Planning Lags. Telecommuting—where employees work part of the time from their home or a remote facility using telecommunication equipment—offers numerous potential benefits. These include cost savings (resulting from reduced office expenses), environmental improvement (fewer vehicles on the road), and increased worker productivity (because a telecommuter is subject to fewer interruptions).

Recognizing these benefits, the Legislature first authorized an experimental telecommuting program, under the direction of the DGS. And in 1994, the Legislature established the State Employee Telecommuting Program (Ch 1209/94 [AB 2672, Cortese]), encouraging state agencies to adopt policies that facilitate telecommuting by state employees. The legislation also required every state agency to develop and implement, by July 1, 1995, a telecommuting plan where it was determined that telecommuting was practical and beneficial to the agency.

According to a March 1995 survey from the department's Telecommuting Advisory Group, there are many agencies without formal telecommuting policies. On the other hand, the survey pointed out the need for the state agencies in which an estimated 3,200 employees already telecommute to collectively demonstrate the costs and benefits which have been experienced. We concur and recommend that the administration ensure that a cost-benefit analysis is completed soon.

We suggest that this be an administration responsibility, because recent legislation (Ch 980/95 [AB 1671, Katz]) appropriates $82,000 to the Department of Personal Administration (DPA) to develop and administer a statewide telecommunications program. The status of the DGS-administered telecommuting program is unclear, as Chapter 980 did not specifically transfer responsibility for this program from the DGS to the DPA. Given this situation, the administration should direct the appropriate agency, or agencies, to develop the cost-benefit analysis of telecommuting.

Improving Employee Productivity Through Videoconferencing. Videoconferencing, a method of conducting televised meetings in lieu of long-distance travel, offers a significant reduction in travel costs. For that reason, many state agencies have acquired, through master contracts issued by the department, videoconferencing equipment and established videoconferencing centers. Through the use of these centers, for example, state employees in Sacramento can conduct a televised meeting with individuals gathered at a videoconferencing center in Los Angeles. According to the department, 22 state agencies have invested at least $5.3 million for equipment alone. Given the millions of dollars spent annually on employee transportation costs and related lodging and meals—and the lost productivity while traveling—videoconferencing appears to offer a cost-effective alternative in many cases to travel.

Despite the obvious benefits, however, an October 1995 report on state videoconferencing provided by the DGS states that, " . . . usage levels for some agencies are minimal and there is some resistance to using the technology on a regular basis."

Telemedicine Needs a Shot in the Arm. One of the telecommunication technologies which has been receiving increasing attention nationally is that of telemedicine. This involves a physician examining a patient, making a medical diagnosis, and prescribing treatment through a video communications link. Telemedicine has obvious potential benefits for several state agencies. Given the cost of maintaining the state's growing and aging prison population, telemedicine offers opportunities for cost savings. For example, it would allow the California Department of Corrections (CDC) to diagnose and treat prisoners in remote state prisons. The CDC has indicated an interest in testing the use of this technology. As telemedicine has applicability in other state programs, such as state hospitals, the DGS is the appropriate state agency to guide and facilitate the use of this technology. We believe that the department can accomplish this without a significant impact on its resources by leveraging the expertise in telemedicine which resides in the University of California system.

Facsimile Transmission: Useful but Costly. Facsimile transmission, commonly referred to as FAX, has been a significant benefit to government agencies in getting information quickly from one point to another. At the same time, it is becoming an increasingly larger cost component of organizations' telephone bills.

While information is not available about the cost of FAX to state government, there is some information from the private sector. For example, a poll of Fortune 500 companies found that FAX charges accounted for 40 percent of the average company's 1994 phone bill, and that the number of FAX machines at each corporate location had increased an average of 42 percent over a one-year period.

Despite its statewide telecommunications responsibilities, the department has performed little, if any oversight of the state's use of FAX machines, other than acquiring them through its master purchase contracts. The department does not know how many FAX machines are installed in state agencies, or the rate of growth, or the annual cost of their operation, including telephone charges. Moreover, the department does not have published guidelines or policy regarding its own use of FAX machines.

Without guidelines, FAX machines will be used in instances where it would be less expensive to send the information by other means where time is not a critical factor (for example, the state messenger service which the department manages). Moreover, given the increasing number of state employees using desktop computers, and continuous advances in computer capabilities (including FAX), there may be opportunities to reduce document transmission costs using desktop computers in lieu of manually-operated FAX machines. Through improved oversight and published guidelines, the DGS can help ensure that state agencies make the most effective use of the various document transmission options.

Electronic Commerce: Stuck on the On-Ramp? In last year's *Analysis* we reported on the department's efforts to apply the concept of “electronic commerce” to state purchasing activities in order to reduce the cost of transactions associated with procurement. Through electronic commerce, orders, invoices, payments, and related matters, are accomplished electronically using computers and communication networks. We noted that in an October 14, 1994 report, the DGS indicated that electronic commerce ". . . is worth doing and the state should strive for full implementation." We also noted, however, that the department believed there were several obstacles to further implementation, including the state's information technology coordination situation. Since then, the department has continued to explore the application of electronic commerce, including providing procurement-related information via the Internet and automating a portion of the purchasing process.

Given the potential savings possible through the use of electronic commerce in state government, we believe that the department needs to be more aggressive in fostering its application and can begin by setting an example through applying electronic commerce more fully to its own operations.

Conclusion. We conclude that the DGS can and should improve its oversight of telecommunications systems. Therefore, we recommend that the Legislature adopt the following supplemental report language:

> The Department of General Services' annual strategic telecommunications plan shall identify specific long-term goals, policies, procedures, and annual objectives for improving statewide benefits obtainable from (1) CALNET, (2) the capital area fiber optic cable loop, (3) state telephone usage, (4) telecommuting, (5) videoconferencing, (6) telemedicine, (7) facsimile transmission, and (8) electronic commerce.

State Payphone Management Program Could Be Missing Revenue Opportunities

We withhold recommendation on $451,000 and three positions requested to continue and enhance the Payphone Management Program. Further, we recommend that the Departments of General Services and Corrections jointly report at the time of budget hearings as to how the state will maximize General Fund revenues from pay telephones located at state prisons, and how the use of consultants will help in this regard.

Program Has Been a Money-Maker. The Payphone Management Program is a good example of an area in which the state has received significant added revenues through contracts with private telephone companies to install and operate pay telephones in state facilities. Initiated in 1986-87, annual program revenue derived from the state's share of pay telephone usage has grown from $904,000 in 1986-87 to $12.6 million in 1994-95. Approximately 86 percent of the annual revenue is derived from pay telephones in CDC facilities. The DGS has managed the program since 1993-94, when it was provided two three-year limited-term positions. The department is now proposing to make the two positions permanent, establish an additional position for administrative and clerical support, and provide $287,000 for consultant services.

State May Not Be Maximizing Revenues. According to the DGS, the state receives 22 percent to 32 percent of noncoin pay telephone revenue and 44 percent of coin revenue. As noted in our review of the CDC in the Judiciary and Criminal Justice section of this *Analysis*, annual revenue from prison pay telephones could more than double if the state was able to obtain the higher fee-sharing arrangements that other states have obtained. Any additional revenue which may be obtainable from a more favorable fee-sharing arrangement has been deferred, however, because the DGS and the CDC recently agreed to extend the current contracts a second time, until August 1997, rather than allow them to expire in August 1996. We understand that the extension was made because the DGS and the CDC were unprepared to rebid the prison pay telephone contracts this year.

Value of Consultant Contracts Not Clear. In addition to our concern that the state might be missing an opportunity to increase pay telephone revenue substantially, it is not clear that the $287,000 requested by the DGS for consultant services for this program is necessary. Of this amount, $175,000 is proposed for marketing support to increase the installation of pay telephones in state agencies, and related services, so as to increase General Fund revenue from this program. Given the significant growth in revenues generated by this program over the past several years, and the interests and marketing resources of the companies holding state pay telephone contracts, it is not clear why the state needs to do any marketing of its own. Similarly, it is not clear why the state should expend up to an additional $112,000 for a consultant to evaluate proposed changes to Public Utilities Commission and Federal Communications Commission regulations.

In view of the above, we withhold recommendation on $451,000 requested for the Payphone Management Program and recommend that the DGS and CDC jointly report at the time of budget hearings as to how the state will maximize General Fund revenues from pay telephones located at state prisons, and how the use of consultants will help in this regard.

State Public Safety Microwave Network Funds Should Not Be Included in Base

We recommend that the Legislature approve $2.2 million requested to continue the upgrade of the Public Safety Microwave Network, and adopt supplemental report language directing the Departments of General Services and Finance to not include this amount in the department's baseline budget beyond 1996-97.

Plan Prepared in Response to Legislature's Direction. The Public Safety Microwave Network (PSMN) is a statewide microwave system operated by the DGS since 1978 to meet the communications needs of all public safety agencies within the state. In last year's *Analysis,* we noted that the DGS had embarked on a plan to upgrade the system at an estimated cost of $90 million. This involved converting its equipment to digital technology in order to keep up with the needs of its customer agencies. We pointed out, however, that the department had not yet prepared a conversion plan. In addition, it was not clear what effect the system upgrade would have on the fees charged by the DGS to client agencies. For these reasons, the Legislature adopted supplemental report language requiring the department to develop a conversion plan.

The plan submitted on January 22, 1996 provides the Legislature with a much better understanding as to how the DGS intends to accomplish the conversion. On that basis, we recommend that the Legislature approve the $2.2 million requested to continue the upgrade of the PSMN. Because the request is for one-time equipment purchases, we further recommend that this amount not be built into the department budget in subsequent years. The following supplemental report language is consistent with this recommendation:

> The Departments of General Services and Finance shall not increase the department's baseline budget $2.2 million for the purposes of replacing microwave equipment.

Focus Misplaced on State Vehicle Fleet

We withhold recommendation on $920,000 requested for increased vehicle operating and maintenance costs, pending information from the Department of General Services as to the status of its efforts to automate fleet operations, including establishing a vehicle reservation system, and other steps to improve service to its customers.

The proposed budget includes $920,000 for increased costs associated with the operation and maintenance of the state vehicle fleet maintained by the DGS. The bulk of this increase is to cover the rise in costs of labor and replacement parts. A lesser portion would cover a relatively minor increase in the amount set aside for insurance.

Most Employees Continue to Stand in Line and Wait. The DGS operates several state garages and maintains approximately 5,000 of the state's total fleet of around 12,000 passenger vehicles (the remainder are spread across many other agencies). In last year's *Analysis,* we cited numerous concerns with the manner in which the fleet was being managed, noting that most employees who needed to use a state passenger vehicle were unable to reserve one. Instead, employees must go to a state garage and personally request a vehicle, and wait if none are immediately available. Wait time can easily exceed a half hour when demand is high.

Employees who tire of waiting have the option of postponing travel, traveling to a private rental agency for a vehicle, or taking their own car if one is available. Although the department will try to arrange for a private rental car, private agencies often have no cars available, and even if cars are available, the employee will have to wait until a shuttle can transport the employee to the rental lot. Not all employees have to wait, however, as reservations are made for higher-level employees. This situation clearly does not represent a commitment to customers which is a hallmark of the department's performance budget effort. In addition, it results in lost productivity.

Promised Reservation System Has Not Materialized. In response to these concerns, the DGS stated during last year's hearings that it would be acquiring a computer-based system to manage the fleet, and that the system would include an automated reservation system. The department indicated that the system would be operational by the end of 1995. According to the DGS, the implementation of the system has been delayed due to difficulties experienced by the contractor hired to provide it. Moreover, the department indicates that it has no plans to provide an interim reservation system for employees.

Customer Service Needs to Be Improved. A state employee who has never checked out a vehicle from the Sacramento state garage, and who tries to do so at a time when many employees are trying to obtain a state vehicle, will find a tiny, crowded office with no clearly posted instructions as to how to obtain a vehicle. Once the employee finds the necessary form to request a vehicle, it must be brought to the attention of a DGS employee for processing.

While the request process and waiting area beg for improvement, a tour of the state garage itself reveals that much effort—and funds—have gone into the vehicle maintenance and repair area, including specialized equipment. This suggests that fleet management has an appreciation for the technical part of fleet management, which is essential, but has not assigned equal importance to meeting the needs of state employees who require state vehicles in order to perform their work.

When we have raised the issue of competing with the private sector to meet employee vehicle needs, the department has maintained that its rental rates are significantly lower, and that putting fleet operations out to bid would not be a meaningful exercise. On the other hand, private rental agencies tend to be more customer-oriented, offering not only the ability to reserve a vehicle in advance, but also the ability to drop it off at another location, something the department's fleet operation does not allow.

For these reasons, we withhold recommendation on $920,000 requested for increased vehicle operating and maintenance costs, pending the department's explanation as to the status of efforts to automate fleet operations, including establishing a vehicle reservation system, and what other steps it intends to take to improve service to its customers.

Constant Loans From the General Fund for 911 Program Should Be Ended

We recommend the enactment of legislation requiring that telephone service providers remit 911 telephone use surcharges within 15 days following the month in which the surcharges were collected.

Telephone Companies Earn Interest on Monies Owed the State. The budget proposes a temporary General Fund loan of $10.1 million to meet the cash flow requirements of the 911 program. The loan would be repaid in 1997-98. This is the fifth consecutive year in which a loan has been requested. The loan is necessary because the department does not have sufficient funds in the State Emergency Telephone Number Account (911 Account) to cover the monthly payments to agencies which operate the 911 system (primarily local agencies, except for the California Highway Patrol, which handles cellular calls).

The 911 Account is funded by a surcharge on telephone calls, which is collected by the telephone companies through their monthly billings to customers.

Under current law, the amounts collected by the telephone companies are required to be remitted to the state no later than the last day of the second month following the calendar quarter in which they were collected. In other words, surcharges collected for the months of January through March do not have to be remitted to the state until May 31. With statewide quarterly surcharges approximating $18 million, the telephone companies, rather than the 911 Account, are receiving the benefit of earned interest while they hold the surcharges, typically until the last possible date allowed under the law, according to the DGS. At the same time, the law provides that the *state* pay the telephone companies interest on overpayments the telephone companies might make in remitting surcharge funds to the state.

Current System Hinders Cash Flow. Not only does the current situation result in telephone companies earning interest on monies owed the state, it aggravates a recurring cash flow deficiency in the 911 Account which is being covered by repetitive General Fund loans. Diverting scarce General Fund resources to cover these deficiencies prevents those resources from being used for other pressing state needs. According to the DGS, it would not have to borrow *any* General Fund monies for the 911 Account if telephone companies were required to remit surcharge funds to the state 15 days following the month in which the surcharge was collected. For this reason, we recommend the enactment of legislation requiring that telephone service providers remit 911 telephone use surcharges within 15 days following the month in which the surcharges were collected.

Baseline Adjustments Should Not Be Permanent

We recommend that the Legislature approve $5.8 million requested to cover the increased demand for specific departmental services, and adopt supplemental report language directing the Departments of General Services and Finance to not make the increases a permanent adjustment to the Department of General Services' baseline budget beyond 1996-97.

The budget includes $5.8 million for proposed increases in the areas of procurement ($5.1 million) and equipment replacement ($677,000) to cover the cost of increased customer demand. The department has requested that the increases be made permanent adjustments to the baseline budget. Thus, the increase would be included in future budgets.

Permanent Adjustments May Not Be Warranted. The department has committed to allow state agencies to choose among many goods and services providers by 1999, rather than being forced to use DGS services. Thus, we do not see the need to make the requested baseline adjustments permanent. By moving from a monopoly operation to one which will depend on business through competition, it is possible that some current DGS services will be eliminated or modified substantially. Consequently, permanent baseline adjustments are in our opinion unwarranted at this time. For this reason, we recommend that the Legislature approve $5.8 million requested to cover the increased demand for specific departmental services, but adopt the following supplemental report language directing the DGS and the DOF to not make the increases a permanent adjustment to the DGS' baseline budget:

> It is the intent of the Legislature that the Department of General Services' baseline budget not include an increase of $5.8 million for purposes of procurement and equipment replacement. Additional procurement and equipment replacement shall be justified in the annual budget process.

Need for State Records Center Growth Unclear

We withhold recommendation on $712,000 and one position to expand the holding space of the State Records Center and support its operation, pending a conceptual plan from the Department of General Services, developed in coordination with the Department of Information Technology, to reduce the amount of paper documents being sent to the center.

The State Records Center (SRC) is comprised of two facilities located in West Sacramento, with a combined total of 180,000 square feet. The purpose of the SRC is to provide low-cost storage for documents owned by various state agencies, as well as to dispose of those stored documents which no longer need to be retained. The budget proposes $712,000 to add 70,000 square feet to the one facility which is leased, and add an additional warehouse worker.

Why Increase Paper in the Electronic Age? According to the department's budget proposal, the DGS must expand the SRC to accommodate an estimated increase of 44 percent in the demand for records storage space over the next 5 years. The budget proposal also indicates, however, that the amount of records (in cubic feet) sent to the SRC on an annual basis has not grown with any regularity, and in fact many records were permanently removed several years ago when the Franchise Tax Board opened its own storage facility.

We believe the department should work with the recently-established Department of Information Technology (DOIT) to assess methods for *reducing* the amount of paper generated through government operations. We think this is particularly warranted given the administration's emphasis on using information technology to make government more cost-effective, as well as the department's own emphasis on applying information technology in lieu of manual transactions. Consequently, we withhold recommendation on $712,000 and one position to expand the holding space of the SRC and support its operation, pending a conceptual plan from the DGS, developed in coordination with the DOIT, to reduce the amount of paper documents being sent to the center.

PROPERTY MANAGEMENT SERVICES

Status of the Capitol Area Plan

The Department of General Services is currently reassessing the Capitol Area Plan (CAP)—the state's master plan for development of state-owned land near the Capitol. The department should submit the proposed changes and revised CAP to the Legislature for review and

approval during this years' budget process. We recommend that upon legislative approval of the CAP, the Legislature provide funds for the preparation of an environmental impact report on the approved CAP. Furthermore, we recommend that the Legislature not approve any new state office projects for the Sacramento downtown area until the environmental impact process on the CAP is completed.

Background

In 1977, the Legislature adopted the CAP, which established a framework for development of state-owned land in a 72-square-block area adjoining the State Capitol. The CAP set various land use policies for developing additional state offices and parking garages and for providing new and rehabilitated housing, open space, public amenities, and community development.

Figure 16 displays the major goals and elements of the 1977 plan. Under the state office space element of the CAP, the goal is to accommodate about 90 percent of state office space in the greater Sacramento area in state-owned buildings. Throughout the 1980s, however, the percentage of state-owned office space declined in Sacramento and, conversely, total state-leased space tripled.

Figure 16

Capitol Area Plan
Major Elements and Goals

Element	Goal
State office space	• Accommodate about 90 percent of state in state-owned buildings. • Develop 2 million gross square feet of additional office space in the Core Area by 2000.
Transportation	• Reduce single occupant vehicle trips downtown to 5 percent.
Parking facilities	• Replace surface parking in Capitol Area with garages and peripheral parking. • Develop 5,100 garage spaces and 5,300 peripheral spaces by 2000.
Housing	• 3,500 residents in Capitol Area by 1986. • Develop 975 new housing units and rehabilitate 785 units by 1986.
Land use	• Develop mixed use of offices, parking, housing, and commercial space.

Recognizing a lack of planning and implementation of the CAP, the Legislature adopted Res. Ch 131/91 (SCR 39, Presley). This resolution requested the DGS to prepare a plan to consolidate, to the extent possible, state employees and functions within the Capitol Area and adjacent areas, consistent with the CAP. In December 1992 and July 1993, respectively, the DGS released the two phases of its *Strategic Facilities Plan for Sacramento.* In this plan, the DGS indicated that the state would need several million additional square feet of office space (above current levels) in the Sacramento area over the next 20 years. The DGS also indicated that the land use policies of the existing CAP would allow development of only about 1 million more gross square feet of state-owned office space in the Capitol Area.

Recognizing the need for additional office space and the potential for long-term cost savings by developing on state-owned land, the DGS plan called for modifying the CAP to allow increased office development. In the *Supplemental Report of the 1993 Budget Act,* the Legislature directed the DGS to reevaluate the CAP to assess the potential for increasing the development of state office space. The DGS subsequently concluded that about 1.8 million additional square feet (800,000 square feet more than under the 1977 CAP) could be developed in the Capitol Area.

In 1995, the DGS engaged a panel from the Urban Land Institute (ULI) to examine aspects of the state's office building program in Sacramento. The panel spent one week visiting the city and interviewed over 125 neighborhood, government, and business representatives before preparing its findings and recommendations. As part of its report, the ULI indicated that about 2.2 million additional square feet of state office space (compared to the DGS's 1.8 million square foot estimate) could be built in the Capitol Area. The ULI also concluded that the state, in developing new office space, should give immediate priority to locating these offices on state-owned land in the Capitol Area. This recommendation was based on both the opportunity for cost savings (from using state-owned land) and from a land use planning perspective. Specifically, the panel was concerned that, as the city's downtown expands to the north in the future, the State Capitol and Capitol Park would be left on the fringe. The panel concluded that additional development on state land east and south of Capitol Park would ensure that this area remains a focal point within the city.

Current-Year Activities

In the current year, the DGS redirected $50,000 and received a $40,000 deficiency authorization to develop proposed revisions to the CAP, including an increase in the amount of state office space. After completion of this work (scheduled by the spring), the DGS will submit a revised CAP to the Legislature along with a request to fund the preparation of an environmental impact report (EIR) on the CAP. The completion of an EIR will facilitate implementation of the CAP by minimizing the time needed for environmental reviews of future building projects.

Analyst's Recommendations. We have long advised the Legislature that it is cost-effective for the state to own its office space. We also concur with the DGS that the state should place high priority on developing state-owned land close to the Capitol. We will review the DGS's proposed changes to the CAP when it is available and make recommendations as appropriate to the Legislature.

We also recommend that the Legislature not approve funding for preparation of an EIR or any other aspects of the CAP until the Legislature has approved the CAP. (This approval could be through separate legislation, budget act language or supplemental report language.) In reviewing the CAP, the Legislature should consider at least the following elements of a revised plan:

- The extent to which more intensive office development in the area will affect (1) other land uses (such as parking or housing), including any current land use designations in the CAP and (2) traffic in the downtown area.
- Provisions for parking and assumptions about future commute patterns. (As noted in Figure 1, the 1977 CAP envisioned a significant decrease in single occupant vehicle commutes, which has not occurred.)
- Provisions related to housing, including number and types of units on state-owned property. We note that the DGS has indicated its intention to dispose of 59 state-owned properties in the Capitol Area that are currently used for residential or commercial purposes.

Finally, with respect to state office projects in downtown Sacramento, we recommend that the Legislature not consider any such proposals until it has reviewed and approved the CAP and the EIR process on the revised CAP is completed. This approach would be consistent with the ULI's recommendation that the state's first priority for new office development should be in the CAP. In addition, it will ensure that all new projects are consistent with the Legislature's priorities within the CAP.

Surplus State Property Inventory

We recommend modification of the state Surplus Property Inventory law to require the Department of General Services to first seek authorization from the Legislature prior to selling any property. Until such legislation is enacted, we recommend that the Legislature budget any amount appropriated to the department to study specific properties for

sale in a separate budget item. Further, we withhold recommendation on $1,385,000 in Item 1760-001-0002 for studies/assessments of specific properties, pending further discussions with the department on the proposed uses of these funds and the results of previously funded studies.

Background. As part of the implementing legislation for the 1994 Budget Act, the Legislature enacted Ch 150/94 (AB 2384, Assembly Ways and Means Committee), which required the DGS to identify state-owned property that is unused or underutilized by state agencies. (This legislation was enacted at a time when the state had experienced several years of budget shortfalls and with the expectation that sales of surplus properties would rather quickly generate additional General Fund revenues.) These properties—designated as the Surplus Property Inventory—are to be made available for sale, lease, or exchange to state agencies, local government, and the public. The department was required to prepare a plan for sale of these properties and submit this plan to the Legislature by January 1, 1995. Starting in 1995-96, the DGS is to sell, lease, or exchange at fair market value at least 10 percent of the properties on this statewide inventory each year. Proceeds from these transactions are to be deposited in the General Fund. The department is to report each January on activity related to the disposition of properties on the inventory.

Surplus Inventory. Pursuant to Chapter 150, the department evaluated almost 900 properties, which were then divided into five categories. In category 1 are properties in which the entire site is appropriately used for a state purpose. Category 2 includes those properties already declared surplus by the Legislature through the state's existing surplus property process. In the required January 1995 report, the DGS identified 166 properties in the remaining three categories of the Surplus Property Inventory:

- ***Category 3.*** A total of 69 properties (607 acres) where 100 percent of the site is not used for any state program. Of this total, 59 are state-owned properties used for residential and commercial purposes located south of Capitol Park in downtown Sacramento (known as the Capitol Area).
- ***Category 4.*** A total of 29 properties (13,104 acres) of which a portion of each site is unused.
- ***Category 5.*** A total of 68 properties (16,844 acres) of which a portion of each site is underutilized. These consist mainly of buffer zones around prisons and parking lots at county fairgrounds.

The department's report contains some important caveats. First, the acreage listed for each property on the inventory is the entire property, including all existing facilities. The DGS indicates that the portion of the property that is unused or underutilized, and thus might be sold, cannot be determined without further study in conjunction with the landholding agency. Second, the inventory was undertaken in a relatively short time frame (six months). Thus, the list consists of all *potential* unused or underutilized properties, based on the DGS's initial review. According to the DGS, several of the departments with properties listed on the surplus inventory have expressed concern over this designation. For example, the CDC and the Department of the Youth Authority are concerned that lands they consider to be buffer zones around some of their institutions are on the inventory. The DGS indicates that, as it works with the various agencies to determine their future needs and study specific sites, properties might be removed from the surplus inventory.

Disposition Plan. The DGS indicated that its plan to dispose of the surplus properties would include the following:

- ***Category 3 Properties.*** In 1995, begin marketing a portion of the 59 DGS properties in the Capitol Area and all of the other category 3 properties. Sell, lease, or exchange a minimum of 10 percent of these properties annually as required by Chapter 150.

- ***Category 4 and 5 Properties.*** Work with the landholding agencies to define the surplus areas of these properties. Over a two-year period (1995 and 1996), define these areas for at least 10 percent of the properties and 10 percent annually thereafter. Market at least 10 percent of these properties annually starting in 1997. The DGS indicates that the category 5 properties will be the least marketable sites because they will be available for lease and not for sale.

In the 1995 Budget Act, the DGS received $655,000 for studies / assessments of ten properties in categories 3 or 4. These studies are in various stages of completion. In the 1996-97 budget, the department is requesting $1,385,000 for studies of 39 properties in categories 3, 4, and 5.

Analyst's Concern With the Law. Our concern with the existing law is that the Legislature has essentially been removed from future decisions regarding the sales of state property. Under this law, by placing any property on the surplus inventory, the DGS has all necessary authority from the Legislature to dispose of that property. In some cases, the Legislature might not concur with sale of certain properties as identified by the DGS. For example, the Legislature might believe that it is not in the state's long-term interest to sell any property in the Capitol Area or to sell property adjacent to a state prison at a time when the prison population is growing significantly. We believe that the Legislature should have more involvement in the process than provided by current law. The Legislature should participate in decisions regarding the use of state property based on legislative priorities and perspectives regarding the state's long-term property needs.

Analyst's Recommendation. We recommend that the Legislature modify the existing law to require the DGS to annually submit and receive legislative authorization for those properties that it proposes to sell. Until such legislation is enacted, we recommend that the Legislature budget in a separate item the funds requested by the DGS for studies/assessments of properties included in the surplus inventory. This will allow the Legislature to consider the merits of the DGS's proposals to study specific sites and fund only those that are consistent with legislative priorities.

Budget Proposal. As mentioned above, the budget includes $1,385,000 for site studies/assessments of properties on the surplus inventory. Though the budget request covers 39 properties, about three-fourths of the total amount ($1,050,000) would be for the following six assessments:

- $500,000 to develop a master plan for Agnew Developmental Center, West Campus, which has been closed.
- $250,000 to develop a plan for selling the 59 housing/commercial properties in the Capitol Area.
- $100,000 to develop a plan for selling unused land at the California Institution for Men, Chino.
- $100,000 to assess the potential for disposing of the Stockton Developmental Center, which is being closed in 1995-96.
- $50,000 to assess unused land at Folsom State Prison.
- $50,000 to assess unused land at Metropolitan State Hospital.

We have not been able to determine whether the amounts requested for these activities are appropriate or necessary. For instance, we note that in our analysis of the DGS's current efforts to revise the CAP, we recommend that the Legislature not provide additional funding for an EIR for this area until it has reviewed and approved any proposed changes to the area plan. Similarly, the $250,000 request listed above involving residential/commercial properties in the Capitol Area should likewise not be approved pending legislative review of any revisions to the plan. With regard to another of the proposed assessments, the DGS received $250,000 in the current year to prepare a master plan for the California Institution for Men in Chino. According to the DGS, the first phase of this plan will not be completed until March 1996. Thus, we cannot determine whether the department's request for an additional $100,000 to assess this property in 1996-97 is appropriate.

The $1,385,000 request is about twice the amount that the DGS received in the current year for property evaluations. A few of the funded studies have been completed, but most are still underway. Consequently, we cannot yet evaluate the results of previously funded studies and determine the extent to which a large increase in overall funding for similar activities is merited in 1996-97. We therefore withhold recommendation on this request pending (1) a review of the previously funded studies as they are completed and (2) further discussions with the DGS on the amounts for and specific purposes of these evaluations.

State Office Space Requirements

We recommend the Legislature adopt supplemental report language requiring the Department of General Services to modify its current policies with regard to building standards for new state leases and building acquisitions.

As the state's property and leasing manager, the DGS is responsible for acquiring most of the general office space used by state agencies. This includes both state-owned facilities and space leased from the private sector. Statewide, agencies occupy 21.5 million square feet of space that is controlled by the DGS—6.8 million square feet that is state-owned and 14.7 million square feet of leased space. These offices are in several thousand buildings of varying size, age, and quality throughout the state.

When a new building is constructed or when an existing building undergoes significant alterations, such improvements must be made in accordance with regulations embodied in building codes. These codes govern all elements of building construction and are established in part to ensure that building occupants (1) have a safe environment in which to work, (2) can exit the structure in case of a fire, and (3) will survive an earthquake. In addition, the codes also prescribe means of providing appropriate access into and throughout a building for disabled individuals.

For California, building construction is governed by the California Building Standards Code which is published by the California Building

Standards Commission. Local governments, however, may apply more stringent requirements than the state standards for buildings under their jurisdiction. Building codes are usually modified every few years as new knowledge is gained about the performance of buildings (such as during an earthquake) or to implement new government policies regarding such features as access for the disabled or energy efficiency. Due to this regular "updating" of code requirements, *most existing buildings do not meet all current building codes.* This does not imply that most buildings are unsafe for occupants, however, and the codes do not require immediate building alterations to meet updated requirements. Currently, the DGS has inconsistent policies in its treatment of state-occupied space with regard to current building requirements.

Policy for Existing State-Owned Buildings. The DGS does not have a policy to periodically renovate a state-owned building to bring all building systems to current codes. As noted above, such a policy would be unnecessary. Very few state-owned buildings meet all current codes, but these buildings generally are safe and accessible for state employees and visitors. When state-owned buildings are renovated for programmatic reasons, the required code compliance improvements are made to those building areas that are renovated. In addition, the State Architect has surveyed state-owned buildings to determine those which are seismic safety hazards. The structural elements of these buildings will be strengthened on a priority basis financed from general obligation bonds approved by the voters in 1990.

In our view, the department's policy on existing state-owned buildings is eminently reasonable. In fact, we know of no other employer—public or private—that has a different policy. As such, it is difficult to understand why the department has adopted *different* standards for newly leased or acquired state buildings.

Policy for State Leasing. Leasing of facilities for state agencies is the responsibility of the DGS's Office of Real Estate and Design Services (OREDS). The office has established certain administrative policies regarding building standards required for either newly leased buildings or renewals of existing leases. These policies generally require that leased buildings (1) be free from hazardous asbestos conditions, (2) meet the requirements of the Americans with Disabilities Act, and (3) meet *all current* building code requirements except regarding structural safety, for which an earlier, less stringent building standard is applied.

Thus, under the OREDS' requirements, even if a state agency had occupied a leased building for ten years and wished to renew its lease, the building owner would have to renovate the building in order to meet the current code requirements. Otherwise, the state could not remain in that building. Even if the building was renovated, the owner would again have to make it conform with building codes in place at the time of any future lease expiration. In essence, this state leasing policy results in the state financing improvements to privately owned buildings—improvements which are not required under the building code and are not necessary from the standpoint of providing a safe work environment. This policy is both costly and disruptive to the affected state programs. In addition, this policy can have the effect of reducing the choice of sites that could be available for the state to lease because some building owners may be unwilling to make such improvements.

Policy for Acquiring State-Owned Buildings. If the state constructs a new office building, that building will of course comply with all building codes in place at the time. The state can also obtain additional state-owned office space by acquiring an existing, privately owned building. The DGS policy for such acquisitions, however, is that the acquired building, regardless of age, must meet *all current* building codes. As a result, a privately owned building might be comparable to or better in quality than existing buildings the state already owns, but under the DGS policy, this building would be unacceptable for state acquisition without altering it to meet all building codes. This policy could therefore significantly increase the cost of buying a building or make such a transaction infeasible.

Policy Should Reflect Code Requirements Only. As discussed above, although building codes change every few years, most existing buildings are not unsafe. In those cases where a change in a building code is deemed to require immediate corrections to existing buildings, the codes will *require* retroactive application of the changes.

The DGS requirement to bring all leased or purchased buildings to *all* current codes (regardless of a need to do so) is costly and limits the choice of potential buildings for state use. We therefore recommend that the Legislature adopt the following supplemental report language directing the DGS to apply the following policy with regard to building requirements for state leases and building acquisitions.

> The Department of General Services shall, in obtaining leased space or renewing existing leases or in purchasing office space, only require building improvements that (1) are specifically required under applicable building codes because of building alterations or (2) are retroactive requirements of the applicable building codes. In purchasing office space, the department shall require a level of structural safety comparable to that which is acceptable for existing state-owned buildings.

Budget Language for Architectural Services

We recommend the Legislature adopt Budget Bill language, consistent with action in previous budgets, to prohibit increases in authorized positions for architectural and engineering positions because workload increases can be addressed with consultant contracts.

The Budget Bill contains two provisions which permit the administration to augment the budget for the DGS in cases where the Legislature has approved funds for services or equipment in the budgets of client departments. The first provision (Provision 1 under Item 1760-001-0666) allows the DGS to augment its budget by up to 10 percent so long as the DOF is notified within 15 days of the augmentation. The second provision (Provision 2) permits the Director of Finance to augment the DGS' budget beyond 10 percent to accommodate unanticipated requests from clients for which the DGS will be reimbursed.

The two proposed provisions are identical to provisions contained in the 1994 Budget Act and the 1995 Budget Act with one exception. Language was also included in the two previous budgets stating that the DGS could not use the provisional expenditure authority to add positions for architectural and engineering services in the Division of the State Architect (DSA). The DSA's Architecture and Engineering Services section provides architectural, engineering, and construction support services for state capital outlay projects and some special repair/deferred maintenance projects.

In our *Analysis of the 1994-95 Budget Bill,* we noted that the responsibility for managing the design and construction of major capital outlay projects (those with a total cost over $250,000) is the responsibility of the Office of Project Development and Management (OPDM) within the DGS. As part of this management responsibility, the OPDM in consultation with the DSA, determines which projects will be designed by the DSA and which projects will be designed by private design consultants. This practice allows the state to more efficiently manage fluctuations in workload and prevents the need for layoffs when workload decreases. We indicated that the DSA therefore did not require any authorization to increase design staff because design work that cannot be accomplished by existing DSA staff can be contracted out. Consistent with that recommendation, we recommend that the Legislature again add the following budget language to Provisions 1 and 2 under Item 1760-001-0666.

> The Department of General Services shall not use this authority to increase the number of positions in the Division of the State Architect, Office of Design Services, for architectural or engineering services.

STEPHEN P. TEALE DATA CENTER (2780)

The Stephen P. Teale Data Center (TDC) is one of the state's two general purpose data centers (the other is the Health and Welfare Agency Data Center). It provides a variety of information technology services to over 200 state agencies. The cost of the center's operation is reimbursed by these client agencies.

The budget proposes $78.4 million from the TDC Revolving Fund for support of the center's operations in 1996-97. This is an increase of $1.6 million, or 2.1 percent, over estimated current-year expenditures. The primary reason for the increase is the addition of computing capacity to meet customer demand.

Legislative Direction Vetoed, But Followed in Part

Of three oversight requirements included by the Legislature in the 1995 Budget Bill, but vetoed by the Governor, two are being addressed by the administration in a manner that we believe may achieve part of the Legislature's intent.

In passing the 1995-96 Budget Bill, the Legislature included language intended to address several areas of concern with the operations of the TDC. The concern developed over recent years as the result of the data center's equipment acquisition practices and certain of its business decisions, primarily those relating to cost recovery for certain services provided to customer departments. To address these concerns, the Legislature adopted Budget Bill language last year that required:

- An independent review, by the State Auditor, of the data center's billing and cost recovery practices.
- That the director not commit the data center to any fiscal obligation exceeding $250,000 for computer projects about which the Legislature had not been specifically informed in writing.
- A Policy Advisory Council to provide oversight regarding the data center's plans and policies to respond to customer needs for computing and network services.

All three requirements were vetoed by the Governor. However, the intent of some of the requirements may eventually be met.

Administration Orders Audit. The proposed budget includes $400,000 to reimburse the Department of Finance (DOF) for an audit of the data center, which is anticipated to be completed within six months of the approval of the 1996-97 budget. The audit will review the data center's billing system and cost recovery methodologies. We believe that this audit should provide a level of review which will satisfy the Legislature's intent in this regard.

Increased Oversight by Administration Has Occurred. As regards the requirement that the TDC notify the Legislature prior to committing to certain expenditures, we believe that increased oversight of data center operations by both the center's parent agency (Business, Transportation, and Housing Agency) and the DOF, while not directly satisfying the Legislature's desire for notification, has addressed the underlying concern which led to the notification requirement. For example, the agency reviewed the data center's finances and directed reductions totaling $2 million in the current year, while the DOF has subjected major equipment expenditure proposals to a more thorough level of scrutiny. It is evident that the increased fiscal oversight of data center operations and new proposals, which these two agencies have brought to bear, provides a level of assurance that data center decisions to initiate new projects and acquire computers will receive appropriate external review.

What's Wrong With Customer Oversight? The requirement to establish a policy advisory committee to oversee data center activities would have allowed TDC customer departments to perform the same oversight role which customers of the Health and Welfare Agency Data Center have had for years. We believe that such customer involvement can help to ensure the long-term viability of a data center by ensuring that it deals with the interests of its client base, as opposed to making its own determinations as to what is best for customers. Moreover, a policy advisory committee would have a different focus than the agency and the DOF, and therefore would not be duplicative of the efforts of those two organizations. Given the administration's reluctance to increase customer involvement, and the fact that a comprehensive audit of the data center will be completed in 1996-97, we believe that the best approach regarding the matter of customer involvement may be to wait until the audit report is issued and see what actions the administration takes in response to the audit's findings and recommendations.

Will Money-Losing Service Break Even?

We withhold recommendation on $410,000 requested for support of the Human Resources Information System pending information from the data center, as to its plans to make this system self-supporting.

Background. The Human Resources Information System (HRIS) has been developed and enhanced over the past several years by the data center to provide leave accounting and other personnel-related services to client agencies. According to the data center, it will expend an estimated $410,000 in the budget year to support the system.

In last year's *Analysis,* we questioned whether the HRIS should be phased out because another system developed by the State Controller—the California Leave Accounting System (CLAS)—is partially duplicative of the HRIS and was becoming the system of choice by state agencies. At the same time, the number of employees covered by the HRIS was declining.

In response to this issue, the Legislature included in the 1995 Budget Act a requirement that the TDC and the Controller survey their clients and determine whether the two systems should be merged, and report their findings and recommendations to the Legislature. The reports, made separately by each department, essentially found that while there was overlap with respect to leave accounting, the Controller's system was designed to interface with other personnel-related systems maintained by the Controller, and the HRIS contained unique features that were not planned for inclusion in the CLAS. Additionally, each system was based on different software. Consequently, the reports did not find that a merger of the two systems was practical or warranted.

Numbers Do Not Reflect TDC's Confidence. The TDC estimates that in 1996-97 revenues from the HRIS ($450,000) will for the first time exceed the data center's cost to support the service ($410,000). If this occurs, it will be a positive turnaround. The TDC's expenditures for support of the HRIS since 1991-92 will have totaled an estimated $3.1 million by the end of the current year, as compared to estimated revenue for the same period totaling $1.8 million. Although the TDC estimates that it will reverse this losing trend by more than tripling the number of covered employees by the end of the current year, we believe that this may not materialize. In this regard, we note that information provided by the TDC last year suggested that HRIS coverage would apply to 18,000 employees by the end of 1995, whereas the data center now reports that only slightly more than 9,000 employees were covered at the end of 1995. The Legislature has previously expressed concern with the TDC undercharging for certain services because this results in the data center's other customers making up the difference.

For these reasons, we withhold recommendation on $410,000 included in the budget to support the HRIS, pending receipt of information from the data center, as to its plans to make this system self-supporting. This information should include the number of employees currently covered by the HRIS, and the basis for the data center's projection of additional customer departments.

Data Center Being Charged Too Much To Support New Department

We recommend deletion of $840,000 proposed to support the activities of the new Department of Information Technology (DOIT), because the funding method the administration proposes is inequitable. We further recommend that this item be adjusted to reflect whatever new funding method is ultimately adopted by the Legislature for the budget of the DOIT. (Reduce Item 2780-001-0683 by $840,000)

The budget includes $840,000 to help support the recently-established DOIT. This reflects approximately one-third of the DOIT's 1996-97 budget (the Health and Welfare Agency Data Center and the General Fund are providing the other two-thirds of support for the DOIT).

We discussed this funding method in our January 23, 1996 policy brief entitled, *State Information Technology: An Update*. In that report, we found that the method was flawed because it allowed many other large users of information technology to escape from helping to fund the DOIT, which was created to oversee the information technology activities of *all* state agencies, not just the two large data centers. In our brief, we recommended that the Legislature direct the administration to develop a more equitable funding method. (We discuss this recommendation in more detail in our analysis of the DOIT in this chapter.) Accordingly, we recommend deletion of $840,000 proposed to support the activities of the new DOIT, because the funding method the administration proposes is inequitable. We also recommend that this item be adjusted to reflect the new funding method adopted with respect to the budget of the DOIT.

HEALTH AND WELFARE AGENCY DATA CENTER (4130)

The Health and Welfare Agency Data Center (HWDC) provides information technology services, including computer and communications network services, to the various departments and other organizational components of the Health and Welfare Agency. The center also provides services to other state entities and various local jurisdictions. The cost of the center's operations is reimbursed fully by its clients.

The budget proposes $188 million for support of the center's operations in 1996-97, which is an increase of $27.6 million, or 17 percent, over estimated current-year expenditures.

Plan to Expand the Interim Statewide Automated Welfare System Needs Further Justification

We withhold recommendation on $15 million requested to expand by 20 the number of counties served by the Interim Statewide Automated Welfare System, pending receipt of information, prior to budget hearings, from the data center justifying this proposal.

Background. The budget includes $33 million to continue support for the Interim Statewide Automated Welfare System (ISAWS), one of three major projects in the Department of Social Services (DSS) transferred by the administration in 1995 to the HWDC for project management. The purpose of the ISAWS is to provide standardized computer support to county welfare operations. The ISAWS is one of up to four automated welfare system consortia authorized by the Legislature in the 1995 Budget Act. According to the Budget Act, the ISAWS is one such consortium, as is the Los Angeles Eligibility Automated Determination, Evaluation, and Reporting System (LEADER). The two other possible consortiums are not defined in the Budget Act, but would consist of groupings of counties not covered by the ISAWS or LEADER consortia.

In the current year, the ISAWS consortium is comprised of 15 counties representing approximately 10 percent of the state's welfare caseload. The budget proposes to increase the level of support for the ISAWS by $15 million in 1996-97—to a total of $33 million—to provide for participation by 20 additional counties. These additional counties represent about 3 percent of the state's welfare caseload.

Proposal Conflicts With Audit Report and Is Premature. We have several concerns with the HWDC's proposal. First, in an April 1995 review of the Statewide Automated Welfare System (SAWS) project, the Bureau of State Audits found that the DSS' approach to welfare automation—based on the ISAWS—is too costly and is unlikely to succeed. The report identified a number of problems with the ISAWS, including that it cost more on a per welfare case basis than other California automated welfare systems, would lose money for nearly ten years, and was built on a proprietary software application that was inefficient for the type of work needed to support county welfare operations. The report stated that ". . . the ISAWS is not a good choice for statewide welfare automation."

We believe that expanding the ISAWS to accommodate 20 additional counties at a cost of $15 million is premature, because there has been no cost-benefit analysis, nor is it clear that there is any plan to do so. Yet, in authorizing the ISAWS as one of four consortia, the Legislature also specified in the 1995 Budget Act that the multiple-county consortia strategy include ". . . mechanisms for measuring and ensuring cost-effectiveness for use of General Fund moneys." For these reasons, we withhold recommendation on $15 million requested to expand the number of counties served by the ISAWS, pending receipt of information from the data center justifying this proposal.

Statewide Automated Child Support System Project Cost Increase Anticipated

We withhold recommendation on $25.7 million budgeted to continue implementation of the Statewide Automated Child Support System, pending receipt of additional information, prior to budget hearings, regarding: (1) recent revisions in project costs, (2) the Health and Welfare Agency Data Center's assessment of lessons learned from recent pilot testing of this system, and (3) the status of enhanced federal funding which is not currently available.

The Statewide Automated Child Support System (SACSS) is a federal and state-mandated automated system to provide a statewide child support enforcement tracking and monitoring capability. In 1995, the administration transferred the responsibility to manage this project from the DSS to the HWDC. The proposed budget includes $25.7 million to continue project development in 1996-97.

Project Costs Increase, Savings Decrease, and Schedule Extended. The ten-year project costs of the SACSS, estimated at $152 million when the Legislature approved last year's budget, are now estimated at $260 million, an increase of $108 million, or 71 percent. The increase is the result of several factors, including tasks which the HWDC says were inadvertently omitted from previous cost estimates, increased county child support caseloads, growth in the number of county sites using the system, and a renegotiated contract with the firm hired to develop and implement the SACSS. The HWDC's budget does not reflect the increased costs which are now anticipated, and the data center has advised that a budget revision will be submitted in the spring to increase the proposed expenditures for 1996-97.

At the same time that estimated project costs have increased, anticipated state and county savings over the ten-year project period have decreased by approximately 50 percent, from $276 million to $137 million, according to the Department of Finance (DOF). However, the DOF indicates that beyond the ten-year period the project is expected to break even.

In addition to changes in the project's estimated costs and benefits, the project implementation schedule has been extended by 17 months, from September 1995 to February 1997. This extension is due to a longer-than-anticipated amount of time to complete the detailed system design, and the decision to stagger the pilot testing phase in five counties.

Uncertainty of Recent Cost and Schedule Estimates. As part of the implementation process, the HWDC recently conducted a test of the SACSS with Fresno County to determine whether the system was ready for wider deployment in the counties. Such "usability" testing is consistent with good system development practice, and is conducted prior to putting a new system into full statewide production in order to identify system flaws and familiarize those who must operate the new system.

As a result of the usability test, along with experience gained in other counties in which the SACSS has been installed, the HWDC announced in late January 1996 that it was suspending installation of the system in additional counties and conducting an in-depth assessment of the project. The assessment will focus on implementation issues including training and the number of staff needed to support a statewide system. According to the HWDC, until the assessment has been completed (sometime after January 21, 1996), the impacts of these issues on costs, benefits, and schedule are not clear. (Any increased costs resulting from this assessment would be in addition to those identified in the recent revised estimate.)

State's Share of Costs Uncertain. The proposed budget includes $2.9 million from the General Fund as the state's share of project development costs in 1996-97. This estimate, as noted above, is subject to change. Moreover, it is based on the assumption that enhanced federal funding, which expired on September 30, 1995, will be extended to September 30, 1997. According to the DSS, an extension was included in federal welfare reform legislation which was vetoed by the President, and efforts are underway to include the extension in another bill.

Analyst's Recommendation. We withhold recommendation on $25.7 million budgeted to continue implementation of the SACSS, pending receipt of additional information regarding: (1) recent revisions in project costs, (2) the data center's assessment of lessons learned from the "usability" testing of this system in Fresno County and experiences in other counties in which the system has been installed, and (3) the status of enhanced federal funding which is not currently available. We will be prepared to make a recommendation once we have had an opportunity to review additional information regarding these issues.

Legislative Direction on Fraud Detection System Ignored

We withhold recommendation on $11.6 million and three positions proposed to support the development and implementation of a Statewide Fingerprint Imaging System, pending receipt of information from the Health and Welfare Agency Data Center, prior to budget hearings, on: (1) how the proposed system will address the Legislature's previous direction to pursue the development of a biometric identification system to deter welfare fraud, (2) the estimated costs and benefits of the system, and (3) why the needs of the system cannot be met through use of the automated fingerprint system maintained by the California Department of Justice.

Background. During budget hearings last year, the administration proposed a $250,000 augmentation to the HWDC's budget to hire a consultant to assist with implementation of a statewide fingerprinting system to deter welfare fraud. The Legislature rejected the proposal and instead approved $100,000 to hire a consultant to identify a biometric identification system (fingerprint, palm print, etc.) which best meets the state's needs to reduce welfare fraud. The Budget Bill also included language requiring the HWDC to report to the Legislature by January 1, 1996, regarding recommendations to ensure that the state's system would be interoperable with other government systems.

In signing the Budget Bill, the Governor approved the $100,000, but vetoed the Budget Bill language and indicated that he would pursue separate legislation to authorize implementation of “an effective fraud detection system." He also directed the HWDC to use the $100,000 provided by the Legislature to hire a contractor to assist in developing the necessary plans and planning documents.

Although separate authorizing legislation was not obtained, on December 14, 1995 the Director of Finance notified the Joint Legislative Budget Committee (JLBC), pursuant to Section 27 of the Budget Act, that he was authorizing a deficiency of $391,128 in the current year for the HWDC in order to expedite the development and implementation of a Statewide Fingerprint Imaging System (SFIS). These funds would have been in addition to the $100,000 provided in the 1995 Budget Act. In response to this proposal, the Chairman of the JLBC notified the Director of Finance on January 12, 1996, that he did not concur with the director's proposal. In addition, he stated that the Director should provide the budget subcommittees with the following information during budget hearings: (1) how the proposed system will address the Legislature's previous direction to pursue the development of a biometric identification system to deter welfare fraud, and (2) cost and benefit data associated with the implementation and operation of the SFIS.

Budget Includes Development Funds. The HWDC's proposed budget includes $11.6 million and three positions to develop and implement a SFIS. According to budget documents, the purpose of the SFIS is to detect, deter, and otherwise eliminate multiple aid case fraud for the Aid to Families With Dependent Children (AFDC) program. Extension of the SFIS to other programs, such as Food Stamps and Medi-Cal, is apparently being planned. The project is on a very fast schedule according to the “business plan” prepared by the HWDC in support of its current-year deficiency request to the DOF. If the plan is followed, a contract will be awarded on May 15, 1996, at which point system development activities by the winning bidder are scheduled to begin.

Concerns With Administration's Proposal. The proposal to begin implementation of the SFIS in the current year is not only inconsistent with the Legislature's direction regarding current-year expenditures for a statewide fraud detection system, but it is also inconsistent with the normal process of justifying information technology projects. Moreover, the proposal appears to be inconsistent with statutory direction regarding the development of automated fingerprint systems. We discuss these issues below.

No Feasibility Study Report. First, the likely costs and benefits of the SFIS are unknown at this point because the HWDC has not prepared a feasibility study report (FSR), as is required for any major information technology project. Among other things, the purpose of an FSR is to provide a realistic assessment of project costs and benefits. Although the proposed SFIS schedule makes no reference to the preparation of a FSR, the HWDC advises that it will comply with the state's FSR requirements prior to the scheduled May 15, 1996 contract award.

Existing State Fingerprint System Apparently Ignored. The state has invested millions of dollars over the years to develop, operate and maintain at the Department of Justice (DOJ) the world's most comprehensive automated fingerprint system. Moreover, current law provides that all statewide automated fingerprint identification systems be maintained by the DOJ, unless a determination is made that the DOJ's system would be costlier or incapable of meeting a department's needs.

Conclusion. In disregarding the Legislature's explicit direction, the HWDC has embarked on a costly venture without having provided the Legislature adequate information as to its likely costs and benefits. Nor has the HWDC demonstrated why it should be granted an exemption from the law requiring that statewide fingerprinting systems shall be maintained by the DOJ.

We find that the proposal is contrary to specific direction provided by the Legislature in the 1995 Budget Act. Thus, we withhold recommendation on $11.6 million and three positions proposed to support the development and implementation of the SFIS, pending receipt of information, prior to budget hearings, from the HWDC on: (1) how the proposed system will address the Legislature's previous direction, (2) the estimated costs and benefits of the SFIS, and (3) why the needs of the SFIS should not be met through use of the automated fingerprint system maintained by the DOJ.

Data Center Being Charged Too Much to Support New Department

We recommend deletion of $840,000 proposed to support the activities of the new Department of Information Technology, because the proposed funding method is inequitable. We further recommend that this item be adjusted to reflect whatever new funding method is ultimately adopted by the Legislature for the budget of the department. (Reduce Item 4130-001-0632 by $840,000.)

The budget includes $840,000 to help support the recently established DOIT. This reflects approximately one-third of the DOIT's 1996-97 budget (the Stephen P. Teale Data Center and the General Fund would provide the remaining two-thirds).

We discussed this funding method in our January 23, 1996 policy brief entitled *State Information Technology: An Update*. In that report, we found that the method was inherently flawed, because it allowed many other large users of information technology to escape helping to fund the DOIT, which was created to oversee the information technology activities of *all* state agencies, not just the two large data centers. In our brief, we recommended that the Legislature direct the administration to develop a more equitable funding method. We discuss this recommendation in more detail in our analysis of the DOIT earlier in this chapter. Accordingly, we recommend deletion of $840,000 proposed to support the activities of the new DOIT, because the administration's proposed funding method is inequitable. We also recommend that this item be adjusted to reflect whatever new funding method is adopted by the Legislature for the budget of the DOIT.

DEPARTMENT OF PERSONNEL ADMINISTRATION (8380)

The Department of Personnel Administration (DPA) manages the *nonmerit* aspects of the state's personnel system. (The State Personnel Board manages the merit aspects.) The Ralph C. Dills Act provides for collective bargaining for most state employees. Under this act, the DPA is responsible for (1) reviewing existing terms and conditions of employment subject to negotiation, (2) developing management's negotiating positions, (3) representing management in collective bargaining negotiations, and (4) administering negotiated memoranda of understanding (MOUs). The DPA also is responsible for the compensation, terms, and conditions of employment of managers and other state employees not represented in the collective bargaining process.

The budget proposes total expenditures of $24.6 million for support of the department in 1996-97. The principle funding sources are:

- $5.3 million from the General Fund.
- $12.9 million from reimbursements from other state departments.
- $5.5 million from the Deferred Compensation Plan Fund.

The proposed expenditures for DPA support are $4.2 million, or 21 percent, above estimated current-year expenditures. Most of this increase is in reimbursements from departments contracting with the DPA for assistance in "total quality management" under the Statewide Continuous Improvement Program. The budget proposes no change in the level of General Fund support for the DPA.

Collective Bargaining Agreements Still Under Negotiation

We recommend that the Department of Personnel Administration report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations.

The DPA began negotiations in 1995 with the 21 bargaining units that represent rank-and-file state employees (other than higher education) for new MOUs governing compensation and other terms and conditions of employment. These MOUs are to replace MOUs that expired June 30, 1995. At the time this *Analysis* was prepared, the DPA had concluded negotiations only with bargaining unit 5 (California Highway Patrol officers). This MOU was ratified by the Legislature in Ch 768/95 (SB 544, Dills), and signed by the Governor last October. Under current law, the provisions of the 20 expired MOUs generally remain in effect pending adoption of replacement MOUs.

The Ralph C. Dills Act directs the administration and employee representatives to endeavor to reach agreement before adoption of the Budget Act for the ensuing year. The act further specifies that provisions of MOUs requiring the expenditure of state funds be approved by the Legislature in the annual Budget Act before the provisions may take effect. Historically, however, agreements often have not been reached in time for the Legislature's consideration as part of the budget process.

In recognition of the statutory intent and the importance of these negotiations for the 1996-97 budget, we recommend that the DPA report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations.

Our overview of employee compensation issues in this *Analysis* includes related discussion regarding state employee collective bargaining.

DEPARTMENT OF FINANCE (8860)

The Department of Finance (DOF) advises the Governor on the fiscal condition of the state, assists in developing the Governor's Budget and legislative programs, evaluates the operation of the state's programs, and provides economic, financial, and demographic information. In addition, the department oversees the operation of the state's accounting and reporting systems.

The Governor's Budget proposes expenditures of $28.7 million ($21.7 million from the General Fund) to support the activities of the DOF in 1996-97. This is $156,000, or less than 1 percent, more than estimated current-year expenditures.

Oversight of the Performance Budgeting Pilot Project

We recommend that the Department of Finance advise the Legislature during budget hearings on its evaluation of the performance budgeting pilot project which the department oversees, and the status of its efforts to comply with directives in the Supplemental Report of the 1995 Budget Act.

Background. In 1993, the Governor proposed a performance budgeting pilot program involving four departments. The purpose of the pilot was to test the concept that performance budgeting could result in substantial cost savings, improved program performance, enhanced citizen satisfaction, and greater accountability. The program was subsequently enacted in statute in Ch 641/93 (SB 500, Hill) as the Performance and Results Act of 1993. The DOF is responsible for oversight of the program, and is required by Chapter 641 to evaluate the pilot to determine the extent to which performance budgeting results in a more cost-effective and innovative provision of government services, and report its evaluation to the Legislature by January 1, 1996. The report had not been released at the time this *Analysis* was prepared; however, the DOF advised that it was in the process of being completed.

Investment in Program Is Significant. As noted in last year's *Analysis*, there has been a considerable investment of state resources by the pilot departments to implement performance budgeting; we estimated the investment at approximately $5 million through the end of the current year. Although most of these resources have been from the redirection of existing funding within the pilot departments, the effort is nevertheless costly, because it diverts these resources from other priority needs. Consequently, it is important that departments receive a good return on their investment; the DOF is in a good position to ensure this, given its responsibility to oversee the program.

Legislature Directs Department to Provide Guidance. The pilot departments, as well as our office, have noted that there has been minimal guidance from the DOF as the pilot has progressed, including the absence of a well-defined plan to guide pilot implementation. On the other hand, both pilot departments and the DOF have seen value in allowing each pilot department to be creative in its approach to performance budgeting, rather than forcing all participants into one mold. At the same time, we have noted that too little guidance can result in duplicative efforts, and we recommended in last year's *Analysis* that the DOF provide guidelines to pilot departments to (1) ensure a standard format for reporting performance, and (2) avoid the redundant development of information systems to support performance budgeting. The Legislature adopted our recommendation in the *Supplemental Report of the 1995 Budget Act*. Because the evaluation report has yet to be submitted and the department has not issued guidelines as directed by the Legislature, we recommend that the department advise the Legislature during budget hearings as to its evaluation of the performance budgeting pilot project, and the status of its efforts to comply with supplemental report language relating to this project**.**

Getting Rid of the Department of Motor Vehicles Computers

We recommend that the Department of Finance advise the Legislature at budget hearings as to the results of its efforts to either place in another state agency or sell, computers that are no longer needed by the Department of Motor Vehicles.

In July 1995, the Department of Motor Vehicles officially terminated its project to develop new vehicle registration and licensing databases. As a consequence, computers which the department had acquired at a cost of approximately $18 million became available either for use by another governmental agency or sale. When this issue was discussed during last year's budget hearings, the fair market value of the computer systems was estimated at no more than $800,000. The 1995 Budget Act requires the DOF to “make all efforts” to determine whether the computers could be used by another state agency, and to report to the Joint Legislative Budget Committee (JLBC) before making the computers available for sale.

Computers Continue to Lose Value. At the time this *Analysis* was prepared, the DOF had not located another agency with which the surplus equipment could be placed, nor had it notified the JLBC that the computers should be made available for sale. As the computers continue to lose value on the open market, and are fast-approaching the point at which they will have only scrap value, we recommend that the department advise the Legislature, at the time of budget hearings, as to the results of its efforts to place the computers in another state agency, or determine that they are surplus to state needs and can be sold.

DEPARTMENT OF VETERANS AFFAIRS AND VETERANS' HOMES OF CALIFORNIA (8955-8965)

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 dependents; and (3) operating veterans' homes in Yountville and Barstow with several levels of medical care, rehabilitation services, and residential services.

The budget proposes total expenditures of $380 million for the DVA in 1996-97. This is $5.7 million, or 1.5 percent, less than the projected current-year expenditures. Total expenditures from the General Fund during the budget year would be $39 million, almost exactly the same amount as in the current year.

The 1.5 percent decrease in the overall budget reflects significant decreases in the Cal-Vet farm and home loan program that are largely offset by the significant increases for bringing the new veterans' home at Barstow to full capacity.

Barstow Computer System Faces Major Delays

A new computer information system deemed essential to the operation of the new veterans' home in Barstow—and which the department advised the Legislature would be implemented last month—will not be completed until May 1997 at the earliest. We recommend that, at the time of budget hearings, the department detail its proposed interim computer system and its fiscal impact and the appropriate level of funding required in the 1996-97 budget if the activation of the nursing facility beds at the Barstow home were delayed until the permanent computer system is in operation.

Barstow Timetable Slips. Although the state has operated a home for veterans at Yountville in northern California since 1884, no veterans home has existed in southern California until now. Construction of the new Barstow veterans' home was recently completed on schedule. This is a 400-bed facility which is to include 220 domiciliary care beds, a 120-bed skilled nursing facility (SNF), and a 60-bed intermediate care facility (ICF). Last year, at the time of the May Revision, the DVA requested and the Legislature approved funding to activate the home in the current year. Under the original timetable presented by the DVA, occupation of the home was to begin in early January 1996 with full occupation completed in October 1996.

The DVA has revised its timetable and is now scheduled to begin occupying the home around the end of February 1996 with full occupancy in December 1996. The 1996-97 Governor's Budget for the DVA, which requests $17.1 million to operate the Barstow home, reflects the slower timetable for its occupation.

Computer Project for Barstow Home. The 1995 Budget Act included $2.5 million to procure and commence operation of a Veterans Home Information System (VHIS), a computer system with the capability to track medical billings generated by the SNF and the ICF units as well as the costs and revenues associated with the operation of the domiciliary beds. In the feasibility study report (FSR) submitted in April 1995 to justify the VHIS project, the DVA stated that it "must implement a modern VHIS prior to the opening of the Barstow facility." The report concluded that "a system of this type is essential if the Veterans' Home at Barstow Administrator is to have the management tools necessary to effectively manage the facility."

Although the FSR included language which called into question whether the VHIS system could be procured and operating by the scheduled opening of the Barstow home, departmental representatives assured the Legislature in writing in June 1995 that the procurement process could be completed and the system fully implemented by the target date (January 1996). The DVA stated that a relatively brief procurement and implementation process would be possible because hardware and software needed for the VHIS could be acquired off the California Multiple Awards Schedule (CMAS) list, which consists of items that are preapproved for purchase by state agencies. The regular bidding process ordinarily takes much longer than a CMAS procurement.

Upon receiving these assurances from the DVA, the Legislature provided the funding in the 1995 Budget Act to open the home but also adopted Budget Bill language directing the DVA not to commence operation of the Barstow home unless the VHIS project was implemented successfully. The Budget Bill language provided an exception, permitting the Secretary of the DVA to open the home without the VHIS system in place if he determined that an interim accounting system could be implemented that would not require a significant increase in the DVA staffing or cause a significant loss of federal trust fund or reimbursement revenues for operating the home, including Medi-Cal, Medicare, and fees paid by home residents. The language was vetoed by the Governor.

Computer Project 17 Months Behind Schedule. We have recently been advised by the DVA that procurement and installation of the VHIS cannot be completed in time for the scheduled opening of the home. Implementation will not be completed until May 1997 at the earliest, at least 17 months behind schedule. In effect, the project will take four times as long as the DVA had indicated when the Legislature approved the 1995 Budget Act. The DVA has advised that the cause of the delay was the DVA's discovery that acquisition of the advanced computer system it needed through the CMAS would be too risky. As a result, the DVA terminated the CMAS procurement process in September and initiated a bidding process that is projected to result in a contract award around May 1996.

At the time of this *Analysis*, the DVA advised that it intends to proceed with full activation of the Barstow home without the VHIS in place. An interim computer information system yet to be specified would be used temporarily. Because the DVA is still devising an interim plan, the department is not able to advise the Legislature regarding the staffing and other costs associated with this approach. Nor can the DVA advise the Legislature yet as to what impact use of an interim system would have on the home's ability to obtain reimbursements for medical and other billings.

Analyst's Recommendation. Because the Legislature has not received sufficient information about an interim solution, there is some risk that the unknown system now being devised by the DVA could be expensive to operate. Moreover, the state could end up incurring significant one-time costs for equipment that would become obsolete upon the activation of a permanent computer system.

For these reasons, we recommend that, at the time of budget hearings, the DVA (1) detail its proposed interim computer system and its fiscal impact on the DVA staffing and Barstow federal trust fund and reimbursement revenues, and (2) outline the appropriate level of funding required in the 1996-97 budget if the activation of the SNF and the ICF beds were delayed until the permanent VHIS is operating in 1997-98.

If the Legislature concludes that an interim computer system would be too costly to the state, it should consider reducing the funding of the Barstow home to halt activation of the SNF and the ICF beds until the permanent computer system has been installed and is working properly. (We note that there is less reason for concern about opening the domiciliary beds without a permanent VHIS in place, because complicated medical billings would not be necessary for these residents.) Domiciliary residents who became ill during this interim period would be treated at community medical facilities, but could transfer back to the Barstow home when the SNF and the ICF beds could be activated in a cost-effective manner.

Moratorium on Building More Veterans' Homes Warranted

We recommend that the Legislature adopt Budget Bill language imposing a moratorium on the development of additional veterans' homes at least until 1997-98 because of the uncertainty of federal support for operating them as well as uncertainty over the cost of the new Barstow veterans' home to the state General Fund.

Loan Authorized to Develop More Homes. Chapter 943, Statutes of 1995 (AB 940, Knight), initially contained provisions authorizing $36 million in state lease-payment bonds for the construction of three additional veterans' homes. Prior to the bill's final passage, however, these provisions of the bill were removed and replaced with language authorizing the State Controller's Office (SCO) to provide up to a $1.7 million loan from the General Fund to the DVA to complete site studies, suitability reports, environmental studies, master planning, and architectural drawings for two proposed additional veterans' homes in Chula Vista and Lancaster. The DVA is currently arranging to obtain the full amount of the loan from the SCO for the purposes provided in the legislation and intends to apply in August for federal funding to construct the facilities.

The Legislature and the Governor have yet to enact pending legislation that would provide the state matching funds required to secure the federal funding. Last year, the state match for building the two homes was estimated at about $24 million, which the DVA proposes be raised from the sale of lease-payment bonds. The DVA has indicated it will again seek legislation this year to provide the state match.

Since enactment of Chapter 943, we believe that additional information regarding the Barstow home's operating costs and potential federal law changes have added substantial uncertainty regarding the desirability of constructing new homes, as discussed below.

Operating Costs Could Be Significant. Given the state's prior difficulty in projecting the cost of the Barstow home, we are concerned about the fiscal impact on the General Fund if additional homes are built and opened. As recently as March 1994, the DVA had projected that the annual cost of operating the Barstow home would be $12.4 million, with $5.8 million contributed from the General Fund. The annual operational cost of the Barstow home at full occupancy is now projected to exceed $17 million, including a $10.7 million per year contribution from the General Fund. In effect, the General Fund cost of the new home almost doubled.

We believe the significant cost overruns in the operational budget of the Barstow home are cause to strongly reconsider the DVA's plans and legislative proposals to construct more homes along the lines of the Barstow model. If that same model were followed, and no other economies achieved, the additional homes might increase the state budget by another $36 million annually, creating an additional $22 million demand on the General Fund.

Federal Operational Funding Uncertain. While it appears that the costs of operating additional homes would be substantial, it is still unclear what level of federal funding will be available to support the medical and other costs of caring for residents of the proposed additional veterans' homes. Since the Legislature considered the issue of building more homes last year, both the Clinton administration and the Republican majority in Congress have proposed major reductions in the federal agencies and programs which support the existing veterans' homes. For example, the President has proposed to reduce Medicare funding by $124 billion and Medicaid funding by $59 billion over seven years in order to balance the federal budget. Republicans in Congress proposed a $168 billion reduction in Medicare and an $85 billion reduction in Medicaid over that same period. Both Medicare and Medicaid are a major source of funding for the existing veterans' home at Yountville.

As of this *Analysis*, the President and Congress have not reached agreement on these issues, and no overall agreement may be forthcoming until after the November elections. Until an agreement is reached on federal spending provided for these programs, there is a risk that the federal funds and reimbursements available to operate the existing as well as any new veterans' homes will be diminished.

Summary and Recommendation. Because the Barstow home has yet to open, this new veterans' home model is still untested and it is unclear how much of its operational cost will actually be recovered through federal funds and reimbursements. The delay in the implementation of the new computer system, as we discussed above, could affect the level of revenues received by the home. It may be well into 1997-98 before the state has a sound basis for projecting the fiscal impact to the state General Fund of opening the proposed additional veterans' homes.

Because of this uncertainty we recommend the adoption of Budget Bill language imposing a one-year moratorium on the development of additional veterans' homes. By that time, the operating costs and revenues for the new Barstow home will be more clearly established, and the federal government is likely to have resolved whether Medicare, Medicaid, and veterans programs will incur any significant budget reductions that could affect the federal funding and reimbursements needed to operate additional veterans' homes. In the meantime, the domiciliary unit at Barstow and also the units at the Yountville home would continue to serve the needs of veterans. Once these issues are resolved, if the DVA still wishes to pursue additional homes, it should report to the Legislature on their projected cost and revenues.

Specifically, we recommend adoption of the following Budget Bill language:

> The Department of Veterans Affairs shall cease the development of any additional veterans' homes during 1996-97. If the department still wishes to pursue the development of additional veterans' homes, it shall submit a report to the Legislature by April 1, 1997, projecting the full operating cost of the additional veterans' homes and the General Fund, federal trust fund, and reimbursement expenditure authority required for each such facility.

General Fund Cost of Yountville Home Should Be Reduced

We recommend a $500,000 General Fund reduction in the amount requested for operation of the Yountville veterans' home because increases in federal trust funds and reimbursements received by the home reduce the need for General Fund support. (Reduce Item 8960-011-0001 by $500,000.)

The 1995 Budget Act appropriated $500,000 in federal trust fund and reimbursements to the veterans' home in Yountville for unspecified special projects that would directly benefit members residing at the home. The additional funds were generated by the home as a result of improved collection efforts and federal funding increases. The Budget Act did not specify whether the $500,000 was a one-time expenditure or would be added to the funding base of the home. The DVA has since allocated the $500,000 for various special repair projects at the Yountville facility.

The Governor's Budget assumes that the $500,000 in additional revenues would continue to be received by the home during 1996-97. The pending budget request would permit the DVA to retain this expenditure authority in the home's funding base for unspecified purposes. The DVA has advised that it intends to use the funding to address a backlog of special repair projects at the home. However, the DVA has not yet determined which specific projects would receive priority for the funding. Moreover, the specific projects have not yet been submitted to either the Department of Finance or the Legislature for review.

Analyst's Recommendation. Because the DVA has not identified its intended use of these funds, we recommend that the $500,000 in federal funds and reimbursements be used to offset the state's General Fund costs of operating the home. Thus, we recommend that the home's General Fund budget request be reduced by $500,000. This action would help the DVA achieve a stated goal in its strategic plan of reducing the dependence of the veterans' home on the General Fund.

We are advised that the DVA is continuing efforts to increase its federal trust fund and reimbursement revenues. If the DVA succeeds in these efforts, additional funding should be available for at least some special projects once the DVA has provided justification.

Staffing Level for New Ward At Yountville Home Is Questionable

We withhold recommendation on $572,000 requested for additional staffing to open a new intermediate care facility at the Yountville veterans' home, pending a review by the Department of Health Services of the staffing plan for the new facility.

New Wards to Be Activated at Yountville Home. The 1996-97 Governor's Budget requests funding to open two new nursing facilities at the Yountville home in facilities which have been remodeled and modernized.

The DVA has requested $1 million and 25.3 personnel-years to activate a new 21-bed SNF in which rehabilitation services would be provided in remodeled Ward 2B. We believe the proposal is reasonable and cost-effective and recommend that it be approved.

The DVA has also requested an additional $572,000 and 15 personnel-years to implement a plan to close down an outmoded ICF and shift most of the patients to a newly remodeled facility known as Section G. Although we believe that closure of the old ward and the opening of Section G is reasonable, the additional staffing for nurses requested is questionable and warrants further review before the Legislature acts upon this budget proposal.

Fewer Beds at Higher Cost. The DVA is proposing to close a *90-bed* ICF known as Annex I staffed with 23.8 personnel-years of nursing positions, and activate an *80-bed* facility providing the same level of care in Section G staffed with 37.4 personnel-years of nurse staffing. Thus, the proposal would provide 13.6 additional personnel-years to serve ten fewer patients.

The DVA believes that additional staffing for nurses is necessary to ensure the health and safety of residents placed in Section G. Specifically, the DVA has stated that the additional nursing staff are necessary due to the floorplan of the facility, the change from an open-bay ward to two-person rooms, and its distance from the main hospital at Yountville.

Staffing Exceeds Licensing Standards. The Department of Health Services' (DHS') Licensing and Certification Division establishes the minimum staffing levels that must be met by California medical facilities, including Yountville home nursing units. According to the DVA, if Section G were staffed at the minimum level required by the DHS, the staffing for nurses would be 20.4 personnel-years, or less than the staffing that is proposed for the new facility *or* the existing facility.

Although the DHS has not formally reviewed the Section G proposal, we are advised by the division that its lower staffing standards for ICF are considered sufficient to ensure the health and safety of patients. If that is the case, the additional staffing proposed by the DVA would be unnecessary.

Analyst's Recommendation. For these reasons, we withhold recommendation on the request, pending a review of the Section G staffing plan by the DHS.

VETERANS MEMORIAL COMMISSION (8975)

The Veterans Memorial Commission is composed of nine members appointed by the Governor, the Speaker of the Assembly, and the Senate Rules Committee. The panel is authorized to raise and expend funds, including contributions from private donors as well as those received from a check-off on state income tax forms, to build a Veterans Memorial on the grounds of the State Capitol.

The Veterans Memorial Commission does not appear in the Budget Bill. This is because the Veterans Memorial Account, into which any contributions are transferred, is continuously appropriated without regard to fiscal year. The commission estimates that it had cash on hand and deposits of $250,000 as of June 30, 1995. The commission projects that it will receive $172,000 in revenues and expend $79,000 in 1996-97.

Commission Should Be Abolished

Because the fund-raising efforts for the memorial have failed, we recommend enactment of legislation to abolish the Veterans Memorial Commission and provide for a transfer of its remaining assets to an appropriate private or public program that would benefit California veterans. We recommend that the Secretary of Veterans Affairs report to the Legislature at budget hearings regarding his recommendation as to an appropriate recipient of these funds.

The Veterans Memorial Commission was created in 1985 to raise private donations to build a memorial to all California war veterans. In 1991-92, $700,000 in funds that had been raised to build a memorial to California's Vietnam War veterans was transferred to the commission to assist with the construction of the new memorial to all California war veterans. That same fiscal year, the Legislature enacted Ch 481/91 (SB 1029, Rogers) to establish a check-off to the state income tax form to raise additional contributions from taxpayers for the new memorial. The tax check-off provision will expire at the end of 1996.

Fund-Raising Effort Not Successful. At the end of 1995-96, after five years of extensive fund-raising activities, the memorial construction account had only about $250,000 in cash and deposits, less than half the money that was available in the fund when it began the effort. A 1994

Department of Finance audit found that the commission expended hundreds of thousands of dollars on fees for private fund-raising consultants, direct-mail fund-raising solicitations, administrative costs, and one staff position with little or no return in contributions to the memorial construction fund. We estimate that the commission would have $1.5 million available today had it simply set aside the surplus funds received from the Vietnam Veterans Memorial and the tax check-off, invested the funds in the state's Pooled Money Investment Account, and engaged in no fund-raising activity of its own.

Last year, commission officials advised the Legislature that they expected to complete their fund-raising activity and break ground for the new memorial by November 1995. However, memorial fund-raising has not improved much since that time, and it now appears very unlikely that the commission will achieve its fund-raising goal. That is the case, even though the commission recently reduced that goal from $2.8 million to $1.2 million to reflect a cost-saving redesign of the proposed memorial. The state income tax check-off, which is expected to generate $112,000 in memorial contributions during 1996-97, will expire at the end of 1996, depriving the memorial account of almost its only source of revenues.

Analyst's Recommendations. For these reasons, we recommend the enactment of legislation to abolish the commission and transfer its assets to an appropriate private or public program that would benefit California veterans. We recommend that the Secretary of Veterans Affairs report to the Legislature at budget hearings regarding his recommendation as to an appropriate recipient of these funds.

TAX RELIEF (9100)

The state provides local property tax relief, both as subventions to local governments and as direct payments to eligible taxpayers, through seven different programs. The two largest are the Homeowners' Property Tax Relief (homeowners' exemption) and the Renters' Tax Relief (renters' credit) programs.

As required by the State Constitution, the homeowners' exemption grants a $7,000 property tax exemption on the assessed value of owner-occupied dwellings, and requires the state to reimburse local governments for the resulting tax loss. The exemption reduces the typical homeowner's taxes by about $75 annually. This is the amount that otherwise would be owed on the $7,000 exemption at the statewide average property tax rate of 1.06 percent (including debt levies). The Governor's Budget proposes an expenditure of $393 million on this program in 1996-97.

The renters' credit provides a refundable tax credit to Californians who rent their principal place of residence as of March 1 each year. The credit is applied first to any income taxes due, with any balance paid directly to the renter as a refund. Persons with no income tax liability must file a return to receive the tax relief payment. The amount of the credit is $60 for single renters and $120 for married couples or heads of households. The renters' credit program was suspended for three years, beginning in 1993, as one of many spending reductions enacted to address the state's budgetary problems. The program was reinstated beginning on January 1, 1996. The Governor's Budget, however, proposes eliminating this program effective January 1, 1996. The estimated cost for this program if it were not altered or discontinued in 1996-97 would be approximately $517 million.

Historical Background

The homeowners' exemption and renters' credit were established to mitigate rapidly rising property taxes in the late 1960s and early 1970s. The homeowners' exemption was established by Proposition 1A in 1968 to provide homeowners with direct property tax relief. Recognizing that renters also pay property taxes indirectly through rental payments, the Legislature simultaneously passed companion legislation which extended tax relief primarily to renters. Specifically, this legislation, Ch 1/68 (SB 8, Miller), doubled the personal income tax standard deduction, which most renters use to calculate their income tax liabilities. This legislation was contingent upon the voters' passage of Proposition 1A, establishing the homeowners' exemption.

The modern renters' credit was one element of a comprehensive property tax reform package, Ch 1406/72 (SB 90, Dills), passed by the Legislature in 1972. Among other changes, this legislation increased the homeowners' exemption to its current level ($7,000) and placed limits on property tax rates. It also created the renters' credit by establishing specific credits which renters could use to reduce their income tax liability.

Proposition 13 Has Reduced The Need For General Property Tax Relief

The original renters' credit and homeowners' exemption were established during times of rapidly rising property tax liabilities. However, as we have indicated in previous analyses, the passage of Proposition 13 in 1978 has significantly reduced the need for general property tax relief. Both homeowners and renters have benefited from the reductions in property taxes resulting from the measure, which limits the property tax rate to 1 percent and limits the maximum allowable annual rate of increase in assessed value to 2 percent.

As a result of Proposition 13, property tax liabilities have dropped significantly. For instance, just prior to the passage of the proposition in 1977, Californians paid 5.5 percent of their total personal income in property taxes. Today, that figure is about 2.6 percent.

Consequently, it is unclear why the state needs to continue to provide additional property tax relief through the renters' credit and the homeowners' exemption. While the former can be eliminated through statute (as proposed by the Governor), the latter would require a constitutional amendment approved by the voters.

Other Considerations

While the renters' credit program was created to provide *property* tax relief, it is often viewed in the context of *general* tax relief. The renters' credit is primarily claimed by low- and moderate-income taxpayers. According to projections for the 1996 tax year, three-fourths of those eligible to claim the credit will have less than $30,000 in annual income (see Figure 17). In fact, projections indicate that 42 percent of those eligible for the credit will have no income tax liability. Most of these individuals will have less than $10,000 in annual income.

Figure 17

Renters' Credit Claimants by Income[a]

Adjusted Gross Income	Number of Returns (In Thousands)	Percent of Total
Less than $10,000	1,769	30.9%
$10,000 to $20,000	1,476	25.8
$20,000 to $30,000	1,049	18.3
$30,000 to $40,000	642	11.2
$40,000 to $50,000	377	6.6
More than $50,000	415	7.2
Totals	**5,728**	**100.0%**

[a] Based on projections for the 1996 tax year.

Given the income of those eligible to claim the renters' credit, many have come to view this program as a means for easing the tax burden of lower-income residents of the state. In fact, the Legislature and Governor recognized this aspect of the renters' credit program in 1991 and 1992. In order to limit spending, the credit was modified by making higher-income renters ineligible.

In deciding how to respond to the Governor's proposal to eliminate the renters' credit, the Legislature faces a difficult calculus. On the one hand, this program (along with the homeowners' exemption) can be viewed as it was originally intended—as property tax relief. In this case, it is no longer needed.

If, however, the renters' credit is viewed outside of this context and considered as an issue of general tax relief, the Legislature will have to make its decision with consideration of a variety of factors:

- ***The Existing Allocation of Tax Burden Across Income Classes***. Eliminating the renters' credit would result in an increase in the tax liabilities for those typically lower-income individuals who are currently eligible to claim the credit.
- ***How That Burden Would Change, Based on the Elimination of the Renters' Credit and the Potential Implementation of the Governor's Other Tax Proposals.*** In addition to the elimination of the renters' credit, the Governor has proposed a reduction in income taxes (see Part V of the *Perspectives and Issues*). This proposal would change the relative tax burden of California income taxpayers.

- ***The Relative Treatment of Homeowners and Renters.*** In addition to the homeowners' exemption, homeowners benefit from reduced state and federal income taxes as a result of the deductibility of property taxes and mortgage interest. Renters do not receive similar preferences.

Thus, in making its decision on the renters' credit, the Legislature should consider what purpose the program serves and how this program fits in with the overall allocation of the tax burden.

LOCAL GOVERNMENT FINANCING (9210)

This budget item reflects state appropriations to local governments for a variety of purposes, including:

Supplemental Subventions Program. In 1980-81, the Legislature fully exempted business inventories from the property tax and increased the existing business inventory subvention to reimburse local agencies for the lost property taxes. Under this arrangement, the Legislature provided 100 percent reimbursement for business inventory revenue losses in 1980-81 through 1983-84. Beginning in 1984-85, the Legislature repealed the business inventory subvention and began providing a new "Special Supplemental Subvention" to reimburse local agencies for any further revenue loss related to the repeal of the business inventory subvention. The special supplemental subvention to cities was ended in 1988-89, but redevelopment agencies are still eligible for such subventions.

Monterey County Viewshed Subvention. The California Wildlife, Coastal and Park Land Conservation Act (Proposition 70) made a total of $25 million available to Monterey County for projects to preserve viewshed in the Big Sur area.

In the current year, the budget estimates spending on the program at $27 million. For 1996-97, the budget proposes expenditures of $164.9 million, with the increase due to a major new proposal regarding local law enforcement.

Citizen's Option for Public Safety

We recommend deletion of $150 million from this item because local law enforcement is more appropriately financed and controlled at the local level.

The Governor's Budget provides $150 million of state funds for local law enforcement under the Citizens' Option for Public Safety (COPS) program. Specifically, the administration proposes to modify the state's personal income tax forms to allow taxpayers to decide whether 1 percent of their income tax liability should be subvened to local agencies to augment police, sheriff and prosecution programs. The administration estimates that three-quarters of California's income tax filers will participate in this "check-off" program, providing $150 million annually to local agencies.

As we discuss more fully in our "Counties and the 1996-97 State Budget" piece in Part V of the *Perspectives and Issues,* local law enforcement is more appropriately financed and controlled at the local level. Accordingly, we recommend the Legislature delete the funds provided for the COPS subvention. If the Legislature wishes to provide additional revenues to cities and counties, we recommend that the Legislature partially reverse the property tax, rather than subvene state income taxes. We further recommend that cities and counties be authorized to use any such funding for the highest priority needs of the communities.

HEALTH AND DENTAL BENEFITS FOR ANNUITANTS (9650)

This appropriation provides for the state's contribution toward health and dental insurance premiums for annuitants of the Judges', Legislators', District Agricultural Employees', and Public Employees' Retirement Systems, as well as specified annuitants of the State Teachers' Retirement System. The program provides annuitants the option of selecting from as many as 18 state-approved health plans (depending on where an annuitant lives).

Budget-Year Costs are Uncertain

We withhold recommendation on the $278.7 million General Fund request for Health and Dental Benefits for Annuitants pending final determination of premium rates for calendar year 1997.

The budget proposes total expenditures of $278.7 million from the General Fund for health and dental benefits for annuitants in 1996-97. This is $2.8 million, or 1 percent, more than estimated expenditures for this purpose in the current year, reflecting an increase in the number of annuitants. However, the actual amounts needed in this item are dependant on negotiations over health premiums currently underway between the state and providers. According to Department of Finance staff, these negotiated premium rates will be available for legislative review as part of the May Revision of the budget. Pending receipt of these rates, we withhold recommendation on the amount requested under this item. Figure 18 displays General Fund expenditures for annuitant health and dental benefits for the three fiscal years starting with 1994-95.

Figure 18

Health and Dental Benefits for Annuitants General Fund Expenditures 1994-95 Through 1996-97

(In Thousands)

Program	1994-95 Actual	1995-95 Estimated	1996-97 Budgeted
Health	$269,599	$247,321	$248,946
Dental	27,601	28,590	29,734
Totals	**$297,160**	**$275,911**	**$278,680**

CONTROL SECTION 3.60

Public Employees' Retirement System Employer Contribution Rates

We withhold recommendation on employer contribution rates for retirement benefits pending (1) final determination of the actual rates to be applied in the budget year and (2) receipt and review of information regarding the actuarial assumptions underlying the rates.

This control section specifies the contribution rates for the various retirement classes of state employees in the Public Employees' Retirement System (PERS). The section also authorizes the Department of Finance to adjust any appropriation in the Budget Bill as required to conform with changes in these rates. In addition, the section requires the State Controller to offset these contributions with surplus funds in the employer accounts of the retirement trust fund.

Under current law, the PERS is responsible for developing employer contribution rates each year based on actuarial analyses. At the time this *Analysis* was prepared, a final determination of these rates had not been made.

Consequently, we withhold recommendation pending final determination of 1996-97 rates and receipt and review of information from the PERS regarding the actuarial assumptions underlying the determined rates. This information is typically available in March or April.

CONTROL SECTIONS 27.00 AND 28.00

Deficiencies and Unanticipated Funds

We withhold recommendation on these two control sections pending further discussions with Legislative Counsel and the administration on how best to clarify the use of this delegated expenditure authority.

Control Sections 27.00 and 28.00 are two of the most important provisions in the annual Budget Act. Through these sections, the Legislature delegates to the administration the ability to spend money not specifically authorized in the Budget Act. Specifically:

- ***Section 27.00.*** Under this section, departments are authorized to spend at rates which will result in deficiencies by the end of the fiscal year. The Legislature still has to appropriate monies later on to fund the deficiencies, but at that time it usually has no practical option but to provide the funding.
- ***Section 28.00.*** This section allows the administration to spend unanticipated funds that come in after the start of the fiscal year (or reduce spending allocations). Typically, these are federal funds and reimbursements—*not* state revenue sources.

For both sections, there is a 30-day notification period to the Legislature. This means that the administration may not approve additional spending authority before the Legislature—through the Joint Legislative Budget Committee—has had a chance to review the proposal.

Purpose of the Sections. The basic reason for the Legislature to delegate this authority to the administration is to deal with certain unforeseen circumstances, especially when the Legislature is not in session (primarily the fall). For example, a department could learn shortly after the start of the fiscal year that due to an unanticipated event (say, a court order or a natural disaster), it needs to spend at a higher rate than the Budget Act assumed. In this case, Section 27.00 allows the department to incur a deficiency after notifying the Legislature.

Concerns with Recent Submittals. This past December, the Department of Finance (DOF) submitted several Section 27.00 and 28.00 proposals to the Legislature which—in our view—are inappropriate uses of these control sections:

- ***Starting New Programs in the Current Year.*** There are several examples where departments have proposed to redirect monies within their budgets to start new programs in the current year *that have been included in the Governor's Budget for initiation in the budget year.* For example, the Department of Insurance recently requested $900,000 to install a new interactive voice response telephone system and to respond to some long-standing audit findings, even though there was nothing urgent about the request and it has been presented to the Legislature for approval in the 1996-97 budget. By using the Section 28 process in this manner, the administration would begin implementing a new program before the Legislature had the opportunity to properly assess it during the normal budgetary process.

- ***Proceeding with Programs Specifically Rejected by the Legislature.*** The DOF has also used the sections to forward specific proposals that were rejected by the Legislature. For instance, the department recently submitted a Section 27.00 notification to implement a welfare fraud fingerprint system that the Legislature had considered but did not authorize during the 1995-96 budget process.

The DOF believes that these proposals are in keeping with the language of the control sections. As such, the department apparently views them as *alternative mechanisms to the budget process.* In contrast, we view the sections as “safety valves” that allow the administration to make spending adjustments to the annual Budget Act only when: (1) there are concerns about timing or urgency, and (2) the added spending is in keeping with established legislative policy or direction.

Given the importance of these control sections, we believe it is critical to clarify the language of Sections 27.00 and 28.00 so that the Legislature is delegating only the authority that it determines is appropriate. We will be working with Legislative Counsel and talking further with the DOF to provide alternative language for the Legislature’s consideration. Accordingly, we withhold recommendation on the sections at this time.

LIST OF FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

Performance Budgeting: Will It Change the Budget Process?

1. **Pilot Program Yields Mixed Results.** Pilot has not materially changed budget process, as intended, but has helped pilot departments to manage better. H-11

2. **Reporting on Status of Pilot.** Recommend Department of Finance and performance budget pilot departments report evaluation of pilot program, and future plans, and address institutionalizing positive aspects of the program across all departments, and standards and guidelines if program is expanded. H-18

Restructuring the Management of Information Technology

3. **Lack of Progress in Restructuring State's Information Technology.** Most of the state's information technology problems remain unresolved. H-22

Overview of Employee Compensation Issues

4. **Pay/Benefit Increases in Higher Education and California Highway Patrol Only.** For salary/benefit increases, the budget proposes $156 million for higher education and $32 million for California Highway Patrol. The budget does not propose funds for new pay or benefit increases for other state employees. H-28

5. **New Collective Bargaining Agreements Still Under Negotiation.** Department of Personnel Administration should report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations. H-30

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6.	**Strengthen Legislature's Collective Bargaining Oversight.** Continue to recommend that the Legislature adopt policies to assure that the Legislature will have the opportunity to fully review proposed collective bargaining agreements.	H-30

Contributions to Judges' Retirement Systems

7.	**Overstated Benefit Payments Lead to Overstated Budget Request.** Recommend that the Legislature reduce the General Fund request for the Judges Retirement System I by $5 million to correct for over estimates in current-year and budget-year benefit payments. (Reduce Item 0390-001-0001 by $170,000 and Item 0390-101-0001 by $4,830,000.)	H-34
8.	**Accurate Accounting of Judges Retirement System II Fund Needed.** Recommend that the Department of Finance (DOF) and the Public Employees' Retirement System (PERS) provide the budget committees a corrected fund condition statement for the Judges' Retirement System II, with an accurate accounting of contributions to the fund. Further recommend that the DOF and the PERS report to the committees at budget hearings on measures to (1) assure accurate future reporting of contributions and (2) restore lost earnings to the fund.	H-35

Department of Information Technology

9.	**Progress Report.** Recommend department advise Legislature during budget hearings on progress in meeting statutory requirements, staffing the department, and clarifying information technology oversight roles.	H-36
10.	**Keeping Legislature Apprised.** Recommend Legislature adopt supplemental report language requiring that the Legislature continue to be notified of new informa-	H-39

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tion technology projects and significant changes to existing projects.

11. **Addressing Specific Information Technology Issues.** Recommend required reports to Legislature address (1) methods for assuring the success of information technology projects, (2) converting state programs to accommodate the century change, and (3) cost implications to the state for use of the Internet. H-40

12. **Establish Equitable Method of Funding the Department.** Recommend department propose, during budget hearings, a more equitable method of funding its operations. H-41

Office of Emergency Services

13. **Additional Positions and State's Share of Local Disaster Costs.** Withhold recommendation on $50.7 million requested to establish 558 new positions and $51.9 million to reimburse local governments pending review of Bureau of State Audits' report and additional justification by the Office of Emergency Services (OES). H-45

14. **Hazard Mitigation Grant Program.** Recommend the OES advise the Legislature during budget hearings as to its proposal for allocating seismic mitigation funds to public agencies, its plans to expand the number of agencies receiving the funds, and its state statutory authority for allocating the funds. H-46

State Controller's Office

15. **Performance Audit**. Recommend the State Controller advise the Legislature as to results and lessons learned from the performance audit of her office, and recommendations for improving quality and results of performance reviews of other state agencies. H-49

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State Board of Equalization

16. **Augmentation Should Not Be Made for Prior Commitment. Reduce Item 0860-001-001 by $1.8 million and Item 0860-501-995 by $700,000.** Recommend that the Legislature delete the $2.5 million augmentation associated with a contractual obligation the board made in prior years because the board should pay this cost from existing resources. H-53

17. **Facility Plan Needs Review. Reduce Item 0860-001-001 by $291,000 and Item 0860-501-995 by $120,000.** Recommend that the Legislature delete a $411,000 augmentation requested for this project because the board has revised its plan and the augmentation is not needed. Withhold recommendation on the board's plan to spend $1.4 million for equipment purchases associated with an office consolidation project until the board substantiates the revenue benefits of this level of spending. H-55

Museum of Science and Industry

18. **Revenue Shortfalls.** Withhold recommendation on the museum's 1996-97 budget pending receipt and review of revised estimates of revenues to the Exposition Improvement Fund, and the museum's plans for layoffs and reductions of operating expenditures in the current and budget year to offset projected revenue losses. Further recommend that the museum report at budget hearings on its recommendations for restructuring of the museum to stabilize its finances and possibly reduce its future dependence on the state General Fund. H-56

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Franchise Tax Board	
19. **Proposed Contract Amendments Obligate State Funds Without Legislative Authorization.** Recommend that the Franchise Tax Board not proceed with proposed amendments to a computer system contract that would obligate the state to pay an additional $5.7 million until the Legislature has reviewed and approved the proposal.	H-59
Department of General Services	
Statewide Support Services	
20. **State Telecommunications Planning.** Recommend supplemental report language requiring that an annual plan required by law be enhanced and maintained, and that the department work with the Departments of Information Technology and Finance to ensure its implementation.	H-64
21. **Taking Better Advantage of Telecommunications.** Recommend adoption of supplemental report language requiring that strategic plan address several specific telecommunications applications.	H-65
22. **State Payphone Management Program.** Withhold recommendation on $451,000 and three positions pending explanation as to how General Fund revenue from this program will be maximized.	H-70
23. **Public Safety Microwave Network.** Recommend approval of $2.2 million to upgrade the network, with supplemental report language directing that these funds not be included in the department's baseline budget.	H-71

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24.	**State Vehicle Fleet.** Withhold recommendation on $920,000 for increased vehicle operating costs pending explanation as to status of efforts to automate fleet operations and improve service to customers.	H-72
25.	**General Fund Loan to 911 Account.** Recommend enactment of legislation requiring that telephone service providers remit 911 surcharges on an accelerated basis to avoid necessity for General Fund loans.	H-74
26.	**No Baseline Adjustments.** Recommend approval of $5.8 million for various service-related increased costs, with supplemental report language directing that this increase not be included in the department's baseline budget.	H-75
27.	**State Records Center Growth.** Withhold recommendation on $720,000 to expand the State Records Center pending conceptual plan from department to reduce the amount of paper documents being sent to the center.	H-76

Property Management Services

28.	**Status of the Capital Area Plan.** Recommend that the department submit the proposed changes and revised Capital Area Plan (CAP) to the Legislature for review and approval during this year's budget process. Recommend that upon legislative approval of the CAP, the Legislature provide funds for the preparation of an environmental impact report on the approved CAP. Recommend that the Legislature not approve any new state office projects for the Sacramento downtown area until the environmental impact process on the CAP is completed.	H-76
29.	**Surplus Property Inventory.** Recommend modification of Surplus Property Inventory law to require the department to first seek authorization from the Legislature prior to selling any property. Until such legislation is enacted,	H-79

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recommend that the Legislature budget any amount appropriated to the department to study specific properties for sale in a separate item. Withhold recommendation on $1,385,000 in Item 1760-001-0002 for studies / assessments of specific properties pending further discussions with the department on the proposed uses of these funds and the results of previously funded studies.

30. **State Office Space Requirements.** Recommend that the Legislature adopt supplemental report language requiring the Department of General Services to modify its current policies with regard to building standards for new state leases and building acquisitions. H-83

31. **Budget Language for Architectural Services.** Recommend that the Legislature adopt Budget Bill language, consistent with action in previous budgets, to prohibit increases in authorized positions for architectural and engineering positions because workload increases can be addressed with consultant contracts. H-86

Stephen P. Teale Data Center

32. **Legislative Direction Vetoed, but Followed in Part.** Governor vetoes three requirements, but administration actions may provide partial compliance with intent. H-87

33. **Human Resources Information System.** Withhold recommendation on $410,000 for Human Resources Information System pending receipt of information as to the data center's plans to make the service self-supporting. H-88

34. **Support of the Department of Information Technology. Reduce Item 2780-001-0683 by $840,000.** Recommend deletion of $840,000 to fund new state oversight department because the funding allocation is inequitable. Recommend that this item be adjusted to reflect whatever new funding method is ultimately adopted by the Legislature. H-90

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Health and Welfare Agency Data Center

35. **Expansion of the Interim Statewide Automated Welfare System.** Withhold recommendation on $15 million to add 20 counties to the Interim Statewide Automated Welfare System pending justification by data center during budget hearings. H-91

36. **Budget Understated for Major Project.** Withhold recommendation on $ 25.7 million for the Statewide Automated Child Support System pending receipt of additional information. H-92

37. **Statewide Fingerprint Imaging System Ignores Legislative Direction.** Withhold recommendation on $11.6 million for new system pending receipt of information on how proposal meets the Legislature's previous direction, costs and benefits, and other alternatives. H-94

38. **Support of the Department of Information Technology. Reduce Item 4130-001-0632 by $840,000.** Recommend deletion because allocation of cost to support new statewide oversight authority is inequitable. Recommend that this item be adjusted to reflect whatever new funding method is ultimately adopted by the Legislature. H-96

Department of Personnel Administration

39. **New Collective Bargaining Agreements Under Negotiation.** Recommend that the DPA report to the budget committees during budget hearings on the administration's collective bargaining proposals and the status of negotiations. H-98

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Department of Finance

40. **Performance Budgeting Pilot Program.** Recommend department advise the Legislature at budget hearings as to its evaluation of the pilot program and compliance with legislative direction to provide guidance to pilot departments. H-100

41. **Placement or Disposal of Surplus Department of Motor Vehicles Computers.** Recommend department advise the Legislature during budget hearings as to its efforts to place Department of Motor Vehicles computers in another state agency or sell them as surplus. H-101

Department of Veterans Affairs and Veterans' Homes of California

42. **Barstow Computer System.** A new computer information system deemed essential to the operation of the new veterans' home in Barstow will not actually be completed until May 1997 at the earliest. Recommend that the Legislature consider halting activation of nursing facilities until the computer system is operating. H-103

43. **Building More Veterans Homes.** Recommend adoption of Budget Bill language imposing a moratorium on the development of additional veterans' homes at least until 1997-98 because of uncertainty of federal support for operating them and uncertainty over the cost of the new Barstow veterans' home to the state General Fund. H-106

44. **General Fund Cost of Yountville Home. Reduce Item 8960-011-0001 by $500,000.** Recommend reduction because recent increases in federal funds and reimbursements permit reduction in the home's reliance on the General Fund. H-108

45. **Questionable Staffing for New Ward.** Withhold recommendation on $572,000 requested to help open a H-109

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new intermediate care facility at Yountville pending review of proposed staffing levels for nurses by the Department of Health Services.

Veterans Memorial Commission

46. **Memorial Fund-Raising Has Failed.** Recommend enactment of legislation to abolish the Veterans Memorial Commission and transfer of its remaining assets to an appropriate private or public program that would benefit California veterans. H-111

Local Governing Financing

47. Citizens' Option for Public Safety. Reduce Item 9210-111-101 by $150 million. Recommend that the Legislature eliminate funds for the proposed Citizens' Option for Public Safety program because local law enforcement is more appropriately financed and controlled at the local level. H-117

Health and Dental Benefits for Annuitants

48. **Budget-Year Costs Are Uncertain.** Withhold recommendation on the $278.7 million General Fund request for Health and Dental Benefits for Annuitants pending final determination of premium rates for calendar year 1997. H-119

Control Section 3.60

Public Employees' Retirement System Employer Contribution Rates

49. **Final Rates Not Yet Known.** We withhold recommendation on employer contribution rates for retirement benefits pending (1) final determination of the rates to H-120

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be applied in the budget year and (2) receipt and review of information from the Public Employees' Retirement System regarding the actuarial assumptions underlying the rates.

Control Sections 27.00 and 28.00

50. **Language Needs Clarification.** Withhold recommendation on sections pending discussions with Legislative Counsel and the administration on how best to clarify the use of delegated expenditure authority. H-121