

SUMMARY OF RECOMMENDATIONS
IN THE
ANALYSIS OF THE 1983-84 BUDGET BILL

FEBRUARY 1983

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INTRODUCTION

In the Analysis of the Budget Bill for 1983-84, we report the results of our detailed examination of the Governor's spending proposals for the coming budget year. This document summarizes, by program area, the principal findings and recommendations set forth in the Analysis. It also provides information on the net effect of these recommendations on the state's fiscal condition.

Impact of Recommendations--All Funds

As Table 1 shows, the net effect of our recommendations on the condition of the General Fund and state special funds would be to reduce expenditures or increase revenues by a total of \$676 million. The total reflects:

- \$507 million in recommended expenditure reductions;
- \$15 million in recommended expenditure augmentations;
- \$41 million in recommended revenue reductions;
- \$76 million in recommended revenue increases; and
- \$149 million in other recommended actions which would increase the amount of uncommitted resources available to the General Fund.

Table 1

Impact of Legislative Analyst's Fiscal Recommendations on
The General Fund and Special Funds
1983-84

	<u>General Fund</u>	<u>Special Funds</u> ^a	<u>Total</u>
Appropriation Reductions	-\$273,822	-\$233,003	-\$506,825
Appropriation Augmentations	<u>3,991</u>	<u>10,737</u>	<u>14,728</u>
Subtotal, Impact on Appropriations	-\$269,831	-\$222,266	-\$492,097
Revenue Reductions	\$-48	-\$41,116	\$-41,164
Revenue Augmentations	<u>75,743</u>	<u>--</u>	<u>75,743</u>
Subtotal, Impact on Revenues	\$75,695	-\$41,116	\$34,579
Transfer of Funds to General Fund	49,034	--	49,034
Change Source of Support From General Fund to Other Funds	<u>100,080</u>	<u>--</u>	<u>100,080</u>
Total Effect on Fund Condition	\$494,640	\$181,150	\$675,790
Withhold Recommendation	\$3,657,154	\$254,962 ^b	\$3,912,116

a. Includes expenditures for capital outlay.

b. Includes \$168,295 million in capital outlay.

The reductions recommended in the Analysis total approximately 2 percent of total General Fund and special funds expenditures, as proposed by the Governor's Budget.

Table 1 also shows that we are withholding recommendation on appropriation requests totaling \$3.9 billion. Generally, we withhold recommendation whenever it is likely that at least some of the funds

requested in the budget will be needed in the budget year, but information justifying the requested amount has not been provided. In each of these cases, we will submit supplemental analyses of the proposed funding levels, once the necessary information becomes available. In all likelihood, these supplemental analyses will include recommendations for further reductions in the Governor's Budget for 1983-84.

Table 2 further summarizes, by program category and funding source, our recommendations which would have an impact on expenditures.

Table 2

Summary of Legislative Analyst's Fiscal Recommendations
Affecting Appropriations,
by Category and Fund
(dollars in thousands)^a

	<u>General Fund</u>	<u>Special Funds</u>	<u>Total</u>
Judicial/Executive	-\$5,677	-\$65	-\$5,742
State and Consumer Services	-1,148	-5,924	-7,072
Business, Transportation, and Housing	-1,391	-36,444	-37,835
Resources	-8,517	-6,655	-15,172
Health and Welfare	-68,267	-587	-68,854
Youth and Adult Correctional	-7,088	--	-7,088
K-12 Education	-68,195	-1,054	-69,249
Higher Education	-80,906	--	-80,906
General Government	-15,607	8,219	-7,388
Tax Relief	-13,035	--	-13,035
Miscellaneous	--	-32,000	-32,000
Capital Outlay	<u>--</u>	<u>-147,756</u>	<u>-147,756</u>
Totals	-\$269,831	-\$222,266	-\$492,097

a. To arrive at totals for each category, the net recommendations for every item within the category were added together.

Impact of Recommendations--General Fund

As shown in Table 1, if all of our recommendations were approved by the Legislature, it would improve the General Fund condition by nearly \$.5 billion--\$495 million, to be exact. This amount reflects:

- \$274 million in recommended reductions to appropriations;
- \$4 million in recommended augmentations to appropriations;
- \$76 million in recommended revenue increases;
- \$49 million in recommended transfers to the General Fund; and
- \$100 million in funding source shifts away from the General Fund.

Table 2 shows that, as one would expect, the largest recommended reductions are in those program areas that account for the bulk of General Fund expenditures: higher education (\$81 million), K-12 education (\$68 million), and health and welfare (\$68 million).

Most of the increase in General Fund revenues shown in Table 1 can be attributed to a single recommendation. In our analysis of the Department of Conservation's budget, we recommend enactment of legislation that would accelerate the collection of cancellation fees in connection with open-space (Williamson Act) contracts (\$68 million).

We also recommend that \$49 million be transferred to the General Fund from various state special funds. These transfers would be made possible primarily by our recommended reductions in various special fund items which derive their revenues from sources (such as tidelands oil and gas operations) that could just as appropriately be used to support the General Fund.

Finally, we make recommendations to shift the source of funding for various programs from the General Fund to either special funds or federal funds, resulting in savings to the General Fund amounting to \$100 million. Most of these savings would be achieved by shifting support for certain health and welfare activities to federal funds.

Impact of Recommendations--Federal Funds

A number of our recommendations would affect federal funding levels for state programs, particularly in the health and welfare area. On balance, we make recommendations that would reduce federal expenditures by \$18 million and augment federal aid to California by \$28 million. The augmentations reflect instances in which we have found that state programs are eligible for more federal aid than the amount anticipated in the Governor's Budget. Thus, the net effect of our recommendations would be an increase in federal aid to California of \$10 million.

Recommendations That Are Dependent Upon the Enactment of Legislation

Included within the net revenue and expenditures totals shown in Table 1 are recommended expenditure reductions and revenue augmentations which could only be implemented through legislation other than the Budget Bill (such as the companion bill to the Budget Act). These recommendations would increase General Fund uncommitted resources by \$25 million and special fund surpluses by \$32 million, for a total of \$57 million.

Impact of Recommendations--Personnel-Years

In addition to reductions in appropriations, we also recommend a reduction in the state workforce amounting to 927 personnel-years (net). These reductions are primarily in the Department of Transportation,

(-424 personnel-years), the judiciary (-47 personnel-years), the Department of Corrections (-37 personnel-years), the State Board of Equalization (-36 personnel-years), the Department of Motor Vehicles (-29 personnel-years), and the Department of Savings and Loan (-26 personnel-years).

Major Policy and Fiscal Issues

In both The 1983-84 Budget: Perspectives and Issues and the Analysis of the 1983-84 Budget Bill, we have included extended discussions of numerous issues facing the Legislature in 1983. These extended discussions include:

PERSPECTIVES AND ISSUES

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<ul style="list-style-type: none"> ● The need for better information on revenues, expenditures, and staffing level. 	204
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ANALYSIS OF THE 1983-84 BUDGET BILL

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JUDICIAL

Judicial

(Item 0250/page 7)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$32,189	\$39,840	\$44,173	\$41,698 ^a	-\$2,475
Personnel- years.....	462.1	550.5	644.6	597.3	-47.3

a. Includes recommendations pending on \$2,309,000.

Highlights of Our Recommendations

1. Second Law Clerks

We recommend deletion of \$1,616,000 to eliminate 39 of 54 law clerks (research attorneys) the budget proposes for the courts of appeal. The 1982 Governor's Budget proposed the establishment of 29 new law clerks, as the first part of a two-year plan to provide each of the 77 court of appeal judges with two law clerks (rather than the traditional standard of one clerk). The Legislature approved 15 of the 29 law clerks requested, apparently adopting a more gradual phase-in than the budget proposed. The budget, however, proposes to add the remaining 54 law clerks in the budget year, to complete its two-year plan. On the basis of previous legislative action, we recommend the addition of 15 law clerks in the budget year, to allow a more gradual phase-in of the new positions (Analysis page 14).

2. Appointed Counsel Fees

We withhold recommendation on \$1,654,000 that the budget proposes to transfer from the State Public Defender's office (Item 8140). On appeal from superior court decisions in criminal cases, indigent defendants are represented by either the State Public Defender (SPD) or court-appointed counsel funded from the Judicial item. Based on the assumption that private counsel can handle cases for significantly less than the SPD, the budget proposes to reduce the SPD by 50 percent, and transfer \$1,654,000 to this item. Pending the receipt of revised workload and staffing data from the SPD, we have no basis for estimating the appropriate funding level for

this item. We recommend approval, however, of \$6,109,000 the budget proposes to provide for ongoing appointed counsel workload (Analysis page 15).

3. Courts of Appeal--Clerks' Offices

We recommend deletion of \$217,000 to eliminate 7.3 positions proposed for court of appeal clerks' offices, which are not justified on a workload basis (Analysis page 18).

4. Courts of Appeal--Libraries

We withhold our recommendation on \$655,000 requested for library materials for the courts of appeal, pending the receipt of additional justification for the request (Analysis page 18).

5. Technical Issues--Overbudgeting

We recommend deletion of \$586,000 requested for various expense items, to correct for overbudgeting (Analysis page 19).

Judicial--Capital Outlay

(Item 0250-301/page 21)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$695	--	-\$695

Highlights of Our Recommendations

1. No Justification Provided for Office Alterations (-\$695,000)

The budget proposed \$695,000 for office remodeling for the Supreme Court in San Francisco (\$479,000), the Appellate Court in Fresno (\$191,000) and the Appellate Court in Sacramento (\$25,000).

The Department of Finance has not provided any information to justify the capital outlay funds included in the budget for the Judicial. Accordingly, we have no basis on which to evaluate the proposals, and we recommend deletion of the requested funds (Analysis page 21).

Salaries of Superior Court Judgeships

(Item 0420/page 25)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$32,443	\$35,969	\$36,194	\$36,016	-\$178

Highlights of Our Recommendations

1. Health Benefits Overbudgeted

We recommend deletion of \$178,000, to eliminate overbudgeting of superior court judges' health benefits. Health benefits were adjusted for inflation, contrary to the Department of Finance's guidelines, which specify that such an adjustment should not be included in individual budgets. If increased benefits for state employees (including judges) are granted, they will be funded from Item 9800 of the Budget Bill (Analysis page 29).

EXECUTIVE

Secretary of Health and Welfare

(Item 0530/page 38)

	1981-82	1982-83	1983-84		
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$2,018	\$2,414	\$1,283	\$1,283	--
Personnel- years.....	50.9	55.8	45.7	--	--

Highlights of Our Recommendations

1. Office of the Secretary--Salary Savings

We recommend that the agency abolish the positions which it proposes to leave vacant in order to generate \$238,000 in salary savings during 1983-84 because this proposal does not comply with legislative intent in enacting the 1982 Budget Act to permanently reduce agency expenditures. We further recommend that the agency advise the fiscal committees prior to budget hearings regarding the specific positions to be abolished (Analysis page 40).

Secretary of Resources

(Item 0540/page 44)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$1,150	\$1,043	\$1,330	\$1,330 ^a	--
Personnel- years.....	23.2	21.0	21.0	21.0	--

a. Also recommendations pending on \$251,000.

Highlights of Our Recommendations

1. Resources Agency Marijuana Task Force

We recommend that the Legislature adopt supplemental report language directing the Resources Secretary, with the guidance of the Bureau of Narcotics Enforcement in the Department of Justice, to form interdepartmental task forces to eliminate illegal cultivation of marijuana on state property. The cultivation of marijuana presents safety problems and hazards for state employees--particularly those working in remote areas where marijuana cultivation is occurring. The state has an obligation to assure that its employees and their families are not subjected to harm or significant stress because of illegal activity in the vicinity of their work. The proposed task forces should also be directed to assist local governments and federal agencies to the extent that such assistance is appropriate (Analysis page 50).

Office of California-Mexico Affairs

(Item 0580/page 54)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	\$82	\$200	(pending)	(\$200)
Personnel- years.....	--	4.0	4.0	(pending)	(4.0)

Highlights of Our Recommendations

1. Support Budget

We withhold recommendation on the \$200,000 General Fund appropriation proposed for the Office of California-Mexico Affairs pending receipt and analysis of a detailed expenditure plan. The budget document indicates that such a plan will be submitted for this new office prior to the budget hearings (Analysis page 55).

California State World Trade Commission

(Item 0585/page 55)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	\$293	\$463	(pending)	(\$463)
Personnel- years.....	--	(pending)	(pending)	(pending)	(N/A)

Highlights of Our Recommendations

1. Support Budget.

We withhold recommendation on the \$43,000 General Fund appropriation proposed for the commission, pending receipt and analysis of a detailed expenditure plan. The Governor's Budget indicates that such a plan will be submitted for this newly created commission prior to the budget hearings (Analysis page 56).

Office of Planning and Research

(Item 0650/page 56)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$3,827	\$3,475	\$3,327	\$-- ^a	--
Personnel- years.....	130.3	110.8	88.0	-- ^a	--

a. Recommendations pending on the entire request.

Highlights of Our Recommendations

1. No Budget for Office of Planning and Research (OPR)

We defer recommendation on OPR, pending the receipt of a budget.

The new administration has not yet developed a budget for the activities it expects OPR to perform. The budget only reserves funding for undefined activities. For example, the budget indicates that the coastal energy and policy planning activities currently performed by the Coastal Commission may be assumed by OPR. It is not clear, however, at what levels the administration intends to continue any of these coastal planning activities. A supplemental analysis will be prepared after the budget is fleshed out.

Office of Economic Opportunity

(Item 0660/page 60)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$756	\$975	\$1,017	\$551	-\$466
Personnel- years.....	78.9	213.9	94.5	94.5	--

Highlights of Our Recommendations

1. General Fund Positions

We recommend that \$466,000 in unbudgeted federal Community Services Block Grant (CSBG) funds be used to replace the same amount of General Fund monies proposed to support the Local Services, Economic and Policy Development, and Special Programs. Currently, the General Fund supports the Local Services, Economic and Policy Development, and Special Programs which provide information and technical assistance to low-income communities and Community Action Agencies. In our review of the Office of Economic Opportunity (OEO) budget, we have identified \$466,000 in unbudgeted discretionary CSBG funds which could be used to support the types of activities currently funded by the General Fund. If these unbudgeted federal funds were used to replace General Fund support proposed for OEO, the Legislature would have an additional \$466,000 in General Fund resources to draw on, and therefore more flexibility in funding its priorities in this or other program areas (Analysis page 66).

Department of Justice
(Item 0820/page 75)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$94,218	\$98,144	\$104,353	\$103,103	-\$1,250
Personnel- years.....	3,017.2	2,985.1	3,053.7	3,021.2	-32.5

Highlights of Our Recommendations

1. Paralegal Program Expansion

We recommend that the budget reflect the full savings that should result from a proposal to expand the Civil Law Division's paralegal program. The budget proposes to expand the program by reclassifying 20 deputy attorney general positions as paralegal positions, for a General Fund savings of \$455,000. Our review of Department of Justice budget documents indicates that the proposal should result in additional General Fund savings of \$258,000 because less clerical staff and a lesser amount for operating expenses are needed to support paralegals, relative to what attorneys require (Analysis page 82).

2. Medfly Litigation Expenses

Our review found that the costs of litigation related to the state's Mediterranean Fruit Fly eradication effort were less than anticipated in the past and current years. Based on utilization rates of staff and funds budgeted for Medfly-related workload to date, we recommend a reduction of one paralegal position, 0.5 related clerical staff and \$115,000 in consulting expenses, for total General Fund savings of \$148,000 (Analysis page 83).

3. Marijuana Records Purge

The budget proposes a General Fund appropriation of nearly \$1.4 million to finance 77 new positions so that the department can begin to comply with a court injunction in the Hooper v. Deukmejian case, which prohibits the dissemination of criminal records containing entries of

certain marijuana arrests or convictions. We recommend that the department redirect the staff of its ongoing purge program to address a portion of this new workload, for a deletion of 23 proposed new positions and General Fund savings of \$413,000 (Analysis page 89).

4. Consolidation of Purge Programs

We recommend the department develop a plan to coordinate and consolidate its marijuana records purge project, and its ongoing criminal and applicant purge programs. Because of the potential for cost savings resulting from the consolidation of purge activities, we recommend that the department base any request for funds for record purge activities in 1984-85 on this consolidated purge plan (Analysis page 91).

State Controller
(Item 0840/page 94)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$45,118	\$42,868	\$40,828	\$39,864	-\$964,000
Personnel- years.....	1,372.4	1,272.2	1,163.5	1,151.3	-12.2

Highlights of Our Recommendations

1. Medi-Cal Check Write Program

We recommend that Medi-Cal check writing and disbursement services be reduced by \$226,000. The Controller's budget year request is the same as the current year estimated expenditures despite the fact that the Department of Health Services (DHS) estimates that the number of claims submitted for payments will decrease by 12.4 percent. The decrease is due primarily to the transfer of responsibility for the medically indigent adults from the state to the counties. Our analysis indicates that certain variable expenses can be reduced by 12.4 percent. Accordingly, we recommend that reimbursements from the DHS to the Controller's office be reduced by \$226,000 (Analysis page 98).

2. Howard Hughes Estate

We recommend that six positions be deleted and funds to administer the Howard Hughes case be reduced by \$424,500. The Controller requests the continuation of these six positions, established in 1977-78. We believe that after six years, the major research and information-gathering functions for this case have been completed. Our analysis indicates that the Controller fails to provide adequate workload justification to continue these six positions. Therefore, we recommend that six positions and related expenses be deleted for a General Fund savings of \$424,500 (Analysis page 104).

3. Unclaimed Property Advertising Program

We recommend that legislation be enacted to eliminate the advertising requirements related to the Unclaimed Property program for a savings of \$390,000 to the General Fund. The budget (1) reinstates funds for the advertising program, (2) shifts funding support for this program

from the Unclaimed Property Fund to the General Fund, and (3) requests legislation to increase the value from \$50 to \$100 that unclaimed property must have before it is subject to the advertising requirement.

Our analysis indicates that there is no compelling reason to continue the advertising program. Further, we can find no analytical basis to reestablish this program, which is supported by all taxpayers but benefits relatively few individuals. Therefore, we are recommending that legislation be enacted to eliminate the advertising requirements, for an annual savings of \$390,000 (Analysis page 110).

4. Locator Unit

We recommend that legislation be enacted to eliminate the Locator Unit for a savings of \$120,000 to the General Fund. Unlike the normal advertising or letter notification procedure utilized by the Unclaimed Property program, this unit devotes its time to a more in-depth research of specific unclaimed property accounts. This service provided by the Locator Unit benefits relatively few taxpayers, and does so without reference to need. The cost of providing these benefits, however, will be funded by all taxpayers from the General Fund. On this basis, we recommend that four positions and funds in the amount of \$120,000, to support this unit, be deleted from the Controller's budget (Analysis page 111).

State Board of Equalization

(Item 0860/page 112)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$72,867	\$72,883	\$77,298	\$77,204	-\$94
Personnel- years.....	2,617.3	2,755.8	2,751.2	2,737.9	-13.3

Highlights of Our Recommendations

1. Sales Tax Audits

We recommend deletion of \$514,000 and the elimination of 38 proposed new sales tax audit positions, because they have not been justified on the basis of expected marginal productivity. The board has requested the 38 positions to process additional workload associated with administering the 0.5 cent sales tax, imposed in July 1982, for transit purposes in Los Angeles and San Mateo Counties. The board's request is once again based on its desire to maintain a given level of coverage of audit-eligible accounts.

In our two most recent budget analyses, we have pointed out that, in order to maximize the productivity of its audit program (as measured by the excess of net assessments over audit costs), the board should allocate its audit resources on the basis of the expected marginal benefits associated with additional audits. The Legislature has concurred with this view, adopting Budget Act language directing the board to allocate its audit resources solely on the basis of marginal net assessments expected to be produced.

In an attempt to comply with this language, the board undertook a study to determine the ability of district auditors to rank eligible accounts according to their expected marginal productivity; the results of this study were, unfortunately, inconclusive. Consequently, the board has been unable to comply with the Budget Act language and instead continues to allocate its audit resources inefficiently. We therefore conclude that the board has not justified the 38 additional audit-related positions on the

basis that (a) existing resources are allocated optimally, and (b) the cost of the additional resources requested is exceeded by the additional net assessments which these resources may be expected to produce. Accordingly, we recommend that the 38 positions requested for sales tax audits be denied (Analysis page 116).

2. Sales Tax Compliance

We recommend an augmentation of \$420,000 and 24 positions for the collection of delinquent sales and use taxes, because these positions will produce additional state revenues in excess of their cost. Our examination of the resources budgeted for the collection of delinquent sales and use tax accounts indicates that the amount is inadequate to enable the board to process additional workload associated with this activity during the budget year, resulting in further growth in the number of delinquent accounts awaiting collection.

The growth in the inventory of backlogged accounts has two fiscal consequences for the state. First, it causes the state to lose tax revenues which it would otherwise have collected, as more accounts fail to receive attention, become uncollectible, and have to be written off. Second, it delays the receipt of those delinquent tax revenues which are collected. Because delinquent tax liabilities are charged interest at current market rates, this results in little or no measurable dollar loss to the state. The state must, however, forego use of these revenues during the budget year--revenues which, from a cash-flow perspective, clearly are needed so that the state can pay its bills without having to borrow.

Our analysis indicates that, because of declining marginal productivity associated with the collection of additional delinquent accounts, it would not be appropriate to attempt to dispose of the entire backlog of accounts during the budget year. Instead, our analysis indicates that a more modest investment, sufficient to maintain the inventory of accounts at the same level as at the beginning of the current year, is warranted. By providing these additional resources, we estimate that the General Fund would realize a gain in cash flow of over \$20 million in 1983-84. We also estimate that the state would realize additional, direct benefits of \$1 million in revenues, collected during the budget year, which would otherwise be written off as uncollectible. For these reasons, we recommend an augmentation of \$420,000 and 24 positions (Analysis page 119).

STATE AND CONSUMER SERVICES

Museum of Science and Industry

(Item 1100/page 145)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures.. (thousands)	\$3,944	\$4,204	\$5,472	\$5,059	-\$413
Personnel- years.....	114.3	129	133.1	118.7	-14.4

Highlights of Our Recommendations

1. Contractual Agreements

We recommend that Budget Bill language be adopted directing the museum to provide the Legislature with 30 days' notice prior to entering into any agreements to lease real estate owned by the museum. Specifically, under the terms of a proposed contract, the museum will receive \$800,000 of services (to improve the museum's park area and to repair and restripe the parking lots), in lieu of money, as consideration for leasing its parking lots to the Olympic Committee. This contract agreement will reduce General Fund parking lot revenues by \$1.5 million and permit the museum to "spend" \$800,000 for items of special repair and capital outlay without legislative approval (Analysis page 147).

2. Hall of Economics and Finance

We recommend elimination of 8.8 proposed new positions and 2.0 existing positions for the new Hall of Economics and Finance. The new building, which is expected to be opened to the public on July 1, 1983, was constructed using private donations to the museum's foundation. Our analysis indicates that General Fund support for this program is not appropriate because (1) the project was privately conceived and financed, and therefore not submitted to the Legislature for approval; (2) state funding would be used to operate a facility which is and will remain the property of the private foundation; and (3) the foundation itself should be able to fund the additional costs of operating and maintaining the facility (Analysis page 148).

Department of Consumer Affairs

(Items 1120-1655/page 155)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$56,274	\$66,861	\$81,193	\$80,269 (pending)	\$-924 \$32,677
Personnel- years.....	1,408.8	1,626.6	1,728.6	1,707.4	-24.7

Highlights of Our Recommendations

1. State Athletic Commission

We are withholding our recommendation on the budget request of the State Athletic Commission, pending completion of our report required by the Legislature in the Supplemental Report of the 1982 Budget Act. The report will study possible conflicts of interest which might result from establishing the commission as a self-supporting entity. A supplemental analysis will be issued before the budget hearings (Analysis page 166).

2. Bureau of Automotive Repair--Motor Vehicle Inspection Program

We are withholding our recommendation on the Bureau of Automotive Repair's request for \$12.5 million to implement the provisions of Chapter 892, Statutes of 1982 (SB 33), which provides for the establishment of a mandatory biennial motor vehicle inspection program. A supplemental analysis of the request will be issued before the budget hearings (Analysis page 162).

3. Bureau of Collection and Investigative Services--Audit Program

Should the Legislature reenact the Collection Agency Act, we recommend that the bureau's auditing program be eliminated, for a reduction of 3.5 positions and \$120,000, and that license fees be reduced to reflect those savings. Our analysis indicated that the audit program (1) is time-consuming and costly, (2) fails to fulfill the objectives of the program, and (3) produces poor results. (Analysis page 163).

4. Contractors State License Board

We are withholding our recommendation on the Contractors State License Board pending further review of the board's operations and information to be provided by the board. A supplemental analysis will be issued before the budget hearings (Analysis page 163).

5. Medical Board--Pilot Project

We recommend the deletion of \$150,000 and 5 personnel-years requested for the Professional Performance Pilot Project because the project was terminated by the board in June 1982. Further, we anticipate approximately \$145,000 will be reverted in the current year as a result of the project's termination (Analysis page 160).

6. Division of Investigation--Temporary Help

We recommend a reduction of \$117,000 because funds allocated for temporary help in past years have consistently gone unspent. Our review of division expenditures for temporary help from 1977-78 to 1981-82 indicates that the division spent an average of only 11 percent of the amount appropriated for temporary help. For the current year, the division estimates it will spent only 16 percent of its appropriation for temporary help (Analysis page 162).

7. Overbudgeted Operating Expenses and Equipment

We recommend reductions totaling \$239,600 for the following 12 agencies due to overbudgeted operating expenses and equipment: Accountancy (\$-7,000), Athletic Commission (\$-1,000), Barber Examiners (\$-1,800), Cosmetology (\$-58,800), Medical Quality Assurance (\$-58,000), Administration (\$-47,000), Consumer Services (\$-45,000), Architectural Examiners (\$-4,000), Employment Agencies (\$-4,000), Fabric Care (\$-4,000), Structural Pest (\$-3,000), Investigation (\$-6,000) (Analysis page 168).

8. Salary Savings

We recommend reductions totaling \$227,000 for the following 5 agencies because of errors in budgeting for salary savings: Pharmacy (\$-16,000), Vocational Nurse and Psychiatric Technician Examiners, Vocational Nurse Account (\$-123,000), Athletic Commission (\$-31,000), Collection and Investigative Services, Collection Agency Fund (\$-39,000), Employment Agencies (\$-18,000) (Analysis page 166).

9. Continuing Education Report

The Supplemental Report of the 1982 Budget Act required the Department of Consumer Affairs to evaluate and report to the Legislature by November 15, 1982, on the effectiveness, costs, and benefits of existing continuing education requirements. The department's report was not submitted to the Legislature until January 1, 1983. As a result, we will present an evaluation of the report and comments on the subject of continuing education during subcommittee hearings (Analysis page 171).

Department of Fair Employment and Housing

(Item 1700/page 172)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$8,813	\$7,980	\$8,327	\$8,084	\$243
Personnel-years years.....	285	258.6	257.4	N/A	N/A

Highlights of Our Recommendations

1. Recovering Administrative Costs

Based on current workload patterns, the department is expected during 1983-84 to secure approximately \$10.4 million in settlements and damages for complaints represented by the department in discrimination cases. Under existing law, complainants are not required to pay any filing fees nor any departmental administrative costs associated with the processing of the case. In order to reduce the department's reliance on the General Fund, we recommend the enactment of legislation directing the department to recoup its actual case processing costs out of the amounts paid by the targets of discrimination complaints, but exclusive of the compensatory amounts awarded to successful complainants. We further recommend that all monies collected be transferred to the state's General Fund. We estimate total collections of \$1.5 million in 1983-84 (Analysis page 174).

2. Consulting Contracts

The budget proposes \$243,000 for various DFEH consulting expenses for 1983-84. However, the department provided no documentation justifying this expenditure. Therefore, we recommend deletion of \$243,000 because no need for this amount has been demonstrated (Analysis page 173).

Franchise Tax Board
(Item 1730/page 185)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$82,539	\$84,740	\$91,016	\$90,916	-\$100
Personnel- years.....	2,852.2	2,923.6	2,992.6	2,990.6	-2.0

Highlights of Our Recommendations

1. Return Estimates

We recommend deletion of \$600,000 and 25 personnel-years in the department's return processing and taxpayer assistance functions. Franchise Tax Board's (FTB) budget request was based on July 1982 estimates of returns to be filed in 1983-84. Using more recent information and different forecasting models, we estimate that returns filed in 1983-84 will be significantly less than budgeted. Consequently, the department is currently overbudgeted in resources dedicated to the these functions.

2. Audit Activity

We recommend an augmentation of \$500,000 and 23 personnel-years in the department's audit program. With the budgeted level of resources, FTB would not be able to perform all corporate apportioning audit cases in its field offices, despite the fact that (1) these audits are highly productive (they have a benefit-cost ratio of over 5.0) and (2) the department would incur significant costs in relocating field resources currently allocated to these audits. We therefore recommend that the department's audit program be augmented so that FTB can continue to perform these audits in the budget year. These new audit positions would generate additional General Fund revenue of approximately \$1 million in 1983-84 and \$2.5 million annually thereafter.

Department of General Services

(Item 1760/page 194)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$233,730	\$259,294	\$277,992	(pending)	-\$3,868
Personnel- years.....	3,758.2	4,063.1	4,131.1	(pending)	-39.3

Highlights of Our Recommendations

1. Workload for the Office of State Architect Uncertain

The budget includes \$10,610,000 for architectural and engineering services to be provided by the Office of the State Architect (OSA). Workload assigned to the OSA is based on the dollar level and complexity of capital outlay projects included in the Budget Act.

At the time our Analysis was prepared, OSA did not have any information on the amount of capital outlay proposed in the budget for 1983-84. Consequently, the office was unable to provide a meaningful projection of workload. Accordingly we withhold recommendation on the OSA budget pending an evaluation of workload associated with all capital outlay projects included in the budget (Analysis page 201).

2. Transfer of Surplus Funds to the General Fund

All funds for projects undertaken by the Office of State Architect are deposited in the Architecture Revolving Fund (ARF). Our analysis of the current status of the ARF, as shown in the Director of General Services' report to the Legislature on October 22, 1982, indicates that approximately \$1,674,000 (\$1,587,000 from the General Fund plus \$87,000 from special funds) in unencumbered funds have accumulated in the ARF. Given the fiscal problems currently facing the state, we see no reason why these funds should be retained in the ARF. Consequently, we recommend that these funds be reverted to the fund from which the original appropriations were made (Analysis page 204).

3. Utility Savings from Gasification Plant Not Reflected in Budget
(-\$560,000)

The Department of General Services is in the final stages of completing installation of a gasification plant adjacent to the central heating and cooling plant in Sacramento. This project--which will allow production of low quality gas by burning tree trimmings, woodchips, or other solid material--was funded by an appropriation of \$3.3 million and administrative augmentations of over \$600,000.

At the time the Legislature approved this project, the department indicated that operation of the plant would replace 55 percent (one million therms) of the natural gas used in the central plant. Given this estimate, and based on the current price of 56 cents per therm for natural gas there should be a \$560,000 savings in the budget year. The department's budget does not take into account this projected savings. Accordingly, we recommend that the DGS utility budget be reduced by \$560,000 (Analysis page 205).

4. Maintenance and Security Requirements for Governor's Residence
Uncertain

The budget includes \$65,000 for maintenance and \$423,000 for police services for the Governor's residence.

At the time this Analysis was prepared, sufficient information was not available on the need for the amounts requested for maintenance and security for quarters for the Governor. Consequently we withhold recommendation on these funds, pending resolution of issues regarding the Governor's residence (Analysis page 207).

5. Reduction in Expenditures Chargeable to the Building Rental Account
(-\$1,991,000)

All rental receipts from agencies housed in office buildings under the Department of General Services' (DGS) jurisdiction are deposited in the Service Revolving Fund, Building Rental Account. The Government Code indicates that these rental receipts are to be used to pay for rent (debt service) and the cost of maintaining, operating, and insuring building space, with any residual amount to be credited to the General Fund.

Our analysis indicates that the department has inappropriately charged the account for certain costs. In some cases, these costs result in double-charging for services provided within the Department of General Services or are charges which are not authorized by the purposes for which rental receipts can be expended as defined in the Government Code. The specific miscellaneous-overhead charges are:

- o Statewide Pro Rata (\$25,000). This charge represents a portion of the DGS assessment for services provided by General Fund service agencies, such as the Department of Finance and the State Personnel Board. This charge is already included in most of the other charges to the account, and direct billing of this amount represents a double charge.
- o Departmental Overhead (\$974,000). This charge is actually billed twice to the account because other charges such as building maintenance from the Buildings and Grounds Division includes an assessment for departmental overhead.
- o Space Management Division (\$267,000). These charges, which are for planning activities related to major new state office building projects, do not constitute allowable charges under the Government Code. In our analysis of the Space Management Division's budget, we have recommended that the Special Account for Capital Outlay be used to fund those planning activities which our analysis indicates should proceed (Analysis page 214).
- o Facilities Planning (\$449,000). The Office of Facilities Planning and Development evaluates facilities needs for all state agencies on a statewide basis and charges the Building Rental Account for these services. This activity is not an allowable charge to the account. In our analysis of the Office of Facilities Planning and Development's budget, we have recommended that the cost of these activities be recovered through a surcharge on rental rates for leased space (Analysis page 210).
- o Handicapped Compliance (\$50,000). This charge is for an interagency agreement between the Department of General Services and the State and Consumer Services Agency, Office of Statewide Compliance Coordination, to provide training services regarding issues and needs of disabled persons. Our Analysis indicates that this is not an allowable charge, and the services should be charged to the respective DGS divisions which will receive the training.

Adoption of our recommended reduction will result in a significant surplus in the Service Revolving Fund. Normally, the surplus would be transferred to the General Fund on June 30, 1984. However, due to the significant amount of funds available, and the fiscal constraints facing the Legislature, we recommend adoption of a control section to transfer \$1,991,000 from the Service Revolving Fund to the General Fund on the effective date of the budget (Analysis page 207).

6. Work Plan for Real Estate Services Division Activities Needed.

The Real Estate Services Division (RESD) is responsible for (1) acquiring property, (2) identifying state surplus property and (3) managing certain state property. The division recovers its costs for these activities through hourly billings to appropriations or to revenues derived from the sale of surplus property or from leasing of properties which are managed by the division.

We are unable to analyze the appropriate level of staffing for the division because the amount of workload associated with acquisition, sales, and management have not been determined for 1983-84. Accordingly, we withhold recommendation on the proposed reduction of 9.5 positions in the division pending receipt of additional workload information (Analysis page 211).

7. General Fund Appropriation Not Needed for Building Standards Commission

The Health and Safety Code was amended in 1981 to require each agency responsible for adopting building standards to reimburse the Building Standards Commission for the agency's proportionate share of the commission's cost to review and publish the standards. Prior to that time, the activities of the commission were funded fully from the General Fund.

The commission's General Fund appropriation has been continued, however, with the commission crediting the amount against the charges which would have been assessed to agencies with General Fund support. A General Fund appropriation of \$177,000 is requested for 1983-84.

The commission's method for determining the allocation of its General Fund appropriation has resulted in the General Fund bearing more than its proportionate share of the commission's cost. Given this fact, and the provisions of the Health and Safety Code relating to recovery of costs, we recommend that the \$177,000 in General Fund support be deleted. The commission should recover the full cost of its activities through agency assessments (Analysis page 219).

8. Radio Maintenance Function is Overstaffed (-\$1,688,000)

We recommend deletion of \$1,688,000 to eliminate 34 existing telecommunications technician positions for maintenance and repair of radio systems owned by the state, and by a few local agencies. Our analysis indicates that the current level of staffing is excessive because (1) the department overestimated its radio maintenance workload when determining its current level of authorized positions and (2) a comparison of technician productivity in state service and private industry indicates that state workload standards are too low (Analysis page 221).

Department of General Services--Capital Outlay

(Items 1760-301 and 1760-311/page 229)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>1983-84</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$5,241	pending	-\$3,933

Highlights of Our Recommendations

1. Elevator Modifications for Earthquake Safety (-\$310,000)

The budget proposes \$1,080,000 to modify 96 elevators in 21 state office buildings to comply with California Administrative Code requirements relating to earthquake safety. Effective October 6, 1982 the Department of Industrial Relations, Division of Occupational Safety and Health can order that noncomplying elevators be brought up to code. Failure to correct the deficiencies can result in the elevator being closed down.

The amount requested in the budget includes overbudgeted funds and excessive fees and contingency. Based on the Office of State Architect's construction estimate and an appropriate funding level for architectural and engineering fees and contingency, \$770,000 should be sufficient to complete the proposed work. We recommend approval of this reduced amount, for a savings of \$310,000 (Analysis page 231).

2. High-Rise Fire and Life Safety (-\$2,077,000)

The budget includes \$2,077,000 for fire and life safety modifications to high-rise state office buildings. Information provided by the department indicates that the funds would be used to bring four buildings into compliance with provisions of the California Administrative Code.

The Office of State Architect estimates that the proposed modifications will cost in excess of \$3 million, while the budget contains only \$2,077,000. The Department of Finance has been unable to identify what work is included within the budgeted amount. Consequently, we recommend that the funds be deleted (Analysis page 232).

3. Space Planning Activities (+\$119,000)

The department's Space Management Division is responsible for programming and planning space in several new state office buildings. In our analysis of the department's support budget we indicate that these activities are being inappropriately charged against the Building Rental Account.

We recommend that Item 1760-301-036 be augmented by \$119,000 to provide funds from the Special Account for Capital Outlay for planning activities related to four construction projects. Specifically we recommend that space planning funds be provided for (1) the Van Nuys office building, (2) the new San Francisco office building, (3) the Franchise Tax Board Facility, and (4) the new Los Angeles office building (Analysis page 234).

4. Replacement of PCB-Contaminated Equipment (-\$1,550,000)

The budget proposes \$1,830,000 for activities related to the replacement of state-owned PCB-contaminated equipment. Specifically, \$1,550,000 is requested for the disposal of PCB fluids and contaminated solids, and \$280,000 for sampling the contents of equipment which contain suspect or questionable fluids.

Disposal Activities. The department is proposing to incinerate and detoxify PCB fluids and to dispose of contaminated solids in approved landfills. The need for a disposal program, however, depends on the successful completion of the previously funded equipment replacement phase of the program. Working drawings for the replacement work are not yet completed, and it is not clear that construction work will proceed in 1982-83.

Moreover, the department has not provided any information which (1) supports the costs used in developing the program, or (2) details the method and location of disposal activities. The Legislature should be more fully apprised of the program details before being asked to accept the risks associated with PCB disposal.

For these reasons we recommend the \$1,550,000 for disposal activities be deleted from the budget.

Sampling of Fluids. The department's proposal also includes funds to sample fluids from 653 items of equipment. No detail, however, has been provided to substantiate the proposed level of funding.

The proposed fluid sampling is necessary so that the state has an accurate assessment of which items contain PCBs. However, we have no basis for judging the adequacy of the amount requested at this time. Consequently, we withhold recommendation on the \$280,000 proposed for sampling until the department provides additional information on the costs associated with the request (Analysis page 234).

State Personnel Board
(Item 1880/page 237)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$22,369	\$22,155	\$23,065	\$22,618	\$447.
Personnel- years.....	523.5	524.1	524.1	--	--

Highlights of Our Recommendations

1. WIN/COD Coordinators

The purpose of the COD programs is to create job opportunities in the public sector for welfare recipients and disabled persons. Agency coordinators work with departments within their agencies to promote COD training opportunities and monitor the progress of COD participants.

Our review indicates that the coordinator positions should be eliminated for a General Fund reduction of \$275,000. These positions should be eliminated for the following reasons:

1. The agency coordinators perform services for the agencies that are not related to the COD program.

2. Services performed by the COD coordinators duplicate activities of staff in other departments and in the COD program itself.

3. Departmental use of WIN/COD trainees is determined by specific departmental needs, rather than the influence of the agency coordinators (Analysis page 244).

Public Employees' Retirement System (PERS)

(Item 1900/page 246)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$29,699	\$33,839	\$26,591	(pending)	(\$674)
Personnel- years.....	648.7	692.6	706.2	--	--

Highlights of Our Recommendations

1. Reimbursement for Investment Services

We withhold recommendation on \$674,000 budgeted as reimbursement from the State Teachers' Retirement Fund, pending receipt and analysis of an amended expenditure plan which is consistent with statutory requirements. The budget proposes that the PERS provide investment services to the State Teachers' Retirement System (STRS) on a reimbursement basis during 1983-84. However, state law prohibits STRS from using PERS staff for investment services, effective July 1, 1983. The budget document indicates that an amended plan, consistent with the statutory requirements, will be submitted prior to the budget hearings (Analysis page 253).

State Teachers' Retirement System (STRS)

(Item 1920/page 256)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$10,380	\$10,898	\$11,486	(pending)	(\$1,565)
Personnel- years.....	273	280	276	--	--

Highlights of Our Recommendations

1. Staff Benefits

We withhold recommendation on \$945,000 budgeted for staff benefits, pending submittal of a revised budget. Our analysis indicates that staff benefits are underbudgeted for 1983-84. Therefore, we withhold recommendation on the proposed \$945,000, pending submittal of a revised budget which adequately funds staff benefits (Analysis page 258).

2. Investment Services Budget

We withhold recommendation on \$620,000 budgeted for investment services from the Public Employees' Retirement System (PERS), pending receipt and analysis of an amended expenditure plan for these services which is consistent with statutory requirements. The budget proposes that the STRS is to receive its investment services from the PERS through interagency agreement. However, state law prohibits the STRS from using PERS investment services beginning July 1, 1983. The budget document indicates that an alternative expenditure plan, consistent with statutory requirement, is being developed and will be submitted to the Legislature prior to the budget hearings (Analysis page 258).

Veterans' Home of California--Capital Outlay

(Item 1970-301/page 265)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$3,512	(pending)	-\$3,092

Highlights of Our Recommendations

1. Funding Request Not Clear (-\$2,326,000)

The budget includes funding for five projects, at the Veterans Home, which have been considered previously and funded partially by the Legislature. These projects would correct code deficiencies and privacy and space violations in living quarters in the Section A, B, C, D and E buildings.

In each case, the amount included in the budget does not coincide with the amount which the Office of State Architect and the department indicate is needed for the next phase of the project. Moreover, the Department of Finance has been unable to identify what work would be accomplished with the requested funds. Because the administration's proposal is not clear, we have no basis for evaluating the funding proposal and recommend that the \$2,326,000 relating to these projects be deleted (Analysis page 269).

2. Sections H, J, K, and L, Remodel (-\$450,000)

The budget proposes \$450,000 for work related to remodeling the Section H, J, K and L buildings, but does not specify what phases of the project will be accomplished with the proposed funds. The project would make modifications to four domiciliary buildings to correct fire and life safety and handicapped code violations.

The department intends to house the members who live in these four buildings in the completed Section E building on a temporary basis while the remodeling of Sections H, J, K, and L is in progress. Based on the department's schedule and 1983-84 funding request for the Section E project, work on the plans for the remodeling of Sections H, J, K and L

need not begin in the budget year. Because the proposed funding is not needed in 1983-84, we recommend the \$450,000 be deleted (Analysis page 270).

3. Renovate Heating Systems, Sections A and C (-\$216,000)

The department is requesting \$216,000 to renovate the heating systems in the Section A and Section C buildings at the Veterans Home. Under the department's proposal the existing steam heating systems would be replaced with hot water systems.

Funds were proposed in the 1981-82 budget to remodel the Section A and Section C buildings. Included in this proposal was the renovation of the existing heating systems. In appropriating funds to begin work on the plans for the remodeling of these buildings, the Legislature adopted language in the Supplemental Report of the 1981 Budget Act excluding the renovation of the radiator heating systems from the scope of the projects. The department has not provided any information to indicate why the system should be renovated. Consequently, we recommend that the \$216,000 be deleted (Analysis page 273).

BUSINESS, TRANSPORTATION AND HOUSING

Department of Alcoholic Beverage Control

(Item 2100/page 277)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$13,768	\$13,444	\$13,946	\$13,946	--
Personnel- years.....	373.8	360.6	356.1	356.1	--

Highlights of Our Recommendations

1. Assess Litigants for Hearing Costs

We recommend that legislation be enacted to assess unsuccessful litigants for the cost of alcoholic beverage license hearings, for a potential General Fund savings of \$420,000 annually. Under existing law, the full cost of these hearings (conducted by the Office of Administrative Hearings) is paid by the department, with the exception of a portion of the transcript preparation expense when the hearing decision is appealed. Contrastingly, in superior and municipal courts, civil litigants are required to pay various fees to partially offset court costs. We recommend imposing similar charges for administrative hearings when the department's position is upheld, unless the litigant can demonstrate a financial hardship, in order to distribute the costs of these hearings on a more equitable basis (Analysis page 279).

2. Fees and Penalties

We recommend the enactment of legislation increasing certain department fees and penalties to reflect the effect of inflation, for a potential General Fund revenue gain of approximately \$1.6 million annually. Department fines have not been increased since 1957, while inflation has risen over 200 percent. This has substantially diluted the deterrent effect of these fines. We recommended increasing these fines by 200 percent. Additionally, daily beer and wine licenses have not been adjusted since 1957, and no longer reflect the department's cost of issuing the licenses. These should be adjusted from \$5.50 to at least \$10, to cover this cost. Finally, various licenses the department issues do not require the payment of an original fee, and one license has a fee of only \$50. Processing costs associated with these licenses, however, range from \$100 to \$400. We recommend, therefore, setting a minimum \$100 fee on these licenses (Analysis page 280).

Alcoholic Beverage Control Appeals Board

(Item 2120/page 281)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$271	\$273	\$498	\$498	--
Personnel- years.....	6.6	6	4.5	4.5	--

Highlights of Our Recommendations

1. Board Members Overpaid

We recommend the enactment of legislation to pay Alcoholic Beverage Control Appeals Board members a per diem rather than a set salary, for a potential savings of \$98,000. This would make the compensation of appeals board members comparable to that of other part-time board and commission members in the state (Analysis page 283).

Department of Corporations

(Item 2180/page 286)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$7,721	\$7,134	\$6,285	\$6,285	(pending)
Personnel- years.....	323.6	332.1	310.1	310.1	(pending)

Highlights of Our Recommendations

1. Legal Staff

We withhold recommendation on a proposed reduction of \$1,220,000 and the deletion of 18 attorney positions and 9 support positions in the department's Enforcement Division. The budget states that the reason for this proposed reduction is to "minimize the proliferation of individual department legal staff which often duplicate central state legal services." Our review indicates that the budget does not propose an augmentation in funding or staff for the Attorney General's office to accommodate the workload associated with the department's Enforcement Division. It is not clear that the workload associated with 18 legal positions can be (1) absorbed within existing department resources, or (2) accommodated by the Attorney General's office (Analysis page 288).

Department of Economic and Business Development

(Item 2200/page 289)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$15,576	\$6,695	\$7,905	\$7,892 (pending)	-\$13 -\$3,023
Personnel- years.....	78.9	76.7	67.1	--	--

Highlights of Our Recommendations

1. Small Business Loan Guarantee Program

We withhold recommendation of \$3,023,000 requested for loan guarantees until the legal status of the Small Business Expansion Fund is resolved. This fund was established to provide loan guarantees to small businesses which are unable to secure financial assistance through conventional channels. However, certain sections of the statutory authority which govern this program expired on January 1, 1983. At the time the Analysis was prepared, the status of the program was uncertain. Accordingly, we withhold recommendation of the amount requested for loan guarantees until the legal status of the program is resolved or legislation is approved to extend or change the program (Analysis page 296).

2. Study of Alternatives to Support Loan Guarantee Program

We recommend that the Office of Small Business Development (OSBD) report to the Legislature on alternatives other than General Fund appropriations for supporting the loan guarantee program. Given current funding shortages and other pressing demands on the General Fund, it is uncertain whether sufficient funds will be appropriated to satisfy the demand for loan guarantees under this program. The program is likely to remain small--and serve relatively few businesses--as long as it relies on the General Fund as its primary source of funding. For this reason, we recommend that the OSBD study other methods of providing support for the loan guarantee program. We specifically recommend that the study include an assessment of: (1) current regulations that limit the amount of loan guarantees; (2) methods of accessing the resources of other programs that provide financial assistance to small businesses; and (3) new methods of securing funds for the program (Analysis page 300).

Department of Housing and Community Development

(Item 2240/page 305)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$33,820	\$43,795	\$32,582	\$31,228	\$1,354
Personnel-years years.....	505.4	565.3	557.8	N/A	N/A

Highlights of Our Recommendations

1. Mobilehome, Manufactured Housing, and Commercial Coach Vehicle License Fees

Current law requires that these units pay an annual vehicle license fee (VLF) based on the market value of the unit. The fee, an annual assessment paid in lieu of property tax, is collected by HCD and subsequently apportioned to local county assessors according to the number of VLF-paying units in the county. Our analysis of the current formula used to determine the VLF indicates a significant undervaluation of the existing units thus resulting in major losses of revenue to state and local governments. In order to revise certain problems in the current system, we recommend the enactment of legislation that would transfer each unit from the VLF system to local property tax rolls when that unit is resold or otherwise transferred. We estimate these changes would result in additional local revenues of \$9.7 million in 1983-84 and \$19.6 million in 1984-85, as well as a potential \$7.2 million in General Fund savings in 1984-85 (Analysis page 318 and LAO Report An Analysis of the Vehicle License Fee System for Mobilehomes, Manufactured Housing, and Commercial Coaches, February 1983).

2. Employee Housing Inspection Program

The budget proposes \$979,000 to support this program in 1983-84. This amount consists of \$784,000, or 80 percent, in General Fund support and \$195,000, or 20 percent, in fee revenue support. The 1981 Budget Act ordered the department to fund 42 percent of the program costs with fees. In order to comply with legislative intent, we recommend the deletion of \$411,000 in General Fund support and a corresponding increase in fee reimbursements to operate the program in 1983-84 (Analysis page 313).

3. Housing Rehabilitation Loan Fund

The budget reports a \$321,000 surplus in this fund as of June 30, 1984. Since the department will not require these funds in 1983-84, we recommend they revert to the General Fund effective July 1, 1982 (Analysis page 315).

4. Rural Development Assistance Program

This General Fund supported program assists local rural agencies in securing available state and federal funds. Since 1980, the program obtained approximately \$34 million for rural areas of the state. Because the program can be supported out of the funds obtained by the local agencies, we recommend the deletion of \$357,000 in General Fund support for the program (Analysis page 314).

California Housing Finance Agency

(Item 2260/page 323)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures.. (thousands)	(\$5,459 ^a)	\$5,972	(\$5,546)	(\$5,392)	(-\$154).
Personnel- years.....	92.5	97	101	N/A	N/A

a. Excludes onetime loan repayment of \$650,000.

Highlights of Our Recommendations

1. Operating Budget

We recommend that the operating budget for the California Housing Finance Agency (CHFA) be appropriated annually out of the Housing Finance Fund, by adding Item 2260-001-501 to the Budget Bill. In addition, we recommend the enactment of legislation permanently requiring that the CHFA operating budget be appropriated in the annual Budget Act. Our review of the agency and its activities indicates that the current procedures, which exempt CHFA from the normal budgetary review process, are inadequate. Including the CHFA support budget in the Budget Bill would establish more effective and more consistent legislative oversight and control over the agency. (Analysis page 325)

2. Rental Housing Construction Fund

Under Chapter 1043, Statutes of 1979, approximately \$37.5 million was appropriated to the Rental Housing Construction Fund (RHCF) for projects to be financed by CHFA. In November 1982, the agency substituted \$23.8 million in CHFA bond proceeds for the originally appropriated RHCF amount. As of February 1983, approximately \$6.4 million of these disencumbered funds remain unallocated to any projects. We therefore recommend the reversion of these funds to the General Fund and that additional bond proceeds be used to replace the reverted amount. (Analysis page 327)

Department of Insurance

(Item 2290/page 332)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>1983-84</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$10,317	\$10,833	\$16,686	\$16,096	-\$590
Personnel- years.....	381.0	393.3	391.8	389.8	-2.0

Highlights of Our Recommendations

1. Support Budget

We recommend that the department's proposed appropriation for 1983-84 be reduced by 3.4 percent, or \$400,000. Our review of department spending patterns indicates that during the period 1974-75 to 1979-80, the department reverted an average of only 2.5 percent of its appropriation each year. The amount unexpended by the department in 1980-81, however, increased to \$575,000, or 6.5 percent of its appropriation, and \$519,000 in 1981-82, or 5.2 percent of its appropriation. The recommended reduction would assure that the appropriation for the department is the minimum amount needed to support adequately the department's programs (Analysis page 334).

Department of Real Estate

(Item 2320/page 339)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$14,698	\$17,164	\$17,346	\$16,067	-\$1,279
Personnel- years.....	407.3	415.0	399.0	372.5	26.5

Highlights of Our Recommendations

1. Education and Research

We recommend a reduction of \$472,000 in the amount budgeted by the department for education and research activities. Our review of department expenditures from 1974-75 to 1981-82 indicates that it has consistently overbudgeted for these activities. Our analysis indicates that the department will revert 70 percent of the amount budgeted for education and research in the current year. Moreover, the department does not have an expenditure plan for \$472,000 of the \$672,000 requested in 1983-84 for education and research (Analysis page 341).

2. Subdivision Program

We recommend (1) deletion of \$106,000 and five proposed new positions and 2.5 existing positions, and (2) adoption of supplemental report language requiring future requests for temporary help to be budgeted in accordance with State Administrative Manual guidelines and not be included in the department's baseline budget. The recommended reductions would conform staffing for the department's subdivision program with the staffing standard the department has identified for periods of below-normal building activity. The recommended language would prevent the department from incorporating a proposed "permanent" temporary help blanket into next year's budget base. A "permanent" temporary help blanket is not permitted by State Administrative Manual guidelines (Analysis page 342).

3. Reimbursements

We recommend a \$300,000 reduction in the amount appropriated from the Real Estate Fund and a corresponding increase in reimbursements to reflect reimbursements the department expects to receive from the Department of Transportation (CALTRANS). Our analysis indicates that, given the level of reimbursements that the department is likely to receive from CALTRANS in the current year, it can reasonably expect to receive at least \$300,000 in reimbursements during 1983-84 (Analysis page 347).

4. Regulation of Mortgage Loan Brokers

We recommend deletion of \$283,000 and 11 personnel-years requested to implement recently enacted legislation [Chapter 886, Statutes of 1982 (AB 3666)] affecting the regulation of the mortgage loan broker industry. Our review indicates that the department originally informed the Legislature that costs associated with AB 3666 could be absorbed, and additional staff would not be needed to implement the bill. In addition, our analysis indicates there is uncertainty whether AB 3666 will increase the department's workload (Analysis page 348).

Department of Savings and Loan

(Item 2340/page 351)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$5,825	\$3,150	\$3,134	\$2,691	-\$443
Personnel- years.....	135.5	92.2	86.5	82.5	-4.0

Highlights of Our Recommendations

1. Necessity of Regulation

We recommend that the appropriate policy committees of the Legislature hold interim hearings to consider what role, if any, the state should have in regulating savings and loan associations. Our review of the department's current scope of regulatory activity indicates that the department is operating, essentially, a registration and advisory program for newly-chartered associations. We are unable to identify any distinct regulatory service the department provides the public or the associations that is not currently provided by the federal government. Furthermore, our analysis indicates that the department is unable to develop the information necessary to identify problems before insolvencies develop and, therefore, does not appear capable of fulfilling its statutory mandate to insure the safety and solvency of state-chartered associations (Analysis page 352).

2. Reimbursements

We recommend a reduction of \$305,000 to eliminate overbudgeting of reimbursements from the Department of Transportation. Our analysis indicates that, based on the actual amount of reimbursements received in the first year of a 2-year interagency agreement with the Department of Transportation, the amount budgeted for reimbursements in 1983-84 by the department is excessive (Analysis page 357).

3. Personal Services

We recommend a reduction of \$128,000 and the deletion of four vacant positions. The department is unable to specify when it intends to fill these positions and cannot justify on a workload basis their retention in the budget year (Analysis page 358).

Department of Transportation

(Item 2660/page 363)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$920,047	\$1,006,661	\$932,549	\$907,160	\$25,389
Personnel- years.....	15,513.2	15,268.4	15,598.2	15,150.2 (pending)	448 \$145

Highlights of Our Recommendations

1. Transfer Resources to the General Fund

We recommend an amendment in Budget Bill language to transfer the unencumbered balance of the Transportation Planning and Development (TP and D) Account to the General Fund. If recommendations in our Analysis are adopted and no offsetting augmentations are made to the Governor's Budget, approximately \$66.4 million would be available for transfer to the General Fund. Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs (Analysis page 390).

2. State Transit Assistance

We recommend that the budget companion bills (AB 223 and SB 124) be amended to reduce the 1983-84 allocation of State Transit Assistance (STA) funds by \$32 million to a level of \$43 million. The Governor's Budget proposes to allocate \$75 million for STA, which is a reduction from the \$103 million appropriated for the program in 1983-84 under current law. Our analysis of the program indicates that STA funds should not be needed in 1983-84 to (a) offset reduced federal operating assistance, or (b) match federal transit capital funds. STA funds should be needed only to continue the same level of operating assistance as the program has provided in the past three fiscal years. This would require a funding level of \$43 million, permitting a reduction of \$32 million (Analysis page 393).

Office of Traffic Safety

(Item 2700/page 405)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$167	\$193	\$414	\$351 (pending)	-\$63 200
Personnel- years.....	27.9	27.8	27.8	26.8	-1

Highlights of Our Recommendations

1. Executive Director Position

We recommend elimination of the executive director's position in the Office of Traffic Safety, for a savings of \$20,000 to the Motor Vehicle Account, State Transportation Fund, and a transfer of \$46,000 from state administration to the OTS grant program. Elimination of this position is warranted because (a) the OTS has operated effectively in the past without the services of a full-time executive director and (b) duties of the position could be absorbed by other personnel in the office (Analysis page 408).

2. DUI First Offender Study

We withhold recommendation on \$200,000 requested to support initial OTS evaluation efforts directed toward county programs offered to first-time "driving under the influence" (DUI) offenders. We withhold recommendation because the office has not developed a definitive proposal outlining the scope of the study or detailed costs associated with its implementation (Analysis page 409).

Department of the California Highway Patrol

(Item 2720/page 411)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>Proposed</u>	<u>1983-84 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$308,005	\$316,829	\$345,912	\$343,007 (pending)	-\$2,905 118
Personnel- years.....	6,959.1	7,476.2	7,819.7	7,803.5 (pending)	-16.2 4.0

Highlights of Our Recommendations

1. Helicopter Replacement

We recommend deletion of \$363,000 requested to purchase a replacement helicopter in the Los Angeles area because the Legislature provided funds in the 1982-83 budget for this purpose (Analysis page 419).

2. Telecommunications Costs

We recommend a reduction of \$388,000 in the funds requested to meet anticipated price increases for telecommunications because the increases will not apply to the entire fiscal year. We further recommend adoption of Budget Bill language requiring Department of Finance approval before additional telecommunications funds can be expended (Analysis page 423).

3. Operating Expenses

We recommend a reduction of \$1,049,000 proposed for operating expense price increases. The CHP has applied Department of Finance cost factors to the wrong base year and, in one instance, applied the wrong cost factor to the correct base year (Analysis page 424).

Department of the California Highway Patrol--Capital Outlay

(Item 2720-301/page 430)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$3,529	(pending)	-\$240

Highlights of Our Recommendations

1. Golden Gate Division Office and Communications Center (-\$171,000)

The budget includes \$171,000 for preliminary plans for a new Golden Gate Division Office and Communications Center. The proposed facility will provide consolidated space for the radio dispatch function and the Golden Gate Division office.

The 1982 Budget Act provided funds for site acquisition (\$598,000) and preliminary planning (\$108,000) for this facility. At the time this Analysis was prepared, the department had not yet acquired a site, and, consequently, work on preliminary plans had not begun. Moreover, the preparation of a budget package had not been authorized. As a result, there is no cost information available other than what was presented to the Legislature last year. Further, it is not clear why the budget is requesting additional funds for preliminary plans, because the Legislature provided \$108,000 for this purpose in 1982-83.

For these reasons we recommend that the \$171,000 requested for preliminary plans be deleted (Analysis page 431).

Department of Motor Vehicles

(Item 2740/page 437)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$185,907	\$208,171	\$235,119	\$230,301 (pending)	-\$4,818 923
Personnel- years.....	6,839.4	7,325.5	7,705.1	7,558.6 (pending)	-146.5 45.5

Highlights of Our Recommendations

1. Staffing Requirements

We recommend a reduction of \$2,088,000 and 117.6 personnel-years because the department's estimate of increased workload at field offices is not supported by its recent experience. This reduction is directed at the DMV's registration and licensing activities conducted at field offices and would limit DMV's workload increase to 4 percent over the current-year staffing level (Analysis page 440).

2. Salary Savings

We recommend a reduction of \$1,000,000 in the department's budget request because salary savings have been underestimated for 1983-84. Since 1976, the department has miscalculated the actual savings which would occur as a result of vacant positions, delay in filling new positions, and filling positions at the first step of the salary range. This recommendation brings the department's salary savings estimate more in line with its experience since 1976 (Analysis page 443).

3. Occupational Licensing and Regulation Positions

We recommend deletion of 16.4 personnel-years and \$593,000 to the DMV's proposed Occupational Licensing and Regulation program because projected workload increases are not supported by workload indicators of the past two years or other documentation which would indicate such an increase is warranted (Analysis page 452).

Department of Motor Vehicles--Capital Outlay

(Item 2740-301/page 461)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	--	\$7,082	(pending)	-\$1,932

Highlights of Our Recommendations

1. San Jose--Construction (-\$182,000)

The budget proposes \$1,343,000 for construction of a new Department of Motor Vehicles (DMV) field office in the southeast portion of San Jose. The proposed 8,715 square foot facility will serve this community better, as well as relieve pressure on the overcrowded central San Jose office.

The total estimated project cost includes a building cost of \$844,000, or \$92 per gross square foot. During hearings on the 1982 Budget Bill, the Office of State Architect indicated it could provide a similar office for Los Angeles at a cost of \$73 per gross square foot. This is equal to \$77 per gross square foot using 1983-84 prices. We see no reason for the discrepancy between the cost of the San Jose project and the Los Angeles project.

Allowing \$77 per gross square foot, an appropriation of \$1,161,000 should be sufficient to complete the project. We recommend approval of this reduced amount, for a savings of \$182,000 (Analysis page 462).

2. Los Angeles, Hope Street--Construction (-\$192,000)

The budget includes \$3,256,000 for construction of a new 34,000 gross square foot DMV field office on Hope Street in Los Angeles. The proposed two-story structure will house a typical DMV field office as well as the office of the regional manager, legal staff, central registration center and the Los Angeles information unit.

The 1982 Budget Act provided \$58,000 for working drawings for the new facility. The working drawing amount was based on a 31,855 gross square foot building costing \$73 per gross square foot (1982-83 prices). No justification has been provided for increasing the size of the building

from 31,855 square feet to 34,000 square feet. Based on the legislatively approved size and a building cost of \$77 per gross square foot (1983-84 prices), only \$3,064,000 should be needed to complete the project. We recommend approval of this reduced amount, for a savings of \$192,000 (Analysis page 463).

3. El Cajon--Construction (-\$1,558,000)

The budget includes \$1,558,000 to construct a new DMV field office in El Cajon (San Diego County). The El Cajon area is presently served by a leased facility in La Mesa which the department indicates is overcrowded. To improve service to both communities, the department is proposing to split the service area and provide two field offices.

The Legislature provided funds in the 1982 Budget Act for site acquisition (\$990,000) and the preparation of preliminary plans and working drawings (\$137,000) for the El Cajon facility. The department has acquired a site for the facility, and the Office of State Architect is in the process of developing schematic drawings for the building. Preliminary plans are not scheduled for completion until May 1983. Under this schedule, the Legislature will not have sufficient information to assess the adequacy of the proposed construction amount. Consequently, we recommend that the \$1,558,000 be deleted (Analysis page 463).

RESOURCES

California Conservation Corps

(Item 3340/page 480)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$24,102	\$33,116	\$27,919	\$27,544	-\$375
Personnel- years.....	420.7	437.8	390.2	390.2	--

Highlights of Our Recommendations

1. Proposed Reduction in Corpsmember Strength

We recommend that, prior to budget hearings, CCC report on the details of the proposed reduction consisting of (a) a decrease of \$3 million in General Fund support (155 corpsmembers and 42.6 staff), (b) a redirection of \$323,000 from corpsmember contracts to pay for an increase in operating expenses (20 corpsmembers and 2 staff), and (c) a redirection of \$397,000 from corpsmember contracts to pay for increased corpsmember medical insurance (25 corpsmembers and 3 staff). The reductions would be made by closing three centers and reducing the number of corpsmembers at other centers. The centers proposed for closure and/or reductions have not been identified. The impact of the reduction will depend on how it is implemented--particularly with respect to the number and location of those centers closed and/or reduced (Analysis page 486).

2. Regional User Charges

We recommend that, prior to budget hearings, CCC submit a detailed plan for its proposal to levy user charges of \$3.2 million on agencies receiving services from CCC. Under existing policy, when CCC undertakes a project for other agencies, the user agency is typically required to pay for only the costs of materials, technical supervision, and specialized equipment. No charge is made for the costs of corpsmember salaries, crew supervision, etc. The budget is proposing to charge users a portion of the costs for these services. At the time our analysis was prepared, the details of the proposal had not been developed, such as the amount of the charge and the ability of project sponsors to pay (Analysis page 489).

3. Workers' Compensation Costs

We recommend deletion of \$375,000 to eliminate overbudgeting of funds for workers' compensation costs. The \$375,000 exceeds the amount justified on the basis of CCC's actual expenditures during the past two fiscal years (Analysis page 491).

Energy Resources Conservation and Development Commission

(Item 3360/page 495)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$27,891	\$50,794	\$25,859	\$24,166 ^a	-\$1,693
Personnel- years.....	545.4	474.4	305.1	305.1 ^a	--

a. Also recommendations pending on \$12,686,000 and 305.1 personnel-years.

Highlights of Our Recommendations

1. Clarification of Budget Needed

The budget proposes to reduce total Energy Commission expenditures by 46 percent, or \$23.9 million, and commission staff by 36 percent, or 169.3 personnel-years. However, the budget does not describe the specific programmatic impacts of these reductions or how they will be implemented. There also are many technical discrepancies in the budget as presented. We recommend that the Legislature direct the Energy Commission and the Department of Finance to clarify the programmatic impact of the proposed reductions and to resolve the various technical discrepancies in the budget (Analysis page 505).

2. Additional Federal Funds Available

We recommend replacing \$1,693,000 of state funds with an equal amount of federal funds. The amount of federal funds available to the commission in 1983-84 will be larger than the amount estimated in the budget. These additional federal funds can be used to replace state funds (Analysis page 508).

3. Unused Loan Funds

The Energy Commission has terminated its alcohol production loan program. Approximately \$541,000 of the money originally provided for these loans remains unspent. The commission has not proposed any alternative use for these funds and therefore we recommend that the money be transferred to the General Fund (Analysis page 510).

California Waste Management Board

(Item 3380/page 512)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$8,161	\$6,808	\$4,059	\$3,399 ^a	-\$660
Personnel- years.....	97.4	84.8	85.3	68.3 ^a	-17.0

a. Also recommendations pending on \$940,000 and 8.6 positions.

Highlights of Our Recommendations

1. Contract Management, Supervisory and Administrative Positions

We recommend elimination of five existing contract management positions, five existing supervisory positions, and seven existing administrative services positions, for a General Fund savings of \$660,000.

Over the period from 1980-81 to 1983-84, the board's supervisory and administrative expenses have remained roughly constant in dollars, while overall program expenditures have declined by 70 percent. More specifically, the Governor's 1983-84 Budget proposes a reduction of \$2,548,000 (93 percent) in funding for grants and contracts. No corresponding reduction was made, however, in the level of staff devoted to the development and management of grants and contracts (Analysis page 515).

Air Resources Board
(Item 3400/page 520)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$51,229	\$56,640	\$51,607	\$51,607 ^a	--
Personnel- years.....	562.3	555.6	517.6	517.6 ^a	--

a. Recommendations pending on \$19,180,000 and 277.0 positions.

Highlights of Our Recommendations

1. Stationary Source Control

We withhold recommendation on \$12,295,000 requested for stationary source control work and administrative support. The budget proposes a reduction of \$1,644,000 and 39.0 positions from the current level for these activities. At the time the Analysis was prepared, the board had not allocated these reductions to specific positions and activities (Analysis page 522).

2. Acid Deposition and Other Research

We withhold recommendation on \$2,000,000 requested for acid deposition research and monitoring and \$4,885,000 requested for other research activities. At the time the Analysis was prepared, the board had not provided detail on a \$2,000,000 augmentation requested for acid deposition work, or a \$3,460,000 reduction proposed for other research activities (Analysis page 524).

Department of Conservation

(Item 3480/page 527)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$12,336	\$13,715	\$13,708	\$13,552	-\$156
Personnel- years.....	328.5	340.4	330.1	330.1	--

Highlights of Our Recommendations

1. Mammoth Lakes Volcanic Hazard Monitoring

We recommend that the State Geologist report at the time of budget hearings on the Division of Mines and Geology's capability for sustaining ongoing costs associated with monitoring the current volcanic hazard in the Mammoth Lakes area.

The California Division of Mines and Geology has estimated an annual cost of approximately \$107,000 to maintain seismometer instruments and electronically process earthquake data. To date, these expenses have been financed by redirecting funds from other activities. To ensure that work at Mammoth Lakes continues, we are recommending that the State Geologist report, during budget hearings, on the funding needed (Analysis page 532).

2. Collection of Williamson Act Contract Cancellation Fees

We recommend (a) the enactment of legislation requiring cities and counties to transfer immediately to the state all fees collected for cancellation of open-space contracts and (b) that the Department of Conservation report during budget hearings on cancellation fees currently due to the state.

Under the California Land Conservation Act of 1965 (Williamson Act), landowners are permitted to enter into 10-year contract with local governments to restrict the use of their property to open-space and agricultural purposes. In exchange for this restriction, the property is assessed at a lower rate. Landowners may petition for early cancellation and pay a substantial cancellation fee to the state.

Chapter 1095, Statutes of 1981 provided a one-time "window" between January 1 to May 30, 1982, when landowners could petition local government for cancellation of an open-space contract under less stringent criteria. Depending on how many cancellation petitions are approved by local government, the state's General Fund may receive up to \$68.2 million.

Because existing law does not specify when cancellation fees assessed by local governments must be transferred to the state, deposit of this money in the General Fund may be delayed indefinitely. Consequently, we recommend that the law be changed to expedite transfer (Analysis page 533).

Department of Forestry

(Item 3540/page 536)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$117,886	\$130,888	\$135,953	\$132,310	-\$3,643
Personnel- years.....	3,860.3	3,845.3	3,825.8	3,818.8	-7.0

Highlights of Our Recommendations

1. Wildland Fire Assessment Feasibility Study

We recommend that at least \$50,000 of the amount budgeted for the Forest Resources Assessment Program (FRAP) be redirected to support a feasibility study on establishing a system of landowner assessments to finance wildland fire protection similar to that used by other western states such as Oregon, Washington, Montana, and Idaho. These states finance between 32 and 63 percent of their wildland fire protection costs by charging from 16 cents to 68 cents per acre, with a minimum charge of \$6 to \$15 per parcel. In comparison, California's wildland fire protection program is financed entirely from the General Fund at a cost of \$132 million in the current fiscal year (Analysis page 543).

2. Repeal Amador Plan Subsidy

We recommend enactment of legislation repealing authority for the department to subsidize the cost of structural fire protection services provided pursuant to "Amador Plan" contracts. Under this program, CDF operates 32 forest fire stations during winter months when the facilities would otherwise be closed. If the state were fully reimbursed by local governments for the cost of 827 personnel-months of CDF staff provided to operate these fire stations, General Fund savings of from \$1.3 million to \$1.5 million annually could occur. In turn, these revenues could be used to restore state responsibility fire protection activities that have been reduced due to General Fund revenue shortages (Analysis page 546).

3. Replacement of S-2 Airtankers

We recommend that \$1,050,000 budgeted for automotive and other equipment purchases be redirected to convert three S-2 aircraft now stored in Fresno to operational condition. The converted S-2s would replace more costly substitute airtankers that have been rented since three S-2s were lost to firefighting accidents in 1978, 1979, and 1982 (Analysis page 548).

4. State Liability for Federal Fire Escapes

We recommend adoption of Budget Bill language prohibiting the department from assisting the U.S. Forest Service (USFS) in conducting controlled burning projects on national forest lands unless the USFS agrees, in writing, to indemnify the state for all suppression costs in case of a fire escape. This recommendation is an outgrowth of an incident last summer when the department incurred suppression costs of \$353,000 due to the escape of a USFS controlled burning project in the Shasta-Trinity National Forest (Analysis page 551).

5. Reduce Forest Service Payments by Amounts Owed by State

We recommend a reduction of \$879,000 from the amount requested by CDF to pay for contract fire protection provided by the U.S. Forest Service (USFS) to state responsibility lands. The USFS has not paid the state for (a) \$525,000 for three 1980 fires within the Cleveland National Forest and (b) \$353,000 of fire suppression expenses incurred by CDF for controlling last summer's escape of a USFS controlled burn from the Shasta-Trinity National Forest. The \$879,000 would be subtracted from \$3,221,000 budgeted to pay for USFS protection of 4,000,000 acres of private, state-responsibility lands located within or adjacent to national forests in California (Analysis page 556).

6. Excessive Use of Aircraft for Executive Transportation

We recommend that the Legislature adopt supplemental report language:

- o Prohibiting the use of CDF-owned or leased aircraft for transportation of department executives to destinations (a) within a two-hour driving distance or (b) well-served by commercial airlines.
- o Requiring that the department bill for all use of CDF-owned or leased aircraft by other state agencies or departments in order to recover Forestry's costs of providing these transportation services.
- o Requiring the Department of Finance to revise the State Administrative Manual (SAM) to provide improved management control over all use of state-owned aircraft for transportation of state personnel.

Our review of CDF aircraft operations disclosed significant use of aircraft for executive transportation when cheaper commercial flights were available and at a time when the Legislature has mandated a reduction in travel costs (Analysis page 559).

State Lands Commission

(Item 3560/page 568)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$7,328	\$7,655	\$7,498	\$7,498 ^a	--
Personnel- years.....	249.6	240.0	239.5	239.5	--

a. Recommendation pending on \$346,000 and 1.0 personnel-years.

Highlights of Our Recommendations

1. Preleasing Studies

The budget includes \$346,000 (one position and \$300,000 in contract funds) for environmental and geologic studies related to the potential leasing of additional tide and submerged lands for oil production between Point Arguello and Point Sal along the north western Santa Barbara Coast. We withhold recommendation on these funds and the additional position pending the receipt and analysis of additional information about the amount, cost, and timing of the work to be done (Analysis page 574).

Department of Fish and Game

(Item 3600/page 582)

	1981-82 <u>Actual</u>	1982-83 <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$50,856	\$55,886	\$57,521	\$57,261 ^a	-\$260,000
Personnel- years.....	1,494.0	1,572.1	1,577.9	--	--

a. Recommendations pending on \$1,000,000.

Highlights of Our Recommendations

1. Pending Increase in Special License Fees and Commercial Fishing Taxes

We recommend that the Department of Fish and Game (DFG) report on the amount of additional revenue to the Fish and Game Preservation Fund expected from statutory and administrative increases in (a) special license (and permit) fees and (b) commercial fishing tax rates, scheduled by DFG for 1983-84. Last year, the department assured the Legislature that a comprehensive revision of statutory license fees and commercial tax rates would be sought in 1983. Anticipated revenue increases from such changes, however, are not reflected in the budget (Analysis page 589).

2. Leased Properties Administered by DFG

We recommend that the Legislature adopt supplemental report language directing the department to:

a. Terminate occupancy of 43 recreational homesites at the Lower Sherman Island Wildlife Area (WLA) in Sacramento County as soon as the existing five-year lease expires in 1986. These homesites constitute (1) an inappropriate use of state property for private purposes and (2) a threat to public health and water quality in the delta.

b. Assume direct management over the Lake Earl WLA in Del Norte County, provide for more public access and lease grazing rights for this area on a competitive bid basis only, as required by the State Administrative Manual (SAM).

c. Require competitive bidding for grazing and farming rights at the Butte Valley WLA in Siskiyou County, as required by the SAM.

d. Seek invalidation of DFG leases with county government for operation of the Hidden Valley WLA and Tullock Reservoir properties, and sell both state properties as surplus land, because the lands are poorly managed and are providing no apparent benefits to the public.

This office has conducted a review of the administration of leased DFG properties. Lease documents, financial statements, and bidding procedures were reviewed. While lease operations generally are being managed effectively, in five instances we determined that the above recommendations were appropriate (Analysis page 594.)

3. Executive Aircraft Use

We recommend adoption of supplemental report language (a) prohibiting the use of DFG aircraft to transport department executives to destinations within a two-hour driving distance or well served by commercial airlines and (b) requiring that the department secure full reimbursement for all uses of its aircraft by other state agencies and personnel.

In reviewing the department's budget proposal for purchase of two new airplanes, this office requested information from DFG concerning current and past use of its Sacramento-based aircraft. In response, the department permitted review of pilot flight log records from 1980 through 1982. We found that the department frequently spent hundreds of dollars to transport one or two executives to destinations such as Eureka, Redding, Bishop, Monterey, Long Beach, and the Los Angeles area. We also identified instances in which the department's aircraft were made available to the Resources Agency, other state departments and persons without apparent charge for the cost incurred by DFG. As a consequence, it is likely that the costs were improperly charged to DFG programs such as inland fisheries management. There was no apparent effort to reduce travel as mandated by Control Section 27.10 of the 1982 Budget Act (Analysis page 601).

Department of Fish and Game--Capital Outlay

(Item 3600-301/page 603)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$1,134	(pending)	-\$360

Highlights of Our Recommendations

1. Mojave River Water Sterilization System (-\$185,000)

The budget includes \$185,000 to install a water sterilization system at the Mojave River Hatchery. The department indicates that annual pumping costs could be reduced substantially if the water recirculation system at the hatchery were used. This system is not in operation, however, because of diseases associated with the use of recirculated water. The proposed system would be used to treat the recirculated water, thereby reducing the need to pump fresh water.

The amount proposed in the budget is based on a vendor's estimate for one sterilization unit, while four units are required. Because the budget amount is not sufficient to accomplish the proposed work and an accurate estimate of the full cost is not available, we recommend the proposed funds be deleted (Analysis page 605).

2. Potential Funding Problems for Future Capital Projects

Capital outlay projects for the department generally are funded from the Fish and Game Preservation Fund (FGPF). After allowing for ongoing departmental operations and an adequate reserve for economic uncertainties, there are limited funds available in the FGPF for capital outlay and other one-time expenditures. Over the past four years, capital outlay appropriations from the FGPF have ranged from \$2 million to \$3.5 million.

Two proposals in the department's capital outlay budget will result in potential construction costs totaling \$12.9 million in the near future. Specifically, the two phases of the Nimbus Hatchery project will cost approximately \$10.2 million to construct, and department-wide project planning funds could result in about \$2.7 million in construction projects. It is not clear that the FGPF will be able to finance the completion of these projects.

During hearings on the 1982 Budget Bill the department assured the Legislature that a comprehensive revision to existing license fees and commercial tax rates would be sought in 1983. These changes, however, are not reflected in the budget.

Until the department clarifies the availability of revenues to fund future construction projects no additional money should be spent on the preparation of plans. Consequently, we withhold recommendation on the Nimbus working drawings and departmental project planning (Analysis pages 606 and 607).

Wildlife Conservation Board--Capital Outlay

(Item 3640-301/page 611)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$2,678	\$2,428	-\$250

Highlights of Our Recommendations

1. Contingency Reserve Not Needed (-\$250,000)

The budget includes \$250,000 from the Wildlife Restoration Fund as a contingency reserve for miscellaneous, unidentified problems which may arise in the budget year, and for projects which may be undertaken with local agencies.

The board is allowed to shift funds appropriated for the Wildlife Restoration Program between and within funding categories. Consequently, the board should have sufficient flexibility to deal with unforeseen problems and opportunities. A separate contingency appropriation should not be needed, and we recommend deletion of the \$250,000 (Analysis page 611).

Department of Boating and Waterways

(Item 3680/page 613)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$21,517	\$22,383	\$27,283	\$25,283 ^a	-\$2,000
Personnel- years.....	60.4	63.4	63.4	63.4	--

a. Recommendations pending on \$475,000.

Highlights of Our Recommendations

1. Delete Excess Funds from South Beach Marina Project

We recommend a reduction of \$2,000,000 from the Harbors and Watercraft Revolving Fund for a \$6,500,000 loan to the South Beach Marina Project in San Francisco. Part of the loan can be deferred until 1984-85, because the funds are not needed in 1983-84. We further recommend that the \$2,000,000 be appropriated to the Department of Parks and Recreation to offset General Fund costs of operating and maintaining recreational boating facilities in the state park system (Analysis page 616).

2. Provide for Local Public Funding of Bolinas Erosion Control Project

We withhold recommendation on \$475,000 proposed from the Resources Account, Energy and Resources Fund, for the state's contribution to the Bolinas Beach Erosion Control Project in Marin County. The proposed project makes no allowances for financial participation by a local public agency. Such participation is customary in projects of this type and appears to be appropriate for this project (Analysis page 619).

California Coastal Commission

(Item 3720/page 620)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$6,668	\$7,094	\$6,315	\$5,613 ^a	\$80,000
Personnel- years.....	187.9	171.1	129.9	115.2 ^a	-2.0

a. Recommendations pending on \$622,000 and 12.7 positions.

Highlights of Our Recommendations

1. Coastal Energy and Policy Planning Responsibilities

We defer recommendation on (a) \$442,000 requested for the Statewide Planning and Support Studies Element and (b) the proposed transfer of coastal energy planning responsibility to OPR.

The budget proposes the assignment of some coastal energy and policy planning activities to OPR. This represents a policy decision on the part of the new administration. It is not clear precisely which coastal energy and policy planning activities will be (a) retained by the commission, (b) assumed by OPR, or (c) eliminated entirely, and what effect these changes will have on the commission's ability to fulfill its statutory obligations.

2. Local Assistance and Legislative Mandates

We defer recommendation on \$180,000 requested for local coastal program (LCP) development grants to local governments pending clarification by the commission of the amount needed to fund local government coastal-related costs in 1983-84. Because there will be no new federal finding, we doubt that the \$180,000 requested for LCP development grants together with the \$400,000 requested for legislative mandates in Item 9680 will be sufficient to cover all reimbursable costs incurred for LCP preparation in the budget year.

Department of Parks and Recreation

(Item 3790/page 631)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$175,299	\$131,676	\$101,556	\$93,441	-\$8,115
Personnel- years.....	2,860.2	2,974.0	2,840.6	2,793.6	-47.0

Highlights of Our Recommendations

1. Adequacy of Appropriated Revenues

In 1983-84, the department will receive an appropriation of all its earned revenues and will be dependent on achieving those revenues to pay a major part of its operating costs. The department estimates that \$30,301,000 in state park revenues will be received to pay for operations, and that the amount of General Fund assistance needed to pay the remaining operating costs will be \$55,364,000. If the current year is any indication, the department will have a problem earning its revenues in the budget year. We believe that there may be shortfalls in state park system revenues. Thus we recommend that the department report to the fiscal committees on the status of the revenues in 1982-83 and its prospects for revenues in 1983-84 (Analysis page 636).

2. Off-Highway Vehicle Program

We recommend that the department submit to the fiscal committees its plan and cost estimates for establishing the new Off-Highway Motor Vehicle Recreation Commission and operating and maintaining the new State Vehicular Recreation Area and Trail System. Chapter 994, Statutes of 1982 transferred the assets and duties of the Office of Off-Highway Vehicle Recreation in the Department of Parks and Recreation to the newly created Off-Highway Motor Vehicle Recreation Commission and the Division of Off-Highway Motor Vehicle Recreation in the department. The budget does not provide for implementation of the new program in 1983-84 (Analysis page 639).

3. State Park Planning Programs

We recommend deletion of \$1,108,000 and 24 personnel-years to reflect a major reduction in planning workload because of a sharp decline in funding for the implementation of new capital outlay projects. We further recommend enactment of legislation that will simplify and reduce the cost of the statewide and park unit planning processes. These processes have become overly complicated and costly. Furthermore, the department's planning efforts assume that a substantial amount of funding

will be available in future years to support a large number of capital outlay projects, but this assumption does not appear realistic (Analysis page 639).

4. Interpretive Development Program

We recommend a reduction of \$452,000 and 10 personnel-years in the interpretive development program. The budget proposes \$1,810,000 and 41.5 personnel-years for interpretive services in 1983-84. This funds the interpretation of natural, historic, and recreational resources throughout the state park system. Given the sharp decrease in funding for new capital outlay projects in 1982-83, and the lack of workload data from the department, we believe that a 25 percent reduction in the interpretive development program is reasonable and justified (Analysis page 641).

5. State Park Lands Managed by the Department of General Services

We recommend that the department explain to the Legislature why it has not complied with key provisions of Ch 752/82 which mandates the transfer to the Department of Parks and Recreation of land acquired for the state park system that is currently managed by the Department of General Services. We further recommend that the department take specified actions needed to comply with that legislation. In addition, we recommend that the department provide the Legislature with a list of any surplus properties currently managed by the Department of General Services that the Department of Parks and Recreation does not wish to have transferred to the state park system.

In recent years, a large inventory of property acquired for the state park system has accumulated under the jurisdiction of the Department of General Services. This inventory consists of approximately 85,000 acres of land that was acquired at a cost exceeding \$175 million. For the most part, these properties are not open to recreational or public use, although some were acquired as early as 1968 (Analysis page 642).

6. Increased Operating Requirements

As of December 15, 1982, the department had a backlog of uncompleted capital outlay projects amounting to about \$173 million. Completion of these projects will impose substantial ongoing operating and maintenance requirements on the department beginning in 1983-84. We recommend that the department explain to the fiscal committees how it will handle these increased operating and maintenance requirements (Analysis page 644).

7. Equipment Purchases Overbudgeted

We recommend a reduction of \$500,000 because the department has not substantiated its need for equipment purchases. The budget includes \$1,693,000 for acquisition and replacement of equipment during 1983-84. This represents a \$500,000, or 42 percent, increase over actual expenditures in 1981-82. The department has not justified this increase (Analysis page 645).

8. Operating Costs of State Park Reservoirs and Lakes

We recommend a reduction of \$2 million in the department's General Fund appropriation and a corresponding augmentation from the Harbors and Watercraft Revolving Fund in order to shift the cost of programs serving boaters at state park system reservoirs and lakes from the General Fund to the Harbors and Watercraft Revolving ((boaters) Fund. This would eliminate a General Fund subsidy (Analysis page 645).

9. Nonprofit Corporations Should Pay Rent

We recommend that the Legislature (a) adopt supplemental report language directing the department to amend its concession contracts with the Asilomar Nonprofit Corporation and the Columbia City Hotel Nonprofit Corporation to require them to pay rents equal to the 6.5 percent of gross sales receipts and (b) reduce the department's General Fund appropriation by the \$401,000 increase in rents. These nonprofit corporations generate in excess of \$6,600,000 in combined revenues annually, but pay no rent to the department for the state-owned land and facilities they use to generate this revenue (Analysis page 647).

10. Administration of Local Assistance Grants

We recommend deletion of \$525,000 and 15 personnel years to reflect a substantial decrease in workload in the administration of local assistance grants. The department's local assistance grant programs peaked in 1981-82 at a level of \$113,700,000 and will decline to an estimated level of \$12,200,000 in 1983-84. The budget year essentially reflects completion of the state's bond-funded grant programs. We therefore recommend a 50 percent reduction in administrative support for this program (Analysis page 649).

11. Urban Fishing Grants

We recommend deletion of \$2 million for this program because the department has not justified the third-year funding for the Urban Fishing Grant program. At the present time, the construction of four projects is underway. None of these projects, however, has advanced to a point where the feasibility of the urban fishing lakes has been demonstrated. The cost of the Lake Merritt and the Lake Evans projects, however, have more than doubled and the final cost of the other projects is yet to be determined. Given these problems and the fact that the additional \$2 million proposed for 1983-84 has not been designated for specific projects, we believe that the department has not justified the third year of funding (Analysis page 651).

12. Excess Facility Operations Costs

We recommend a reduction of \$3,774,000 because the department has not justified a 61 percent increase in facility operations costs. The department is proposing \$9,957,000 for the leasing and maintenance of privately owned commercial office space and the maintenance of state-owned facilities. Lacking justification from the department for the proposed increase, we recommend the Legislature approve \$6,183,000 in order to fund the expenditures at a level equivalent to actual expenditures for this purpose in 1981-82 (Analysis page 652).

13. Printing Costs

We recommend a reduction of \$399,000 because an increase in printing costs has not been substantiated. The budget requests \$878,000 to cover estimated printing costs in 1983-84. This is 83 percent more than the amount spent for printing in 1981-82. The department has not substantiated the need for such an increase. We therefore recommend a reduction of \$399,000 which would provide for the actual level of expenditure for printing in 1981-82 (Analysis page 653).

Department of Parks and Recreation--Capital Outlay

(Item 3790-301/page 654)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$67,545	\$201,941	\$38,818	\$34,718 ^a	-\$4,100

a. Recommendation pending on \$15,587,000.

Highlights of Our Recommendations

Item 3790-301-190 from the Resources Account, Energy and Resources Fund

1. Minor Capital Outlay--Dune and Bluff Erosion

We recommend deletion of \$635,000 for dune and bluff erosion control because (1) this should be included in the department's support budget rather than as a minor capital outlay project and (2) sufficient justification for the work has not been provided (Analysis page 654).

Item 3790-301-392 from the State Parks and Recreation Fund

1. Chino Hills Project--Acquisition

We recommend augmentation by \$373,000 and approval in the increased amount of \$6,873,000. The augmentation is necessary in order to reflect the value contained in the state's appraisal and the department's estimate of related administrative costs (Analysis page 657).

2. Hearst San Simeon Historic Monument--Continuing Rehabilitation

We recommend a reduction of \$238,000 and approval in the reduced amount of \$470,000. This request is to continue a program of building stabilization and repairs at Hearst Castle. Our analysis indicates that the department has not justified an increase of \$238,000, or 51 percent, above the funds provided for in the current year (Analysis page 659).

3. Indio Hills Palms--Acquisition

We recommend that language be added to the Budget bill prohibiting the encumbrance of funds appropriated for the project unless and until (a) the ownership of federal lands in the project boundaries is transferred to the department and (b) an operating agreement is executed with the County of Riverside for the county to operate and maintain the project for a minimum of 25 years at no additional cost.

This request is for \$975,000 for Phase 2 of a two-phase acquisition project at Indio Hills Palms in Riverside County. The Legislature should adopt Budget Bill language so as to state its intent (Analysis page 659).

4. Mokelumne River Project--Acquisition

We recommend deletion of the \$200,000 requested for the acquisition of 31 acres immediately upstream from the State Highway 49 bridge crossing of the Mokelumne River. The subject property is the downstream river access and pickup point for rafters. Because this stretch of the river would benefit from improved access for both fishing and rafting, and because the BLM will operate the property, it should be funded by the Wildlife Conservation Board, rather than by the Department of Parks and Recreation (Analysis page 660).

5. Minor Projects

We withhold recommendation on this request for \$634,000 for minor capital outlay projects throughout the state park system. The amount requested represents a 71 percent decrease from the \$1,500,000 of estimated expenditures in 1981-82. Our analysis indicates that the department may have seriously underbudgeted minor capital outlay programs in 1983-84 (Analysis page 662).

Item 3790-301-721 from the Parklands Fund of 1980

1. Angel Island State Park--Development

We withhold recommendation on \$1,845,000 for restoration of historic buildings and construction of new day-use and campground facilities at the East and North Garrisons at Ayala Cove on Angel Island State Park in San Francisco Bay. The State Architect has not completed a cost estimate on the project and there is some question regarding the final scope of the restoration work to be accomplished (Analysis page 664).

2. Columbia State Historic Park--Development

We recommend approval of \$1,328,000 for the project and that language be added to the Budget Bill prohibiting the encumbrance of funds for this project until an agreement has been entered into that provides for operation and maintenance of the Fallon Theatre at no cost to the state for a minimum of 10 years.

The department is requesting \$1,328,000 for Phase 4 of a multi-phase project to restore the historic Fallon Hotel and Theatre in Columbia State Historic Park. This project was initiated with the understanding that either the University of the Pacific or the Columbia Junior College would operate and maintain the theatre at no cost to the state. At the present time, the department is uncertain whether either party is willing to operate and maintain the theatre because of the potential high cost (Analysis page 664).

3. Fort Ross State Historic Park--Acquisition

We recommend deletion of the \$200,000 requested to acquire approximately 100 acres of land bordering Fort Ross State Historic Park because (a) the property owner is an unwilling seller and (b) the department has not completed an appraisal of the project as required by law (Analysis page 665).

4. Millerton Lake State Recreation Area--Development

We withhold recommendation on \$1,923,000 for this project pending a review by the department to determine whether money from the Harbors and Watercraft Revolving Fund can be substituted for 1980 Park Bond Fund money to pay the cost of facilities that will directly serve boaters. This project will provide for the replacement of obsolete and worn-out park administrative and day use facilities at this popular water recreation area (Analysis page 665).

5. Old Town San Diego State Historic Park--Development

We withhold recommendation on \$1,400,000 for this project. This request is for Phase 3 of a multi-phase project to reconstruct several historic buildings in Old Town San Diego State Historic Park. Three of the buildings would have completely equipped kitchens and one bakery for use by future concessionaires. We question financing of this equipment which is normally provided by concessionaires through either leasehold improvements or as business equipment. Furthermore, the State Architect's cost estimate of \$2,577,000 is not consistent with the budget request (Analysis page 666).

6. Regional Indian Museums Displays--Planning and Development

We recommend deletion of \$1,727,000 (\$1,049,000 under Item 3790-301-721 and \$678,000 under Item 3790-301-728) requested for this project, because the department has not justified the sites chosen or provided an interpretive plan for the regional Indian Museums. Furthermore the funding requested from the 1970 Park Bond Act is not legally available for this project (Analysis page 667).

7. San Diego Coast State Beaches--Development

We withhold recommendation on \$1,994,000 for this project pending rescoping. This request is for rehabilitation and construction of day-use parking lots at Cardiff and Moonlight State Beaches in the San Diego coast area. The State Architect's \$2,676,000 cost estimate for the project exceeds the amount requested in the budget by \$682,000 (Analysis page 668).

8. San Pasqual Battlefield State Historic Park--Development

We recommend deletion of the \$856,000 requested for this project because interpretive plans have not been provided by the department. This request is for construction of a one-story visitor interpretive center and an adjacent parking area (Analysis page 668).

9. Sinkyone Wilderness State Park--Trail Construction

We recommend that language be added to the Budget Bill prohibiting encumbrance of any funds for this project until the Bureau of Narcotic Enforcement certifies that the Sinkyone Wilderness, the trail corridor, and adjacent parklands are safe for public use. The budget requests \$112,000 to develop a 15-mile hiking trail and 3 trail camps on 1,400 acres of coastal redwoods which the department is leasing from the Georgia Pacific Company.

In our analysis of Item 0540, the Secretary of Resources, we discuss the problems that field personnel in the Resources Agency are having due to the illegal cultivation of marijuana in the north coast area. The proposed trail facilities would serve to bring more members of the public into this area (Analysis page 669).

10. Exposition Park-Multi-Cultural Center State Recreation Area--Development

We withhold recommendation on \$953,000 for this project. This request is for Phase 2. The total cost of the project is estimated to be \$5,958,000. In view of the high cost to develop and operate this project, we recommend that the administration (a) review the progress of the construction to date and indicate whether the project can be completed in time for the 1984 Olympics, (b) justify the estimates for development, operation, and maintenance, and (c) discuss the costs and benefits of assigning responsibilities for operating and maintaining this project to the Museum of Science and Industry, rather than to the Department of Parks and Recreation (Analysis page 670).

Item 3790-301-742 from the State, Urban, and Coastal Park Bond Fund

1. Huntington State Beach--Reconstruction

We withhold recommendation on \$6,838,000 for this project, pending completion of a revised cost estimate. This request is for Phase 2 of a two-phase construction project to replace old beach and parking facilities at Huntington State Beach in Orange County. The total cost of the project is estimated to be about \$13.3 million. Until revised cost estimates are available for the project, we cannot determine the amount of construction money needed (Analysis page 674).

Santa Monica Mountains Conservancy

(Item 3810/page 677)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$294	\$307	\$303	(pending)	--
Personnel- years.....	8.8	10.5	9.5	(pending)	--

Highlights of Our Recommendations

1. Support Budget and Staffing Requirements

We withhold recommendation on the proposed support budget and staffing for the Santa Monica Mountains Conservancy. The conservancy's workload will consist principally of the completion of capital outlay projects that have already been initiated using prior-year appropriations. The status of these projects and the remaining project workload still needs to be determined (Analysis page 679).

Department of Water Resources

(Item 3860/page 682)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$27,756	\$28,520	\$24,643	\$24,383a	-\$260
Personnel- years.....	2,830.4	2,939.2	2,964.0	2,963.0	-1.0

a. Recommendation pending on \$1,462,000.

Highlights of Our Recommendations

1. Legal Services Reduction

We withhold recommendation on the proposed reduction of \$462,000 in legal services, pending receipt of information on the reduction. The department is involved in a number of program specific activities which require day-to-day legal expertise, such as contracting for the operation and completion of the State Water Project and participation in a major energy development program (Analysis page 687).

2. Unallocated Reduction

We withhold recommendation on the proposed \$1,000,000 unallocated General Fund reduction pending receipt of additional information. According to the budget, the \$1,000,000 reduction is to be taken from a number of activities and studies related to water management planning, development of new sources of water, water conservation, and data collection (Analysis page 688).

3. Desalination Project--Funding Clarification Required

We recommend that the department report on the availability of funds for operation of the reverse osmosis desalination demonstration project. Since 1980-81, the department has expended almost \$9.4 million on the development of an agricultural wastewater desalination project. The budget proposes to finance the plant's operating costs of \$2.3 million in 1983-84 from unspecified State Water Project funds (Analysis page 691).

4. Flood Control Subventions

We recommend that the department report on how it can reduce the estimated \$17 million backlog of local agency claims for reimbursement under the flood control subvention program. Over the past four years, the amounts appropriated to cover local claims have not been sufficient and an increasing backlog has developed (Analysis page 692).

Department of Water Resources--Capital Outlay

(Item 3860-301/page 695)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$1,045	\$500	\$1,820	\$845 ^a	-\$975

a. Recommendations pending on \$445,000.

Highlights of Our Recommendations

1. Sacramento River Bank Protection Project

We recommend deletion of \$975,000 proposed for mitigation of Phase I costs associated with the Sacramento River Bank Protection Project because matching federal funds are not available. This is a federal project and the state will not proceed without federal reauthorization and funding. We also withhold recommendation on \$445,000 requested for future Phase II construction work pending clarification of federal fund availability and the state's participation in future construction (Analysis page 695).

State Water Resources Control Board

(Item 3940/page 697)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>Proposed</u>	<u>1983-84 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$15,808	\$14,112	\$14,418	\$14,103 ^a	-\$315
Personnel- years.....	747.0	721.9	693.0	690.0 ^a	-3.0

a. Recommendations pending on \$338,000 and 6 positions.

Highlights of Our Recommendations

1. Legal Services Reduction

We recommend that the board report on the impact of the proposed \$356,000 reduction in legal services. The board is involved in a number of program specific activities which require legal expertise such as administration of water rights and the development and enforcement of cleanup and abatement orders (Analysis page 701).

2. Reduced Wastewater Pretreatment Workload

We recommend deletion of \$160,000 to eliminate support of the pretreatment program because of reduced workload. The board's role under the pretreatment program has been to assist local agencies with the development and review of local programs to meet waste disposal standards. Most of the agencies will have adopted programs by the end of 1982-83 and only a minor workload will be carried over into 1983-84 (Analysis page 703).

3. Overbudgeting

We recommend deletion of \$155,000 to correct for overbudgeting. The budget proposes to eliminate General Fund support for the wastewater facility operator training program and make the program entirely self-sufficient by increasing operator fees. The budget, however, does not provide for a General Fund reduction to reflect the increased operator training fee, but proposes that the \$155,000 be retained and used for other unidentified programs (Analysis page 704).

4. Water Rights Fees

We recommend that legislation be enacted to increase water rights application fees to partially offset increased processing costs. The fee schedule for water rights applicants have not been increased since 1969. While fees have remained constant, board costs for processing water rights

applications have more than tripled, from \$800,000 in 1969-70 to approximately \$2.7 million in 1983-84. The \$1.9 million increase has been absorbed by the General Fund. The minimum fee should be doubled. Any increase in fee revenue should result in an equal General Fund reduction (Analysis page 705).

HEALTH AND WELFARE

Emergency Medical Services Authority

(Item 4120/page 714)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$921	\$997	\$978	\$965	-\$13
Personnel- years.....	8.6	14.1	14.1	13.1	-1.0

Highlights of Our Recommendations

1. Forward Funding For 1984-85

We recommend the deletion of \$1,617,000 in federal preventive health services block grant funds proposed for expenditure in 1984-85, because appropriation of these funds in the 1983 Budget Act would reduce the Legislature's flexibility in setting 1984-85 spending priorities. The budget proposes to appropriate federal block grant funds one year before the funds would be expended. We see no reason to protect this program from the annual budget review process (Analysis page 717).

Department of Aging
(Item 4170/page 729)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$5,130	\$5,346	\$8,092	\$5,003	-\$3,089
Personnel- years.....	122.9	119.8	116.4	--	--

Highlights of Our Recommendations

1. Increased Funding for the Congregate Nutrition Program

The budget proposes an increase of \$4,737,000 in funding for congregate nutrition services in 1983-84 in order to replace anticipated reductions in federal funds. The proposed increase includes \$3,089,000 from the General Fund and \$1,648,000 in federal funds from the U.S. Department of Agriculture (USDA). We recommend deletion of the proposed General Fund augmentation of \$3,089,000 because recent information indicates that federal fund increases in the congregate nutrition program will be sufficient to maintain current services. In addition, we recommend that (a) the department revise its estimate of funds to be available from USDA to reflect recent information about reimbursements from this source and (b) the department advise the fiscal committees prior to budget hearings on the amount of funds it proposes to carry over from the current year to the budget year and its plan for the distribution of those funds (Analysis page 732).

Commission on Aging
(Item 4180/page 741)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>1983-84</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$96	\$194	\$202	\$137	-\$65
Personnel- years.....	4.8	5.6	5.6	4.6	-1

Highlights of Our Recommendations

1. California Senior Legislature

We recommend deletion of \$86,000 (\$65,000 from the General Fund and \$21,000 from federal funds) and one position-equivalent to support the California Senior Legislature (CSL) because the activities of the CSL duplicate those of the California Commission on Aging (Analysis page 742).

Department of Alcohol and Drug Programs

(Item 4200/page 743)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$67,058	\$68,598	\$67,351	\$66,938 pending	-\$413
Personnel- years.....	203.6	201.2	99.9	92.3	-7.6

Highlights of Our Recommendations

1. Alcohol and Drug Block Grant Program

The budget proposes to establish a state block grant for alcohol and drug programs, effective July 1, 1983. The budget does not contain any information regarding how the block grant will be administered, or which functions will be eliminated or restructured as a result of the proposal. Therefore, we withhold recommendation on \$102,583,000 (\$66,938,000 from the General Fund, \$32,749,000 in federal funds, and \$2,896,000 from reimbursements) proposed for the block grant, pending receipt of additional information and a detailed implementation plan (Analysis page 746).

2. Quality Assurance Program

The budget proposes \$413,000 and 8.0 positions to permanently establish a quality assurance program to assist nonmedical alcohol programs increase funds from third-party payments. The department proposes to assist programs by providing state certification and technical assistance to eligible programs. We recommend deletion of the funds and the positions because the department has failed to provide documentation that it can achieve the goals of the quality assurance program (Analysis page 750).

Department of Health Services

(Item 4260/page 754)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$3,196,583	\$3,328,195	\$3,085,417	\$2,973,407	-\$112,010
Personnel- years.....	4,008.8	4,687.7	4,371.6	4,369.6	-2.0

Highlights of Our Recommendations

Department Support

1. Detail for Attorney Reduction Proposal

We recommend that by April 1, 1983, the department report to the fiscal committees on how it intends to implement the administration's proposal to delete 14 attorneys and 4 legal stenographers from the department's Office of Legal Services. Because a 33 percent reduction in in-house attorney support could result in additional costs to the state, we recommend that the administration submit additional information explaining how department programs will be affected by the proposed reductions (Analysis page 765).

2. Personnel Reclassification Adjustment

We recommend a reduction of \$271,000 (\$146,000 General Fund) to reflect savings that will occur when the department complies with the State Personnel Board's requirements to correct improper classification of personnel (Analysis page 767).

3. Receipt of Unexpected Federal Funds

We recommend a reduction of \$635,000 in General Fund support and an increase in \$635,000 in federal funds to reflect the receipt of \$635,000 in unexpected federal funds. These federal funds for the Licensing and Certification program are not reflected in the budget (Analysis page 768).

4. Overbudgeting for Postage

We recommend deletion of \$680,000 (\$285,000 General Fund) to eliminate funds for a one-time mailing during the current year that were budgeted erroneously for 1983-84 (Analysis page 769).

Public Health Block Grant

1. Public Health Block Grant

We recommend that the administration submit to the fiscal committees by March 15 (a) a detailed proposal for implementing the public health block grant and (b) information fully describing and justifying the proposal. The budget proposes to consolidate nine existing categorical programs (Adult Health, Dental Health, Vector Biology and Control, Family Planning, California Children's Services, Genetically Handicapped Persons' Program, Child Health and Disability Prevention, Rural Health, and Maternal and Child Health) into a block grant, called the public health block grant, which would be administered by the counties. The budget does not contain any detail on the block grant proposal. Instead, the budget states that the administration will be sponsoring legislation early in 1983 that which will set forth the details of the program (Analysis page 777).

County Health Services

1. Reversion of Special Needs and Priorities Funds

We recommend enactment of legislation that would repeal the "special needs and priorities" provisions of AB 8 and require reversion of unused county health services funds to the General Fund. We further recommend that the legislation revert unused funds from current- and prior-year appropriations for an additional savings of at least \$1,300,000 above the amount assumed in the Budget Bill. Under current law, the department's Director may allocate unspent county health services funds for special needs and priorities. The funds are distributed on a matching basis to counties. We believe that proposed expenditures for special county health projects should be subjected to the same review process as other proposed expenditures of state funds--that is, they should be identified specifically in the budget and reviewed and approved by the Legislature.

The budget companion bills (AB 223 and SB 124) contain provisions that would repeal the special needs and priorities provisions of AB 8 and, instead, require that all unspent funds appropriated for county health services revert to the General Fund. The budget estimates a reversion to the General Fund of \$2.2 million in 1983-84. We estimate a reversion of \$3.5 million in 1983-84, based on reverting funds from current- and prior-year appropriations, as well as unused funds from the budget-year appropriation.

2. Reversion of Local Health Capital Expenditure Account Funds

We recommend adoption of legislation which requires that (a) all interest which accrues to the Local Health Capital Expenditure Account beyond the \$252,000 needed to support state monitoring of county contracts in 1983-84 and 1984-85 be deposited in the General Fund and (b) any funds allocated for projects which remain unspent when the projects are completed be reverted to the General Fund. Existing law specifies that (a) no funds appropriated to the Local Health Capital Expenditure Account (LHCEA) may be transferred to any other fund and (b) interest on appropriated funds shall be accrued to the LHCEA, not the General Fund. We believe that expenditures for additional capital outlay projects at county health facilities should be subject to review by the Legislature.

The budget companion bills, AB 223 and SB 124, include provisions that would eliminate the existing restriction on transfer of funds from the LHCEA and require interest earnings in the account to be deposited in the General Fund. The budget assumes that interest earnings will accrue to the General Fund in 1983-84. We estimate reversion of at least \$924,000 as a result of our recommendation to revert any unspent funds not needed for department support in 1983-84 and 1984-85 (Analysis page 783).

3. Budget Proposal for Medically Indigent Services

We recommend that prior to budget hearings, the administration submit documentation on its assumptions in determining the proposed funding level for the County Medically Indigent Services program. The 1982 Medi-Cal reform legislation eliminated the medically indigent adult category of Medi-Cal recipients effective January 1, 1983. The legislation provided \$261.5 million to assist counties in providing health care services to medically indigent persons for the period January 1, 1983, through June 30, 1983. In calculating the amount included in the budget for the full-year cost of the Medically Indigent Services program, the administration used the same method used in August 1982 to determine the amount for 1982-83. The administration, however, did not use the same data in projecting medically indigent adult expenditures for the budget year. We have not received complete documentation on the assumptions the administration used in determining the 1983-84 funding level (Analysis page 788).

4. Support for Contract-Back Counties

We recommend (a) a reduction of \$355,000 (\$275,000 General Fund) to correct for double-budgeting and (b) that the department inform the fiscal committees, prior to budget hearings, how it intends to use the funds received from counties contracting with the state for administration of their medically indigent services programs in the budget year. The Office

of County Health Services has set aside approximately \$1.2 million in the current year to cover its costs in administering county medically indigent services programs. The department has not prepared expenditure plans for these funds for either the current or budget year. Our review indicates that the department's budget-year request includes \$355,000 (\$275,000 General Fund) for 11 positions that will be performing functions solely attributable to the administration of the contract-back program. We recommend that the funding source for these positions be the funds set aside to cover the department's expenses in administering the contract-back program (Analysis pages 789 and 908).

Toxic Substances Control

1. Deficiencies in the Hazardous Waste Management Program

We recommend that the Legislature adopt Budget Bill language to freeze expenditures from the Hazardous Waste Control Account on September 1, 1983, and quarterly thereafter if legislatively required reports are not submitted. Further, we withhold our recommendation on \$430,000 from the Hazardous Waste Control Account for 10 new inspector positions, until the department submits (a) a comprehensive 1983-84 work plan for the Toxic Substances Control Division and (b) workload requirements and productivity measures for the permitting, surveillance, and enforcement staff.

Our analysis indicates that the Hazardous Waste Management program has not produced results commensurate with the funding and resources made available by the Legislature. We identified the following six major program deficiencies:

- a. The department is significantly behind schedule in issuing permits to hazardous waste treatment, storage, and disposal facilities. At the current rate of six permits per year, it will take 200 years to complete issuing permits to hazardous waste facilities.
- b. The department has failed to develop regulations in a timely manner to increase fees deposited in the Hazardous Waste Control Account to support authorized program expenditures.
- c. The transportation manifest system was suspended for over a year, during which time the department was unable to confirm that wastes were disposed at authorized disposal sites.
- d. All legislatively required reports have been late. Five major reports were overdue at the time our analysis was prepared.

- e. The department failed to develop and adopt the California Assessment Manual, a detailed set of guidelines for identifying hazardous wastes, by the May 1982 deadline established in its 1982 work plan submitted to the Environmental Protection Agency.
- f. Regulations for driver's training and hazardous waste transportation container standards were due to be completed in May 1982 but have not been adopted, nor have draft standards been circulated.

Because the department has failed to meet its commitments regarding program performance, we recommend that the Legislature delay its review of this budget and require the department to submit by April 1, 1983, a comprehensive work plan for 1983-84. The work plan should (a) identify all positions by function, (b) provide workload standards, (c) include a schedule for issuing regulations, and (d) discuss specific changes in management practices or organizational structure that will be needed to accomplish the goals of the plan (Analysis pages 813-822).

2. Hazardous Waste Management Council

We recommend deletion of \$112,000 from the Hazardous Waste Control Account to eliminate funding for the Hazardous Waste Management Council in the first six months of 1984. The council was created by Ch 89/82 (AB 1543) to review the process for siting hazardous waste facilities and to make recommendations to the Legislature. The budget proposes \$225,000 to fund the council's staff and expenses, which is the same amount that was appropriated in the current year. Only one-half of that amount is needed, however, because the council's statutory authority terminates on December 31, 1983 (Analysis page 823).

3. Superfund Program

We withhold our recommendation on \$10 million in proposed expenditures from the Hazardous Substances Account until the department (a) corrects errors in the budget as proposed and (b) submits a listing of priority sites with site-specific cost estimates. The Superfund program was created in 1981 to clean up hazardous waste sites that pose a threat to public health and to support emergency response to the release of hazardous substances. The budget as submitted contains numerous technical errors and lacks site-specific expenditure proposals for the \$4.4 million requested remedial action contracts (Analysis page 826).

4. Emergency Response Equipment

We recommend the deletion of \$600,000 from the Hazardous Substances Account proposed for acquisition of equipment for emergency response to releases of hazardous substances. The department has not (a) analyzed need for the equipment, (b) established criteria to make funding allocations, or (c) provided a list of the specific items to be purchased. The 1982 Budget Act appropriated \$800,000 for this purpose in the current year and

contained language requiring the department to provide specified information to the Legislature 30 days prior to spending these funds. At the time our analysis was prepared, the department had not notified the Legislature or provided any justification for the \$600,000 proposed for the budget year (Analysis page 828).

Medi-Cal

1. The May Estimates

We withhold recommendation on \$1,928,158,000 (General Fund) proposed for the Medi-Cal program and recommend the fiscal subcommittees defer final action on Medi-Cal appropriations until the Department of Finance submits in May 1983 revised estimates of 1983-84 expenditures (Analysis page 849).

2. Federal Matching Reduction

We recommend a General Fund reduction of \$84,828,000 and a federal fund augmentation of the same amount to reflect the anticipated return of federal funds withheld due to a federal sharing ratio reduction required by the Omnibus Budget Reconciliation Act of 1981. This federal law reduced federal sharing rates for Medicaid (Medi-Cal in California) expenditures by specified percentages for federal fiscal years 1982, 1983, and 1984. The law further requires, however, that funds withheld from states due to this sharing reduction be returned if the federal Medicaid expenditures in a state for any of the three years are less than specified spending ceilings.

Federal officials advise that California will receive \$63,431,000 during 1982-83 that was withheld from federal Medicaid payments made in federal fiscal year 1982. Because the administration's estimate of a \$300 million current-year deficit in Medi-Cal does not include these funds, the 1982-83 deficiency is overstated. Moreover, our analysis indicates that proposed 1983-84 federal expenditures will be less than the state's spending ceiling for that year. Therefore, in 1983-84 California will receive \$81,564,000 in federal reimbursements for funds withheld during federal fiscal year 1983. This increased federal support is not reflected in the proposed budget. In addition, the budget erroneously includes \$3,264,000 (General Fund) due to a calculation error regarding this federal sharing reduction (Analysis pages 850-854).

3. Medi-Cal Lawsuits

We recommend adoption of Budget Bill language to prohibit expenditures from Medi-Cal health care services appropriations for court orders that are not specifically identified by the budget or not final on the merits of the case. During 1982-83, court decisions and settlements in connection with suits involving the Medi-Cal program will result in General Fund costs of \$195 million more than budgeted. These cases will cost the General Fund \$178 million in 1983-84. These settlements and court rulings (a) reduce the Legislature's ability to control expenditures, (b) result in unnecessary costs to the taxpayers, and (c) may not be consistent with established legislative policy (Analysis page 872).

4. Hospital Contracts

We recommend the Director of the Department of Health Services advise the Legislature, during hearings on the 1983 Budget Bill, of the reasons for delays in implementing hospital contracts negotiated by the Governor's Office of Special Health Care Negotiations. Our analysis indicates that as of February 1, 1983, 75 hospital contracts had been submitted to the Department of Health Services for the Director's signature. At least 9 of these contracts were submitted prior to December 1, 1982. No contract had been signed, however, until January 26, 1983, almost two months after transmittal of the contract to the department. Our analysis indicates that further delays will occur prior to full implementation of the contracts. We are unable to determine why these implementation delays have occurred (Analysis page 874).

We further recommend that the May 1983 revision of expenditure estimates include a specific estimate of the fiscal effect of hospital contracting. The 1982 Budget Act anticipated savings of \$200 million (\$100 million General Fund) due to the implementation of these contracts. The December 1982 estimates, however, do not include any specific estimate of the fiscal effects of hospital contracting (Analysis page 875).

5. Federal Refugee Funds

We recommend that \$9,458,000 in anticipated, but unbudgeted, federal funds be used in lieu of General Fund monies to finance health care services. During 1983-84, the state will receive \$9,458,000 in federal payments for health care services provided to refugees during 1982-83. These payments will be delayed from 1982-83 to 1983-84 due to a 60-day federal payment lag. These funds are not reflected in the budget because reimbursements for prior-year expenditures normally are deposited in the General Fund and are not available for expenditure by the Medi-Cal program unless there is a projected deficiency. We recommend adoption of Budget Bill language to allow these funds to be spent for Medi-Cal in 1983-84 (Analysis page 877).

6. Estimating Errors

We recommend reductions of \$26,340,000 (\$14,192,000 General Fund) to correct technical budgeting errors related to (a) the cost of a 3 percent provider rate increase (Analysis page 880) and (b) the number of medically needy persons who applied for SSI/SSP benefits due to elimination by AB 799 of the special income deduction (Analysis page 881).

The budget proposes \$59.2 million (\$30.4 million General Fund) to provide a 3 percent rate increase for most Medi-Cal providers. Because the department calculated the cost of this rate increase using a higher base program cost than proposed in the budget, the budget includes \$3,615,000 (\$1,528,000 General Fund) more than needed to support the 3 percent increase.

The budget assumes that 26,300 medically needy persons would apply for and receive SSI/SSP benefits due to the deletion of the special income deduction. Therefore, these persons would continue to be eligible for Medi-Cal benefits without paying a share of the cost. Our analysis indicates that no more than 5,100 such persons actually applied for SSI/SSP between October 1 and December 31, 1982. As a result, the budget overstates Medi-Cal costs by \$22,725,000 (\$12,610,000 General Fund).

7. Changes in Eligibility Determination Procedures

We withhold recommendation on \$3,454,000 (\$1,727,000 General Fund) proposed to pay counties for costs of changing eligibility determination procedures until the Department of Health Services provides a proposal for allocating these funds based on actual costs (Analysis page 892).

8. Maintenance Need Levels--County Eligibility Workload

We recommend deletion of \$2,194,000 (\$1,097,000 General Fund) proposed for county eligibility determination workload associated with reduced income standards, because a court settlement has eliminated the need for these funds. Chapter 328, Statutes of 1982 (AB 799), reduced the income standard for medically needy families with dependent children from 133 percent of AFDC payments to 100 percent of AFDC payments. In a recent settlement, however, the previous administration agreed to increase the standard to 133 percent of AFDC payments. Therefore, funds proposed for an increased number of Medi-Cal share-of-cost calculations are not required (Analysis page 893).

9. Fiscal Intermediary Reprocurement

We recommend (a) the Auditor General continue to monitor the procurement of the next Medi-Cal fiscal intermediary contract, (b) the Department of Finance notify the Legislature prior to allowing any extension of the current fiscal intermediary contract, and (c) the Department of Finance advise the Legislature by April 1, 1983, regarding the proposed funding source for start-up costs of the next fiscal intermediary. The current Medi-Cal fiscal intermediary, Computer Sciences Corporation (CSC), processes Medi-Cal provider claims on a fixed-cost-per-claim basis. The CSC contract expires February 29, 1984. The Health and Welfare Agency and Department of Health Services are conducting a major project to procure fiscal intermediary services after that date. Because of the significance of this activity to the Medi-Cal program and the cost of the contract (\$34 million in 1983-84), we believe the Legislature should closely monitor this reprocurement effort (Analysis pages 899-904).

10. Mandatory Prepaid Health Plan Enrollment

We recommend that by April 1, 1983, the administration submit to the fiscal committees information on how it intends to implement the proposed mandatory prepaid health plan (PHP) enrollment program (Analysis page 884).

Currently, all eligible applicants receive medical services on a fee-for-service basis unless they choose to enroll in a PHP. To facilitate legislative review, we recommend the administration submit information on how the mandatory PHP enrollment program proposal would be implemented. We further recommend reductions of \$634,000 (\$317,000 General Fund) and two positions proposed for certain dual-choice activities because these activities would not be required if PHP enrollment is mandatory (Analysis pages 894 and 910).

11. County Recovery Contracts

We recommend enactment of legislation to increase from 10 to 25 percent the amount of Medi-Cal benefit recoveries in excess of costs that counties may retain. We further recommend legislation to limit maximum reimbursements for county costs of a recovery effort to the amount of General Fund recoveries. Under existing law, the state may pay counties up to 10 percent of recoveries in excess of county costs associated with identifying and recovering Medi-Cal benefits improperly received by beneficiaries. A pilot program conducted in Orange County in 1977-78 indicated that counties could be significantly more effective than the state in recovering inappropriately received benefits. Apparently, a 10 percent "incentive payment" has been insufficient to induce counties to establish recovery programs (Analysis page 909).

of SSI/SSP reimbursements to the regional center budget for support of clients in community care facilities (Analysis page 932).

4. Regional Center Fiscal Policy

We recommend enactment of legislation that would authorize service restrictions if necessary to limit regional centers' expenditures for services to the amount appropriated for that purpose. Two separate court rulings in the current year have indicated that under current law, neither the Legislature nor the administration has the authority to control or limit regional centers' expenditures for client services. We believe that the lack of effective legislative or administrative control is undesirable because (a) it limits the Legislature's ability to budget funds according to statewide priorities and (b) it could have significant adverse consequences for clients in community care, should the Legislature ever be in a position of not being able to appropriate additional funds to close a substantial deficit in the program (Analysis page 936).

5. Program Development Fund

We recommend the use of excess Program Development Fund (PDF) reserves to support regional centers' respite and camp services. The budget proposes a reserve of \$206,000, or 7.3 percent of total PDF expenditures. We believe a 3 percent reserve, which is consistent with the reserve level proposed for the state's General Fund, is adequate. Consequently, we recommend that \$121,000 of the PDF reserve be budgeted for regional center respite and camp services, leaving a balance of \$85,000, or 3 percent, as a reserve in the PDF (Analysis page 938).

6. Workers' Compensation and Disability Leave

We recommend that by April 1, 1983, the Departments of Developmental Services and Mental Health report on the reasons why workers' compensation and disability leave costs have increased and the steps that can be taken to control these costs (Analysis page 943).

7. State Hospital Overtime Funds

We recommend deletion of \$3,435,000 to correct inappropriate budgeting of overtime funds in state hospitals. This recommendation would (a) provide for uniformity in the amount of budgeted per employee and (b) delete certain overtime funds that, to the extent they are required for 1983-84, should be budgeted in the employee compensation item (Analysis pages 944-945).

Department of Developmental Services

(Item 4300/page 920)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$540,168	\$543,237	\$563,774	\$560,430	-\$3,344
Personnel- years.....	16,143.4	15,222.5	15,123.3	15,121.3	-2.0

Highlights of Our Recommendations

1. Regional Center Operating Expenses

We recommend deletion of \$415,000 because operating expenses for regional centers are overbudgeted. The department has not reduced the operating expenses budget to fully reflect decreased costs due to reductions in case management staff (Analysis page 930).

2. SSI/SSP Reimbursements

We recommend a General Fund reduction of \$962,000 because SSI/SSP reimbursements are underbudgeted. The department, in calculating SSI/SSP reimbursements, did not include the reimbursements associated with expected additional clients in out-of-home care in 1983-84. Consequently, the General Fund costs of out-of-home care are overbudgeted by \$962,000 (Analysis page 931).

3. SSI/SSP Cost-of-Living Adjustment

We recommend a General Fund augmentation of \$1,534,000 to replace SSI/SSP reimbursements that would be lost as a result of our recommendation to delete a proposed 2.1 percent cost-of-living adjustment for SSI/SSP recipients.

In our analysis of the SSI/SSP program, we recommend deletion of a proposed 2.1 percent cost-of-living adjustment. We recommend, instead, that these funds be used to provide increases in AFDC grants. Adoption of this recommendation would result in a reduction of \$1,534,000 in the level

California Medical Assistance Commission

(Item 4270/page 915)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	\$772 ^a	\$879	\$823	-\$56
Personnel- years.....	--	26.5	26.5	26.5	--

a. Includes estimated 1982-83 expenditures of \$750,000 for the Governor's Office of Special Health Care Negotiations and \$22,000 for the California Medical Assistance Commission.

Highlights of Our Recommendations

1. Report to Legislature

We recommend the commission include in its May 1, 1983, report to the Legislature suggested ways to achieve the greatest possible savings using the two hospital reimbursement methods established by the 1982 Medi-Cal reform legislation. Assembly Bill 799 (Ch 328/82) and SB 2012 (Ch 1594/82) established negotiated rates as the preferred reimbursement method for hospital inpatient services. These acts also established a backup reimbursement system, under which a hospital's rates would be established based on the costs incurred by similar hospitals clustered in peer groups. We recommend the May report address the following issues:

- o Under what circumstances might it be in the state's financial interest to use peer group reimbursement rates instead of negotiated contract rates?
- o What executive or legislative policies regarding the two alternative reimbursement methods should be established to ensure that the aggregate cost of hospital reimbursements is the lowest possible?

8. Non-Level-of-Care Staffing

We recommend the adoption of Budget Bill language requiring the Departments of Developmental Services and Mental Health to jointly develop and implement a plan based on staffing standards to correct maldistribution of state hospital staffing that is not directly involved in patient care. The language would shift vacant positions between civil service classifications in order to eliminate overstaffing and correct understaffing (Analysis page 946).

9. Reversion of Capital Outlay Funds

The budget proposes to revert to the Special Account for Capital Outlay \$8,000,000 initially appropriated for state hospital renovation but now available for community program development.

We recommend approval of the reversion because there are other sources of funding available for community program development. In addition, we recommend that the \$8,000,000 be transferred to the General Fund, rather than reverting to the Special Account for Capital Outlay (Analysis page 961).

Department of Developmental Services--Capital Outlay

(Item 4300-301/page 950)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$6,205	(pending)	-\$543

Highlights of Our Recommendations

1. Minor Capital Outlay Projects (-\$416,000)

The budget includes \$1,034 million from the Special Account for Capital Outlay for 20 minor capital outlay projects (\$150,000 or less per project) for the Department of Developmental Services. We recommend that five projects totaling \$408,000 be deleted because they are not justified and one project be reduced by \$8,000 to eliminate overbudgeting. These projects are:

- o Combustion Control Devices on Boilers--Lanterman State Hospital (\$80,000).
- o Exterior Balconies on Building 54, Agnews State Hospital (\$99,000).
- o Restore Nelson Treatment Center , Sonoma State Hospital (\$105,000).
- o Demolish Temporary Site and Utility Improvements, Sonoma State Hospital (\$43,000).
- o Air Conditioning of Canteen/Dining Room, Porterville State Hospital, \$81,000.
- o Excess Architectural/Engineering Services budgeted for connecting Building 50 to the central air conditioning system, Agnews State Hospital (\$8,000) (Analysis page 957).

Department of Mental Health

(Item 4440/page 962)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$595,596	\$565,019	\$566,029	\$565,354	\$675
Personnel- years.....	3,341.2	4,622.8	4,842.8	4,842.8	--

Highlights of Our Recommendations

1. Prevention of Mental Disorders

We withhold recommendation on \$818,000 proposed for mental health prevention contracts, pending receipt of a 1983-84 expenditure proposal. In past years, the department has spent prevention contract funds to promote good mental health habits through the use of television, brochures, written materials, and other materials. We recommend adoption of Budget Bill language requiring the department to deposit the revenue from sale of mental health prevention materials in the General Fund (Analysis page 968).

2. State Hospital Overtime

We recommend reduction of \$675,000 in state hospital overtime funds, including \$119,000 for regular overtime and \$556,000 for special overtime. The regular overtime funds are unneeded because the special overtime funds relate to collective bargaining agreements and are appropriately budgeted in the employee compensation item (Item 9800), not the Department of Mental Health's budget (Analysis page 944-946).

3. State Hospital Staffing Increases

We withhold recommendation on 134 new positions and \$2,611,000 pending additional documentation supporting the proposed increases. The staffing changes result from increases in the number of mentally disabled patients being served in five state hospitals (Analysis page 972).

4. Use of State Hospitals

We recommend that the department and the Health and Welfare Agency jointly produce a policy paper by May 1, 1983, on the use of state hospitals by county clients. The cost of caring for long-term patients in state hospitals is approximately double the cost of caring for similar patients in nursing homes and other community facilities. This cost differential raises a number of questions, which would be addressed in the policy paper. These questions include:

- o Are the treatment programs measurably superior in the state hospitals?
- o Is the more expensive treatment program in the state hospitals worth the extra cost?
- o Should the state develop community long-term care facilities for county patients who are currently in state hospitals? (Analysis page 974).

5. Cost Control in Local Programs

The 1982 Medi-Cal reform legislation requires the department to limit the reimbursement rates for local mental health services to 125 percent of the statewide average costs per unit of service, adjusted for inflation. We recommend adoption of Budget Bill language requiring the department to further improve the cost-effectiveness of local mental health programs by (a) establishing a local program cost control unit by redirecting positions, (b) controlling local administrative, as well as service, costs, and (c) imposing cost controls for services that cost more than 100 percent of the statewide average cost per unit of service. We further recommend that the department submit a proposal for an improved cost reporting system to enhance the Legislature's ability to evaluate the cost control effort (Analysis page 980).

The Medi-Cal reform legislation exempted from the 125 percent reimbursement rate cap counties participating in a pilot project to consolidate Medi-Cal fee-for-service mental health services with local Short-Doyle programs. We recommend enactment of legislation to repeal the exemption, because all counties should take steps to correct excessively high reimbursement rates. Existing law authorizes the department to waive the reimbursement rate cap for individual high-cost providers if full reimbursement can be justified (Analysis page 986).



6. Utilization Review

The 1982 Medi-Cal reform legislation required the department to (a) report on its procedures for reviewing utilization of inpatient mental health services and (b) issue implementing regulations. We recommend adoption of Budget Bill language requiring the department to issue regulations that would reduce or eliminate Short-Doyle program reimbursements for specified categories of medically unnecessary hospital care. We further recommend adoption of Budget Bill language requiring the department to (a) establish utilization require procedures for state hospitals and (b) require hospitals and psychiatric facilities to furnish information needed to identify and correct excessive lengths of stay or cost per discharge (Analysis page 982).

Department of Mental Health--Capital Outlay

(Item 4440-301/page 987)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	--	\$1,671	\$861	-\$810

Highlights of Our Recommendations

1. Minor Capital Outlay Projects Not Justified (-\$117,000)

The budget includes \$117,000 for three minor capital outlay projects (\$150,000 or less per project) for the Department of Mental Health (DMH). The projects include installation of water valves in maintenance tunnels at Atascadero State Hospital (\$33,000), construction of a trash loading area at Metropolitan State Hospital (\$60,000) and construction of a baseball field at Patton State Hospital (\$24,000). Our analysis of these projects indicates that the requests are not justified, and accordingly we recommend deletion of the proposed funds for these projects (Analysis page 989).

2. Alternatives Available to \$10 million Project for Air Conditioning at Atascadero State Hospital (-\$543,000)

The budget includes \$543,000 for working drawings to install air conditioning and heating in patient occupied buildings at Atascadero State Hospital.

The proposed installation of air conditioning at this hospital has been the subject of substantial study over the past three years. In response to Budget Act language requiring the department to evaluate alternatives to installing air conditioning at this hospital, the department indicated that the most cost efficient project would be to (1) install additional insulation on the exterior of patient occupied buildings and (2) provide air conditioning to maintain 72° for acute psychiatric wards and 78° for other patient areas during the cooling season.

The Legislature appropriated \$1.4 million for insulating the patient-occupied buildings. This project has been completed. The air conditioning and heating project now before the Legislature however, does

not reflect the most cost-efficient solution identified in the consultant's reports.

Given the fact that the proposed budget is not consistent with the project as suggested by the Legislature, we recommend that working drawing funds be deleted for a savings of \$543,000. An alternative proposal which addresses energy-conserving alternatives to install air conditioning at this hospital would warrant legislative consideration (Analysis page 989).

3. Electrical Distribution Repairs Not Substantiated (-\$111,000).

The budget proposed \$111,000 for preliminary plans and working drawings related to a \$2 million project to make repairs to the electrical distribution system at Metropolitan State Hospital.

The department has not provided adequate information to substantiate the need for this project. Moreover, the project includes new street work that does not relate to the distribution system. Accordingly, we do not have adequate information on which to evaluate this project and we recommend deletion of the requested amount of \$111,000 (Analysis page 991).

Employment Development Department

(Item 5100/page 995)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$50,269	\$64,788	\$66,619	\$61,977 ^a	-\$4,642
Personnel- years.....	12,344.8	14,054.1	12,547.7	12,540.2	-7.5

a. Recommendation pending on \$1,351,000.

Highlights of Our Recommendations

1. Linking Vocational Education with Private Industry

The Educational Linkages program is intended to increase the effectiveness of industry-labor employment and training councils by assuring that local vocational education programs provide training that meets the needs of industry and local labor markets.

Our analysis indicates, however, that such coordination is required by the new federal Job Training Partnership Act (JTPA). The JTPA stipulates that local Private Industry Councils--composed of representatives from business, educational and vocational agencies, labor, and other interested parties--must devise a plan to coordinate training programs with educational, vocational, and training agencies in order to be eligible for federal funding. Federal funding to establish and carry out these coordinating activities will be available for 1983-84.

Because the Educational Linkages duplicates activities required by the JTPA, we recommend elimination of General Fund support for this program, for a savings of \$1,035,000 (Analysis page 1019).

2. Services to Displaced Workers

The Reemployment Assistance to Displaced Workers program provides employment services to individuals who are unemployed due to mass layoffs or permanent plant closures. The Employment Development Department (EDD)

provides a wide range of services to displaced workers through temporary centers located on or near plants that are closing or undergoing mass layoffs. While this program is supported by the General Fund, federal Employment Services (ES) funds may be used to provide services to displaced workers.

The budget proposes \$74.5 million in federal ES funding in 1983-84. EDD budget documents, however, show available federal funding for the ES program totaling \$74.9 million, or \$449,000, more than the amount proposed for expenditure in the budget.

We recommend that unbudgeted ES funds be used to replace General Fund support for the Reemployment Assistance to Displaced Workers program, for a General Fund savings of \$449,000 (Analysis page 1020).

3. Employment Preparation Program

Chapter 918, Statutes of 1980, authorized the establishment of the Employment Preparation Program (EPP) under which job-search assistance, employment training, and supportive services are provided to applicants for and recipients of Aid to Families with Dependent Children (AFDC). The budget proposes a total of \$12,704,000 for support of EPP and related programs in 1983-84. Of this amount, \$8,956,000 is from the General Fund and \$3,767,531 represents reimbursements from the Department of Social Services (DSS).

We recommend a General Fund reduction of \$3,158,000 from the EPP budget, as follows:

a. \$1,194,000 because federal Work Incentive funds are available to replace General Fund support for EPP.

b. \$887,000 proposed for further expansion of EPP because there are no specific plans for the use of these funds.

c. \$130,000 proposed for increases in operating expenses because of overbudgeting.

d. \$947,000 because current-year savings will allow the department to use statutory funding made available by Ch 3x/82 in the budget year (Analysis page 1022).

4. Evaluation of Employment and Training Programs

In our 1982-83 Analysis, we discussed a number of serious problems common to all EDD employment and training programs. Our discussion focused

on the diffusion of programs within EDD and inadequate and inconsistent performance measures used to judge program performance. These problems limit the effectiveness of the state's effort to provide employment and training services to individuals in need of assistance.

We recommend that EDD submit a proposal to the fiscal committees prior to the hearings for an independent evaluation of its employment and training programs. The proposal should address the following issues:

- a. Options available to the state concerning efficient administrative structures.
- b. Performance measures that enable a determination of program effectiveness and allow interprogram comparisons.
- c. Types of services, or combination of services, that most benefit targeted groups, given limited resources.

Employment Development Department--Capital Outlay

(Item 5100-301/page 1026)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$1,513	--	-\$1,513

Highlights of Our Recommendations

1. Minor Capital Outlay (-\$1,513,000)

The budget includes \$1,513,000 for 29 minor capital outlay projects for the Employment Development Department.

The information provided in support of the funding request does not provide sufficient information about the individual projects to permit legislative review and approval. The information provided generally consists of a few sentences describing the scope and justification of the project, and a single dollar figure for each project. Consequently, we are unable to evaluate the need or cost of these projects, and we recommend that the proposed funds be deleted (Analysis page 1026).

Department of Rehabilitation

(Item 5160/page 1028)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$51,379	\$58,311	\$58,962	\$58,862 ^a	-\$100
Personnel- years.....	1,847.4	1,886.1	1,744.0	1,744.0	--

a. Recommendation pending on Work Activity funding (\$38,977,000).

Highlights of Our Recommendations

1. Reader and Interpreter Services

We recommend enactment of legislation authorizing the use of federal funds to support reader and interpreter services in the state's institutions of higher education, and adoption of Budget Bill language directing the department to reimburse the institutions for the cost of those services. Currently, the University of California, the California State University, and the California Community Colleges provide these services to blind and deaf students who are clients of the department. These services are supported by state funds. We recommend the use of federal funds instead of state funds because (a) federal law permits the use of federal Vocational Rehabilitation (VR) funds for such services, (b) \$2.9 million in unbudgeted federal VR funds are available in 1983-84, and (c) substituting federal funds for state funds will permit the Legislature to support other high priority programs without reducing the level of reader and interpreter services currently available (Analysis page 1037).

2. Work Activity Program--Administrative Authority

We recommend enactment of legislation authorizing the department to set priorities for services provided by the Work Activity program and to administer the program within the funds available to it. The program provides sheltered employment and prevocational training services to about 11,000 developmentally disabled adults. In the current year, the program is incurring a major funding shortfall. This is because (a) the 1982

Budget Act appropriates \$1.2 million less than the amount needed to fund projected caseload growth and (b) the Sacramento County Superior Court has ordered the department to refrain from establishing any policies limiting the availability of work activity services to eligible individuals. We recommend legislation because the court ruled that the department lacks statutory authority to limit caseload growth, even if funding is insufficient to support the number of persons seeking services (Analysis page 1041).

3. Work Activity Program--Rate Setting Procedures

We recommend enactment of legislation authorizing the department to contract with work activity providers selected on a competitive basis. Currently, work activity providers are reimbursed at rates commensurate with "reasonable costs." As administered by the department, this policy has led to program costs that have greatly exceeded the amount the Legislature has been willing to appropriate for the program, and has led to inflexible administration of the program. We recommend that providers be selected on a competitive basis because our analysis indicates this policy would more effectively limit program costs and encourage more efficient operation of work activity centers (Analysis page 1044).

4. Work Activity Program--1983-84 Funding

We withhold recommendation on the \$38,977,000 proposed for work activity services in 1983-84, pending receipt of further information on caseload and facility costs. The department estimates that the number of clients enrolled in or seeking work activity services will increase from 12,200 in June 1983 to 14,000 in June 1984. The budget, however, provides no funds for caseload growth. The budget proposal is sufficient to serve an average of 11,140 clients in 1983-84. The administration has not submitted a specific proposal that restricts eligibility, limits benefits, establishes waiting lists, or otherwise changes existing policies in order to achieve the program reduction it proposes.

The budget proposes to grant work activity providers a 3 percent rate adjustment on the basis of "allowable costs." The budget, however, does not describe how "allowable costs" differ from the current policy of setting rates on the basis of "reasonable costs" (Analysis page 1046).

Department of Social Services

(Item 5180/page 1049)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$2,910,760	\$2,763,446	\$2,525,586	\$2,487,384 ^a	-\$38,202
Personnel- years.....	3,383.1	3,195.0	3,088.6	3,088.6	--

a. Recommendations pending on \$54,488,000.

Highlights of Our Recommendations

1. Placer/Nevada Counties' Welfare Processing System

We recommend that Placer and Nevada Counties participate in the costs of the data processing systems that support their welfare program administration, thus increasing reimbursements from these counties to the state by \$194,000 and reducing General Fund costs by the same amount. The state developed and operated the welfare data processing systems for these counties in anticipation of these counties being test sites for the Statewide Public Assistance Network (SPAN). Although the development of SPAN has been halted pending a complete review, the administration has included \$777,000 in the budget to support these counties' data processing operations. All other counties are required to pay for 25 percent of the costs of this kind of data processing activity as part of the county administration of welfare program administration. We recommend that Placer and Nevada Counties also be required to pay this cost by reimbursing the state for 25 percent of the costs of their data processing activities (Analysis page 1058).

2. Unbudgeted Federal Foster Care Funds

We recommend that \$17,247,000 in unbudgeted federal foster care funds be used to replace General Fund support for the Community Care Licensing and child welfare services programs. The budget assumes that during 1983-84, the federal government will share a portion of the costs of licensing foster family homes and foster care group homes and of providing case management services to children in foster care. Our Analysis indicates that California was eligible for these increased federal funds beginning October 1, 1982. We estimate that the additional federal funds available for the period October 1, 1982, through June 30, 1983, will be

\$17,247,000. We recommend that these additional federal funds be used to replace General Fund support for:

- Community care licensing conducted directly by the Department of Social Services (DSS) (\$1,055,000) (Analysis page 1060);
- Child welfare services provided under the Other County Social Services (OCSS) program (\$14,185,000) (Analysis page 1159); and
- Community care licensing conducted by counties under contract with DSS (\$2,007,000) (Analysis page 1180).

3. Community Care Licensing--Fees

We recommend legislation to require that all community care facilities pay a license fee based on (a) the cost of licensing each type of facility and (b) the percentage of each facility's client population which is privately placed. (Privately placed clients are those whose care is not paid for through any governmental program.) Currently, community care facilities are not required to pay licensing fees. Our Analysis indicates that this exemption is based on the assumptions that (a) facilities are unable to adjust their governmentally set rates to reflect increases in their costs of doing business, such as the imposition of a license fee and (b) part of any increased cost of a license fee would be borne by the General Fund. Neither of these reasons, however, applies to privately placed clients. We therefore conclude that the exemption of community care facilities from a license fee is inappropriate with respect to private placements (Analysis page 1065).

4. Welfare Fraud Early Detection/Prevention Program

We withhold recommendation on proposed General Fund savings of \$18,309,000 due to the implementation of a welfare fraud program pending receipt of additional details on the program. The administration proposes statewide implementation of a welfare fraud detection and prevention program which is currently operating in Orange County. However, it is unclear that the savings attributed to this program will occur for the following reasons: (a) It is uncertain how this proposal differs from existing welfare detection practices, (b) there is no statewide implementation plan specifying what program changes will be made and where they will be made, and (c) the budget assumes that implementation of the program will not increase administrative costs, even though existing activities may suffer as staff are assigned to the new program. Until additional information is available describing the proposed program, we cannot recommend approval of the estimated savings (Analysis page 1073).

5. AFDC-Foster Care (AFDC-FC) Unallowable Costs

As of October 1, 1982, the federal government will only fund specified "allowable" costs of foster children in group homes. Unallowable

costs include, but are not limited to, expenditures for counseling, therapy, and educational and psychological testing provided by social workers employed by group homes. The budget proposes General Fund expenditures for these unallowable federal costs of \$1,100,000 in 1983-84 and \$1,650,000 in 1982-83. Our analysis indicates that the state will be able to avoid these costs to the extent that privately subsidized group home costs are used to offset unallowable costs included in a group home's rate. We therefore recommend deletion of the \$1,100,000 of General Fund monies budgeted to replace lost federal foster care funds in 1983-84. We also recommend a General Fund reduction of \$1,650,000 to reflect anticipated increased federal foster care funds in 1983-84 attributable to federal reimbursements for General Fund expenditures in 1982-83. While we agree that these expenditures will occur in 1982-83, we believe that the use of privately subsidized costs to offset any unallowable costs included in a group home's rate will justify retroactive claims for federal reimbursements of these General Fund expenditures (Analysis pages 1102 and 1104).

6. AFDC-FC--Audit Recoveries

We recommend a General Fund reduction of \$940,000 in order to reflect a more realistic estimate of group home audit recoveries. Chapter 977, Statutes of 1982 (AB 2695), requires the department to conduct audits of all foster care group homes at least once every three years. The budget anticipates that these audits will result in the recovery of overpayments to group homes totaling \$598,000 in 1983-84 of which \$457,000 will accrue to the General Fund. Based on our review of similar audit programs conducted by the DSS, we estimate that group home audits will result in recoveries of \$1,828,000, of which \$1,397,000 will accrue to the General Fund. This is \$940,000 more than the General Fund recoveries anticipated in the budget (Analysis page 1104).

7. Effects of Elimination of the Medi-Cal Special Income Deduction on SSI/SSP Caseload

Chapter 328, Statutes of 1982 (AB 799), eliminated the special income deduction for aged, blind, and disabled persons receiving Medi-Cal services under the Medically Needy program. The budget assumes that by October 1982, 26,000 individuals will apply for and receive SSI/SSP as a result of Ch 328/82, for a projected General Fund cost of \$7,984,000 in 1983-84. We recommend that the administration's proposal be reduced by \$6,387,000 because actual caseload data indicates that only 20 percent of the assumed increase in caseload has occurred (Analysis page 1120).

8. Federal Fiscal Liability for Administration of the SSI/SSP Program

We recommend a General Fund reduction of \$5,800,000 in the SSI/SSP program in anticipation of funds due the state from the federal government. The basis for this recommendation is as follows: (a) Recently enacted federal law requires that the state be credited for all uncashed SSP checks

(\$4.6 million) and (b) quality control reviews by the state have identified errors not originally included in the calculation of federal fiscal liability for administration of the program (\$1.2 million) (Analysis page 1121).

9. Transfer of Administration of the Low-Income Home Energy Assistance Block Grant

The budget proposes to transfer the LIHEA block grant from the Office of Economic Opportunity (OEO) to DSS effective October 1983 in order to achieve administrative savings within the program. We withhold recommendation on the proposed transfer and associated federal funds of \$54,145,000 pending receipt of information on DSS' plans to administer this block grant (Analysis page 1136).

10. Administrative Costs for Prorated Reduction of Shelter Costs

We recommend reduction of \$1,080,000 from the General Fund proposed for AFDC administrative costs associated with the proration of shelter costs because inclusion of these costs represents a departure from standard budgeting procedures under the County Administrative Cost Control Plan. Normally, DSS projects the total amount of General Fund needed for county administrative costs based on caseload estimates and county productivity goals. In general, the department does not take into consideration the additional costs or savings attributable to changes in welfare administrative procedures. Rather than follow the normal practice of budgeting for procedural changes, the administration has added the costs associated with proration for shelter to the total budget-year estimate, thereby increasing the total amount requested from the General Fund for county administration. We recommend deletion of these additional funds unless the department can justify this variation from normal budgeting procedures (Analysis page 1144).

11. State Quality Review Sample and Quality Control Sanctions

We recommend two steps to improve the accuracy of county-by-county AFDC payment error rates and thereby increase the likelihood of imposing sanctions on counties with truly high error rates. First, we recommend that the Budget Bill include language that requires the department to combine the results of two six-month quality review samples to calculate the counties' error rates. This will, in effect, double the sample size and result in a more accurate error rate estimate. Second, we recommend that DSS prepare a plan for coordinating the state and federal quality review samples so that the results from the two samples can be combined. This will result in approximately a 23 percent increase in the sample size and about a 10 percent improvement in the reliability of error rate estimates (Analysis page 1150).

12. Food Stamp Incentive Payments

We recommend that federal incentive payments for improved food stamp error rates be budgeted in 1983-84 for a savings of \$1,072,000 to the General Fund and \$1,071,000 in county funds. The federal government increase its share of food stamp administrative costs, from 50 percent to 55 percent, for any state that can decrease its food stamp error rate by 25 percent or more over any one-year period. California qualifies for this incentive payment and will receive \$2,143,000 in additional federal funds. Current law provides that half of these funds will be retained by the state and the other half will be distributed to the counties according to their administrative costs during the quality review period when the lower error rate occurred. We are recommending that these funds be reflected in the budget for 1983-84 (Analysis page 1152).

13. Enhanced Federal Funding for Development of a Food Stamp On-Line Issuance System

We recommend that enhanced federal funding be budgeted for the development of an on-line food stamp issuance system, for a savings of \$398,000 (\$197,000 to the General Fund and \$201,000 in county funds) and a corresponding increase in federal funds. The budget proposes to develop an on-line issuance system for food stamps in counties where such a system would be cost efficient. On-line issuance systems are automated data processing systems, and the costs to develop them would qualify for enhanced funding under federal law. This would mean that 75 percent, rather than the budgeted 50 percent, of the \$1,595,000 total costs would be paid from federal funds. The increased federal funds would reduce state and county costs (Analysis page 1153).

14. Child Welfare Services Regulations

We withhold recommendation on \$107,351,000 (\$11,208,000 from the General Fund and \$96,143,000 in federal funds) proposed for child welfare services pending our review of final regulations implementing the new family reunification and permanent planning programs and of draft regulations implementing the new emergency response and family maintenance programs created by Ch 978/82 (SB 14). The department's estimate of the costs of the new child welfare services program are based on draft regulations which have not been reviewed by the Office of Administrative Law and therefore are subject to change. Any significant change in the regulations could result in a change in the cost of the new programs. As a result, we are unable to evaluate the proposed level of funding for the programs until we have had the opportunity to review the final regulations for the family reunification and permanent planning programs and the draft regulations for the emergency response and family maintenance programs (Analysis page 1160).

15. Allocation of Funds to Counties for the Other
County Social Services (OCSS) Program

The budget proposes spending \$227,807,000 from all funds for the OCSS program in 1983-84. Assuming the department's estimates are correct, this amount should be adequate to pay for all of the costs of the OCSS program, including those new costs associated with the provisions of SB 14. Our Analysis indicates, however, that the department's method of allocating the state and federal share of these funds will result in the underfunding of 26 counties. The combined shortfall of these 26 counties will be \$14.6 million. Because SB 14 allows counties to reduce service levels whenever state and federal funding is inadequate to pay for the noncounty portion of the costs of the OCSS program, the department's allocation formula could result in different levels of services being provided in the 26 "underfunded" counties. We therefore recommend that the Legislature adopt Budget Bill Language requiring the department to allocate OCSS funds to counties based on the estimated costs of providing services in each county (Analysis page 1162).

16. Double-Budgeting of OCSS Funds for Shasta and San Mateo Counties

We recommend a General Fund reduction of \$1,648,000 from the amount proposed for the OCSS program to correct for double-budgeting of the costs of the program in Shasta and San Mateo Counties (Analysis page 1168).

17. In-Home Supportive Services (IHSS) Payrolling System

a. Issuance of Payroll Checks. The State Controller's Office (SCO) will write the payroll checks for a portion of IHSS service providers beginning in 1983-84. Currently, this function is performed by a private vendor. The budget proposes \$648,000 to reimburse the SCO for issuing 150,000 checks each month in 1983-84. We recommend reducing the proposed reimbursement by \$108,000 because we estimate that approximately 125,000 checks, not 150,000 checks, will be issued in 1983-84 (Analysis page 1173).

b. Payrolling Contract. The DSS contracts with a private vendor to provide centralized payrolling functions for a portion of the IHSS program. A new contract will be awarded in April 1983. We withhold recommendation on \$2,955,000 proposed to fund the IHSS payrolling contract because (1) the budget proposes a 1983-84 funding level based on current-year costs, even though payrolling functions will be significantly different beginning in the budget year and (2) actual 1983-84 costs will be known in April when the new contract is awarded (Analysis page 1174).

18. Statewide Time-for-Task Standards in the IHSS Program

We recommend the department prepare a report prior to the budget hearings concerning the potential for General Fund cost-savings due to implementation of uniform time guidelines for the completion of tasks authorized under the IHSS program. Currently, counties determine the

maximum number of hours allowable for each type of service provided to a client through the IHSS program. These standards vary considerably among counties, even for tasks which should take no longer to complete in one county than in another (for example, meal preparation, feeding, ambulation). Appropriate uniform time guidelines could lead to General Fund savings within the IHSS program (Analysis page 1175).

19. Cost-of-Living Adjustments--Technical Budgeting Issues

The budget proposes cost-of-living increases for programs administered by DSS totaling \$120,424,000 (\$89,134,000 General Fund, \$18,355,000 federal funds, and \$12,935,000 county funds). Our review of the proposed cost-of-living increases has identified several technical errors in the calculations used to determine the amounts of the increases. In order to correct these technical errors, we recommend General Fund reductions totaling \$682,000 (Analysis pages 1189 and 1190).

20. Transfer Cost-of-Living Increases from SSI/SSP Recipients to AFDC Recipients

The budget proposes no Cost-of-Living Adjustments (COLAs) for AFDC grants and a 2.1 percent COLA for SSI/SSP grants. The cost of the COLA for SSI/SSP grants is \$72.3 million and is financed from the General Fund. The cost to the General Fund is matched by an increase in federal funds totaling \$72.3 million which is made available to provide a cost-of-living increase on the SSI grant. The federal government does not require that the additional funds it provides to California be passed through to SSI/SSP recipients.

We recommend that funds made available by the federal government to finance a COLA for SSI/SSP recipients be used instead to provide a COLA to AFDC recipients. This recommendation is based on the fact that maximum grant levels under the AFDC program currently result in a standard of living which is below the federally designated poverty level. In fact, historically, the maximum AFDC grant levels have been below the poverty level. At the same time, the maximum SSI/SSP grant levels have provided recipients with a living standard above the poverty level. Even without a COLA in 1983-84, the income of SSI/SSP recipients will remain significantly above the poverty level. Approval of this recommendation would result in approximately a 5 percent COLA for maximum AFDC grant and would insure that the income of AFDC recipients would not fall farther below the poverty level (Analysis pages 1076, 1114, and 1186).

YOUTH AND ADULT CORRECTIONAL

Department of Corrections

(Item 5240/page 1194)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$463,137	\$541,319	\$658,740	\$652,198 ^a	-\$6,542
Personnel- years.....	9,214.5	11,317.1	11,840.4 ^b	11,805.4 ^a	-35.0

a. Also recommendation pending on \$71,699,000 and 446.5 positions.

b. The budget provides \$44.5 million to house over 7,000 inmates, but no specific positions are proposed.

Highlights of Our Recommendations

1. Plan for Prison Population Increase

We withhold recommendation on that portion of the department's support budget related to increased costs for inmate population growth, pending analysis of a revised proposal to be included in the May revision. The budget requests \$71,699,000 from the General Fund to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate population during 1983-84. Our analysis indicates that it is almost certain that the department will have to revise this proposal for housing additional inmates before legislative action on this item is completed. The factors that may warrant changes in the proposal include:

- Of the amount requested to accommodate additional inmates, \$44.5 million is requested to cover the costs of operating new temporary facilities and the Youth Training School (currently operated by the Department of the Youth Authority) for over 7,000 inmates. Specific plans for operating these facilities, however, have not been developed, and the department did not request any new positions for the facilities. We are advised that details on operating costs and staffing needs will be provided in the May revision of the budget.

- The population projections used by the department in preparing the 1983-84 budget do not take into account Ch 1234/82 (AB 2954), which instituted a new system governing the sentence reductions that may be earned by inmates who work or participate in educational programs. Estimates of how the new law will affect the inmate population should be available prior to the May revision, and could alter significantly the department's funding requirements (Analysis page 1198).

2. Security at Patton State Hospital

We recommend deletion of 32.5 positions that will not be needed at Patton State Hospital during 1983-84, for a General Fund savings of \$979,000. These positions are requested in order to provide security at the yet-to-be occupied East Campus at the hospital. Capital outlay projects necessary to secure the perimeter of the East facility, however, are not scheduled for completion until 1984-85, at the earliest. Therefore, assuming the earliest possible occupancy date, the security positions will not be needed in the budget year (Analysis page 1200).

3. Unbudgeted Utility Savings

We recommend the deletion of \$231,000 requested from the General Fund, because current-year capital outlay projects will result in unbudgeted utility savings. Last year, the department received funds for four energy conservation projects that should generate \$231,000 in utility savings in 1983-84. In preparing its utility budget request for 1983-84, however, the department did not reflect these anticipated savings (Analysis page 1201).

4. Personnel Misallocations

We recommend a General Fund reduction of \$102,000 to correct for the overclassification of certain positions identified by the State Personnel Board audit of June 1980 (Analysis page 1201).

5. Inmate Unemployment Benefits

We recommend a General Fund reduction of \$1,299,000 because the program providing unemployment benefits to inmates upon their release from prison is scheduled to terminate on November 1, 1983. The Employment Development Department (EDD), which administers the program with reimbursements from the Department of Corrections, proposes budget-year expenditures of \$997,000, reflecting the phase-down of the program. The Department of Corrections, however, requests \$2,296,000 to reimburse the EDD in 1983-84, which is about the same amount that it expects to spend

during the current year. In view of the program's scheduled termination during the budget year, and the fact that the EDD expects to spend only \$997,000 on the program in 1983-84, we recommend that the amount budgeted by the Department of Corrections for the program be reduced by \$1,299,000 (Analysis page 1202).

6. Equipment

We recommend deletion of funds requested for unjustified equipment purchases, for a General Fund savings of \$669,000. Our analysis of the department's proposed equipment purchases indicates that 64 items, which cost a total of \$669,000, have not been properly justified. The department advises us that additional justification for these items is not readily available. Without further documentation of the need for these funds, we have no basis for recommending that they be approved (Analysis page 1202).

7. Supply Inventories

The Department of General Services (DGS) has identified substantial deficiencies in the department's purchasing, inventory management, warehousing, quality control and distribution activities. The DGS estimated in its November 1982 report that the department's 12 institutions maintained inventories of operating supplies and maintenance materials that exceeded reasonable levels by \$9.5 million.

Based on the Department of General Services' report and discussions with DGS staff, our analysis indicates that the department should be able to defer expenditure of \$3,347,000 on overstocked supplies during the budget year. In addition, the DGS recommends that the department add two positions and purchase various items of warehouse equipment in order to implement an improved materials management program, at a total cost of \$228,000. Accordingly, we recommend a net General Fund reduction of \$3,119,000 (Analysis page 1203).

Department of Corrections--Capital Outlay

(Item 5240-301/page 1206)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	--	--	\$259,293	(pending)	-\$118,552

Highlights of Our Recommendations

1. New Prison Construction Program

Status of Approved Projects

The department has not made substantial progress in implementing the projects the Legislature has previously funded to provide new prison capacity. Major projects at Tehachapi, San Diego and Adelanto have experienced delays in site acquisition and/or planning. Moreover, at the time our Analysis was written, not a single one of the projects approved by the Legislature in the 1982 Budget Act was under construction (Analysis page 1211).

New Master Plan

The department has developed a new Facilities Master Plan which requires substantial appropriation of funds beyond the \$495 million in authorized bond funds. Overall, the Master Plan calls for expenditure of approximately \$1.9 billion at a 1983 cost base. If the Legislature approved the 1983-84 elements of the 1983 Plan, the budget would have to be augmented by \$273.5 million, of which \$172 million would have to be appropriated from sources other than the New Prison Construction Fund. These funds would be needed to continue progress on legislatively authorized projects. Furthermore, this would leave \$1.4 billion in additional financing needed to complete the plan during the next eight years.

Our analysis of the department's Master Plan indicates that the department has made a significant error in projecting the number of beds by classification of inmates. Under the department's security classification system, there are four levels of security, with Level I being the least restrictive (minimum security) and Level IV being the most restrictive

(maximum security). The department's Master Plan shows that about 20 percent of the population will be classified as Level III in 1987, yet the department projects a need to place 34 percent of the inmates in Level III beds. Thus, the Master Plan would provide 65 percent more beds than the projected number of inmates in Level III classification.

Because of the discrepancies involving classification included in the Master Plan, we recommend that prior to budget hearings, the department submit a report addressing the classification issues (Analysis page 1214).

The 1983-84 Budget

The budget proposes \$244,500,000 from the New Prison Construction Fund (bonds) for new facilities for the Department of Corrections. The proposed amount would finance the following:

- o Equipment for the new 1,000 bed maximum security complex at Tehachapi (\$4,500,000).
- o Working drawings and construction for the new Folsom Prison which is to provide 1,500 maximum security beds and 200 minimum security beds (\$134 million).
- o Planning and construction of temporary housing units which is to provide 7,200 beds (\$63,600,000).
- o Construction and equipment for two 500-bed relocatable prisons at Vacaville and Tracy (\$42,400,000).

2. Southern Maximum Security Complex--Tehachapi (-\$4,500,000)

The budget proposes \$4,500,000 for equipment related to the new maximum security prison facilities at Tehachapi. This facility, previously funded for construction, is scheduled to be occupied in January 1985.

We recommend deletion of the proposed equipment funds because we have not received any information to substantiate the amount of funds requested in the budget. Moreover, the new facilities are not planned to be occupied until the 1984-85 fiscal year, and therefore appropriation of the needed equipment funds in the 1984-85 budget will give the department adequate lead time for purchase and delivery of the needed equipment (Analysis page 1219).

3. California State Prison--Folsom

The budget includes \$134 million for working drawings and construction of three 500-bed maximum security units and a 200-bed minimum security service facility at Folsom Prison.

In approving design funds for the new Folsom facilities, the Legislature adopted Budget Act language specifying that the maximum security units at Tehachapi would be used as a prototype design for the new Folsom units. The Tehachapi project will be advertised for construction bids prior to legislative hearings on the budget. Consequently, the department and the Legislature will have an opportunity to evaluate the Tehachapi construction bids and more accurately determine the estimated construction costs for the project at Folsom. Accordingly, we withhold recommendation on this item pending receipt of the construction bids for the new Tehachapi facilities (Analysis page 1220).

4. Temporary Housing Units to Meet Projected Shortage in Bed Space (-\$63,600,000)

The budget includes \$63.6 million for a project to construct three 2,400-bed "temporary" compounds to hold inmates for up to 60 days. The department indicates that the compounds would be located at Vacaville, Chino, and Soledad. If the assumptions contained in the department's Master Plan are realized, the compounds will be needed for a long period of time (over 20 years). Moreover, the Master Plan further indicates that in order to commence construction of the "temporary" housing compounds, emergency legislation is needed to provide: full funding, waive environmental impact reporting requirements, waive state contract requirements, waive State Public Works Board approval and waive review and approval of legislative committees.

The Department of Corrections has not provided any information to indicate that the proposal to construct these "temporary" compounds is feasible. The department has not provided any basis for the \$63.6 million request and it is unlikely that the utilities and service components of existing sites will be able to absorb these major additions.

Given the serious problems associated with the projected prison populations, the need for capacity and the cost to construct and operate the additional capacity, the Legislature needs to consider all options. Some options available to the Legislature are (1) providing a means of administrative control of prison population, (2) early occupancy of proposed new facilities and (3) expansion of planned new prisons to the maximum capacity of the site--such as the new medium security prison in San Diego County.

The \$63.6 million proposal for holding compounds has not been justified, and the viability of this proposal is questionable. For these reasons, we recommend deletion of the \$63.6 million. We recognize, however, that there may be a need for an appropriation of this magnitude in the budget year if the Legislature decides to increase the prison system capacity. The department however must first provide feasible, cost-efficient proposals. Accordingly, we strongly urge the department to reassess its plan, and submit a suitable proposal that would warrant legislative consideration (Analysis page 1220).

5. Relocatable Prisons--California Medical Facility, Vacaville and Deuel Vocational Institution, Tracy (-\$42,400,000)

The budget includes \$21.2 million for construction and equipment for a 500-bed "relocatable" prison on the grounds of the existing California Medical Facility at Vacaville, and an identical amount for a facility at the Deuel Vocational Institution at Tracy. The 1982 Budget Act appropriated \$1,460,000 for planning of these relocatable prisons. The department has changed its plans for these facilities and now proposes construction of permanent 500-bed prisons rather than "relocatable" prisons. These latest plans, however, are not consistent with legislative direction that new permanent prisons be located in the southern portion of the state. Accordingly, appropriate sites for these prisons should be identified and presented to the Legislature for approval. Finally, the department has not indicated the design of the proposed new facilities nor provided any information to substantiate the requested funds. For these reasons, we recommend deletion of the proposed funds for the new 500-bed prisons at CMF, Vacaville and DVI, Tracy.

We also recommend that the department reconsider its construction plans and replace new Level III projects with less costly Level II facilities. The department should use the San Diego Level III design as a prototype for the lower security Level II prison by making appropriate changes in security, hardware, and other elements (Analysis page 1222).

CAPITAL OUTLAY PROGRAM, EXISTING INSTITUTIONS:

6. Convert Warehouse to Vocational Complex--Correctional Training Facility, Soledad (-\$512,000)

The budget includes \$512,000 for equipment related to conversion of a warehouse at CTF, Soledad, to provide additional vocational education space. The project has been delayed because of the Department of Finance's uncertainty regarding the availability of construction funds. This delay in construction will delay occupancy until August of 1984 at the earliest

and thus the proposed equipment is not needed in 1983-84 (Analysis page 1226).

7. Replace Boiler No. 3, San Quentin State Prison (-\$264,000)

The budget includes \$264,000 to replace Boiler No. 3 at San Quentin State Prison. The department indicates that repairs/maintenance costs of existing boilers has been excessive, and installation of a new boiler would result in cost savings.

The department requested preliminary plans and working drawing funds for this project in 1982-83. The Legislature denied that request because the department could not substantiate the claimed energy savings and because the project was more appropriately a special repair project. We recommend deletion of the requested funds for 1983-84 because the department has not provided any new information, and the project should be funded using a portion of the \$3,739,000 included in the department's support budget for special repairs (Analysis page 1227).

8. Wastewater Treatment Facility, San Quentin State Prison (-\$635,000)

The budget proposes \$635,000 to supplement funds previously appropriated to provide San Quentin State Prison's share of the cost to develop a regional wastewater treatment plant. Based on a 1981 agreement, San Quentin was to provide approximately \$940,000 for its share of the \$31 million regional facility. The department now indicates that \$635,000 in funds is needed to complete the project. This would bring the total cost to \$1,575,000--a 63 percent increase since 1981.

The department has not provided any information to substantiate the increase in costs for this project. Consequently, there is no basis to recommend approval of the requested augmentation and we recommend deletion of the proposed funds (Analysis page 1228).

9. Renovate Primary Electrical Distribution System--Folsom State Prison (-\$1,875,000)

The budget includes \$1,875,000 to renovate the primary electrical distribution system at Folsom State Prison.

We have not received adequate information on which to evaluate the requested funds. Moreover, this project is a special repair item and should be funded in priority with other special repair items in the department's support budget. Accordingly, we recommend the requested funds be deleted (Analysis page 1229).

10. Water Storage Tanks, Sierra Conservation Center, Jamestown (-\$907,000)

The budget includes \$907,000 for planning and construction of additional domestic water storage, installation of two water wells, and associated piping and electrical improvements. The department indicates that based on historical water usage, and the planned population at this facility, additional water storage and water sources must be developed.

Based on the Department of Corrections' consulting engineer's guideline of 265 gallons per day per inmate for designing water systems for new prisons, the water needs at this facility should not exceed 500,000 gallons per day. The existing system is capable of storing one million gallons and should be adequate. On this basis, we recommend deletion of the \$907,000 proposed for this project (Analysis page 1230).

11. Upgrade Sewage Treatment Facility, Sierra Conservation Center, Jamestown (-\$241,000)

The budget proposes \$241,000 for planning and construction of improvements to upgrade the sewage treatment facility at SCC Jamestown. The project includes new equipment, a laboratory/office, an emergency power plant, and additional electrical capacity.

According to the cost estimate provided by the department, the 792 laboratory/office building would cost \$105,000 or over \$132 per square foot. Our analysis indicates the proposed project is too costly, and we recommend deletion of the proposed funds (Analysis page 1230).

12. Emergency Generators--Sierra Conservation Center, Jamestown (-\$350,000)

The budget includes \$350,000 for planning and construction of additional emergency electrical power generators at SCC Jamestown. Currently, emergency power is provided to critical lighting systems and wall-mounted battery operated lights are located in other areas.

The department has not provided any detail of the work to be accomplished if the requested funds are approved. The Office of State Architect has not developed any plans or estimates for any proposed work. Accordingly, we have no basis on which to recommend approval of either the requested amount or the proposed work, and we recommend deletion of the requested \$350,000 (Analysis page 1231).

13. Replace Sewage Line Collector--California Mens' Colony,
San Luis Obispo, (-\$1,013,000)

The budget includes \$1,013,000 for planning and construction to replace the sewer collector system at CMC, San Luis Obispo. According to the department, the existing sewer lines have deteriorated and replacement of 18,000 linear feet of collector lines, 10 manholes, and repairs to 120 existing manholes is proposed.

In 1981 the department requested and received funds for upgrading the sewer collector system at CMC. At that time, the department indicated that an appropriation of \$184,000 would remedy the problems with the sewer system. Given the fact that the Legislature previously provided sufficient funds for the project as requested by the department, we recommend deletion of the funds proposed in the budget for a savings of \$1,013,000 (Analysis page 1231).

14. Milk Processing Facility--Deuel Vocational Institution, Tracy
(-\$862,000)

The budget proposes \$862,000 for construction of a new dairy facility at DVI Tracy. The project was funded for preliminary plans and working drawings in the 1980 Budget Act with language stipulating that the funds were to be considered a loan to be repaid by the Correctional Industries revolving fund.

Our analysis indicates that in view of recent legislation (Chapter 1549/82) authorizing establishment of the Prison Industry Authority, the department has the ability to finance these improvements without using state capital outlay funds. Accordingly we recommend the funds proposed in the budget be deleted, for a savings of \$862,000 (Analysis page 1232).

15. Security Modifications to Youth Training School, California
Institution for Men, Chino, (-\$1,300,000)

The budget proposes \$1,300,000 to upgrade the California Youth Authority's Youth Training School (YTS) and transfer it to the Department of Corrections. Transfer of this facility to Corrections would provide an additional 1,200 beds to partially offset the 1983-84 shortfall in capacity.

The proposed funds would be used for various security-type improvements. The department indicates that upgrading is needed to provide Level III, medium security custody. The department has not provided any information to justify the proposed modification of this facility for Level III custody. Moreover, our review of the department's master plan

indicates that the planned 1983 capacity is inadequate to meet the population of all custody levels, except Level III. Thus, conversion of YTS to Level III actually results in excess Level III capacity. The department should reevaluate this proposal and consider operating YTS as a Level I or II institution, thereby eliminating the need for the \$1.3 million proposed for upgrading of this institution. On this basis, we recommend deletion of the proposed funds (Analysis page 1233).

Board of Prison Terms

(Item 5440/page 1239)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$5,718	\$5,735	\$6,639	\$6,319	-\$320
Personnel- years.....	111.7	102.0	116.6	111.6	-5.0

Highlights of Our Recommendations

1. Hearing Representatives

The board proposes to increase its staff by 10 hearing representative positions to meet increased parole and parole revocation hearing workload, which is projected to rise by about 18 percent during 1983-84. Our analysis indicates that according to the board's own staffing standards, the increased workload justifies five, rather than 10, additional positions. We, therefore, recommend deletion of the five positions that are not supported by workload, for a General Fund savings of \$267,000 (Analysis page 1240).

Youthful Offender Parole Board

(Item 5450/page 1241)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>1983-84</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$2,450	\$2,574	\$2,167	\$2,062	-\$105
Personnel- years.....	46.4	46.0	36.0	36.0	--

Highlights of Our Recommendations

1. Salary and Benefit Costs

We recommend deletion of \$105,000 from the General Fund to correct overbudgeting for salary and staff benefit costs. The budget proposes to reduce the board's staff by 11 positions to correspond with its reduced workload. However, our analysis of the salaries earned by those positions proposed for deletion indicates that salary and benefit costs should have been reduced by \$531,000, or \$105,000 more than the \$426,000 amount shown in the budget (Analysis page 1242).

Department of the Youth Authority

(Item 5460/page 1242)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84	
				Recom- mendation	Difference
Expenditures... (thousands)	\$234,064	\$233,905	\$231,076	\$230,955 ^a	-\$121,000
Personnel- years.....	4,543.9	4,490.7	3,840.1	3,840.1	--

a. Also recommendations pending on \$10,789,000.

Highlights of Our Recommendations

1. Population Plan

The budget includes \$10,789,000 to provide funding to accommodate the ward population in excess of capacity that is expected to result from the proposed transfer of the Youth Training School (YTS) to the Department of Corrections. The budget, however, gives no indication of how or where these wards will be housed. Moreover, we are concerned as to whether it will be feasible to accomplish this transfer in an orderly manner by July 1, 1983 as proposed by the budget. Accordingly, we withhold recommendation on this portion of the department's budget, pending receipt of reports specifying (1) how the ward population in excess of bed capacity will be accommodated and (2) the major steps involved in the YTS transfer and the dates by which these steps are to be completed (Analysis page 1245).

2. Use Wards at Fire Camps

We recommend the administration consider replacing California Conservation Corps (CCC) members with Youth Authority wards at three fire centers in view of the excess ward population anticipated in the budget year and because the budget is proposing the closure of three CCC centers (Analysis page 1247).

3. County Justice System Subvention Program (CJSSP)

We recommend enactment of legislation to (1) separate from the CJSSP reimbursements for mandated local costs imposed by Ch 1071/76 (AB 3121) and (2) focus the balance of funds appropriated under the CJSSP on local

alternatives to state incarceration. In view of the experience and expertise of the Controller's staff in reviewing and approving claims for reimbursing local governments for state mandated costs, we believe the AB 3121 reimbursement provisions should be separated from the CJSSP and instead the State Controller should be responsible for providing these reimbursements. In order to help minimize the extent of overcrowding in state correctional institutions, we believe CJSSP funds should be used to maximize the number of felons charged with less serious offenses that are processed through the local criminal justice systems, rather than sent to state correctional facilities (Analysis page 1251).

4. Mental Health Services

We recommend deletion of \$121,000 from the General Fund to correct overbudgeting of funds for providing mental health services to Youth Authority wards (Analysis page 1257).

Department of the Youth Authority--Capital Outlay

(Item 5460-301/page 1252)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$1,073	\$289	-\$784

Highlights of Our Recommendations

1. Oak Glen Conservation Camp (-\$473,000)

The budget includes \$473,000 for modifications to support facilities at the Oak Glen Conservation Camp, which the department indicates are needed to support an increased population.

The 1982-83 budget included funds for both a new dormitory and expanded facilities at Oak Glen. The Legislature appropriated funds for only the new dormitory, and indicated that the Youth Authority should occupy the new building and assess the operations and deficiencies of the support facilities. Any funding request for modifications to support facilities was to be based on operating experience at the expanded population.

The new dormitory will not be completed and occupied until late 1983, at the earliest. Given the Legislature's prior action, the department's request is premature, and we recommend that the funds be deleted (Analysis page 1253).

2. Renovation of the Older Boys' Reception Center (-\$100,000)

The budget proposes \$100,000 in planning funds for renovation of the Older Boys' Reception Center in Chino. The center is currently under the control of the Department of Corrections (CDC). The budget indicates that this 400-bed facility will be transferred to the Department of the Youth Authority at some future date, in return for the Youth Training School (1,200 beds) which is proposed for transfer to the CDC on July 1, 1983.

Other documents submitted by the administration, however, fail to reflect this transfer within the next decade. The CDC's 1983 Facilities Master Plan indicates that projected inmate population will exceed capacity

by 11,600 in 1992, assuming that the CDC retains the Older Boys' Reception Center. Moreover, the budget proposes over \$2 million in capital outlay for the CDC to renovate the locking devices at the Older Boys' Reception Center to meet the Department of Corrections' needs.

Because the requested funds would be used to plan for an event which in all likelihood will not occur within the next decade, we recommend the funds be deleted (Analysis page 1254).

K-12 EDUCATION

Department of Education

(Item 6100/page 1257)

	1981-82 <u>Actual</u>	1982-83 <u>Estimate</u>	<u>Proposed</u>	<u>1983-84 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$7,400,756	\$7,669,743	\$7,806,652	\$7,738,022	-\$68,630
Personnel- years.....	2,687.1	2,817.4	2,810.7	2,799.2	-11.5

Highlights of Our Recommendations

1. School Construction--Constitutional Amendment

We recommend that the Legislature enact legislation to place a constitutional amendment on the next general election ballot authorizing local voters to assess special property tax rates to fund debt service for local school construction bonds.

Proposition 13 effectively eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans, and therefore severely limited the districts' access to funds needed for school building construction. Consequently, school districts now rely upon the State School Building Aid program to finance virtually all of their capital outlay needs.

School districts frequently complain about various aspects of the State School Building Aid program, including (1) the amount of paperwork involved in filing an application, (2) the inadequacy of the building area entitlement, and (3) the restrictiveness of the program. The current method of financing school construction, however, is deficient in two more important respects, because (1) it does not generate sufficient funding to meet district needs and (2) it does not distribute the burden of paying for new school facilities in an equitable manner.

In view of these problems, we believe that a new revenue source needs to be developed to finance school construction. Specifically, we believe that local school districts should be given the authority (subject to local voter approval) to assess a special property tax in order to fund bonded debt issued to finance school construction (Analysis page 1430).

2. In-Lieu Revenue Guarantee

The budget proposes that \$20,000,000 be made available to the Superintendent of Public Instruction for allocation to school districts that would be affected by the elimination of funds for the 100 percent revenue guarantee. Chapter 282, Statutes of 1979 provided that all districts would be guaranteed at least 102 percent of their prior-year revenues through June 30, 1983, the "sunset date." The 1982 Budget Act, however, provided funds to support only a 100 percent revenue guarantee in 1982-83.

The Department of Education, however, has not provided any information to support the \$20,000,000 special appropriation for 1983-84. The Legislature, by including the sunset provision in Ch 282/79, specified that the 102 percent revenue guarantee was to expire at the end of this fiscal year. Consequently, any extension of the guarantee beyond the sunset date should be justified and subject to legislative review.

For this reason, we recommend deletion of the \$20,000,000 special appropriation. We are prepared, however, to analyze information provided by SDE that justifies the in-lieu funding. The information should specify (1) how the department intends to allocate the \$20 million proposed in the 1983-84 budget in-lieu of funds for the 100 percent revenue guarantee, (2) the criteria which will be used to establish district need, and (3) the level of support that the \$20 million will provide to the recipient districts (Analysis page 1321).

3. Regional Occupational Centers and Programs (ROC/P)

We recommend Budget Bill language, and follow-up legislation, to prohibit enrollment of pupils in grades 9 and 10 in ROC/Ps, for a savings to the General Fund of \$13,026,000. ROC/Ps provide vocational training to high school pupils and adults. In contrast to generalized training offered in school-based vocational education programs, ROC/P courses are designed to prepare individuals for specific occupations. These courses generally can be completed in one semester or one year. The type of job-specific training offered by ROC/Ps should be more effective if provided as close as possible to the time when the pupil is seeking employment. Thus, enrollment of pupils in grades 9 and 10 may be counterproductive from a vocational training standpoint and also may dilute the pupil's core academic preparation (Analysis page 1330).

4. Adult Education Courses Authorized for State Funding

We recommend adoption of Budget Bill language deleting home economics and health and safety education from the list of subject areas in

which adult education courses are authorized for state funding, for a General Fund savings of \$14,293,000.

The Education Code restricts state funding of adult education to courses in the following areas: parenting, basic education, English as a Second Language (ESL), citizenship, classes for substantially handicapped persons, short-term vocational education courses with high employment potential, apprenticeship training, classes for older adults, home economics, and health and safety education.

Recreational courses must be offered on a fee-supported basis if provided in adult education programs. They are not supposed to be supported with state funds. Our analysis, however, indicates that it is hard to distinguish many home economics and health and safety courses from recreational courses. These include microwave cooking, needlepoint, beginning sewing, and fitness and aerobics. In fact, we found that some of these courses are state-funded in some districts and fee-supported in others.

Home economics courses which are intended to provide vocational training could, if our recommendation is adopted, be funded under the category of "vocational courses with high employment potential." Health and safety courses, such as CPR, first aid, and lifesaving, are generally available at community colleges or from agencies such as the Red Cross, on a fee basis (Analysis page 1377).

5. State Educational Block Grant--Local Assistance

We recommend the Department of Education provide information, by April 1, 1983, to the Legislature on how the proposed \$426 million block grant would be implemented. We withhold recommendation on the proposal until the requested information is provided. The administration proposes to fold the following nine state-funded categorical aid programs into a State Educational Block Grant:

- o Economic Impact Aid (EIA)
- o School Improvement Program (SIP)
- o Instructional Materials (Textbooks)
- o Gifted and Talented Education (GATE)
- o Miller/Unruh Reading Program
- o Staff Development
- o Demonstration Programs in Reading and Mathematics
- o Educational Technology
- o Native American Indian Education Program

The administration, however, has not provided adequate information for legislative review of this proposal. In order for there to be adequate information for legislative review, the administration needs to provide specific information on (1) how the block grant funds would be allocated to school districts and (2) how much flexibility would school districts have in allocating the funds among schools and programs (Analysis page 1338).

6. Special Education Cost-of-Living Adjustment

The budget proposes a 3 percent cost-of-living adjustment (COLA) for special education local assistance, and provides \$36,249,000 for this purpose. This is in lieu of the statutory provisions which require the special education COLA to equal the COLA provided to revenue limits for unified districts with more than 1,500 ADA. The budget proposes a 6 percent COLA for these revenue limits.

Our analysis indicates that the special education COLA has been overbudgeted by \$10,683,000. The proposed COLA does not reflect the increase in funds to be provided from revenue limits for students enrolled in special day classes (SDC). Under the Master Plan for Special Education, each district's entitlement to state aid is reduced by the per pupil revenue limits of those students enrolled in SDCs. Because the revenue limit funding generated by these students is expected to increase, on average, by the amount provided in the budget (6 percent for districts, 3 percent for county offices), a smaller special education COLA is required. We estimate that \$10,683,000 has been overbudgeted. Consequently, we recommend that the COLA for special education local assistance be reduced by \$10,683,000.

The Department of Finance acknowledges that the COLA for special education has been overbudgeted, but has also indicated that the special education appropriation has been underbudgeted. Finance estimates that the amount underbudgeted is \$10,400,000. Thus, Finance proposes to apply the overbudgeted COLA to the special education appropriation for local assistance.

Because more timely data will become available when districts submit reports on their current year special education program to SDE in late February, we do not recommend augmenting the special education appropriation at this time (Analysis page 1396).

7. California Library Services Act--System Reference Centers

We recommend the deletion of \$1,446,000 of state support for system reference centers. The California Library Services Act (CLSA) includes funding for 20 system reference centers. In general, the function of

library reference service is to provide answers to questions posed by library patrons. The state-supported reference centers are a part of overall reference services that include (1) locally-funded reference activities and (2) two federally-supported regional reference centers.

Our analysis indicates that no statewide (as opposed to local) benefit results from providing reference services at state expense. In addition, given the availability of local and federal funds for reference services, it is not clear why the state should use its limited resources to support these services. Because reference service can be provided locally, supplemented as necessary by the federally-supported reference centers, we recommend a General Fund reduction of \$1,446,000 for CLSA system reference centers (Analysis page 1451).

8. Federal Fund Offset For California Library Services Act

We recommend that \$900,000 of a recent augmentation of federal Library Services and Construction Act (LSCA) funds be used to replace state support for the California Library Services Act. The State Librarian has proposed to use a \$1,600,000 augmentation of federal LSCA funds to supplement the state-supported CLSA. We believe that \$700,000 of the augmentation should be allocated to supplement the CLSA (to fund a 1982-83 shortfall in local library reimbursements), but that the remaining \$900,000 should be used to replace, not supplement, CLSA state funding in 1983-84. Using the LSCA funds to replace state funds would make another \$900,000 available to the Legislature for funding its priorities in the budget year (Analysis page 1454).

9. California Library Services Act--Interlibrary Loan Reimbursements

We recommend the adoption of Budget Bill language directing the State Librarian to require that libraries participating in the CLSA charge patrons a \$1 processing fee for each interlibrary loan (ILL) requested under the CLSA. ILL allows a patron to request that a book from another library jurisdiction be delivered to the patron's library. The leading library receives a state-funded partial reimbursement for the handling cost of each item sent.

Our analysis indicates that a nominal \$1 processing fee is necessary because at most libraries ILL is a "free good"--patrons have no incentive to be selective in making ILL requests. A processing fee would have the following results:

- o Libraries initiating the ILL request would recover a portion of their costs associated with ILL requests.

- o Frivolous or unnecessary ILL requests would be discouraged, while necessary requests would continue to be made without the patron experiencing a major financial burden.
- o By discouraging low priority requests, the fee would result in cost savings to both local agencies and the state (Analysis page 1453).

10. Overbudgeting for Child Care

We recommend that the proposed General Fund appropriation for child care local assistance be reduced by \$3,832,000 because it is not needed in the budget year to maintain current service levels.

The Auditor General, in their report "Improvements Needed in Administering State-Funded Child Care Programs," recommends that the Office of Child Development consider an agency's demonstrated ability to earn the total amount of state reimbursement allowed by their prior-year contract with the State Department of Education's Office of Child Development (1) when the contract comes due for renewal and (2) when determining the amount of funding that an agency should receive in the new contract.

In reviewing the actual amount of state reimbursement received by child care agencies against the maximum amount they could have received as specified in their past year contract with the state, our analysis indicates that child care agencies were unable to earn at least \$3,720,000 of the maximum amount they could have earned. Because the budget year request for child care local assistance is based upon the past year appropriation plus a 3 percent inflation adjustment, and because this appropriation is in turn based upon the maximum amount of state reimbursement which child care agencies could have earned, we conclude that the budget request is overstated by the aforementioned \$3,720,000, plus a 3 percent inflation adjustment (\$112,000), and should therefore be reduced by \$3,832,000 because it is not needed in the budget year to maintain current service levels (Analysis page 1415).

11. Urban Impact Aid

We recommend the elimination of the \$2,013,000 cost of living adjustment (COLA) proposed for Urban Impact Aid.

Urban Impact Aid provides general aid to selected districts and the funds can be used to support any expenditure by the district. Unlike funding provided under other categorical programs, these funds are not earmarked for a specific educational purpose or a specific group of pupils.

Our analysis indicates that because the funds are not restricted to a specific service, districts do not routinely incur increased costs in supporting an Urban Impact Aid "program." Faced with a general increase in costs, those districts receiving Urban Impact Aid have the flexibility to redirect their Urban Impact Aid funds to less costly items and services. Accordingly, we cannot support the need for a cost-of-living adjustment in the Urban Impact Aid programs, and recommend that funding for the proposed COLA be deleted, for a General Fund savings of \$2,013,000 (Analysis page 1337).

12. AB 1544 Native American Indian Education Program

We recommend the elimination of the AB 1544 Native American Indian Education program for a General Fund savings of \$396,000. The program seeks to improve the reading and mathematics competence of K-4 Native American pupils in 10 rural school districts. These and other Native American pupils may also be served by a variety of state and federal categorical programs.

Our analysis indicates that the AB 1544 program should be terminated for the following reasons:

- o The compensatory education needs of Native American pupils served through the AB 1544 program can and should be met through the major categorical programs which are intended to serve all pupils with special needs.
- o The reading and mathematics needs of Native American pupils are not unique and do not require a specialized program.
- o The procurement and distribution of curriculum materials pertaining to Native American history and culture can be accomplished by other organizations and agencies.

Consequently, we recommend the elimination of \$318,000 in AB 1544 local assistance funds and a reduction of \$78,000 in related state operations (Analysis page 1380).

13. Single Session Kindergarten

We recommend that urgency legislation be enacted to repeal the Education Code provisions which require school districts to limit the use of their kindergarten teachers to the instruction of one kindergarten class daily. Under current law, school districts are prohibited from requiring kindergarten teachers to teach more than one session per day and from hiring part-time kindergarten teachers.

As a result of current law, school districts must pay a kindergarten teacher for a full school day, even though a kindergarten teacher spends no more than four hours a day in a kindergarten class. The remaining hours in the work day are generally set aside for class preparation, meetings with parents, or assignment to other primary grade level duties, as authorized by AB 777 (Ch 100/81). In contrast, a primary grade teacher spends up to six hours in class and uses the remaining two hours to prepare assignments, correct homework, meet with parents, and perform other duties.

Our analysis indicates that this mandate is overly restrictive because it prevents school districts from employing one kindergarten teacher to teach two sessions and from hiring part-time kindergarten teachers. We have found no evidence that shows that the mandate yields any benefit to either the state or to school districts. Moreover, by requiring all kindergarten teachers to be full-time and to teach only one kindergarten session per day, the mandate may encourage districts to increase the size of kindergarten classes. Finally, the mandate may require districts and the state to allocate the limited funds available for education in ways that may not be cost-effective.

Repeal of the single session kindergarten mandate would provide school districts more flexibility in administering their kindergarten programs. Faced with an increase in kindergarten enrollment, a district would be permitted to assign a kindergarten teacher to teach more than one session per day, to hire a part-time kindergarten teacher, or to hire a full-time kindergarten teacher to accommodate the enrollment growth (Analysis page 1323).

14. Physical Education Mandate

We recommend that urgency legislation be enacted to repeal the Education Code provisions which require (1) students to participate in physical education programs and (2) school districts to provide physical education as part of the school curriculum. Under current law, students in grades one through six must participate in physical education programs for at least 200 minutes every 10 school days. Students in grades 7-10 must participate in physical education programs for at least 400 minutes every 10 school days. State law, however, does not require a specified time of student attendance for any other subject area, such as mathematics, English, and history.

During our field visits, most administrators stated that physical education should not be mandated. They believe that the mandate (1) hinders the districts' efforts to adjust expenditures to funding reductions and (2) limits the districts' ability to offer the instructional program sought by students and the community.

Some districts faced with reduced revenues have attempted to achieve cost savings by reducing the length of the school day. The physical education mandate, however, prohibits districts from reducing this program below the specified minimum. As a result, districts that reduce class offerings must retain the physical education program, sometimes at the expense of academic courses.

In addition, the physical education mandate may not be educationally efficient because it prevents students from substituting academic courses for physical education instruction. Recent data show that secondary students in California are performing below the national average on standardized academic achievement tests. These students also spend less time in school than their counterparts across the nation. Student who wish to improve their academic skills by increasing their academic caseload must nevertheless reserve one class for physical education. This restriction is more critical in light of the fact that the average school day in California is shorter than the school day for most states in the nation.

Our analysis indicates that the physical education mandate does not serve a compelling statewide interest, and restricts the ability of school districts to accommodate local educational preferences. In addition, the mandate makes it more difficult for districts to react to reduced funding levels. Repeal of the mandate would provide more flexibility to districts in administering their programs and would allow students to choose the curriculum most suited to their educational goals (Analysis page 1325).

15. Work Experience Education

We recommend Budget Bill language to prohibit the granting of average daily attendance (ADA) credit for General Work Experience Education as part of the minimum school day required for state apportionment. School districts operate three types of Work Experience Education programs: exploratory, vocational, and general. General Work Experience Education consists of part-time paid employment which need not be related to the pupil's occupational goal, and has no classroom requirement. A common example is employment during "after-school" hours at a fast food restaurant.

Work experience may be taken for credit and may count toward the minimum school day requirement (generally 240 minutes) to generate ADA for state apportionment aid. Our analysis indicates that state aid should not be provided for General Work Experience Education because it is typically not related to the pupil's occupational goals and tends to dilute the pupil's core academic preparation (Analysis page 1374).

16. State Educational Block Grant--State Operations

We withhold recommendation on the administration's proposed reduction of \$3,859,000 in Department of Education state operations. The budget proposes to reduce General Fund-supported state administration for the nine local assistance programs proposed for consolidation into the State Educational Block Grant. The budget also proposes to fold funding for the administration of vocational education into the block grant, although vocational education local assistance is not proposed for inclusion in the block grant. The total reduction in state operations is 71.4 personnel-years and \$3,859,000, which is a 13 percent reduction from current-year levels.

The budget, however, provides no information that would allow the Legislature to analyze the proposed reduction. Specifically, it fails to identify (1) what activities would no longer be performed and the positions now required to perform those activities, (2) what activities would still need to be performed and the workload standards for those activities, or (3) whether these are half- or full-year savings (the budget assumes that savings in local district administration of these programs are half-year.) In fact, the budget states that this is an unallocated reduction, and the details will be developed at a later date. Consequently, the Legislature currently has no information that could be used to judge the practicality of effects of the proposed reduction (Analysis page 1444).

17. Eligibility Standards for State-Subsidized Child Care Services

We recommend that the Legislature enact legislation to repeal the exemption currently granted to AFDC and SSI/SSP recipients from the payment of parent fees for state-subsidized child care services.

The Advisory Committee on Child Development Programs, in their report "Eligibility and Fees for Subsidized Child Care," recommends that AFDC and SSI/SSP grants be counted as income when determining the amount of any fee which a family is required to pay for state-subsidized child care. The committee reports this reflects the overwhelming sentiment of the 114 program directors and 868 parents included in their study.

The Education Code specifically prohibits recipients of public assistance such as that provided to AFDC and SSI/SSP recipients from paying any fees for state-subsidized child care services.

The family fee schedule (from which the fee is determined) is based upon a family's size and its "ability to pay" as indicated by the family's gross income. Therefore, we see no reason why a distinction should be made in determining "ability to pay" regarding what the source of that income

is. It makes no sense, for example, to charge a working family a higher fee than is charged a nonworking family with the same gross income.

Accordingly, we agree with the committee's recommendation and believe that AFDC and SSI/SSP recipients should be subject to the payment of family fees as are other recipients of state-subsidized child care services (Analysis page 1417).

18. Economic Impact Aid

We recommend the adoption of Budget Bill language to modify the Economic Impact Aid (EIA) formula. EIA is a mechanism for distributing aid to school districts for the provision of compensatory education services, including services to limited English proficient (LEP) pupils. EIA funds are allocated through a complex formula that identifies "unmet need" based on several factors, including the additional resources necessary to serve LEP pupils. Currently, the formula uses the number of Spanish and Asian surnamed and American Indian pupils as a proxy for determining the impact of LEP pupils.

Our analysis indicates that this proxy is not the most accurate method available because a statewide census is now conducted each spring to specifically identify LEP pupils. By changing the formula to use this census data for determining the potential impact of LEP pupils, the state would:

- o More accurately target bilingual education funds to LEP pupils.
- o Encourage a more accurate identification of LEP pupils by school districts.

Consequently, we recommend the adoption of Budget Bill language and the enactment of legislation to change the EIA formula (Analysis page 1342).

19. School Construction--Developer Fees

We recommend that the Legislature enact legislation authorizing school districts to assess SB 201 fees to finance the cost of permanent school construction, so that more funds can be made available to meet the unmet need for school facilities.

Some school districts currently are receiving developer impactation fees under the provisions of Ch 955/77 (SB 201). Under SB 201, a city or county may adopt an ordinance to require developers to dedicate land or pay

fees to mitigate the impact of housing developments. These fees must be used for the acquisition of temporary elementary or secondary school facilities, which are used until permanent school facilities can be built. The fees typically range from several hundred dollars to \$3,000 per house.

Since 1981-82, the state has been unable to provide the amount of funding specified by existing law for state school construction aid due to shortfalls of tidelands oil revenues, and the necessity to use some of these revenues to fund General Fund deficits. The state has also been unable to significantly mitigate the need for K-12 school capital outlay.

New financing sources for school construction, therefore, would be desirable, one of which would involve greater use of developer fees. Currently, SB 201 fees can only be used for the procurement of interim school facilities, and use of these facilities must be discontinued one year after receipt of an apportionment from the State School Building Lease-Purchase program. Authorizing the assessment of SB 201 fees to finance part or all of the cost of permanent in addition to temporary school facilities, will raise a new source of funding for school construction purposes (Analysis page 1438).

POSTSECONDARY EDUCATION
 University of California
 (Item 6440/page 1520)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$1,113,492	\$1,167,051	\$1,202,051	\$1,140,193	-\$61,858
Personnel- years.....	59.0	58.0	58.0	58.0	--

Highlights of Our Recommendations

1. Avocational, Personal Development, and Recreational Courses

We recommend that the Legislature delete \$687,000 associated with specified avocational, personal development, and recreational courses offered by the UC that, pursuant to a legislative directive, are no longer eligible for state support when offered by community colleges. In 1982-83, the Legislature reduced the General Fund support for community colleges by \$30 million and directed the Board of Governors to identify which avocational, recreational, and personal development courses should be either eliminated from the community college curriculum or offered on a self-support basis. Our analysis indicates that CSU and UC continue to offer similar courses for which they receive state support. We recommend that this support be eliminated to achieve a consistent funding policy for all segments of postsecondary education (Analysis page 1534).

2. Drew/UCLA Medical Education Program

We recommend a reduction of \$443,000 in the \$1.3 million proposed augmentation for the Drew/UCLA medical education program. The Governor's budget proposes full funding for this new program in 1983-84, based on enrollment levels of 48 medical students and 170 medical residents. Planned enrollment, however, will not be achieved until 1984-85. In 1983-84, only 24 of the 48 medical students will be enrolled. Consequently, the Governor's Budget overfunds the program by \$443,000, based on current university budgeting formulas (Analysis page 1540).

3. UCLA Medical School

We recommend a reduction of \$1,368,000 to correct for overfunding of the UCLA medical school, which has resulted from UCLA's use of state funds which are provided in support of affiliated residency programs.

At the University of California, there are two kinds of medical residents--UC residents and affiliated residents. UC residents are hired by UC hospitals, and receive a portion of their stipends from UC. In addition, they receive most of their training at UC hospitals. Affiliated residents are hired and paid by non-UC hospitals which have affiliation agreements with UC, and those residents receive most of their training at those non-UC hospitals. The concept behind such affiliations is that the quality of residency training programs is improved by association with a university medical school. The majority of hospital residency training programs throughout the state and country are affiliated with a university medical school. UC affiliates with three types of hospitals: county, Veterans Administration, and community hospitals.

The UC receives state General Fund support for both UC and affiliated residents according to a formula based on student/faculty ratios. As a result of recurring evidence that UC medical schools (UCLA, in particular) were not using these state funds to support the residency programs at affiliated hospitals, the Legislature directed that UCLA report on its allocation of these funds. Based on the UCLA report and our discussions with university and affiliated hospital officials, we conclude that UCLA is using a significant portion of these funds to enrich its core medical school program, rather than to support affiliated residency programs. We recommend that this unintended support for UCLA's medical school be deleted, for a savings of \$1,368,000 (Analysis page 1548).

4. External Use of UC Libraries

We recommend that the Legislature (1) request UC to increase fees charged to external users of UC libraries and (2) reduce General Fund support by the amount of additional revenues that will be generated by the higher fee.

The State Department of Finance found that external users (persons who are not students, faculty, or staff at UC) account for 16 percent of the library materials circulated from UC libraries. Most of these users are not charged a fee for borrowing privileges. The fees that are charged are low (average of \$10.60 for a library card) and have not kept pace with rising library costs. We recommend that the Legislature reduce funding by \$313,000 to be offset by increased fee revenue from external library users. The recommended dollar reduction is based on an average fee of \$25 and a 25

percent reduction in the number of cards distributed free of charge
(Analysis page 1556).

5. Student Affirmative Action

We recommend that UC consolidate its Educational Opportunity Program (EOP) and its Student Affirmative Action (SAA) program into one program having two components--outreach and support services.

Our review indicates that (1) EOP and SAA were both intended to serve the same target population--minority and low-income students and (2) similar outreach and support services are provided to this target population under the two programs. Because the programs are similar, many UC campuses have merged them to various degrees. Official consolidation of the two programs would increase efficiency, reduce administrative costs, and allow more students to be served within the same level of expenditure. (Analysis page 1570).

6. Graduate Fees and Financial Aid

We recommend that the Legislature direct UC to increase graduate student fees by \$90 so that the amount contributed by graduate students toward the cost of their education better reflects (1) the cost to the state of providing this education and (2) the direct benefit graduate students derive from it.

We further recommend an augmentation of \$672,000 for student financial aid so that low-income graduate students continue to have access to UC.

The Governor's Budget proposes annual required fee levels of \$1,344 for undergraduates and \$1,390 for graduate students. We recommend that graduate students pay an additional \$90, for a total of \$1,480. This would create a graduate fee differential of 10 percent, which is consistent with the graduate differential recommended by the California Postsecondary Education Commission (CPEC) in its ACR 81 report (Analysis page 1580).

7. Health Science Fees and Financial Aid

We recommend that the Legislature direct UC to set fees for students in medicine, dentistry, and veterinary medicine \$300 above fees charged to other graduate students so that the amount contributed by these health science students toward the cost of their education better reflects (1) the cost to the state of providing this education and (2) the direct benefits these students derive from it.

We further recommend an augmentation of \$540,000 for student financial aid so that low-income health science students continue to have access to UC.

This recommendation would set the total of required fees for these health science graduate students at \$1,780, which is 20 percent higher than the fee level we recommend for other graduate students. A 20 percent fee differential for students in these fields is consistent with CPEC's recommendation in its ACR 81 report (Analysis page 1582).

8. UC Retirement System (UCRS)

We recommend that the state General Fund contribution toward UC retirement be reduced by \$56.5 million with benefits based on the same economic assumptions that are used in providing state funds to the Public Employee Retirement System (PERS).

The principle of retirement system funding is that contributions into a retirement system fund should be sufficient to cover the cost of retirement payments owed to members now and in the future. In order to determine the appropriate annual contribution into the fund, assumptions must be made concerning the future performance of the economy. The two most important economic assumptions concern:

- o the long-term average rate of salary increase; and
- o the long-term interest rate.

Long-Term Salary Increase. The rate of salary increase affects the cost of benefits owed, because benefits paid to retired persons are based on their ending salaries. The higher the rate of salary increase, the higher the cost of retirement benefits paid to members. Accordingly, the higher the assumed long-term salary rate increase, the higher the annual state cost of contributing into the retirement fund.

Long-Term Interest Rate. The interest rate determines the earnings from the investment of retirement fund assets. The higher the interest rate earned, the greater the growth in fund assets, and the lesser the need for annual contributions into the fund to meet retirement costs. Accordingly, the higher the assumed long-term interest rate, the lower the annual state cost of contributing into the retirement fund.

More important than the actual values assumed for salary increase and interest rate is the assumed relationship between the two factors. If the interest rate is assumed to be greater than the rate of salary increase, then assets are assumed to be growing faster than liabilities

(benefits owed). If, however, salaries are assumed to grow at a greater rate than the long-term interest rate, then liabilities are assumed to be growing faster than assets. The UC retirement system is the only retirement system we have been able to identify that is funded based on the assumption that salaries will grow at a faster rate than the long-term interest rate. Based on our review of the state Controller's latest annual report on public retirement systems, and on our discussions with actuaries and other experts in the field of retirement system funding, we find that virtually all retirement plans other than UCRS assume that, over the long run, interest rates will exceed the rate of salary increase. Put another way, UC assumes that liabilities will grow faster than assets, while most other plans assume that assets will grow faster than liabilities. Specifically, UCRS is funded on the assumption that the salary increase rate will exceed the interest rate by 0.5 percentage points, while PERS is funded on the assumption that the salary increase rate will be 0.5 percentage points lower than the interest rate.

We believe that the state contribution to UCRS should be based on the PERS economic assumptions for the following reasons:

- o Although retirement system funding is far from an exact science, and different actuaries may disagree as to the expected performance of the economy, UC is virtually alone in its assumption that the rate of increase in salaries will exceed the long-term rate.
- o The PERS assumptions are not unreasonable. Other retirement plans--for example, those covering employees of Los Angeles and San Diego counties--assume that the interest rate will exceed the salary increase rate by 2 percentage points, rather than the 0.5 points assumed by PERS.
- o There is no reason why the state should contribute to the two largest state retirement systems using two different sets of economic assumptions. Over the long run, the investment return and salary increases experienced by UCRS and PERS are likely to be similar.

Based on data provided by UC, we conclude that if the UCRS were funded using PERS assumptions, the state's General Fund contribution to the UCRS in 1983-84 could be reduced by \$56.5 million and still provide for 100 percent funding of anticipated UCRS benefits. (By contrast, PERS liabilities are only 59 percent funded). Accordingly, we recommended that \$56.5 million be deleted from this item (Analysis page 1589).

University of California--Capital Outlay

(Item 6440-301/page 1595)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$7,654	(pending)	-1,348

Highlights of Our Recommendations

1. Santa Cruz--Applied Science Building Basement (-\$119,000)

The budget includes \$119,000 to purchase equipment related to a project to alter space in the Applied Science Building basement on the Santa Cruz campus. The project, funded for working drawings and construction in 1982 alters 4,630 square feet for machine, electronic, paint, and marine shops plus related storage space. The project has two benefits--first, it consolidates and expands crowded support facilities which are located in two buildings; secondly, it allows reassignment of approximately 2,000 feet of vacated shop space for physics research laboratories.

Our analysis indicates that this project was undertaken to make shop operations more efficient and not expand their capabilities. Consequently, existing equipment should be adequate to conduct the program in the remodeled area and we see no basis for purchase of additional equipment. On this basis, we recommend deletion of the requested \$119,000 (Analysis page 1601).

2. Food and Agricultural Sciences Building, Davis (-\$550,000)

The budget proposes \$746,000 for working drawings for the Food and Agricultural Science Building at Davis. The project would provide 129,800 square feet of space for research, teaching and extension activities for various departments. Previously appropriated funds for this project amount to \$2,307,000 and the current estimated total project cost is \$44,873,000. Extensive remodeling of space scheduled to be vacated will increase the total project cost to over \$60 million.

This project was approved by the Legislature with the understanding that the project would be implemented using the "early delivery system"

design and construction method. This new method of project implementation would have allowed the university to begin construction of various portions of the project prior to completion of all of the working drawings for the project. In this way, construction could be accelerated, thus reducing costs and allowing occupancy of the building approximately one year earlier than would be possible under the traditional lump sum bidding method utilized on most state projects. Last year the university estimated that use of this method would save approximately \$2.5 million in construction funds.

Our analysis of the early delivery system schedule provided by the university indicates that a total of \$40,619,000 would have to be appropriated for the project in 1983-84 in order to use effectively the EDS method. The Governor's Budget, however, contains only \$746,000 for working drawings.

Given the amount included in the Governor's Budget for this project, the benefits of the EDS systems cannot be realized and the project should proceed using the traditional capital outlay schedule of completing the working drawings and bidding the project on a lump sum basis. Our analysis indicates that proceeding with the traditional schedule should result in reduced amounts for the working drawing phase of \$550,000. Accordingly, we recommend that the \$746,000 proposed in the budget be reduced to \$196,000 (Analysis page 1601).

3. Life Science Building Addition--Berkeley (-\$200,000)

The budget includes \$200,000 for partial preliminary plans for the first in a series of projects to provide new and altered space for the biological sciences at the Berkeley campus. Phase I, the Life Science Building addition, is currently estimated to cost \$39,195,000. Future state and non-state funded phases will increase the overall program cost to more than \$110 million. This initial phase provides 105,000 assignable square feet in laboratory facilities for various disciplines related to organismal biology.

The university's most recent project cost estimate and schedule indicates that a total of \$2,340,000 is needed in 1983-84 to complete preliminary plans and working drawings for this project. The Governor's Budget, however, includes only \$200,000 for partial preliminary plans. The Department of Finance staff has been unable to identify the work to be accomplished with the amounts included in the budget. There is no analytical basis on which to judge the necessity of the proposed \$200,000 included in the budget. Accordingly, without prejudice to the merits of the project, we recommend that the proposed funds be deleted (Analysis page 1603).

4. Engineering Unit 2--Santa Barbara (-\$250,000)

The budget includes \$250,000 for partial working drawings for the Santa Barbara Engineering Unit 2 project. This project, currently estimated to cost \$21,535,000, would provide 83,000 assignable square feet for the College of Engineering which currently has a substantial space deficiency based on state space guidelines.

The university's capital improvement budget indicates that \$592,000 is needed in 1983-84 to complete the working drawing phase. The Department of Finance staff has not been able to provide any information to indicate the work to be accomplished with the funds included in the budget. Accordingly, without prejudice to the merits of the project, we recommend deletion of the proposed \$250,000 included in the budget (Analysis page 1605).

Hastings College of the Law

(Item 6600/page 1609)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$7,564	\$7,258	\$7,517	\$7,233	\$284
Personnel- years.....	214.8	223.5	223.5	223.5	--

Highlights of Our Recommendations

1. We recommend that Hastings increase the educational fee by \$150 so that it is equal to the University of California's educational fee. We further recommend an augmentation of \$45,000 for student financial aid so that low-income students continue to have access to Hastings.

Because Hastings is part of the University of California, fees at Hastings traditionally have been set so as to equal the fees charged to other UC graduate students. The Governor's Budget for 1983-84 proposes to abandon the policy of fee parity at the two institutions. The budget reflects a \$150 increase in the educational fee charged graduate students at the university, bringing it to an annual level of \$835. Hastings' educational fee, however, would continue at an annual level of \$685.

There is no analytical reason why a law student at Hastings should pay less than a law student at the other three UC law schools. Consequently, we recommend that Hastings' educational fee be increased by \$150 to an annual level of \$835. This would result in a revenue increase of \$225,000 in 1983-84 and, allowing for increased financial aid, would permit a net savings of \$180,000 to the General Fund (Analysis page 1611).

California State University

(Item 6610/page 1614)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$962,150	\$938,770	\$924,663	\$907,499	-\$17,164
Personnel- years.....	33,838.2	33,693.7	33,800.0	33,800.0	--

Highlights of Our Recommendations

1. Graduate Student Charges

We recommend that the Legislature require an increased annual graduate student fee charge of \$70 in 1983-84 for graduate students so that contribution of graduate students toward the cost of their education better reflects the cost to the state and the direct benefit they derive from this education. We further recommend an augmentation of \$159,000 for student financial aid so that low-income graduate students continue to have access to CSU. The net General Fund revenue would be \$4.5 million (Analysis page 1653).

2. Proposed State University Fee Increase of \$230

We withhold recommendation on the Governor's proposed \$230 State University Fee increase which would result in an increase of \$73.6 million in reimbursements and a corresponding decrease in General Fund cost, pending receipt of additional information from the Department of Finance which explains the assumptions used in determining the proposed fee level and the calculations used to estimate the expected reimbursements from this level. Our analysis indicates that (1) a \$230 State University Fee increase would place student fees above the range recommended by CPEC in the ACR 81 report and subsequently endorsed by the Legislature and (2) the projected reimbursements are overstated by up to \$4.0 million because they include state-funded summer quarter enrollment which is proposed for elimination (see discussion under #8 (Analysis page 1651)).

3. State University Grant Program

We recommend deletion of \$4.3 million related to the State University Grant Program because the Governor's Budget is overstated relative to the financial need associated with the proposed \$230 fee increase for CSU students. As noted above, the Governor's Budget proposes a \$230 State University Fee increase for all CSU students and includes \$11.6 million to provide financial aid associated with this increase. Our analysis indicates that, based on the California Postsecondary Education Commission's Student Charges Model (version 4), the increased financial aid need at this fee level is \$7.3 million. Thus, the Governor's Budget is overstated by \$4.3 million (Analysis page 1655).

4. Avocational, Personal Development, and Recreational Courses

We recommend that the Legislature delete \$3.2 million associated with specified avocational, personal development, and recreational courses offered by the CSU that, pursuant to a legislative directive, are no longer eligible for state support when offered by community colleges. In 1982-83, the Legislature reduced the General Fund support for community colleges by \$30 million and directed the Board of Governors to identify which avocational, recreational, and personal development courses should be either eliminated from the community college curriculum or offered on a self-support basis. Our analysis indicates that CSU and UC continue to offer similar courses for which they receive state support. We recommend that this support be eliminated to achieve a consistent funding policy for all segments of postsecondary education (Analysis page 1634).

5. Sell Contra Costa Campus Site

We recommend that legislation be enacted to authorize the sale of the surplus Contra Costa campus site for a General Fund revenue increase of \$4.2 million. Our analysis indicates that (1) CSU campuses currently have excess physical capacity, (2) based on enrollment and population projections the Contra Costa site is not needed, and (3) an identified regional need has been filled by the Contra Costa off-campus center which is affiliated with the CSU, Hayward campus (Analysis page 1682).

6. Chancellor's Discretionary Account

We recommend elimination of the Chancellor's Discretionary Account for a savings of \$287,000 because the activities to be funded from this source do not justify General Fund support. In 1982-83, the Legislature appropriated \$287,000 as a discretionary account for the newly-appointed chancellor. The Governor's Budget proposes continuation of this amount in 1983-84. Our analysis indicates that the activities to be funded by this

account--such as fundraising and alumni activities--do not justify General Fund support, other sources of funding are available for this purpose (Analysis page 1670).

7. State-Owned Housing

We recommend that employee rents for managerial employees occupying state-owned housing be increased to reflect existing market value as directed by the Legislature in 1982-83, for a General Fund revenue increase of \$62,000. This recommendation would result in the following rental rate changes: (Analysis page 1672).

	<u>Current Monthly Rent</u>	<u>LAO Recommendation</u>
Chancellor, CSU	\$232	\$1,667
President, CSU, Chico	151	721
President, CSU, Fresno	164	1,441
President, Cal Poly, Pomona	180	1,280
President, Cal Poly, San Luis Obispo	180	961

8. State-Funded Summer Quarter

We withhold recommendation on the proposed elimination of the state-funded summer quarter at the Hayward, Los Angeles, Pomona, and San Luis Obispo campuses for a projected savings of \$13.6 million pending receipt of additional information from the Department of Finance on their planning assumptions related to (1) enrollment effects in subsequent academic quarters, (2) student degree progress, (3) faculty personnel practices, (4) curricular offerings, and (5) expected dollar savings (Analysis page 1630).

California State University--Capital Outlay

(Item 6610-301/page 1689)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$10,345	(pending)	-\$6,385

Highlights of Our Recommendations

1. Fire Suppression System, Tiburon Center, San Francisco (-\$378,000)

The budget proposes \$378,000 for working drawings and construction to install a fire hydrant system and demolish seven buildings and two docks at the Tiburon Center. The center is operated by the San Francisco State University as a field station for classes in the sciences and related disciplines. The 35-acre site was acquired from the federal government in 1976.

The Board of Trustees considered acceptance of this property from the federal government at its May 1976 meeting. At that time the Chancellor's office stipulated that no major capital outlay requirements were contemplated in the near future and that the university could absorb any future costs within its support budget and minor construction allocation. The Trustees accepted these stipulations as part of its acceptance of the property.

Our analysis indicates that given the Trustees' stipulations in accepting this property, and because the Legislature was not given the opportunity to participate in the decision to acquire this facility, it should not be necessary for the state to fund the proposed major improvements. If the CSU considers these improvements high priority, they should be funded from minor capital outlay allocations or from non-state funds. Moreover, the campus is in the process of developing an academic master plan for the use of these facilities as required by the Trustees. This master plan will allow the Trustees to assess the course work and opportunities related to the Tiburon site and determine if the benefits justify the level of expenditures needed to improve and operate the facilities. We recommend deletion of the requested funds for a savings of \$378,000 (Analysis page 1694).

2. Old Library Rehabilitation--San Diego (-\$2,108,000)

The budget includes \$2,108,000 to rehabilitate 22,175 assignable square feet in the old library on the San Diego State campus. The project would rehabilitate the old library to meet current seismic code requirements and increase instructional space in engineering, public health and nursing.

The CSU's 1983-84 capital outlay program requests \$2,567,000 for construction of this approved project. Consequently, the Governor's Budget amount is \$459,000 less than the amount the Trustees indicate is needed. According to information provided by the Department of Finance, the CSU request was arbitrarily reduced and the department has requested that the Chancellor's office provide a detailed description of what could be accomplished with the reduced amount.

The funds proposed in the Governor's Budget will not fund the project as approved by the Legislature and the Department of Finance cannot identify the work to be accomplished at the reduced funding level. The action of the Department of Finance is inconsistent with its previous certification to the Legislature (at the time working drawing funds were allocated) that the proposed work to be undertaken was consistent with legislatively approved scope and cost. For these reasons, and without prejudice to the merits of the project, we recommend deletion of the proposed construction amount for a reduction of \$2,108,000 (Analysis page 1695).

3. Stabilize Founders Hall Slope--Humboldt (-\$202,000)

The budget includes \$202,000 in construction funds for a project to stabilize a hillside slope located between Founders Hall and a student dormitory on the Humboldt campus. According to the CSU, the hillside poses a landslide danger to the dormitory and a pedestrian pathway.

In a letter dated December 23, 1982, the Director of Finance advised the Chairman of the Joint Legislative Budget Committee of the administration's intention of allocating funds from the General Fund, Emergency Fund for this project. At that time the Director indicated that expenditure of \$131,000 would complete the work necessary to allow reoccupancy of the dormitory facilities which have been vacated on advice of a consulting engineer. The Chairman of the committee responded in early January, and indicated concurrence in the proposed work. The Chairman suggested however that the Emergency Fund not be used to fund this work. Instead, he recommended that unencumbered balances available to the CSU in its minor capital outlay appropriation be used as the funding source.

In view of the fact that adequate funds have been identified in the current year for this project, there is no need to appropriate additional funds in the Budget Act. Accordingly, we recommend deletion of the requested \$202,000 (Analysis page 1696).

4. Engineering Building--San Luis Obispo (-\$250,000)

The budget includes \$2,500,000 for construction funds for a new Engineering Building at California Polytechnic State University, San Luis Obispo. The Legislature has previously appropriated \$148,000 (1981 Budget Act) for preliminary plans and \$288,000 (1982 Budget Act) for working drawings. The project includes instructional capacity for 143 FTE in laboratories, 151 FTE in lecture and also provides 50 faculty offices.

The Trustees' 1983-84 capital outlay program requests \$8,622,000 for this project. In response to our request for information on the \$2,500,000 budget proposal, the Department of Finance was unable to identify the work to be accomplished with the amount included in the budget. The Department of Finance did indicate in a letter to the Chancellor's office that the construction amount was reduced "...in order to remain within the very limited funds available for capital outlay, but proceed with projects that meet the highest priority program and space sufficiency needs in the CSU system". In view of the fact that the proposed amount represents only 29 percent of the construction funds requested, we are unable to determine how this portion of the project is viewed as a high priority. Other projects requested by CSU are listed as higher priority, and are not proposed for funding by the Department of Finance. We recommend that prior to legislative hearings, the Department of Finance indicate the basis of its new criteria for evaluating capital outlay projects in higher education.

Finally, our analysis indicates that appropriation of only a portion of the requested construction funds is not a desirable precedent because (1) it would require a contractor's bid for construction with no commitment that funds are available to complete the project, (2) it may require the state to have two bids (Phase I and Phase II) which may limit competition since the successful Phase I contractor would be on-site. In our judgment a proposal of this type reflects improper budgeting and restricts the budgetary flexibility of future legislative decisions and priorities.

For these reasons, and without prejudice to the merits of the project, we recommend deletion of the proposed \$2.5 million for this project (Analysis page 1697).

5. Energy Management Systems--San Luis Obispo, Pomona, and Hayward
(-\$870,000)

The budget includes a total of \$870,000 for installation of an energy management system (EMS) at San Luis Obispo (\$174,000), Pomona (\$262,000), and Hayward (\$434,000). The CSU indicates that these systems, as originally proposed, would reduce energy consumption to the extent that each system would have a payback period of under five years.

Preliminary plans for these projects were recently completed. In all three cases, the most recent estimated construction cost exceeds the amount proposed in the Budget Bill. Accordingly, we have no basis on which to judge the feasibility of these projects given the fact that the budgeted funds are insufficient to construct the original projects. Consequently, without prejudice to the merits of the project, we recommend deletion of the proposed construction funds at these three campuses (Analysis page 1700).

6. Modifications to Computer Center--San Diego (-\$240,000)

The budget includes \$240,000 for working drawings and construction to modify the heating, ventilation, and air conditioning system in the computer center at San Diego. The university indicates that the proposed modification would provide an independent system for various computer support areas, thereby allowing the space to be used when the remainder of the building is unoccupied.

Funds for upgrading the computer center at San Diego were appropriated in the 1981 Budget Act in the amount of \$282,000. At that time, the CSU had submitted a feasibility study to the Department of Finance which contemplated a project of \$543,000. The Department of Finance however, did not approve this feasibility study, but reduced the project work to include only \$282,000. The CSU supported this amount at legislative hearings on the budget.

Our review of the proposed project indicates that the proposed modification to the computer center is the same work which the Department of Finance deleted from the initial feasibility study. We have not received any information to indicate why this work was determined to be unnecessary in 1981 and now is proposed for funding in the 1983-84 budget. Accordingly, given the prior Department of Finance action, we recommend deletion of the proposed funds, for a savings of \$240,000 (Analysis page 1702).

California Maritime Academy

(Item 6860/page 1704)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$3,530	\$3,691	\$4,088	\$3,615	-\$473
Personnel- years.....	133.8	133.1	134.1	134.1	--

Highlights of Our Recommendations

1. Resident Tuition

We recommend that tuition for resident students be increased by \$1,011 (from \$645 to \$1,656) to reflect a student contribution rate equal to 20 percent of the State General Fund cost per student. Our analysis indicates that resident tuition for California Maritime Academy students has remained constant since 1979-80. Consequently, as expenditures have increased, the state General Fund share has also increased while the student contribution toward costs has decreased. In 1982, the Legislature endorsed the concept recommended by CPEC that the students in the UC and CSU and the state should share in the cost of postsecondary education and that the appropriate share should be clearly identified. We recommend that this concept be extended to include CMA and because the Academy offers undergraduate instruction analogous to the CSU system, that the student contribution rate be equal to CSU's student contribution--20 percent of the General Fund cost per student (Analysis, page 1706).

California Maritime Academy--Capital Outlay

(Item 6860-301/page 1708)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>1983-84</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$197	(pending)	\$170

Highlights of Our Recommendations

1. Faculty Office Addition (-\$170,000)

The budget includes \$170,000 for preliminary plans, working drawings, construction and equipment for an addition to the faculty office building at the California Maritime Academy (CMA). The project would provide six additional faculty offices.

The Legislature has previously appropriated over \$8.5 million for improvements at CMA to accommodate an enrollment of 468 students. These previously appropriated funds included construction of additional faculty office space. Our analysis indicates that the additional faculty offices are not needed given the fact that adequate office space has been provided for the authorized enrollment. Accordingly, we recommend deletion of the \$170,000 (Analysis page 1709).

California Community Colleges

(Item 6870/page 1711)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$1,073,870	\$1,075,269	\$937,401	\$936,541	-\$860
Personnel- years.....	143.3	142.2	135.2	133.2	-2.0

Highlights of Our Recommendations

1. Governor's \$100 Community College Fee Proposal

We withhold recommendation on the Governor's \$100 community college fee proposal pending receipt of appropriate justification.

Clearly, the Governor's proposal departs from the state's traditional no-fees policy for community colleges, and as such is one of the major policy issues (if not the major policy issue) which the Legislature must resolve in acting on the community college budget for 1983-84.

Our analysis indicates, however, that the Governor's Budget does not have a fully developed fee proposal. We believe a good analytical case can be made for imposing a fee on those students enrolled in credit courses. We do not believe, however, that a fee should be imposed on those enrolled in state-supported noncredit courses.

Before we can offer a recommendation on this proposal, it must be clarified. Specifically, we find that:

- o The proposal does not address the issue of whether financial aid should be provided to those needy students who could afford to pay the fee. The California Postsecondary Education Commission estimated that \$9.1 million in additional financial aid would be required for needy students in order to maintain access if community college fees were raised to \$100 per year.
- o The proposal does not indicate whether the fee would be imposed on state-supported noncredit students.

- o The Governor does not propose that a similar fee be charged those enrolled in K-12 adult education, which offers courses similar to community college noncredit courses. If the proposal includes noncredit students, exempting them from the fee would cost \$10.6 million in additional state aid.
- o It is not clear whether an administrative allowance equal to 2 percent of the fee revenues is sufficient to defray the administrative costs of collecting fees.
- o The proposal does not indicate the expected drop in student enrollments as a result of the fee. If there is no financial aid provided, districts will be unable to maintain the same level of enrollments as in the current year. Even if financial aid is a part of this proposal, CPEC estimates there would be an enrollment loss of 83,578 students (5.8 percent).
- o If enrollments are less than estimated in the budget, districts will suffer two losses--a loss in fee revenue and a loss in state-funded ADA. The proposal is silent on what actions should be taken if this event occurs (Analysis page 1728).

2. Investment in People

We recommend that funding for the Investment in People program be included in the community college apportionment base, rather than allocated separately, so as to avoid setting up separate administrative and funding mechanisms for what are closely related programs. We further recommend that additional reporting requirements imposed on Investment in People recipients be deleted, permitting a reduction in staff support and a General Fund savings of \$100,000.

Our review indicates that many of the programs being supported with Investment in People funds are already being offered by districts as part of their regular curriculum.

We see no reason why funds for the Investment in People program should be distributed separately, they become subject to a different set of reporting requirements than those that apply in the case of apportionment funding used to support similar employment/training programs. Furthermore, by establishing a set of standards for the Investment in People projects that are different from those that apply to other programs, the result is a need for additional staff to establish regulations, evaluate and review the program, and perform other administrative tasks. Because the Investment in People funds have already been distributed on a competitive basis, it is not clear that there is a continuing need for additional staff to monitor

these funds when the fiscal services staff can administer these funds as part of its review of the regular apportionments.

In sum, we see no analytical basis for maintaining two separate allocation mechanisms and reporting standards to fund programs that are similar in purpose and design (Analysis page 1741).

3. Fund for Instructional Improvement

We recommend that (1) the local assistance item be reduced by \$760,000 and (2) a schedule be added to this item requiring that \$760,000 be transferred to Item 6870-101-909, so as to eliminate double-budgeting.

Our analysis indicates that the amount requested for the Instructional Improvement Program is reasonable. It also indicates, however, that a technical adjustment is needed to properly budget for this program. Specifically, we recommend that the local assistance item be reduced by \$760,000 and that a new schedule be included in the local assistance item providing for the transfer of \$760,000 to the Instructional Improvement item. This would assure that \$760,000 is available for the Instructional Improvement program, as required by AB 1173, but would avoid double-budgeting (Analysis page 1744).

California Community Colleges--Capital Outlay

(Item 6870-301/page 1749)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$8,153	\$5,186	-\$2,967

Highlights of Our Recommendations

1. Mendocino-Lake Community College District--Initial Complement of Library Books (-\$236,000)

The budget contains \$236,000 to purchase an initial complement of library books and resource materials for the new permanent library facility at Mendocino College. The district desires to purchase 10,452 volumes covering the areas of science/technology, social sciences, fine arts/literature, reference, and general information.

The state has previously supplied funds for the acquisition of initial complements of library books. However, this has occurred only where a completely new college campus was being developed and hence, no facilities or equipment were available. The Mendocino College library has been in operation since 1973 and has served the needs of district students since that time. The fact that a new library building is being constructed does not create a need for the state to provide funding for an initial complement of library books. Consequently, we see no justification for this proposal and recommend that the funds be deleted (Analysis page 1751).

2. Saddleback Community College District--General Classroom Building (-\$2,619,000)

The budget includes \$2,619,000 for the state's share of the costs involved in constructing a building shell for a general classroom building at Saddleback College. The proposed building, when completed, will provide 54,995 assignable square feet of classrooms, laboratories, and offices.

The Saddleback Community College District has experienced rapid enrollment increases, resulting in space needs which exceed the capacity of the district. The classroom building, if completed, would reduce the space deficiencies. The project being presented to the Legislature at this time,

however, will not provide any instructional space, or even any usable space.

If the project is phased, as proposed, this year's request would, in effect, lock the state into providing additional funds in 1984-85 or 1985-86. This proposal reflects improper budgeting and seeks to restrict the Legislature's budgetary flexibility in the future.

For these reasons we recommend the proposed appropriation be denied (Analysis page 1752).

3. Systemwide Project Planning (-\$112,000)

The budget proposes \$112,000 for the preparation of preliminary plans for capital outlay proposals expected to be included in the 1984-85 budget. The proposed funds would provide for approximately \$10 million in construction.

For 1983-84, the Chancellor's Office submitted 73 preliminary plan packages for projects valued at \$52 million. Of the projects submitted, 18 projects with a total cost of \$10.9 million are included in the budget.

This leaves 55 unfunded projects with requests totaling \$41.1 million. It seems unlikely that this backlog will be exhausted in preparing the 1984-85 budget. The cost of updating the estimates included in the preliminary plan packages to reflect 1984-85 price levels is minor and absorbable by the districts. Consequently, the need for additional planning funds is not clear, and we recommend deletion of the \$112,000 (Analysis page 1753).

Student Aid Commission

(Item 7980/page 1755)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$88,683	\$89,367	\$88,557	\$88,350	-\$207
Personnel- years.....	152.2	163.8	171.8	171.8	--

Highlights of Our Recommendations

1. Cost-of-Living Adjustments

We recommend that the amounts proposed for cost-of-living adjustments be reduced to correct for double-budgeting, for a General Fund savings of \$207,000.

The budget requests \$2,655,000 to provide a 3 percent cost-of-living adjustment (COLA) to the average award under each of the commission's grant programs.

Our analysis indicates that the proposed allocation of these funds results in overbudgeting in the amount of \$207,000. This is because the amount requested for these adjustments was based on the average award, rather than on the maximum award,

Under current practice, eligible students receive awards sufficient to fund tuition and fees up to a specified maximum award level. It has been the state's practice to grant a cost-of-living adjustment only to those recipients receiving the maximum award, since the budget provides sufficient funds to cover any increase in tuition or fees for any student whose award is below the specified maximum. Moreover, the commissions' policy is to provide each recipient who attends an institution levying a student charge below the commissions' specified maximum award level with an award sufficient to fully fund his/her needs. (The commission can fund these award increases because its baseline budget is adjusted each year for an increase in these awards.) On the other hand, fees which exceed the commission's maximum award will not receive an increase, even though fees may have increased between academic terms, unless a separate cost-of-living adjustment has raised the maximum award. Consequently, it is clear that a COLA is only warranted to reflect the increase in tuition and fees imposed

on students receiving the maximum award and calculating the amount needed for cost-of-living adjustments on the basis of the average (rather than the maximum) award would result in double-budgeting (Analysis page 1764).

GENERAL GOVERNMENT

Office of Criminal Justice Planning

(Item 8100/page 1770)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$12,838	\$15,790	\$19,446	\$16,446	-\$3,000
Personnel- years.....	56.8	59.6	59.5	57.0	-2.5

Highlights of Our Recommendations

1. Suppression of Drug Abuse in Schools Program

The Governor's Budget proposes to create a new program designed to combat drug use among school-age children and to curtail drug trafficking in and around school areas. We recommend that funds for the program be deleted because (a) it does not fall within the statutory responsibilities of the Office of Criminal Justice Planning, and (b) the Legislature has not established guidelines for the program. This will result in General Fund savings of \$3 million and a deletion of 2.5 proposed new positions. If the Legislature wishes to establish this program, funds for the budget year could be included in the authorizing legislation (Analysis page 1774).

2. Alternative Funding Source for Local Assistance Programs

The budget proposes General Fund appropriations totaling \$8,453,000 for three local assistance programs that provide grants primarily to local law enforcement and prosecutorial agencies--the Career Criminal Apprehension program, the Crime Resistance program and the Career Criminal Prosecution program. We recommend that these programs be financed from the Peace Officers' Training Fund (POTF), rather than the General Fund, because (a) the use of POTF revenues to support the programs would be consistent with the general purposes for which the fund was established, although it would represent a departure from the way in which the Legislature traditionally appropriates such revenues and (b) the POTF will have a reserve for economic uncertainties estimated to be about \$12 million at the end of 1983-84 (Analysis page 1775).

Commission on Peace Officer Standards and Training

(Item 8120/page 1778)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$18,605	\$22,417	\$22,559	\$22,361	-\$198
Personnel- years.....	74.3	84.2	85.9	85.9	--

Highlights of Our Recommendations

1. Operating Expenses Overbudgeted

We recommend deletion of \$198,000 in operating expenses to correct for overbudgeting. The level proposed does not reflect actual historical levels of expenditures for operating expenses (Analysis page 1780).

State Public Defender

(Item 8140/page 1781)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$7,102	\$7,438	\$3,921	(pending)	-\$3,921 (pending)
Personnel- years.....	157.2	158	80.2	(pending)	80.2 (pending)

Highlights of Our Recommendations

1. Office Reduced by 50 Percent

We withhold recommendation on the proposed budget for the office of the State Public Defender (SPD). On appeal from superior court decisions in criminal cases, indigent defendants are represented by either the SPD or by court-appointed counsel funded from the budget of the courts of appeal and the State Supreme Court (Item 0250). Based on the assertion that private counsel can handle cases at significantly less cost than the SPD, the budget proposes to reduce the SPD by almost 50 percent, and transfer \$1,654,000 to the judicial item. Our analysis indicates, however, that the cost of appointed counsel may not be less than the SPD in overall justice system costs, as a result of various factors not considered in the budget's proposal. In any event, it appears that the proposed cut may result in a greater personnel reduction and substantially lower case processing levels than the budget indicates. Pending the receipt of revised workload and staffing data from the SPD, we have no basis for estimating the appropriate funding level for this item (Analysis page 1781).

California Public Broadcasting Commission

(Item 8290/page 1799)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$2,025	\$2,437	\$1,940	\$1,794	-\$146
Personnel- years.....	11.7	11.2	8.6	8.6	--

Highlights of Our Recommendations

1. Public Broadcast Facilities

We recommend a reduction of \$146,000 in grants to public broadcast facilities. This total reduction includes reductions in direct grants to public television and radio stations, grants to minority stations, and the fellowship program.

The Governor's Budget proposes increases of 24 percent to 142 percent in each of the above programs. Our analysis indicates that:

- o Because the fellowship program is relatively new and has yet to place any fellows in full-time employment, any increase in funding for this program would be premature; and
- o We can find no analytical justification for any particular level of direct grants and grants to minority stations. Rather, we believe this is a legislative policy decision regarding the appropriate level of funding for these programs.

In light of other demands on the General Fund, however, we recommend that these grants be continued at current year levels for a General Fund reduction of \$146,000.

Agricultural Labor Relations Board (ALRB)

(Item 8300/page 1803)

	<u>1981-82</u> Actual	<u>1982-83</u> Estimate	<u>Proposed</u>	<u>1983-84</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	\$8,826	\$8,981	\$7,106	\$8,238	\$1,132
Personnel- years.....	197.7	192.7	134.9	157.4	22.5

Highlights of Our Recommendations

1. ALRB Unable to Fulfill Mandates Under Proposed Budget

We recommend an augmentation of \$1,132,000 to restore 22.2 positions to enable the ALRB to carry out its statutory responsibilities. The administration proposes to delete 50.4 positions for a General Fund savings of \$2.3 million in 1983-84 primarily to bring ALRB staffing in line with its 1979 staffing and workload standards. However, the Department of Finance (DOF) did not apply the standards correctly. The 1979 standards, for example, are "field staff standards" and are designed for application to regional offices only. They are not intended to apply to the general counsel litigation staff or the board administration staff, as DOF has done. Our recommendation is based on ALRB standards and on applicable standards which were developed by the National Labor Relations Board in areas where the ALRB has failed to adopt standards (Analysis page 1804).

Public Employment Relations Board (PERB)

(Item 8320/page 1807)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$4,422	\$4,626	\$4,817	\$4,592	-\$225
Personnel- years.....	95.4	105.6	105.6	97.6	-8

Highlights of Our Recommendations

1. Eliminate Excessive Administrative and Clerical Overhead

We recommend a reduction of \$225,000 to delete two regional director positions and six clerical positions to eliminate excessive administrative and clerical overhead. Adoption of our recommendation would conform staffing of PERB to practices of the Agricultural Labor Relations Board and the National Labor Relations Board which perform similar functions (Analysis pages 1808 and 1809).

2. PERB Needs Major Restructuring

We recommend that legislation be enacted to restructure PERB to make (1) the board chairman accountable to the Governor and to the Legislature for case processing at the board level and (2) the general counsel accountable for all other management matters. As we note in the Analysis, the California PERB cost almost twice as much as its New York State counterpart and 7½ times more than its Massachusetts counterpart for handling a reasonably comparable level of workload in 1981-82. However, in 1980, the California PERB was three times slower than the New York board and eight times slower than its Massachusetts counterpart in handling its caseload. Our analysis indicates that the only solution to the PERB's problems is a major legislative restructuring. Adoption of this recommendation would result in General Fund savings ranging between \$92,000 and \$1.0 million annually depending on the nature of the structure adopted by the Legislature (Analysis page 1809).

Department of Industrial Relations

(Item 8350/page 1813)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$94,062	\$78,567	\$75,343	\$75,343	--
Personnel- years.....	2,207.0	2,353.4	2,139.6	2,139.6	--

Highlights of Our Recommendations

1. Withhold Recommendation on Cal-OSHA and Labor Standards Enforcement Reductions

We withhold recommendation on proposed reductions to eliminate (1) 83.6 positions from the Cal-OSHA programs for savings of \$2,445,000 to the General Fund and \$2,446,000 in federal funds and (2) 84.3 positions in the Division of Labor Standards Enforcement for General Fund savings of \$3,390,000, pending receipt of specified information from the Department of Finance. In proposing these reductions in the Governor's Budget, the Department of Finance made several errors in identifying the positions for deletion. For example, while the Governor's Budget states that the major purpose of the Labor Standards Enforcement reduction is to eliminate the concentrated enforcement program, most of the positions that are proposed for elimination are not in that program (Analysis page 1821).

2. Uniform Civil Penalties Needed for Labor Law Violations

We recommend that legislation be enacted to establish a citation and uniform civil penalty system for all violations of laws and regulations which govern wages, hours and working conditions, which are enforced by the Labor Commissioner. Misdemeanors are prescribed for violations of most of these laws, but are impractical in most cases because of a growing number of more serious criminal cases which occupy most of the time of the criminal justice system. Only about 1 percent of the cases closed by the Labor Commissioner are closed by misdemeanor prosecutions. A citation and uniform civil penalty system would establish a more effective deterrent against violation of labor laws and would generate approximately \$750,000 annually in additional revenue to the General Fund (Analysis page 1822).

Department of Personnel Administration

(Item 8380/page 1827)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$3,038	\$3,260	\$2,905	\$2,880	\$25
Transfer to other items (thousands)				186	
Reduction from other department budgets (thousands)				2,134	
Personnel- years.....	96.1	104.9	111.6	--	--
Transfer of personnel to other items				5.6	

Highlights of Our Recommendations

1. Compensation Surveys

We recommend (1) the enactment of legislation allowing the compensation survey function to be transferred from the Department of Personnel Administration (DPA) to a pay research section in the State Personnel Board (SPB), (2) the transfer of \$163,834 and 5.6 positions for survey workload from the DPA to the SPB, and (3) the transfer of \$22,000 budgeted for U.S. Bureau of Labor Statistics (BLS) salary surveys from the DPA to the SPB. The 1983 Budget Bill does not contain language in the 1982 Budget Act which includes \$156,032 for the 5.6 positions to conduct the compensation survey functions. Additionally, in light of collective bargaining, it may be inappropriate for the DPA, which represents the Governor in the negotiating process, to supply the wage survey data to the Legislature (Analysis page 1834).

2. State-Owned Housing

We recommend (1) adoption of Budget Bill control language directing the DPA to adjust rental rates paid by employees for state owned housing to reflect market values and (2) adoption of a control section directing the Department of Finance to reduce support appropriations of state agencies by \$2.1 million (\$1.8 million General Fund) to offset additional reimbursements the agencies will receive as a result of rental rates being increased to reflect market values. Control Section 24.50 was added to the 1982 Budget, which reduces appropriations of departments having employee related housing by \$1.1 million (\$950,000 General Fund reduction). The budget for 1983-84 reflects reductions from the support appropriations of departments having employee-rented housing totaling \$450,000, in the current year, and \$100,000 in the budget year, in recognition of the additional reimbursements these agencies will receive as a result of the adjustment in rental rates paid by employees occupying state owned housing. The reduction for 1982-83 is less than half the amount by which the Legislature directed the Department of Finance to reduce support appropriations of General Fund departments having employee-rented housing. In addition, the 1983 Budget Bill does not contain the language included under Item 8380 or Control Section 24.50 in the 1982 Budget Act calling for the Department of Finance to reduce the support appropriations from agencies with employee-rented housing (Analysis page 1836).

Department of Food and Agriculture

(Item 8570/page 1860)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$121,575	\$84,777	\$87,613	\$84,999 ^a	\$2,614
Personnel- years.....	2,083.4	1,744.6	1,769.6	1,768.6 ^a	1.0

a. Recommendations pending on \$1,697,000 and 35.0 personnel-years.

Highlights of Our Recommendations

1. Scientific Basis of Pest Response Program

During the current year, the department received \$7,764,000 to expand its pest prevention and protection programs, including the agricultural border inspection stations, insect trapping, and the state veterinary laboratory system. The budget proposes a further increase of \$2,391,000 in 1983-84 to complete the program expansion. The Governor's Pest Response Task Force, which recommended the expansion of the Pest Response program in January 1982, noted that the scientific basis for the program was inadequate. Consequently, the Legislature, in approving the program expansion for the current year, required the department to establish an external advisory committee to objectively evaluate its overall pest prevention program and recommend any necessary changes. This evaluation has not yet begun. We recommend that the Legislature require the department to report, by October 15, 1983, on the scientific basis for its pest prevention activities (Analysis page 1869).

2. Plant Pest Research Contracts

We recommend a reduction of \$500,000 to eliminate funds for plant pest research and development contracts because the department has not proposed specific research projects or developed research priorities (Analysis page 1871).

3. Animal Pest Response Program Not Implemented

The budget includes \$1,697,000 for 35 positions and associated operating expenses to fund the second year of the expanded animal pest response program. The department received \$1,000,000 during the current year to begin this program expansion by establishing an animal disease emergency planning unit and adding new staff and functions to the veterinary laboratories. However, the department has not implemented any of the program expansions and plans for 1983-84 are uncertain. Pending

receipt and analysis of specific program plans, we withhold recommendation on the \$1,697,000 and 35 positions (Analysis page 1871).

4. Public Education Program

We recommend a reduction of \$434,000 to eliminate contract funds and one position for a program to educate residents of other states about the Gypsy Moth and Japanese Beetle, because the department has not identified the specific audience to be reached, or the actions which this program is intended to illicit (Analysis page 1874).

5. Predatory Animal Control

The budget includes \$793,000 for the state's contribution to the Predatory Animal Control program administered by the U.S. Fish and Wildlife Service. This program primarily involves trapping coyotes to reduce losses of sheep and cattle. We recommend deleting these funds, because (a) the industries which benefit from this program should pay for it and (b) the cost-effectiveness of the program is doubtful (Analysis page 1877).

6. Pesticide Enforcement Payments to Counties

The budget includes \$7,837,000 to partially support county pesticide regulatory activities in 1983-84. This is an increase of \$523,000 over the estimated amount counties will receive for this purpose in 1982-83. The department has not identified any specific price or workload increases in the counties to justify this augmentation. In addition, it appears that recent increases in state support for county pesticide enforcement have been used to replace local funding, rather than augment it as the Legislature intended. Therefore, we recommend deletion of the \$523,000 increase requested for county assistance (Analysis page 1881).

7. Allocation of Administrative Costs

The department's pest control and eradication program includes activities supported by the General Fund and activities supported by assessments on the agricultural industry. We recommend that industry funds be used to provide a proportionate share of the overall administrative costs of this program, for a savings of \$198,000 to the General Fund (Analysis page 1883).

Public Utilities Commission

(Item 8660/page 1889)

	1981-82 Actual	1982-83 Estimate	1983-84		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$35,110	\$36,268	\$37,303	\$38,158	+\$855 ^a
Personnel- years.....	908	943.2	924.1	918.1	-6

a. Recommended increase would be more than offset by an additional \$1,032,000 in General Fund revenue from prorata charges.

Highlights of Our Recommendations

1. Professional and Consulting Services

Our analysis of the consulting services budget indicates that \$177,000 was authorized to conduct one-time contract studies in the current year, and were inadvertently carried forward into the budget year. Accordingly, we recommend deletion of the \$177,000 which has not been identified for any specific purpose in the budget year (Analysis page 1834).

2. Pro Rata Charges Understated

We recommend that expenditures for pro rata assessments be increased to reflect state administrative costs of programs supported by special funds, for an increase in General Fund revenues of \$1,032,000. Our analysis indicates that the amount budgeted for pro rata charges is understated because it does not include funds to the proportionate share of state administrative costs attributable to programs supported by either the proposed user fee accounts or certain other special funds which support the commission (Analysis page 1834).

3. Financial Examiners

We recommend that the Department of Finance provide to the budget committee prior to hearings a comparison of what utility audits conducted by a private CPA firm would cost, relative to the cost of continuing to have these audits conducted by the commission's own staff.

The budget for 1983-84 proposes to delete 24 financial examiners and 3 clerical positions. These financial examiners now review financial statements submitted by utility companies to insure that costs which are to be recovered from ratepayers are reasonable and necessary in providing services. The budget proposes to have these functions performed by certified public accounting firms. These firms are to work under the direction of the commission and its staff and be paid directly by the utility companies. Our analysis indicates that if the Legislature approves the administration's proposal to replace all General Fund support for the commission with revenues from user fees, all costs would be borne by the utility ratepayer, not by the general taxpayer, regardless of whether the audits are performed by the employees or by accounting firms.

Accordingly, until a cost comparison of the two alternatives is documented, it cannot be determined which of the methods would be most cost-effective for the ratepayer (Analysis page 1898).

Commission on State Finance

(Item 8730/page 1909)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$431	\$497	\$660	\$523	-\$137
Personnel- years.....	7.7	7.5	9.8	8.8	-1.0

Highlights of Our Recommendations

1. Expenditures for Housing-Related Revenue Estimates

We recommend deletion of \$137,000 to eliminate two positions and consultant services proposed to assist the commission in preparing estimates of the revenue effects of a housing-assistance program. This program, established by Ch 1450/82, was created for the purpose of reimbursing builders who advance "buy down" payments to lenders that provide reduced-interest mortgages to eligible homebuyers. The total amount of the reimbursements provided by the state will be based on the commission's estimates of the increase in revenues resulting from new construction activity stimulated by the program. Our analysis indicated that the commission's proposed expenditures to develop these estimates lacked adequate justification. The commission plans to spend \$100,000 for a consultant to develop a model for estimating of the revenue effects of this program, and the two staff positions are proposed to maintain it. However, we noted that such estimates were developed by the Assembly Office of Research at no additional costs to the state. Moreover, the estimate provided by the commission will not determine the ultimate level of reimbursement funds provided to developers. In fact, claims will be filed by developers against an amount appropriated by the Legislature, and the level of claims filed will actually determine the amount of reimbursements that they are entitled to under law. Because we cannot document the need for the model, we are also unable to evaluate the need for additional staff to maintain it (Analysis page 1910).

Military Department
(Item 8940/page 1931)

	<u>1981-82 Actual</u>	<u>1982-83 Estimate</u>	<u>Proposed</u>	<u>1983-84 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$16,409	\$14,504	\$16,248	\$15,965	-\$283
Personnel- years.....	692.3	622.8	603.8	603.8	--

Highlights of Our Recommendations

1. Operating Expenses

We recommend deletion of requested communications and utility funds that exceed levels that are required in order for the department's operating expense budget to keep pace with inflation, for a General Fund savings of \$283,000 (Analysis page 1932).

Military Department--Capital Outlay

(Item 8940-301/page 1933)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$11,413	\$11,350	-\$63

Highlights of Our Recommendations

1. Armory Construction Supervision Funds Not Needed in 1983-84 (-\$127,000)

The budget includes \$201,000 for planning and working drawings for a new 300-person armory in Fresno. The proposed two-story structure will house battalion headquarters, assembly hall, locker rooms, classrooms, offices, latrines and a food preparation/service area.

The amount requested in the budget includes \$74,000 to prepare working drawings and \$127,000 to provide architectural and engineering services for the construction phase of the work. The department, however, does not plan to proceed with the construction of this facility in the budget year. Consequently, the \$127,000 for architectural and engineering services related to the construction phase of the work is not needed in 1983-84. We recommend that these funds be deleted (Analysis page 1934).

TAX RELIEF

(Item 9100/page 1937)

	1981-82 Actual	1982-83 Estimate	Proposed	1983-84 Recom- mendation	Difference
Expenditures... (thousands)	\$1,312,200	\$1,371,500	\$1,390,100	\$1,377,065	-\$13,035
Personnel- years.....	--	--	--	--	--

Highlights of Our Recommendations

1. Senior Citizens' Property Tax Assistance

We recommend that this item be reduced by \$1.3 million to better reflect the extensive decline in program participation. Participation has declined by roughly 20 percent in each of the last three years; the budget, however, anticipates a 2.5 percent increase in participation. Our analysis indicates that a continued decline in participation, probably about 10 percent, is reasonable for two reasons: first, the income eligibility criteria are not adjusted for inflation and second, the average level of assistance after Proposition 13 is small and continues to decline, thereby making the program less attractive to potential participants (Analysis page 1938).

2. Senior Citizens' Property Tax Postponement

We recommend that legislation be enacted to revise the interest rate charged on the amount of taxes deferred by eligible homeowners, for an estimated annual increase in General Fund revenues of \$750,000. Existing law specifies the annual interest rate at 7 percent. We recommend that the interest rate be changed to the same rate earned by the Pooled Money Investment Fund (PMIF), the fund where state monies are deposited when not in use. In this way, program participants would still receive loans at below market rates, but the General Fund would not have to forfeit interest earnings while such loans were outstanding (Analysis page 1941).

3. Senior Citizens Renters' Tax Assistance

We recommend a reduction of \$2.4 million to reflect more recent data on 1982-83 expenditures. The budget anticipates a decline in expenditures of 2.3 percent because the amount of assistance for which participants are eligible will be reduced as inflation raises their incomes. The budget, however, applies this reduction (2.3 percent) to earlier, overstated estimates of current-year expenditures. By applying the projected decline rate to more recent estimates, we project additional savings of \$2.4 million (Analysis page 1943).

4. Personal Property Tax Relief

We recommend (a) a reduction of \$9 million and (b) the continuation of a modified version of existing statutory language precluding specified enterprise special districts from receiving business inventory and other reimbursements. Enterprise special districts are, by definition, self-supporting. In light of this, for 1982-83 the Legislature adopted statutory language precluding these districts (other than airport and transit districts) from receiving reimbursements for property tax revenues lost as a result of the exemption for business inventories. The budget trailer bill, SB 124, authorizes funding and amends the statutory language so that these districts will receive reimbursement in 1983-84. Because these districts are self-supporting, there is no analytical basis for providing such reimbursement for enterprise-related activities (we do believe reimbursement should be provided for these districts' nonenterprise-related activities). Accordingly, we recommend a reduction of \$9 million and continuation of a modified version of the language adopted for the current year (Analysis page 1945).

5. Payments to Local Governments for Sales and Property Tax Revenue Loss

The budget proposes increasing by \$165,000 (from \$730,000 in 1982-83 to \$895,000 in 1983-84) the funding level for reimbursements pursuant to Ch 1276/78, increased disabled veterans benefits. We recommend that this \$165,000 increase be eliminated because the need for it has not been justified (Analysis page 1951).

Health Benefits for Annuitants
(Item 9650/page 1959)

	<u>1981-82</u> <u>Actual</u>	<u>1982-83</u> <u>Estimate</u>	<u>Proposed</u>	<u>1983-84</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$51,525	\$70,260	\$75,817	(pending)	(pending)

Highlights of Our Recommendations

We withhold recommendation pending receipt of information from the Public Employees' Retirement System and the Department of Personnel Administration on the increases in health insurance and dental insurance premiums that will become effective for the budget year. The Governor's Budget does not provide for any increase in health or dental insurance premium rates during 1983-84. The precise amount of the increase needed to maintain the state's share of annuitants' health and dental insurance costs at the current levels will be known by May or June 1983 (Analysis page 1962).

Augmentation for Employee Compensation

(Item 9800/page 1971)

	<u>1981-82</u> Actual	<u>1982-83</u> Estimate	<u>Proposed</u>	<u>1983-84</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	--	--	\$37,283	(pending)	(pending)

Highlights of Our Recommendations

1. Employee Compensation Increases

The budget includes \$337,283,000 (\$210,559,000 General Fund) for compensation increases for state employees. This would provide for an average salary increase of about 5 percent. This is the second year that compensation increases for state employees will be subject to collective bargaining. Negotiated changes in employee compensation and other items and conditions of employment in the form of memoranda of understanding (MOUs) will be submitted to the Legislature for approval. We withhold recommendation of employee compensation increases pending submission to the Legislature of MOUs and compensation proposals for nonrepresented state employees (Analysis page 1972).

2. Salaries of Constitutional Officers

We recommend that legislation be enacted to increase the salaries of the seven constitutional officers (Governor, Attorney General, Lieutenant Governor, Controller, Treasurer, Secretary of State, and Superintendent of Public Instruction) effective January 5, 1987 (that is when their current term expires). Under the State Constitution, salaries of these officials may not be changed during their elected term of office. Consequently, if their salaries are not adjusted by January 1987, the present salary rates will remain in effect until January 1991 (Analysis page 1980).

3. Salaries of State Legislators

We recommend that legislation be enacted to increase the salaries of members of the Legislature, effective December 3, 1984, by the maximum amount authorized by the constitution. The State Constitution provides that any statute adjusting compensation for legislators may not apply until the beginning of the regular session commencing after the next general election. Salary increases are limited to 5 percent a year since the last adjustment (Analysis page 1980).

Highlights of Our Recommendations

Legislative Control and Collective Bargaining

With collective bargaining, the Legislature is faced with a new process for determining the compensation levels for state employees. This process raises the important issue of how legislative review and control over contract provisions can be assured without hampering unduly the duties of the state's representative in the negotiations.

1982-83 Fiscal Effect Summary. Our analysis indicates that collective bargaining agreements--or memoranda of understanding (MOUs)-- and the compensation package for noncovered employees resulted in current-year costs of approximately \$146 million, consisting of \$85 million in costs reviewed by the Legislature (including recent adjustments) and \$61 million in costs which were never presented to the Legislature for consideration.

The collective bargaining process, as conducted for 1982-83 (1) did not comply with the statutory requirement that the Legislature review and approve all MOU provisions requiring the expenditure of funds, (2) resulted in \$61 million in state costs, in addition to the \$85 million in so-called direct costs, which will continue in future years and (3) necessitated the diversion of existing program funds, thereby circumventing the legislative process and reducing legislative control over the allocation of limited resources.

Our review indicates that in 1982-83 the Legislature experienced three serious problems in carrying out its duties under collective bargaining.

- The Legislature had only a short time to review the contract provisions.
- The information that was presented did not give a precise picture of the fiscal ramifications of the provisions within the MOUs.
- No process exists to ensure the consistent management and administration of the contract provisions.

In order that a collective bargaining system for state employees is managed consistently and with appropriate legislative oversight, we recommend that legislation be enacted requiring that:

1. The Department of Personnel Administration (DPA), University of California (UC) and California State University (CSU) submit to the Legislature by May 15 all MOUs and other proposals for compensation increases for 1983-84. This will provide the Legislature with an opportunity to consider and act on such proposed increases as part of the regular budget process.

2. The Department of Finance, UC and CSU annually submit a comprehensive cost summary of proposed and negotiated compensation changes for their respective employees. These cost summaries should be submitted to the Legislature along with MOUs, and should include long-range cost estimates for changes in benefits and working conditions which would have a delayed cost impact.

3. The Department of Finance review all cost estimates prior to legislative budget hearings, to verify their reliability and consistency. This will provide the Legislature with cost estimates that are reviewed and coordinated by one central agency.

4. The Department of Finance provide guidance to agencies, in the form of management memos, as to standard procedures for implementing the various cost provisions contained in the MOUs. This will provide a consistent approach to implementing and budgeting the various provisions in the MOUs.

Unallocated Capital Outlay

(Item 9860-301/page)

	1981-82 Actual	1982-83 Estimate	1983-84		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$400	\$100	-\$300

Highlights of Our Recommendations

1. Project Planning Funds for Future Projects (-\$300,000)

The budget includes \$400,000 for planning and developing cost estimates for new projects to be financed from the General Fund, Special Account for Capital Outlay (SAFCO). This level of funding would provide for approximately \$27 million in construction for new project proposals.

Our analysis indicates that a planning effort of this magnitude is not realistic. Large portions of capital outlay projects in the 1981 Budget Act have been deferred. Moreover, when our Analysis was written there was an administrative freeze on capital expenditures and the Legislature was considering transferring funds from the SAFCO to the General Fund. The impact of these deferral actions has been to create a backlog of approved projects. Consequently, a funding level of \$100,000 should be adequate for planning any new projects.