

SUMMARY OF RECOMMENDATIONS
IN THE
ANALYSIS OF THE 1984-85 BUDGET BILL

FEBRUARY 1984

LEGISLATIVE ANALYST
STATE OF CALIFORNIA
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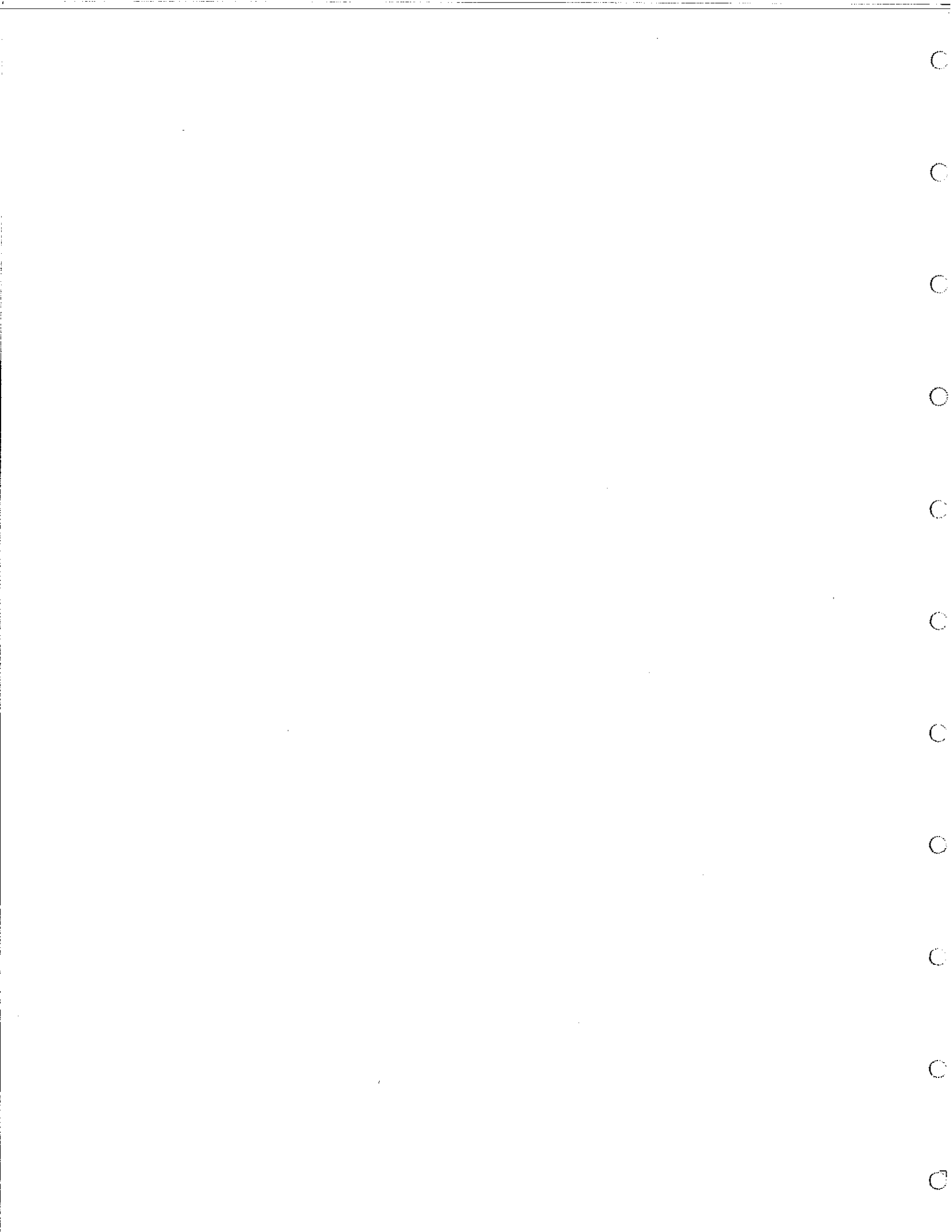


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INTRODUCTION

In the Analysis of the 1984-85 Budget Bill, 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 shows how approval of these recommendations would affect the state's fiscal conditions.

Impact of Recommendations--All Funds

Table 1 shows the net effect of our recommendations on all funds reflected in the budget. As the table shows, approval of our recommendations for changing the Budget Bill would reduce expenditures or increase revenues by a total of \$419 million. The total reflects:

- \$392.7 million in recommended expenditure reductions;
- \$31.6 million in recommended expenditure augmentations;
- \$0.6 million in recommended revenue reductions; and
- \$58.3 million in recommended revenue increases.

In addition, we recommend a number of changes in existing law. If approved, these changes would reduce expenditures or increase revenues by \$25 million.

Thus, the net effect of all recommendations set forth in the Analysis would be an increase in revenues and reduction in expenditures totaling \$444 million.

Table 1

Impact of Legislative Analyst's Fiscal Recommendations
 All Funding Sources
 1984-85
 (in thousands)

| | <u>General Fund</u> | <u>Special Funds</u> | <u>Selected Bond Funds</u> | <u>Subtotal (State Funds)</u> | <u>Non-Governmental Cost Funds</u> | <u>Federal Funds</u> | <u>Total All Funds</u> |
|--|-------------------------|--------------------------|--------------------------------|-----------------------------------|--|--------------------------|----------------------------|
| Expenditures: | | | | | | | |
| Recommended Reductions | -\$183,334 | -\$153,341 | -\$2,703 | -\$339,378 | -\$8,531 | -\$44,803 | -\$392,712 |
| Recommended Augmentations | 17,008 | 2,802 | -- | 19,810 | 4,292 | 7,520 | 31,622 |
| Subtotals, Impact of Recommendations on Expenditures | -\$166,326 | -\$150,539 | -\$2,703 | -\$319,568 | -\$4,239 | -\$37,283 | -\$361,090 |
| Revenues: | | | | | | | |
| Recommended Reductions | -\$550 | -- | -- | -\$550 | -- | -- | -\$550 |
| Recommended Augmentations | 58,300 | 37 | -- | 58,337 | -- | -- | 58,337 |
| Subtotals, Impact of Recommendations on Revenues | \$57,750 | \$37 | -- | \$57,787 | -- | -- | \$57,787 |
| Net Effect on Fund Condition | \$224,076 | \$150,576 | \$2,703 | \$377,355 | \$4,239 | \$37,283 | \$418,877 |

Impact of Recommendations--State Funds

Looking only at state funds, our recommendations would increase revenues or reduce expenditures by \$377 million. This amount reflects:

- \$339.4 million in expenditure reductions;
- \$19.8 million in expenditure augmentations;
- \$0.6 million in revenue reductions; and
- \$58.3 million in revenue augmentations.

The recommended reductions in expenditures amount to approximately 1.4 percent of total General Fund and special funds expenditures, as proposed in the Governor's Budget. Table 2 compares the expenditure reductions recommended for 1984-85 with what we have recommended in prior years.

| Year | Recommended Expenditure Reductions | Recommended Expenditure Augmentations | Recommended Revenue Reductions | Recommended Revenue Augmentations |
|---------|------------------------------------|---------------------------------------|--------------------------------|-----------------------------------|
| 1980-81 | \$100,000,000 | \$0 | \$0 | \$0 |
| 1981-82 | \$100,000,000 | \$0 | \$0 | \$0 |
| 1982-83 | \$100,000,000 | \$0 | \$0 | \$0 |
| 1983-84 | \$100,000,000 | \$0 | \$0 | \$0 |
| 1984-85 | \$339,400,000 | \$19,800,000 | \$0,600,000 | \$58,300,000 |

Table 2

Impact of Legislative Analyst's
Recommendations on Expenditures
1960-61 to 1984-85

| | Budget Expenditures | | |
|---------|--|---------------------------|---------------------------------|
| | As Introduced (Includes Bond Funds) | Net Recommended Amount | Changes ^a Percent |
| 1960-61 | \$2,477,121,574 | -\$13,704,029 | 0.6% |
| 1961-62 | 2,592,304,521 | -67,984,491 | 2.6 |
| 1962-63 | 2,885,523,247 | -71,388,639 | 2.5 |
| 1963-64 | 3,250,402,049 | -68,277,367 | 2.1 |
| 1964-65 | 3,662,436,261 | -16,672,683 | 0.5 |
| 1965-66 | 4,026,827,774 | -41,434,678 | 1.0 |
| 1966-67 | 4,617,913,743 | -67,703,128 | 1.5 |
| 1967-68 | 4,624,606,742 | -30,329,479 | 0.7 |
| 1968-69 | 5,669,536,034 | -6,278,104 | 0.1 |
| 1969-70 | 6,225,633,118 | -21,243,891 | 0.3 |
| 1970-71 | 6,480,325,654 | -27,352,080 | 0.4 |
| 1971-72 | 6,738,651,775 | 183,073,546 | 2.7 |
| 1972-73 | 7,616,673,213 | 71,029,894 | 0.9 |
| 1973-74 | 9,258,835,538 | -42,681,312 | 0.5 |
| 1974-75 | 9,812,470,681 | -85,447,959 | 0.9 |
| 1975-76 | 11,302,826,536 | -46,383,525 | 0.4 |
| 1976-77 | 12,609,102,748 | -103,934,695 | 0.8 |
| 1977-78 | 14,298,927,110 | 66,764,939 | 0.5 |
| 1978-79 | 16,180,354,097 | -220,431,221 | 1.4 |
| 1979-80 | 15,456,886,915 | -416,368,208 | 2.7 |
| 1980-81 | 24,004,298,729 | -581,847,138 | 2.4 |
| 1981-82 | 24,653,047,519 | -377,704,476 | 1.5 |
| 1982-83 | 27,045,026,000 | -675,017,000 | 2.5 |
| 1983-84 | 25,738,105,000 | -492,097,000 | 1.9 |
| 1984-85 | 30,272,631,000 | -319,568,000 | 1.1 |

a. Does not include recommended reductions made subsequent to release of the Analysis.

Impact of Recommendations--General Fund

Table 3 shows the impact of our recommendations on the state's most important fund--the General Fund. It indicates that if all of our recommendations, including those calling for a shift of money between funds, were approved, the amount available in the General Fund would be increased by \$360 million. This money would then be available for the Legislature to use in achieving its priorities.

The \$360 million reflects:

- \$183.3 million in recommended reductions to appropriations;
- \$17.0 million in recommended augmentations to appropriations;
- \$40.5 million in funding source shifts away from the General Fund;
- \$0.6 million in recommended revenue reductions;
- \$58.3 million in recommended revenue augmentations; and
- \$95.8 million in recommended transfers to the General Fund.

Table 3

Impact of Legislative Analyst's Fiscal Recommendations
on the General Fund
1984-85
(in thousands)

| <u>Nature of Recommendation</u> | <u>Impact on General Fund</u> |
|--|-------------------------------|
| Expenditures: | |
| Reductions | -\$183,334 |
| Augmentations | 17,008 |
| Change Funding Source | -\$40,512 |
| Subtotal, Impact of Recommendations on Expenditures | \$206,838 |
| Revenues: | |
| Reductions | -\$550 |
| Augmentations | 58,300 |
| Subtotal, Impact of Recommendations on Revenues | \$57,750 |
| Transfers | 95,820 |
| Net Effect on General Fund Condition | \$360,408 |

Most of the increase in General Fund revenues shown in Table 3 can be attributed to a single recommendation. In our analysis of the Payment of Interest on General Fund Loans, we recommend that the state meet its short-term cash needs through external borrowing. Traditionally, the state has borrowed from internal sources. We estimate that, by borrowing from

external sources, the state will benefit by as much as \$55 million in 1984-85.

We also recommend that \$96 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 \$41 million. Most of these savings would be achieved by shifting support for certain health and welfare activities to federal funds.

In addition, the enactment of legislation apart from the Budget Bill would increase General Fund resources by \$27 million.

Impact of Recommendations--By Program Category

Table 4 summarizes, by program category and funding source, our recommendations which would have an impact on expenditures.

Table 4

Impact of Legislative Analyst's Recommendations on Expenditures
by Category
General Fund and Special Funds
(in thousands)
1984-85

| | <u>General Fund</u> | <u>Special Funds</u> | <u>Total</u> |
|--|-------------------------|--------------------------|--------------|
| Judicial/Executive | -\$7,405 | -\$19 | -\$7,424 |
| State and Consumer Services | -889 | -3,807 | -4,696 |
| Business, Transportation, and Housing | -5,652 | -39,803 | -45,455 |
| Resources | -9,337 | -3,281 | -12,618 |
| Health and Welfare | -40,982 | -6,928 | -47,910 |
| Youth and Adult Correctional | -13,155 | | -13,155 |
| K-12 Education | -50,553 | -3,889 | -54,442 |
| Higher Education | -15,728 | | -15,728 |
| General Government | -3,225 | -3,741 | -6,966 |
| Tax Relief | -850 | | -850 |
| Miscellaneous | -9,000 | -6,000 | -15,000 |
| Capital Outlay | -9,550 | -83,071 | -92,621 |
| Totals | -\$166,326 | -\$150,539 | -\$316,865 |

Table 4 shows that, as one would expect, the largest recommended reductions are in those program areas that account for the bulk of General Fund expenditures: K-12 education (\$51 million), and health and welfare (\$41 million).

Impact of Recommendations--Personnel-Years

In addition to reductions in appropriations, we also recommend a reduction in the state workforce amounting to 346 personnel-years (net). These reductions are primarily in the Department of Corrections (-119 personnel-years), the Employment Development Department (-67 personnel-years), the Department of Health Services (-24 personnel-years), the Department of Justice (-18 personnel-years), and the Judiciary (-13.5 personnel-years).

Recommendations Pending

In many instances, we have withheld recommendation on amounts requested in the Governor's Budget. Generally, we have done so where 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 1984-85.

Major Policy and Fiscal Issues

In both The 1984-85 Budget: Perspectives and Issues and the Analysis of the 1984-85 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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ANALYSIS OF THE 1983-84 BUDGET BILL

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JUDICIAL

Judicial

(Item 0250/page 6)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|----------|--------------------------------|------------|
| Expenditures... (thousands) | \$38,931 | \$44,322 | \$51,823 | \$50,283 ^a | -\$1,540 |
| Personnel- years..... | 514.6 | 636.3 | 671.3 | 657.8 | -13.5 |

a. Includes recommendation pending on \$8,923,000.

Highlights of Our Recommendations

1. Appointed Counsel Plan

We withhold recommendation on \$8,923,000 that the budget requests to pay attorneys to defend indigents in criminal appeals before the courts of appeal and the Supreme Court. Attorneys are appointed by these courts to defend indigents not represented by the State Public Defender (SPD). For the budget year, the Judicial Council proposes to expand to the entire state the system of selecting, assigning, assisting, and evaluating appointed counsel, which currently is operating in the Fourth District of the Courts of Appeal.

Because there are several unresolved issues regarding the council's plan, we recommend that the Judicial Council and the SPD report jointly to the fiscal committees prior to budget hearings on (a) the SPD's role in the proposal, (b) the number of appeals that will be handled by the SPD and appointed counsel, (c) difficulties the Judicial Council may have in obtaining the appointed counsel selection services, and (d) the potential for using the SPD to perform these services. Pending receipt of this information, we withhold recommendation on \$8,923,000 requested by the council to pay appointed counsel fees (Analysis page 15). For the same reasons, we also withhold recommendation on \$4,815,000 requested to fund the State Public Defender in Item 8140 (Analysis page 1979).

2. Judicial Arbitration Program

We recommend deletion of \$1,250,000 (Item 9680) to reimburse counties for their expenditures under the Judicial Arbitration program, because (a) the requested amount bears no relationship to the actual costs likely to be incurred under the existing program, and (b) we recommend that legislation be enacted repealing the mandatory provisions of the program (Analysis page 18).

Judicial--Capital Outlay

(Item 0250-301/page 21)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | -- | -- | \$421 | (pending) | -\$335 |

Highlights of Our Recommendations

1. Fresno Court Alterations (-\$335,000)

The budget proposes \$421,000 for office alterations for the Fifth Appellate Court in Fresno. The proposal has two components; additional office space for two new justices (\$86,000) and conversion of the building's cafeteria to office space (\$335,000).

We recommend approval of the first component, but withhold recommendation on an amount pending receipt of adequate cost estimates.

We recommend that the second component (\$335,000) not be approved. Some additional space has already been provided the court for additional offices in another part of the building and a portion of the cafeteria has been partitioned for additional court space. Conversion of the remaining cafeteria space to offices will require relocating the cafeteria to another floor at significant costs. In addition, relocating the cafeteria would not significantly improve security for the justices, which is a primary justification for the project (Analysis page 21).

Contributions to the Judges' Retirement Fund

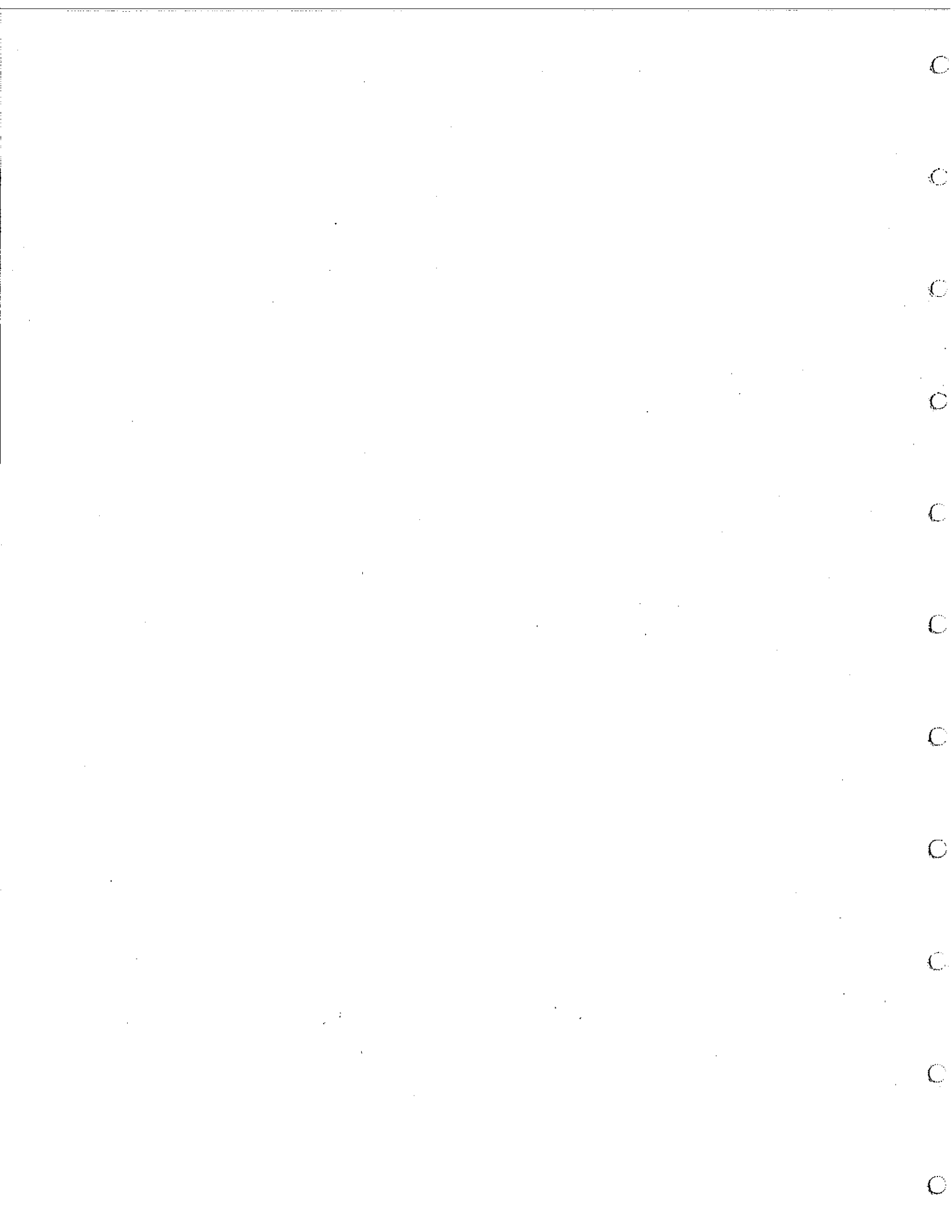
(Item 0390/page 22)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$15,624 | \$15,396 | \$17,362 | \$17,362 | -- |

Highlights of Our Recommendations

1. Full-Funding of "Normal Costs"

We recommend that the Legislature act promptly to eliminate the current shortfall in funding normal costs (that is, the cost of retirement benefits being earned in a given year) and that the selected method of funding such costs reflect the Legislature's conclusions regarding the adequacy of the total compensation now provided to judges. The latest actuarial data available indicate a shortfall in funding for normal costs of the Judges' Retirement System equal to 3.7 percent of judicial payroll. Given a projected judges' payroll of \$87 million, it would take additional contributions of \$3.2 million to fund the normal cost shortfall in 1984-85, assuming no change in the current benefit structure (Analysis page 24).



EXECUTIVE

Secretary for Health and Welfare

(Item 0530/page 37)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|----------|--------------------------------|------------|
| Expenditures... (thousands) | \$2,045 | \$5,685 | \$6,577 | \$6,577 | -- |
| Personnel- years..... | 57.5 | 39.3 | 31.8 | 31.8 | -- |

Highlights of Our Recommendations

1. Long-Term Care

We recommend that, prior to the budget hearings, the agency advise the fiscal committees on its plans for implementing a long-term care services delivery system in 1984-85. Chapter 1453, Statutes of 1982 (AB 2860) requires the Office of Long-Term Care (OLTC)--currently in the Health and Welfare Agency--to prepare an implementation plan and timetable for a long-term care delivery system. Chapter 1453 requires that the implementation plan be submitted to the Legislature no later than December 1, 1983. At the time our analysis was prepared, the report had not been submitted to the Legislature. In addition, the budget does not propose funding for the OLTC in 1984-85. Because the status of the long-term care system is unclear, we recommend that the agency advise the fiscal committees on its plans for implementing the system in 1984-85 (Analysis page 39).

Office of Economic Opportunity

(Item 0660/page 58)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 | |
|--------------------------------|-------------------|---------------------|-----------|------------------------|------------|
| | | | | Recom- mendation | Difference |
| Expenditures... (thousands) | \$106,017 | \$132,961 | \$114,488 | \$114,488 ^a | -- |
| Personnel- years..... | 160.5 | 205.9 | 206.8 | 194.3 | -12.5 |

a. Recommendation pending on \$4,805,000.

Highlights of Our Recommendations

1. Low-Income Home Energy Assistance Program

The federal Low-Income Home Energy Assistance (LIHEA) block grant provides energy assistance to low-income individuals to help finance heating, cooling, and lighting assistance. The budget proposes \$85,163,000 for 1984-85 for the Office of Economic Opportunity (OEO) energy programs. Of that amount, \$4,805,000 is for state administration and \$80,358,000 is for direct energy grants to individuals, emergency assistance grants, and home weatherization (Analysis page 61).

In our review of the 1984-85 LIHEA proposal, we make the following major recommendations:

- o Approval of the proposal to waive the 5 percent statutory cap on administrative costs and permit LIHEA support to be based on workload requirements.
- o Eliminate 12.5 additional positions proposed for OEO administration. We further recommend that OEO redirect the \$266,000 budgeted to support these positions as program benefits.

In addition, we withhold recommendation on \$4,805,000 in administrative support for OEO energy programs until the office submits specified information identifying the personnel needs of the office in order to efficiently administer these programs.

Office of Emergency Services

(Item 0690/page 67)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$14,696 | \$33,348 | \$15,910 | \$15,910 | -- |
| Personnel- years..... | 120.3 | 125.1 | 139.7 | 139.7 | -- |

Highlights of Our Recommendations

1. Coalinga Disaster Relief Program

We recommend that \$2,230,000 not needed for disaster relief in Coalinga be transferred to the General Fund from the 1983 Natural Disaster Account of the Natural Disaster Assistance Fund. Chapter 1205, Statutes of 1983, appropriated \$5 million from the General Fund to assist local agencies in the Coalinga area with the costs of clean-up and repair of damage resulting from the May 2, 1983, earthquake. The Office of Emergency Services has completed the initial disbursement of funds for 11 projects. Allowing for contingency reserves for these 11 projects and for two additional projects which may require funding, a balance of \$2,230,000 in unneeded funds remains in the special account. These funds should be returned to the General Fund where they can be used for other high-priority needs of the state (Analysis page 74).

Department of Justice

(Item 0820/page 78)

| | <u>1982-83</u> <u>Actual</u> | <u>1983-84</u> <u>Estimate</u> | <u>1984-85</u> | | |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|-----------------------------|-------------------|
| | | | <u>Proposed</u> | <u>Recom- mendation</u> | <u>Difference</u> |
| Expenditures... (thousands) | \$95,186 | \$107,128 | \$116,503 | \$115,284 | -\$1,219 |
| Personnel- years..... | 2,838.9 | 3,041.5 | 2,981.1 | 2,963.1 | -18 |

Highlights of Our Recommendations

1. Clandestine Laboratories Workload

The budget proposes to add 10 special agent positions to the Bureau of Narcotic Enforcement for expanded investigations of the illegal manufacturing of narcotics in clandestine laboratories. Our review of the proposal indicates that the need for additional special agents has not been demonstrated. Therefore, we recommend a reduction of 10 special agents for a General Fund savings of \$685,000 (Analysis page 85).

2. Property Forfeiture Activities

Chapter 1289, Statutes of 1982, authorized state and local agencies to seize property used in connection with controlled substances offenses. The measure provided for reimbursement of state and local agency costs of investigation and prosecution from the proceeds from the sale of the property. The budget proposes a General Fund augmentation of \$500,000 to finance 11 new positions to implement this program. We recommend a reduction of \$335,000 and five new special agent positions because the program can be implemented using existing special agents. We further recommend that six other positions be financed by a General Fund loan to be repaid from future proceeds from the sale of forfeited assets (Analysis page 87).

State Controller

(Item 0840/page 91)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$42,120 | \$45,057 | \$47,419 | \$46,841 | -\$578 |
| Personnel- years..... | 1,206.8 | 1,196.3 | 1,186.8 | 1,177.8 | -9 |

Highlights of Our Recommendations

1. Medi-Cal Audit Project

We recommend that the funding source for the Medi-Cal Audit Project be changed to enable the Department of Health Services (DHS) to bill the federal government directly for \$278,000 of the costs of the Medi-Cal Audit Project. Currently, the Medi-Cal Audit Project is funded out of the General Fund appropriation to the Controller. According to the agreement between DHS and the federal government, however, the latter will fund up to 75 percent of the Medi-Cal Audit Project, provided that these costs are billed directly to the federal government. Accordingly, we recommend that (1) the General Fund appropriation to the Controller be reduced by \$371,000; (2) reimbursements to the Controller from DHS be increased by \$371,000; and (3) DHS bill the federal government for 75 percent of the costs of the Medi-Cal Audit Project, or \$278,000 (Analysis page 95).

State Board of Equalization

(Item 0860/page 109)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$70,832 | \$77,865 | \$83,588 | \$80,186 | -\$3,402 |
| Personnel- years..... | 2,656.6 | 2,733.9 | 2,751.6 | 2,790.6 | +39.6 |

Highlights of Our Recommendations

1. Delinquent Tax Collections.

We recommend an augmentation of \$501,000 and 26 positions for the collection of delinquent sales and use taxes, because these positions will product additional state revenues in excess of their cost. The resources budgeted for collections activity are inadequate to accommodate additional workload anticipated in the budget year. This will result in an increasing backlog of delinquent accounts awaiting collection.

A growing backlog of delinquent accounts has two adverse fiscal consequences for the state. First, it results in direct revenue losses when accounts become uncollectible and have to be written off. Second, it delays receipt of taxes which are eventually collected. Because delinquent tax liabilities are charged interest, little revenue loss occurs. Delaying the receipt of taxes, however, denies the state the use of tax revenues and may increase the state's short-term borrowing needs.

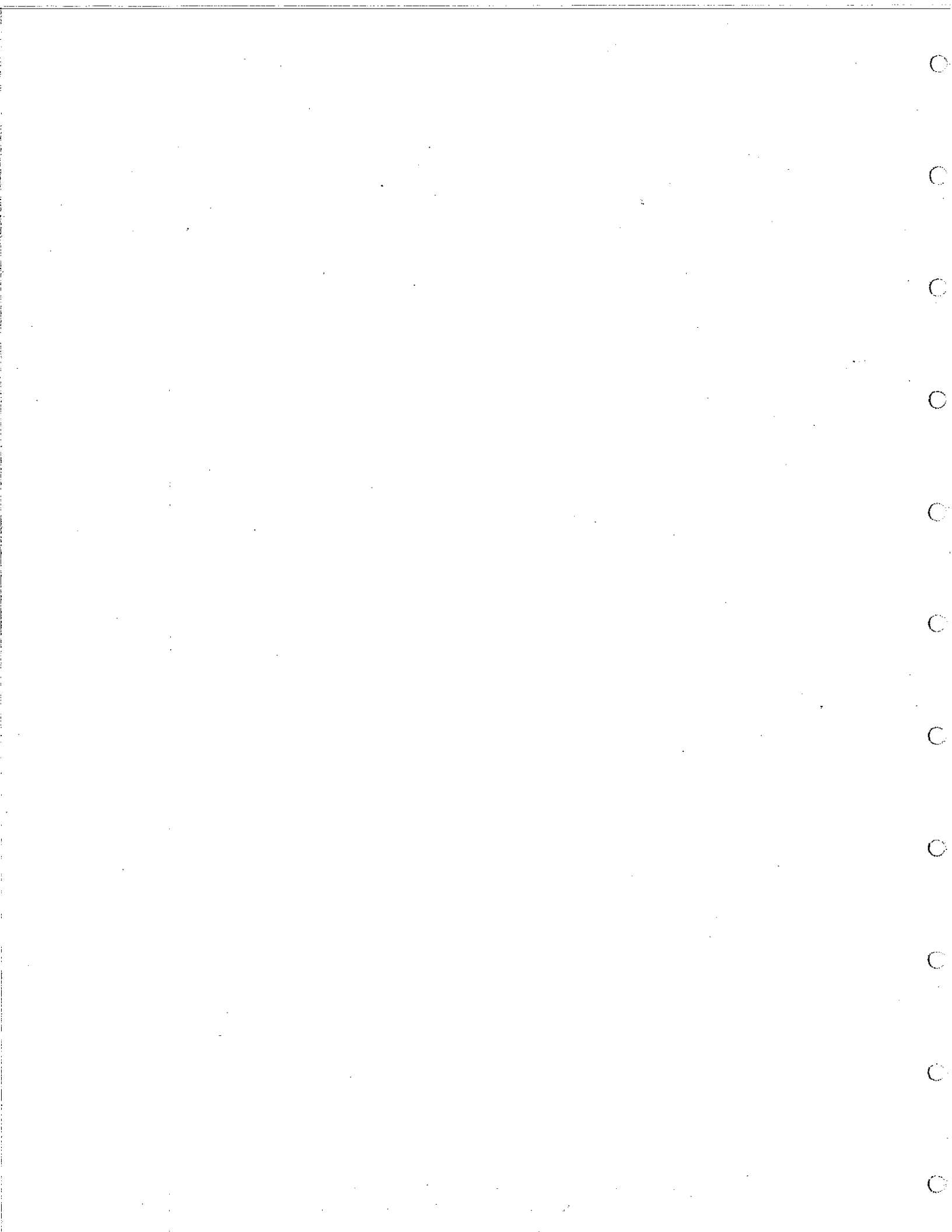
Because of these adverse fiscal effects, additional collections personnel would be in the state's financial interest. The board should be provided sufficient staff to reduce the number of delinquent accounts to the level that existed at the beginning of the current year. To accomplish this objective the board would need 26 additional positions, at a cost of \$501,000. With these resources, the General Fund would realize a cash-flow gain of \$25 million and a direct revenue gain of \$2.0 million (Analysis page 116).

2. Local Sales and Use Tax.

We recommend a reduction of \$4,130,000 to correct underbudgeting of reimbursements charged to local agencies for administration of the local sales and use tax. We also recommend adoption of Budget Bill language requiring that any reimbursements in excess of the amount scheduled in the budget be used to supplant General Fund support of the program.

In addition to the state sales tax, the board administers the 1.25 percent local sales tax and the optional 0.5 percent transit tax. Before the board subvenes these revenues to cities, counties, and transit districts, it deducts an amount to cover its administrative costs. These charges, which are established in statute, are based on fixed percentages of local sales and use tax and transit tax revenues. Hence, as local revenues collected by the board increase, the net cost of the program to the state decreases.

Our analysis indicates that the board has significantly underestimated the amount of taxes it will collect on behalf of local agencies, and hence has underestimated the amount it will charge local agencies by \$1.6 million in the current year and \$4,130,000 in the budget year. To correct this error, we recommend a reduction of \$4,130,000, and adoption of language requiring that reimbursements exceeding the budgeted level be used to supplant General Fund support of the sales and use tax program.



STATE AND CONSUMER SERVICES

Museum of Science and Industry

(Item 1100/page 143)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$3,864 | \$4,884 | \$6,944 | (pending) | -\$322 |
| Personnel- Years..... | 114.9 | 142.9 | 148.8 | (pending) | -- |

Highlights of Our Recommendations

1. Museum Security Reorganization

The museum is proposing a major reorganization of its security department in 1984-85, at a total cost of \$1,771,000. This proposal includes: (1) reducing its existing security staff by 70 percent; (2) contracting with the California State Police (\$972,000); (3) installing electronic security systems (\$322,000); and (4) adding 12 temporary help positions to assist in the provision of building security (\$184,000). We recommend deletion of the funds budgeted for the electronic security systems since the proposed expenditure represents capital outlay and should not be funded as a support expense. We withhold recommendation on the balance of the security-related expenditure request (\$1,449,000), pending receipt and analysis of further information (Analysis page 149).

Department of Consumer Affairs

(Items 1120-1655/page 154)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|-----------------------|----------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$59,684 | \$77,021 | \$89,195 | \$88,292 (pending) | \$903 9,706 |
| Personnel- years..... | 1,442.4 | 1,783.7 | 1,767.7 | 1,765.9 | -1.8 |

Highlights of Our Recommendations

1. Division of Administration--Information Processing Study is Incomplete

We withhold recommendation on \$452,000 requested for a feasibility study to determine the department's long-term need for improved information processing systems, because the department's proposal is incomplete. The department proposes to redirect 10 positions from the boards and bureaus for one year to gather data and conduct research to determine the department's information processing needs. A consultant will also be hired to analyze the data, prepare a feasibility report, and formulate possible solutions to problems identified.

Our analysis indicates, however, that the department has failed to identify which boards and bureaus will provide funds and experienced staff for this project, and how they will continue to operate during the budget year without the services of these staff members. Because of the department's failures in recent years to upgrade and improve its existing computer system, we believe the Legislature should be provided with a complete proposal before it appropriates funds for yet another information processing project (Analysis page 163).

2. Bureau of Automotive Repair--Biennial Vehicle Inspection Program is Off to a Poor Start

We recommend that the Bureau of Automotive Repair (BAR) submit a program progress report to the Legislature on all elements of the Biennial Vehicle Inspection Program (BVIP) and provide a thorough discussion of all operational problems it is encountering. The bureau is proposing to begin the biennial inspection program in five urban areas of California by March 20, 1984.

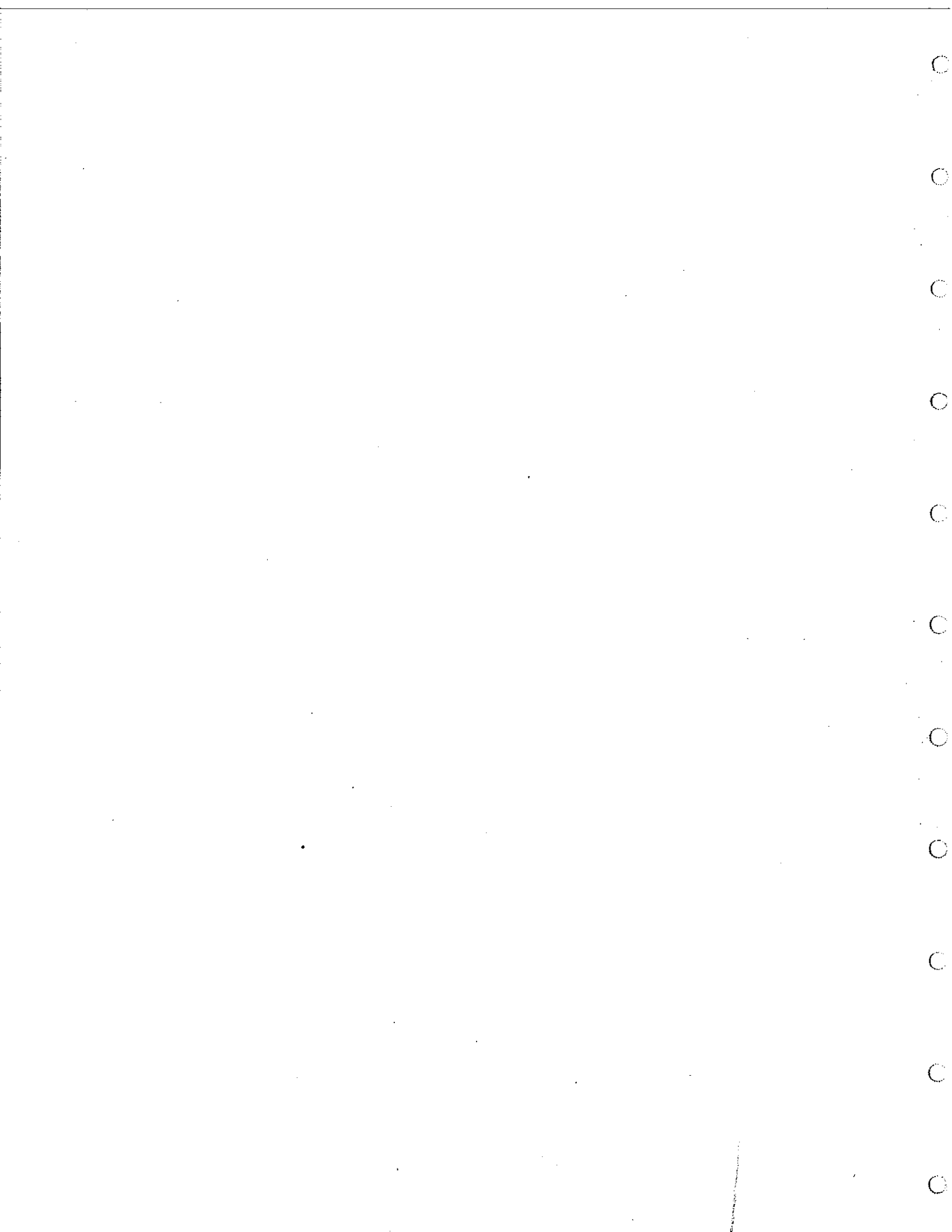
Our analysis indicates that the BAR has experienced major slippages in its program implementation schedule. As a result, many of the critical

tasks (i.e. mechanic training, licensing of inspection and repair stations, and certification and start-up of referee stations and quality control contractors) will need to be completed in two to three months, rather than in the eight to nine months as originally planned by the bureau. In order to provide the Legislature with an update of the bureau's progress during budget hearings, we recommend that the bureau submit a report on program progress and operational problems it is encountering and alternatives for overcoming these problems (Analysis page 169).

3. Bureau of Automotive Repair--Disciplinary Actions are Overbudgeted

We recommend a reduction of \$448,000 in the amount requested by the BAR to support disciplinary actions. As part of the Biennial Vehicle Inspection Program, the bureau proposes to conduct disciplinary actions against 288, or 3 percent, of its licensees in 1984-85 as a result of serious violations in the inspection programs.

Our analysis indicates, however, that the department's actual experience with disciplinary actions is closer to 20 cases per year. Recognizing that an increased number of violations may occur as a result of the new inspection program, we recommend that the bureau budget for 96 cases, which would allow the bureau to bring disciplinary action against 1 percent of its licensees, rather than 3 percent as proposed in the budget (Analysis page 173).



Office of the State Fire Marshal

(Item 1710/page 195)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$3,580 | \$4,351 | \$4,977 | (pending) | -\$560 |
| Personnel- years..... | 106.6 | 119.9 | 135.7 | -- | -- |

Highlights of Our Recommendations

1. Program Costs Overestimated (-\$560,000)

The budget proposes \$800,000 from reimbursements (fees) for implementation of the Hazardous Liquid Pipeline Safety program, which was approved by the Legislature in 1981 and modified in 1983.

When the Legislature was considering this program, the Office of the State Fire Marshal indicated that the program should not cost more than \$240,000 annually. Consequently, we see no reason why the cost should exceed this amount, and recommend that the budget be reduced by \$560,000 to provide the original amount indicated by the Fire Marshal (Analysis page 201).

2. Inadequate Information on Contracting Services to Private Firm

The budget proposes that the Fire Marshal expand two existing programs by contracting with the private sector to provide program services. The programs are the fireworks testing and inspection program, which licenses firms and individuals that manufacture, import, or sell fireworks, and the building materials listing program, in which materials/equipment and methods of construction/installation, which conform to fire and safety standards are listed biennially.

We withhold recommendation on both of these program expansions, pending receipt of information on the feasibility of contracting these services with a private firm and information on the cost of such a contract versus the cost of using state employees to do the work (Analysis pages 199 and 202).

Department of General Services

(Item 1760/page 215)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 | |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | | Recom- mendation | Difference |
| Expenditures... (thousands) | \$226,149 | \$282,496 | \$300,033 | (pending) | -\$3,869 |
| Personnel- Years..... | 3,905.0 | 4,143.1 | 4,171.1 | (pending) | -60.5 |

Highlights of Our Recommendations

1. Central Plant Gasification Plant is Still Not Operating

Construction of a \$3.9 million gasification plant at the Department of General Services' central heating and cooling plant in Sacramento began in August 1981. The plant was intended to reduce natural gas consumption by producing low quality gas from tree trimmings, wood chips and other solid waste materials. The budget for 1983-84, as enacted, reflects the \$410,000 in annual net savings anticipated from operation of the gasification plant based on operations commencing in May 1983.

As of January 1984, the gasification plant was still not fully operational. The department has experienced difficulties in procuring fuel for the gasifier as specified under a contract with the City of Sacramento. This contract specifies that fuel is to cost approximately \$6 per ton. The department's staff indicates, however, that if fuel of the required quality must be purchased from an alternative source, it will cost \$30 to \$40 per ton.

Our analysis indicates that it may not be economically feasible to operate the gasification plant if fuel costs are \$30 to \$40 per ton. In view of the uncertainties regarding the plant, we recommend that prior to budget hearings the department report to the Legislature on (1) the current status of its contract with the City of Sacramento, (2) the department's operational experience with the plant to date, (3) the projected schedule for operating the gasifier, and (4) the department's assessment of the projected long-term operating costs if an alternative fuel source is required (Analysis page 227).

2. Costs for the Office of Energy Assessments Should be Recovered from Project Funds

The budget proposes \$1,058,000 to support the Office of Energy Assessments within the Department of General Services. This amount includes \$794,000 from the General Fund, Energy Resources Programs Account (ERPA) and \$264,000 from the Service Revolving Fund.

The emphasis of the Energy Assessment program has changed significantly in the past several years. The office's responsibilities now include extensive work related to developing and evaluating financial arrangements through "third-party financing" of various energy projects. This work, however, is funded from the ERPA rather than from revenues generated by the energy projects.

We know of no analytical rationale for treating the office's costs any differently from those incurred by other divisions of the Department of General Services which are project-specific such as the Office of State Architect. Existing law provides that any costs or expenses incurred by this office in connection with the third-party financed energy projects may be reimbursed using revenues generated by the project. Accordingly, we recommend that the budget be amended to (1) eliminate funding for the office from the ERPA and (2) increase funding for the office from the Service Revolving Fund so that the office may recover its costs through charges to individual projects. Approval of this recommendation will increase by \$794,000 the amount of funding available to the Legislature for energy-related purposes (Analysis page 223).

3. Proposed Facility Relocation for Office of Telecommunications

The department proposes to augment the budget of the Office of Telecommunications by \$384,000 to allow the office to consolidate and expand its Sacramento facilities in 1984-85. We have the following concerns with the proposal: (1) the benefits of consolidation claimed by the department are questionable, and (2) the office's use of its existing space may be inefficient. Therefore, we recommend the deletion of \$384,000 in the department's budget for operating expenses (Analysis page 245).

Department of General Services--Capital Outlay

(Item 1760-301/page 248)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | -- | -- | \$22,466 | (pending) | -\$17,351 |

Highlights of Our Recommendations

1. Sacramento Parking Garage (-\$540,000)

The budget proposes \$540,000 to prepare preliminary plans and working drawings for the proposed construction of a multi-story parking garage in Sacramento. The garage would provide approximately 800 parking spaces for automobiles and would be located on the west half of the block bounded by 11th, 12th, P and Q Streets.

The information submitted by the department does not address a number of issues raised in the Capitol Area Plan which directly affect the need for additional parking. For example, the department (1) has not reported on efforts to reduce the number of automobiles driven into and parked in the capitol area which is a policy contained in the Capitol Area Plan, (2) has not addressed the impact of future light rail development on the need for parking, (3) has not addressed other methods for preventing parking shortages such as ridesharing and oversubscription/restriping of parking facilities, or (4) has not documented its claim that the demand for parking has increased.

Finally, the department has not supported its claim that the development of additional peripheral parking lots is not cost-effective and poses a security problem. The department should also indicate what steps are being taken to increase the use of existing peripheral lots since these lots currently are underutilized.

For these reasons, we recommend that the \$540,000 for a new state parking garage be deleted from the budget (Analysis page 251).

2. New Office Building Construction--Sacramento (-\$14,041,000)

The budget includes a total of \$14,470,000 to fund (1) the preparation of preliminary plans and working drawings for two state office buildings, and (2) preliminary plans, working drawings and construction for one other state office building--all in Sacramento. The three proposed office building projects are summarized below.

Site 4. The department has requested \$2,049,000 for preliminary plans and working drawings for a 391,935 gross square foot state office building in Sacramento. The proposed location of the building would be on the block bounded by 16th, 17th, "L" Street and Capitol Avenue. Estimated future cost for construction is \$44,939,000. The proposed tenant for the new building is the Board of Equalization.

Site 1D. The department has requested a total of \$11,661,000 for preliminary plans, working drawings and construction for a 92,000 gross square foot state office building in Sacramento. The proposed location of the building would be on 10th Street, between "O" and "P" Streets. The budget document states that the proposed tenant is the Department of Finance.

Site 5. The budget also includes \$760,000 for preliminary plans and working drawings for a 124,398 gross square foot office building in Sacramento. The proposed location of this building would be at the southeast corner of 9th and N Streets. Future cost for construction of the building is \$15,907,600. The proposed tenant is the Air Resources Board.

Increased Cost for Preliminary Planning Not Justified

In the Budget Act of 1979, the Legislature appropriated a total of \$1,103,000 for the preparation of preliminary plans for these buildings. The department has indicated that \$674,000 of this amount was spent, and the balance has reverted. The department, however, is requesting a total of \$1,356,000 in the budget to "complete" work on preliminary plans for these three projects. In the absence of a specific proposal to change the nature of these three projects, we see no reason why the amounts previously appropriated, together with funds available under Item 1760-301-036(2) for space planning, are not adequate to complete the preliminary plans for these three projects. We recommend that the Legislature appropriate funds to replace the amount reverted from the prior appropriations. This would require an appropriation of \$226,000 for Site 4, \$87,000 for Site 1D and \$116,000 for Site 5.

Working Drawing/Construction Funds Premature

Because preliminary plans have not been completed for these projects, the design of, and a firm cost estimate for, each building are not available for legislative review. Consequently, the Legislature does not have adequate information on which to base an appropriation for working drawings and construction. Accordingly, we recommend that working drawing and construction funds be deferred, permitting a reduction of \$1,823,000 for Site 4, \$11,574,000 for Site 1D and \$644,000 for Site 5 (Analysis page 253).

3. Replacement of PCB-Contaminated Equipment (-\$2,333,000/\$1,574,000 pending)

The budget proposes \$3,907,000 to replace 67 electrical transformers containing PCB fluids. Specifically, \$2,333,000 is requested to replace 37 transformers located in mechanical/switchgear rooms located near building ventilation systems, and 30 transformers which the department believes pose an exposure threat to food and feed areas. None of the 67 transformers are presently leaking.

Mechanical Rooms. The department is proposing to replace PCB transformers in mechanical equipment/switchgear rooms located near building ventilation systems. According to the department, in the event of a fire or internal fault in the transformer, PCB vapors would be dispersed to occupied areas.

Although we recognize the serious threat that PCB contamination poses to the public, we recommend that these funds be deleted because:

- o EPA regulations do not require that these transformers be replaced;
- o Fire safety codes require automatic shutdown of ventilation systems in the event of a fire;
- o EPA requires regular inspection and maintenance of PCB transformers to reduce the risk of transformer failure;
- o The department's proposal fails to take account of the heat-resistive properties of PCB's and the unlikely probability that a fire would incapacitate the mechanical system.

Food and Feed Areas. The department also proposes to replace 30 transformers containing PCB's which may pose an exposure threat to food and feed areas. EPA regulations require that such transformers be removed, regardless of the item's condition by October 1, 1985.

We agree with the need to replace these transformers. The department, however, has not provided sufficient information describing the specific location of each transformer, and showing how the location of each creates a potential contamination to food and feed areas.

Pending receipt of this information, we withhold recommendation of \$1,574,000 for replacement of PCB transformers located near food and feed areas (Analysis page 257).

Public Employees' Retirement System (PERS)

(Item 1900/page 217)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 | |
|--------------------------------|-------------------|---------------------|----------|-----------------------|------------|
| | | | | Recom- mendation | Difference |
| Expenditures... (thousands) | \$29,678 | \$28,057 | \$28,828 | \$28,798 ^a | 30 |
| Personnel- years..... | 682.7 | 724.8 | 707.2 | -- | -- |

a. One recommendation in this item would result in state savings (all funds) of \$12.2 million. These savings, however, would accrue to support items throughout the budget.

Highlights of Our Recommendations

1. Recapture of Funds Budgeted for Contingency (Special) Reserve

For 1984-85, state agencies have budgeted amounts for payments to the special contingency reserve in the Public Employees' Contingency Reserve Fund (PECRF) equal to 3.0 percent of their total health care premiums. Our analysis indicates that these PECRF contributions, which are set by the PERS Board of Administration, should be reviewed and approved by the Legislature. In the event the Legislature approves a reserve charge for the budget year, funding should be provided out of the employee compensation item (9800). Consequently, we recommend that the Legislature amend the Budget Bill to include a control section authorizing the Department of Finance to recapture funds already provided in departments' proposed budgets as state contributions for this special PECRF reserve, for a total state savings of \$12.2 million--\$7.3 million to the General Fund and \$4.9 million to other state funds (Analysis page 279).

Department of Veterans Affairs and Veterans' Home of California

(Items 1960 and 1970/page 287)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$30,659 | \$33,601 | \$35,276 | \$33,753 | -\$1,523 |
| Personnel- years..... | 1,213.0 | 1,276.9 | 1,262.2 | 1,258.5 | -3.7 |

Highlights of Our Recommendations

1. Federal Per Diem Payments

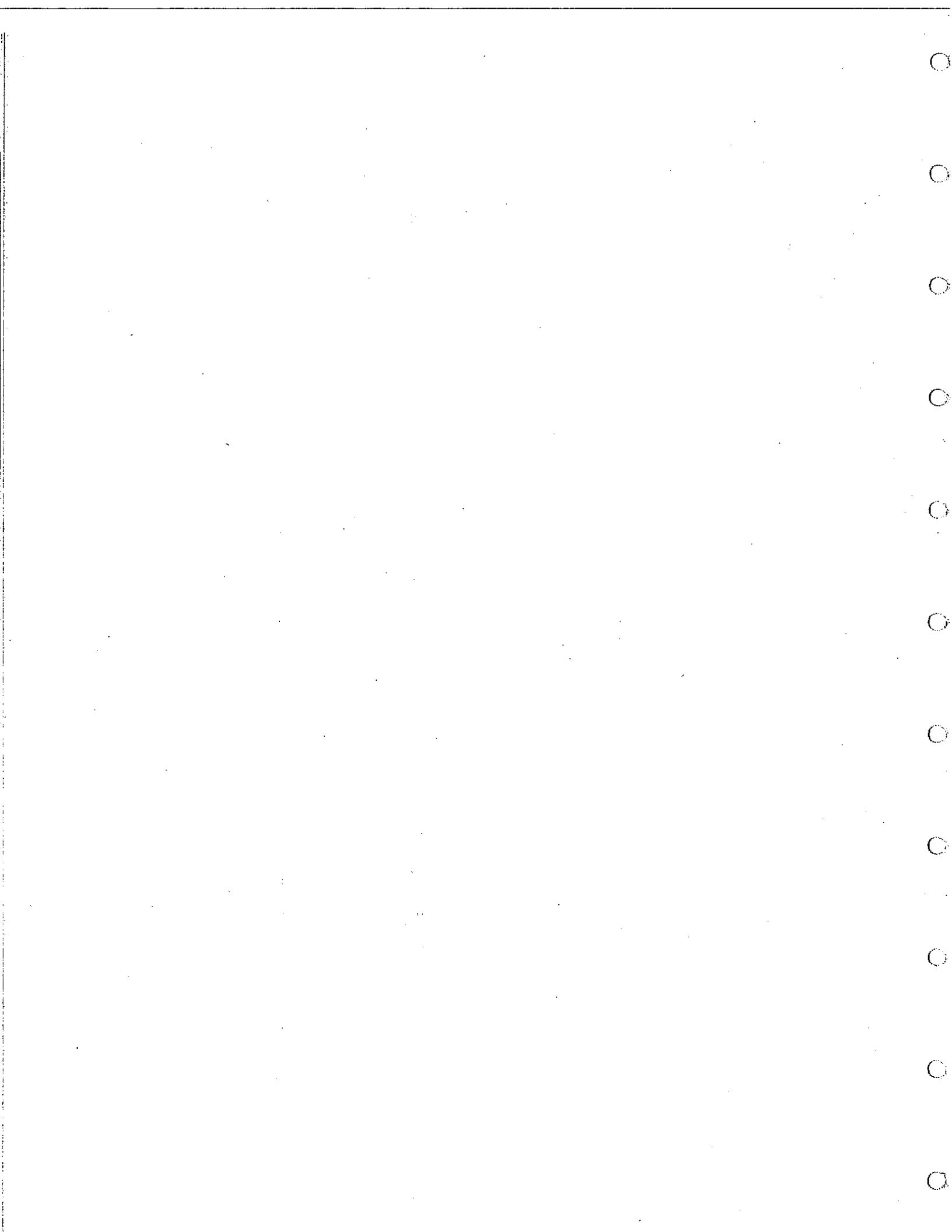
We recommend that \$719,000 in anticipated, but unbudgeted, federal per diem payments be used in lieu of General Fund and member fee support for the Veterans' Home. The federal Veterans' Administration (VA) makes per diem payments to the Veterans' Home to offset a portion of the costs for room and board provided to veterans who reside there. Federal law was revised recently to increase the per diem rates. However, the higher rates are not reflected in the home's budget. The home should receive the higher payments starting January 1, 1985, resulting in additional federal funds of \$719,000 in 1984-85. Correspondingly, support for the home should be reduced by \$719,000, consisting of \$609,000 from the General Fund and \$110,000 in member fees.

In addition, federal VA staff indicate that a supplemental funding request will be submitted to Congress to allow increased payments beginning April 1, 1984. If the supplemental appropriations bill is enacted in time for the rates to become effective on that date, the state would receive the higher payments for all of 1984-85. Consequently, we recommend the adoption of Budget Bill language transferring to the General Fund any federal per diem payments received in excess of the amount budgeted (Analysis page 291).

2. Automation Project

We recommend reductions of \$649,000 in General Fund support and \$117,000 in member fee reimbursements to reflect savings from the Veterans' Home automation project. We further recommend an increase of \$720,000 in federal funds to reflect increased Medicare reimbursements expected in the budget year. The department is in the process of implementing an automated financial management system to assist the home in improving its inventory, patient tracking, and financial information systems. The progress report

submitted to the Legislature in October 1983 identifies both one-time and ongoing savings to the General Fund in 1984-85 as a result of implementing the system. The \$720,000 in increased Medicare reimbursements and \$46,000 in staff savings identified in the report are not reflected in the home's budget (Analysis page 292).



BUSINESS, TRANSPORTATION AND HOUSING

Department of Economic and Business Development

(Item 2200/page 319)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|-----------------------|-------------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$10,251 | \$8,061 | \$16,124 | \$10,576 (pending) | -\$5,548 4,859 |
| Personnel- years..... | 61.0 | 70.2 | 78.0 | 69.3 (pending) | -8.7 5.6 |

Highlights of Our Recommendations

1. Tourism Marketing and Advertising Program

We recommend deletion of the \$5,120,000 and 2.9 personnel-years proposed in the budget for tourism marketing and advertising activities. The administration proposes to fund these activities because of the importance of tourism to the state's economy, recent evidence that tourism growth is declining, and efforts by other states to promote tourism.

Our analysis indicates that the administration's tourism proposal fails to address a number of serious fiscal and policy questions. The proposal does not provide sufficient justification as to where and how the money would be spent; it does not establish that the proposed expenditures would be cost-effective; and it provides no clear evidence that the decline in tourism expenditures can be attributed to the state's lack of a tourism campaign. In addition, it is questionable whether the level of private expenditure for tourism promotion is insufficient, and the proposed expenditure for tourism advertising also may set a precedent for the state continually being asked to subsidize the promotional expenditures of other industries (Analysis page 323).

2. Business Marketing and Advertising

We withhold recommendation of the \$1,836,000 and 5.6 personnel-years proposed for a business marketing and advertising program, pending review of the department's strategic marketing program for the state. The department plans to launch a comprehensive program of marketing and advertising to expand business investments in California. This program will be based on a study of the state's marketing needs. At the time the

Analysis was prepared, this study was nearing completion. Consequently, we withhold recommendation on the proposed expenditures until we have had the opportunity to review the department's marketing plan (Analysis page 326).

3. Economic Research and Analysis Activities

We recommend deletion of \$303,000 and one personnel-year requested to expand the research and analytical capabilities of the Office of Economic Planning, Policy, and Research Development. This request is based on the Department's expectation that the new tourism and business marketing programs would result in additional requests for economic analyses and information. Our analysis indicates that there is no need to provide OEPPRD with the additional resources. No justification has been provided as to the number or specific types of information and analyses that would be requested. In addition, we believe that the new workload could be accommodated by redirecting the office's current resources to these projects (Analysis page 329).

Department of Savings and Loan

(Item 2340/page 372)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$3,788 | \$3,680 | \$4,357 | \$3,846 | -\$511 |
| Personnel- years..... | 79.2 | 71.5 | 82.0 | 73.0 | -9.0 |

Highlights of Our Recommendations

1. Increased Regulatory Oversight Not Statutorily Mandated

We recommend deletion of \$392,000 to eliminate nine proposed new positions which are not needed to maintain the current level of regulatory coverage for state-chartered associations and would result in the department's taking on a new function for which it has neither the statutory mandate nor the expertise needed. The department proposes to add 18 new positions to (1) handle the projected growth in routine examinations of state-chartered associations, and (2) expand the monitoring of newly chartered associations to provide for monthly visits to new associations during their first two years of operation.

Our analysis confirms the need for six new positions to handle increased workload associated with the increase in the number of associations subject to regulation by the department. On the other hand, we find that the department's proposal to add 12 new examiner positions for the purpose of conducting monthly field visits to new associations during the first two years of operations is a dramatic change in its regulatory program activities and is excessive in terms of what is needed to protect the public. Our analysis indicates the addition of three (rather than the proposed 12) new examiner positions to conduct quarterly rather than monthly field visits to new associations during their first year of operation is a sufficient level of regulatory oversight to fulfill the department's statutory responsibility to protect the public.

Department of Transportation

(Item 2660/page 385)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-------------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$931,487 | \$1,024,951 | \$1,114,672 | \$1,088,373 | -\$26,299 |
| Personnel- years..... | 15,239.7 | 15,589.9 | 15,179.0 | 15,177.0 | -2.0 |

Highlights of Our Recommendations

1. Benefits Paid on Overtime are Overbudgeted

We recommend a reduction of \$5,254,000 to correct for overbudgeting of personal services. The department relies heavily on overtime work, particularly in highway maintenance activities. For 1984-85, the budget proposes \$21,159,000 for cash overtime purposes. Our analysis indicates that, in determining the amount budgeted for total staff benefits, the department included cash overtime payments in total personal service expenditures before making the required calculation. However, the only benefits that increase as a result of overtime are social security payments. Consequently, staff benefits are overbudgeted by \$5,254,000 (Analysis page 410).

2. Utilities Cost Overestimated

We recommend a reduction of \$8,625,000 to correct for overbudgeted highway energy and utilities costs. The budget requests \$38,025,000 for utilities expenses in 1984-85. Based on past actual expenditures for utilities, as well as the expenditures during the first five months of 1983-84, we estimate the amount needed for utilities in 1984-85 to be lower, at \$29.4 million, which is \$8,625,000 less than the requested amount (Analysis page 421).

3. Transfer Item for Ridesharing Tax Credit Omitted

We recommend addition of a Budget Bill item to transfer \$1.5 million from the Transportation Planning and Development Account to the General Fund to reimburse the General Fund for revenue losses attributable to ridesharing tax credits and deductions. Current law requires such a transfer, but it is not proposed in the Budget Bill. Although the Governor's Budget estimates that there will be a \$500,000 revenue loss from the tax credits, based on the experience in the 1981 and 1982 tax years, we

estimate that the revenue loss in the 1984 tax year will approximate \$1.5 million (Analysis page 438).

4. Request for Integrated Design System is Overstated

We recommend a reduction of \$1,604,000 to reflect the lower cost estimated in a feasibility study for statewide implementation of a computer-aided design system. The budget requests \$15 million for the purchase of computer equipment to implement the system statewide in 1984-85 after the system has been tested in a pilot project during 1983-84 and the early part of 1984-85.

Our review of the pilot project feasibility study report shows that if the statewide system has the configuration described in the report, 1984-85 expenditures would be \$1,604,000 less than requested. In addition, final requirements for the computer might differ, depending upon results of the pilot project and the review of an amended feasibility study report (Analysis page 442).

5. Proposal for Distributed Data Processing Project is Premature

We recommend deletion of \$2,700,000 requested for the purchase of computer equipment to implement a distributed data processing project statewide. This project would result in the department's district offices having independent computers for engineering and design work. Our analysis shows that the project is undefined and premature at the current time, and does not account for the likelihood of any equipment redundancy (Analysis page 444).

Department of the California Highway Patrol

(Item 2720/page 456)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-----------|------------------------|-----------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$305,682 | \$344,115 | \$381,637 | \$371,982 (pending) | -\$9,655 186 |
| Personnel- years..... | 7,229.5 | 7,692.7 | 7,740.5 | 7,740.5 (pending) | -- 10.0 |

Highlights of Our Recommendations

1. AB 202 Enforcement Program Evaluation Needed to Determine Cost-Effectiveness

We recommend the CHP report to the Legislature on the cost-effectiveness of the AB 202 enforcement program in order to permit the Legislature to evaluate the merits of the AB 202 program and consider possible alternatives if the program is not continued beyond its sunset date of December 31, 1985. Chapter 933, Statutes of 1981 (AB 202) authorized the addition of 670 patrol officers to enforce the 55 MPH speed limit and enforce other highway safety requirements. The program is supported by a \$1 surcharge on the registration of motor vehicles. The program is scheduled to terminate on December 31, 1985 (Analysis page 458).

2. Telecommunications Expenses are Overbudgeted

We recommend a total reduction of \$4,745,000 in telecommunication expenses of the CHP. The budget proposes expenditures of \$5,985,000 to support the purchase of (a) radio and microwave equipment for a proposed new consolidated dispatch center in the Bay Area, (b) telephone systems at 29 CHP facilities, and (c) mobile radio equipment for use by AB 202 officers. Our analysis indicates that (1) radio and microwave equipment will not be needed in the budget year at the proposed dispatch center, (2) only 28 rather than 29 telephone systems need to be purchased, (3) the department has not budgeted lease savings which will be realized from the purchase of the 28 telephone systems, and (4) the mobile radio equipment needs of AB 202 officers are overstated (Analysis page 463).

3. Gasoline Request is Excessive

We recommend a reduction of \$1,917,000 in the department's request for gasoline expenditures in 1984-85. The CHP's request is based on (1) prices which exceed current per-gallon costs by 17.9 percent, and (2) the fuel needs of the patrol's entire vehicle fleet.

Our analysis indicates the anticipated price increase is unfounded and that the patrol's estimate includes funds for the AB 202 enforcement program, which has its own source of funding for fuel costs. Moreover, the 1984-85 budget also includes a \$1 million reserve to meet unexpected increases in fuel prices. For these reasons, we recommend that the CHP budget be reduced to allow for an increase of 6 percent over its current price per gallon (consistent with the Department of Finance's guideline for operating expenses), and that the amount budgeted for AB 202 operations from the Motor Vehicle Account be deleted (Analysis page 465).

Department of Motor Vehicles

(Item 2740/page 488)

| | <u>1982-83</u> <u>Actual</u> | <u>1983-84</u> <u>Estimate</u> | <u>Proposed</u> | <u>1984-85</u> <u>Recom-</u> <u>mendation</u> | <u>Difference</u> |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|---|-------------------|
| Expenditures... (thousands) | \$193,149 | \$225,996 | \$243,325 | \$240,572 (pending) | -\$2,753 532 |
| Personnel- years..... | 6,933.5 | 7,507.5 | 7,264.8 | 7,260.5 | -4.3 |

Highlights of Our Recommendations

1. Staff Benefits Ignore Actual Costs

We recommend a reduction of \$1,355,000 in staff benefits requested by the Department of Motor Vehicles. The department's budget proposes \$138,227,000 in 1984-85 to provide for retirement, medical and unemployment insurance benefits for all its employees. Our analysis indicates that the department's request ignores its actual costs in prior years. Specifically, the estimates for (1) health and dental benefits are based on an incorrect number of employees receiving such benefits in the budget year, and (2) worker's compensation and unemployment benefits assumes caseload increases which are not supportable (Analysis page 500).

RESOURCES

Department of Forestry

(Item 3540/page 584)

| | <u>1982-83</u> <u>Actual</u> | <u>1983-84</u> <u>Estimate</u> | <u>Proposed</u> | <u>1984-85</u> <u>Recom- mendation</u> | <u>Difference</u> |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|---|-------------------|
| Expenditures... (thousands) | \$139,339 | \$137,284 | \$148,615 | \$147,017 ^a | -\$1,598 |
| Personnel- years..... | 3,995.9 | 3,821.2 | 3,751.9 | 3,751.9 | -- |

a. Recommendations pending on \$4,254,000.

Highlights of Our Recommendations

1. Forest Nurseries Should Be Made Self-Supporting

We recommend elimination of \$200,000 annual General Fund subsidy to three forest nurseries operated by the department. The nurseries sell seedlings to commercial timber and Christmas tree operations. This will require CDF to establish a schedule of prices sufficient to cover annual operating and staff costs as is done by other western states that operate forest nurseries (Analysis page 596).

2. Transfer Excess State Forest Revenues to General Fund

We recommend adoption of a Budget Bill control section transferring \$3,217,000 in surplus state forest revenues from the Forest Resources Improvement Fund to the General Fund in order to provide the Legislature with greater fiscal flexibility.

The Forest Resources Improvement Fund was established by Ch 812/79, and receives revenue from the sale of timber from the state forest system, which CDF manages. Prior to 1979, state forest revenues were deposited in the General Fund. Under existing law, the use of these monies is limited to reforestation grants and other purposes authorized by the California Forest Improvement Act of 1978.

Because the department has proposed to spend only \$5,237,000 of the \$8,977,000 in state forest revenues that it expects will be available during 1984-85, we recommend that most of the unappropriated surplus of \$3.74 million be transferred to the General Fund so that the money can be used to meet other legislative priorities (Analysis page 598).

Department of Forestry--Capital Outlay

(Item 3540-301/page 607)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | -- | -- | \$4,184 | (pending) | -\$1,465 |

Highlights of Our Recommendations

1. DeLuz Forest Fire Station (-\$408,000)

The budget includes \$433,000 for preliminary plans, working drawings, and construction for replacement of a one-engine forest fire station at DeLuz in San Diego County.

The preliminary design and associated cost estimate have not been completed; therefore, the adequacy of the requested construction funds is unsubstantiated. In addition, because of historical time frames needed for completion of preliminary plans and working drawings, it is unlikely that construction funds would be required in the budget year. Consequently, we recommend that proposed construction funds (\$408,000) be deleted. We withhold recommendation on planning funds, pending completion of adequate cost estimates (Analysis page 612).

2. Saratoga Forest Fire Station (-\$496,000)

The budget contains \$531,000 for preliminary plans, working drawings, construction, and equipment for improvements to the Saratoga Summit forest fire station in Santa Cruz County. For the same reasons as those outlined above, we recommend that funding be provided only for preliminary plans and working drawings, for a reduction of \$496,000. We withhold recommendation on the remaining funds, pending receipt of adequate cost information and additional justification for various elements of the proposal (Analysis page 614).

3. Dulzura Forest Fire Station (-\$481,000)

The budget proposes \$481,000 for preliminary plans, working drawings, construction, and equipment for replacement of a one-engine forest fire station at Dulzura in San Diego County.

Much of the department's justification for the project rests on space needs. The department, however, has not investigated the possibility of expanding the current facility. In addition, the department has provided neither evidence of any deficiencies in the current facility nor adequate cost information. Consequently, we recommend that the project be deleted, for a savings of \$481,000 (Analysis page 614).

Department of Fish and Game

(Item 3600/page 630)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|-----------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$53,317 | \$58,020 | \$64,536 | \$61,411 ^a | -\$3,125 |
| Personnel- years..... | 1,498 | 1,598.4 | 1,553.4 | -- | -- |

a. Recommendations pending on \$1.2 million

Highlights of Our Recommendations

1. Commercial Salmon Trollers Stamp Account Surplus

We recommend a funding shift of \$414,000 for new salmon enhancement projects from the Environmental License Plate Fund (ELPF) to the Fish and Game Preservation Fund to take advantage of an expected surplus in the Commercial Salmon Trollers License Stamp Account during 1984-85. This shift will make additional ELPF money available to the Legislature for other purposes (Analysis page 638).

2. Upper Newport Bay and Bolsa Chica Wetlands Projects

We recommend a reduction of \$2,014,000 from the General Fund proposed for wetland enhancement work at the Upper Newport Bay (\$1,901,000) and Bolsa Chica (\$113,000) ecological reserves in Orange County. Funds for additional dredging, wetland expansion and erosion control work in Upper Newport Bay should be deleted because (a) engineering plans, design specifications, and cost estimates have not yet been developed, and (b) there is no basis for determining what the state's share of the project cost should be.

The \$113,000 requested to enlarge the Bolsa Chica ecological reserve should also be deleted because the project is premature. Funding for this work should be delayed until (a) a legislatively mandated habitat conservation plan is jointly completed by the department and the State Coastal Conservancy and (b) the status of a 5,700-home and 1,800 slip marina development proposal for adjacent private lands is clarified (Analysis page 639).

3. Rancho Del Oro Wetlands Mitigation

We recommend a reduction of \$258,000 from the Environmental License Plate Fund to delete funds proposed to establish a new seven-acre wetland in the City of Oceanside in San Diego County. It appears that the primary purpose of the project is to mitigate the destruction of an existing

wetland due to construction of a shopping center. Instead of using state funds for this purpose, mitigation costs for the shopping center should be financed by the developer who will directly benefit from the commercial project or by the City of Oceanside, which approved the development (Analysis page 642).

Department of Fish and Game--Capital Outlay

(Item 3600-301/page 646)

| | 1982-83 <u>Actual</u> | 1983-84 <u>Estimate</u> | 1984-85 | | <u>Difference</u> |
|--------------------------------|--------------------------|----------------------------|-----------------|-----------------------------|-------------------|
| | | | <u>Proposed</u> | <u>Recom- mendation</u> | |
| Expenditures... (thousands) | -- | -- | \$2,993 | \$2,650 | -\$343 |

Highlights of Our Recommendations

1. Mad River Hatchery Fish Screen (-\$300,000)

The budget proposes \$300,000 for construction of a fish screen at the Mad River Hatchery to divert salmon into the hatchery. A temporary screen is currently being used.

The department has provided minimal information and justification for the project. No information has been provided on how the facility would be constructed or operated. No cost estimates have been provided, and there is no indication that a permanent structure would be more satisfactory than the current temporary screen. Consequently, we recommend that the project be deleted, for a savings of \$300,000 (Analysis page 648).

Wildlife Conservation Board--Capital Outlay

(Item 3640-301/page 651)

| | <u>1982-83</u> <u>Actual</u> | <u>1983-84</u> <u>Estimate</u> | <u>Proposed</u> | <u>1984-85</u> <u>Recom- mendation</u> | <u>Difference</u> |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|---|-------------------|
| Expenditures... (thousands) | -- | -- | \$6,129 | (pending) | -\$715 |

Highlights of Our Recommendations

1. Minor Capital Outlay Projects (-\$715,000)

The budget proposes \$715,000 for 11 minor capital outlay projects (\$200,000 or less) for repair and renovation for piers, roads and public and educational facilities.

The board indicates that local agencies will be responsible for most of the work for these projects. The board, however, has provided no indication of the state's share of cost and no detail or breakdown of costs for the 11 projects. Because of this lack of justification and detail, we recommend that the projects be deleted, for a savings of \$715,000 (Analysis page 654).

Department of Boating and Waterways

(Item 3680/page 655)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$21,840 | \$26,014 | \$24,758 | \$18,728 | -\$6,030 |
| Personnel- years..... | 59.2 | 62.4 | 60.4 | 60.4 | -- |

Highlights of Our Recommendations

1. Marina Loans

We recommend a reduction of \$3,900,000 from the Harbors and Watercraft Revolving Fund for three marina loan projects as follows:

Proposed and Recommended Funding for
Selected Marina Loan Projects

| <u>Project</u> | <u>Proposed</u> | <u>Recommendation</u> |
|--------------------------|-----------------|-----------------------|
| Antioch | \$2,000,000 | \$200,000 |
| Vallejo | 600,000 | -- |
| South Beach ^a | 1,500,000 | -- |

a. Project is in San Francisco.

For each of these projects, construction financing by the state would be premature because (a) the amount of funds requested exceeds the amount needed to keep the project on schedule and (b) permitting and design work needs to be completed before the Legislature can consider the projects for major construction financing (Analysis pages 660, 662, and 663).

2. Pacifica Seawall Project

We recommend a reduction of \$1,530,000 from the General Fund to eliminate funding for the Pacifica Seawall Project. Our analysis indicates that preliminary steps, including project permits and agreements, that are necessary before construction can begin have not been completed. Moreover, adequate information to evaluate the project has not been provided (Analysis page 668).

State Coastal Conservancy

(Item 3760/page 683)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$1,637 | \$1,812 | \$2,306 | \$1,662 | -\$644 |
| Personnel- years..... | 35.1 | 36.3 | 43.0 | 34.0 | -9.0 |

Highlights of Our Recommendations

1. Audit Needed to Resolve Financial Discrepancies

We recommend that the Auditor General conduct a full-scale audit of the conservancy's financial records, practices and compliance with state law as part of its annual financial audit. Both our analysis and studies conducted by the Department of Finance have identified major problems with the conservancy's financial controls and recordkeeping. A full-scale financial audit is needed to accurately determine the status of funds that have been appropriated to the conservancy by the Legislature (Analysis page 685).

2. Premature Loan to Urban Waterfront Financing Authority

We recommend a reduction of \$352,000 from the State Coastal Conservancy (Fund) requested for a loan to the California Urban Waterfront Area Restoration Financing Authority (CUWARFA). Chapter 1264, Statutes of 1983, established the authority and authorized it to sell \$650 million of revenue bonds to finance urban waterfront restoration projects. The statute directs the authority to use conservancy staff, among other resources, to carry out its programs. The funding requested would be used to support seven new positions on the conservancy's staff. The authority, however, has not begun operations, nor has it requested this loan or agreed to repay it (Analysis page 689).

Department of Parks and Recreation

(Item 3790/page 693)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-----------|-----------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$114,235 | \$125,605 | \$100,056 | \$98,151 ^a | -\$1,905 |
| Personnel- years..... | 2,653.1 | 2,943 | 2,732.9 | 2,726.7 | -6.2 |

a. Recommendation pending on \$29,303,000.

Highlights of Our Recommendations

1. Adequacy of Appropriated Revenues

We withhold recommendation on \$29,303,000 of state park revenues requested for appropriation from the State Parks and Recreation Fund, pending receipt of information showing how the department will achieve its 1984-85 revenue goal. The department's revenue collections fell short of the department's goal by \$4,434,000 in 1982-83 and, based on current trends, we estimate that a shortfall of \$5,900,000 will occur in 1983-84. These revenue shortfalls have resulted in unbudgeted expenditure reductions that were accomplished by leaving positions vacant, reducing patrols, and deferring maintenance of park facilities.

If the department's budget continues to be based on inflated revenue goals, program cutbacks again will be required in 1984-85. Thus, we recommend that the department report prior to budget hearings on park revenues in 1983-84 and the prospects for revenues in 1984-85. We also recommend that the department present an analysis of alternatives to the current dependence on appropriated revenues that would provide a more stable funding arrangement without eliminating incentives for increasing park revenues (Analysis page 699).

2. Funds for Personal Services Are Being Diverted to Operating Expenditures

We recommend a reduction of \$906,000 because the department has not justified a need for an additional increase in operating expenditures. The department is proposing to redirect \$906,000 of savings associated with an 85 personnel-year staff reduction to operating expenditures. This reduction would be in addition to other increases made for operating expenditures totaling \$1.9 million. With the redirection of funds the

increase would be 16 percent, while proposed staffing for the department decreases (Analysis page 709).

3. Operating Expenditure Savings Are Not Shown for Position Reduction

We recommend a reduction of \$962,000 (including \$533,000 in reimbursements from capital outlay appropriations) in order to recognize savings for operating expenditures associated with the proposed 85 personnel-year staff reduction. The budget does not reduce operating expenses to correspond with the reduction of 85 personnel-years of staff. Savings will occur, however, due to reduced requirements for office space and supplies, utilities, and travel (Analysis page 709).

4. Increase Harbors and Watercraft Revolving Fund Appropriation to Adjust for Inflation

We recommend an increase of \$571,000 from the Harbors and Watercraft Revolving Fund (HWRF) and a corresponding reduction from the General Fund because the allocation from the HWRF to the department has not been adjusted for inflation for 15 years. The budget proposes an appropriation of \$280,000 from the HWRF for support of the department's boating safety and law enforcement programs. The amount is calculated according to a formula that uses the department's program costs in 1969-70 as a base. The formula, however, fails to account for inflation. As a result, the General Fund has provided adjustments for this program. Our recommendation corrects for the absence of an inflation factor and, if adopted, will result in a General Fund savings of \$571,000 (Analysis page 712).

5. General Fund Subsidy of Boating Programs Should be Eliminated

We recommend a funding shift of \$1,230,000 from the General Fund to the Harbors and Watercraft Revolving Fund in order to eliminate the General Fund subsidy of boating-related programs in the state park system. We have identified major General Fund costs that are incurred each year to provide for boating activities at state park lakes and reservoirs. It would be more appropriate for these activities to be supported by the Harbors and Watercraft Revolving Fund since this fund receives revenue from boating taxes and fees for the purpose of meeting the boating needs of the public (Analysis page 713).

6. State Park Concession Contracts

Morro Bay State Park--golf course concession. We recommend approval of the proposed five-year concession without an option for contract renewal because the department has not justified the need for this additional incentive to the concessionaire (Analysis page 717).

Old Sacramento State Historic Park--steam excursion train. We recommend disapproval of this five-year concession because the department has not secured the acquisitions and agreements needed to implement the planned excursion train operation, and because the project economics have not been evaluated adequately (Analysis page 717).

Old Town San Diego State Historic Park--parking lot concession. We withhold recommendation on this proposed concession, pending receipt of additional information from the department needed to evaluate the potential financial viability of the concession and the rental returns to the state (Analysis page 718).

Department of Parks and Recreation--Capital Outlay

(Item 3790-301/page 721)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|----------|--------------------------------|------------|
| Expenditures... (thousands) | \$71,364 | \$130,177 | \$43,210 | \$36,494 ^a | -\$6,716 |

a. Recommendation pending on \$18,510,000.

Highlights of Our Recommendations.

Item 3790-301-036 from the Special Account for Capital Outlay

1. Anderson Marsh (Lake County)--Acquisition

We recommend a reduction of \$1,383,000, and approval in the reduced amount of \$717,000, because (1) the request exceeds the state's appraisal and (2) certain parcels are not needed for the project. We further recommend the adoption of Budget Bill language requiring acquisition only from willing sellers in order to avoid potentially excessive condemnation costs (Analysis page 724).

2. China Camp State Park (Marin County)--Sewer System

We withhold recommendation because the amount requested (\$300,000) is not sufficient to fund the current scope of the project (Analysis page 726).

3. Colonel Allensworth State Historic Park (Tulare County)--Building Reconstruction

We recommend deletion of the \$200,000 requested for the project because (1) the general development plan should be reexamined before further development of this park occurs, and (2) the State Architect has not completed cost estimates for the project (Analysis page 727).

4. East Bay Shoreline Project (Alameda County)--Acquisition

We recommend deletion of the \$2,500,000 requested for the East Bay Shoreline Project because (1) the request is premature and (2) the entire project will have to be rescoped. We further recommend the addition of a Control Section requiring notification to the Legislature regarding the department's expenditure plans prior to the encumbrance of funds for the project from existing appropriations (Analysis page 727).

5. Fort Ross State Historic Park (Sonoma County)--Campground Rehabilitation

We recommend the deletion of \$250,000 requested under this item because (1) the property to be improved is subject to a lease until October 1986, and (2) the amount requested is insufficient to carry out the project as currently scoped (Analysis page 729).

6. Point Sur Lighthouse (Monterey County)--Acquisition

We recommend deletion of the \$500,000 requested for this project because (1) the amount requested is excessive and (2) the department should first pursue the possibility of a transfer or discount purchase of this federally owned property (Analysis page 736).

7. Seccombe Lake State Urban Recreation Area (San Bernardino)-Phase II Development

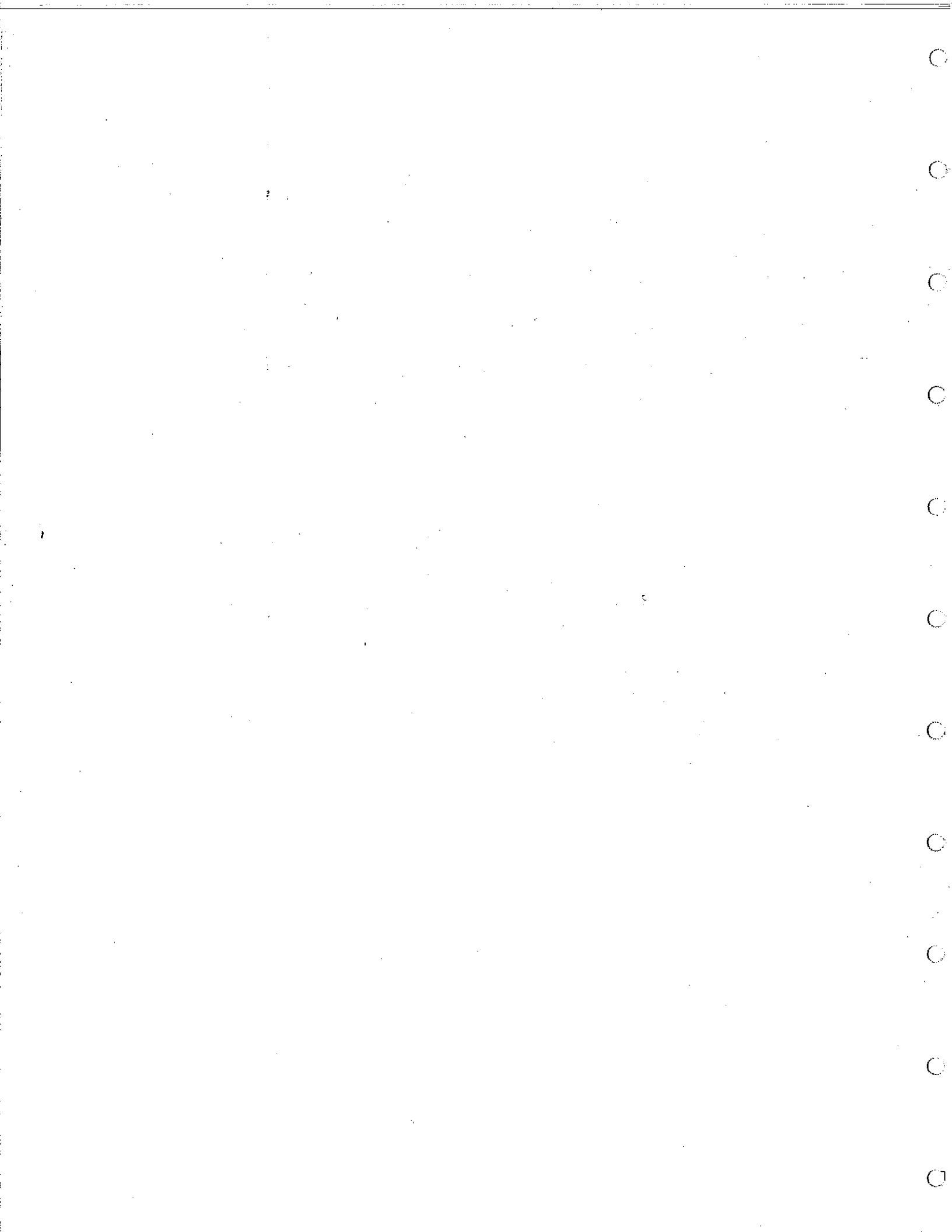
We withhold recommendation on \$4,300,000 requested for this project because the department has not provided the Legislature with detailed cost estimates (Analysis page 738).

8. Replacement or Rehabilitation of Existing Facilities (Statewide)

We withhold recommendation on \$2,500,000 requested for replacement and rehabilitation of existing facilities, pending receipt of the State Architect's cost estimates and a final rescoping of the request (Analysis page 740).

9. Design and Construction Planning

We recommend the addition of \$2,000,000 for design and construction planning from the Special Account for Capital Outlay in lieu of the \$2,000,000 requested from the 1980 Park Bond Fund because the bond fund is overappropriated by \$6.1 million (Analysis page 741).



HEALTH AND WELFARE

Department of Aging

(Item 4170/page 803)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|----------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$5,395 | \$8,825 | \$6,658 | \$6,658 ^a | -- |
| Personnel- years..... | 117.4 | 83.3 | 83.2 | 83.2 ^a | -- |

a. Recommendation pending on \$1,713,000 and 83.2 positions.

Highlights of Our Recommendations

1. Departmental Reorganization

We withhold recommendation on \$3,582,000 (\$1,713,000 from the General Fund and \$1,869,000 from federal funds) requested for support of the Department of Aging, pending receipt of additional information regarding the reorganization of the department and redirection of funds to local assistance. The budget proposes to reduce the staff of the department by 30 positions, which is 26 percent below the levels authorized by the 1983 Budget Act. The budget and supporting documents do not contain sufficient information for the Legislature to evaluate and act on the department's proposal (Analysis page 818).

Department of Alcohol and Drug Programs

(Item 4200/page 830)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$67,837 | \$68,450 | \$69,390 | \$69,390 | -- |
| Personnel- years..... | 209.7 | 182.9 | 146.0 | 146.0 | -- |

Highlights of Our Recommendations

1. State/County Realignment

The budget proposes to modify the current categorical funding system for alcohol and drug programs, reduce state administrative staff by 80 positions, and transfer various responsibilities to the local level through a "state/county realignment," effective January 1985. The proposed realignment would result in a net reduction of \$669,000 (\$503,000 in federal funds and \$166,000 from reimbursements). We recommend that:

- o The department advise the fiscal committees, prior to the budget hearings, on how it will ensure that (1) counties will adequately review and monitor multiple offender drinking driver programs and (2) third-party payers will provide reimbursements for recovery and treatment services if counties certify these services according to local program standards (Analysis pages 838 and 839).
- o The department perform financial and compliance audits covering the expenditure of state, as well as federal, funds (Analysis page 840).
- o The Budget Bill be amended to schedule separately funds for the alcohol program and drug program (Analysis page 840).
- o The department not adopt an allocation formula requiring counties to spend a minimum of 35 percent for alcohol programs and 35 percent for drug programs (Analysis page 841).

Department of Health Services

(Item 4260/page 846)

| | 1982-83 <u>Actual</u> | 1983-84 <u>Estimate</u> | <u>Proposed</u> | 1984-85 <u>Recom- mendation</u> | <u>Difference</u> |
|--------------------------------|--------------------------|----------------------------|-----------------|--|-------------------|
| Expenditures... (thousands) | \$3,214,338 | \$3,113,942 | \$3,130,521 | \$3,070,787 | -\$59,734 |
| Personnel- years..... | 3,849.2 | 3,967.3 | 3,808.0 | 3,784.0 | -24.0 |

Highlights of Our Recommendations

Preventive Health Services

1. Public Health Enhancement Program

We withhold recommendation on the Public Health Enhancement program (PHEP) pending (a) receipt of additional information regarding the proposal and (b) review of the proposed legislation implementing the proposal. The budget proposes to consolidate all or part of five existing preventive health categorical programs (Maternal and Child Health, Child Health and Disability Prevention, Preventive Health Care for the Aging, Children's Dental Disease Prevention, and Immunization Assistance) into a block grant to be administered by the counties, effective January 1, 1985. Implementation of the PHEP is dependent on statutory changes contained in AB 2450. This bill was not available at the time the Analysis was written.

Our analysis indicates that to evaluate this proposal, the Legislature needs additional information on (a) whether increased local administrative costs will reduce the level of service dollars, (b) whether the reporting and auditing requirements will be sufficient for legislative oversight and decision-making, and (c) what workload the 26 positions proposed to administer the program will have. We identified two significant problems in the proposal related to (a) administration of the federal Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program and (b) administration of the PHEP by small counties. The department should address these issues in its information submission (Analysis page 871).

2. Federal Funds for Public Health Enhancement
Program Administration

We recommend a reduction of \$391,000 from the General Fund to reflect the availability of federal funds for administrative support of the proposed Public Health Enhancement program (PHEP). The budget proposes

\$589,000 from the General Fund for support of 13 staff proposed to administer the PHEP. The primary function of this unit will be to monitor county Early Periodic Screening, Diagnosis, and Treatment (EPSDT) programs to assure that they meet federal requirements. In the current year, approximately 66 percent of the funds to support these functions are federal funds. Because the functions of the PHEP unit will be basically the same as administrative functions associated with the Child Health and Disability Prevention program in the current year, we see no reason why the department cannot continue to claim Medi-Cal funds for administrative support (Analysis page 873).

3. Family Planning Grant Proposal

We withhold recommendation on the Family Planning Grant program proposal pending (a) receipt of additional information regarding the proposal and (b) review of the proposed implementing legislation. The budget proposes to transfer responsibility for family planning services to counties effective January 1, 1985. Implementation of the Family Planning Grant program is dependent on statutory changes contained in SB 1450. This bill was not available at the time the Analysis was written.

Our analysis indicates that to evaluate this proposal, the Legislature needs additional information on (a) whether increased local administrative costs will reduce the level of service dollars, (b) whether the reporting and auditing requirements will be sufficient for legislative oversight and decision-making, (c) what workload the five positions proposed to administer the program will have, and (d) whether the state's fiscal interests will be protected under the proposal. We identified two significant problems related to the (a) proposed funding allocation methodology and (b) current family planning program activities that have statewide significance. The department should address these issues in its information submission (Analysis page 876).

4. Local Health Capital Expenditure Account Funds

We recommend that at budget hearings, the department (a) explain why \$10,829,000 in unused medically indigent services (MIS) funds are not proposed for expenditure through the Local Health Capital Expenditure Account (LHCEA) and (b) develop a spending plan for LHCEA funds. We further recommend that (a) LHCEA funds be appropriated through the Budget Bill to assure greater legislative control of expenditures and (b) \$441,000 in interest income in the LHCEA be reverted to the General Fund. Under current law, a portion of the funds recouped from unspent MIS allocations to independent counties (counties that administer their own MIS programs) are required to be deposited in the LHCEA and used for county health facility capital outlay projects and related department administration. Funds earned from interest or income on LHCEA funds are required to be reverted to the General Fund. The department estimates that the fund will receive recoupments of \$10,829,000 by June 30, 1985, and that interest income earned on these funds will total \$441,000. None of these funds are scheduled for capital outlay projects, related department administration, or reversion to the General Fund (Analysis page 889).

5. California Children's Services Inpatient Utilization Review

We recommend (a) Budget Bill language requiring Medi-Cal field offices to review treatment authorization requests for extended lengths of stay by CCS hospital inpatients and (b) a reduction of \$389,000 in CCS General Fund expenditures and \$221,000 (\$111,000 General Fund) in Medi-Cal expenditures to reflect one-half year savings resulting from implementing these reviews. Under current state CCS guidelines, CCS county programs are required to (a) make on-site visits during extended hospitalizations at intervals of 30 to 60 days and (b) utilize length-of-stay criteria developed by Los Angeles County. Our analysis indicates that these guidelines are not followed by many CCS county programs. In addition, the high cost of hospital inpatient stays dictate more extensive on-site hospital utilization review of extended lengths of stay.

We estimate that the state could realize annual savings of \$778,000 (General Fund) in the CCS program and \$442,000 (\$221,000 General Fund) in the Medi-Cal program by utilizing Medi-Cal field office personnel to review treatment authorization requests (TARs) for length-of-stay extensions for CCS hospital inpatients. This procedure would (a) allow CCS to retain its basic case-management function through the initial hospital authorization, (b) alleviate a portion of workload now required of county programs, and (c) add minimal additional workload to the field offices because field office staff routinely visit most hospitals to perform Medi-Cal utilization reviews.

There could be significant lead times involved in implementing this proposal, because the field offices would be required to establish procedures for exchanging information with the different counties. Consequently, we estimate that savings in 1984-85 would be half of the annual amounts, or \$389,000 in the CCS program and \$221,000 (\$111,000 General Fund) in the Medi-Cal program (Analysis page 894).

6. Public Health Reimbursements

We recommend deletion of \$633,000 from the General Fund proposed to offset reduced reimbursements received from the Department of Industrial Relations for laboratory services provided by the Air and Industrial Hygiene Laboratory (\$278,000) and the Southern California Laboratory (\$355,000). The department claims that the increase is needed to compensate for a past budgeting error, but it was unable to provide any evidence to support that claim. Nor was the department able to provide programmatic justification for a General Fund increase for these laboratories (Analysis page 910).

Toxic Substances Control

1. Alternative Technology Contracts

We recommend deletion of \$329,000 from the Hazardous Waste Control Account proposed for contracts in the Alternative Technology and Policy

Development Section. The department did not provide a description of specific projects, reasons why they are needed, or a schedule for their implementation (Analysis page 924).

2. Superfund

We withhold our recommendation on \$10 million in expenditures from the state Hazardous Substances Account and \$38.1 million from nonstate sources proposed for the Superfund program until the department (a) corrects various problems in the budget as submitted and (b) submits an updated site-specific expenditure plan. The Superfund program cleans up contaminated hazardous waste sites.

In order for the Legislature to review this program's proposed 1984-85 expenditures, the department should submit a revised proposal containing (a) site-specific spending plans for state and nonstate funds, (b) estimates of the unencumbered balance from the current year, (c) site-specific spending plans for the proposed reappropriations, (d) justification for 17 proposed new temporary-help positions, (e) a corrected fund condition statement, and (f) revised amounts for specified interagency agreements (Analysis page 929).

3. Proposed Superfund Reappropriation

We recommend deletion of the proposed reappropriation of up to \$6.4 million of state funds that were appropriated from the Hazardous Substances Account for remedial action contracts by the 1983 Budget Act. The proposed reappropriation would allow the department to use the funds for remedial actions at any site without legislative review. We recommend instead that the department develop a new spending plan for unencumbered current-year funds and that the Legislature add these amounts to the 1984-85 appropriation. We also recommend the adoption of legislation to repeal existing provisions that require tax assessments in a fiscal year to be reduced by the amount of unobligated funds from the prior year (Analysis page 937).

Medi-Cal

1. The May Estimates

We recommend that the subcommittees defer final action on \$2,042,107,000 (General Fund) proposed for the Medi-Cal program until the Department of Finance submits in May 1984 revised estimates of 1984-85 expenditures (Analysis page 952). In addition, we recommend the Department of Finance, in the May estimates, identify all outstanding federal-state Medi-Cal funding disputes and provide an estimate of 1984-85 revenue if these disputes are resolved (Analysis page 958).

2. Federal Matching Reduction

We recommend a General Fund reduction of \$23,319,000 and a federal fund augmentation of the same amount based on a 3 percent federal sharing

reduction, rather than 4.5 percent as assumed by the budget. The budget includes \$54,411,000 in General Fund monies in anticipation of an extension of the federal Medicaid sharing ratio reduction established by the Omnibus Budget Reconciliation Act of 1981. Under current federal law, this reduction expires September 30, 1984. The budget amount is based on extending the reduction at the federal fiscal year 1984 (FFY 84) level--4.5 percent. Based on the President's budget proposal, however, it appears more likely that the federal matching reduction will be 3 percent (Analysis page 960).

3. Peer Group Settlement

We recommend reductions of \$24,311,000 from the General Fund and \$23,032,000 in federal funds to reflect savings anticipated from a court settlement allowing implementation of peer-group-based hospital reimbursement rates. Under the terms of this settlement, hospitals will be reimbursed based on costs of similar hospitals. The Department of Finance did not include this savings in the proposed budget because four plaintiff hospitals had not agreed to the settlement at the time the budget was prepared. Since the preparation of the budget, all but one of the original 117 plaintiff hospitals have agreed to the settlement. Based on (a) the willingness of most hospitals to accept peer group rates, (b) the fact that federal approval was granted for this system prior to the initial challenge, and (c) the existence of similar peer group reimbursement systems in other states, we conclude that it is likely that these savings will occur during 1984-85 (Analysis page 980).

4. New Claims Processing Contract

We recommend reductions of \$3,646,000 (\$1,626,000 General Fund) to reflect savings due to procurement of a new claims processing contract. This savings will result from (a) system improvements allowing identification of certain hospital services that should be billed to the Medicare program (\$2,500,000 including \$1,250,000 from the General Fund), (b) system changes allowing exclusion of providers who have been disqualified from receiving Medi-Cal reimbursements (\$350,000 including \$175,000 from the General Fund), and (c) reductions in cost-based reimbursements (\$796,000 including \$201,000 from the General Fund) (Analysis pages 982 and 1006).

5. County Cost-of-Living Increases

We recommend that:

- a. \$5,165,000 (General Fund) be transferred from the main Medi-Cal benefits item (4260-101) to the rate increase item (4260-106) to fund a 1984-85 cost-of-living adjustment for county administration, in lieu of past-year county salary and benefit increases that exceed what the state agreed to fund.

- b. The Legislature adopt Budget Bill language limiting the extent to which the state will share in the cost of salary and benefit increases granted by the counties.
- c. The Legislature establish 1984-85 cost-of-living adjustments for county employees based on the final 1984 Budget Act increase for state employee compensation.

Since 1981-82, the state has placed limits on its share of cost-of-living adjustments granted by counties to their employees. The budget proposes to fully fund the state share of costs for salary and benefit increases granted by counties in excess of the legislatively established limits in prior years.

We believe the budget proposal to abandon legislative policy established for the purpose of limiting state spending for county salary and benefit increases is inequitable to counties that attempted to follow the state's lead in keeping their salaries within the ranges for which state funds were available. The precedent set by funding all prior-year increases may result in substantial state costs in 1985-86 and subsequent years.

Our recommendation offers several improvements over the budget proposal:

- a. It allows all counties additional funding for salary and benefit increases.
- b. State participation in salaries will increase uniformly throughout the state.
- c. It prevents the Legislature from being criticized for funding salary and benefit increases paid to county employees that are larger than increases that it provides to state employees (Analysis page 995).

We further recommend deletion of \$1,614,000 (General Fund) to correct a technical budgeting error in the calculation of the cost of providing state support for past county employee salary and benefit increases (Analysis page 1000).

6. Treatment Authorization Review Staff

We recommend a reduction of 21 positions no longer necessary due to reductions in the number of treatment authorization requests, for a savings of \$745,000 (\$221,000 General Fund). The budget proposes 430 positions for review of treatment authorization requests. This proposal reflects a reduction of 16 positions allowed by a projected reduction in the number of requests, due primarily to the 1982 Medi-Cal reform legislation. Our analysis indicates 21 additional positions should be reduced because the budget (a) underestimates the actual workload reduction and (b) uses

outdated workload standards in calculating the proposed staffing level (Analysis page 1009).

7. Medi-Cal Recoveries

We recommend reductions of \$5,738,000 (General Fund) in Medi-Cal health care expenditures to reflect increased recoveries from beneficiaries, service providers, and insurance carriers. This savings consists of (a) \$3,049,000 from improved identification of Medi-Cal recipients with other health insurance coverage and (b) \$2,689,000 resulting from technical budgeting corrections (Analysis pages 1016, 1017, 1021, 1022, and 1023).

Department of Developmental Services--
Excluding State Hospitals

(Item 4300/page 1035)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$231,684 | \$240,175 | \$261,578 | \$259,601 | -\$1,977 |
| Personnel- years..... | 580.6 | 504.5 | 421.0 | 417.5 | 3.5 |

Highlights of Our Recommendations

1. Community Placements

We recommend the adoption of Budget Bill language to set aside \$1.1 million of Program Development Fund monies for contracts with regional centers for the development of community programs for and placement of state hospital residents. Our analysis indicates that in order to continue placing eligible state hospital residents into the community, a specific source of funding for placements should be identified. The funds should also be available for supporting additional regional center staff, if necessary, to manage the development of new programs as well as the placement of the clients (Analysis page 1049).

2. Prevention Programs

We recommend deletion of \$1 million from the Program Development Fund proposed for the expansion of prevention programs. Our analysis indicates that the request for additional funds is premature because (a) the need for additional prevention programs is not known and (b) the department has not acted to more effectively use existing resources for the prevention of developmental disabilities. In addition, the \$1 million that would be used to support the new prevention programs in 1984-85 is only available on a one-time basis. Because the prevention programs would be ongoing, this proposal could result in a General Fund obligation in 1985-86 (Analysis page 1051).

3. Program Development Fund

We recommend the use of excess Program Development Fund (PDF) reserves to support regional center services. The budget proposes a reserve of \$555,000, or 21 percent of total PDF expenditures. We believe a 5 percent reserve is adequate to meet cash-flow needs and unforeseen

contingencies. Consequently, we recommend that \$400,000 of the PDF reserve be budgeted for regional center respite and camp services, leaving a balance of \$155,000, or 5 percent, as a reserve in the PDF (Analysis page 1053).

4. Transportation Program

We recommend the deletion of \$306,000 (General Fund) from the regional center transportation program to reflect the cost savings expected to result from improved utilization of client transportation services. The budget proposes to establish seven transportation specialists in the regional centers to reduce transportation costs by coordinating the use of transportation services on a regional basis. The department expects to achieve a savings of \$599,000 in 1984-85. This is \$306,000 more than the \$293,000 savings reflected in the budget (Analysis page 1048).

Departments of Developmental Services and Mental Health--
State Hospitals

(Items 4300-111, 4440-011, and 4440-121/page 1054)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$540,489 | \$552,979 | \$578,780 | \$577,696 | -\$1,084 |
| Personnel- years..... | 17,301 | 18,838 | 18,798 | 18,787.2 | -10.8 |

Highlights of Our Recommendations

1. Staffing Increases for Programs Serving Mentally Disabled

We withhold recommendation on 209 new positions and \$5,959,000 (all funds) for state hospital programs for the mentally disabled pending receipt of additional information.

The budget augmentation is part of a three-year plan to increase treatment staff by 632 positions. The staffing increase is associated with treatment program changes, hospital license category revisions, and major capital outlay improvements. The Legislature needs significantly more information on these proposals. Specifically, the department should address the following questions:

- a. What assurances will the Legislature have that the staff augmentations are, in fact, used for treatment of patients?
- b. Can the Legislature be confident that the department's level-of-illness assessments are accurate and objective?
- c. What is the relationship between the proposed staffing standards and the standards developed by outside agencies?
- d. What are the benefits of the proposed changes? (Analysis page 1074.)

2. Savings on New Positions

We recommend deletion of \$731,000 related to the proposed 209 new positions because it will take at least two months to fill the positions. The budget assumes the positions can be filled within 2.5 weeks (Analysis page 1076).

Department of Developmental Services--Capital Outlay

(Item 4300-301/page 1080)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | -- | -- | \$10,985 | (pending) | -\$1,358 |

Highlights of Our Recommendations

1. Central Fire Reporting System--Sonoma State Hospital (-\$273,000)

The budget includes \$273,000 to install a central fire reporting system at Sonoma State Hospital. The new system would provide an instantaneous fire alarm from 32 resident living units directly to the firehouse and telephone switchboard.

The fire and life safety projects which have been completed at Sonoma were approved by the Legislature with the assurance that all proposed construction met existing fire and life safety code requirements and that no additional work would be required. The department has not explained adequately why this project is required, given past assurances that all required fire and life safety work had been completed.

Consequently, we recommend that the \$273,000 included for this project be deleted from the budget (Analysis page 1086).

2. Minor Capital Outlay Projects (-\$715,000)

The budget proposes \$3,009,000 from the Special Account for Capital Outlay for 47 minor capital outlay projects (\$200,000 or less per project) for the Department of Developmental Services. We recommend that eleven projects totaling \$676,000 be deleted because they are not justified and ten projects be reduced by a total of \$39,000 to eliminate overbudgeting (Analysis page 1091).

Department of Mental Health--
Excluding State Hospitals

(Item 4440/page 1094)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$352,269 | \$342,454 | \$384,066 | (pending) | -- |
| Personnel- years..... | 650.5 | 694.9 | 254.0 | (pending) | -- |

Highlights of Our Recommendations

1. Local Program Augmentation

We withhold recommendation on the proposed \$35 million augmentation of local mental health programs pending receipt of information indicating (a) what services would be provided with the funds and (b) how the funds would be allocated among the counties.

The department indicates that the \$35 million augmentation for local mental health programs will be allocated to counties based on an "equitable allocation formula" that will be developed by April 1984. The budget, however, contains no definition of the term equitable allocation formula or any indication of what services would be purchased with the funds (Analysis page 1099).

2. Staffing Reductions

We withhold recommendation on staffing reductions in the Department of Mental Health related to the administration's proposal to restructure the role of the state in local mental health programs. The following additional information is needed:

- a. Transfer of 299 Mental Health Social Services Positions to Counties. The department should provide information that compares current costs of providing services to costs of the services if provided through the counties.
- b. Reduction of 32 Service Area Team and 84 Headquarters Positions. These reductions would leave 17 positions in the service area teams and 219 positions at headquarters. The department should identify the specific activities that would be discontinued

under the proposal and "zero base" its residual staffing requirements (Analysis page 1104).

Department of Mental Health--Capital Outlay

(Item 4440-301/page 1108)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | -- | -- | \$16,894 | (pending) | -\$15,870 |

Highlights of Our Recommendations

1. Mental Health Initiative Capital Outlay Projects (-\$10,303,000)

The capital outlay projects proposed for the state's mental health hospitals in 1984-85 are part of the administration's "Mental Health Initiative"--a multi-year program to upgrade the quality of hospital care and facilities for the state's mental health client population. The cost of the entire Mental Health Initiative capital outlay program is estimated at over \$100 million.

In order for the Legislature to properly review individual projects for capital improvements to state mental health hospitals, it must have access to a master plan which outlines the needs of the mental health system, and the department's plan of correction. Accordingly, we recommend that the Department of Mental Health prepare a capital outlay master plan for the state mental health hospitals, as it relates to the Mental Health Initiative, and submit this plan for legislative review prior to hearings on the 1984-85 budget (Analysis page 1110).

Pending receipt of this master plan and additional information from the department, we withhold recommendation on the following two capital outlay projects proposed for the state mental health hospitals in 1984-85:

- o Fire and Life Safety and Environmental Improvements, CTW Building, Metropolitan State Hospital (\$359,000) (Analysis page 1112.)
- o Fire and Life Safety and Environmental Improvements, R&T Building, Metropolitan State Hospital (\$343,000) (Analysis page 1113).

We have also withheld recommendation on three capital outlay projects, under Item 4300-301-036 (Department of Developmental Services), proposed for state mental health clients at Napa and Camarillo State Hospitals, pending receipt of the master plan. These projects are:

- o Fire and Life Safety and Environmental Improvements, Buildings 254, 256 and 257, Napa State Hospital (\$3,478,000) (Analysis page 1083).
- o Fire and Life Safety and Environmental Improvements, Children's Unit, Camarillo State Hospital (\$388,000) (Analysis page 1083).
- o Swing Space and Trailer Lease, Camarillo State Hospital (\$370,000) (Analysis page 1084).

2. Fire, Life/Safety and Environmental Improvements, CTW Building, Metropolitan State Hospital (-\$10,303,000)

The budget also includes \$10,303,000 for construction funds for the fire/life safety and environmental improvement project at the CTW Building at Metropolitan State Hospital. Our analysis indicates that construction funds are not required in the budget year because adequate "swing" space will not be available to house CTW building residents.

Consequently, we recommend that the funds for construction be deleted (Analysis page 1112).

3. Heating and Air Conditioning of Patient Occupied Buildings, Atascadero State Hospital (-\$626,000)

The budget includes \$626,000 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 (a) install additional insulation on the exterior of patient occupied buildings and (b) provide air conditioning to maintain 72° for acute psychiatric wards and 78° for other patient areas during the cooling season.

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 and supported by the Legislature pursuant to the Budget Act language.

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 \$626,000. An alternative proposal which addresses energy-conserving alternatives to install air conditioning at this hospital would warrant legislative consideration (Analysis page 1114).

4. Status of Patton State Hospital is Still Undecided (-\$3,135,000)

The budget requests a total of \$3,135,000 for three projects at Patton State Hospital. These projects are:

- o Security Improvements (\$1,719,000)
- o Install Emergency Electrical Power, Phase 2 (\$809,000)
- o Fire and Life Safety and Environmental Improvements, Building 70 (\$607,000)

Chapter 1549, Statutes of 1982 provides for a number of actions regarding the status of Patton State Hospital. Specifically, Chapter 1549 required the Department of Corrections and the Department of Mental Health to jointly develop a plan to transfer all penal code (PC) patients out of Patton State Hospital no later than January 1, 1986.

In September 1983, the departments released a report that did not specify a specific plan, but identified three options for transferring penal code patients out of Patton. In summary, the three options are:

- a. Expand Atascadero State Hospital to accommodate additional penal code patients.
- b. Construct a new facility in Southern California for penal code patients, to be administered by either the Department of Corrections or the Department of Mental Health.
- c. The Department of Mental Health would assume operation of Camarillo State Hospital to use for Patton penal code patients.

The third option contains three separate sub-options, each describing different alternatives for relocating mental health patients presently housed at Camarillo.

While the Legislature has not yet determined whether any of the three options are acceptable or if other alternatives will be selected to transfer these penal code patients, the Legislature has stated its intentions to transfer penal code patients out of Patton. Consequently, we recommend that the three capital outlay projects included in the budget for Patton State Hospital be deleted (Analysis page 1116).

5. Installation of Modular Buildings, Atascadero State Hospital (-\$1,348,000)

The department requests \$1,348,000 to install nine prefabricated buildings at Atascadero State Hospital. The modular buildings would be used to relieve overcrowded patient bed-space.

The department contends that installation of modular units is more cost-effective than constructing a new facility. Although the initial costs of constructing a new facility may be greater than installing modular units, our analysis indicates that the increased maintenance costs associated with modular units result in modular buildings being more expensive in the long run. Moreover, there are no assurances that the initial costs of constructing/installing modular units to meet the stated needs will be less than a conventionally constructed facility.

In addition, the department's report to the Legislature regarding the plan for transferring penal code patients out of Patton State Hospital identifies two relocation alternatives which involve Atascadero State Hospital. Should the Legislature choose to act on one of these alternatives, then the increased penal code population at Atascadero would require the construction of additional facilities. In that case, the hospital's present overcrowding problem could be remedied by the new construction.

For these reasons, we recommend that the funds be deleted from the budget (Analysis page 1117).

Employment Development Department

(Item 5100/page 1121)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$63,001 | \$123,477 | \$105,613 | \$97,560 | -\$8,053 |
| Personnel- years..... | 12,955.4 | 12,860.7 | 11,729.1 | 11,661.7 | -67.4 |

Highlights of Our Recommendations

1. Data Processing

The Employment Development Department (EDD) proposes to redirect \$1.8 million in support currently provided for a variety of operating and equipment expenses in order to increase funding for existing data processing projects. In our review of this proposal, we were unable to evaluate the need for the additional data processing support for two reasons. First, the department did not document the need for the funds. Second, the department proposes to support activities costing more than the proposed \$1.8 million.

Because we were unable to assess EDD's need for this additional support, we recommend a reduction of \$1,819,000. This reduction will result in General Fund savings of \$91,000, Disability Insurance Fund savings of \$134,000, and federal fund savings of \$1,594,000 (Analysis page 1130).

2. UI Benefit Fraud Activities

The budget proposes \$3.275 million in state support to detect UI benefit fraud. Of this amount, \$1 million is funded from the Benefit Audit Fund (BAF) and \$2,275,000 is from the EDD Contingent Fund. If BAF collections are greater than the \$1 million estimated by the department, the amount of Contingent Fund expenditures for these activities will be reduced to offset the additional BAF revenues.

Our analysis indicates that BAF revenues will total at least \$3 million during 1984-85. For this reason, we recommend that the additional \$2 million from the BAF be used to offset support for fraud detection activities funded from the Contingent Fund. Adoption of this recommendation would free up \$2 million in Contingent Fund support for use by the Legislature (Analysis page 1132).

3. Salary Savings

When budgeting for salaries and wages, agencies are required to recognize that salary levels will fluctuate and that not all authorized positions will be filled throughout the year. Savings in the cost of positions can occur for a variety of reasons, including vacant positions and leaves of absence.

The EDD budgeted \$3.8 million, or 1.5 percent, of salaries and wages as salary savings in 1984-85. This estimate does not reflect past experience. For instance, between 1980-81 and 1982-83, EDD salary savings averaged 7.4 percent.

We estimate that 1984-85 salary savings will average approximately 4.3 percent, which would result in an additional \$7,939,000 in savings over the budgeted level. In addition, because staff benefits are budgeted on the basis of authorized positions, EDD overstated benefit costs by \$2,652,000. As a result, we estimate that salary and benefit costs are overestimated by \$10,591,000. Of the amount overbudgeted for salaries and benefits, we recommend that \$10,062,000 (from various fund sources) be reduced. We also recommend EDD advise the fiscal committees how it will spend the remaining \$526,000 in federal employment program funds (Analysis page 1133).

4. Employment Training Panel

The Employment Training Panel (ETP), established by Ch 1074/82 (AB 3461), administers training programs for individuals covered by the UI system. The act requires the panel to negotiate training contracts with employers and other agencies that pay for training expenses of individuals who are placed in a job for at least 90 days.

In our review of the ETP programs, we recommend that \$583,000 budgeted for collecting the Employment Training Tax (ETT) (which provides funding for ETP programs) be redirected to provide additional training under ETP programs because EDD estimates that the funds will not be needed for ETT collections (Analysis page 1161).

Department of Rehabilitation

(Item 5160/page 1164)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|-----------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$58,000 | \$58,322 | \$62,193 | \$62,193 ^a | -- |
| Personnel- years..... | 1,783.2 | 1,767.0 | 1,709.5 | 1,709.5 | -- |

a. Recommendation pending on \$41,733,000.

Highlights of Our Recommendations

1. Work Activity Program

The Department of Rehabilitation administers the Work Activity program (WAP), which provides sheltered employment and habilitation services from community-based work activity centers for developmentally disabled adults. The purpose of the program is to prepare clients for employment and help them live independently.

The budget proposes \$41,733,000 from the General Fund for support of the WAP in 1984-85. Our analysis indicates that the proposed WAP budget may be underfunded by as much as \$8.5 million. Because a shortfall of this size could jeopardize the department's ability to guarantee client rights to services, we withhold recommendation on \$41,733,000 in General Fund support for the WAP until the department advises the fiscal committees of the funding levels required to fully fund anticipated caseload in 1984-85 (Analysis page 1170).

Department of Social Services

(Item 5180/page 1176)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-------------|--------------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$2,813,682 | \$2,931,738 | \$3,051,494 | \$3,044,825 ^a | -\$6,669 |
| Personnel- years..... | 3,049.7 | 3,310.5 | 3,114.3 | 3,114.3 | -- |

a. Recommendations pending on \$72,925,000.

Highlights of Our Recommendations

1. Statewide Public Assistance Network

The Supplemental Report to the 1983 Budget Act required the Legislative Analyst to review the Revised Feasibility Report on the Statewide Public Assistance Network (SPAN) prepared by Arthur Andersen and Company, and to present the Legislature with options for the development of welfare computer systems. We evaluated five options for organizing the development of computer technology.

Based on our review, we recommend that the Legislature direct the Department of Social Services (DSS) to prepare a long-range plan for the development of computer systems that can achieve the Legislature's goals for welfare administration. The objectives of this option are modest compared to the objectives of SPAN and other options we evaluated (statewide welfare program administration and the recommendation of the Arthur Andersen report). However, given the state's experience in attempting to develop large welfare computer systems, modest objectives would seem to be appropriate. Too many times in the past the Legislature has allowed the DSS to take on large projects with ambitious goals only to find that after significant funds had been committed to the project, the department had little to show for the effort (Analysis page 1182).

2. Extension of Federal Supplemental Compensation

We recommend a reduction of \$13,375,000 (\$5,908,000 from the General Fund and \$7,467,000 in federal funds) in costs for the Aid to Families with Dependent Children (AFDC) program due to the extension of Federal Supplemental Compensation (FSC) benefits for the unemployed. When DSS prepared the 1984-85 budget estimates, the FSC was due to terminate at the

end of September 1983. Congress, however, has extended FSC through March 1985, and this extension will result in savings to the AFDC program. These savings are due to (a) reduced grants for those AFDC families who will continue to receive unemployment compensation benefits and (b) reduced grant and administrative costs due to families delaying their application for AFDC because of the additional unemployment benefits (Analysis page 1224).

3. Limits on the State's Share of County Salary Increases

We recommend that \$10.9 million budgeted to pay the costs of past-year salary increases for county welfare department employees be used instead to provide a cost-of-living adjustment (COLA) for county employees in 1984-85, and that the Legislature limit the extent to which the state will share in the cost of salary increases granted by the counties in the budget year. We also recommend that the state limit its share of cost-of-living increases for county employees to the percentage provided to state employees in the 1984 Budget Act.

Based on our analysis, we conclude that there are serious flaws with the budget proposal to pay the past-year costs of salary increases for county welfare department employees:

- o The Cost of the Proposal is Underfunded. The costs of the proposal for AFDC and food stamp administration would actually be \$2.3 million above the \$10.9 million provided in the budget.
- o The Proposal Rewards High-Cost Counties. The proposal treats counties unequally in that it provides additional funds to those counties that chose to grant larger cost-of-living increases than what the last three Budget Acts funded while offering nothing to those counties that followed the state's lead and stayed within the Legislature's COLA limits.
- o The Proposal is Based on a Faulty Premise. The budget asserts that the past-year COLA limits increase the potential for overpayments, administrative errors, and federal sanctions due to staff reductions. First, there has been no consistent upward trend in error rates, and second, we have been unable to identify in counties that have granted high COLAs a consistent pattern of staff reductions and resulting increases in cases handled by each eligibility worker that could threaten to increase error rates (Analysis page 1253).

4. Asset Clearance Match Demonstration Project

We recommend an augmentation of \$373,000 (\$100,000 from the General Fund and \$273,000 from federal funds) to fund 10 additional county investigator staff for the Asset Clearance Match Demonstration Project. In addition, we recommend reductions of \$762,000 (\$357,000 from the General Fund and \$405,000 in federal funds) to account for AFDC grant and

administrative savings resulting from the additional investigator staffing for the project. We make this recommendation because the Asset Clearance Match Demonstration Project has proven to be cost-effective and county staffing levels are inadequate to complete all of the required investigations (Analysis pages 1225 and 1262).

5. Adoptions Allocation

We recommend that the Legislature adopt Budget Bill language directing the department to allocate adoptions funds to counties based on a plan that (a) gives a high priority to funding the more efficient adoption agencies, (b) sets efficiency goals for the less efficient agencies, and (c) establishes statewide goals for the number of children to be placed in adoptive homes in 1984-85. This recommendation is based on our review of the performance of the adoptions program in 1981-82. In our review, we found that adoption agencies throughout the state vary widely with respect to (a) their success in placing children in adoptions and (b) the efficiency with which they make adoptive placements (Analysis page 1304).

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YOUTH AND ADULT CORRECTIONAL

Department of Corrections

(Item 5240/page 1322)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|-----------|--------------------------------|------------|
| Expenditures... (thousands) | \$496,199 | \$604,239 | \$715,590 | \$704,186 ^a | -\$11,404 |
| Personnel- years..... | 9,870 | 13,009 | 13,555 | 13,436 ^a | -119 |

a. Also recommendations pending on \$59,639,000 and 2,046 positions.

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 \$50,159,000 from the General Fund to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate population during 1984-85. 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. Primarily, this is because the department has provided no details on staffing needs and operating costs for housing inmates in new facilities that it plans to construct in the current and budget years. We are advised that these details will be provided in the May revision of the budget (Analysis page 1328).

2. Community Work Furlough Contract Funds

We recommend a General Fund reduction of \$5,309,000 to eliminate overbudgeting for the community work furlough program. Our analysis indicates that funds requested for this program are overbudgeted for two reasons. First, the department requests funds to contract for the 149 beds in state-operated community facilities, even though funds for these beds are budgeted separately. Therefore, the department is double-budgeting for these beds. Eliminating the double-budgeting for the 149 beds in state-operated community facilities reduces funding needs by \$2,118,000. Second, the funding request for contract beds in community work furlough

facilities is based on a contract rate of \$38.94 per day, which our analysis indicates is 14 percent higher than the average rate currently paid to county facilities, and 31 percent higher than the average rate currently paid to private facilities. Reducing the proposed rate increase for contract beds to the 6 percent increase used by the Department of Finance in order to adjust state department budgets for inflation, reduces funding needs by \$3,191,000 (Analysis page 1330).

3. Records Positions

We recommend the deletion of 11 new positions for record offices that are not justified on a workload basis, for a General Fund savings of \$281,000. These positions are among the 20 positions the department proposes to add to its 20 records offices to improve its system for processing and monitoring "holds" placed on inmates by other jurisdictions. According to the department, the new positions would coordinate a new, more sophisticated, system that is aimed at preventing the improper placement or release of inmates due to the improper processing of holds from other jurisdictions (such as occurred recently in the case of Kevin Cooper).

Our analysis indicates that the department's proposal to establish a new system for processing holds, with one coordinator in each office, is a necessary and positive approach to a serious problem. If the department, however, were to reallocate its current staff resources, it could provide one full-time coordinator for the new system in each of its 20 records offices with the addition of 9, instead of 20, new positions (Analysis page 1331).

4. Search and Escort Staffing

We recommend deletion of 71 positions in order to reduce disparities in "search and escort" position staffing patterns, for a General Fund savings of \$2,290,000. Search and escort positions are primarily responsible for searching inmates, cells, and prison buildings and grounds for weapons and contraband, and escorting prisoners to hearings or other meetings. Currently, the search and escort staffing levels at different institutions, even after adjusting for the size of the inmate population and the general security level of the institution, are very disparate. We recognize that search and escort needs vary by institution due to many factors, including (1) the security level of the institution, (2) the total number of inmates in the population, (3) the number of inmates in high security housing units in the institution, (4) the size of the institution grounds, and (5) the physical configuration of the institution. Nevertheless, the department indicates that it has no readily available explanation for the wide variations in current search and escort staffing patterns.

If the department were to reduce search and escort positions at its facilities with low inmate-to-position ratios in order to bring them in line with the average ratios for their security level group, it could eliminate 71 positions (Analysis page 1331).

5. General Expenses

We recommend deletion of unjustified general expenses, for a General Fund savings of \$1,020,000. The budget proposes \$9.3 million for "general expenses," such as employee moving expenses, office equipment, and office supplies. This is an increase of \$3.6 million, or 63 percent, over actual 1982-83 expenditures on these items. Our analysis indicates that these costs should not grow by more than 45 percent during the two-year period. Such an increase in general expenses would support a budget level of \$8,280,000 in 1984-85. Accordingly, we recommend deletion of the \$1,020,000 in excess of this amount (Analysis page 1333).

Department of Corrections--Capital Outlay

(Item 5240-301/page 1342)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | -- | -- | \$113,454 | (pending) | -\$23,067 |

Highlights of Our Recommendations

NEW PRISON CONSTRUCTION PROGRAM

1. Summary of Budget Request and Recommendations (General Fund)

The budget proposes \$94,650,000 from the General Fund to fund a portion of the new prisons already authorized by the Legislature.

We have withheld recommendation on \$85.1 million requested for new prison projects because the department has failed to develop the information needed by the Legislature for adequate review of the request. The information that is lacking, includes the most information imaginable, such as information on (1) planned sites, (2) correctional programs, (3) site master plans, (4) preliminary plans and cost estimates, and (5) detailed equipment lists. We urge the Department of Corrections and the Department of Finance to immediately develop the information needed by the Legislature to undertake a meaningful review of the program. This information should be submitted prior to hearings on the budget. Once we have had an opportunity to review this information, we will provide appropriate recommendations to the Legislature in a supplemental analysis.

The specific requests for which recommendation is withheld include the following:

- o Southern Maximum Security Complex, Tehachapi--\$2,900,000 for equipment (Analysis page 1361).
- o New State Prison, Folsom--\$30,600,000 for construction of the minimum-security support facility (Analysis page 1362).
- o New Maximum-Security Prison, Adelanto--\$9,000,000 for site development and long-lead items (Analysis page 1363).
- o New State Prison, Avenal--\$19,000,000 for site development and long-lead items (Analysis page 1363).

- o Medium Facility 1, Los Angeles County--\$18,400,000 for additional land acquisition and working drawings (Analysis page 1364).
- o New State Prison, Ione--\$3,800,000 for equipment (Analysis page 1365).
- o Northern California Women's Facility, San Joaquin County--\$1,400,000 for working drawings (Analysis page 1366).

We have recommended deletion of \$9.6 million requested for new prison projects where our analysis indicates the request is premature or the project as proposed by the department is not needed. Specifically, the projects recommended for deletion include the following:

- o Southern Maximum Security Complex, Tehachapi--\$1,000,000 for equipment (Analysis page 1361).
- o New State Prison, Folsom--\$6,700,000 for equipment (Analysis page 1365).
- o Special Housing Unit, Frontera--\$150,000 for equipment (Analysis page 1365).
- o Capital Program Management, Statewide--\$1,500,000 for technical and professional services (Analysis page 1366).
- o General and Advanced Planning Studies, Statewide--\$200,000 (Analysis page 1369).

2. Major Prison Construction Issues Facing the Legislature

Our review of the administration's current plan for constructing new prisons indicates that there are four major issues which the Legislature will have to address during the coming months.

How will the construction of new facilities already authorized by the Legislature be financed? The Department of Corrections current facilities plan proposes construction of 16,450 new permanent beds. The cost of these new prison facilities, which have already been authorized by the Legislature, totals \$1,087 million. Of this amount, \$436.4 million already has been appropriated from the General Fund and the New Prison Construction Fund (bond funds). The Governor's Budget proposes \$92.8 million from the General Fund for specific projects, leaving a balance of \$559.4 million.

At the time this Analysis was written, the Legislature had passed SB 310 which provides \$300 million in additional bond funds subject to the voters' approval at the June election. The Legislature must consider other options for funding the balance of \$259.4 million. The options include (1) direct appropriation of state funds, (2) general obligation bonds, and (3)

private financing (lease-purchase). The advisability of using lease or lease-purchase arrangements to finance the acquisition and construction of prison facilities will be the subject of a forthcoming report from our office (Analysis page 1355).

Will the planned additional capacity provide adequate, secure facilities for the types of inmates projected to be housed in the coming years? Our review of the Department of Corrections' plan for construction of new prisons indicates that the types of facilities proposed to be constructed at the various security levels does not coincide with the department's current population projections by custody level. We recommend at the time of budget hearings, the department report to the Legislature on the variance between the planned capacity and the inmate placement needs projected by the department (Analysis page 1357).

Are the Department of Corrections's estimated cost of and schedule for new prison facilities realistic? Based on our review, the department's schedule and cost estimates for new prison facilities are, in many cases, unrealistic. In some cases, architectural and site development planning is scheduled to begin before the department has selected or acquired a specific site for the new prison (Analysis page 1358).

How will the Legislature maintain adequate control over the new prison construction program? The Legislature has already appropriated a substantial amount of funds for new prison construction. In many cases, the Department of Corrections had not developed adequate information at the time that funds were appropriated to substantiate its request. Accordingly, language adopted in measures appropriating funds for prison construction have required the Department of Corrections to submit completed preliminary plans, staffing patterns and inmate work plans to the Joint Committee on Prison Construction and Operations and the two fiscal committees prior to administrative approval of the proposed projects.

The post-review process has the effect of putting the Legislature in a bind. It must either limit or even forego its opportunity to question or reverse decisions made by the department or it must risk being held responsible for delaying new prison construction. In our judgment, the department has embarked on an ambitious program to construct facilities rapidly, but has not provided adequate assurances to the Legislature that the proposed new facilities will be serviceable over the next 50 to 100 years and be staffed efficiently (Analysis page 1359).

PROJECTS FOR IMPROVEMENTS TO EXISTING INSTITUTIONS

The budget proposes a total of \$18,804,000 for general improvement projects at existing institutions, to be funded from the General Fund, Special Account for Capital Outlay (SAFCO). We have withheld recommendation on projects totaling \$1,606,000 where the department needs to develop additional information on the proposed scope of work and cost for the project. We have recommended reductions amounting to \$13,547,000 because the proposed project is not justified or the request is premature,

given the fact that the department has not completed statewide plans for certain types of projects proposed at existing institutions. The needed statewide plans include (1) emergency electrical requirements, (2) fire and life safety and structural upgrading, and (3) vocational/academic education facilities. The projects recommended for deletion are summarized below.

3. Projects to Upgrade Domestic Water Systems and Sewage Treatment Facilities (-\$4,032,000)

The budget includes \$4,032,000 for five projects at three institutions related to upgrading domestic water systems and sewage treatment plants. The projects include:

- o Upgrade Water Distribution System, Jamestown--\$550,000
- o Rehabilitate Sewage Treatment Plant, Tracy--\$600,000
- o Sewage Treatment Plant Expansion, Soledad--\$1,750,000
- o Expand Sewage Treatment Plant, Jamestown--\$1,000,000
- o New Domestic Water Supply, Tracy--\$132,000

The department's explanation of the need to fund these projects lacks sufficient information to substantiate the request. In some cases, the department's problem apparently stems from overcrowding of existing institutions. This should be only temporary because substantial additional capacity is planned to be completed in the next two to three years. Consequently, by the time construction of proposed water supply and sewage plant expansion projects are completed, the population at these institutions should have been reduced substantially. Finally, adequate architectural/engineering information has not been developed to substantiate the individual requests. For these reasons, we recommend deletion of the funds to upgrade water and sewage systems at these facilities (Analysis page 1370).

4. Flood Control--Tracy (-\$1,000,000)

The budget includes \$1,000,000 for preliminary plans, working drawings and construction of flood control improvements at Deuel Vocational Institution, Tracy. We recommend deletion of the proposed funds because no information has been provided to indicate what improvements would be funded by the amount requested in the budget (Analysis page 1372).

5. Installation of Emergency Electrical Power (-\$2,348,000).

The budget proposes funds for installation of emergency power generators at three institutions:

- o Install emergency power, Chino--\$350,000

- o Install emergency generators, San Luis Obispo--\$1,386,000
- o Install emergency power, Vacaville--\$612,000

Our review of the department's request for installation of emergency electrical power at these institutions and new prisons indicates that the department's current policy with respect to emergency power is inconsistent. The department should evaluate the prison emergency electrical power needs and establish a consistent policy which identifies those components of the electrical system which must be part of an emergency system. This evaluation should consider guidelines adopted by the American Correctional Association in its standards for accreditation of penal institutions. We therefore recommend deletion of the funds proposed in Item 5240-301-036(10), (11), and (12) for a reduction of \$2,348,000 (Analysis page 1374).

6. Replace Heating System in Cell Blocks--San Quentin (-\$470,000)

The budget includes \$470,000 for preliminary planning, working drawings and construction to replace the heating system in the north, east, and south cell blocks at San Quentin. According to the department, the proposed system would replace the current inadequate system which provides heat through a duct in each individual cell.

Our analysis indicates that the new system to be installed would not solve the heating/ventilation problems in the San Quentin cell blocks. The system does not provide ventilation to the individual cells and, therefore, may not meet standards adopted by the American Correctional Association which suggest a minimum ventilation rate of 10 cubic feet per minute, per occupant.

We recommend the requested funds be deleted. A proposal which provides for adequate engineering detail in appropriate ventilations rates would warrant legislative support (Analysis page 1376).

7. Enlarged Visitor Processing Area--Vacaville (-\$340,000)

The budget includes \$340,000 for preliminary planning, working drawings and construction to enlarge the entrance building at the California Medical Facility at Vacaville. The department indicates that the enlarged area is needed to accommodate the anticipated increase in the number of visitors related to construction of a new 2,400-bed prison at this site. The department's plan for the proposed new 2,400-bed prison includes a new visitor processing facility as part of the new prison complex. Accordingly, we recommend deletion of the funds proposed under Item 5240-301-036(13), a reduction of \$340,000 (Analysis page 1378).

8. Fire and Life Safety Improvements/Structural Improvements--Corona, Chino, and San Luis Obispo (-\$1,930,000)

The budget includes funds for seven projects at three institutions to upgrade existing buildings for (1) fire and life safety code requirements and (2) structural improvements. The request includes:

- o Fire and Life Safety Improvement, Phase 2, Corona--\$78,000
- o Exiting and Corridor Improvements, Building 105, Chino--\$178,000
- o Exiting and Corridor Improvements, Building 374, Chino--\$35,000
- o Exiting and Corridor Improvements, RC Central and Building 204.2, Chino--\$72,000
- o Smoke Purge, Buildings 204.1, 204.4 and 204.6, Chino--\$60,000
- o Structural Improvements, Buildings 204.1, 204.3 and 204.4, Chino--\$46,000
- o Fire and Life Safety Structural Improvements, San Luis Obispo--\$1,461,000

In 1980, the department's consultant prepared a comprehensive facilities requirement plan which evaluated all prisons in California. That report indicated that the minimum cost to upgrade existing facilities to meet fire and life safety and structural requirements would be \$471,000,000.

The department's proposal, however, does not take into account this report or the need to upgrade these prisons on a statewide priority basis. We recommend that the Legislature direct the Department of Corrections to develop a statewide plan which includes (1) an evaluation of needs to upgrade existing facilities given the current plan for construction of new prison facilities, (2) a methodology for listing the proposed improvements in priority order on a statewide basis, and (3) a multi-year funding plan.

Lacking this information, we have no basis on which to evaluate the need or the priority of the projects proposed in the budget. Accordingly, we recommend deletion of the funds proposed in Item 5240-301-036(17) through (23) for reduction of \$1,930,000 (Analysis page 1382).

9. Vocational Education Facility Improvements, Frontera, Vacaville, Soledad and Susanville (-\$2,398,000)

The budget includes \$2,398,000 for new and expanded vocational education and academic education facilities at existing prisons. The specific request includes the following:

- o Vocational Education Building, Frontera--\$478,000

- o Vocational Education Shops, Vacaville--\$982,000
- o Vocational Education Shops, Soledad--\$440,000
- o Academic Education Classrooms, Soledad--\$85,000
- o Food Processing and Storage (Work Program), Soledad--\$158,000
- o Vocational Produce Greenhouse, Susanville--\$77,000
- o Vocational Chicken Ranch, Susanville--\$178,000

Chapter 1, Statutes of 1982 directs the department to put all able bodied inmates to work and to seek to achieve the prison system's self-sufficiency through development of prison labor and skills. The department, however, has not developed a statewide plan to meet this mandate. Such a plan was requested by the Chairman of the Joint Legislative Budget Committee during review of the maximum security complex at Tehachapi in November 1982. The report, promised for March 1, 1983, has not yet been received. Lacking this plan, we cannot evaluate the relative priority of the projects included in the budget for expansion of vocational training facilities.

Finally, our review of the specific projects indicates that some of these new programs should be implemented under the Prison Industry Authority rather than as vocational programs operated by the department. Establishing these programs under the PIA would have the advantage of eliminating the need for state funding of buildings and equipment.

We urge the department to finalize the plan it promised the Legislature in March 1983 and submit the plan to the Legislature for review prior to legislative hearings on the 1984-85 Budget Bill. Projects based on the approved plan would warrant legislative consideration (Analysis page 1386).

Department of the Youth Authority

(Item 5460/page 1398)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$230,838 | \$241,839 | \$249,615 | \$247,966 | -\$1,649 |
| Personnel- years..... | 4,374.7 | 4,371.4 | 4,309.4 | 4,309.4 | -- |

Highlights of Our Recommendations

1. Staff Reduction Savings

We recommend a reduction of \$256,000 in General Fund support to reflect the full savings which will result from the proposed 1.4 percent position reduction. A total of 63 positions have been cut from the Youth Authority's budget pursuant to the administration's directive to capture permanently the personnel-year savings which have occurred as a result of the hiring freeze. The amount by which the department's budget has been reduced, however, does not reflect the full cost of these positions in 1984-85. Funds were added to the Youth Authority's budget to pay for the full-year cost of employee compensation increases granted in 1983-84 for the positions proposed for deletion. The dollar reduction associated with these positions, however, was calculated at the salary rates in effect prior to January 1, 1984. Furthermore, none of the benefits associated with the deleted positions were removed from the budget for 1984-85 (Analysis page 1402).

2. Subsistence and Personal Care

We recommend a reduction of \$591,000 to eliminate subsistence and personal care funds which are not justified. The amount proposed for subsistence and personal care for Youth Authority wards in the budget year is \$1,320,000, or about 9 percent, higher than estimated current-year expenditures. Allowing for both the population growth projected in the Governor's Budget and adjustments to offset the effects of inflation, the amount budgeted for these costs should have grown by only \$729,000. The remaining \$591,000 is not justified and should be deleted (Analysis page 1403).

3. Youth Service Bureaus

We recommend a General Fund reduction of \$348,000 to delete funds for four additional youth service bureaus (YSBs) because (a) the request is premature and (b) other funds are available for this purpose.

In approving funding for four additional YSBs in 1983-84, the Legislature required the Youth Authority to evaluate the performance of the bureaus in reducing the severity and frequency of problems for which young people are referred to the bureaus. The administration's plan to increase the number of YSBs, before the report is submitted to the Legislature in January 1985, is premature. In addition, the administration is proposing to increase funds for the County Justice System Subvention Program by \$1,256,000, for a total of \$64,068,000 in the budget year. Local governments could use a portion of these funds to finance the operation of additional YSBs if they determine that this is a high-priority program which will meet the needs of their communities (Analysis page 1407).

Department of the Youth Authority--Capital Outlay

(Item 5460-301/page 1408)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | -- | -- | \$3,758 | (pending) | -\$1,482 |

Highlights of Our Recommendations

1. Rose Valley Camp (-\$211,000)

The budget includes \$211,000 to convert a youth conservation camp operated by the U.S. Forest Service into a youth authority camp. The requested funds are to develop preliminary plans and working drawings to remodel the Rose Valley Camp in Ventura County to provide space for 100 wards. The estimated future cost is \$2,625,000.

The Governor's Budget indicates that the institution/camp ward population will be fairly stable and nearly equal to existing capacity through June 30, 1985. Consequently, the need for additional capacity is not apparent.

In addition, during recent years, the characteristics of the ward population have been changing. The department is now dealing with more sophisticated and violence-prone individuals for whom placement in a camp program is not necessarily appropriate. Finally, the department has indicated that it is experiencing some difficulty in identifying qualified wards for its Transitional Residential Program (TRP). Since the TRP program and the camp program utilize the same "pool" of wards, we would expect the department may also find difficulty identifying qualified wards for a new forestry camp.

Because the department has not established the need for additional capacity and the fact that the need to add a new camp at this time is questionable, we recommend that the funds be deleted, a reduction of \$211,000 (Analysis page 1410).

2. Minor Capital Outlay (-\$777,000)

The budget proposes \$1,350,000 from the Special Account for Capital Outlay for 36 minor capital outlay projects for the Department of the Youth Authority. We recommend that 7 projects totaling \$415,000 be deleted because they have not been justified and that 14 projects totaling \$362,000

be deleted because the department has submitted no information to justify their cost estimate (Analysis page 1415).

K-12 EDUCATION

State Department of Education

(Item 6100/page 1419)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|--------------|--------------------------------|------------|
| Expenditures... (thousands) | \$8,366,969 | \$9,224,875 | \$10,036,215 | \$9,984,523 ^a | -\$51,692 |
| Personnel- years..... | 2,553.4 | 2,623.4 | 2,580.6 | 2,636.3 | 55.7 |

a. Includes recommendations pending on \$63,578,000.

Highlights of Our Recommendations

1. Incentives for Longer School Day and Year Overbudgeted

We recommend deletion of \$8,500,000 from the amount budgeted for incentive payments to increase the length of the school day and year because the proposed level of funding exceeds the program's requirements. Senate Bill 813 provides fiscal incentives to school districts to increase the length of the instructional day and school year. In 1984-85, the measure provides \$35 per unit of average daily attendance (ADA) to districts that offer a 180-day school year. In addition, the act provides \$20 per ADA for students in grades K-8 and \$40 per ADA for students in grades 9-12 to districts that meet certain target levels of instructional time.

The Governor's Budget proposes \$256.9 million for this program in 1984-85. This amount is based on an estimate, made during deliberations on SB 813 last July, of the maximum amount needed to fund the incentives for lengthening the school day and year. Based on more recent projections--made in December 1983--of the amount of ADA on which the incentive payments would be based, and assuming full participation of all school districts statewide, we estimate a maximum funding need of \$248.4 million--or \$8.5 million less than the budget proposal (Analysis page 1493).

2. Funds for Increasing Minimum Teachers' Salaries Overbudgeted

We recommend that the proposed appropriation for increasing minimum teachers' salaries, pursuant to SB 813, be reduced by \$11.6 million.

Senate Bill 813 provides that the state will reimburse school districts and county offices of education for the costs of increasing the lowest salary on the teachers' pay schedule by 10 percent each year in 1983-84 to 1985-86, to a maximum of \$18,000 (adjusted annually for inflation). These local education agencies are also entitled to reimbursement of (1) costs to increase any teachers' salaries that would otherwise be below the new minimum salary level and (2) costs of increased contributions to the State Teachers' Retirement System.

The Governor's Budget proposes \$24.8 million for increasing minimum teachers' salaries in 1984-85. This amount, however, is based on an estimate which was made by the Senate Office of Research in July 1983 and has not been revised to reflect more recent information on the costs of this program. Based on a survey of a random sample of school districts, accounting for 30 percent of statewide total average daily attendance, we estimate that the costs of providing full funding for increasing minimum teachers' salaries in 1984-85 will be no more than \$13.2 million--or \$11.6 million less than the amount proposed for this purpose in the budget (Analysis page 1494).

3. Pilot Education Improvement Incentive Program Funding Exceeds Need

We recommend that the proposed appropriation for the Education Improvement Incentive Program (EIIP), created by SB 813, be reduced by \$7.8 million. Under this program, a sample of high schools will be selected to receive incentive funds of up to \$400 per pupil, based on their students' proportional contribution to the statewide increase in 12th grade test scores on the California Assessment Program (CAP).

Senate Bill 813 does not specify the size of the sample of schools to be used in the pilot implementation of the EIIP. The State Department of Education, however, proposes to select a sample such that the amount of incentive funds received by each eligible school would approximate the amount it would receive in a statewide, \$50 million program. Thus, if the Legislature were to appropriate \$15 million for the EIIP, as proposed by the Governor, SDE would select a sample of 30 percent (15/50) of California high schools. This would result in a sample of approximately 250 schools. With an appropriation of \$7.2 million, as originally provided by SB 813, SDE would select a sample of about half this size--or approximately 125 schools.

Our review indicates that a sample of 125 schools, as provided by the original appropriation in SB 813, would be entirely adequate to test the validity of the performance incentive concept. Because doubling the sample size would yield only slightly more reliable estimates of the program's impact, we recommend that the Legislature eliminate the additional \$7.8 million proposed for this purpose (Analysis page 1506).

4. Adult Education--Attendance of High School Pupils

We recommend adoption of Budget Bill language to provide that ADA claimed for the attendance of secondary school pupils concurrently enrolled in adult education programs shall be funded at each district's adult revenue limit rather than the regular district base revenue limit, for a General Fund savings of \$6,106,000 million.

Because the cost (per pupil) of supporting adult education programs is lower than the cost of regular school programs, the state funds adult schools at a substantially lower rate. The statewide average revenue limit for adult schools, for example, is about \$1,000 per ADA, compared to approximately \$2,100 per ADA in unified school districts.

Under current law, high school pupils are permitted to enroll in adult education courses. Current law also provides that adult education ADA attributable to these pupils shall be funded at the district's base revenue limit for its regular high school program.

Our analysis indicates that the higher rate of funding provided for high school pupils concurrently enrolled in adult schools is not needed to support the adult school program (Analysis page 1597).

5. Adult Education COLA Deficiency Appropriation Not Justified

We recommend (1) rejection of the Governor's proposed deficiency appropriation of \$1.6 million for adult education in 1983-84 because it would provide a higher COLA (cost-of-living adjustment) for adult education than was provided for other categorical programs and (2) a reduction of \$1.6 million in the proposed appropriation for adult education in 1984-85, because the budget assumes that the Legislature will enact the proposed deficiency appropriation.

The Legislature, in SB 813, appropriated funds for a 6 percent COLA for adult education in 1983-84. The act, however, also authorized a COLA of \$70 per adult ADA in 1983-84, which amounts to a 7.4 percent increase. The budget proposes a deficiency appropriation of \$1.6 million in 1983-84 in order to fund the \$70 per ADA.

It is not clear whether the provision for a COLA of \$70 per ADA for adult education in 1983-84 represents a technical error or the Legislature's intent that the program receive a 7.4 percent increase. Absent any indication of legislative intent, we can find no analytical justification for providing a larger COLA to adult education than the 6 percent provided for comparable categorical education programs in 1983-84 (Analysis page 1596).

6. Change Needed in Instructional Materials Ordering Process

We recommend adoption of Budget Bill language to (1) allocate all instructional materials funds directly to local education agencies prior to September 15, 1984, and (2) require districts that order textbooks through the state to reimburse the state for the administrative costs of providing this service, for a General Fund savings of \$418,000. We further recommend a \$4.2 million reduction in the appropriation for instructional materials in grades K-8 in order to reflect the estimated loss in General Fund income to the state (and corresponding gain to local school districts) resulting from (1) above.

Current law permits school districts to choose between two alternative systems for ordering textbooks: placing orders with publishers directly or through the State Department of Education. Our analysis indicates that the manner in which these alternative systems are implemented precludes a fair comparison of the two options. Our recommendation, if adopted, will result in implementation of the two systems on a comparable basis, thereby enabling districts to choose the more cost-effective option (Analysis page 1515).

7. Incentives for Alternatives to New Construction Overbudgeted

We recommend that the amount budgeted for incentive payments for utilizing alternatives to new school construction be reduced by \$3,840,000, because these funds are in excess of the maximum amount needed to provide the apportionments specified in the appropriation.

The budget proposes an appropriation of \$7,687,000 for incentive payments to school districts utilizing alternatives to new construction--an amount equal to the appropriation initially provided by the Legislature (and subsequently vetoed by the Governor) in Senate Bill 813. This amount, however, was calculated based on a different incentive program for year-round schools.

The budget proposes instead to fund a program of incentive payments established by SB 81 (Ch 684/83). Under this program, only those school districts which reduce their applications for new school facilities will be eligible to receive incentive payments. These payments will be based on the number of units of estimated average daily attendance (1) served by the alternatives to new construction and (2) reduced from the districts' facilities applications.

Based on reasonable assumptions regarding the number of students to be accommodated through alternatives to new construction, we estimate a maximum requirement for incentive funds of \$3,847,000. Accordingly, our analysis indicates that the funding level proposed in the budget exceeds by \$3,840,000 the likely requirements for this program (Analysis page 1574).

8. Driver Training Funding Overbudgeted

We recommend a reduction of \$3,630,000 in the appropriation for driver training, for a potential equivalent General Fund revenue increase. Because of declining enrollment in the driver training program, estimated expenditures for this program during the current year are \$1,606,000 less than the amount appropriated to the State School Fund for local assistance in 1983-84. Based upon (1) current estimates of high school enrollment, (2) the maximum reimbursements for driver training provided by current law, and (3) the availability of the \$1.6 million unexpended balance from the current year's appropriation for driver training, we estimate a maximum funding need for the driver training program in 1984-85 of \$13,706,000--or \$3,630,000 less than the amount proposed in the Governor's Budget.

If the Legislature approves Control Section 24.10 in the Budget Bill, which transfers all unencumbered balances of the DTPAF to the General Fund on June 30, 1985, the adoption of this recommendation would result in a General Fund revenue increase of \$3,630,000 in the budget year (Analysis page 1550).

9. COLA for Supplemental Summer School Classes Not Justified

We recommend deletion of \$1,231,000 to eliminate funding for a cost-of-living adjustment (COLA) for new supplemental summer school programs in math, science, and other core academic areas established pursuant to SB 813. The budget proposes \$41.0 million to fund the supplemental summer school classes, plus \$1,231,000 as a 3 percent COLA for these classes in 1984-85. Because this is the first year in which these programs will be operative, however, our review indicates that there is no justification for providing them a COLA (Analysis page 1496).

Contributions to State Teachers' Retirement Fund

(Item 6300/page 1625)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$191,300 | \$20,500 | \$536,045 | (pending) | (pending) |

Highlights of Our Recommendations

1. Full Funding of Normal Costs

Although the state is contributing major annual amounts toward funding the State Teachers' Retirement System (STRS), the "normal costs" (that is, the ongoing costs of funding retirement benefits which are being earned) of the system are not being funded adequately. The latest actuarial data available (June 1981) indicate a shortfall of 3.2 percent of teachers' payroll (equivalent to \$246 million in 1984-85) in STRS normal costs. Past-year shortfalls in the payment of normal costs brought about the system's unfunded liability and have been the reason for its continued growth. We believe, consequently, that funding of normal costs should be the first step in controlling the STRS unfunded liability. Accordingly, we recommend that the Legislature act promptly to fully fund normal costs as soon as practicable, and prior to addressing the STRS unfunded liability (Analysis page 1631).

2. State Contributions for the STRS Unfunded Liability

The budget proposes a \$512.3 million General Fund appropriation (including \$211.3 million which was deleted by the Governor from the 1983 Budget Act) toward financing the STRS unfunded liability, pursuant to Ch 282/79 (AB 8). The current level of funding, however, is not adequate to stop the growth in the unfunded liability, let alone enough to amortize it.

Our analysis indicates that legislative consideration of the unfunded liability issue should be preceded by consideration of other related issues, such as the funding of STRS normal costs and the provision of retirement benefits by local employers. Therefore, we withhold recommendation on the proposed \$512.3 million appropriation toward the STRS unfunded liability, pending legislative decisions on these related STRS funding issues (Analysis page 1632).

Commission on Teacher Credentialing

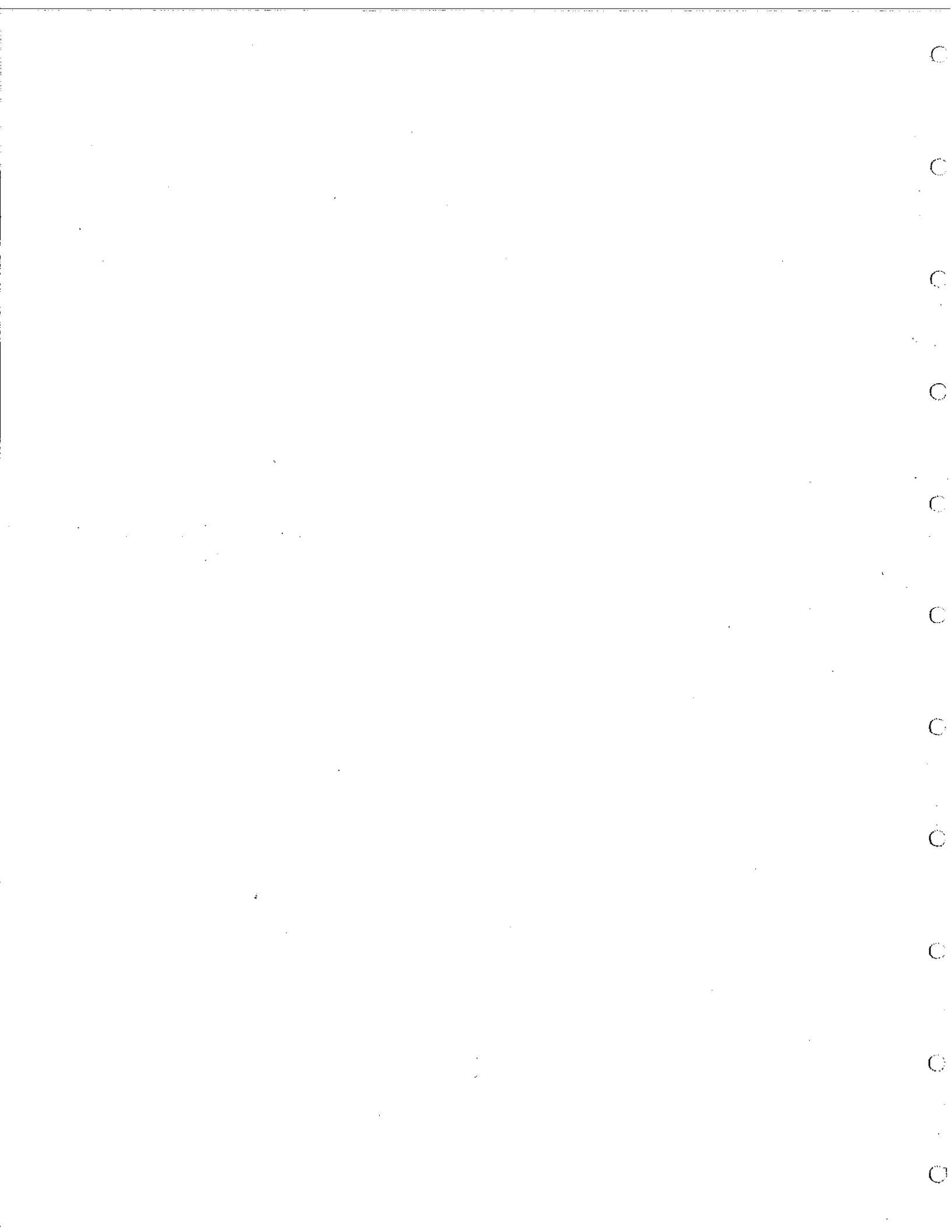
(Item 6360/page 1637)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$4,862 | \$5,527 | \$5,945 | \$5,656 | -\$289 |
| Personnel- years..... | 105.7 | 108.5 | 105.2 | 92.0 | -13.2 |

Highlights of Our Recommendations

1. Credential Processing

We recommend that the commission's licensing unit be reduced by \$289,000 and 13.2 positions to reflect a projected drop in teacher credential applications from 109,000 in 1983-84 to 85,000 in 1984-85. Our review of the commission's approved workload standards shows a decline in staff productivity of 33 percent. Consequently, we recommend that the budget be based on the commission's workload estimate (85,000) and the approved workload standards (2,120 applications per position). This would result in a reduction of 13.2 positions and an estimated savings of \$289,000 to the Teacher Credentials Fund (Analysis page 1640).



POSTSECONDARY EDUCATION

University of California

(Item 6440/page 1682)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|-------------|--------------------------------|------------|
| Expenditures... (thousands) | \$1,144,026 | \$1,124,592 | \$1,447,713 | \$1,437,524 ^a | -\$10,189 |
| Personnel- years..... | 59,624 | 58,866 | 57,750 | -- | -- |

a. Recommendation pending on \$148,095,000.

Highlights of Our Recommendations

1. Overview

We recommend reductions totaling \$10.2 million to the UC budget for 1984-85. In addition, we withhold recommendations on \$148 million included in the budget. Of the total amount on which we are withholding recommendation, 85 percent is proposed for employee compensation increases.

2. Major Items for Which We Recommend Approval

The following are the major items contained in the Governor's proposal for which we recommend approval.

- o \$70.6 million for restoration of the state's contribution to the University of California Retirement System (UCRS). (We defer recommendation on \$12.3 million proposed for increased benefits to UCRS members.)
- o \$21.4 million for instructional equipment replacement.
- o \$9.7 million for undergraduate enrollment increases.
- o \$26.9 million for inflation related price increases.
- o \$20.1 million for merit pay and promotion.
- o \$30.4 million for the full year costs of the pay increase effective January 1, 1984.

3. Major Items on Which We Withhold Recommendation

The following are the major items contained in the Governor's proposal for which we withhold recommendation, pending receipt of further information:

- o \$126 million proposed for employee compensation in 1984-85. This amount consists of \$114 million in salary and \$12 million in retirement benefit increases.
- o \$10.5 million for building maintenance.
- o \$4.0 million for instructional use of computers.
- o \$7 million in reductions proposed in health science enrollments.

4. Specific Recommendations on Deletion of \$10.2 million

A. Student Fee Policy Needed

We recommend deletion of \$7 million related to the proposed \$70 fee reduction (from \$1,387 to \$1,317) because the funding transfer would continue to restrict the use of student fee revenue.

We believe the current policy on restricted use of student fee revenue:

- o tends to put emphasis on what students pay for, rather than how much they pay,
- o tends to foster inconsistencies between how students are treated by different educational segments in terms of what they must pay for, and
- o tends to reduce the flexibility of the Legislature and the educational segments to the point where it can produce unintended and undesirable results.

To address these problems, we recommend that student fee revenue be budgeted as an offset to the General Fund appropriation, rather than be restricted to specific student service expenditures. If the recommendation is approved, the basis for the Governor's Budget proposal to shift funding support would disappear. Accordingly, we recommend deletion of the proposal to shift fund support.

We note that if the Legislature chooses to set fees on some other basis below the current-year level either (1) expenditures by the university would need to be reduced by a commensurate amount or (2) an offsetting General Fund augmentation would be needed (Analysis page 1728).

B. Graduate Enrollment Should Be Reduced

We recommend deletion of \$645,000 for additional faculty to support a projected enrollment increase of 200 students because an increase is not needed to accomplish the intended objective of meeting societal need for graduates in selected disciplines. Our review of the university's graduate enrollment plan found insufficient evidence to support the university's contention that it can no longer meet shifting societal demand for graduates by internal reallocation of graduate student slots. Specifically, we note the declining demand for business and law school graduates as examples of possible reallocation of student slots. On this basis, we recommend deletion of the funds requested to increase graduate enrollment (Analysis page 1699).

C. Microelectronic Research (MICRO) Augmentation Not Justified

We recommend deletion of the \$2 million augmentation requested for microelectronics research because the university has the ability to realign its research priorities within the base budget of its existing research program. Our analysis indicates that while some state support for the MICRO program is warranted because of the microelectronics industry's importance to the California economy, no analytical basis for the proposed 91 percent increase in funding has been presented to the Legislature.

In general, the state provides UC with a lump sum of money for research, and permits the university to allocate funds as it sees fit. In the current year, the lump sum totals \$124 million. The Governor's proposal to augment MICRO by \$2 million implies that each and every dollar in the \$124 million base budget will be used for research having a higher priority than the MICRO program. Were this not the case, the university could fund the augmentation for MICRO through internal reallocations. Whether all of the other research activity in the current year does indeed have a higher priority to the Legislature (or even to the university) than the work to be accomplished with the \$2 million, we are unable to say.

For this reason, and in view of the fact that support for research has increased at a much faster pace than General Fund support for other UC programs during the past seven years, we recommend deletion of the augmentation.

If the recommendation is adopted, state support for MICRO in 1984-85 will be \$2.2 million, inclusive of a 6 percent inflation adjustment (Analysis page 1713).

D. Faculty Research Augmentation Not Justified

We recommend deletion of \$500,000 proposed for individual faculty research because (1) there is no analytical basis to support this request and (2) UC has the ability to realign its research priorities within its base budget for its existing research program.

We do not disagree with the university regarding the desirability of having designated individual faculty research grant funds. This desirability, by itself, however, is not sufficient to justify an increase in the program.

Additional data is needed for this purpose, but the UC has not provided it as yet. Presently, UC cannot provide systemwide data to answer basic questions such as:

- o What is the level of support for individual faculty research?
- o How many research awards are made?
- o How many meritorious proposals are not funded?

In addition, as noted in our analysis of the request for the MICRO program, the university has the ability to allocate research funds as it sees fit. If individual research grants are of a high priority within the research program as a whole, UC can redirect its research program funds to this activity.

If this recommendation is adopted, state funded individual faculty research will total \$4.98 million in 1984-85, inclusive of a 6 percent inflation adjustment. Coupled with available Regents' support, the proposed budget includes sufficient funds to provide a \$4,000 research grant to each junior faculty member at UC (Analysis page 1715).

University of California--Capital Outlay

(Item 6440-301/page 1749)

| | 1982-83 Actual | 1983-84 Estimate | Proposed | 1984-85 Recom- mendation | Difference |
|--------------------------------|-------------------|---------------------|-----------|--------------------------------|------------|
| Expenditures... (thousands) | -- | -- | \$113,405 | (pending) | -\$9,336 |

Highlights of Our Recommendations

1. Engineering Unit One--San Diego (-\$575,000)
Engineering Laboratory Facility--Irvine (-\$223,000)
School of Engineering and Applied Sciences Expansion--Los Angeles
(-\$220,000)

The budget includes funds for the following three projects to provide additional space for engineering.

- o San Diego Campus, Item 6440-301-146(6) proposes \$575,000 for preliminary planning for a 120,000 assignable square foot engineering building on the San Diego campus. The estimated future cost for working drawings, construction and equipment related to the new facilities is \$34.8 million.
- o Irvine Campus, Item 6440-301-146(10) includes \$223,000 for preliminary planning and working drawings for a 22,200 assignable square foot facility for civil, mechanical and electrical engineering. The estimated future cost for construction and equipment is \$4,029,000
- o Los Angeles Campus, Item 6440-301-146(18) includes \$220,000 for an initial planning study for altering and expanding the school of engineering and applied sciences on the Los Angeles campus. Studies of this nature are usually funded from support budget resources or statewide planning funds.

Graduate Enrollment Plan Needs to be Reevaluated. A substantial portion of the justification for additional engineering space on these three campuses is based on the recent and projected increase in graduate enrollment in engineering and computer science. Overall the university anticipates an increase of approximately 500 graduate students between 1982-83 and 1990-91. Our analysis indicates that the university should reevaluate its graduate enrollment program for two reasons.

First, the university's current plan assumes that the number of foreign students (1,314 students representing 33.7 percent of total enrollment) in the graduate program in these disciplines will remain essentially constant in the years ahead. Consequently, while the

university's plan for expansion of graduate enrollment in these disciplines is limited exclusively to domestic students, the university's plan does not include a reduction in the number of foreign graduate students. A reduction in foreign graduate students would allow for increased opportunity to domestic graduate students and, thus, negate the need for new facilities and additional support/operations cost.

Second, the proposed allocation of graduate students concentrates on increases at the smaller campuses such as Irvine, Riverside, San Diego and Santa Cruz. This allocation plan does not take into account the advantages of the established excellence of existing programs within the system. Graduate programs at Berkeley, Los Angeles, Davis and Santa Barbara are well-developed and increasing enrollment in these areas would take advantage of existing physical facilities rather than duplicating facilities at other campuses such as the plan to construct new facilities at San Diego at a cost of over \$35 million.

We therefore recommend deletion of the funds proposed for the three projects (Analysis page 1757).

2. Alterations to Schoenberg Hall--Los Angeles (-\$1,126,000)

The budget includes \$1,126,000 to alter the music building (Schoenberg Hall) on the Los Angeles campus. The project is a secondary effect of constructing a 43,200 square foot addition to the building.

The Schoenberg Hall addition has been completed since early 1982 and the university has conducted the program successfully by using the two buildings without these alterations. Consequently, the university should be able to continue using the facility with little or no change. Any individual, high-priority improvements could be accomplished with minor capital outlay funds. Under the circumstances, our analysis indicates that the \$1,126,000 would provide only a marginal benefit of reconfiguring storage areas and practice rooms. We, therefore, recommend deletion of the funds proposed for alterations under Item 6640-301-146(7), for a savings of \$1,126,000 (Analysis page 1761).

3. Law School Addition--Los Angeles (-\$300,000)

The budget includes \$300,000 for preliminary plans to alter the existing space and provide an addition of 19,420 assignable square feet for the law school on the Los Angeles campus. The project includes clinical program instructional space, faculty research space, offices and classrooms. The estimated future cost for working drawings, construction and equipment is \$8,178,000.

In our Analysis of the UC support budget, we indicate that UC has not made sufficient efforts to internally reallocate graduate student enrollment in response to societal demands. One example of this is the current enrollment in law. In 1970, there was one lawyer for every 583 persons in California. In 1983, there was one lawyer for every 299 persons in California. While we have no analytical basis for determining society's need for lawyers, we believe the above statistics do not support the need for continued training for lawyers at the same level as in the recent past.

In view of this, the UC should reevaluate the number of students to be enrolled in the UCLA law program. Such a reevaluation would significantly impact building requirements for the program. Consequently, we recommend the funds proposed for expansion of the UCLA law school be deleted (Analysis page 1763).

4. Diagnostic Service Module--Irvine (-\$3,367,000)

The budget includes \$3,367,000 for construction of a 7,290 assignable square foot diagnostic service module at the Orange County Medical Center. The diagnostic laboratories would provide services to inpatients and outpatients referred from general medical and surgical services and speciality clinics. The project is intended to (1) deintensify the utilization of the acute hospital, (2) consolidate diagnostic services for outpatients in a central location, and (3) maximize efficient use of space through the sharing of common functional areas among different services.

Our analysis indicates that the request for the diagnostic laboratory space is based on improving the efficiency of the university's hospital services. The university has available funds derived from operation of its hospitals which can be used to improve operations. Consequently, the university should apply these funds for the construction portion of the project. We, therefore, recommend deletion of the funds proposed in Item 6440-301-146(20), for a savings of \$3,367,000 (Analysis page 1765).

5. Main Library Alterations--Irvine (-\$465,000)

The budget proposes \$465,000 for working drawings and construction to make various alterations in the main library on the Irvine campus. The project includes relocation of various library services to improve operations.

Our analysis indicates that the university should reevaluate building modifications needed to improve operational efficiency in the library. The objectives of this project could be accomplished by using most of the existing space as currently configured without substantial remodeling. Moreover, the proposal includes installation of compact shelving which, according to a systemwide study of library needs, was determined to be a very costly means of increasing library capacity. For these reasons, we recommend that the working drawing and construction funds for the library alterations be deleted, a reduction of \$465,000 (Analysis page 1766).

6. Elevator, Muir College Building--San Diego (-\$505,000)

The budget includes \$505,000 for working drawings and construction to install an elevator at the Muir College building on the San Diego campus. The university indicates that the single elevator serving this six-story building is inadequate because of a significant number of breakdowns experienced in the past.

Our analysis indicates that the university's problem emanates from a lack of adequate maintenance of the existing elevator. The university should repair the existing elevator--from maintenance and operating funds--so that buildings occupants are not inconvenienced. We, therefore, recommend deletion of the funds proposed under Item 6440-301-146(46) a reduction of \$505,000 (Analysis page 1769).

7. Code Deficiencies, Asbestos Hazard, Step One--Berkeley (-\$1,200,000)

The budget includes \$1,200,000 for removal of asbestos material from five Berkeley campus buildings. The university indicates that a continuous program extending for eight to ten years is expected for complete removal of exposed asbestos from state-funded buildings.

Asbestos hazards have been defined in the California Administrative Code. The university has already reduced asbestos hazards in many areas by funding removal as incidental aspects of maintenance, deferred maintenance or capital improvement projects. The campus now has a permanent staff for asbestos work and about \$250,000 per year is being spent to reduce hazards.

Our analysis indicates that there is no basis for undertaking proposed corrective measures through the capital outlay portion of the budget. This effort should be funded, on a priority basis, within existing resources in the maintenance portion of support budget. We therefore recommend deletion of the funds proposed under Item 6440-301-146(26), a reduction of \$1,200,000 (Analysis page 1773).

8. Energy Conservation Projects--Berkeley, Davis, Irvine and Riverside (-\$1,102,000)

The budget proposes funds for four energy conservation projects at various campuses where our analysis indicates that the proposed conservation measures have not been justified and, accordingly, we have recommended the requested funds be deleted or reduced. The specific projects include:

- o Central Control System, Berkeley (Item 6440-301-146(32)) This \$418,000 request would expand the central control system on the Berkeley campus to provide 370 additional control points and expand monitoring to motors as small as one-half horsepower. We have recommended deletion because the university has not been able to provide details of the cost benefit of this project (Analysis page 1776).
- o Energy Conservation, Step I, Davis (Item 6440-301-146(33)) This \$257,000 request proposes replacement of various electric motors with more efficient motors. We recommend deletion because, based on our calculations, the project has a payback of eight to 12 years, and is not competitive with other energy conservation opportunities available to the state (Analysis page 1776)).
- o Economizer Units, Central Plant, Irvine (Item 6440-301-146(34)) This \$224,000 proposal would modify the central plant at the Irvine campus to improve boiler efficiency by approximately 4.6

percent. The utilization of existing boilers will be significantly reduced in the future because the university plans to install a cogeneration system at this campus. This results in a reduction in the anticipated savings with a revised payback period of seven years rather than 5.4 years as indicated by the university. On this basis, we recommend deletion of the requested \$224,000 (Analysis page 1777).

- o Energy Conservation, Building Retrofit, Phase I, Riverside The budget includes \$634,000 for working drawings and construction to modify the heating ventilation and air-conditioning systems in 14 buildings on the Riverside campus. Modifications in the humanities building, however, has a payback period of approximately six years, while the modifications in other buildings will result in payback periods averaging 2.5 years. Based on this data, the modifications to the humanities buildings are not competitive with other energy conservation opportunities. We therefore recommend that this work be deleted from the project for a savings of \$203,000 (Analysis page 1777).

Hastings College of the Law

(Item 6600/page 1788)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|----------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$7,039 | \$6,836 | \$9,669 | \$8,877 ^a | \$792 |
| Personnel- years..... | 204.3 | 213.4 | 207.1 | 202.5 | -4.6 |

a. Recommendation pending on \$896,000.

Highlights of Our Recommendations

1. Overview

We recommend reductions of \$792,000 to the Hastings budget for 1984-85. In addition, we withhold recommendation on \$896,000 related to employee compensation, pending receipt of additional data.

2. Major Items on Which We Recommend Approval

The following are the major items contained in the Governor's proposal on which we recommend approval:

- o \$494,000 for restoration of the state's contribution to the University of California Retirement System (UCRS). (We defer recommendation on \$86,000 proposed for increased benefits to UCRS members).
- o \$248,000 for improvements in library purchases and automation of library functions.

3. Enrollment Reduction Recommended

We recommend that the proposed increase of \$211,000 to lower the student faculty ratio be deleted because (1) the same qualitative objective can be achieved with a 10 percent reduction in Hastings' enrollment and (2) such a reduction would not have an adverse affect on either the Hastings' instruction program, the supply of lawyers in California, or educational opportunities generally. A phased-in reduction of 150 student slots over a three-year period (1985-86 to 1987-88) would result in the same student-faculty ratio sought by the budget. In addition, it would save \$443,000 annually by 1987-88.

In 1982-83, it is estimated that there was one lawyer for every 375 people nationally and one lawyer for every 299 people in California. While we have no analytical basis to determine society's need for lawyers, we find it difficult to believe that graduating 50 fewer lawyers a year from Hastings will have any adverse effect in California. Given the current size of Hastings (1,500 students) and available public and private law school student slots, we also believe that a 10 percent reduction in student slots will have no adverse program impact on Hastings or on opportunities for students to attend law school generally (Analysis page 1792).

4. Student Fee Policy Needed

We recommend deletion of \$277,000 related to the proposed \$185 fee reduction because the funding transfer would continue to restrict the use of student fee revenue (Analysis page 1798).

5. Current-Year Has Excess Fee Revenue

We recommend that Hastings use current-year excess fee revenue to offset the state General Fund for a 1984-85 savings of \$285,000. Revenue raised from increased student fees at Hastings in the current year are not reflected in the current year budget. Because we have no evidence that the fee charged students at Hastings in the current year is excessive relative to the benefits students gain by attending law school, we recommend that the Legislature direct Hastings to use this revenue to offset the 1984-85 General Fund appropriation to Hastings for a one-time budget year savings of \$285,000 (Analysis page 1795).

California State University

(Item 6610/page 1802)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|-------------|--------------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$916,628 | \$955,345 | \$1,149,014 | \$1,134,699 ^a | -\$14,315 |
| Personnel- years..... | 33,875.1 | 33,335.5 | 32,615.4 | 32,613.9 | -1.5 |

a. Recommendation pending on \$105,201,000.

Highlights of Our Recommendations

1. Faculty Recruitment and Training Program

We recommend deletion of \$1.0 million related to faculty recruitment and a proposed computer literacy training program. Our analysis indicates that (1) sufficient funding is currently available for faculty recruitment and relocation expenses and (2) existing staff--campus computing consultants--are now provided on each campus to develop and implement computer training programs (Analysis page 1822).

2. Student Fees

We recommend deletion of \$11,908,000 related to the proposed \$42 reduction in fees (from \$692 to \$650) for CSU students because the proposed shift in funding source for financial aid from student fee revenue is (1) based on a faulty premise and (2) would further restrict the use of fee revenues. We further recommend enactment of legislation to put in place a long-term fee policy which requires CSU to (1) annually adjust student fees to maintain the students' contribution toward the cost of education at a specified percentage, (2) budget all student fee revenue as an offset to the General Fund, and (3) assess the fee on a differential basis, so that part-time students pay less than full-time students (Analysis page 1832).

3. Independent Operations

We recommend deletion of \$17,851,000 and a corresponding reduction in reimbursements of the same amount to correct for overbudgeting of expenditures, due to the budget's failure to account for the proposed 35 percent reduction in positions on level of program activities.

The Governor's Budget proposes a reduction of 579 positions in the Independent Operations program or 35%. At the same time, however, the

budget expects expenditures for this program to increase by \$3.0 million, or 5 percent. The budget document indicates that the position reduction reflects a reduced level of Federal grants and contracts, and a trend of using personal contracts to perform grant related work and that an appropriate dollar reduction will be incorporated later when actual experience can be better assessed and accurately reflected.

We estimate that the proposed budget-year expenditure reduction of 579 positions should be accompanied by a reduction amounting to \$17,851,000. Because this program is wholly supported by external sources, reimbursements should be reduced by the same amount, resulting in no net impact on the General Fund appropriation to CSU (Analysis page 1847).

4. Salary Increase

We withhold recommendation on the \$99,961,000 requested for CSU employee compensation increases, pending submission to the Legislature of memoranda of understanding (MOU) and compensation proposals for nonrepresented employees.

The Governor's Budget proposes for the first time that funds for CSU salary increases be budgeted in the CSU support item. In prior years, funds for these increases were budgeted in the state employee compensation item. The budget document states that sufficient funding is proposed to provide (1) a 10 percent increase in salaries and benefits for CSU employees and (2) a two part 10 percent salary increase for CSU faculty to be effective July 1, 1984 and January 1, 1985. Because CSU employees are covered by collective bargaining contracts we have no basis for (1) evaluating the nature or magnitude of increases proposed or (2) the amount of funds required to implement these increases until negotiated memoranda of understanding (MOU) are submitted to the Legislature for approval. Therefore, we withhold recommendation on this proposal pending submission of MOUs and compensation proposals for nonrepresented employees (Analysis page 1850).

California State University--Capital Outlay

(Item 6610-301/page 1856)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | -- | -- | \$27,767 | (pending) | -\$7,027 |

Highlights of Our Recommendations

1. Minor Capital Outlay, Statewide (-\$2,300,000)

The budget includes \$7,000,000 for minor capital outlay projects (\$200,000 or less per project) for the California State University. The request represents a lump sum amount to be allocated by the Chancellor's office to the 19 CSU campuses for general campus improvements.

The Chancellor's office has submitted a list of projects proposed to be funded from the \$7,000,000 lump sum appropriation. Our review of the list indicates that there are many low priority (in relation to other needs) projects proposed which (1) are not justified on a capacity basis, (2) should be funded from support funds, (3) are dependent upon major capital outlay projects which have been deferred, (4) should be funded from other sources and (5) are low in priority given the anticipated benefits to the program. In addition, the request includes a contingency of \$744,000. In prior budget requests, the amount reserved for contingency has been approximately \$200,000 which has proven to be adequate. On this basis, we recommend reduction of the minor capital outlay request to eliminate \$1,260,000 for low priority projects and \$540,000 in the amount set aside for contingencies, for a total reduction of \$2,300,000 (Analysis page 1862).

2. Fire Suppression System, Tiburon Center, San Francisco (-\$395,000)

The budget proposes \$395,000 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 nonstate funds. We recommend deletion of the requested funds for a savings of \$395,000 (Analysis page 1869).

3. Old Library Rehabilitation--San Diego (-\$379,000).

The budget includes \$2,765,000 to rehabilitate 22,175 assignable square feet in the old library on the San Diego campus. The project would rehabilitate the building to meet current structural code requirements and increase instructional space in engineering, public health, and nursing. The project was funded for preliminary plans and working drawings in prior budget acts.

Our analysis of the project cost estimate submitted by the CSU indicates that the project is overbudgeted. Based on our review of the consulting architect's most recent estimate, the construction contract cost should be reduced by \$305,000. In addition, the amount budgeted for architectural/engineering services, contract management and contingencies is overbudgeted by \$74,000. Accordingly, we recommend reduction of the requested funds to eliminate the overbudgeting, for a savings of \$379,000 (Analysis page 1870).

4. Library Conversion--Fullerton (-\$1,393,000)

The budget includes \$1,393,000 to convert 47,000 assignable square feet on the second and third floors of the library building on the Fullerton campus to permanent library space. The campus currently has a surplus of offices and classroom facilities, and the proposed conversion would increase the amount of library space from the current 70 percent to approximately 90 percent of the campus's library space needs, based on existing space guidelines.

Our analysis indicates that construction funds to convert the Fullerton library should be deferred pending the results of a study evaluating library space needs on a statewide basis. Item 6610-301-146(8) proposes \$100,000 to fund this study. Accordingly, while our analysis indicates that additional library space is justified based on existing state space guidelines, a one-year deferral would allow CSU to reassess its plan to ensure that the modifications are consistent with long range goals, and new space guidelines that may result from the library space study. On this basis, we recommend deletion of the funds proposed for this project, a reduction of \$1,393,000 (Analysis page 1875).

5. Business Building--Fresno (-\$234,000)

The budget includes \$468,000 for preliminary planning and working drawings for a new business building on the Fresno campus. The new building, with an assignable area of 51,781 square feet, would provide laboratory space for the School of Business to meet enrollment needs and to accommodate a recent change in the mode of instruction to emphasize laboratory experience rather than lecture. In addition, the project includes 198 new permanent faculty offices and capacity for 940 lecture full time equivalent (FTE) students. Construction of these new facilities would allow the campus to abandon 49,000 assignable square feet in temporary facilities. Finally, the project would allow the campus computer center to expand into a portion of the space now occupied by the School of Business. The estimated future cost for construction and equipment is \$9,979,000.

We recommend that this project be revised in order to provide a more cost-efficient facility.

First, we recommend that 4,326 assignable square feet in graduate research laboratories be deleted from the project because the CSU should construct dual purpose undergraduate laboratories which could be utilized by graduate students.

Second, we recommend 800 assignable square feet in computer terminal rooms be deleted because no statewide resource allocation plan or space utilization guidelines have been established to justify this type of space.

Third, we recommend that the working drawing portion of the request be deleted, and instead \$220,000 be appropriated for preliminary planning based on implementing this project through an early delivery system (EDS). The early delivery system is a non-traditional method of implementing state capital outlay projects which requires more advanced planning, but the overall project can be designed and constructed in less time than conventional methods.

Finally, we have recommended budget bill language be adopted to direct the CSU to (1) implement this project through the early delivery system method, and (2) report its progress in removing all temporary facilities on the Fresno campus, including the immediate removal of those not needed at this time (Analysis page 1877).

6. Agriculture Science Building--San Luis Obispo (-\$360,000)

The budget includes \$360,000 for preliminary plans and working drawings for an agricultural sciences building on the San Luis Obispo campus. The project, with an assignable area of 28,320 square feet, would provide additional lecture capacity for 122 FTE and laboratory capacity for 103 FTE in crop sciences, animal sciences, natural resources, and environmental horticulture. The estimated future cost for construction and equipment is \$7,720,000.

The programs for which additional space is proposed are currently housed. The existing facilities have accommodated the past enrollment, and there is a steady state enrollment within these disciplines. The CSU has not provided any data to indicate that the existing facilities will not continue to be sufficient to support the academic program. On this basis, we recommend deletion of the \$360,000 proposed for this project (Analysis page 1882).

7. Remodel Science Building--Humboldt (-\$714,000)

The budget proposes \$764,000 for preliminary plans, working drawings, construction and equipment to remodel a portion of the science building on the Humboldt campus. The remodeled facilities would provide laboratory capacity for 28 FTE in chemistry, 8 FTE in general science, and minor remodeling for biology.

Our analysis indicates that the construction and equipment request for this project is premature. The Trustees' capital outlay program for 1984-85 includes a request for \$50,000 to fund preliminary plans and working drawings only. No information has been submitted to substantiate the amount proposed for construction or equipment. We therefore recommend these funds be deleted for reduction of \$714,000 (Analysis page 1883).

8. Heating, Ventilation, and Air Conditioning Modifications--San Diego \$258,000)

The budget includes \$258,000 for working drawings and construction to modify the heating, ventilation, and air conditioning system in the business administration/mathematics building on the San Diego campus. This building houses the campus computer center and related instructional laboratories. The project includes installation of an independent air conditioning system to service computer laboratories so that the buildingwide system need not be operated in the evening and on weekends when these instructional laboratories are available for users on a drop-in basis. The CSU indicates that the proposed modifications would reduce the operating time of the buildingwide system, resulting in an energy cost savings of approximately \$55,000 in the first year of operation.

The CSU proposal would provide an independent system for the instructional laboratories only during those hours when the rest of the building is unoccupied. Accordingly, during the majority of the daytime, when air conditioning is needed most, these areas of the building would continue to be dependent upon the buildingwide system which provides insufficient ventilation/air conditioning, resulting in uncomfortably warm temperatures. Moreover, the CSU needs to reevaluate the assumptions and alternatives to providing adequate ventilation and air conditioning in these laboratories because the current proposal was developed over three years ago. We see no advantage of proceeding with the project currently proposed in the budget, and we therefore recommend deletion of the requested \$258,000 (Analysis page 1884).

California Community Colleges

(Item 6870/page 1898)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|--------------------------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$1,058,674 | \$1,020,789 | \$1,029,926 ^a | \$1,029,563 | -\$363 |
| Personnel- years..... | 134.5 | 141.4 | 139.8 | 138.8 | -1.0 |

a. Recommendation pending on \$958,964,000.

Highlights of Our Recommendations

1. New Plan Needed for Community College Apportionments

We withhold recommendation on \$958,489,000 proposed for community college apportionments in 1984-85 pending submission to the Legislature of a revised expenditure plan for community colleges that reflects changes made by legislation enacted in January 1984.

The Governor's Budget was released on January 10, 1984 prior to the passage of significant legislation affecting community college funding for the current and budget years--Ch 1xx/84 (AB 1xx) and Ch 3/84 (AB 470). Among other provisions, these measures (1) establish a mandatory fee in community colleges in the fall of 1984 and (2) provide \$96.5 million to restore base revenues in the current year.

Our analysis indicates that the Governor's Budget is no longer a meaningful document and must be restructured since the new legislation affects the budget but is not incorporated in the proposed funding level. Specifically, the budget:

- o Reflects \$50 million to restore current year base revenues while Ch 3/84 provides \$96.5 million for this purpose.
- o Reflects student fee revenue of \$95 million or \$20 million more than the amount provided by Ch 1xx.
- o Reflects \$10 million for financial aid while Ch 1xx provides \$15 million in 1984-85 for this purpose.

In addition, the total funding level proposed by the budget is below the amount authorized by current law. Because the Governor's Budget for

community colleges does not relate to current law, we withhold recommendation on apportionments pending submission of a revised expenditure plan which reflects changes in current law (Analysis page 1908).

California Community Colleges--Capital Outlay

(Item 6870-301/page 1921)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | -- | -- | \$26,704 | (pending) | -\$6,166 |

Highlights of Our Recommendations

1. Computer Science Laboratory, Yosemite Community College District
(-\$332,000)

The budget includes \$332,000 for the state's share of the costs to remodel the electronics building at Modesto Junior College for expansion of the computer science program. The work includes remodeling 2,180 assignable square feet (asf) in the electronics building (presently occupied by media maintenance) to expand computer science laboratory capacity. A total of 3,792 asf in the crafts building would be remodeled to accommodate media maintenance at an additional cost of \$78,000.

Our analysis indicates that the district should alter other existing space at a lower cost. For example, district lecture space is presently 125 percent of projected need (approximately 10,000 asf). A project to alter this excess space for the computer science program would be less costly because there would be no need to relocate and remodel space for media maintenance. The proposed project, however, is too costly and we recommend that the funds be deleted (Analysis page 1930).

2. Initial Construction, Orange/Canyon Campus Rancho Santiago Community
College District (-\$4,372,000)

The budget includes \$4,372,000 for the state's share of the initial construction of building for the Orange/Canyon Campus in the Rancho Santiago Community College District. This amount includes \$2,037,000 and \$2,083,000 to construct the first two instructional buildings on the campus site, and \$252,000 to purchase an initial complement of library books.

In 1976, the district conducted a facilities needs study which determined that future enrollments would exceed the capacity of district facilities. Consequently, the district decided to establish a new campus to meet this projected need. The district has funded site development, installation of utilities, and development of working drawings for the initial buildings for the new campus. The district's five-year capital outlay plan estimates future developments at the Orange/Canyon campus will cost an additional \$8.1 million, bringing total planned expenditures to \$13.1 million through 1988.

We recognize that the district has invested significant resources in the development of the Orange/Canyon site. Nevertheless, our analysis indicates that a commitment of state funds for a new campus in the district at this time is not justified. For example, Department of Finance population projections estimate only a 4 percent increase in total weekly student contract hours for the district over the next ten years. In addition, the recent uncertainty over community college funding and the establishment of a \$50-per-semester fee may further reduce these projections. Consequently, the enrollment growth anticipated by the district is not expected to materialize, and may even be less than currently projected by the Department of Finance.

Thus, the need for the construction of a new campus in the district is not apparent, and we recommend that the funds be deleted (Analysis page 1933).

3. West Los Angeles--Airport Campus (\$1,568,000 pending)

The budget proposes \$1,568,000 for the state's share to construct the first phase of permanent facilities at the West Los Angeles Community College Airport Campus. The project would construct five aircraft engine test cells, a paint spray facility, remodel a classroom to provide space for faculty offices and provide landscaping, fencing and lighting improvements along Sepulveda Boulevard.

The Airport Campus is an administrative division of West Los Angeles Community College. Historically, the state has supported capital outlay projects for community colleges, but not for divisions of the colleges themselves. Satellite campuses and centers have been considered to be the financial responsibility of community college districts, and thus the state has generally not financed capital improvements. Absent a more definitive policy from the Legislature regarding state capital outlay support for administrative divisions of community college districts, we withhold recommendation on this item, pending clarification from the Legislature (Analysis page 1934).

In regards to this policy issue, we have also withheld recommendation on three projects to remove architectural barriers to the physically handicapped at three adult centers in the San Diego Community College district. These projects are, Midway Adult Center (\$39,000), Clairemont Mesa Adult Center (\$8,000), and Centre City Adult Center (\$169,000) (Analysis page 1925).

4. Los Angeles Pierce College Auto Shop Alterations (-\$788,000)

The budget proposes \$828,000 for the state's share for additions and alterations to the auto shop facility at Los Angeles Pierce College. The district proposes to (1) construct a 4,248 assignable square feet enclosed addition to the main auto shop, (2) alter the existing facility, (3) provide additional space for automobile storage, and (4) purchase \$96,500 of additional equipment for the auto shop program.

Although the proposed project is justified, our analysis indicates that the request for construction and equipment funds is premature.

According to the district's preliminary planning package for this project, working drawings are not scheduled to be completed until February 1985, with bid advertisement for construction scheduled for July 1985. Because construction would not begin until 1985-86, construction and equipment funds are not required in the budget year. Consequently, we recommend that the \$788,000 proposed for these purposes be deleted from the budget (Analysis page 1938).

5. De Anza College Nursing Study Laboratory (-\$329,000)

The budget proposes \$329,000 for the state's share to construct nursing study laboratories at De Anza College. The district indicates that additional laboratory and classroom space are needed to alleviate crowded conditions in the nursing program.

To increase space for the nursing program, the district proposes to construct a new building which would provide 2,800 assignable square feet of academic space for the program. A secondary effect of the project would allow the physical therapy program to expand into the approximately 1,100 asf vacated by the nursing program.

Although the district indicates that existing space for the nursing program is inadequate, the district has not submitted adequate information to justify the amount of space it proposes to construct, or why the nursing program must vacate the 1,100 asf to provide space for physical therapy. In addition, our analysis indicates that district lecture space will be 128 percent (approximately 24,000 asf of excess capacity) of projected need in the year of anticipated occupancy of the new nursing facility (1986). Before proposing the construction of additional lecture and laboratory space, the district should consider alternative solutions which would provide increased space for the nursing program by assigning (and altering if necessary) a portion of the oversupply of lecture space to this program.

Consequently, we recommend that the funds be deleted, for a savings of \$329,000 (Analysis page 1939).

Student Aid Commission
(Item 7980/page 1943)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$79,384 | \$81,077 | \$90,316 | \$87,016 | \$3,300 |
| Personnel- years..... | 160.7 | 174.8 | 173.3 | 173.3 | -- |

Highlights of Our Recommendations

1. Increased Awards for Student Aid Commission Grant Programs

We recommend deletion of \$3,225,000 for an increase of 2,354 awards in the five major grant programs administered by the Student Aid Commission (SAC). The budget proposes to increase the number of awards by 1,500 in the Cal Grant A (Scholarship) program, by 675 in the Cal Grant B (College Opportunity Grant) program, by 83 in the Cal Grant C (Occupational Education and Training Grant) program, by 68 in the Bilingual Teacher Grant Program and by 28 in the Graduate Fellowship program.

Our analysis indicates that the increase in the number of awards should be deleted because (1) the administration has provided no analytical basis for its proposals, and (2) any increase in the number of awards should not be made until a comprehensive policy reevaluation of the objectives of the state programs is conducted.

In the case of the Bilingual Teacher Grant program, we also noted that the administration has provided no evidence that the current program level has effectively produced bilingual teachers (Analysis page 1956).

GENERAL GOVERNMENT
Office of Criminal Justice Planning
(Item 8100/page 1967)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$11,979 | \$25,849 | \$24,739 | \$23,729 | -\$1,040 |
| Personnel- years..... | 53.5 | 56.5 | 64.6 | 64.6 | -- |

Highlights of Our Recommendations

1. Support Program with Unused Funds Appropriated in Prior Years

Our review of the Career Criminal Apprehension program and the Crime Resistance program indicates that there are unspent and uncommitted grant funds totaling \$767,000 available from 1982-83 appropriations which could be used to support the programs in 1984-85. Because these funds are available, we recommend a reduction of \$767,000 in the amount requested from the General Fund for these local assistance grants. This would provide the same level of grant activity proposed in the Governor's Budget and would result in a one-time General Fund savings (Analysis page 1974).

State Public Defender

(Item 8140/page 1979)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$7,003 | \$5,525 | \$4,815 | (pending) | (pending) |
| Personnel- years..... | 154.3 | 101.7 | 80.2 | (pending) | (pending) |

Highlights of Our Recommendations

1. State Public Defender Role Needs Defining

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 Supreme Court (Item 0250). In the budget year, the Judicial Council proposes to expand to the entire state the system of selecting, assigning, assisting, and evaluating appointed counsel, which currently is operating in the Fourth District of the Courts of Appeal. However, the SPD has not specified what role it will play in the Judicial Council's plan for the defense of indigent appellants, and has not provided data indicating the size or complexity of its workload for the current or the budget years. Consequently, we withhold recommendation on the SPD's budget.

We recommend that prior to budget hearings the SPD and the Judicial Council jointly report the following information to the legislative fiscal committees:

1. The number of indigent appeals that will be handled by private appointed counsel and by the SPD in the current and budget years.

2. Any difficulties the council anticipates in obtaining qualified individuals or organizations to provide appointed counsel oversight services and how it proposes to overcome those difficulties.

3. The role of the SPD in the statewide system of indigent defense proposed by the Judicial Council.

4. The potential for using the SPD to perform the appointed counsel oversight responsibilities and the costs and benefits of such a proposal (Analysis page 1983).

Agricultural Labor Relations Board

(Item 8300/page 2001)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | Difference |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | |
| Expenditures... (thousands) | \$8,320 | \$7,411 | \$7,610 | \$7,610 | -- |
| Personnel- years..... | 189.7 | 143.2 | 142.2 | 142.2 | -- |

Highlights of Our Recommendations

1. Unfair Labor Practice (ULP) Activity

In 1983-84, the Governor reduced the ALRB by \$2.6 million and 50.3 positions. In the current year, the number of unresolved ULP charges has increased. The General Counsel claims that new procedures instituted by the ALRB will both eliminate the backlog and allow the agency to live within the budget restraints imposed by the 1983-84 reductions. Our analysis indicates, however, that rather than eliminating the backlog, the number of settlements has actually decreased since the new procedures were implemented. Therefore, we recommend that the General Counsel report prior to the budget hearings on the extent to which new case settlement procedures have been successful in eliminating the backlog in ULP charges (Analysis page 2005).

Department of Industrial Relations

(Item 8350/page 2012)

| | <u>1982-83</u> Actual | <u>1983-84</u> Estimate | <u>1984-85</u> | | |
|--------------------------------|--------------------------|----------------------------|-----------------|-----------------------------|-------------------|
| | | | <u>Proposed</u> | <u>Recom- mendation</u> | <u>Difference</u> |
| Expenditures... (thousands) | \$93,167 | \$102,578 | \$106,967 | \$106,912 | -\$55 |
| Personnel- years..... | 2,209.0 | 2,244.3 | 2,178.2 | 2,177.2 | -1.0 |

Highlights of Our Recommendations

1. Staffing Level

We recommend that the Departments of Finance and Industrial Relations report prior to the budget hearings on the extent to which staffing reductions and position vacancies will affect DIR's ability to meet its statutory responsibilities. In 1983-84, the Governor reduced the DIR by 170 positions. The Governor proposes a further reduction of 18 positions in 1984-85, as part of the Governor's 1984-85 plan to reduce the total number of state positions by 3 percent. In addition to position reductions in the current-year and those proposed for the budget year, approximately 14 percent of the DIR's permanently authorized positions currently are vacant. We recommend that the DOF and the DIR report to the fiscal committees concerning the impact of position reductions and high vacancy rates because the level of staffing may affect the department's ability to perform essential activities (Analysis page 2022).

Department of Food and Agriculture

(Item 8570/page 2053)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$81,747 | \$84,165 | \$70,504 | \$66,294 | \$4,210 |
| Personnel- years..... | 1,685.5 | 2,205.4 | 2,158.5 | 2,158.5 | -- |

Highlights of Our Recommendations

1. Ethanol Fuel Loan Program

The budget requests \$882,000 from the Ethanol Fuel Revolving Account for the department's ethanol fuel loan program. We recommend elimination of the loan program because (a) the department does not intend to finance any projects in the budget year and (b) the program has failed to stimulate the development of an agriculture-based energy sector in the state. We further recommend transferring the unencumbered balance in the Ethanol Fuel Revolving Account--approximately \$1,542,000--to the General Fund.

Department of Food and Agriculture--Capital Outlay

(Item 8570-301/page 2064)

| | 1982-83 <u>Actual</u> | 1983-84 <u>Estimate</u> | 1984-85 | | |
|--------------------------------|--------------------------|----------------------------|-----------------|-----------------------------|-------------------|
| | | | <u>Proposed</u> | <u>Recom- mendation</u> | <u>Difference</u> |
| Expenditures... (thousands) | -- | -- | \$4,537 | (pending) | -\$3,909 |

Highlights of Our Recommendations

1. Davis Vet Lab (-\$317,000)

The budget proposes \$510,000 for preliminary plans and working drawings for a new veterinary diagnostic laboratory on the University of California, Davis campus. Partial preliminary planning funds (\$75,000) are available in the current year.

At the time our Analysis was prepared, the partial preliminary plans had not been started. Consequently, the Legislature will have no more information on this project than it had last year. We recommend that funds be appropriated for completion of preliminary plans, but recommend that the amount for working drawings be deleted, a reduction of \$317,000 (Analysis page 2065).

2. Dorris and Hornbrook Border Inspection Stations (-\$3,577,000)

The budget proposes \$3,083,000 for preliminary plans, working drawings, and construction of a new border inspection station at Hornbrook and \$494,000 for acquisition, preliminary plans, working drawings, and construction for rehabilitation and reopening of the Dorris border inspection station. The department proposes to close existing stations at Mt. Shasta and McCloud.

The department indicates that the primary reason for relocating the stations to Dorris and Hornbrook is to avoid infestation of the apple maggot and gypsy moth. Our analysis indicates, however, that the state would be better served if the Mt. Shasta station remains open, since the apple maggot is already established in Siskiyou County, and maintaining current operations should make it more difficult for the pest to become established any further south. There is also little indication that the gypsy moth is a problem in northern California, since it migrates from the eastern United States, and according to the U.S. Department of Agriculture, is not a threat in the Pacific northwest. Moreover, it would be beneficial to examine the results of Siskiyou County's eradication efforts before

considering changes in the border station program. Consequently, we recommend that funds be deleted for the two projects, for a savings of \$3,577,000 (Analysis page 2067).

Department of Finance

(Item 8860/page 2095)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$21,467 | \$20,804 | \$22,048 | \$21,560 | 488 |

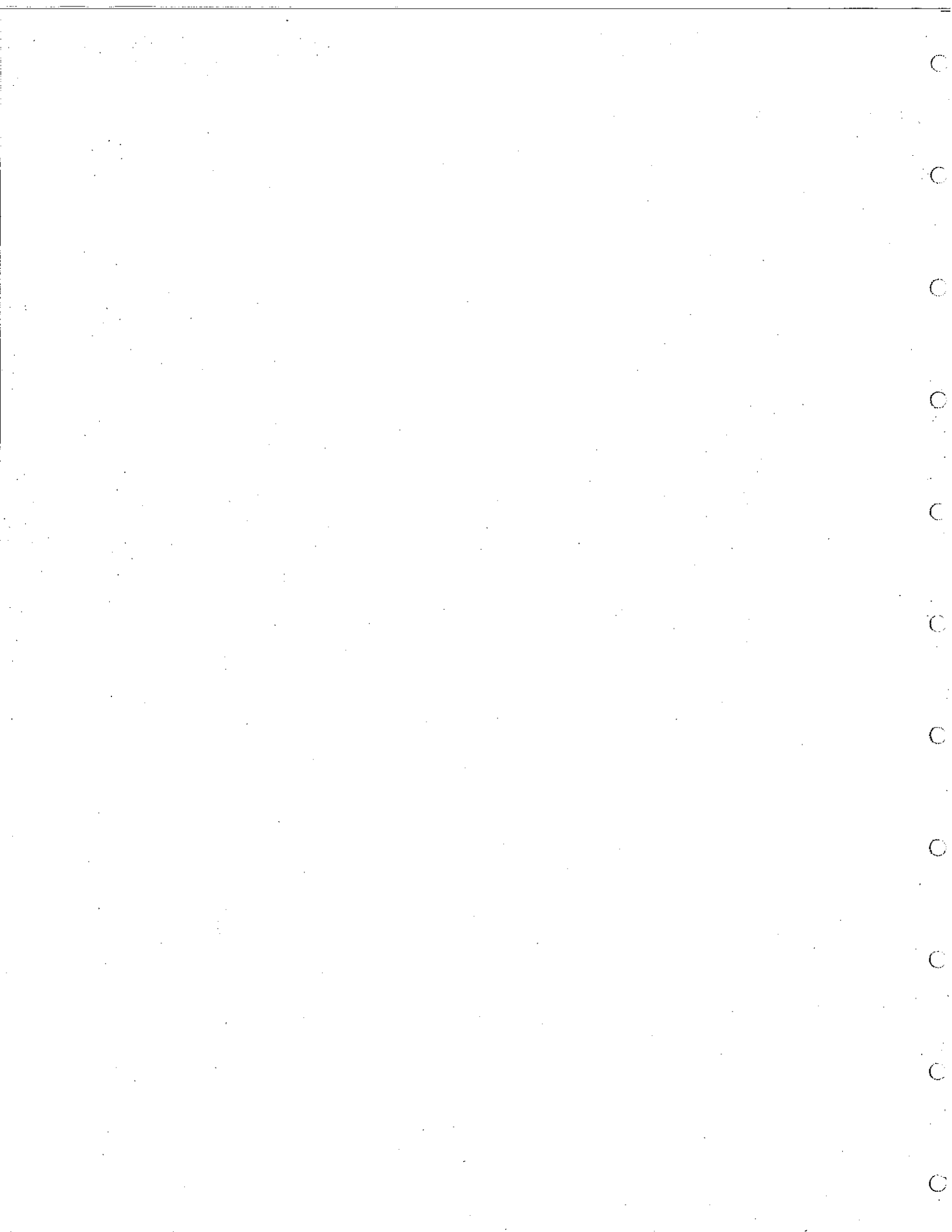
Highlights of Our Recommendations

1. Program Evaluation Unit

Pursuant to the Legislature's directive in the Supplemental Report of the Budget Act of 1983, we conducted an evaluation of the Program Evaluation Unit (PEU) in the Department of Finance. Based on our review, we conclude that PEU is performing increasingly fewer formal program evaluations (as it was originally created to do). For example, only two formal evaluation reports have been issued by PEU in the past 18 months. Instead, the PEU is more often being employed as a general staff resource for Administration initiatives (for example, coordinating the Governor's statewide staffing reductions and assisting the 1983 Government Efficiency Teams). Due to the lack of clearly identifiable and measurable workload factors, we cannot objectively assess PEU's effectiveness as a monitoring and coordinating body. Therefore, the Legislature's review of PEU should focus instead on the appropriate level of monitoring and coordinating services that the state will reasonably require in 1984-85 (Analysis page 2103).

2. Office Automation Expansion

The budget includes a proposal to spend \$470,000 for the expansion of the automated system installed during the current year in the offices of the department's executive staff. We conclude that this request is premature because (1) the department has not as yet secured approval for the expansion from its own Office of Information Technology (which is the state's chief watchdog over the state's acquisition of data processing equipment), and (2) even if the necessary approval is obtained, the department's acquisition timetable indicates that the purchase of the equipment would not occur until June 1984 (the last month of the budget year). If the project receives the necessary approval, funds could be included in the 1985-86 Budget. For these reasons, we recommend the elimination of \$470,000 in proposed General Fund support to the agency (Analysis page 2098).



MISCELLANEOUS

Payment of Interest on General Fund Loans

(Item 9620/page 2138)

| | 1982-83 Actual | 1983-84 Estimate | 1984-85 | | |
|--------------------------------|-------------------|---------------------|----------|---------------------|------------|
| | | | Proposed | Recom- mendation | Difference |
| Expenditures... (thousands) | \$56,100 | \$70,000 | \$35,000 | \$1,000 | \$34,000 |

Highlights of Our Recommendations

1. Fund Level Reduction

We recommend that \$34,000,000 be deleted from this budget item because General Fund short-term borrowing needs could be met primarily through external borrowing and financed through the continuing appropriation authority provided under Section 17293 of the Government Code. Traditionally, short-term borrowing needs of the General Fund have been financed through internal borrowing from the Pooled Money Investment Account (PMIA). Internal borrowing, however, is more costly than external borrowing. We estimate that financing General Fund cash needs in 1984-85 through external borrowing can result in a net General Fund gain of \$55 million relative to the level of expenditure required to conduct the same borrowing on an internal basis (Analysis page 2141).

Health Benefits for Annuitants

(Item 9650/page 2142)

| | <u>1982-83</u> Actual | <u>1983-84</u> Estimate | <u>Proposed</u> | <u>1984-85</u> Recom- mendation | <u>Difference</u> |
|--------------------------------|--------------------------|----------------------------|-----------------|---------------------------------------|-------------------|
| Expenditures... (thousands) | \$68,120 | \$88,817 | \$89,965 | (pending) | (pending) |

Highlights of Our Recommendations

We withhold recommendation on this item, pending receipt of information from the Public Employees' Retirement System and the Department of Personnel Administration on any increases in health insurance and dental insurance premiums that become effective for the budget year. 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 1984. Any funding granted for health and dental premium increases in 1984-85 will be provided from amounts included for employee compensation increases in Item 9800 (Analysis page 2153).

Universal Telephone Service Program

(Item 9695/page 2151)

| | <u>1982-83</u> <u>Actual</u> | <u>1983-84</u> <u>Estimate</u> | <u>1984-85</u> | | <u>Difference</u> |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|-----------------------------|-------------------|
| | | | <u>Proposed</u> | <u>Recom- mendation</u> | |
| Expenditures... (thousands) | -- | -- | \$18,109 | (pending) | -- |

Highlights of Our Recommendations

1. Program Implementation Not Yet Decided

With regard to the Universal Telephone Service program, the Public Utilities Commission has not yet issued decisions relating to: the characteristics of universal telephone service, the eligibility for the program, the rate to be paid for universal service, and the businesses to be subject to the tax. This information, which will be available by May 1984, is essential for analyzing the proposed expenditures associated with the program. Therefore, we withhold recommendation on the proposed expenditure of \$18,109,000 in support of the Universal Telephone Service program, pending receipt and analysis of further documentation.

Augmentation for Employee Compensation

(Item 9800/page 2153)

| | <u>1982-83</u> Actual | <u>1983-84</u> Estimate | <u>Proposed</u> | <u>1984-85</u> Recom- mendation | <u>Difference</u> |
|--------------------------------|--------------------------|----------------------------|-----------------|---------------------------------------|-------------------|
| Expenditures... (thousands) | -- | -- | \$444,885 | (pending) | (pending) |

Highlights of Our Recommendations

1. 1984-85 Employee Compensation Increases

The budget includes \$444,885,000 (\$220,331,000 General Fund) for compensation increases for state employees. This amount would provide for compensation increases of about 10 percent to state employees. This is the third year that compensation increases for state employees will be subject to collective bargaining. Negotiated changes in employee compensation and other terms and conditions of employment will be submitted to the Legislature for approval in the form of memoranda of understanding (MOUs). We withhold recommendation of employee compensation increases pending submission to the Legislature of MOUs and compensation proposals for nonrepresented state employees (Analysis page 2154).

2. Overbudgeted Health Benefits

To budget for health benefits, the DOF instructs departments to multiply the approved state contribution rates by the number of participants in each employee category in order to determine the amount needed for health benefits in the budget year. The 1983-84 maximum contribution rates approved by the Public Employees' Retirement System are (1) \$76 per month for single party coverage, (2) \$148 per month for two-party coverage, and (3) \$185 per month for family coverage. To the extent that departments use these state contributions rates to budget for 1984-85 health insurance costs rather than actual premium charges of individual health plans (which are often less than the state rates), departments are overbudgeted for health benefits. Therefore, we recommend the enactment of a general control section authorizing the Department of Finance (DOF) to recapture these monies. We estimate that the overbudgeted amounts could be as high as \$15 million (all funds), consisting of \$9 million General Fund and \$6 million special and nongovernmental cost funds.