

SUMMARY OF RECOMMENDATIONS  
IN THE  
ANALYSIS OF THE 1986-87 BUDGET BILL

FEBRUARY 1986

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

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## INTRODUCTION

In the Analysis of the 1986-87 Budget Bill, we report the results of our detailed examination of the Governor's spending proposals for the coming fiscal 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 condition.

### Impact of Recommendations--All Funds

Table 1 shows the net effect of our recommended changes to the Governor's Budget. As the table shows, approval of these recommendations would reduce expenditures or increase revenues by a total of \$903 million. The total reflects:

- \$906 million in recommended expenditure reductions;
- \$24 million in recommended expenditure augmentations;
- \$3 million in funding source changes to reimbursements; and
- \$17 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 approximately \$2 million.

Thus, the net effect of all recommendations set forth in the Analysis would be increases in revenues and reductions in expenditures totaling \$905 million.

Table 1

Impact of Legislative Analyst's Fiscal Recommendations  
All Funding Sources  
(dollars in thousands)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Selected Bond Funds</u>	<u>Subtotal (State Funds)</u>	<u>Nongovernmental Cost Funds</u>	<u>Federal Funds</u>	<u>Total All Funds</u>
Expenditures:							
Recommended Reductions	\$197,854	\$376,659 <sup>a</sup>	\$13,069	\$587,582	\$27,276	\$291,002 <sup>b</sup>	\$905,860
Recommended Augmentations	12,240	3,974	--	16,214	54	7,242	23,510
Change in Funding Source	<u>15,800</u>	<u>(19,644)</u>	<u>--</u>	<u>(3,864)</u>	<u>150</u>	<u>333</u>	<u>(3,381)</u>
Subtotals, Impact of Recommendations on Expenditures	\$169,814	\$392,349 <sup>a</sup>	\$13,069	\$575,232	\$27,072	\$283,427 <sup>b</sup>	\$885,731
Revenues:							
Recommended Reductions	--	--	--	--	--	--	--
Recommended Augmentations	<u>\$17,080</u>	--	--	<u>\$17,080</u>	--	--	<u>\$17,080</u>
Subtotals, Impact of Recommendations on Revenues	<u>\$17,080</u>	<u>--</u>	<u>--</u>	<u>\$17,080</u>	<u>--</u>	<u>--</u>	<u>\$17,080</u>
Net Effect on Fund Condition	\$186,894	\$392,349 <sup>a</sup>	\$13,069	\$592,312	\$27,072	\$283,427 <sup>b</sup>	\$902,811

a. Includes recommendation to delete appropriation of \$206.5 million in Petroleum Violation Escrow Account (PVEA) funds, which are reflected in the Governor's Budget as Nongovernmental Cost Funds.

b. Includes recommendation to delete appropriation of \$125 million in federal funds received by the state pursuant to Section 8(g) of the Outer Continental Shelf Lands Act.



## Impact of Recommendations--State Funds

Looking only at state funds, our recommendations would increase revenues or reduce expenditures by \$592 million. This amount reflects:

- \$588 million in expenditure reductions;
- \$16 million in expenditure augmentations;
- \$4 million in funding source changes to reimbursements; and
- \$17 million in revenue augmentations.

In addition, our recommendations for legislation would result in a net decrease of \$2.1 million in state expenditures.

Table 2 compares the expenditure reductions recommended for 1986-87 with the changes in expenditures which we have recommended in previous years.

Table 2

Impact of Legislative Analyst's  
Recommendations on Expenditures  
1960-61 to 1986-87

	Budget Expenditures As Introduced (Includes Bond Funds)	Net Recommended Changes <sup>a</sup> Amount
1960-61	\$2,477,121,574	-\$13,704,029
1961-62	2,592,304,521	-67,984,491
1962-63	2,885,523,247	-71,388,639
1963-64	3,250,402,049	-68,277,367
1964-65	3,662,436,261	-16,672,683
1965-66	4,026,827,774	-41,434,678
1966-67	4,617,913,743	67,703,128
1967-68	4,624,606,742	-30,329,479
1968-69	5,669,536,034	-6,278,104
1969-70	6,225,633,118	-21,243,891
1970-71	6,480,325,654	-27,352,080
1971-72	6,738,651,775	183,073,546
1972-73	7,616,673,213	71,029,894
1973-74	9,258,835,538	-42,681,312
1974-75	9,812,470,681	-85,447,959
1975-76	11,302,826,536	-46,383,525
1976-77	12,609,102,748	-103,934,695
1977-78	14,298,927,110	66,764,939
1978-79	16,180,354,097	-220,431,221
1979-80	15,456,886,915	-416,368,208
1980-81	24,004,298,729	-581,847,138
1981-82	24,653,047,519	-377,704,476
1982-83	27,045,026,000	-675,017,000
1983-84	25,738,105,000	-492,097,000
1984-85	30,272,631,000	-319,568,000
1985-86	33,599,704,000	-473,126,000
1986-87	36,738,866,000	-575,232,000

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 \$250 million. This money would then be available for the Legislature to use in achieving its priorities.

The \$250 million reflects:

- \$198 million in recommended reductions to appropriations;
- \$12 million in recommended augmentations to appropriations;
- \$16 million (net) in funding source shifts to the General Fund;
- \$17 million in recommended revenue augmentations;
- \$40 million (net) in recommended transfers to the General Fund;
- and
- \$23 million in recommended reversions to the General Fund.

Table 3

Impact of Legislative Analyst's Recommendations  
on the General Fund  
1986-87  
(dollars in thousands)

<u>Nature of Recommendation</u>	<u>Impact on General Fund</u>
Expenditures:	
Reductions	-\$197,854
Augmentations	12,240
Change Funding Source	<u>15,800</u>
Subtotal, Impact of Recommendations on Expenditures	-\$169,814
Revenues:	
Reductions	--
Augmentations	<u>17,080</u>
Subtotal, Impact of Recommendations on Revenues	\$17,080
Transfers (net)	40,290
Reversions	<u>23,283</u>
Net Effect on General Fund Condition	\$250,467

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  
1986-87  
(dollars in thousands)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Total</u>
Judicial/Executive	-\$2,507	-\$1,198	-\$3,705
State and Consumer Services	-621	-462	-1,083
Business, Transportation, and Housing	-2,233	-96,127	-93,894
Resources	14,781	-32,941	-18,160
Health and Welfare	-28,342	-1,011	-29,353
Youth and Adult Correctional	-19,538	--	-19,538
K-12 Education	-30,916	-739	-31,655
Higher Education	-84,405	--	-84,405
General Government	-14,533	-204,264	-218,797
Tax Relief	-1,500	--	-1,500
Capital Outlay	<u>--</u>	<u>-55,607</u>	<u>-55,607</u>
Totals	-\$169,814	-\$392,349	-\$562,163

Table 4 shows that the largest recommended reductions are in business, transportation and housing (\$94 million), higher education (\$84 million) and capital outlay (\$56 million).

### Impact of Recommendations--Personnel-Years

We also recommend a decrease in the state workforce amounting to 128 personnel-years (net). This decrease is the result primarily of: a recommendation that the Department of Motor Vehicles' phone-mail appointment system be eliminated (100 personnel-years); a recommendation that funds for pre-employment screening by the Department of Corrections be deleted (41 personnel-years); and a recommendation that California State University eliminate some instructional dean positions (41 personnel-years). The effect of these recommendations is partially offset by recommendations that agencies hire or retain state workers, rather than contract out for services, in the following areas: the Department of Transportation (70 personnel-years); the Department of Developmental Services (57 personnel-years); and the Department of Health Services (48 personnel-years). Smaller increases and decreases are recommended in a number of program areas.

### Recommendations Pending

We have withheld recommendation on \$7 billion in expenditures proposed in the Governor's Budget. We have done so wherever information needed to establish the need for 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 1986-87.

### Underfunded Items

In a number of instances, it is unclear how the level of service proposed in the Governor's Budget can be supported within the amount budgeted. The potential shortfall adds up to approximately \$481 million.

JUDICIAL

Judicial

(Item 0250/page 5)

	<u>1984-85 Actual</u>	<u>1985-86 Estimate</u>	<u>Proposed</u>	<u>1986-87 Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$54,330	\$71,123	\$82,191	\$81,003	-\$1,188
Personnel- years.....	696.5	737.8	779.3	773.3	-6.0

Highlights of Our Recommendations

1. Supreme Court Research Attorneys

We recommend deletion of \$219,185 from the General Fund to delete four Supreme Court research attorney positions. The Supreme Court requested the additional positions because of (a) a reported increase in workload, (b) the need for more experienced attorneys to replace student externs, and (c) the recent passage of State Constitutional Amendment 29 which gave the court new discretion in accepting cases. Our analysis found that the court had failed to justify the need for the new positions (Analysis page 10).

2. Appointed Counsel Costs

Our review of the \$14.6 million proposed for appointed counsel services in the courts of appeals indicates that the request is overbudgeted. Based on the most current information available on the average time devoted to each appeal, we recommend deletion of \$758,000 from the General Fund (Analysis page 12).

EXECUTIVE

Office of Emergency Services

(Item 0690/page 41)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$21,147	\$20,661	\$17,190	\$17,190 <sup>a</sup>	--
Personnel- years.....	143.3	172.9	176.7	176.7 <sup>a</sup>	--

a. Also recommendation pending on \$136,000 and 1.9 personnel-years.

Highlights of Our Recommendations

1. Public Facilities Account

We recommend that prior to budget hearings, the Department of Finance report to the Legislature on the state's ability to provide disaster assistance to local governments within the amount budgeted for that purpose in 1986-87. Under the Natural Disaster Assistance Act, the OES administers a program of aid to local agencies for the repair and restoration of public real property damaged by natural disasters. This assistance is provided from the Public Facilities Account within the Natural Disaster Assistance Fund. The account receives revenue primarily from periodic appropriations from the General Fund.

The administration does not propose a General Fund appropriation to the Public Facilities Account in 1986-87. This would leave a balance of \$3,843,000 in the account to fund disaster assistance in the budget year. However, based on a review of expenditures from the Public Facilities Account in recent years, the average annual expenditure from the account has been approximately \$7.1 million--\$3.3 million more than the amount that the administration proposes to make available for local disaster assistance needs in the budget year (Analysis page 44).



Department of Justice

(Item 0820/page 51)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$151,132	\$176,572	\$204,618	\$204,494 <sup>a</sup>	-\$124
Personnel- years.....	3,018.1	3,134.2	3,113.4	3,113.4 <sup>a</sup>	--

a. Recommendation pending on \$11,905,000 and 110.1 personnel-years.

Highlights of Our Recommendations

1. Criminal Law Workload

The budget proposes 35 additional attorneys and 24.5 clerical positions for workload in the Criminal Law Division at a cost of \$3.4 million from the General Fund. We withhold recommendation on the request pending receipt of the workload data on which the augmentation is based (Analysis page 56).

2. Medi-Cal Fraud Workload

The Bureau of Medi-Cal Fraud is intended to prevent fraud and abuse in the expenditure of state and federal funds for health care. It receives federal funding assistance for 75 percent of eligible costs. The budget of the Department of Health Services includes funds for a new pilot project in San Diego County that would allow beneficiaries to choose between two or more competing prepaid health care plans. The budget reflects a reduction in the provider fraud caseload in the Department of Health Services budget but no reduction is proposed for the Department of Justice. We withhold recommendation on the 20 existing positions and \$1.2 million proposed in the budget for the San Diego office pending additional information on the impact of the pilot project on criminal provider fraud workload in San Diego (Analysis page 57).

State Controller  
(Item 0840/page 62)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$60,573	\$71,931	\$78,235	\$77,635	-\$600
Personnel- years.....	1,217.1	1,241.7	1,268.5	1,268.5	--

Highlights of Our Recommendations

1. Office Automation

The budget requests \$600,000 from the General Fund for the third year of an office automation project in the Controller's office. The project, as originally approved by the Office of Information Technology, was conceived as a three-year effort to install terminals, personal computers, word processing equipment and associated software, and to provide a communications network connecting the various equipment with the Teale Data Center.

Our review of the project to date indicates that (1) the stream of costs and benefits have changed extensively since the project was approved, and (2) the level of funding proposed in the budget is less than one-half of what the Controller's office says is needed to secure the benefits of the project in 1986-87. Moreover, the Controller's office has not prepared a specific plan for use of the funds requested in the budget. We recommend, therefore, that funding for the costs of the project in 1986-87 be deleted.

We recognize that a significant amount has already been committed to this project, and therefore, we will reconsider this recommendation if the Controller's office is able to provide the Legislature with a revised estimate of costs and benefits reflecting the funding requested in the budget, and an expenditure plan covering all aspects of the project that are yet to be completed (Analysis page 72).

State Board of Equalization

(Item 0860/page 75)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$86,886	\$95,644	\$107,665	\$107,079	-\$586
Personnel- years.....	2,751.6	2,773.6	2,857.7	2,867.0	-9.3

Highlights of Our Recommendations

1. Information Processing Equipment

The budget includes \$3.9 million to pay the costs associated with several information processing projects. Of this amount, \$3.3 million reflects the cost of the second installment of the board's five-year mainframe replacement project and a call management system, while \$621,000 will be used for the procurement of word-processing equipment and a computer-assisted retrieval (CAR) system. The board indicates that the procurement of the word-processing and CAR projects would significantly enhance productivity among existing staff, and would reduce personnel costs. In fact, the budget reflects the elimination of 11.4 personnel-years and dollar savings of \$187,000. With these savings, the net cost of the word-processing and CAR projects amounts to \$434,000.

Our analysis indicates that the procurement of the word-processing and CAR projects is premature at this time. This is because the board has not demonstrated that the projects provide the appropriate technology or hardware for the board's long-term information processing needs. Moreover, the board cannot demonstrate this until it develops a comprehensive information processing plan. No such plan exists, and would not be available until late 1986, at the earliest.

As a consequence, we recommend that the Legislature delete the funding for the word processing and CAR projects. We further recommend that the board's General Fund appropriation be increased by \$187,000 and the number of personnel-years authorized for the board be increased by 11.4 in order to eliminate the budgeted savings associated with these projects (Analysis page 83).

California Debt Advisory Commission

(Item 0956/page 101)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$626	\$794	\$806	\$403	-\$403
Personnel- years.....	8.8	10.6	11.0	5.5	-5.5

Highlights of Our Recommendations

1. Commission's Authority Expires in 1986-87

The provisions of current law which authorize the California Debt Advisory Commission (CDAC) are scheduled to be repealed on January 1, 1987. The 1986 Governor's Budget requests full-year funding of \$806,000 for the commission in 1986-87. The Budget Bill contains language which would make the allocation of funding for the second half of the fiscal year (\$403,000) contingent upon legislative action to extend the sunset date of the commission.

Generally, it has been the Legislature's policy to consider funding requests for a new or extended program at the same time it determines the program's scope and functions. Thus, without knowing what the CDAC's responsibilities will be after January 1, 1987, we believe that it would be premature to appropriate funds in the Budget Bill for the commission beyond this date. Rather, the funding level for the CDAC should be considered in connection with the legislation that proposes to extend the commission's existence. On this basis, we recommend deletion of the \$403,000 (and the related language) proposed for support of the commission during the second half of the fiscal year. We also are recommending the enactment of legislation transferring the responsibility for the commission's information collection and other activities to the State Treasurer's office (Analysis page 102).

STATE AND CONSUMER SERVICES

Museum of Science and Industry

(Item 1100/page 113)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>1986-87</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$7,111	\$7,936	\$8,307	\$8,245 <sup>a</sup>	-\$62
Personnel- years.....	142.1	124.5	128.4	127.4	-1.0

a. Recommendation pending on \$276,000.

Highlights of Our Recommendations

1. Parking Lot Operation

During the current year, the Museum of Science and Industry administratively established positions in order to operate the parking lots in Exposition Park. The museum, however, is currently planning to enter into an agreement with the Los Angeles Memorial Coliseum Commission to contract for these services, beginning about February 1986. This would be contrary to the Legislature's intent, and would apparently violate Government Code Section 13332.15, which specifies that "no appropriation may be . . . used . . . to achieve any purpose which has been denied by any formal action of the Legislature."

The 1986-87 Governor's Budget assumes that the proposed contract arrangement would extend into the budget year. The museum plans to finance the contract directly from parking lot revenues, rather than through an appropriation (the 1985-86 budget requested \$265,000 to fund a parking lot contract). The museum also proposes to spend \$276,000 for the in-house administration of certain parking lots in 1986-87.

Until we receive additional information on the details of the proposed contract, and on the nature and extent of parking lot operations to be performed by museum staff, we withhold recommendation on this issue (Analysis page 116).

Department of Consumer Affairs

(Items 1110-1655/page 120)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$98,866	\$115,060	\$118,108	\$117,538 <sup>a</sup>	-\$570
Personnel- years.....	1,599.0	1,640.2	1,636.2	1,636.2	--

a. Recommendations pending on \$1,182,000.

Highlights of Our Recommendations

1. Bureau of Automotive Repair--Lack of Public Compliance with Smog Inspection Requirements

We recommend adoption of supplemental report language requiring the Bureau of Automotive Repair (BAR), in cooperation with the Department of Motor Vehicles (DMV), to investigate the lack of public compliance with state smog inspection requirements and report to the Legislature by December 1, 1986, on potential solutions to this problem.

Recently, DMV reported that the number of incomplete vehicle registrations has been on the rise. This is illustrated by the buildup in fee revenues held in DMV's Uncleared Collections Account--from \$80 million in January 1983 to \$221 million in September 1985. Most of this increase is attributed to the failure of many motorists to complete smog inspections. Our analysis indicates that the problem of motorists' failure to satisfy smog inspection requirements is widespread.

Thus, we recommend the Legislature direct BAR and DMV to investigate the lack of public conformance with smog inspection laws and submit a report on possible solutions by December 1, 1986 (Analysis page 130).

Department of General Services

(Item 1760/page 155)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$303,612	\$365,119	\$379,890	\$370,341 <sup>a</sup>	-\$9,549
Personnel- years.....	3,924.1	4,046.4	4,108.4	4108.4	--

a. Recommendation pending on \$8,550,000.

Highlights of Our Recommendations

1. Improvements in the Office of Procurement Should Await Consultant's Follow-Up Study (\$1,161,000)

In response to a March 1985 consultant's report on the department's procurement process, the budget proposes \$1,161,000 in funding for 14 new positions throughout the Office of Procurement, the redirection of two existing positions, and funds to replace the office's computer system. In general, the department's approach to implementing the procurement consultant's recommendations appears to be reasonable. The department is attempting to address the major areas of concern identified by the consultant: general purchasing, acquisition of electronic data processing and telecommunications equipment, bid specifications and quality control, and material services (warehouse-related activities). The department has indicated, however, that a procurement follow-up study, which will be completed in March 1986, is expected to include a written evaluation of the department's budget-year proposals for additional procurement staff and operating expenses. Accordingly, we withhold recommendation on the total request of \$1,161,000, pending receipt and analysis of the consultant's report (Analysis page 182).

2. Additional Resources Needed To Effectively Manage State Telecommunications Activities (\$5,314,000)

The state currently owns only 30 percent of the 240,000 telephones used by state agencies, even though it could save several million dollars annually by purchasing this equipment. In order to realize major savings in state communications costs, we believe the DGS must play a stronger role in the telephone equipment acquisition process. To accomplish this objective, we recommend in the Analysis that the Legislature direct the department in the Budget Act to unilaterally purchase telephone equipment

on behalf of those state agencies which fail to initiate this action themselves. We also recommend that the spending authority of the Department of General Services (DGS) budget be increased by \$5 million in 1986-87, in order to provide the department with the financial resources it may need to conduct a more centralized and expedited telephone purchase program (Analysis page 184).

Level of Planning Effort. In order to provide the department's Telecommunications Division (TD) with the resources it needs to carry out its relatively new planning-related responsibilities, we recommend that the TD's policy and planning unit be doubled in size. Accordingly, we recommend that the Legislature augment the DGS budget for 1986-87 by \$314,000 from the Service Revolving Fund (Item 1760-001-666), so that the TD can increase its policy and planning unit from six to 12 positions (Perspectives and Issues page 231).

### 3. Office of State Architect (-\$740,000)

The Office of State Architect (OSA), located in the Department of General Services, provides architectural/engineering services and construction inspection services for all state construction projects. In an attempt to improve the state's capital outlay process, the Legislature in the 1985-86 Budget Bill transferred 14 positions and associated funding from the OSA to the Department of Finance to establish a capital outlay control unit. The control unit was to contract with either the State Architect or private consultant architects for architectural/engineering services.

The Governor vetoed this action. In his veto message, the Governor stated he was recommending that the Legislature authorize urgency legislation to reestablish the positions within the Department of General Services. The Director of Finance, however, subsequently reestablished these positions as an emergency deficiency authorization. The 1986-87 Governor's Budget contains a proposal to permanently reestablish these positions within the OSA.

Our analysis indicates that there are still problems with the capital outlay project delivery system. Consistent with the Legislature's action last year, we are recommending that the Legislature establish a Capital Outlay Control Unit (\$740,000, 14 positions) which is administratively and physically separated from the OSA and is directly responsible to the Director of General Services--the state's property manager (Analysis page 165).

### 4. Repairs and corrections to New State Office Buildings (-\$684,000)

The department's request includes \$684,000 for 19 special repair projects for new state office buildings. The need for each of these projects appears to result from a basic design or construction flaw - and thus should be remedied by the consulting contractor or the architect, not the state.



Seven of these 19 projects were included in the department's special repair request for 1985-86, but were explicitly deleted by the Legislature because the department had not established liability for correcting the deficiencies. In the 1985 Budget Act, the Legislature directed the department to investigate whether the state or the project consulting architect/contractor was liable for these problems. To date, the department has not made this determination.

Before spending \$684,000 to repair buildings that are only a few years old, the department should determine whether the consulting contractor/architect is liable. Consequently, we recommend that the Legislature delete the \$684,000 included for this work. We urge the department to prepare an analysis prior to budget hearings of the liability for all planned special repair projects to new buildings (Analysis page 173).

5. Los Angeles--Heating, Ventilation and Air Conditioning System (HVAC)  
(-\$1,600,000)

The Legislature appropriated \$71,000 in the 1985 Budget Act for preliminary plans to alter the HVAC system at the Los Angeles State Building. To date, the Office of State Architect has not begun preliminary plans or even set a schedule for this project.

A new Los Angeles State Building is scheduled to be complete by July 1989. At that time, the old Los Angeles State Building will be substantially remodeled for new occupants. Because appropriate HVAC system design depends on a variety of factors which are not known at this time--such as the office layout of the new building occupants, machinery use and number of people--we recommend that this project be postponed until the building is remodeled for new occupants.

On this basis, we recommend that the Legislature delete the \$1,600,000 for this project (Analysis page 174).

6. Building Rental Account -- The PUC Should Pay the Full Cost of  
Occupying the New San Francisco Building (-\$6,241,000)

The Public Utilities Commission (PUC) will soon move from the old San Francisco State Building on McAllister Street, to the new San Francisco Building on Van Ness Street. Construction of this new building was financed through a debt instrument known as certificates of participation, which are very similar to bonds. The department estimates that the total operating cost of the building--bond payments, maintenance, utilities, etc.--will be \$6.2 million in 1986-87. These costs are proposed to be paid through the Building Rental Account.

Financing the building through the Building Rental Account allows the PUC to pay \$2.3 million (36 percent) of the estimated total costs. The balance of the costs, 64 percent, is passed on to all other agencies occupying state space. This transfer of costs to other agencies occurs because all expenses charged to the Building Rental Account are divided

Department of General Services--Capital Outlay

(Item 1760-301/page 189)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$4,587	\$222	-\$4,365

Highlights of Our Recommendations

1. San Francisco State Building Backfill (-\$3,339,000)

The budget requests \$3,339,000 to remodel 105,000 square feet of space in the existing San Francisco State Building. This space will be vacated by the Public Utilities Commission when the new San Francisco State Building is occupied in early 1986.

Although funds for preliminary plans were appropriated in the 1984 Budget Act, the department has still not completed the plans. Consequently, working drawings--which were scheduled to be completed by March 1986--will be delayed. As a result, construction funds are not necessary at this time because (1) the project is behind schedule, and (2) the Legislature does not have the information it needs (preliminary plans) to assess the proposed alterations and associated costs. Thus, we recommend that the Legislature delete the requested funds (Analysis page 191).

2. Franchise Tax Board, Phase II (-\$988,000)

The department requests \$988,000 for working drawings for the Franchise Tax Board, Phase II facility. The project is a 385,000 gross square foot building including space for data storage and retrieval, warehousing, document destruction, and offices. Preliminary planning funds for this project were provided in the 1985 Budget Act. The estimate future cost of the facility is \$24.5 million.

As preliminary plans will not be completed in the current year, the Legislature will have no new information on which to evaluate the cost of the project. Thus, we recommend that the Legislature delete the requested funds (Analysis page 192).

BUSINESS, TRANSPORTATION AND HOUSING

State Banking Department

(Item 2140/page 228)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$8,409	\$9,104	\$11,527	\$9,718	-\$1,809
Personnel- years.....	171.6	177.7	177.0	177.0	--

Highlights of Our Recommendations

1. Office Automation Project

We recommend deletion of \$1,560,000 for an office automation system because the department has not justified the proposed system.

The department is requesting \$1,560,000 for full-scale implementation of an integrated office automation system in the budget year. The department asserts that the proposed system will give it greatly increased capability to oversee and examine banks, particularly "problem banks" which should be monitored more frequently and to a greater extent.

We agree such systems can result in efficiencies. Our analysis indicates, however, that the department's proposed system has little chance of success. This is because the department has not (a) prepared a rigorous feasibility study report and (b) conducted a pilot project prior to full-scale implementation. Furthermore, we find the department lacks adequate staff to carry out the project. For these reasons, we believe that full-scale implementation of the proposed system has not been justified. Hence, we recommend deletion of \$1,560,000 requested for the project (Analysis page 230).

Department of Commerce  
(Item 2200/page 238)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$17,103	\$21,653	\$21,894	\$19,813	-\$2,081
Personnel- years.....	81.0	100.7	92.8	92.8	--

Highlights of Our Recommendations

1. Tourism Marketing and Advertising Program

The budget proposes to add \$2 million to the state's tourism advertising and promotion campaign. The department plans to use the additional funds to expand the level of media purchases for California state advertising.

Our analysis indicates that this request is not justified because the Department of Commerce has not adequately evaluated the existing tourism advertising and promotion campaign, which commenced in March of 1985. Chapter 309, Statutes of 1984 (SB 1061) requires the Office of Tourism to submit an annual report to the Legislature assessing the overall benefits and effectiveness of the tourism marketing program. At the time this analysis was prepared, the department had not measured the impact of the marketing program by the criteria set forth in Chapter 309. The first report, which was due to the Legislature March 15, 1985, has not been submitted. The department provided a draft of the report to this office, however, it does not address the topics required by Chapter 309.

On this basis, we recommend deletion of the \$2 million requested to augment the tourism advertising and promotion campaign (Analysis page 242).

Department of Housing and Community Development

(Item 2240/page 244)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		
			<u>Recom- Proposed</u>	<u>mentation</u>	<u>Difference</u>
Expenditures.. (thousands)	\$54,437	\$74,043	\$78,982	\$76,382 <sup>a</sup>	-\$2,600
Personnel- years.....	547.5	554.8	554.8	554.8	0

a. Also, recommendations pending on \$20,408,000.

Highlights of Our Recommendations

1. Mobilehome Park Purchase Program Augmentation is Unnecessary  
(-\$2,500,000)

The budget proposes to transfer \$2,500,000 from the Mobilehome-Manufactured Home Revolving Fund to the Mobilehome Park Purchase Fund (MPPF) to increase park purchases by mobilehome owners. The transfer would make possible 1986-87 expenditures from the MPPF of \$7,336,000, an increase of \$3,094,000 or 119 percent, over estimated current-year expenditures.

Our analysis of the budget request indicates that the proposed \$2.5 million augmentation is not justified. First, the Mobilehome Park Assistance Program has yet to make its first loan, thus we have no information regarding how the program is being administered. Second, even without the proposed augmentation, the program will have \$4.9 million available from other sources to spend in 1986-87 -- a 37 percent increase over estimated current-year expenditures. Third, the department has no data regarding (a) how many mobilehome park residents have been or are at risk of being displaced, or (b) whether or not the program addresses the perceived need (Analysis page 251).

2. Housing Trust Fund: Major New Funding Source

Chapter 1584, Statutes of 1985, appropriates \$20 million in tidelands oil revenues to the newly established California Housing Trust Fund. The funds are appropriated annually for three years, beginning in 1986-87, for housing programs serving low and very low income households.

The budget proposes to allocate this \$20 million to the following programs in 1986-87:

<u>Program</u>	<u>Proposed 1986-87 CHTF Allocation</u>
Rental Housing Construction	\$10,000,000
Emergency Shelter	4,000,000
California Self-Help	2,000,000
Special User Housing Rehabilitation	2,500,000
Farm Labor Housing Rehabilitation	1,000,000 <sup>a</sup>
Senior Shared Housing	500,000

a. Minimum allocation required by Chapter 1584, Statutes of 1985.

We withhold recommendation on this proposed allocation (1) because we need more information from the department regarding how well the programs would leverage funding from other sources, and (2) because we have concerns regarding the effectiveness of the program receiving the majority of the allocation--a new, untested component of the Rental Housing Construction Program (Analysis page 250).

Department of Savings and Loan  
(Item 2340/page 265)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$4,443	\$6,395	\$8,859 <sup>a</sup>	\$637	-\$8,222
Personnel- years.....	81.6	113.4	136.6 <sup>a</sup>	--	--

a. Recommendation pending on \$1,676,000 and 28 personnel-years.

Highlights of Our Recommendations

1. Regulatory Staff Increase

We withhold recommendation on \$1,676,000 and 45 positions pending receipt of a formalized staffing agreement with the Federal Home Loan Bank Board (FHLBB).

The department is requesting \$1,676,000 to add up to 45 examiner, appraiser, and clerical positions in the budget year. According to the department, the augmentation would enable it to: (a) accommodate an anticipated workload increase and (b) comply with the terms of a revised memorandum of understanding (MOU) with the FHLBB. The department asserts that achieving the latter objective would assist in securing approval of deposit insurance for new associations, which has been stalled at the federal level.

We find that the revised MOU between state and federal officials has not yet been formally approved. Without a final agreement, the Legislature cannot be confident that approval of the department's proposed budget will provide a staffing level adequate to remove any federal roadblock in granting deposit insurance for new associations. Hence, we have withheld recommendation on the proposed augmentations of \$1,676,000 and 45 examiner, appraiser, and clerical positions, pending receipt of a formalized staffing agreement with federal authorities (Analysis page 268).

California Transportation Commission  
(Item 2600/page 271)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$1,002	\$1,182	\$1,180	\$1,114	-\$66
Personnel- years.....	10.6	11.0	11.0	11.0	--

Highlights of Our Recommendations

1. Evaluation of California Transportation Commission's Performance

We recommend that the Legislature adopt supplemental report language directing the California Transportation Commission to act on a more timely basis and to provide adequate opportunities for local involvement.

Based upon a review of the California Transportation Commission's performance since it was established in 1977, we find that the commission has not been as effective as it should be in carrying out its responsibilities and duties. Specifically, we find that:

- The commission performs more of an executive, than a quasi-legislative, function,
- The commission fails to adopt a realistic fund estimate,
- The commission is incapable of making timely decisions,
- Local agencies have limited opportunity to influence commission policies and actions,
- The commission's approach to transportation issues is not balanced,
- The commission is not performing its budget oversight responsibility.

Our review indicates that the transportation programming process established by the Legislature is sound but that the commission must improve its effectiveness if the goals established by the Legislature are to be achieved. Therefore, we recommend that the Legislature adopt supplemental report language addressing the need to improve the commission's effectiveness (Analysis page 272).



## 2. Los Angeles Metro Rail Project

We recommend that the commission report to the Legislature by April 1, 1986, on the financial feasibility of the Los Angeles Metro Rail project and commission policies regarding state participation in the project.

In 1982, the commission committed \$400 million as the state's share of the \$3.3 billion Los Angeles Metro Rail Project based upon an understanding between the commission and the Southern California Rapid Transit District (SCRTD) concerning the project's scope, alignment, scheduled completion, and budget. Since that time there have been major developments which affect each element of the original understanding. These developments include:

- A decision by the Urban Mass Transportation Administration (UMTA) that federal resources were inadequate to fund the original 8.8 mile minimum operable segment resulting in an SCRTD decision to identify a shorter, 4.4 mile, segment for initial funding.
- Subsequent opposition from UMTA to funding even the 4.4 segment. This may have recently been overcome by Congressional action requiring such an agreement.
- Congressional action requiring the rerouting or realignment of Metro Rail to avoid tunneling through high risk methane gas areas identified by a Los Angeles City task force.

As a result of these developments it is now clear that major modifications to the Metro Rail project will be necessary which are likely to result in substantial increased costs. In the face of uncertainties regarding the project scope and costs, we think that the Legislature needs a clear statement of the commission's current policies regarding Metro Rail and its current assessment of the project's financial feasibility (Analysis page 275).

Department of Transportation

(Item 2660/page 279)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$2,270,739	\$2,843,024	\$2,960,653	\$2,774,324 <sup>a</sup>	-\$186,329
Personnel- years.....	16,039.0	14,965.1	14,914.8	14,985.2	-70.4

a. Recommendation pending on \$106,932,000.

Highlights of Our Recommendations

1. Capital Outlay Request Higher Than Needed

We recommend a reduction of \$146 million from federal funds and \$18.9 million from the State Highway Account because the amount requested for highway capital outlay projects is higher than can be funded with projected federal funds and is higher than what is needed from state funds.

The budget requests the Legislature to appropriate the state's full apportionment of federal highway funds. Because of federal budget constraints, we estimate that available federal funds will be significantly lower, at \$886 million instead of \$1,032 million. Accordingly, we recommend the lower expenditure authority be approved, for a reduction of \$146 million.

Similarly, our analysis indicates that the request for state capital outlay funds is excessive. First, the amount needed to match federal funds will be less. Second, the department has indicated that based on the latest estimate, it would need only \$209,288,000 in state funds during 1986-87 for highway capital outlay--an amount which is \$18.9 million lower than requested in the budget. Accordingly, we recommend that the requested state funds be reduced by \$18.9 million (Analysis page 297).

2. Hazardous Waste Site Investigation Not Justified

We recommend the deletion of the \$3 million augmentation requested for hazardous waste investigation because the increase has not been justified, and the department has no expenditure plan and has failed to prioritize sites to be investigated.

For 1986-87, the department proposes to spend \$5 million, or \$3 million more than approved for the current year, to investigate potential hazardous materials sites in highway rights-of-way. This higher funding level is requested despite the absence of specific workload data.

Moreover, the department's request does not prioritize hazardous waste sites according to their potential danger or impact on the schedule of project delivery and construction.

Because the department has not adequately planned or justified the requested funding increase, we recommend that the investigation program be continued at the current-year level and the department's request be reduced by \$3,000,000 (Analysis page 301).

### 3. Reduction in Various Maintenance Requests

We recommend a reduction of \$3,508,000 requested for the following maintenance activities because the requests have not been justified by the department.

(a) Maintenance Contracts Not Specific--reduce by \$1,320,000. The department is requesting \$3,820,000 to contract for the maintenance of additional highway facilities. However, the department has failed to indicate whether the additional work can be contracted, and what work would be contracted. Given the department's track record in contracting maintenance work out, we question its ability to successfully accomplish the additional work by contracting. We therefore recommend that the department hire additional staff to do this work, and that its personnel be increased by 70.4 personnel-years at a cost of \$2.5 million. Accordingly, we recommend that \$1,320,000 be reduced (Analysis page 303).

(b) Additional Cash Overtime Not Justified--reduce by \$1,678,000. The department is proposing to increase cash overtime by \$1,678,000 to handle increased maintenance workload for snow and storm damage work and for work related to special events. Our review shows that, based on past actual expenditures, adequate resources are already available for storm and snow damage activities. In addition, the additional cash overtime requested for special events was not justified because the department was unable to identify the increased number of events and the projected workload. Accordingly, we recommend that the request be denied (Analysis page 306).

(c) Sign Repair and Replacement--reduce by \$510,000. The department is requesting \$510,000 to contract out highway sign repair and replacement work. Our analysis shows that contracting for this work has been ineffective, and there have been various delays. Because proper maintenance of highway signs are important to motorists' safety, we do not think the department should contract this work out. Accordingly, we recommend the request for \$510,000 be denied. We further recommend that the department inform the Legislature on the estimated staff resources needed to properly maintain and replace signs, so that the Legislature could consider augmenting the department's staff for this purpose (Analysis page 303).

### 4. Maintenance of Road Pavement

We recommend the reduction of \$5,996,000 requested for the maintenance of road pavements because the requests are overstated and are not justified.

(a) Preventive Maintenance of Asphalt Roads--reduce by \$2,496,000. The department is requesting \$20 million to initiate a preventive maintenance program to slow deterioration of asphalt road pavements. Our review indicates that for the 4,000 lane miles of pavement to be treated annually, the department should be able to reduce ongoing maintenance costs by about \$624 per lane mile, for an annual cost savings of \$2,496,000. The department, however, has not accounted for this savings in its budget request (Analysis page 307).

(b) Maintenance of Low-Volume Roads--reduce by \$3.5 million. The department is requesting an increase of \$3.5 million to maintain an additional 2,237 lane miles of "class 3" roads with low traffic volume, which the department reclassified from other categories of roads. The requested amount would allow these roads to be maintained at approximately \$1,565 per lane mile. Our review shows that in 1984-85, the department spent about \$2,156 per lane mile on approximately 7,460 lane miles of "class 3" roads, about 80 lane miles more than the 7,377 lane miles projected to be maintained in 1986-87. It, therefore, appears that the department already has adequate funds to maintain more miles at a higher cost than is proposed for 1986-87. In addition, the department's request fails to consider funds which were allocated for the maintenance of these roads prior to their being reclassified. Accordingly, we recommend the request for \$3.5 million be denied (Analysis page 307).

##### 5. San Diegan Rail Improvement

We recommend a reduction of \$5,290,000 in state funds and an equal increase in reimbursements for capital improvements to the San Diegan intercity rail service to conform to the California Transportation Commission's policy requiring at least 50 percent nonstate funding on intercity rail capital improvement projects. We further recommend Budget Bill language requiring negotiation of agreements necessary to reduce running times for the service prior to allocation of funds for the rail projects.

The department is requesting \$10,580,000 for track and grade crossing improvements on the San Diego to Los Angeles (San Diegan) intercity rail line to (a) reduce running times, and (b) allow addition of another train to the schedule at a future date. Our review finds that the California Transportation Commission requires at least a 50 percent nonstate match on intercity rail capital improvement projects. Therefore, we recommend a reduction of \$5,290,000 in the state funds requested and an increase of \$5,290,000 in reimbursements from other entities.

Our review also indicates that the benefits of these capital improvement projects will be achieved only if Amtrak and its contracted private operator agree to reduce running times and to add an additional train to the schedule, if requested by the state, once such improvements are completed. Therefore, we further recommend that funds not be allocated by the California Transportation Commission for the rail improvement projects until such agreements have been negotiated (Analysis page 312).

6. Project Already Budgeted in the Current Year

We recommend deletion of (a) \$1,014,000 in reimbursements from the Transportation Planning and Development Account under the state's Transit Capital Improvement (TCI) program, and (b) \$3,042,000 in matching federal funds for station improvements on the Peninsula Commuter Service.

Our review indicates that this request is redundant to 1985 Budget Act appropriations of \$1,014,000 from the Transportation Planning and Development Account and \$3,042,000 from federal funds for the same projects in the current year. Therefore, we recommend deletion of the amounts requested (Analysis page 314).

Department of the California Highway Patrol

(Item 2720/page 324)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>Proposed</u>	1986-87 <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$412,866	\$451,929	\$481,847	\$477,366 <sup>a</sup>	-\$4,481
Personnel- years.....	7,713.0	7,640.1	7,631.3	7,630.1	-1.0

a. Recommendation pending on \$1,310,000.

Highlights of Our Recommendations

1. Increased Enforcement of Vehicle Registration Laws is Needed

We recommend that the Legislature adopt supplemental report language directing the Department of the California Highway Patrol (CHP) to establish a task force with the Department of Motor Vehicles (DMV) and local law enforcement agencies in order to increase the enforcement of the state's vehicle registration laws.

According to the DMV, up to 2.1 million vehicles are driving on California roads and highways without a valid registration. As a result, the Motor Vehicle Account will lose \$48.3 million in registration fees that are due on these vehicles in the current year. In addition, both the General Fund and local governments are being deprived of more than \$100 million in revenues from the use tax and in-lieu property taxes during the current year.

Consequently, we believe the CHP must be more aggressive in its enforcement of these laws. With this in mind, we recommend that the Legislature direct the CHP to form a task force that includes representatives of DMV and local enforcement agencies for the purpose of developing and implementing a plan for increased enforcement of the state's vehicle registration laws (Analysis page 328).

2. Construction of Golden Gate Consolidated Center Delayed

We recommend that the Legislature delete \$1,970,000 requested for telephone and radio equipment for the Golden Gate Consolidated Center because construction of the new building will not begin in 1986-87.

The department is requesting \$1,970,000 to purchase a computer-aided dispatch system and associated telephone equipment for the Golden Gate Consolidated Center. We find that the purchase of this equipment in 1986-87 would be premature because construction of the new facilities will not begin until the end of 1986-87 at the earliest, and will take 20 months to complete. Accordingly, we recommend deletion of \$1,970,000 for this equipment (Analysis page 328).

Department of the California Highway Patrol--Capital Outlay

(Item 2720-301/page 331)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$11,159	(pending)	-\$1,151

Highlights of Our Recommendations

1. Building Alterations at Stockton (-\$502,000)

The department proposes to expand the Stockton field office and upgrade various mechanical and electrical items. This project is a resubmittal. The Legislature deleted this project from the 1985 Budget Bill because the patrol had indicated to the Legislature, when requesting funds to purchase the Stockton facility, that the office was constructed for 75 traffic officers and would be adequate for occupancy for at least 13 years.

Today, three years after the patrol purchased the facility, the Stockton field office has 74 traffic officers. Consequently, we recommend that the Legislature delete the \$502,000 requested for remodeling and expanding this facility (Analysis page 334).

Department of Motor Vehicles

(Item 2740/page 338)

	1984-85 Actual	1985-86 Estimate	Proposed	1986-87 Recom- mendation	Difference
Expenditures... (thousands)	\$278,754	\$315,968	\$343,180	\$331,578 <sup>a</sup>	-\$11,602
Personnel- years.....	7,706.9	7,872.1	7,827.1	7,674.9	-152.2

a. Recommendation pending on \$4,722,000.

Highlights of Our Recommendations

1. Budget Proposes Transfer of Funds from the State Highway Account to the Motor Vehicle Account

We recommend that the Legislature adopt Budget Bill language prohibiting the transfer of \$65,700,000 from the State Highway Account (SHA) to the Motor Vehicle Account (MVA) because it (a) does nothing to address the growing imbalance between expenditures and revenues to the MVA and (b) may shift the deficit from the MVA to the SHA.

In The 1986-87 Budget: Perspectives and Issues (Part 3), we point out that during the next five years, the MVA will face a major revenue shortfall in the range of \$675 million to \$1 billion unless (a) vehicle registration and driver license fees are increased and (b) the growth of expenditures by the DMV, the California Highway Patrol, and the Air Resources Board is slowed. The shortfall will first appear in 1986-87, when the account will incur a deficit of about \$48 million. The budget attempts to gloss-over the \$48 million revenue shortfall in the MVA by proposing a \$65.7 million transfer from the SHA to the MVA.

Our analysis indicates that the proposed transfer leaves untouched the serious imbalance between MVA expenditures and MVA revenues and could result in a potential revenue shortfall as high as \$104 million in the SHA during 1986-87. Therefore, we recommend the Legislature adopt budget bill language to prohibit the transfer (Analysis page 343).

Instead, we recommend that the Legislature eliminate the deficit by taking steps to (a) increase compliance with the state's vehicle registration laws (Analysis page 328), (b) transfer \$20 million in funding support for the Air Resources Board to the General Fund (Analysis, page 407), and (c) enact legislation to increase the vehicle registration and driver's license fees, effective January 1, 1987 (Perspectives and Issues page 146).

## 2. Need to Expand Staffing for the Phone/Mail System Not Documented

We recommend that the Legislature delete \$2,736,000 and 100 personnel-years requested for the phone/mail appointment system because the department has failed to document a significant increase in the utilization of the system.

The department is requesting \$2,736,000 and 100 personnel-years to make field office appointments for motorists. Our review of the department's request indicates an increase in the utilization of its existing system. Nevertheless, the department has not presented the information needed to document that additional staffing is needed to accommodate this workload. As a result, we cannot recommend that the augmentation be approved (Analysis page 345).

## 3. Computer Replacement Project Subject to Major Revisions

We recommend that the Legislature delete \$2,652,000 and 9.5 personnel-years requested for the first phase of the data base replacement project because the request is premature given that revisions are being made to the feasibility study report.

The department is requesting \$2,652,000 and 9.5 personnel-years for the first phase of its planned \$15 million computer replacement project. Our review indicates that the Legislature has no basis on which to determine what level of funding should be provided for this project until the feasibility study report is revised. Therefore, we recommend that funds for this purpose be deleted.

## 4. Direct Public Access to Department's Data Base Not Justified

We recommend that the Legislature delete \$519,000 requested for a project allowing direct public access to the department's computerized data base because the need for the project has not been established.

The budget requests \$519,000 to implement a computerized system that would provide the general public and business entities with direct access to DMV's vehicle registration and driver's license records.

This proposal raises major policy issues concerning the confidentiality of information and the privacy rights of individuals. Moreover, a major policy change such as this should be implemented by legislation in order to allow a thorough legislative review of the proposal. Our analysis indicates that the department has not fully described for the Legislature (a) what information will be made available for direct public access and (b) what security measures will be incorporated in the system to protect information of a confidential nature and privacy rights of individuals. Accordingly, we recommend that the Legislature delete funds for this project and adopt supplemental report language requiring the department to report to the Legislature on what information would be made available and to whom and what security measures would be operative if the system were approved (Analysis page 348).



Department of Motor Vehicles--Capital Outlay

(Item 2740-301/page 349)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$10,052	(pending)	-\$4,720

Highlights of Our Recommendations

1. Three New Field Offices--Redding, San Gabriel and Yuba City  
(-\$4,619,000)

The Budget Bill provides working drawing and construction money for new Department of Motor Vehicles (DMV) field offices in Redding, San Gabriel and Yuba City. Funds to purchase the land and to develop preliminary plans for each location were provided in the 1985 Budget Act. To date, however, the DMV has not purchased a site for any of these offices. Since the preliminary plans have not started, the Legislature does not have the information it needs to determine the appropriate amount for working drawings and construction. Under the circumstances, we recommend the Legislature delete the \$4,619,000 requested for these projects (Analysis page 351).

Stephen P. Teale Data Center

(Item 2780/page 354)

	1984-85 Actual	1985-86 Estimate	Proposed	1986-87 Recom- mendation	Difference
Expenditures... (thousands)	\$44,926	\$52,642	\$56,106	\$55,078 <sup>a</sup>	-\$1,028
Personnel- years.....	328.5	328.2	322.9	322.9	--

a. Recommendation pending on \$28,890,000.

Highlights of Our Recommendations

1. Contracting Cost Estimates Are Not Credible

We recommend a reduction of \$640,000 for consulting and professional services because the data center has not provided credible cost estimates in support of its request.

The Teale Data Center has requested \$1 million for four contracts with private firms to provide hardware and software technical support services. The center indicates that it will request an augmentation of \$500,000 to its current-year budget to cover the first half-year of these contracts.

Our analysis of the department's supporting information revealed inconsistencies between the amounts requested based upon its summary of hours and rates and the amount needed to fund the one activity already under contract. Specifically, we estimate that this activity will cost \$55,000 in the budget year, or \$165,000 less than the amount requested. In the absence of additional supporting material, the estimates provided by Teale for the other three contracts covered by this request are not credible. We think that these costs are overstated by approximately \$475,000. Therefore, we recommend a total reduction of \$640,000 in the amount requested for consulting and professional services (Analysis page 356).

## RESOURCES

### California Tahoe Conservancy

(Item 3125 page 365)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$307	\$3,234	\$999	\$999 <sup>a</sup>	--
Personnel- years.....	1.5	12.5	12.5	12.5	--

a. Recommendation pending on \$80,000.

#### Highlights of Our Recommendations

##### 1. Erosion Control Grants

The budget requests a total of \$5,040,000 from federal offshore oil revenues that the state may receive for grants to the City of South Lake Tahoe, and Placer and El Dorado Counties for erosion control projects in the Tahoe Basin. The conservancy received \$2,377,000 from state funds in the current year for erosion control grants provided that the money was used to fund the most beneficial projects. Instead, the conservancy is allocating most of the money to local jurisdictions on a percentage basis.

We recommend that the conservancy explain during budget hearings why it is not complying with a Budget Act requirement in the current year to fund the most beneficial projects. We also recommend (1) the adoption of Budget Bill language requiring projects funded in 1986-87 to result in a significant minimum level of sediment reduction for each state dollar spent, and (2) adoption of supplemental report language requiring the conservancy to rank all of the pending erosion control projects in the Tahoe Basin (Analysis page 368).

California Tahoe Conservancy--Capital Outlay

(Item 3125-301/page 365)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	\$25,000	\$30,000	\$30,000 <sup>a</sup>	--

a. Recommendation pending on \$4,200,000.

Highlights of Our Recommendations

1. Federal 8(g) Funds.

The budget requests \$15 million from federal offshore oil revenues that the state may receive to (1) purchase large parcels of land in the Tahoe Basin in order to settle court cases, (2) buy lands that generally would not qualify for Lake Tahoe Acquisitions Bond Act Funds because they are partially developed, and (3) construct improvements on these lands. Site improvements, such as erosion control measures and trails, are not eligible for funding under the bond act.

We recommend that the Legislature (a) approve \$10.8 million for acquisitions recommended by the Attorney General to settle court cases. We withhold recommendation on the remaining \$4.2 million pending review of a project priority list, cost estimates and project justifications (Analysis page 373).

Energy Resources Conservation and Development Commission

(Item 3360/page 383)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$33,096	\$52,487	\$40,907	\$31,810	-\$9,097
Personnel- years.....	338.9	352.1	354.0	354.0	--

Highlights of Our Recommendations

1. Flagrant Violation of Legislative Intent

We recommend deletion of \$5,890,000 requested from the Energy Conservation Assistance Account (ECAA) for energy conservation loans to schools, hospitals, and local governments because (a) the commission has given unauthorized interest rate subsidies on their loans, costing the state approximately \$8.2 million over the life of the loans, and (b) the commission indicates that there is not sufficient demand for new loans as the program without the unauthorized subsidies. We further recommend that the unappropriated balance in the ECAA as of July 1, 1986 (\$5,980,000), and all future loan repayments be transferred to the General Fund (Analysis, page 393).

2. Additional Grant and Loan Funds Not Needed

We recommend deletion of \$2.2 million requested from the Energy Technologies Research, Development and Demonstration Account (ETRDDA) for additional grants and loans to energy technology research, development, and demonstration projects. The request is premature since the commission has not granted or loaned any of the \$6 million already appropriated for this purpose (Analysis, page 397).

3. Continuing Lassen College Project Would Be Wasted Energy

We recommend deletion of \$167,000 requested from the General Fund for support of a testing and monitoring program at the Lassen Community College waste-to-energy cogeneration facility. Operation of the facility probably is not economical and future operation of the plant is doubtful (Analysis, page 396).

4. Continuing Increase in Contract Expenditures

The commission's budget includes \$8.5 million from the Energy Resources Programs Account (ERPA) for 56 contracts in 1986-87. This is \$2.7 million, or 47 percent, more than estimated contract expenditures in 1985-86, excluding contracts to support power plant siting cases. (The

commission has not requested contract support in 1986-87 for power plant siting, although commission staff indicate that about the same amount will be needed for siting contracts in 1986-87 as in the current year.) We recommend deletion of three contract proposals totaling \$840,000 because the contracts requested are not needed. We further withhold recommendation on \$5.7 million in contract requests pending receipt and analysis of additional information about the proposals (Analysis, page 388).

Air Resources Board  
(Item 3400/page 403)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>1986-87</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$45,443	\$52,605	\$57,772	\$57,592 <sup>a</sup>	-\$180
Personnel- years.....	549.7	560.3	572.2	574.2	-2.0

a. Recommendation pending on \$685,000.

Highlights of Our Recommendations

1. Inappropriate Use of Motor Vehicle Account

We recommend a reduction of \$19,912,000 from the Motor Vehicle Account (MVA) in the State Transportation Fund and an equal increase from the General Fund in order to shift funding for activities not related to motor vehicles from the MVA to the General Fund.

The MVA receives its revenue from motor vehicle registration and driver's license fees collected by the Department of Motor Vehicles. Article XIX of the California Constitution generally restricts the use of the MVA to purposes directly related to motor vehicles, streets and highways, mass transit guideways and the mitigation of the environmental effects of vehicles and transportation facilities. The use of funds from the MVA for purposes that are not related to motor vehicles appears inconsistent with Article XIX of the California Constitution, and is a contributing factor to the future deficit expected in the MVA (Analysis, page 407).

Department of Forestry

(Item 3540/page 424)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$231,523	\$264,764	\$279,748	\$278,436 <sup>a</sup>	-\$1,312
Personnel- years.....	3777.7	3946.6	4074.2	4057.7	-16.5

a. Includes recommendations pending on \$8,928,000.

Highlights of Our Recommendations

1. Savings Not Recognized From Closing Region V Headquarters in Monterey

We recommend a reduction of \$1,019,000 from the General Fund and 16.5 positions because the department has closed the Region V headquarters and indicates that it no longer needs this staff. We further recommend that the department report on its plans for (1) the remaining 19.8 positions in the Region V headquarters and (2) the facility previously occupied by the Region V headquarters.

In the current year, the department closed its regional headquarters in Monterey in order to equalize the size of the four remaining regions. The stated purpose of this action was to improve administrative efficiencies and permit a reduction in staff and costs.

The department indicates that 16.5 positions of the 36.3 positions at the Region V headquarters can be eliminated as a result of the reorganization. The budget, however, does not reflect any reduction in staff or operating expenses due to the closure of the Monterey office. In addition, the department has not provided any information on what will be done with the other 19.8 positions currently assigned to the Region V headquarters, nor what will be done with the building previously occupied by the Region V headquarters' staff (Analysis, page 434).

2. Consulting and Professional Services

We withhold recommendation on \$7,295,000 requested for consulting and professional services contracts pending receipt and analysis of information identifying (1) the contracts to be funded and (2) the cost of each.

The budget proposes total expenditures of \$8,477,000 from various funds for professional and consulting contracts in 1986-87. The department has identified how only \$1,182,000 of this amount will be spent. The department has not provided any information on the proposed uses of the remaining \$7,295,000 (Analysis, page 430).

State Lands Commission

(Item 3560/page 440)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$13,207	\$17,904	\$16,258	\$15,028	-\$1,230
Personnel- years.....	247.4	239.4	235.4	235.4	--

Highlights of Our Recommendations

1. Preexploration Studies Off Pt. Arguello

We recommend deletion of \$730,000 from the General Fund requested for air quality, biological, and geological studies preparatory to oil exploration on state tidelands off Pt. Arguello because (1) the commission does not have any plans to lease the lands at this time and the studies could become outdated by the time a lease is awarded, and (2) the studies would not be needed if the state enters into an equity agreement with the federal government (Analysis, page 448).

2. Seismic Studies North of Pt. Arguello

We recommend deletion of \$500,000 from the General Fund requested for expanded seismic studies on state tide and submerged lands north of Pt. Arguello because the commission has not yet acquired data from more general geological studies that will determine whether additional studies are required (Analysis, page 449).



Department of Fish and Game

(Item 3600/page 456)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$72,258	\$89,494	\$88,109	\$87,474 <sup>a</sup>	-\$635
Personnel- years.....	1470.0	1490.8	1503.2	1503.2	--

a. Includes recommendations pending on \$17,953,000.

Highlights of Our Recommendations

1. Fish and Game Preservation Fund Deficit

We recommend that the Department of Fish and Game and the Department of Finance report at the budget hearings on the administration's plans for (1) avoiding a deficit in the nondedicated portion of the Fish and Game Preservation Fund (FGPF) during 1986-87, and (2) providing an adequate reserve for economic uncertainty in future years.

The budget proposes total expenditures of \$60,546,000 in 1986-87 from the FGPF. The budget indicates that the nondedicated portion of the FGPF will have a reserve of \$588,000 in 1985-86 and \$2,464,000 in 1986-87. However, the budget (1) does not allocate deficiencies incurred in 1985-86 to their appropriate funding source and (2) ignores certain costs that will be incurred by the department in 1986-87. After adjusting for these factors, we estimate that the nondedicated portion of the FGPF will incur a deficiency of \$374,000 in 1986-87. Furthermore, if the current trends continue, we project that the deficiency in the nondedicated portion of the FGPF will increase in 1987-88 and the years thereafter if current spending trends continue (Analysis, page 461).

2. Loan Payback Should Be Included in Department's Budget

We recommend the appropriation of \$600,000 from the Fish and Game Preservation Fund (FGPF) as partial repayment of a General Fund loan to the FGPF provided by the 1985 Budget Act. As part of the administration's plan to address a potential \$7.1 million deficiency in the nondedicated portion of the FGPF in 1985-86, the administration requested a \$2 million loan from the General Fund to the FGPF. The Legislature approved the loan with the requirement to repay the loan in 48 monthly installments, concluding by June 30, 1990. In order to comply with this directive, the 1986-87 budget should appropriate approximately \$600,000 from the FGPF as the first payment on the loan. The budget, however, does not provide for any loan repayment (Analysis, page 467).

### 3. Consulting and Professional Services

We withhold recommendation on \$15,365,000 from various funds requested for consulting and professional services contracts pending receipt and analysis of information identifying (1) the contracts to be funded and (2) the cost of each. The budget proposes total expenditures of \$16,528,000 from various funds for professional and consulting contracts in 1986-87. The department has described how only \$1,163,000 of this amount will be spent. The department has not provided any information on the proposed uses of the remaining \$15,365,000 (Analysis, page 468).

### 4. Fish Food Overbudgeted

We recommend a reduction of \$820,000 from the Fish and Game Preservation Fund because the amount requested for fish food is overbudgeted. Based on historical usage and the inflation-adjusted price of fish food, we estimate that the department's fish food costs in 1986-87 will be \$820,000 less than the amount budgeted.

### 5. Physical Fitness Program

We recommend that the Department of Fish and Game and the Department of Personnel Administration (DPA) report to the fiscal subcommittees on why the state should provide bonuses to employees simply for being physically fit for their jobs.

The budget requests \$325,000 in 1986-87 (\$46,000 from the General Fund and \$279,000 from the Fish and Game Preservation Fund) to implement a provision of the department's collective bargaining contract that calls for (1) annual physical testing of uniformed members of the Wildlife Protection Branch and (2) a bonus of \$65 per month for various enforcement personnel, including Fish and Game Wardens, Warden Pilots, and Patrol Lieutenants, who pass the test. As a result of the bargaining process, the state will be paying these employees an additional \$970 per year simply because they are physically fit to do what they were hired to do. It would seem to us that physical fitness should be a requirement, not an option, for wardens (Analysis, page 470).

Wildlife Conservation Board--Capital Outlay

(Item 3640-301/page 476)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$14,525	\$13,725 <sup>a</sup>	-\$800,000

a. Includes \$13,275,000 on which we make no recommendation.

Highlights of Our Recommendations

1. Wetlands Acquisition and Development

We recommend a reduction of \$500,000 from the Environmental License Plate Fund for acquisition and development of unspecified wetlands and riparian habitats because the proposed projects can be financed from the Fish and Wildlife Habitat Enhancement (Bond) Fund, without displacing any specified projects (Analysis, page 478).

State Coastal Conservancy--Capital Outlay and Local Assistance

(Item 3760-301/page 497)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	--	--	\$27,782	\$26,070 <sup>a</sup>	-\$1,712

a. No recommendation on \$26,000,000

Highlights of Our Recommendations

1. Buena Vista Lagoon Enhancement Project

We recommend deletion of a total of \$912,000 requested for the design and construction of eight storm water detention basins and seven miles of creek enhancement and erosion control in the Buena Vista Lagoon (San Diego County) because there is no definite plan to acquire the land needed for the project (Analysis, pages 498 and 502).

2. San Elijo Lagoon Acquisition

We recommend deletion of \$800,000 requested from the Environmental License Plate Fund for the San Elijo Lagoon project (San Diego County) because the conservancy can use available bond funds for this acquisition (Analysis, page 499).

Department of Parks and Recreation

(Item 3790/page 503)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$139,055	\$210,666	\$257,039	\$255,877 <sup>a</sup>	-\$1,162
Personnel- years.....	2,775.6	2,726.8	2,796.1	2,786.9	-9.2

a. Recommendation pending on \$3,888,000.

Highlights of Our Recommendations

1. Concession Contracts

The department is developing a new master concession proposal for El Pueblo de Los Angeles State Historic Park in conjunction with the City of Los Angeles, which operates the unit. The current concession contract will expire in 1986-87. In order to insure that the Legislature has the opportunity to act on this proposal, we recommend that the department submit a new concession proposal for the park as part of the 1986-87 budget.

The department is also currently negotiating with the City of Santa Monica on a new concession proposal for the Sand and Sea Club at Santa Monica State Beach, which the city operates. Given the long delay in opening this valuable property to the public, we recommend that the department (1) report during budget hearings on the status of its negotiations with the city and (2) submit a concession proposal to the Legislature for its approval during the 1986-87 budget process if possible (Analysis page 523).

Department of Parks and Recreation--Capital Outlay

(Item 3790-301/page 525)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$54,227	\$41,496 <sup>a</sup>	-\$12,731

a. Recommendations pending on \$16,933,000.

Highlights of Our Recommendations

1. Appraisals Lacking

Existing law requires completion of appraisals for acquisition projects before funds for these projects are included in the Governor's Budget. The budget includes funds for acquisition projects for which no completed appraisals were available for review at the time the Analysis was prepared. Consequently, we must withhold recommendation on \$12,912,000 for the following nine proposed acquisition projects, at least in part, because no appraisals were available for review:

- Columbia State Historic Park (\$370,000).
- Malibu Creek State Park (\$970,000).
- Manchester State Beach (\$220,000).
- Monterey State Beach--Window-on-the-Bay (\$3,165,000).
- Ocotillo Wells State Vehicular Recreation Area (\$3,550,000).
- Old Sacramento State Historic Park--Engineering Building Site (\$1,075,000).
- Old Sacramento State Historic Park--Walnut Grove Excursion Line (\$1,270,000).
- Palomar Mountain State Park (\$280,000).
- Torrey Pines State Reserve (\$2,012,000).

We also recommend that the department and the Department of Finance report during budget hearing on what steps they will take to ensure that property appraisals are available for legislative review on a timely basis in future years (Analysis page 532 and specific project recommendations).

2. Off-Highway Vehicle Minor Projects

The budget includes \$1,988,000 from the Off-Highway Vehicle Fund for 20 minor projects at various state vehicular recreation areas. We recommend a reduction of \$1,410,000 to eliminate funding for 10 projects at the Martin Ranch (Fresno and San Benito Counties) because the projects are budgeted improperly and the requests appear

to be premature. We withhold recommendation on the remaining \$578,000, pending the receipt of additional information justifying the amounts requested (Analysis page 537).

### 3. Angel Island State Park--Building Restoration and Stabilization

The department requests \$1,303,000 to continue the stabilization and restoration of the immigration station at the North Garrison at Angel Island State Park. We recommend deleting the requested funds because (a) there are major inconsistencies in the scope of the project as described by the department, and (b) the costs have not been estimated by the Office of State Architect, which would perform the work (Analysis page 540).

### 4. Baldwin Hills State Recreation Area--Acquisition

The budget requests \$5,512,000 for the acquisition of approximately 28 acres of land adjacent to the western boundary of Baldwin Hills State Recreation Area and east of La Cienega Boulevard in Los Angeles County. We recommend deleting the requested funds because (a) existing oil operations appear to preclude park use of the property, (b) the usefulness of the proposed acquisition for park purposes has not been established, and (c) the acquisition would result in operational difficulties (Analysis page 541).

### 5. Oxnard State Beach--Day-Use Facilities

The department requests \$600,000 as the state's contribution toward the cost of constructing day-use facilities at Oxnard State Beach. The department indicates that the City of Oxnard will provide the balance of the amount needed for development from local funds, as well as from state and federal grants. We recommend deleting the requested funds because the project is a local responsibility (Analysis page 546).

### 6. Pfeiffer Big Sur State Park--Multi-Agency Facility

The budget proposes \$50,000 to pay the department's share of preliminary planning and working drawings for a new multiagency facility at Pfeiffer Big Sur State Park. The total estimated project cost of \$4.5 million would be shared by the department, the U. S. Forest Service, and the California Department of Transportation. We recommend deleting the requested funds because the general plan for the park, which is required by law, has not been completed. We also recommend that the department report during budget hearings on why it proposes to fund this project instead of other projects to which it has assigned a higher priority (Analysis page 547).

7. Santa Cruz Mission State Historic Park--Neary-Rodriguez Adobe

The budget proposes \$1,190,000 for the third and final phase of restoration work on the Neary-Rodriguez Adobe at Santa Cruz Mission State Historic Park. We recommend deleting the requested funds because the construction plan is not based on the results of the previous phases of work to establish the historic accuracy of the restoration as required by the Legislature (Analysis page 551).

8. General Plan Contracting

The budget proposes \$720,000 for the department to contract for the development of general plans for state park units. We recommend deleting these funds because the department has identified a more cost-effective method of developing general plans. In lieu of these funds, we recommend that the Legislature augment the amount budgeted for design and construction planning by \$392,000 to accomplish this same work using department staff, for a net savings of \$328,000 (Analysis page 553).

9. Volunteer Program

The department requests \$1 million for minor projects to be accomplished through volunteer programs at park units around the state. The request is identified as the second phase of a three-year program. We recommend deleting these funds because the department has not identified how they will be spent (Analysis page 556).



Department of Water Resources

(Item 3860/page 568)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$51,127	\$61,063	\$57,734	\$56,060 <sup>a</sup>	-\$1,674
Personnel- years.....	2,652.6	2,645.4	2,643.7	2,641.3	2.4

a. Recommendation pending on \$20,128,000 and 1.8 personnel-years.

Highlights of Our Recommendations

1. Delta Levees Subvention Program Inconsistent With Existing Law.

We recommend that the Legislature adopt Budget Bill language specifying that the \$1.7 million appropriated for delta levee subventions be available for repair and maintenance of (1) only those delta islands where repair is economically justified, and (2) only the most critical delta levees when state funds are insufficient to meet all requests for funding.

Until recently, the state's policy was to maintain the delta island levees in their existing configuration. Chapter 1271, Statutes of 1985, however, declared that "the Legislature recognizes that it may not be economically justifiable to maintain all delta islands."

Existing state law also requires the department to target delta levee subvention funds to the most critical levees for flood control, water quality and other benefits, if requests exceed the available state funds. In practice, however, the department simply has prorated state funds among all applicants.

Since 1980, a total of approximately \$31.5 million of state funds and \$65 million in federal funds has been spent to prevent and repair delta levee failures. The availability of federal funds for repair of delta levees in the future is uncertain. The Federal Emergency Management Agency (FEMA) recently has denied California's requests for federal disaster funding on two delta islands.

As the availability of federal funds for repair of delta levees decreases, the pressure on the state to use state funds for this purpose will build. By limiting state funds to only those levees worth saving and focusing funds on the islands most critical for protecting water quality, flood protection, recreation, and wildlife, state funds would be more efficiently used and the subvention program would be implemented in accordance with legislative intent (Analysis, page 580).

State Water Resources Control Board

(Item 3940/page 585)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$30,659	\$36,935	\$43,444	\$42,827 <sup>a</sup>	-\$617
Personnel- years.....	735.7	867.4	926.2	926.2 <sup>a</sup>	--

a. Recommendation pending on \$3,991,000 and 70.1 personnel-years.

Highlights of Our Recommendations

1. The Implementation of the Toxics Pits Program is Bogged Down.

We recommend that the board report on the implementation of the toxic pits program. The board has delayed filling at least 35 of the 55.5 positions authorized in the current year to implement this program. The board indicates it has delayed hiring staff because it does not have the funds to pay the staff since fee collections thus far have been much less than projected (Analysis page 591).

2. Shortfall in Underground Tank Surcharge Fees.

We withhold recommendation on proposed Budget Bill language that would set the underground tank surcharge fee in 1986-87. The budget indicates that the board will spend \$1.1 million from these fee revenues in the current year for activities related to the regulation of underground tanks. As of January 1, 1986, the board had received less than 10 percent of this amount. The lack of fee revenues is causing cash flow problems, and the board will have a deficiency this year if fee collections do not increase dramatically. If the board's experience with fee collections thus far in 1985-86 is indicative of what's to come, the surcharge established in the 1986 Budget Bill provision will fall far short of funding the proposed appropriation of \$1,149,000 from the fee revenues. Therefore, we withhold recommendation until we receive information on the effect of the revenue shortfall on the underground tank program and a realistic estimate of current-year and budget-year revenue (Analysis, page 592).

3. Underground Tank Program Still Not Off the Ground

We withhold recommendation on \$2.3 million and 46.4 personnel-years requested from the General Fund for enforcement of

the underground tank permitting program and for overseeing the cleanup of leaking underground tanks pending analysis and receipt of basic information on the program from the board.

Last year, the Legislature augmented the board's budget by \$7.6 million to provide 167 personnel-years of staff for the investigation of leaks from underground tanks and for overseeing the cleanup of contamination from leaking tanks. The Governor vetoed the augmentation, stating that "the approach taken by the Legislature in this augmentation would have the state, rather than local government oversee all cleanup. This type of major policy should be addressed in specific legislation and not the Budget Bill."

Since the time of the Governor's veto, we have been working with the board to update the information on which our previous recommendation was based. This effort has been hampered by the lack of information available at the state board on the underground tank program. The board has been unable to provide (1) updated workload figures for overseeing cleanups of tank leaks, (2) information on the time that elapsed between when sites were referred to the board for action and when the board began efforts to clean them up, or (3) information on whether local governments are overseeing cleanup of the approximately 1,400 known leaking sites that the board is not working on.

The information we have received, however, indicates to us that the board will need additional staff to oversee cleanups of leaking underground tanks. The board has received many more reports of underground tank leaks than it had expected. In fact, as of November 1985, there were at least 1,400 cases of underground tank leaks that the board was not working on. The board, however, could not determine whether anyone was addressing these tank leaks. The board indicates that it will have updated information on the underground tank cleanup program when the administration submits a budget change letter on this program in March. Accordingly, we withhold recommendation on the underground tank cleanup program until we receive this information.

HEALTH AND WELFARE

Emergency Medical Services Authority

(Item 4120/page 602)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$1,335	\$1,608	\$1,377	\$1,522	-\$145
Personnel- years.....	13.9	15.6	12.6	15.6	-3.0

Highlights of Our Recommendations

1. Disaster Medical Services Staff Discontinued

The 1986-87 budget proposes to discontinue three limited-term disaster medical preparedness positions, even though the authority's most recent work plan shows that a number of activities have been assigned to these positions in 1986-87. These activities include:

- Development of guidelines for volunteer disaster medical assistance teams.
- Updating and testing the on-line medical information and resource management system to be used in the event of a disaster.
- Development of a medical response plan for hazardous waste emergencies.
- Implementation and testing of the intercounty disaster medical services communications plan.

We believe that these reductions may significantly reduce California's ability to respond to a medical disaster. Consequently, we recommend an augmentation of \$145,000 to restore the three disaster medical preparedness positions (Analysis page 603).

Office of Statewide Health Planning and Development

(Item 4140/page 608)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$16,401	\$23,628	\$20,196	\$21,695 <sup>a</sup>	\$72
Personnel- years.....	183.3	239.4	224.4	(pending)	(pending)

a. We have withheld recommendation on \$10,386 of this amount.

Highlights of Our Recommendations

1. Seismic Safety Workload

We withhold recommendation on the seismic safety budget pending receipt and review of additional information. The budget would reduce the total number of positions available to the seismic safety program from 116 to 84. The department indicates that it is currently reviewing the needs of its hospital seismic safety activities and may propose legislative or other program changes as the budget is being reviewed by the Legislature. Our review of the seismic safety workload strongly suggests that the proposed staffing level is inadequate (Analysis page 612).

Department of Health Services

(Item 4260/page 653)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$3,270,087	\$3,695,929	\$3,708,524	\$3,696,107 <sup>a</sup>	-\$12,417
Personnel- years.....	3,719.3	3,819.9	3,773.6	3,824.4	50.8

a. We have withheld recommendation on \$2,495,768 of this amount.

Highlights of Our Recommendations

Public Health

1. Acquired Immune Deficiency Syndrome (AIDS) Programs

We identify and discuss a number of issues that prevent timely implementation of the department's AIDS programs. A significant problem is that the department has failed to submit a comprehensive plan for its AIDS programs, including its budgetary needs for 1986-87, to the Legislature. The Budget Act of 1985 required the department to submit the plan by October 31, 1985.

We recommend that prior to budget hearings, the department prepare budget change proposals explaining how it intends to use (a) a \$1.7 million General Fund augmentation, (b) a \$377,000 augmentation in federal funds for the surveillance program, and (c) \$4.77 million in federal funds for demonstration and research projects.

We further recommend that during the budget hearings, the department explain why it has taken so long to implement the information and education contracts. The department should also be prepared to explain (a) the delays in the alternative AIDS test site program, including the large difference between the estimated reimbursement rate and actual costs, and (b) why it is taking so long to staff the AIDS Section (Analysis page 687).

Toxic Substances Control

1. Hazardous Waste Management

We recommend the department report to the Legislature concerning the following aspects of the state's performance in administering the federal Resource Conservation and Recovery Act (RCRA) program: (a) the federal government's preliminary assessment of the state's performance, (b) an

indication of whether the federal government needs more time to evaluate the state's performance in specific areas, and (c) an estimate of when the federal government will grant the state final RCRA administrative authority (Analysis page 710).

## 2. Regulatory Support Staff

We withhold recommendation on \$3.7 million from the Hazardous Waste Control Account (HWCA) and 96.3 positions, pending the submission of a plan, jointly developed with the State Water Resources Control Board, that outlines agency responsibilities, workload, and implementation timelines for permitting and inspecting currently unregulated hazardous waste disposal pits (Analysis page 713).

## 3. Current-Year Fee Collections

We recommend the department report to the fiscal committees the following information on the shortfall in HWCA fees: (a) the effective date of emergency regulations that increased HWCA fees, (b) a revised estimate of 1985-86 revenues, (c) reasons for the reduction in the amount of wastes disposed during the current year, and (d) potential increases in the amount of wastes disposed during 1986-87 due to the reopening of waste disposal sites in southern California (Analysis page 716).

## 4. Departmental Support Costs

We withhold recommendation on \$38.1 million from the HWCA, the Hazardous Substance Account, and the Hazardous Substance Cleanup Fund pending the submission of legislatively required reports describing the department's proposed use of these funds during 1986-87 (Analysis page 719).

### Medi-Cal

#### 1. Expenditure Estimates for Medi-Cal Are Phony

We recommend that the Department of Finance explain during budget hearings how it expects to achieve \$233.2 million (\$115.2 million General Fund) in Medi-Cal budget reductions during 1986-87.

The Department of Finance has substituted the low-range Medi-Cal estimate for the mid-range estimate on the grounds that the mid-range estimate could turn out to be too high. While the mid-range estimate is subject to error, estimators regard it as the most reliable of the available estimates. This reduces Medi-Cal expenditure estimates by \$233.2 million and enables the department to claim a larger reserve for economic uncertainty and thereby reach the 3.7 percent goal on which the administration places so much emphasis.

In addition, the budget fails to provide funds to cover a total of \$67 million (\$33.5 million General Fund) in other likely Medi-Cal costs. These costs result from (a) long-term care rate increases, (b) start-up costs for the San Mateo County Organized Health System, (c) perinatal services established by Ch 1404/84 (AB 3021), and (d) costs of care in

intermediate care facilities for the developmentally disabled-nursing (Analysis page 730).

## 2. Expanded Choice Program

We withhold recommendation on position changes and contract funds related to the establishment of the Expanded Choice program pending the receipt of the May revision of the estimates and the completion of the contract award process. Expanded choice is a program to pilot test the feasibility of delivering health services to Medi-Cal recipients in San Diego County on a prepaid capitated basis. Based on the current estimates, the Expanded Choice program will result in net operating costs in 1986-87 of \$1.6 million (\$800,000 General Fund) and one-time start-up costs of \$38.3 million (Analysis page 733).

## 3. State Hospitals

We recommend transfer of \$12,672,000 (\$6,336,000 General Fund) from the Medi-Cal health services item to the Medi-Cal rate increase item in order to eliminate overbudgeting of state hospital services and help reduce underbudgeting of rate increases for long-term care facilities. The budget inadvertently provided funding for a 4.1 percent increase in state hospital rates (Analysis page 746).

## 4. Intermediate Care Facilities for Developmentally Disabled-Habilitative (ICF/DD-Hs)

We recommend a reduction of \$2,483,000 (\$1,241,000 General Fund) requested for a rate increase for ICF/DD-Hs because the rate increase is not justified. The budget proposes rate increases to permit each facility to upgrade one patient care position to a supervisory position so that services to developmentally disabled clients are better supervised. We recommend that the Legislature delete the rate increases because (a) special rate increases have already been provided, (b) further rate increases are likely to result from the annual rate-setting study, and (c) rates already include staff to supervise implementation of facility programs (Analysis page 747).

## 5. Prepaid Health Plan (PHP) Rates

We recommend that the Legislature adopt Budget Bill language directing the department to revise its methodology for determining fee-for-service (FFS) equivalent costs in order to include only FFS costs that are likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs. This recommendation results in savings of \$4,700,000 (\$2,350,000 General Fund).

Prior to 1984-85, the department calculated administrative expenses that the state would save for each Medi-Cal eligible who enrolled in a PHP. These savings result from fewer claims processed, less utilization review activities, and reduced checkwriting and postage costs. Since 1984-85, the department has included additional administrative expenses that could be saved only if the entire FFS Medi-Cal population enrolled in capitated programs. Adding the additional administrative expenses increases the FFS



cost limit by \$1.68 per person per month, thereby allowing a similar increase in PHP rates. An increase of \$1.68 per person per month results in a \$4.7 million increase in Medi-Cal PHP costs for the family category of beneficiaries in 1986-87. We can find no justification for paying this extra cost for Medi-Cal beneficiaries enrolled in PHPs (Analysis page 751).

6. County Administration Cost Control Plan

We recommend a General Fund reduction of \$1,400,000 in state subventions for county welfare department determinations of Medi-Cal eligibility. This reduction is possible as a result of a change in the 1986-87 administrative cost control plan that increases workload standards (Analysis page 754).

Department of Developmental Services

(Item 4300/page 785)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$792,939	\$876,247	\$858,977	\$856,034 <sup>a</sup>	\$2,943
Personnel- years.....	13,379.6	13,483.3	10,552.1	10,609.1	57.0

a. We have withheld recommendation on \$8,817 of this amount.

Highlights of Our Recommendations

1. Board and Care Cost-of-Living Adjustment

We recommend a reduction of \$2,332,000 from the General Fund to eliminate double-budgeting of the cost-of-living adjustment (COLA) for board and care facilities. The budget proposes to provide board and care facilities with an additional COLA of \$2,332,000--more than what would be given to other providers who serve developmentally disabled clients. We are not aware of any analytical reason why these facilities should be singled out for a special cost-of-living increase (Analysis page 797).

2. Regional Center Core Staffing

We recommend a reduction of \$611,000 from the General Fund to eliminate regional center salary increases in excess of the 6 percent provided to other staff. The proposed salary increases would not be consistent with the policy that underlies the regional center core staffing model. No systematic study was used to justify the proposed departure from

the current policy. Justification for funding increases above 6 percent is inadequate (Analysis page 798).

### 3. Laundry Contract

We recommend that the Legislature restore \$41,000 to the hospital budget and 57 laundry worker positions at Agnews and Fairview State Hospitals. The budget proposes to phase out 57 laundry positions and initiate a laundry services contract with the Prison Industries Authority, for a net savings of \$41,000 in 1986-87. The proposed contract for laundry services is premature (Analysis page 812).

#### Department of Mental Health

(Item 4440/page 823)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$691,928	\$835,858	\$928,252	\$928,000 <sup>a</sup>	\$651
Personnel- years.....	4,268.8	4,652.4	4,652.4	(pending)	(pending)

a. We have withheld recommendation on \$30.8 million of this amount.

#### Highlights of Our Recommendations

##### 1. Residential Care Rate Supplement

We recommend that during budget hearings, the department explain to the Legislature how it intends to fully fund the rate supplement program for mentally disabled persons in board and care facilities in 1986-87. The rates in this program are tied to cost-of-living adjustments (COLAs) provided to developmentally disabled persons. The Department of Developmental Services (DDS) proposes a COLA to take effect on July 1, 1986 (Analysis page 837).

##### 2. Augmentation for New Sonoma County Facility Questionable

We recommend that the Legislature (a) delete \$200,000 requested from the General Fund and (b) transfer \$660,000 from local assistance to the state hospital item, because the department has not adequately justified its proposal to develop a new regional 24-hour subacute skilled nursing facility in Sonoma County. We further recommend that the Legislature delete \$340,000 to correct for overbudgeting of staff benefits in the state hospital budget that the department proposes to use for development of the Sonoma County facility (Analysis page 840).

3. Mentally Disordered Offender Program: Uncertainties and Assumptions  
Necessitate Careful Legislative Review and Cautious Implementation

We withhold recommendation on \$19,047,000 requested from the General Fund to provide for the start-up and implementation of the Mentally Disordered Offender (MDO) program, pending resolution of issues involving program needs and cost estimates. The MDO program is a new program that allows the state to extend the period of commitment of certain mentally disordered prison inmates. Such inmates can be placed in a state hospital or in an outpatient program.

We recommend that by April 15, 1986, the department submit to the Legislature a report detailing the broad policy ramifications that implementation of the mentally disordered offender program will have on the state hospital system and other state and county mental health programs (Analysis page 846).

Department of Mental Health--Capital Outlay

(Item 4440-301/page 857)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$20,273	(pending)	-\$285

Highlights of Our Recommendations

1. Status of Mental Health Initiative

The capital outlay projects proposed for the state's mental health hospitals in 1986-87 represent the third year of the administration's "Mental Health Initiative"--a five-year program intended to upgrade the quality of hospital care and facilities and to gain accreditation of all state hospitals before the end of 1987. In the Analysis pages 858-861, we review the progress the department is making toward these goals. Our key findings are:

- The approved hospital remodeling for fire/life safety and "environmental" improvements is substantially behind schedule. Even if the Department of Mental Health makes major improvements in its project management, we doubt that remodeling will be complete prior to 1990--three years after the target date.
- The goals of the department's capital outlay program have become obscured.
- The department needs to reevaluate its capital outlay program to account for the Mentally Disordered Offender (MDO) program soon to be started in the state hospital system under provision of Chapter 1419, Statutes of 1985.

We recommend that, prior to budget hearings, the department submit a report to the Legislature which details the department's goals and objectives for the state's mental health hospital system, plans, timelines and estimated costs for remodeling each hospital, and plan for housing the MDO population (Analysis page 858).

Employment Development Department

(Item 5100/page 865)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$137,987	\$190,599	\$153,771	\$152,863 <sup>a</sup>	- \$908
Personnel- years.....	10,632.0	10,425.6	9,700.6	9,700.6	--

a. Recommendation pending on \$11,122,000.

Highlights of Our Recommendations

1. Transfer \$43.8 million from the School Employees Fund to the General Fund

We recommend transferring \$88.8 million, rather than \$45 million, from the School Employees Fund (SEF) to the General Fund in 1986-87. The SEF is a special state fund which receives contributions from school district employers in order to pay the unemployment claims from former school employees.

The administration proposes to transfer \$45 million from the SEF to the General Fund. This represents 79 percent of the estimated excess funds in the SEF as of July 1, 1986. We conclude that the state should recapture \$88.8 million, rather than \$45 million. This includes 100 percent of the surplus funds available on July 1, as well as the excess funds estimated to be available at the end of 1986-87. Our recommendation would leave a reserve of \$20 million in the SEF during 1986-87, while augmenting the General Fund by \$43.8 million (Analysis page 883).

2. Staffing Reductions and Additions

The Employment Development Department (EDD) proposes to eliminate 660.9 positions in 1986-87. These reductions are partially offset by the proposed addition of 361.9 positions, resulting in a net reduction of 299 positions. Based on our review of the department's proposals, we:

- Withhold recommendation on 124.6 positions proposed for elimination due to the implementation of GAIN, because the Legislature needs an updated estimate of counties' plans to implement the GAIN program. Without this information, the Legislature cannot determine whether EDD will have sufficient positions to provide the employment services requested by counties (Analysis page 873).

- Withhold recommendation on the addition of 19.7 positions to administer the IMPACT program which the administration proposes to transfer from the Military Department to EDD (Analysis page 877).

### 3. Operating Expenses

We withhold recommendation on EDD's request for \$5.3 million to supplement its operating expense budget in 1986-87. The budget requests \$109.3 million for the department's operating expenses and equipment in 1986-87. The department is requesting the additional \$5.3 million to cover a funding shortfall which it has identified in its operating expenses for 1986-87. The EDD, however, has not provided the Legislature with a meaningful proposal documenting the program areas and purposes for which it needs the additional operating expenses (Analysis page 876).

Department of Rehabilitation  
(Item 5160/page 889)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$73,997	\$81,765	\$85,397	\$85,397 <sup>a</sup>	---
Personnel- years.....	1,699.8	1,614.2	1,528.4	1,537.2	-8.8

a. Recommendation pending on \$57,428,000.

Highlights of Our Recommendations

1. Rehabilitation Services for Mental Health Clients Initiative

We recommend that the Department of Rehabilitation (DOR) pilot test its proposed initiative to provide vocational rehabilitation services to severely mentally disabled individuals. This will enable the department to confirm that (a) the program will effectively serve the severely mentally disabled and (b) the benefits from the program justify its costs, which are higher than those of the department's other programs for the mentally disabled. Our recommendation would reduce funding for the program from \$2.5 million to \$1.3 million. The funds deleted from the Governor's proposal would be used by DOR to provide services to other disabled individuals (Analysis page 896).

2. Work Activity Program Caseload Estimates

We withhold recommendation on \$57,428,000 in General Fund support for the Work Activity Program (WAP). This represents an increase of \$3.4 million (6.2 percent) over the current year. The department has not provided the Legislature with a reliable caseload estimate. Such an estimate should take into consideration factors likely to influence the WAP in 1986-87, including the potential rate and caseload affect of Ch 1219/85 (AB 1667) which authorizes the department to fund new work activity programs (Analysis page 901).

Department of Social Services

(Item 5180/page 905)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$3,259,400	\$3,771,497	\$4,030,854	\$4,023,427 <sup>a</sup>	-\$7,427
Personnel- years.....	3,108.0	3,288.5	3,481.4	3,481.4	--

a. Recommendation pending on \$55,284,000.

Highlights of Our Recommendations

1. Welfare Caseloads Potentially Underestimated

The budget potentially underestimates the costs of caseloads for various welfare programs in 1986-87. The potential underfunding could total as much as \$104 million from the General Fund, as follows:

- Aid to Families with Dependent Children (AFDC)--Family Group and Foster Care. Although the caseloads for both these programs have grown significantly during the last couple of years, the budget assumes that this growth will not continue in 1986-87. If the caseloads grow in 1986-87 as they have in the recent past, then the Family Group program will be underfunded by \$48 million (General Fund) and the Foster Care program will be underfunded by \$43 million (General Fund) (Analysis pages 920 and 922).
- Child Welfare Services (CWS). The budget also assumes that the caseloads for the Family Reunification and Permanent Placement programs will not continue to grow at the rate that they have in recent years. If these caseloads do continue at their current rate, the CWS program will be underfunded by about \$5.2 million (General Fund) in 1986-87 (Analysis page 967).
- In-Home Supportive Services (IHSS). The budget proposal for IHSS assumes that there will be no increase in the average number of service hours per case after June 1986, even though recent experience has indicated that the average number of hours per case has increased at a 5.5 percent annual rate in the past two years. This assumption may result in the IHSS program being underfunded by about \$8.1 million (General Fund) in 1986-87 (Analysis page 982).



## 2. Welfare Fraud Early Detection (FRED) Program

We recommend that the Legislature adopt Budget Bill language requiring the department to report by December 1, 1986, on the costs and savings that would result from requiring counties to implement a FRED program. Currently, 23 counties operate a FRED program which is designed to detect and prevent fraud at the time an individual applies for AFDC and/or food stamp benefits. In general, the other welfare fraud detection programs operated by counties detect fraud after the recipient is already on aid. Our analysis indicates that the FRED program is the most effective welfare fraud detection/prevention program there is, and should therefore be implemented by all or most of the 35 counties that do not currently use this technique to detect and prevent fraud. Our analysis indicates that statewide implementation of a FRED program would result in annual General Fund savings of \$60 million (Analysis page 928).

## 3. Greater Avenues for Independence (GAIN) Program

We withhold recommendation on (a) \$76.1 million (\$22,550,000 General Fund and \$53,550,000 federal funds) proposed to cover the costs of the GAIN program to the Departments of Social Services (DSS) and Education and (b) a savings to the AFDC program of \$36.0 million (\$15,400,000 General Fund, \$18,800,000 federal funds, and \$1,800,000 county funds) pending receipt of an updated estimate of the costs and savings of the GAIN program. The GAIN program is designed to help AFDC recipients to find employment and become financially independent by providing them with work, training, and education and supportive services. Our analysis indicates that the budget estimate of these costs and savings is out-of-date and does not reflect the provisions of Ch 1025/85--the legislation that created the GAIN program. In addition, our analysis includes several recommendations which we believe will help the Legislature to oversee the implementation of this major new program and to monitor the costs of the program in its first year of operation and in subsequent years (Analysis pages 927 and 988).

## 4. Technical Budget Issues

Our review of the department's budget has identified several technical issues. Specifically, we recommend:

- A reduction of \$3,950,000 in the General Fund monies proposed for the GAIN program to reflect the availability of funds that were appropriated by Ch 1025/85 (Analysis page 994).
- A reduction of \$7,580,000 (\$3,367,000 General Fund, \$3,806,000 federal funds, and \$407,000 county funds) to reflect a more accurate estimate of the AFDC grant savings that will result from the AFDC recipient asset and earnings clearance match programs (Analysis pages 935 and 936).
- A reduction of \$610,000 in the General Fund monies proposed for the IHSS program to reflect the statutory requirement that counties provide a 10 percent match of a portion of the state and federal expenditures under the program (Analysis page 984).

YOUTH AND ADULT CORRECTIONAL

Department of Corrections

(Item 5240/page 1006)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$786,260	\$1,021,385	\$1,239,765	\$1,222,355 <sup>a</sup>	-\$17,410
Personnel- years.....	12,827	15,829	17,878	17,749 <sup>a</sup>	-129

a. Recommendations pending on \$134,767,000 and 2,138 personnel-years.

Highlights of Our Recommendations

1. Inmate and Parolee Population Growth

We withhold recommendation on that portion of the department's support budget related to increased costs for inmate and parolee population growth. The budget proposes \$115,560,000 from the General Fund and \$3,733,000 from the Inmate Welfare Fund to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate and parolee populations during 1986-87.

Our analysis indicates that there are major uncertainties regarding the rate of growth in inmate and parolee populations and the department's plan to house inmates in existing facilities and new prisons scheduled for construction. In the past, population projections used to develop the budget have changed significantly before the Legislature approves the Budget Bill. In addition, the budget assumes that five new prisons and three new camps will be activated in the budget year. The department's track record on new prison construction leaves this estimate open to question. An updated construction schedule will be available when the department submits its May revision. Finally, the department is completing a major revision of its inmate security classification system. Changes in the classification system could significantly change the inmate housing plan (Analysis page 1015).

2. Inmates Transferred to the Youth Authority

We recommend a General Fund reduction of \$1,016,000 and 17 positions because the budget underestimates the number of inmates that will be transferred to the Youth Authority. Chapter 701, Statutes of 1983 (SB 821), permits criminal courts which sentence defendants under the age of 21 to the Department of Corrections to order them transferred to the

Department of the Youth Authority for housing and treatment. Our analysis indicates that the Department of Corrections assumed 1,200 inmates would be transferred to the Youth Authority, while the Youth Authority assumed it would receive 1,260 inmates. Since the Department of Corrections has relied on the Youth Authority to estimate and track the SB 821 population, the Department of Corrections has overestimated its inmate population by 60 inmates. This translates to a reduction of \$1,016,000 and 17 positions (Analysis page 1017).

### 3. Physical Fitness Incentive Pay

We withhold recommendation on \$1,501,000 requested from the General Fund for physical fitness incentive pay for correctional officers because test standards have not been developed. A collective bargaining agreement requires the state to pay eligible peace officers an additional \$65 per month for successfully completing a physical fitness test, beginning January 1, 1987. This provision was intended to keep employees in better physical condition, thereby reducing sick leave and disability-related retirement costs. The department estimated that 90 percent of the eligible officers would pass the test and receive the incentive pay. Our analysis indicates that because test standards have not been developed, it is not possible to estimate how many persons will pass the test at this time. We also recommend that the department report to the Legislature on the potential savings and benefits resulting from the program (Analysis page 1019).

### 4. Pre-employment Screening

We recommend a General Fund reduction of \$2,295,000 and 42 positions for background investigations and psychological evaluations for new officers, because the department has not presented evidence that the current investigation and evaluation processes are inadequate. The department wishes to increase from 11 to 18 the number of hours it devotes to background investigations of each peace officer applicant and to bring the investigation process into compliance with standards established by the Commission on Peace Officer Standards and Training (POST). In addition, the department requests funding to contract with a private firm to conduct psychological evaluations on applicants. The department has not provided any information to show that its existing processes fail to yield qualified peace officer candidates. In addition, statutes require the department to use POST standards only as guidelines (Analysis page 1020).

### 5. Correctional Officer Academy Expansion

We recommend deletion of the \$7,694,000 requested from the General Fund for expansion of the correctional officer academy curriculum, because the department has not presented evidence that the existing curriculum is inadequate. The department wishes to expand the curriculum for the basic correctional officer training academy from six to eight weeks. Our analysis indicates that the department has not presented any data to substantiate its claim that the length of the current academy curriculum is

inadequate or is yielding unqualified correctional officers (Analysis page 1022).

#### 6. Toussaint v. McCarthy Court Injunction

We withhold recommendation on \$8,971,000 and 186 positions requested to comply with the Toussaint v. McCarthy court injunction, because the department has not submitted a staffing plan or expenditure proposal. The Toussaint court case requires the department to correct deficiencies in the administrative segregation housing units at Folsom and San Quentin State Prisons. The department is requesting staff it believes will satisfy requirements imposed by the court monitor. No final plan for expenditure of the money has been submitted to the Legislature (Analysis page 1023).

#### 7. Additional San Quentin Staff

We recommend deletion of 32 positions for San Quentin State Prison because the department has not identified how the positions complement positions requested in other proposals, for a General Fund savings of \$1,306,000. The department requests 28 additional security positions and four clerical positions for San Quentin. Our analysis indicates that San Quentin is the most staff-intensive and costly institution. In addition, the department has requested more than 100 other positions for San Quentin as part of the Toussaint request, plus 21 additional positions for overcrowding, and overtime blankets to permit intensive searches of the institution (Analysis page 1024).

#### 8. Contracted Medical Services

We recommend a General Fund reduction of \$3,307,000 because the budget does not reflect implementation of a cost-saving reimbursement fee system for contracted medical services. The budget includes \$12,971,000 for contracted medical services for inmates in 1986-87. The department recently implemented a new reimbursement fee system that should reduce by approximately 12 percent the rate paid to outside providers of surgical care, and reduce by 39 percent the amount paid to providers who perform medical services within the institutions. The budget does not account for these cost-savings measures (Analysis page 1028).

#### 9. Long-Term Plans for AIDS

We recommend the department report to the Legislature on its long-term plans to house and care for the growing number of inmates with AIDS. The number of inmates with AIDS has grown from three in 1984 to almost 30 in 1985. The department currently does not have a long-term plan to house the growing number of inmates with AIDS. We estimate that it will cost about nine times more to care for an inmate with AIDS than it will cost to care for a healthy inmate. In addition, AIDS poses serious logistical problems and costs to the department in providing medical care to other inmates (Analysis page 1029).

Department of Corrections--Capital Outlay

(Item 5240-301/page 1035)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>1986-87</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$11,221	(pending)	-\$2,202

Highlights of Our Recommendations

1. Legislature Needs Better Information on New Prison Construction Program

Prison population continues to increase at a rapid rate, while construction of new prisons is behind schedule. Recent population projections issued by the Department of Corrections indicates that even if all authorized prisons are completed by the year 1990, there will be a significant shortfall in the number of beds available to accommodate the prison population. Moreover, the funds appropriated for four currently authorized projects are not sufficient to complete the projects. We therefore recommend that the Department of Corrections provide the Legislature with its plan for (1) securing financing for all authorized new prisons and (2) constructing additional prison facilities based on the most recent population projections for 1990 (Analysis page 1036).

2. Mobilehome Site Development--San Quentin (-\$96,000)

The budget includes \$96,000 to fund preliminary plans and working drawing funds for mobilehome site development at San Quentin State Prison. Construction of the 100-space mobilehome park, to be available to San Quentin employees, would cost \$1,412,000.

The state has already addressed employee housing costs through the collective bargaining process. The state has agreed to provide a \$175 stipend to all covered employees at San Quentin. On this basis, we recommend that the Legislature not approve the construction of additional state-sponsored housing (Analysis page 1046).

Youthful Offender Parole Board

(Item 5450/page 1054)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$2,880	\$2,706	\$2,515	\$2,515	--
Personnel- years.....	37.9	37.9	36.5	\$2,515	--

Highlights of Our Recommendations

1. Parole Consideration Date Changes

The Youthful Offender Parole Board (YOPB) is responsible for paroling wards from the Youth Authority. The board's parole release decision-making system is based upon "parole consideration dates" which are established for each ward when he or she is first committed to the state. A parole consideration date (PCD) represents the interval of time that the board believes the ward should stay in a Youth Authority institution before he or she is ready for parole.

At its November 1985 meeting, the board approved major revisions to the existing parole consideration date structure. As adopted by the board, the changes would increase parole consideration dates for various offenses, add some crimes to specific offense categories, and clarify the meaning of some offense descriptions. Board staff indicate that the revised regulations should be in place by July 1, 1986.

The program and budgetary impacts of the proposed PCD revisions are considerable. The board estimates that these changes will add two months to the average ward's length-of-stay, and increase the population of the Youth Authority by 531 wards annually by the end of fiscal year 1990-91. Further, the board indicates that the additional population will require the construction of new institutional bed space at a cost of \$58.8 million for capital outlay and one-time expenditures and \$11.5 million for ongoing operating costs.

In making these policy changes, the board is committing the state to a significant increase in ward population, as well as imposing potentially major costs for construction and operation of new institutional space. In order that the Legislature is fully informed of the impact that the proposed policy changes will have, we recommend that the board report at budget hearings on the full program and fiscal implications of its proposal to revise regulations governing parole consideration dates (Analysis page 1055).

Department of the Youth Authority

(Item 5460/page 1057)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$281,931	\$311,218	\$335,363	\$332,776 <sup>a</sup>	-\$2,587
Personnel- years.....	4336.6	4464.9	4556.9	4553.7 <sup>a</sup>	-3.2

a. Also recommendations pending on \$743,000 and 9.5 personnel-years.

Highlights of Our Recommendations

1. Ward Population Management Plan

We recommend that the Legislature deny the department's plan to contract with the Department of Mental Health (DMH) for additional bed space because of inadequacies in the administration's plan to accommodate the additional wards in DMH facilities.

The budget proposes \$1,947,000 from the General Fund to contract with the DMH for bed space to accommodate 120 wards. Our analysis indicates that the department's ability to place 120 wards in DMH facilities is highly uncertain because (a) the department has been unable to specify which hospitals would receive wards and what types of services would be offered, (b) the DMH budget does not reflect an increase in placements from the Youth Authority nor does it include the \$1.9 million proposed for the contract, and (c) the mental health hospital population is projected to increase in 1986-87, which casts doubt as to whether any bed space can be made available for additional wards.

For these reasons, we cannot recommend approval of the department's plan. We estimate that a total of \$429,000 would be required for staffing and operating costs to provide for the additional 120 wards within existing Youth Authority institutions. Consequently, the Legislature can reduce the amount budgeted from the General Fund by \$1,518,000 (Analysis page 1064).

2. Pre-employment Screening

We recommend a General Fund reduction of \$462,000 and 7.5 positions for background investigations and psychological evaluations for new officers, because the department has not presented evidence that the

current investigation and evaluation processes are inadequate. The department proposes to increase from 11 to 18 the number of hours it devotes to background investigations of each peace officer applicant and to bring the existing investigation process into compliance with standards established by the Commission on Peace Officer Standards and Training (POST). In addition, the department requests funding to contract with a private firm to conduct psychological evaluations on peace officer applicants. The department has not provided any information to show that its existing processes fail to yield qualified peace officer candidates. In addition, statutes require the department to use POST standards only as guidelines (Analysis page 1066).



Department of the Youth Authority--Capital Outlay

(Item 5460-301/page 1074)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>1986-87</u> <u>Proposed</u>	<u>1986-87</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$12,945	(pending)	-\$1,464

Highlights of Our Recommendations

1. A Comprehensive Five-Year Master Plan Should Be Developed

The department indicates that the cost of providing facilities to meet the projected increase in ward population may be nearly \$400 million in the next three years. We have recommended in the 1986-87 Budget: Perspectives and Issues that the department investigate various options to reduce the number of wards in Youth Authority institutions. Consistent with this recommendation, we recommend that the department prepare a five-year facilities master plan. This master plan should link the policies and objectives of the department to the projects included in the plan. In addition, the information presented in a master plan would provide the Legislature with the information it needs to assess the policy and cost implications of individual projects.

For these reasons, we recommend that the department provide to the Legislature by November 1, 1986 a comprehensive five-year facilities master plan (Analysis page 1076).

2. Funding for Three New Facilities Should be Deferred (-\$886,000)

The budget requests \$886,000 for preliminary planning and working drawings for new 100-bed facilities at the Preston School of Industry, El Paso de Robles School, and Ventura School. The future estimated cost of these facilities is \$12 million.

We have recommended that the department prepare (1) a report which evaluates options to reduce overcrowding and (2) a five-year facilities master plan. It would be premature to spend funds to design additional bed capacity until this report and master plan have been submitted to the Legislature. Furthermore, based on the Department of Corrections plan for its facilities, a prototypical housing unit can be designed and constructed within one year. Thus, according to the department's schedule, these projects can be deferred until the 1987-88 fiscal year. If the requested report and master plan indicate a need for these projects, the department can request funds for design and construction in the 1987-88 budget without delaying the department's planned occupancy date (January-June 1989).

We recommend that the Legislature delete \$886,000 requested for these projects (Analysis page 1079).

K-12 EDUCATION

State Department of Education

(Item 6100/page 1083)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$10,607,492	\$11,928,807	\$13,088,714	\$13,061,805 <sup>a</sup>	-\$26,909
Personnel- years.....	2,376.2	2,623.6	2,617.0	2,616.1	-0.9

a. Includes recommendations pending on \$588,884,000.

Highlights of Our Recommendations

1. Additional Equalization Aid Not Justified

We recommend the deletion of \$21.6 million in equalization aid to school districts. The Governor's Budget proposes to continue a process of "leveling up" school district revenue limits that was begun in SB 813.

Our review indicates that the budget proposal is not justified, for three reasons.

First, the additional funding would produce small gains in equalization. Our analysis indicates that the percentage of ADA within the Serrano "closure band" (\$100 adjusted for inflation since 1974) would increase by less than one-half percent.

Second, our review of the Governor's proposals indicates that, while it would tend to enhance equalization among certain categories of school districts, it would increase disparities in average revenue limits among types of districts.

Finally, our analysis indicates that, if the Legislature wishes to achieve additional equalization in 1986-87, there are better and/or less costly alternatives to the Governor's proposal (Analysis page 1126).

2. Reduction in State Aid Not Warranted

We recommend that the Legislature direct the Department of Finance to justify its proposal for reducing \$39 million in funding for school and

community college apportionments and local mandate reimbursements based upon an assumed reduction in PERS employer contribution rates.

The Governor's Budget proposes to reduce funding for K-12 school and community college districts by \$39 million (\$17.5 million in the school apportionments item, \$3 million in the community colleges apportionments item, and \$18.5 million in the local mandates item).

The rationale behind this proposal has two parts. First, the budget "expects" the Public Employees Retirement System (PERS) Board of Administration to reduce by 15 percent, the rate at which school districts must contribute to PERS on behalf of their employees. This reduction is expected to save school districts and community colleges \$52 million. Second, because "the state supports approximately 75 percent of the costs of K-12 and community college districts," 75 percent of these savings or \$39 million--should accrue to the General Fund. The Governor's Budget proposes to recapture these savings by eliminating or reducing funding for various state mandates, including funding for the STRS unused sick leave credit provided in AB 75 (Ch 1597/85).

Our analysis identifies three problems with the Governor's proposal.

First, we find little, if any, basis for assuming that the PERS Board of Administration will reduce employer contribution rates by 15 percent on July 1, 1986. Furthermore, we know of no evidence indicating that such a substantial reduction in rates is warranted at this time.

Second, the budget proposes to recapture only 75 percent, rather than 100 percent of any savings that accrue to school and community college districts as the result of a reduction in PERS contribution rates. Since under the state's revenue limit system, the state provides funding for 100 percent--not 75 percent--of the marginal change in each revenue limit "guarantee," school and community college apportionments should appropriately be adjusted by the full amount of any savings.

Finally, we fail to understand why the Governor proposes to recapture the savings by eliminating funding for various state mandates instead of simply adjusting revenue limits based upon the anticipated change in PERS contribution rates. Moreover, it is unclear whether, as a matter of law, the Legislature could implement the Governor's proposal to discontinue funding for the specified mandates--even if it wished to do so (Analysis page 1130).

### 3. Major Deficit in Funding for School Improvement Program

We recommend that the Department of Finance explain how the administration proposes to address a potential deficiency of \$4.8 million in funding for the School Improvement Program (SIP) in grades K-6.

Current law requires that the rate of funding per pupil be increased by the same percentage increase made in base revenue limits for unified

school districts with over 1,500 units of average daily attendance. Because the cost-of-living adjustment (COLA) is to be applied to the rate of funding per pupil, this requires that funding be further adjusted to allow for enrollment growth in SIP schools.

While the Governor's Budget proposes to provide a 5.78 percent COLA for SIP funding in grades K-6, it does not provide additional funding for enrollment increases. In other words, the budget proposal applies the COLA to the total 1985-86 funding level, rather than to the rate of funding per pupil. Since we estimate an increase of 2.51 percent in grade K-6 SIP enrollment, our review indicates that the Governor's Budget--by neglecting to fund this increase--would create a deficiency of \$4,843,000 in grade K-6 SIP. This is comprised of a base adjustment of \$4,578,000 for enrollment growth plus \$265,000 for the associated COLA (Analysis page 1146).

#### 4. Model Transition Program Should Be Statutorily Authorized

We recommend deletion of \$1 million proposed for a model transition program for handicapped students.

Under current law, school districts are not required to provide services to handicapped students who have graduated from high school, or left school for other reasons. The Governor's Budget proposes that \$1 million be provided for the State Department of Education to develop a model transition program to assist such students adjust to adult life.

Our review indicates that it would be more appropriate to establish and fund a model transition program through the bill process, rather than through the budget process. Neither the Governor's budget proposal, nor current law, clearly define the scope of the K-12 education system's responsibility towards handicapped students who have left high school. Unless the scope of these responsibilities are more clearly defined by the Legislature, through statute, the program's annual costs in future years could easily far exceed the \$1 million proposed by the Governor. We therefore recommend that funds proposed for a model transition program be deleted from the budget and placed in a bill (Analysis page 1186).

#### 5. Home-to-School Transportation Funding Formula Needs Change

We recommend that the Legislature direct the State Department of Education (SDE) to present, during budget hearings, one or more alternative formulas for funding home-to-school transportation. We further recommend that at least one of the alternatives presented by the SDE incorporate a system of reimbursement that is based upon the number of buses operated by a local education agency.

Under current law, a school district whose total approved expense of transportation in any fiscal year is equal to at least 95 percent of its transportation aid received for the prior fiscal year is entitled to an allowance that is equal to the prior-year allowance plus the cost-of-living adjustment (if any) provided in the Budget Act. Districts whose approved transportation expense drops below 95 percent of their prior-year

allowance are entitled to receive an amount equal to the actual approved expense plus 5 percent of the approved expense plus the COLA.

Our review indicates that the current reimbursement formula has the following flaws:

- It does not fund legitimate cost increases;
- It does not accurately reflect all components of a districts' transportation costs;
- It does not provide appropriate incentives for efficiency; and
- It places unnecessary administrative burdens on the Legislature.

We recommend that the alternative funding formula(s) presented by the SDE contain provisions that would address these problems (Analysis page 1226).

#### 6. Establish Loan Fund for School Bus Replacement

We recommend that the Legislature adopt Budget Bill language providing for the establishment of a revolving fund to provide loans to local education agencies for the purpose of financing school bus purchases.

The Governor's Budget proposes to appropriate \$100 million from Petroleum Violation Escrow Account (PVEA) funds to provide grants to school districts and county offices of education for school bus replacement. It is unclear whether this use of PVEA funds is permissible under federal law, and we are still studying this issue. In the event it is permissible, however, we recommend that these funds be used to establish a revolving fund for the purpose of providing school bus replacement loans rather than grants.

We believe that a loan program would provide districts with a viable method for financing the purchase of school buses. Moreover, a loan program would be a more efficient use of available funds because, as loans are repaid, additional loans could be provided. In this way, more districts could benefit from the program (Analysis page 1228).

#### 7. Alternatives for Financing School Construction Needed

We recommend that the Legislature enact legislation, contingent on voter approval of ACA 55, to ensure that all school districts, regardless of their property tax base, are able to raise sufficient revenues for financing their local school facilities needs.

Our review indicates that the current method of funding school construction (1) fails to provide sufficient funds to meet district needs in a timely manner and (2) fails to distribute equitably the burden of paying for new school facilities. Consequently, we recommend that the option of raising funds through temporary property tax increases be

reestablished for local school districts. (The Legislature has taken the first step towards restoring school districts' revenue-raising abilities by approving ACA 55, which will appear on the June ballot. This measure provides that local governments may--with the approval of two-thirds of district voters--incur bonded indebtedness for site acquisition and capital outlay and pay off the bonds by temporarily increasing the property tax rate.)

Specifically, we recommend that the Legislature enact legislation (contingent upon voter approval of ACA 55) guaranteeing every school district a certain minimum revenue yield from a given tax rate. The funding source for this guarantee would be the revenues from (1) school construction bonds issued by the state and (2) tidelands oil and gas operations (Analysis page 1234 and Perspectives and Issues page 190).

#### 8. Potential Major Deficit in Child Care Programs

We withhold recommendation on \$286.4 million requested for child care local assistance, because the Governor's Budget creates the potential for a major General Fund deficiency in the funding of child care programs. The budget proposes a reduction in General Fund expenditures for child care services of \$31 million, assuming that this amount will be fully offset by reimbursements from federal funds related to child care services provided to participants in the Greater Avenues for Independence (GAIN) program.

We believe that the methodology used to estimate the anticipated reimbursements is faulty for the following reasons:

- The budget base from which the estimate was derived is too high. In calculating the estimated reimbursements, the Department of Finance included programs which will not provide services to GAIN participants.
- The estimate of AFDC recipients currently receiving subsidized child care services is out-of-date. In determining the number of GAIN participants who would need child care services, the DOF used information from a report published in 1982-83 which is now out-of-date and does not reflect current participation rates.
- The estimate of participation in the GAIN program is too high. The budget assumes that all AFDC recipients who are currently receiving child care services will participate in an approved employment or training program, thereby qualifying for federal reimbursement. This is erroneous because not all AFDC recipients are mandatory GAIN participants. Moreover, it is likely that a substantial portion of child care services currently provided to AFDC recipients will not qualify for federal matching funds because the criteria for receiving child care services conflict with the conditions for receiving reimbursement.

We believe that this proposal creates the potential for a major General Fund deficit in the funding of child care programs. This is

directly contrary to legislative intent in the GAIN legislation (Ch 1025/85) which requires that the child care programs shall be "held harmless" from any deficiency that may occur from a shortfall in federal reimbursements (Analysis page 1246).

School Facilities Asbestos Abatement

(Item 6350/page 1288)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$10,000	\$10,000	\$5,000	\$100	-\$4,900

Highlights of Our Recommendations

1. Additional Asbestos Abatement Funds Not Justified

We recommend deletion of \$4,900,000 proposed for additional asbestos abatement funds. The budget proposes to allocate \$5 million for asbestos abatement projects in 1986-87. Of this amount, \$4,900,000 would be allocated to the State Allocation Board (SAB) for disbursement to local school districts for asbestos abatement projects, and \$100,000 would be used to reimburse the Department of Industrial Relations for increased workload associated with monitoring local school district's asbestos abatement projects.

Our analysis indicates that the \$4.9 million for local asbestos abatement projects is not warranted for the following reasons:

- All of the asbestos abatement funds appropriated to date remain unspent. The SAB has received an estimated \$16 million in funding requests from local school districts, of which approximately \$3.6 million have been approved by the SAB for funding. Nevertheless, as of February 1, 1986, none of the \$19.9 million available (\$10 million from the 1984 Budget Act and \$9.9 million from the 1985 Budget Act) had been provided to school districts, primarily because school districts are unable to meet existing administrative requirements to qualify for funding.
- There is no evidence that the amount available is not adequate to meet the need. To date, the board has received approximately \$16 million in requests for asbestos abatement funds; this is \$3.9 million less than the funding currently available.

Because (1) a reliable estimate of funding need is not available and (2) administrative impediments exist which prohibit disbursement of existing funding, we recommend that the \$4.9 million proposed for additional asbestos abatement projects be deleted (Analysis page 1288).

POSTSECONDARY EDUCATION

The University of California

(Item 6440/page 1310)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$1,458,184	\$1,667,652	\$1,815,128	\$1,770,511 <sup>a</sup>	-\$44,617
Personnel- years.....	58,284.0	57,652.0	57,290.0	57,247.0	-43.0

a. Recommendation pending on \$24,022,000.

Highlights of Our Recommendations

1. Faculty Salaries Should Be Set at Parity With Comparable Universities

We recommend that the Legislature provide for a 1.4 percent increase in University of California (UC) faculty salaries in order to achieve parity with comparable universities and delete the amount requested in excess of parity requirements, for a General Fund savings of \$27.2 million.

The California Postsecondary Education Commission (CPEC) annually submits an analysis comparing salaries and fringe benefits at the UC with those paid by the following agreed-upon group of eight other prestigious universities:

Harvard University	University of Illinois-Urbana Campus
Stanford University	University of Michigan-Ann Arbor
Yale University	University of Wisconsin-Madison
Cornell University	State University of New York at Buffalo

The CPEC report shows that faculty salaries at UC are, on average, 5.2 percent ahead of the average of the comparison eight in the current year and would only have to be increased by 1.4 percent in 1986-87 in order to be equal to the average of the comparison eight.

The budget proposes funds, however, for a 5.0 percent faculty salary increase, which is 3.6 percent more than that needed for parity with the comparison eight. The Regents believe that California's higher inflationary rate and housing costs justify faculty salaries exceeding parity with the comparable institutions.

We find that the considerations advanced by the Regents in support of super-parity do not stand up under analysis. The higher inflationary



rate in California is attributable to the fact that residential rent and homeowners' costs have risen faster in California than in the nation as a whole. Therefore, the Regents' case for faculty salaries above the parity level hinges on the affordable housing consideration.

Our analysis finds that an across-the-board salary adjustment is an inefficient--and perhaps an ineffective--means for addressing any recruitment and retention problems related to housing. This is because the funds in excess of what is needed to achieve parity go to all faculty members, including many who are not adversely affected by--and in fact may benefit from--the rise in housing prices.

In sum, we find that the UC is, and consistently has been, a highly regarded university with many departments ranked first in the nation. Obviously, the salary parity standard has not prevented the UC from competing successfully with other preeminent universities. Furthermore, the considerations advanced by the Regents in support of super-parity do not stand up under analysis. Accordingly, we recommend that the Legislature provide sufficient funds to increase UC faculty salaries by 1.4 percent in 1986-87--the increase needed to achieve parity with the eight comparable institutions--for a General Fund savings of \$27,238,000 (Analysis page 1358).

## 2. Resident Student Fee Levels Should Be Set in Accordance with Statutory Fee Policy

We recommend that (1) mandatory systemwide University of California fees be set in accordance with the state's statutory methodology and (2) that additional financial aid be provided to offset the effects of increases on students with demonstrated financial need, for a net General Fund savings of \$12 million.

Last session, the Legislature passed Senate Bill 195, an urgency measure, which establishes a long-term state policy on student fees. The Governor signed the measure and it became law, effective October 2, 1985, as Chapter 1523, Statutes of 1985. Based on the fee-setting policy established by Chapter 1523, UC student fees should increase by approximately 7.5 percent in 1986-87. The budget, however, proposes a General Fund augmentation of \$12 million in order to maintain UC's mandatory fees at the current-year level--\$1,245 for undergraduates and \$1,305 for graduates.

We cannot think of any reason why the state should abandon a policy approved by the Legislature and the Governor within the last six months. The policy is supported by the students, and the Regents were prepared to implement it (their budget request was based on the new policy). Consequently, we recommend that the budget for UC be amended to conform with the policy. This would require (1) an increase in undergraduate fees of \$117 (9.4 percent), (2) an increase in graduate fees of \$57 (4.4 percent), and (3) a \$2 million increase for financial aid to offset the effect of the fee increase on students with demonstrated need. The revenue raised by the fee increases would total \$14 million, thus the net effect of

our recommendation is a General Fund savings of \$12 million in 1986-87 (Analysis page 1352).

### 3. Nonresident Student Fees Should Be Set at Average of Comparable Universities

We recommend that the tuition charged nonresident students at UC be set at a level that is equal to the tuition charged by UC's four public comparison universities. We further recommend that this policy be phased-in over a four-year period, starting in 1986-87, in order to allow time for students and families to adjust to this change. With the phase-in, the General Fund savings resulting from the increase in nonresident fee revenue is \$1.5 million in 1986-87.

University of California students who do not qualify as California residents are required to pay a nonresident tuition in addition to the fees that resident students pay. In the current year approximately 13,000, or 9 percent, of the students attending UC are nonresidents.

We conclude that the policy followed by the UC in setting nonresident tuition should be altered. Specifically, UC's tuition should be based on the average nonresident charges imposed by the four prestigious public universities with which UC competes for high-quality students. Such a policy would require UC's nonresident charges to vary by program or level of student, as the charges imposed by the comparison group do. It would also insure that UC is competitive in the market for students while minimizing the cost to California taxpayers of educating non-California residents.

The table below summarizes the nonresident charges by UC in the current year, and compares the fees proposed in the budget with those that the adoption of our recommendation would require.

The University of California  
Average Nonresident Student Fee Levels  
1985-86 and 1986-87

<u>Program/Level</u>	<u>Actual 1985-86</u>	<u>1986-87</u>		<u>Change from Budget</u>
		<u>Proposed in the Budget</u>	<u>Recom- mended by LAO</u>	
Medicine (MD).....	\$5,174	\$5,444	\$6,864	\$1,420
Dentistry (DDS).....	5,184	5,454	6,506	1,052
Veterinary Medicine (DVM)..	5,132	5,402	6,404	1,002
Law (JD).....	5,172	5,442	5,832	390
Other graduate/professional	5,185	5,455	5,568	113
Undergraduate.....	5,142	5,412	5,319	-93

Accordingly, we recommend that the Legislature request the UC Regents to set nonresident charges at the average charge, by program and

level, imposed by the four public universities used for salary comparisons. The additional revenue raised by our recommended increases would total \$6.1 million if the policy were in effect in 1986-87. By phasing-in the policy, however, the increase in revenue achieved by the state would be \$1,525,000 in 1986-87 (Analysis page 1353).

4. Limited State Resources Should Not Be Devoted to Further Super-conducting Super Collider (SSC) Related Expenses Because the Possibility of Its Construction in the Near Future Seems Remote at Best

We recommend that the Legislature delete the \$1 million requested from the General Fund for further siting studies in connection with the super collider because the possibility that the federal government will fund construction of the facility in the near future seems remote at best.

The estimated construction cost of the SSC is \$3 billion in 1985 dollars. We do not believe that the federal budget situation will provide construction funds for the SSC given the recent enactment of the Gramm-Rudman-Hollings balanced budget amendment in December 1985. In the event that the Congress does find a way to fund the SSC, the UC Regents have an appropriate funding source--the Opportunity Fund--to support further studies if the project remains feasible.

Accordingly, we recommend that the Legislature not approve funds requested for additional SSC studies, for a General Fund savings of \$1 million in 1986-87 (Analysis page 1334).

5. Withhold Recommendations on Teaching Hospital Subsidy and Insurance Inflation Adjustment Pending Further Review of the Requests

The budget requests (1) \$15 million from the General Fund for an operating subsidy to the Davis, Irvine, and San Diego teaching hospitals and (2) \$7.9 million for an inflation adjustment for insurance.

Teaching Hospitals. The Legislature provided a \$15 million subsidy for these three hospitals in the 1985 Budget Act. We withhold recommendation at this time because there is considerable uncertainty regarding the need to subsidize the three hospitals in 1986-87. In particular, we believe that the Legislature needs to review the following information prior to a decision on the subsidy: (1) the findings of the management study of the three hospitals that the Legislature directed to be completed by April 1, 1986, and (2) updated estimates of the net gains and losses of the three hospitals in the current year (Analysis page 1341).

Insurance Adjustment. The budget requests an increase of (1) \$5.8 million, 58 percent, for hospital and professional liability insurance costs, and (2) \$2.0 million, 65 percent, for general risk/liability insurance costs. We have requested information on the components causing the medical increase and on the cost-effectiveness of self-insurance for general risk/liability insurance costs (Analysis page 1363).

University of California--Capital Outlay  
(Items 6440-301 and 6440-321/page 1364)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$139,956 <sup>a</sup>	(pending)	-\$12,251

a. Includes \$8,957,000 for equipment purchases that is included in the Budget Bill as a "nonappropriated" amount.

Highlights of Our Recommendations

1. Overappropriation of COFPHE Funds

The budget proposes nearly \$9 million in "advanced authority" for the UC to purchase equipment to be financed from the Capital Outlay Fund for Public Higher Education (COFPHE). The Legislature Counsel, however, advises us that the authority to incur obligations is considered an item of expenditure for 1986-87. Thus, we find that the Governor's Budget overappropriates the COFPHE. Accordingly, we recommend that prior to budget hearings, the Department of Finance explain to the Legislature the administration's plan to avoid the deficit in the COFPHE (Analysis page 1367).

2. Revenue Bond Financing in Higher Education

The proposed capital outlay budgets for the UC and the CSU contain several projects proposed to be financed from high technology revenue bonds and from library revenue bonds. Our review of (1) previously authorized revenue bond finance projects, (2) amounts proposed in the Budget Bill and (3) the amounts needed to complete these projects indicate that over \$600 million in project costs will have to be financed by bonds in the next few years. This will require annual debt payments of approximately \$84 million.

We believe the Legislature needs to reassess its policy of revenue bond financing of these projects. Options that the Legislature needs to consider include:

- Appropriating the debt service requirements from the Capital Outlay Fund for Public Higher Education.
- Appropriating the debt service from the General Fund.

- Seeking voter approval of general obligation bonds for high technology and library facilities.
- Financing projects from current resources.

In addition to these higher education bond finance projects, the Legislature has authorized similar financing for prison facilities. Therefore, the Legislature will be faced with financing decisions involving more than \$900 million of construction projects carrying annual debt requirements that could reach \$150 million. Revenue bond debt service payments, unlike payments on general obligation bonds, are subject to the appropriation limit established by Article XIII of the State Constitution. Given the magnitude of these demands, we conclude that the Legislature needs to reevaluate its policy toward financing these major capital improvement projects (Analysis page 1382).

### 3. Hospital Improvements, Irvine and San Diego (-\$7,325,000)

The budget includes two revenue bond-financed projects for improvements at UC hospitals. The projects include:

- \$2,285,000 for working drawings, construction and equipment for an outpatient services facility at the UC Irvine Medical Center.
- \$5,040,000 for preliminary plans, working drawings and construction of a multipurpose administrative facility at the UC San Diego Medical Center.

The university has not provided any information on the projects proposed at these hospitals. Such improvements have traditionally been financed from funds generated by operation of the teaching hospitals. There is no need to provide state funds either directly or through revenue bonds to finance the projects. Finally, the Legislature adopted Budget Act language in 1985 specifying that the university should fund such projects from hospital revenues (Analysis page 1386).

### 4. UC Borrows \$10.1 Million--A General Fund Obligation?

The budget document indicates that the UC intends to finance \$10.1 million in hospital improvements from nonstate funds in 1986-87. The funds are to be secured through commercial loans initiated by UC and therefore are not included in the Budget Bill. The loans will be repaid, however, beginning in 1987-88 from the General Fund. The Department of Finance and the UC should provide the Legislature with a thorough explanation of this unique financing scheme along with their rationale for concluding that the Legislature does not need to review and approve the projects which it is expected to fund (Analysis page 1388).

### 5. Computer Equipment, Berkeley and San Diego (-\$1,876,000)

Item 6440-321-146 provides an appropriation of nearly \$9 million for purchase of equipment for two UC capital outlay projects. A portion of the requested funds would provide for purchase of computer equipment that is

intended to expand computer resources for the disciplines housed in these new buildings. We find that the expanded resources should be considered in priority order with the funding program for increased computer resources proposed to be financed in the university's support budget. Consequently, we recommend that the \$3,957,000 requested for the Berkeley Life Science Building addition be reduced by \$345,000 and that the \$5 million requested for the San Diego Engineering Building, Unit 1 be reduced by \$1,531,000 to reflect deletion of equipment items that should be funded under the multiyear computer expansion program (Analysis page 1371).

6. Chemistry and Biological Sciences Addition, Los Angeles (-\$1,350,000)

The budget includes \$1,350,000 to fund preliminary plans for a new chemistry and biological sciences addition on the Los Angeles campus. The proposed new building plus related alterations would ultimately cost \$75 million.

Our analysis indicates that the proposed project is primarily intended to provide new replacement space for a major portion of research activities in chemistry and biological sciences disciplines. The university cites deficiencies in existing space as justification for construction of the new building. The overall program, however, would provide an increase of only 11,141 asf for chemistry/biology and allow the campus to reassign about 75,000 asf of existing space to other disciplines. The university has not provided any programmatic justification for the reassigned space. Thus, the university has not substantiated the need to spend over \$75 million. Moreover, the California Postsecondary Education Commission has recently issued a study of research space needs which may effect this project.

In sum, we recommend the Legislature delete the \$1,350,000 requested for preliminary plans for the chemistry and biological sciences addition at the Los Angeles campus because (1) the UC has not justified the need to provide the additional space, (2) the UC needs to evaluate less costly alternatives such as remodeling and (3) the UC needs to assess the impact of CPEC's proposed new space guidelines (Analysis page 1376).

7. Graduate School of International Relations and Pacific Studies--San Diego (-\$480,000)

The budget includes \$480,000 for preliminary plans and working drawings to construct a new building on the San Diego campus to house the Graduate School of International Relations and Pacific Studies. This new program is anticipated to have an enrollment of 400 students in 1991-92. The requested new building would provide 41,000 asf to house the program and would cost \$8.9 million.

Our analysis indicates that the UC has the ability the realign its research priorities within the base program budget to accomplish this new program objective. Correspondingly, we recommend that fund for construction of the new building also be deleted on this basis. Moreover, even if a new center for such studies is needed, there are other alternative means of providing space (Analysis page 1377).

The California State University

(Item 6610/page 1396)

	1984-85 Actual	1985-86 Estimate	1986-87		Difference
			Proposed	Recom- mendation	
Expenditures... (thousands)	\$1,398,201	\$1,505,726	\$1,611,132	\$1,609,004	-\$2,128
Personnel- years.....	34,527.9	32,218.6	32,499.4	32,455.8	-43.6

Highlights of Our Recommendations

1. Instructional Deans

We recommend elimination of 20.3 instructional dean positions and 20.3 related clerical support positions because they are not justified on a workload basis, for a General Fund savings of \$1,464,000. Specifically, we recommend (1) a reduction in the regular budget allocation of instructional deans and related clerical support at 14 campuses because the size of the campuses does not justify the number of deans budgeted, (2) restoration of instructional dean and related clerical positions which were eliminated at eight campuses due to unallocated budget reductions because these reductions would no longer be justified if the foregoing proposal is adopted, (3) elimination of the dean of Masters of Social Work programs and related clerical support at five campuses because the scope of these programs does not justify a dean position, (4) elimination of the dean of agriculture position and related clerical support at four campuses because this position can be funded from the regular budget allocation of instructional deans provided to these campuses, and (5) elimination of the special allocation of one instructional dean and related clerical support at one campus because the regular budget allocation is sufficient to support the campus's administrative requirements (Analysis page 1409).

2. Student Fees

We recommend that the Legislature (1) adopt supplemental report language directing the California State University (CSU) to comply with the statutory fee policy enacted in 1985 by increasing student fees 10 percent in 1986-87, for an increase of \$16.3 million in General Fund revenues, and (2) augment funding for student financial aid by \$2.4 million in order to offset the effect of the fee increase on students with demonstrated need, for a net savings to the state of \$13.9 million. Our recommendation is consistent with the University of California and CSU student fee policy enacted by the Legislature in Chapter 1523, Statutes of 1985 (Senate Bill 195) (Analysis page 1422).

### 3. Minority Underrepresentation and Teaching Improvement Program

We recommend elimination of the proposed \$1.3 million Minority Underrepresentation and Teaching Improvement Program because its objectives can be achieved within the CSU's baseline budget or by less costly alternatives. The budget proposal would support a joint program to be conducted by CSU and the State Department of Education to improve teacher education and address minority underrepresentation in higher education, particularly in teacher education. Our analysis indicates that the objectives of the program's components can be achieved by drawing upon the resources of existing programs or by alternative means which would be less costly to the state (Analysis page 1424).



California State University--Capital Outlay

(Item 6610-301/page 1436)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$106,024	(pending)	-\$4,068

Highlights of Our Recommendations

1. Systemwide Enrollment Increases

The 1986-87 capital outlay budget for the California State University (CSU) is based on the five-year capital improvement program adopted by the Trustees. Contrary to prior plans, the CSU's capital improvement program includes a projected enrollment increase through 1991-92 (the last year of the projections). The CSU has not provided any information to indicate the basis of the projected increase. We therefore recommend that prior to budget hearings, the CSU provide an explanation of the increase in long-term enrollment projections.

Moreover, the CSU plans to allocate the projected enrollment by increasing enrollment at campuses that do not have sufficient physical facilities to accommodate this growth. At the same time, other CSU campuses have facilities to accommodate enrollment increases. The Legislature has previously addressed this issue through adoption of a policy for "redirection" of enrollment growth to campuses that have sufficient physical capacity.

In its 1986-87 program, the CSU makes no comment on the apparent change in policy for planning of the capital outlay program. We therefore recommend that prior to budget hearings, the CSU provide the Legislature with either the information needed to justify a departure from the existing policy on redirection or a revised enrollment allocation plan and capital outlay program that is consistent with established legislative policy on redirection (Analysis page 1439).

2. Remodel Old Science Building, San Jose (-\$390,000)

The budget includes \$390,000 for preliminary plans and working drawings to remodel the Old Science Building on the San Jose campus. The building, which is currently vacant, would be upgraded to provide additional instructional and support space. The estimated total project cost is \$6,381,000.

Based on state space guidelines, the San Jose campus has sufficient capacity to meet current and projected campuswide enrollment needs. Consequently, while the type of space existing on the San Jose campus may not be optimum given current enrollment distributions, the amount of space is adequate. Moreover, renovation of the building would be nearly as expensive as construction of new space for the functions to be housed in the building. Thus, even if this additional space were needed, renovation of the Old Science Building is not a cost-efficient solution to the space problem. On this basis, we recommend the Legislature delete the requested funds (Analysis page 1446).

3. New Library Facilities, Northridge, Long Beach and Sacramento  
(-\$1,335,000)

The budget includes \$1,709,000 for preliminary planning and working drawings for three projects to provide additional library space on the Long Beach, Sacramento and Northridge campuses. In total, the three projects would provide additional library space of over 243,000 assignable square feet with an estimated future cost of \$39 million.

Our review of the three projects for additional library space reveals that the proposals are inconsistent with respect to (1) the number of volumes to be housed in stack areas, (2) the number of volumes to be placed in storage and (3) the type of storage. Moreover, the proposals do not address the availability of additional library space currently assigned to "tenant" functions or a specific policy on multimedia space to be provided in libraries.

We recommend that the Legislature adopt specific planning guidelines for construction of new library facilities. Based on these guidelines, the proposed amount of space needed for library functions would be reduced by 39,200 assignable square feet (asf) at Sacramento and 29,000 asf at Northridge. An additional 8,500 asf would be required to meet projected needs at Long Beach. This additional space requirement should be addressed in a new overall plan for the Long Beach campus.

Finally, the request for the working drawing portion of these three projects is premature. Preliminary plans should be available prior to legislative hearings on the 1987-88 budget at which time the Legislature could consider appropriating funds for working drawings and construction for these projects.

In summary, we recommend that the Legislature modify the three library projects consistent with the recommended planning guidelines, and provide preliminary planning funds only for the revised project. This would reduce funds for the Long Beach project by \$166,000, the Sacramento project by \$559,000 and the Northridge project by \$611,000. The estimated future savings is \$13.2 million (Analysis page 1449).

4. Arts and Industry Remodel and Addition, San Francisco (-\$518,000)

The budget includes \$518,000 for preliminary plans and working drawings to fund an addition to and remodeling of the Arts and Industry Building on the San Francisco campus. The estimated total cost of the project is \$10.2 million.

Based on state space guidelines, the San Francisco campus has sufficient capacity to meet current projected enrollment in the areas of art, design and industry, film, broadcast communications and dance. Consequently, the requested additional space proposed in the project is not justified. We therefore recommend that the Legislature delete the requested preliminary plans and working drawing funds. A project to alter existing space to modernize facilities and meet current program needs would warrant legislative consideration (Analysis page 1455).

California Community Colleges

(Item 6870/page 1469)

	1984-85 Actual	1985-86 Estimate	Proposed	1986-87 Recom- mendation	Difference
Expenditures... (thousands)	\$1,122,716	\$1,268,648	\$1,344,625	\$1,295,558	-\$49,067
Personnel- years.....	139.9	143.4	147.2	147.2	---

Highlights of Our Recommendations

1. Community College Apportionments Baseline Adjustment

We recommend that the Legislature delete \$25.5 million requested for community college apportionments because the Governor's Budget does not reflect a baseline adjustment based on the most-recent estimates of current-year average daily attendance (ADA).

The budget requests a total of \$1,168 million from the General Fund in 1986-87 to fund community college apportionments. This amount is based on the requirements of SB 851 (Ch 565/83), estimated local revenues, and estimated ADA.

Our review indicates that the amount proposed exceeds the amount required to fully fund community college apportionments because the administration's baseline budget has not been adjusted to reflect the most-recent estimates of community college ADA. A baseline adjustment of \$53.1 million was made in preparing the 1984-85 budget and a similar adjustment of \$47.8 million was made to the 1985-86 budget. In both cases, the adjustments were made to reflect the decline in community college attendance between the current year and the budget year. A similar adjustment should have been made in preparing the 1986-87 budget.

Based on data collected by the Chancellor's Office, our analysis indicates that a current-year baseline adjustment of 13,300 ADA is warranted--a decline of 17,800 credit ADA offset by an increase of 4,400 noncredit ADA. These findings are from a survey taken by the Chancellor's Office in connection with the Fee Impact Study required by AB 1xx (Ch 1xx/84). The ADA reduction translates into a reduction in apportionments of \$25.5 million.

Adoption of this recommendation would not reduce funding to the community colleges. Instead, it would adjust the appropriation from the

General Fund to meet the statutory requirements for community college apportionments (Analysis page 1479).

## 2. Equalization II Is Not Effective

We recommend that the Legislature delete \$9,052,000 requested for "Equalization II" apportionment aid because the current community college funding mechanism does not promote equalization.

The budget requests \$1,168 million for general education apportionments for the California Community Colleges in 1986-87. Included within this amount is \$9,052,000 for Equalization II apportionment aid. These funds are requested for the purpose of reducing disparities in revenues per average daily attendance (ADA) among the community college districts.

Our analysis indicates that the Equalization II mechanism, established by SB 851 (Ch 565/83), is weak at best in furthering the goal of community college revenue equity. There are three reasons for this: (1) districts may receive equalization funds because of changes in ADA, rather than because of historically low revenues, (2) cost-of-living adjustments are provided equally to all districts whose per-ADA revenue is above the statewide average, and (3) the mechanism does not allow equalization to occur because it provides funding to low revenue districts to "chase the prior-year average" funding level and does not reduce the funding level of districts above the average.

Consistent with this recommendation, we recommend that the Legislature adopt Budget Bill language prohibiting the Board of Governors from allocating funds for Equalization II because it is not effective in achieving its intended purpose (Analysis page 1480).

## 3. Board Financial Assistance Program

We recommend that the Legislature (1) revert to the General Fund \$12.5 million of the \$15 million appropriated in AB 1xx (Ch 1xx/84) for 1986-87, and (2) reappropriate the unencumbered balance of the current-year appropriation in Ch 1xx, because the funding requirements for the Board Financial Assistance Program (BFAP) in the current year are less than the amount available, thus allowing part of the current-year appropriation to be used for support of the program in the budget year.

The budget reflects the \$15 million appropriated by Ch 1xx/84 for the BFAP program in 1986-87. Our analysis indicates that it is highly unlikely that all of these funds will be needed. Information provided by the Chancellor's Office indicates that the appropriations in Ch 1xx/84 have exceeded, and will continue to exceed, the amount needed to meet the program's costs of financial aid awards and administration. (Ch 1xx/84 appropriated \$15 million per year for 1984-85, 1985-86, and 1986-87 plus \$7.5 million, or half-year funding, for 1987-88 to fund the community college financial aid program established in conjunction with the mandatory student enrollment fee.)

Data provided by the Chancellor's Office indicate that only \$5.2 million was expended for the BFAP program in 1984-85, and \$7 million is projected to be expended in the current year. For the budget year, the Chancellor's Office estimates that \$10.5 million will be required to fully fund the program--\$9.3 million to fund approximately 207,000 awards and \$1,250,000 to fund state and local administrative expenses.

The reappropriation of unexpended balances from the current-year appropriation (estimated at \$8 million) plus \$2.5 million of the budget-year appropriation would provide sufficient funds to finance all costs of the BFAP program in 1986-87 (Analysis page 1484).

#### 4. Foster Parent Training Program

We recommend that the Legislature delete \$1 million requested from the General Fund to support foster parent training programs in the community colleges, because revenues from another source will finance these programs.

Current law (Ch 485/84) requires a parent of a minor who is placed in an institution by an order of the juvenile court to pay a reasonable share of the placement cost. These costs include expenditures for food, clothing, personal supplies, and medical care.

Other provisions of current law specify that these collections shall be available (1) to offset the state's cost associated with the placement of juveniles in public or private institutions, (2) to provide programs in the community colleges to train foster parents, and (3) to provide foster children services in K-12 schools. These activities shall be funded in priority order as determined by the total amount collected from parents.

The Governor's Budget requests \$1 million from the General Fund to support foster parent training programs in the community colleges. The Department of Social Services, the agency responsible for administering collections under Ch 485, estimates that collections will be sufficient to fund both the community college training programs and the K-12 foster children services. Thus, there will be no need for the General Fund appropriation of \$1 million to finance the community college programs (Analysis page 1489).

Student Aid Commission

(Item 7980/page 1505)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$241,466	\$285,365	\$295,288	\$294,682	-\$606
Personnel- years.....	174.2	186.8	196.2	192.2	-4

Highlights of Our Recommendations

1. Bilingual Teacher Grant Program

We recommend that the Legislature increase funding for the Bilingual Teacher Grant Program by \$576,000 from the General Fund because the Governor's proposed funding level would leave renewal winners without funding in 1986-87.

The budget proposes to reduce support for the Bilingual Teacher Grant program by \$2 million, or 63 percent, in 1986-87. (In addition, the budget proposes to increase funding for the Graduate Fellowship program by \$1.4 million to provide 400 additional awards that will "emphasize Bilingual Teacher Education.")

Our review indicates that the Bilingual Teacher Grant program is not effective in significantly increasing the number of bilingual teachers. Data provided by the Student Aid Commission indicates that almost 1,000 Bilingual Teacher Grant awards have been made each year since 1981-82. The cost to the General Fund for this program has increased from \$2.5 million in 1981-82 to \$3 million in the current year. The number of Bilingual Teacher Grant recipients who eventually go on to receive bilingual teaching certification, however, has never been greater than 118 in a single year, and is expected to be between 100 and 120 in 1985-86. Thus, it costs the state approximately \$24,000 for each bilingual teaching credential issued.

Under the current program, grant recipients are authorized to have their grants renewed in the subsequent year. The administration's proposal to reduce the funding level for the Bilingual Teacher Grant program by \$2 million would leave many of the current-year grant winners without the financial aid they could reasonably have expected from this program. We believe that even if the program is cut back, the state should phase out support for these students in an orderly fashion and not do so abruptly.

We estimate that \$1,711,000 would be needed to fund renewal awards in 1986-87, \$576,000 more than is proposed in the Governor's Budget. In order to prevent unreasonable hardships for current grant recipients, we recommend that the Legislature augment the Bilingual Teacher Grant Program by \$576,000 (Analysis page 1514).

GENERAL GOVERNMENT

Office of Criminal Justice Planning

(Item 8100/page 1531)

	1984-85 Actual	1985-86 Estimate	1986-87		
			Proposed	Recom- mendation	Difference
Expenditures... (thousands)	\$26,613	\$37,822	\$41,199	\$40,133	-\$1,066
Personnel- years.....	62.7	71.1	80.4	79.4	-1.0

Highlights of Our Recommendations

1. Gang Violence Suppression Program

The budget proposes to expand the level of funding for the Gang Violence Suppression program in 1986-87 by \$2,000,000 from the General Fund. This increases total funding for the program to \$4,040,000. The budget, however, does not propose to require a 25 percent federal match for the new state money, as is required for the balance of the budget appropriation. We recommend that the Legislature delete \$500,000 from the proposed General Fund augmentation in order to continue its policy of requiring that 25 percent of the program be financed by federal funds. This recommendation is consistent with legislative intent. Furthermore, federal funds are available to provide the match without a reduction in planned program activity. This would make more General Fund money available to the Legislature to support high-priority programs in the criminal justice or other areas (Analysis page 1536).



Department of Industrial Relations

(Item 8350/page 1567)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>1986-87</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$113,850	\$129,836	\$133,084	\$132,311	-\$773,000
Personnel- years.....	2,104.1	2,252.3	2,257.5	2,238.3	-19.2

Highlights of Our Recommendations

1. Budget Fails to Reflect Efficiencies from Automation (-\$581,000)

The 1985 Budget Act provided the department more than \$2 million to support various automation efforts throughout the department. The 1986-87 Governor's Budget proposes an additional \$352,000 to automate hearing reporter work in the district offices of the Workers' Compensation Appeals Board. Automation proposals for the current and budget years should lead to significant savings in various programs of the Department of Industrial Relations (DIR) beginning in 1986-87. The Governor's Budget for 1986-87, however, fails to reflect these savings. Consequently, we recommend reductions totaling \$581,000 and 15.1 personnel-years to reflect savings from automated technology which should begin in the budget year (Analysis pp. 1572-1576).

2. Cal-OSHA Discretionary Field Enforcement Program Is Shrinking

In 1984-85, the DIR developed a formula for distributing enforcement personnel to Cal-OSHA field compliance district offices. Personnel are first distributed to ensure that there are enough compliance professionals to accomplish all occupational health and safety enforcement work which is required by statute. Remaining available personnel are then distributed to the district offices to provide discretionary, or preventive, enforcement. The latest version of the formula suggests that (1) there are not enough compliance professionals to provide for all the statutorily required health enforcement work and (2) the level of discretionary resources is inadequate and poorly distributed among the district offices for both health and safety enforcement. Moreover, our analysis indicates that current statutory requirements may actually reduce the effectiveness of Cal-OSHA in preventing workplace injury and illness.

Accordingly, we recommend that:

- The department report at the budget hearings concerning the apparent shortfall in health professionals proposed for field compliance in 1986-87;
- The department report at the budget hearings regarding its policies for determining the level and distribution of discretionary enforcement efforts;
- The Legislature adopt supplemental report language directing the Departments of Finance and Industrial Relations to reorganize the budget display for the Cal-OSHA program; and
- The Legislature enact legislation allowing the department greater discretion in certain types of mandatory inspections (Analysis pp. 1576-1581).

California Exposition and State Fair

Item 8560/page 1604)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>1986-87</u>		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$12,232	\$8,014	\$10,816	\$9,816	-\$1,000
Personnel- years.....	157.9	117.0	153.8	153.8	--

Highlights of Our Recommendations

1. No Information Provided

We recommend deletion of \$1 million requested from the Special Account for Capital Outlay as a subsidy for unidentified deferred maintenance projects, because Cal Expo did not provide information on any projects. We further withhold recommendations on \$8,318,000 requested from projected Cal Expo revenue and \$992,000 requested from satellite wagering revenue in the Fair and Exposition Fund pending receipt from the Department of Finance of expenditure and revenue information for Cal Expo. (Analysis, page 1607).

Department of Food and Agriculture

(Item 8570 page 1609)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>1986-87</u>		
			<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$77,496	\$87,582	\$93,824	\$92,264 <sup>a</sup>	-\$1,560
Personnel- years.....	2,142.4	2,146.3	2,185.7	2,170.7	-15.0

a. Recommendation pending on \$3,200,000.

Highlights of Our Recommendations

1. Agricultural Fund Revenues Are \$2 Million Short of What is Needed For Pesticide Regulatory Program

We recommend that the department report at budget hearings on how it plans to (1) finance the pesticide regulatory program in 1986-87, given that the budget over-appropriates pesticide revenues in the Agricultural Fund in 1986-87 by about \$2 million and (2) address a potential deficiency of \$600,000 in Agricultural Fund revenues in the current year.

The budget requests a total of \$30,153,000 for the pesticide regulatory program, including \$10,488,000 from the Agricultural Fund and \$19,114,000 from the General Fund. The Agricultural Fund portion comes from three sources: licensing and certification fees, registration fees, and "mill tax" funds which are derived from a tax on all pesticides sold in California. Our analysis indicates that these revenue sources will not be adequate to generate the amount requested in the budget. As a consequence, the department faces a potential deficit of \$600,000 in the current year and \$2 million in the budget year (Analysis page 1618).

2. Pesticide Licensing and Registration Fees Should Be Increased

We recommend that the Legislature enact legislation to increase pesticide registration and licensing fees sufficient so that fee revenues cover the entire costs of the registration and licensing programs. We estimate that the pesticide registration fee would have to be increased from the current \$40 to approximately \$600 in order to generate the necessary \$6.8 million in additional revenue. Revenues from licensing fees would have to be roughly doubled in order to generate the necessary \$482,000 in additional revenue needed to make the licensing program self-sufficient. These

two fee increases would eliminate \$2 million funding shortfall and allow a General Fund savings of \$4.8 million (Analysis, pages 1619 and 1620).

3. Eliminate Most of The State's Fruit and Vegetable Quality Control Program

We recommend a reduction of \$1,297,000 from the General Fund and 15 personnel-years requested to enforce minimum quality standards for fruits and vegetables because competition is more efficient than the standards in protecting consumers. The department's minimum fruit and vegetable quality standards include limits on blemishes and internal defects as well as standards for ripeness and packaging. The state program duplicates private retailers' quality control programs which generally have higher standards. The marketplace can more efficiently and effectively meet consumers' needs. In addition, the department operates much larger produce grading programs that are voluntary and fully supported by industry fees. Accordingly, we recommend elimination of funds and staff for these unnecessary activities. (Analysis page 1624).

Department of Food and Agriculture--Capital Outlay  
(Item 8570-301/page 1626)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$1,448	\$990	-\$458

Highlights of Our Recommendations

1. Amount Requested for Equipment is Excessive (-\$458,000)

The Budget Bill provides advanced authority to the department to order \$1,448,000 in equipment for the John E. Thurman (Davis) Veterinary Laboratory. The administration did not include the \$1,448,000 in the total expenditures for the budget year, because the budget states that the equipment is not to be delivered until the 1987-88 budget year.

The Legislative Counsel advises us, however, that the authority to incur obligations and encumber funds constitutes an item of appropriation. Therefore, we have treated this "advanced authority" as an expenditure in the budget year.

We recommend that the Legislature reduce the appropriation because the amount budgeted exceeds cost guidelines for equipping veterinary medicine laboratories and offices (Analysis page 1626).

Public Utilities Commission

(Item 8660/page 1630)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom-</u> <u>mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$53,962	\$60,575	\$61,811	\$63,705	-\$1,894
Personnel- years.....	916.3	956.4	958.8	958.8	--

Highlights of Our Recommendations

1. Full Cost of Occupying New Building Not Reflected in Commission's Budget (\$3,974,000)

The proposed budget of the Public Utilities Commission (PUC) includes \$2,268,000 for facilities operations expenses associated with the occupancy of the new San Francisco State Office Building. The commission is scheduled to move all of its San Francisco operations into the new building at the end of 1985-86.

Elsewhere in the Analysis (please see Item 1760), we review the method of financing the new San Francisco building, and conclude that the PUC is not paying the full cost of occupying space in the building. This is because the budget proposes to finance the annual costs of the new building (\$6,242,000) through the Building Rental Account, which levies a rental charge to all state agencies occupying state space. In order to fully reflect the cost of the new building in the occupying agency's budget, we have recommended in Item 1760 that the full cost of the building (lease-purchase payments, maintenance, and utilities) not be included in the Building Rental Account. Consistent with this recommendation, we recommend that the PUC's budget be augmented by \$3,974,000, so that the commission can pay the full costs of occupying the new state building (Analysis page 1635).

2. Office Automation Project Not Justified Adequately (-\$1,980,000)

The budget proposes the expenditure of \$1,980,000 to fund Phase II of the commission's multi-year office automation plan. These funds would be used to purchase equipment and related services for most of the commission's technical staff. The emphasis of Phase II would be on spreadsheet, data base management, filing, and other capabilities.

Our review of the Phase II proposal indicates that the commission (1) has not clearly demonstrated the benefits of the proposed automation project, and (2) has not provided the Legislature with a reasonable estimate of the project's costs. Without adequate information regarding the benefits and costs of Phase II of the commission's office automation plan, we have no basis on which to recommend approval of the proposed expenditures. Accordingly, we recommend the deletion of \$1,980,000 in the PUC budget (Analysis page 1635).

Commission on the Status of Women

(Item 8820/page 1646)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	<u>1986-87</u>		
			<u>Recom- Proposed</u>	<u>mendatio</u>	<u>Difference</u>
Expenditures.. (thousands)	\$668	\$652	\$796	\$600	-\$196
Personnel- years.....	10.1	8.5	12.0	10.0	-2.0

Highlights of Our Recommendations

1. Budget Proposes to Restore Commission to Pre-1985-86  
Funding Level (-\$102,000)

The 1986-87 budget proposes to augment the commission's budget by \$102,000 in order to restore, in part, reductions made by the Legislature in the 1985 Budget Act. We recommend deletion of the proposed augmentation, as we found no basis for altering the Legislature's judgment regarding the level of activity that should be undertaken by the commission in 1986-87 (Analysis page 1648).



Military Department--Capital Outlay

(Item 8940-301/page 1681)

	1984-85	1985-86	1986-87		Difference
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$8,152	(pending)	-\$1,440

Highlights of Our Recommendations

1. National Guard Headquarters Complex Not Justified (-\$1,252,000)

The budget requests \$1,440,000 (\$669,000 state funds, \$771,000 federal funds) to prepare preliminary plans and working drawings for a 285,600 gross square feet headquarters/armory complex armory at Mather Air Force Base, Sacramento. The future estimated cost of the facility is \$27.1 million (\$9.8 million state funds, \$17.3 million federal funds).

Our analysis indicates that this proposal represents two separate projects: (1) an armory and (2) a headquarters complex. The proposed armory would receive 100 percent federal funding. The cost of the headquarters complex (consisting of three buildings) would be shared nearly equally between the state and federal government. The proposed armory would provide space for personnel from armories in the Sacramento area. The department has substantiated the need for this portion of the request. Thus, we have withheld recommendation on the armory, pending verification of the availability of federal funds.

The department, however, has not indicated what benefits the state will obtain from ultimately spending \$10.6 million of state funds to consolidate various functions in a new headquarters complex. Moreover, based on state guidelines, the proposed headquarters building is oversized by 29 percent.

In view of these problems and the uncertain availability of federal funds in 1988-89 when the department expects to request construction funding, we recommend that the Legislature delete the \$1,252,000 related to the headquarters portion of the request (Analysis page 1686).

TAX RELIEF

Tax Relief

(Item 9100/page 1689)

	1984-85	1985-86	1986-87		
	<u>Actual</u>	<u>Estimate</u>	<u>Proposed</u>	<u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	\$845,336	\$855,494	\$865,469	\$863,969	-\$1,500

Highlights of Our Recommendations

1. Senior Citizens' Property Tax Deferral

We recommend a reduction of \$1.5 million because participation is likely to be lower than reflected in the budget. Program participation fell in 1985-86 for the first time in several years. This was probably due to recent legislative changes which both reduced the number of eligible claimants and increased the cost of participation. Based on more-recent data than were available when the budget was prepared, we estimate that current-year expenditures will total approximately \$7 million, an amount \$1.6 million lower than reflected in the budget document.

Participation would have to rise by 42.6 percent over the more-recent estimates of current-year participation in order for expenditures to reach the budget's anticipated \$8.5 million expenditure level. Our analysis indicates, however, that the number of claims is more likely to remain at current-year levels, if not decline further. On this basis, budget-year expenditures are not likely to exceed \$7 million. Accordingly, we recommend this item be reduced by \$1.5 million (Analysis page 1690).

MISCELLANEOUS

Health Benefits for Annuitants

(Item 9650/page 1700)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	\$102,664	\$109,306	\$126,541	\$118,122	-\$8,419

Highlights of Our Recommendations

1. Health Premium Rate Increases (-\$8,419,000)

The budget proposes \$8,419,000 in this item to cover a projected 9 percent increase in the cost of providing annuitant health care in 1986-87. These costs will be adjusted in the same way as the health care expenses of active state employees. Yet, in budget instructions to state departments, the Department of Finance (DOF) directed them not to budget any increase in premium costs for employee health benefits.

If, after the Public Employees' Retirement System (PERS) adopts the actual 1986-87 premium rates in April, additional funds are needed to cover increased rates, the Department of Finance can request an augmentation for both active employees' and annuitants' health care costs. Traditionally, this is the way in which rate increases have been handled. Consequently, we recommend the reduction of \$8,419,000 from this item, since there is no need to budget for premium increases at this time (Analysis page 1702).

Statewide Capital Outlay--State Building Asbestos Abatement  
(Item 9860-311/page 1716)

	<u>1984-85</u> <u>Actual</u>	<u>1985-86</u> <u>Estimate</u>	<u>Proposed</u>	<u>1986-87</u> <u>Recom- mendation</u>	<u>Difference</u>
Expenditures... (thousands)	--	--	\$3,000,000	(pending)	--

Highlights of Our Recommendations

1. Asbestos Abatement Proposal

The budget requests \$3 million to fund the first year of a multi-year, statewide program to remove asbestos from state-owned buildings. The funds would be allocated by the Department of Finance to the Director of General Services.

The proposal, however, does not indicate how the program is to be implemented or what projects are to be included. Thus, the Legislature is being asked to approve a program for which it has no information. Under these conditions, we withhold recommendation on the requested \$3 million, pending receipt of a plan for implementing the proposed asbestos control/abatement and a priority list of proposed projects (Analysis page 1717).

Moreover, we recommend that, prior to budget hearings, the Department of Finance provide to the Legislature the (1) proposed procedures, (2) criteria for establishing priorities and control procedures, (3) proposed projects and costs, and (4) a plan for scheduling, funding, and completing the necessary control work involved in the multi-year program (Analysis page 1718).

Statewide Capital Outlay--Underground Storage Tank Compliance  
(Item 9860-321/page 1718)

	<u>1984-85</u> Actual	<u>1985-86</u> Estimate	<u>Proposed</u>	<u>1986-87</u> Recom- mendation	<u>Difference</u>
Expenditures... (thousands)	--	--	\$8,000	(pending)	--

Highlights of Our Recommendations

1. Statewide Underground Tank Proposal

The 1985-86 Governor's Budget included \$12 million for the Department of General Services to use to fund underground storage tank testing, monitoring, permitting, and replacement. The department, however, could not describe how the program would be implemented or how the \$12 million would be spent. As a result, the Legislature included \$4 million in the 1985 Budget Act for allocation by the Department of Finance for compliance activities related to state-owned underground tanks.

In August 1985, the Department of Finance allocated \$338,000 to the Office of State Architect (OSA) to develop detailed program plans and criteria to spend the balance of the appropriation for an underground storage tank program. On February 6, 1986--nearly six months after the original allocation--the Director of Finance notified the Legislature of its plans to allocate \$3,661,000 to sampling, testing/monitoring, and replacement/cleanup activities. Thus, at the time of our analysis, the underground storage tank program funded by the Legislature had still not gotten off the ground.

The Governor's Budget requests \$8 million for underground storage tank replacement and cleanup activities over a three-year period. The Department of Finance would allocate these funds to the Director of the Department of General Services for planning, design, construction, and continuing staff and overhead costs. The proposal, however, does not describe how the program will be implemented or how the funds are to be spent. Thus, the budget requests a lump-sum appropriation without even a description of the work to be done.

Under these circumstances, we withhold recommendation on the requested amount pending receipt of a (1) program plan, and (2) an explanation of how these funds are to be spent (Analysis page 1719). In addition, we recommend that the Department of Finance explain to the Legislature why there have been delays in this program and what steps will be taken to correct this problem (Analysis page 1719).

Furthermore, we recommend that the Department of Finance assess various alternatives to underground tank replacement and provide to the Legislature prior to budget hearings an evaluation of alternatives to tank replacement (Analysis page 1721).

Petroleum Violation Escrow Account Program

(Item 9895/page 1722)

	1984-85 <u>Actual</u>	1985-86 <u>Estimate</u>	1986-87		<u>Difference</u>
			<u>Proposed</u>	<u>Recom- mendation</u>	
Expenditures... (thousands)	--	--	\$206,500	--	-206,500

Highlights of Our Recommendations

1. Administration Requests Blank Check

We recommend deletion of all of the \$206.5 million requested from the Petroleum Violation Escrow Account (PVEA), Special Deposit Fund, because (a) the requested appropriation does not allow for legislative control of expenditures, (b) the administration has not provided any documentation to justify the proposed expenditures, and (c) the permissible uses of these funds have not been determined by the Department of Energy or the courts. The state expects to receive this \$206.5 million from the federal government primarily from settlement of the Exxon Corporation case. The PVEA funds result from judgements against oil companies for price violations prior to 1981, when federal oil price controls were in effect (Analysis page 1726).