

an urgency clause to make the funds available for expenditure in the current year, inasmuch as this amount was not requested in the current year's budget.

Explanation of the acquisition is contained in the analysis of Item 418 of the Budget Bill.

**Department of Employment
DISABILITY AND HOSPITAL BENEFITS PROGRAM**

ITEM 422 of the Budget Bill

Budget page 1225
Budget line No. 7

For Support of Disability and Hospital Benefits Program From the Unemployment Compensation Disability Fund

| | |
|---|------------------|
| Amount requested | \$2,990,208 |
| Estimated to be expended in 1952-53 Fiscal Year | 2,836,743 |
| Increase (5.4 percent) | \$153,465 |

Summary of Increase

| | Total increase | INCREASE DUE TO | | Budget page | Line No. |
|-----------------------------|-------------------|------------------------------------|-----------------|----------------|-------------|
| | | Work load or salary adjustments | New services | | |
| Salaries and wages | \$116,214 | \$116,214 | --- | 1245 | 19 |
| Operating expense | 24,360 | 24,360 | --- | 1245 | 20 |
| Equipment | 12,891 | 12,891 | --- | 1245 | 21 |
| Total increase | \$153,465 | \$153,465 | --- | | |

RECOMMENDATIONS

| | |
|--|-------------|
| Amount budgeted | \$2,990,208 |
| Legislative Auditor's recommendation | 2,990,208 |
| Reduction | None |

ANALYSIS

The increase of \$153,465 in the amount requested for 1953-54 over that estimated to be expended for 1952-53 is due entirely to increased work load and salary adjustments. As we pointed out in our 1952-53 analysis, the 1951 Legislature liberalized both basic benefits and hospital benefits in a number of important respects, and while these changes were effective January 1, 1952, their full impact in the form of increased work load will be spread over a period of several years.

While the disability and hospital benefits program, both as to costs of administration and as to benefit payments, is entirely state controlled in contrast to the unemployment insurance program which is administered entirely from federal grants and is therefore to a large extent at least subject to federal control, the two programs make joint use of certain records, facilities and personnel. In the budget of the Department of Employment the joint activities are included in the detailed budgets of the various operating units primarily engaged in administration of the unemployment insurance program shown on page 1226 through line 33 on page 1242 of the printed budget, with notations in total only for each unit of the amount chargeable to the Unemployment Compensation Disability Fund, while those activities relating solely to the disability and hospital benefits program are shown under that division starting on page

1242. The relative proportion of each class of expenditure for 1953-54 is shown in the following:

| <i>Division</i> | <i>Amount</i> | <i>Percent</i> |
|---------------------------------------|--------------------|----------------|
| Disability and hospital benefits----- | \$2,105,666 | 70.4 |
| All other ----- | 884,542 | 29.6 |
| Total ----- | \$2,990,208 | 100.0 |

The size of the disability and hospital benefits program in relation to the total activities of the Department of Employment is indicated in the following which summarizes total proposed support expenditures for 1953-54 by source of fund.

| <i>Fund</i> | <i>Amount</i> | <i>Percent</i> |
|--|---------------------|----------------|
| Unemployment Administration Fund----- | \$19,575,698 | 86.5 |
| Unemployment Compensation Disability Fund----- | 2,990,208 | 13.2 |
| Department of Employment Contingent Fund----- | 63,605 | 0.3 |
| Total ----- | \$22,629,511 | 100.0 |

A summary of the transactions in the Unemployment Compensation Disability Fund for the five-year period ending June 30, 1954, with amounts shown in millions of dollars is given in the following table:

| <i>Fiscal year</i> | Expenditures | | | | <i>Annual excess revenues over expenditures</i> |
|--------------------|---------------------|-------------------------|-----------------------|-----------------------|---|
| | <i>Revenues</i> | <i>Benefit payments</i> | <i>Administration</i> | <i>Ending balance</i> | |
| 1949-50----- | \$36.1 | \$25.2 | \$2.5 | \$98.3 | \$8.4 |
| 1950-51----- | 36.8 | 25.1 | 2.5 | 107.5 | 9.2 |
| 1951-52----- | 40.3 | 26.0 | 2.6 | 119.2 | 11.7 |
| 1952-53*----- | 41.2 | 31.2 | 3.0 | 126.2 | 7.0 |
| 1953-54*----- | 41.7 | 34.2 | 3.2 | 130.5 | 4.3 |

* Estimated.

As we pointed out in our 1952-53 analysis, the Department of Employment uses a method of budgeting for personnel which is unique among state agencies. By requiring employees to classify all time worked according to the function or activity performed and by maintaining accurate data as to number of units of work completed for each function, it is able to develop a "unit time" for each function, which is the average time required to process each item of work load. Once a "unit time" is established, the personnel requirements are estimated by multiplying the work load anticipated by the "unit time." This method not only tends to make for more accurate budgeting but it also provides management with valuable information as to current activities, a matter of great importance in an agency such as this with a staff of over 4,000 people stationed at 130 different locations in the State and engaged in administering two major programs financed from different sources.

In our analysis of the Sales Tax Division of the Board of Equalization, we pointed to possible savings in time of field auditors which could result if more reliance were placed by the State on data compiled by professional accountants in the course of preparation of tax returns for their clients. We suggested that the State work more closely with the accounting profession with a view to evolving procedures which could be advantageous to both, a suggestion which applies with equal force to the field audit activities of the Department of Employment.

DEPARTMENT OF EMPLOYMENT

ITEM 423 of the Budget Bill

Budget page 1225
Budget line No. 22

**For Support of the Department of Employment From the Department of
Employment Contingent Fund**

| | |
|---|----------------|
| Amount requested | \$63,605 |
| Estimated to be expended in 1952-53 Fiscal Year | 62,519 |
| Increase (1.7 percent) | \$1,086 |

Summary of Increase

| | Total increase | INCREASE DUE TO | | Budget page | Line No. |
|-----------------------------|-------------------|------------------------------------|-----------------|----------------|-------------|
| | | Work load or salary adjustments | New services | | |
| Salaries and wages | \$2,961 | \$2,961 | --- | 1245 | 27 |
| Operating expense | -1,875 | -1,875 | --- | 1245 | 28 |
| Equipment | --- | --- | --- | --- | --- |
| Total increase | \$1,086 | \$1,086 | --- | --- | --- |

RECOMMENDATIONS

| | |
|---|---------------|
| Amount budgeted | \$63,605 |
| Legislative Auditor's recommendation | 63,605 |
| Reduction | None |

ANALYSIS

The amount requested is to be expended by the following operating units of the Department of Employment:

| <i>Unit</i> | <i>Salaries</i> | <i>Operating expenses</i> | <i>Total</i> |
|--|-----------------|---------------------------|-----------------|
| Division of Development and Stabilization of Employment | \$52,842 | \$8,844 | \$61,686 |
| Division of Administrative Services—fiscal sec- tion | --- | 1,919 | 1,919 |
| Total | \$52,842 | \$10,763 | \$63,605 |

The \$63,605 represents half the proposed expenditures of the Division of Development and Stabilization of Employment plus half the related housekeeping functions.

This division plans and develops programs for the development of job opportunities and the stabilization of employment and administers a program for stimulation of the development of aids to small business. By agreement, one-half of the cost of the program is financed by the Federal Government and one-half by the State. The program started in 1949-50 with the State first participating in 1950-51.

An additional position is requested to assist in the development of the aids to small business programs.

We recommend approval of the request as submitted.

History of the Contingent Fund

The Department of Employment Contingent Fund was created by Chapter 17, Statutes of 1945, which added Section 24 to the California Unemployment Insurance Act effective January 29, 1945.

This law provides that all interest on contributions and penalties collected under the act shall be deposited in this fund and that all amounts in the fund are continuously appropriated " * * * for refund of

amounts collected after January 29, 1945, and erroneously deposited therein, for interest payable under this act on refunds and judgments, and for the administration of the Department of Employment." Money continuously appropriated for administration can be expended, however, only under a deficiency authorization as provided in Section 11006 of the Government Code with approval of the Governor and Director of Finance, and no such deficiency authorization can be made as a substitution for a grant of federal funds which in the absence of such an authorization would be available to the Department of Employment.

Following is a summary of the actual revenues and expenditures of the fund from January 30, 1945, to June 30, 1952.

Table 1. Department of Employment Contingent Fund,
January 30, 1945, to June 30, 1952

| | | |
|---|-------|------------------|
| Gross revenues from interest, penalties and fines | ----- | \$6,148,190 |
| Less interest paid on refunds and judgments | ----- | 671,133 |
| Net revenues | ----- | \$5,477,057 |
| Rent received during 1951-52 | ----- | 60,508 |
| Total | ----- | \$5,537,565 |
| Less expenditures: | | |
| Capital outlay | ----- | \$4,907,341 |
| State operations | ----- | 113,652 |
| | | <u>5,020,993</u> |
| Surplus June 30, 1952 | ----- | \$516,572 |

The surplus at June 30, 1952, shown above exceeds that shown for the corresponding date on Budget page 1004, line 66, by \$75,113, the difference representing adjustment of prior years' expenditures developed by the audit of the Division of Audits of the Department of Finance completed subsequent to the date on which the figures shown in the printed Budget were compiled, and consists almost entirely of differences between amounts transferred to the Division of Architecture for capital outlay and actual expenditures.

Between January 1, 1936, the effective date of the California Unemployment Insurance Act for purposes of pay roll tax collections, and January 20, 1945, revenue from interest, penalties and fines were deposited in the Unemployment Trust Fund along with the tax on which the interest and penalties accrued.

California was one of the first states to segregate the interest, penalties and fines from the tax and deposit them in a separate fund under exclusive state control. At present 35 states have contingent funds patterned after that of California and most of them, including New York and Pennsylvania, are using the money as California is using it, chiefly for capital outlay.

The original purpose behind the establishment of the contingent fund was to provide a reserve from which the State could draw in the event that congressional appropriations were not sufficient to finance the unemployment insurance program currently in effect for any given year, since the original appropriations for each fiscal year have never been sufficient for this purpose and have only been adequate to finance the program for the first nine or 10 months of the year. Last minute deficiency appropriations have always been made by Congress, however, to cover

these shortages, so that it has never been necessary to draw on the contingent fund for this purpose, but the availability of the money has had a very salutary effect on the morale of the staff, since before the days of the contingent fund the known possibility of large layoffs during the last few months of each fiscal year, should Congress fail to provide for the deficiencies, had a most disrupting effect on all phases of the administration of the program.

The net revenue for the contingent fund, which has totaled \$5,477,057 for the seven and one-half-year period as shown in Table 1, has leveled to a fairly constant figure of between \$800,000 and \$900,000 per year for the five years ended June 30, 1952, and is estimated at about \$800,000 for 1952-53 and 1953-54. Interest paid on refunds and judgments exceeded \$100,000 per year during the Fiscal Years 1946-47 to 1949-50, inclusive, but dropped to \$33,000 in 1950-51 and \$12,000 in 1951-52.

Expenditures for capital outlay, which totaled \$4,907,341 at June 30, 1952, started in 1948-49 and represent investment in land and buildings to be used for branch offices, the cost to be amortized over a period of years in the form of rent included in federal grants. The first of such buildings were completed and occupied during 1951-52 as shown in Table 2 and the rent income of \$60,508 represents rent for fractional parts of that year on these buildings. Item 359 of the Budget Act of 1952 appropriated \$1,034,000 from the contingent fund for capital outlay during 1952-53 and Item 340 of the proposed Budget Act for 1953-54 proposes \$1,026,632 for a like purpose.

The only expenditures for state operations of any consequence made out of the contingent fund were \$22,000 to finance a study of disability insurance in 1946-47, prior to the establishment of that program and \$30,000 in 1950-51, and \$60,000 in 1951-52 for one-half the cost of the Division of Development and Stabilization of Employment.

Total expenditures of \$4,907,341 for capital outlay at June 30, 1952, included some 22 projected branch offices and a new warehouse in Sacramento plus \$500,000 expended for plans for the proposed new headquarters building in Sacramento as authorized by Chapter 34, Statutes of 1950 (3rd Extraordinary Session). It is proposed to request the current Legislature to authorize the Unemployment Compensation Disability Fund to reimburse the contingent fund for the \$500,000, since Section 306.5 of the Unemployment Insurance Act authorizes the former fund to advance \$9,500,000 for construction of the headquarters building.

Of the 22-odd new branch offices, five were completed and occupied in 1951-52, an additional seven will be completed and occupied in 1952-53 and it is proposed that an additional six will be completed and occupied during 1953-54. In the meantime, as funds are available, it is contemplated that projects for additional branch offices will be started, since it is the long term objective of the department to eventually replace all leased premises with state-owned buildings in the 101 cities in the State in which permanent branch offices are now maintained.

Table 2 indicates the time required to amortize the cost of the five buildings completed and occupied during 1951-52 at present rental rates.

Table 2. State-owned Branch Office Buildings at June 30, 1952

| Location | Cost | Date occupied | Amortization of costs | | |
|-------------------|-------------|---------------|-----------------------|-----------|-----------------|
| | | | To 5/30/52 | Per year | Period required |
| Long Beach ----- | \$483,440 | 11/1/51 | \$33,600 | \$50,400 | 9 yr. 7 mo. |
| Chico ----- | 129,909 | 11/1/51 | 5,876 | 8,820 | 14 yr. 9 mo. |
| Riverside ----- | 202,936 | 1/1/52 | 9,647 | 19,296 | 10 yr. 6 mo. |
| Redding ----- | 142,017 | 2/1/52 | 3,673 | 8,820 | 16 yr. 1 mo. |
| Bakersfield ----- | 235,001 | 3/1/52 | 7,712 | 23,136 | 10 yr. 2 mo. |
| Total ----- | \$1,193,303 | | \$60,508 | \$110,472 | 10 yr. 10 mo. |

It is estimated that if the construction program for 1952-53 and 1953-54 is carried out as proposed, rents of \$179,481 and \$329,300 will be received respectively in those years.

It is understood that when the cost of the buildings is completely amortized through rental payments the federal grants for rent will cease and thereafter the agency will continue to occupy the buildings rent free. In one instance, the building in Riverside, a part of the building is occupied by the Board of Equalization, which pays rent at the same rate as does the Department of Employment, with a similar understanding as to occupancy after amortization has been completed. It is interesting to note that in the case of the Riverside building no provision has been made for joint use of facilities such as telephone, light, air conditioning, water, etc.

In view of the fact that the capital outlay needs of other agencies are far from being met and the fact that rent payments by the Federal Government as a cost of administration of the unemployment insurance program will cease when these buildings are "amortized," we recommend that receipts from penalties and interest be transferred to the General Fund or be placed in the Capital Outlay and Savings Fund for use on capital outlay projects which will not have the effect of ultimately reducing federal reimbursements to the State. By putting this recommendation into effect, the State will receive greater ultimate financial benefit from its capital outlay expenditures, and at the same time the Department of Employment need not be handicapped in meeting its needs on a lease basis.

BUDGETARY CONTROL SECTIONS

SECTION 3, page 102, of the Budget Bill

Recommendation: We recommend approval of this item be withheld pending further study of the need by the Legislature.

This section reappropriates the unexpended balance of the appropriation made by Chapter 8, Statutes of 1952, (1st Extraordinary Session) except the money specified in subdivision (1) of Section 2 of the act, and makes the money available for expenditure during the current fiscal year and the 1953-54 Fiscal Year for facilities, materials, supplies, equipment and other requirements for civil defense. This section also provides for the appropriation of any amounts made available by the Federal Government for civil defense purposes.

In effect, the adoption of this section makes available for expenditure in the current year and the budget year, the sum of \$532,040 as provided in the first paragraph above.