

MISCELLANEOUS**AUTOMOBILE REPLACEMENTS AND POOL OPERATIONS**

In private industrial enterprises which operate large fleets of automotive equipment, experience indicates that maximum efficiency and economy result from two factors: (a) centralized management and control of the entire fleet, and (b) maximum use of automotive pools.

We are reliably informed that when one major industrial enterprise which now operates a fleet of about 3,500 vehicles, including a substantial number of passenger cars, consolidated its motor vehicle activities under a single administrative management and gathered the control of automotive activities from a number of scattered departments and subdivisions thereof, substantial reductions were effected in the number of vehicles required, the investment in equipment and the operating expense related thereto. Over the several years which it took to bring such a plan into full operation, the firm secured a reduction of approximately 1,800 vehicles, or 36 percent, a reduction in capital investment of approximately \$2,000,000, and an annual saving of \$1,000,000 in direct operating expenses.

We propose that the State should secure similar economies.

In our analysis of the budget of the Board of Equalization, Items 120 and 121, and the Division of Water Resources, Item 247, we have recommended (1) deletion of all amounts requested for replacement of automobiles or additional automobiles, (2) that any need for additions or replacements in outlying districts be met by the transfer of agency-owned vehicles from the Sacramento area to these areas, (3) that the needs of the agencies for state cars in the Sacramento area be met by use of the Department of Finance pool, and (4) that if the Legislature approves this policy, sufficient funds be made available to the Department of Finance pool to enable it to meet the needs of all agencies using the pool. With respect to the General Fund cars in need of replacement by these agencies, we are recommending that they be transferred to the Department of Finance pool; while with respect to the special fund cars involved, we are recommending that they be sold and the money obtained from the sale used to pay rental for Department of Finance pool cars.

We have made these recommendations because studies have convinced us that under such an arrangement the needs of these agencies for passenger vehicles in the Sacramento area could be met with substantially fewer vehicles, with a consequent saving in the amount needed for replacements and additional automobiles.

We believe that substantially greater savings would result if these recommendations were to be applied to all state agencies, with the possible exception of the Division of Highways and the Highway Patrol. Our reasons for excepting the first are that its activities are now being studied by the Senate Interim Committee on Public Works and that its automobile purchases are not included in the Budget Bill, while our reasons for excepting the second are that its vehicles are all specially equipped and cannot be used interchangeably with other state passenger vehicles.

Such a procedure would encourage maximum use of the Department of Finance pool and would also have the effect of tending to centralize

management and control of the entire state-owned fleet of passenger cars.

Item 278 of the Budget Bill provides that any money appropriated to any agency from the General Fund for replacement or additional automobiles can be transferred to Item 278 and used for augmentation of the Purchasing Revolving Fund which finances the operations of the Department of Finance car pool.

As indicated in the table which follows, there were 3,878 state-owned passenger vehicles operated by all state agencies, excluding the Division of Highways and Highway Patrol, at September 30, 1953. Since the average life of a state passenger car is between six and seven years, it is reasonable to assume that in the current budget, provision has been made for replacement of about one-seventh of these cars, or 554, at an average net cost after trade-in of about \$1,000, or a total of approximately \$550,000.

We believe that if this recommendation is adopted, the need for replacements can be substantially reduced.

We are informed that since the State Garage at Tenth and O Streets in Sacramento has been in operation there have never been fewer than approximately 200 cars stored there on any given day during working hours. This garage has a storage capacity of 740 vehicles. These 200 cars do not include any which were being serviced or laid up for repairs but include only cars which were available for use. If we assume the size of the Sacramento based fleet of passenger cars, exclusive of those operated by the Division of Highways and the California Highway Patrol, to be 750 cars, which is the best estimate obtainable, this means that at least 26.7 percent of the fleet was idle at all times and that if all state cars in the Sacramento area, with the exceptions mentioned, were to be pooled and the needs of all the agencies involved were to be supplied from such a pool, the State could operate in this area with a very substantially reduced fleet, the maximum indicated reduction being approximately 200 vehicles. This, of course, would mean that in the over all the state fleet could be reduced correspondingly and the replacements of vehicles reduced by a like number. The cost to the State of replacing 200 light cars at current prices is approximately \$200,000, a saving which could be realized immediately through reduced expenditures for replacements if it should develop that 200 cars is the correct number.

Of the cars stored in the State Garage in Sacramento, 68 are operated by the Department of Finance as pool cars available to any agency on a rental basis, 27 are in a Department of Education pool operated by the Department of Finance exclusively for that agency, and 21 are in a similar pool operated by the Department of Finance for the Department of Fish and Game. The remainder are operated by individual agencies.

The State has storage facilities for 320 cars in Los Angeles in the State Building and immediate vicinity, for 160 in San Francisco in a lot adjoining the State Building, and for 40 in Oakland in a lot adjoining the state-owned building at 2229 Grove Street. The Department of Finance operates a pool of 35 vehicles in Los Angeles and 15 in San Francisco.

We believe that the Department of Finance pools in these areas should be enlarged as fast as conditions will permit and that where pool operations are not yet feasible, cars be supplied to agencies on a rental basis by the Department of Finance in lieu of agency-owned vehicles.

At September 30, 1953, the State of California owned 13,867 pieces of automotive equipment, exclusive of that owned by the University of California. This was distributed by classes of vehicles as follows:

<i>Class</i>	<i>Number</i>
Passenger cars	6,156
Pickups	1,787
Trucks	3,257
Miscellaneous	2,667
Total	13,867

The miscellaneous group includes everything from motorcycles and jeeps, on the one hand, to heavy units such as fire engines, snow plows, tractors, bull-dozers, road graders, et cetera, on the other, with some of the heavier units in this group costing as much as \$10,000 per unit. We estimate that the 6,156 passenger cars represent an original investment of approximately \$10,000,000, while the pickups, trucks, and miscellaneous group must represent an original investment of at least an additional \$22,500,000.

The distribution of the 6,156 passenger cars by agency at September 30, 1953, is as shown in the following table.

PASSENGER VEHICLES OWNED BY STATE OF CALIFORNIA
AT SEPTEMBER 30, 1953, BY AGENCY

(Exclusive of Cars Owned by University of California)

<i>Agency</i>	<i>Number of vehicles</i>
Agriculture	540
Board of Equalization	383
Industrial Relations	378
Fish and Game	364
Corrections	287
Natural Resources	206
Public Works, exclusive of Highways	195
Education	167
Public Health	141
Mental Hygiene	127
Motor Vehicles	122
Professional and Vocational Standards	117
Finance Pool	111
Finance, all other	92
Veterans Affairs	91
Employment	83
Adjutant General (incl. 36 U. S. Government cars)	66
Justice	65
Social Welfare	62
Controller	59
Public Utilities Commission	46
Investment	45
Civil Defense	43
Fire Marshal	24
Board of State Harbor Commissioners	20
Franchise Tax Board	12

PASSENGER VEHICLES OWNED BY STATE OF CALIFORNIA
 AT SEPTEMBER 30, 1953, BY AGENCY—Continued
 (Exclusive of Cars Owned by University of California)

<i>Agency</i>	<i>Number of vehicles</i>
District Fairs	6
Governor's Office	6
Secretary of State	4
Recreation Commission	3
All other agencies less than 3 cars each	13
 Total, excluding Division of Highways and Highway Patrol	 3,878
Division of Highways	1,380
Highway Patrol	898
 Total	 6,156

Of the 3,878 cars shown as the total, exclusive of those operated by the Division of Highways and the Highway Patrol, 2,324, or 59.9 percent, are General Fund cars and 1,554, or 40.1 percent, are special fund cars.

In the past we have consistently urged greater pooling of all automotive equipment, except special purpose vehicles such as pickups, trucks, miscellaneous pieces of equipment and the passenger vehicles operated by the Highway Patrol for enforcement purposes, and have pointed out on numerous occasions the economies to be realized from pooled operations. Basically, this is due to the fact that when cars are pooled, fewer vehicles are needed to handle a given work load than when cars are individually assigned or assigned in small numbers to many different operating groups. It follows that the larger the pool the greater proportionately will be the economies resulting from this one factor, since slack periods of operation for particular individuals or small operating groups will not occur at the same time and as the pool increases in size the number of vehicles required to handle a given volume of work load becomes progressively less. This principle is universally recognized in private industry where pooled operations of automobiles has reached its highest development.

We believe it would be highly desirable if all passenger vehicles to be acquired by the State in the future, either as replacements or as additions, were to be acquired by the Department of Finance pool rather than by individual agencies and that cars be supplied by that pool to the individual agencies entirely on a rental basis on a day-to-day or trip basis where adequate facilities are available for the operation of a large central pool as in Sacramento or on a semipermanent basis from month to month elsewhere.

From the experience in private industry and the conditions known to exist with respect to state cars in the Sacramento area, it would appear that the size of the state-owned fleet of passenger vehicles could be reduced by from 25 percent to 40 percent if all operations were to be conducted on a pooled basis at appropriate locations throughout the State.

Another advantage which results from a pooled operation where adequate maintenance facilities are available, such as those in the State Garage in Sacramento, is that operating costs can be cut by periodic inspections of all vehicles, with necessary minor repairs and adjust-

ments made as indicated. This "preventive maintenance" can be an important factor in keeping operating costs to the minimum.

Agency resistance to pool ownership or operation of passenger vehicles is based, at least in part, on the fear that the agency's need will be determined by another department. This attitude is well illustrated by the following statement by the Board of Equalization to the subcommittee of the Ways and Means Committee:

"We submit that the program for the Board's cars should be economical, but it should also give us control of the means of getting work out of our employees. Eighty-five percent of our budget is salaries—it would be poor management practice to divide with outsiders who have many other loyalties the responsibility for the cars which are necessary if that salary expense is to be productive."

It should be emphasized that ownership of vehicles by a central automotive pool and responsibility on the part of the pool for maintenance of the vehicles in no way affects the use of these vehicles in meeting agency needs. The very essence of the proposal for central pool operation is the uncontrovertible principle that greater utilization of a given fleet can be achieved by a single larger pool than by a series of smaller pools or by individual assignment. The corollary principle is that through pool operation the same work can be performed with fewer motor vehicles and a consequent savings to the State. This principle is followed in private industry where, of necessity, great emphasis is placed upon productivity of the labor force.

DISPOSITION OF PROCEEDS FROM HORSE RACING

Under present statutes, the largest part of revenue from horse racing (an amount equivalent to 4 percent of the pari-mutuel pool) goes to a special fund known as the Fair and Exposition Fund and is appropriated by fixed formulas for various purposes related to agriculture and fairs and expositions. A large portion of this is appropriated to the support of county and district fairs, of which there are 72 throughout the State at the present time. Although the statute provides a formula for determining allocations which takes into account amount of premiums paid and age of the fair, this formula has had no effect for a number of years because of the large amounts which have gone into the Fair and Exposition Fund, with the result that each of the 72 county and district fairs has received the maximum allocation of \$65,000 regardless of age or the amount of eligible premiums paid. For 1952, for instance, each fair received \$65,000 of state funds although 24 of the fairs had a maximum base of allocation of less than \$15,000 and 27 of them paid less than \$15,000 in eligible premiums. The history and the application of this provision is explained in the following analysis which we have received from the Legislative Counsel.

"Under Section 19624 of the Business and Professions Code there is annually appropriated for county and district fairs 40 percent of the first balance of the Fair and Exposition Fund. The first balance is the money remaining after certain lump sum appropriations are deducted from the fund (Secs. 19622 and 19623, B. & P. C.). Under Section 19624 no fair may receive more than \$65,000 in any year. The money is distributed in accordance with

Section 92 of the Agricultural Code and other applicable provisions of law.

“Section 92 of the Agricultural Code provides that the money appropriated for the fairs shall be apportioned on the basis of the amount of premiums paid. The Department of Finance makes rules and regulations for judging exhibits and the maximum amount of premiums that may be awarded for various classes or types of exhibits. Premiums paid in accordance therewith are eligible to be considered.

“Section 92 also provides for a ‘maximum base of allocation’ for each fair. This is \$6,000 for the first year of operation and increases by 10 percent for each year of operation (with certain qualifications not important here). If the amount of premiums paid in any year is less than the maximum base of allocation for that year the base of allocation is the amount of premiums paid during such year.

“It will be noted that the *maximum* base of allocation is not the base of apportionment. The base of the apportionment in any year is either the maximum base of allocation or the amount of premiums paid whichever is the lesser. If it were not for the \$65,000 maximum the apportionment would be quite simple. All that would need to be done would be to total up all of the bases of apportionment and divide this total into the total amount available (the 40 percent of the first balance). This would produce a figure which multiplied by the base of apportionment for each fair would be the amount to be allocated to that fair. This would in some cases produce more than the \$65,000 which is the maximum for any one fair.

“It will be noted again at this juncture that under subdivision (b) of Section 19624 of the Business and Professions Code all of the 40 percent is appropriated for the fairs to be apportioned in the manner and for the purpose prescribed by Section 92 of the Agricultural Code, but no fair is to receive more than \$65,000 in any year. Nothing is said as to what happens to the excess over \$65,000 to which a fair might otherwise be entitled. At some point in the history of the provision in question some fair became entitled to more than the \$65,000 maximum and the question then arose as to what should be done with the excess. It could either be redistributed among the other fairs or possibly be permitted to drop down into the second balance of the fund (thereby becoming available for the University of California, the California Polytechnic School and for capital outlay for fair purposes, Sec. 19626, B. & P. C.).

“The administrative interpretation apparently was that the first alternative was the one the Legislature intended. At least as early as 1946 it became apparent that this interpretation might result in each fair receiving the maximum (see Report of the Assembly Investigating Committee on Exhibitions and Fairs, 1947 Assembly Journal, p. 1005 at 1023). Thus, the Legislature was presumably aware of that result and has continued to be aware of it (see Final Report of the Senate Interim Committee on Fairs and Expositions, Volume 2, Appendix to Journal of Senate, Regular Session, 1953). Therefore, whatever doubt that may have existed at the

outset as to the propriety of the interpretation adopted would seem to have been erased by the acquiescence of the Legislature in the result of the interpretation.

“When there is sufficient money available to give each fair the maximum it is immaterial how the allocations are calculated. For example, in 1952 the 23 counties and 49 district agricultural associations which were eligible received allocations of \$65,000 each. The highest base of apportionment was \$53,725.84 and the lowest was \$2,574.75. The total of all bases of apportionment was \$1,099,418.53 and \$4,680,000 was actually distributed (see Final Report of Senate Interim Committee, supra). On this basis the ratio of each dollar of the bases of apportionment to the amount received was approximately 1 to 4.25. On this basis, the fair with the highest base of apportionment would have been entitled to approximately \$160,000 if it had not been for the \$65,000 maximum. A considerable number of other fairs would also have been entitled to more than the maximum. The ‘surpluses’ were then, in effect, redistributed among the fairs which were not entitled to the maximum so that all of the fairs eventually received the maximum.

“It is obvious that whenever for any year the 40 percent of the first balance in the fund exceeds the product of \$65,000 times the number of fairs each fair will receive \$65,000 and the ‘premium base’ factor will be inoperative. Whenever in any year any of the fairs would otherwise be entitled to more than the maximum there would be some degree of distortion of the premium base factor. This would result from the application of the theory that all of the 40 percent is to be apportioned to the fairs and that therefore any ‘surplus’ must be distributed to the fairs rather than be permitted to drop down into the second balance of the fund.

“The Legislature has, of course, complete control over the situation and presumably is fully aware that under the present system of allocation each of the fairs actually receives the maximum of \$65,000 whenever there is sufficient money in the 40 percent. It would have been possible at the outset to have interpreted the applicable provisions of law so that the ‘surpluses’ would not go to the fairs but into the second balance. This, however, was not done and the present method of distribution was adopted. Inasmuch as the Legislature has acquiesced in the present system for a number of years it seems to us that any change should come from the Legislature.”

This situation was also recognized by the Senate Interim Committee on Fairs and Expositions in its report to the Legislature in 1953 when it stated that:

“It is evident by the tables which are part of the report that the fairs which operate under Section 92 of the Agricultural Code do not, as a majority, need the entire \$65,000 they are receiving almost every year except for capital outlay. Table No. 1 will show that the average cost of operation for the 71 fairs in the past four years is about \$30,000. If the amount of money that is allocated is balanced with the above average, it appears that an average fair is adding to its surplus about \$33,000 to \$35,000 a year. This money

is not returnable to the State, nor is it earning interest as a general practice.”

Reports of the Division of Audits indicate that as of December 31, 1952, the total surplus of the existing district and county fairs was \$8,616,368. Horse racing revenues estimated for 1954-55 will again be sufficient to result in allocations of \$65,000 to all fairs under present statutes and administrative determinations.

In view of the present level of horse racing revenues and the necessity on the part of the State to consider rigid economies or new taxes for General Fund purposes, we make the following recommendations:

I. *That the Fair and Exposition Fund be abolished and that revenue (equivalent to 4 percent of the pari-mutuel pool), which now goes into the Fair and Exposition Fund in accordance with Section 19620, Business and Professions Code, be channeled into the State's General Fund.* We further recommend (a) that this same action be taken with regard to breakage revenues that go into the State College Fund and (b) that all activities now supported from horse racing revenues, to the extent that they are deemed necessary by the Legislature, be supported on the basis of annual budget justifications and annual appropriations from the General Fund.

Our reasons for this basic recommendation are as follows:

1. The creation of special funds and the appropriation of fixed amounts or fixed percentages from these special funds is unsound budgetary and fiscal policy. It obscures the State's financial position, limits the Legislature's ability to consider the relative needs of fairs and related activities in terms of other programs or the over-all financial condition of the State, and tends to remove selected activities of government from general public scrutiny in terms of the general tax burden of the State.

2. Revenues from horse racing have become substantial and may be regarded as a permanent part of California's tax program. In amount they exceed several other General Fund taxes including those on alcoholic beverages.

3. Except for the relatively small amount appropriated annually for support of the Horse Racing Board, there appears to be no significant connection between horse racing and the activities for which Fair and Exposition Fund moneys are appropriated.

4. While several of the activities supported from the Fair and Exposition Fund are in the nature of "encouragement to agriculture," the primary efforts of the State to promote and assist agriculture are carried on through another department (Agriculture) and largely from the General Fund of the State.

5. Revenues to the Fair and Exposition Fund have increased tremendously over the years since pari-mutuel betting was legalized. This increase has resulted primarily from economic factors, yet the needs of those activities supported out of the Fair and Exposition Fund have no particular relationship either to economic conditions or to the amount of money in the fund.

Effectuation of this primary recommendation would shift the support of necessary activities from the Fair and Exposition Fund to the General Fund. Basic to a reasonable determination of necessity would be the need for a complete appraisal of the state, district, and county fair

program with a view to determining long range goals and a policy for continued state support under varying conditions.

Since such an appraisal would not appear entirely feasible within the budget session, and because statutory changes would be involved which are not within the scope of a budget session, we make the following interim recommendation:

II. *That the basic features of the present formula for apportionment from the Fair and Exposition Fund be retained for 1954-55 but that the amount available for distribution from the Fair and Exposition Fund be reduced by transfer to the General Fund.*

Although the licensing of horse racing associations and legalized use of the pari-mutuel system of wagering are based upon a constitutional provision adopted in 1933, the disposition of proceeds is based entirely upon statute and may be changed by the Legislature. Furthermore, it appears clear from opinions of the Legislative Counsel that a transfer from the Fair and Exposition Fund to the General Fund may be made by amendment to the Budget Bill at a budget session.

It is our recommendation that \$8,000,000 be transferred from the Fair and Exposition Fund to the General Fund by the addition of a new item to the Budget Bill. For the Fiscal Year 1954-55 it is estimated that the Fair and Exposition Fund will receive \$16,548,630 which is substantially the same as in the current year. To appropriate \$8,000,000 "off the top" of the fund and to appropriate all other fixed support appropriations at their budgeted level will have the effect of reducing the "first balance" to \$7,698,524. Forty percent of this figure for support of "Section 92" fairs will still produce \$3,079,410 in comparison with the maximum amount of \$4,680,000 which they can receive at \$65,000 each.

This condition will put into effect the premium base of allocation for determining the amount of allocation to each fair, and by the device of transferring a greater or lesser amount from "off the top" of the fund the Legislature can determine any amount to be paid in relation to the premium base. A first balance of \$7,600,000 will provide allocations of approximately \$3 for each \$1 of eligible premiums paid up to the maximum base.

It should be pointed out that allocations for support of the California Polytechnic College and for capital outlay for the University of California, which are allocations from the "second balance," will be similarly affected by a reduction in the amount available in the fund. However, the needs of both of these institutions are, or should be, determined on a budget basis and any deficiency can be appropriated from the capital outlay part of the fund or from the General Fund.

SOCIAL WELFARE—RECOUPMENT PROVISIONS

In connection with our analysis of the budget for 1953-54, the recommendation was made that the Legislature give consideration to the enactment of recoupment provisions which would enable the State to recover from the estates of deceased recipients those amounts paid to them in aged aid. These provisions are in existence in most of the states, and it is now estimated that through a reduction in case load and through actual recoveries state costs could be reduced by almost \$10,000,000 in the first year and by more than \$4,500,000 thereafter.

In March, 1953, a survey was completed by our office which indicated that some 33 states and the District of Columbia had such a procedure in effect. Recovery provisions were adopted by 23 of these states at the beginning of their assistance program. The following table indicates the effective date of the statute and the type of recovery provisions in effect at the time of our survey.

EFFECTIVE DATES AND TYPES OF RECOUPMENT PROVISION AFFECTING
STATE OLD AGE ASSISTANCE PROGRAMS
MARCH, 1953

State	I Effective date of law		II Type of recovery law			
	From beginning of Aid Program and prior to 1940	1940 to 1950	1950 to 1952	Unsecured claim against estate	Secured claim against estate	Lien agreement required before aid is granted
Arizona		X		X		
Connecticut	X			X		
Idaho			X			X
Illinois	X			X		
Indiana		X ¹			X	
Iowa	X			X		
Kentucky			X		X	
Maine	X			X		
Maryland	X			X		
Massachusetts			X			X
Michigan		X		X		
Minnesota	X				X ²	
Montana	X			X		
Nebraska	X				X ²	
Nevada	X			X		
New Hampshire	X				X	
New Jersey	X					X
New York	X					X
North Carolina			X		X	
North Dakota	X					X
Ohio	X				X ²	
Oregon			X	X		
Pennsylvania	X					X ²
Rhode Island	X				X ²	
South Dakota	X				X	
Tennessee		X		X		
Utah		X ¹				X
Vermont	X			X		
Virginia	X			X		
West Virginia	X					X
Wisconsin	X				X	
Wyoming		X		X		
Number of states	21	6	5	14	10	8

¹ Property lien provisions were part of original old age assistance program; subsequently lien provisions were repealed but more recently were re-enacted.

² Recovery provisions were part of original old age assistance program but property lien statutes have been added to strengthen recovery laws.

³ Regulations of the Rhode Island Department of Social Welfare require all applicants to give written consent to a lien on real property as a part of establishing eligibility.

Reports from 32 of the 33 states that had adopted recoupment provisions indicated approval of the philosophy underlying such a statute and general satisfaction with the operation and economies effected by such a law. Subsequent to our survey, we have been informed that Tennessee has repealed its recovery provisions but that Kansas and Washington have adopted recoupment provisions. Therefore, a total of 34 states now have recoupment provisions applicable to their old age assistance programs.

In order to reduce the costs of government in California—federal, state and local—we recommend the adoption of recoupment provisions applicable to old age recipients which will provide a procedure for recovering from the estates of deceased recipients those amounts previously paid to them in aged aid. On the basis of information received from states having such a procedure, we estimate that enactment of a recoupment statute would result in an immediate reduction of the existing old aged case load of approximately 7 percent without adversely affecting the welfare of recipients in real need. Additional annual savings would result from the failure of prospective recipients to apply for assistance because of the recovery provisions. There would also be a savings that would accrue from actual recoveries from the deceased recipient's estate. Based only upon the initial case load decline and upon the continuing deterred case load increase, we estimate that the enactment of recovery provisions in California would result in total savings of \$21,764,511 during the first year the statute is effective and \$10,105,101 annually in subsequent years. These savings would be shared by the participating governments as follows:

First year of operation

Savings

	<i>Total</i>	<i>Federal</i>	<i>State</i>	<i>County</i>
Case load decline.....	\$16,323,174	\$7,802,477	\$7,327,799	\$1,192,898
Deterred case load increase..	5,441,337	2,600,959	2,442,725	397,653
Totals	\$21,764,511	\$10,403,436	\$9,770,524	\$1,590,551

Going concern basis

Savings

	<i>Total</i>	<i>Federal</i>	<i>State</i>	<i>County</i>
Recoveries from estates.....	\$4,663,764	\$2,229,279	\$2,093,657	\$340,828
Deterred case load increase..	5,441,337	2,600,959	2,442,725	397,653
Totals	\$10,105,101	\$4,830,238	\$4,536,382	\$738,481

PURCHASING REVOLVING FUND

The Purchasing Revolving Fund consists of the moneys used to operate the three state operations: central stores, garages and radio maintenance. The services provided by the Department of Finance in operating these functions are financed from charges made to the various state agencies. Each year an estimate is made of the cost of underwriting the service which central stores, state garages and radio maintenance provide. This estimate of expenditures is based upon a certain level of service which is fully covered by the charge to the agencies receiving the service.

In addition to the reimbursements for handling charges, the three functions are financed by an advance from the General Fund which

totals \$1,300,000. This amount provides the working capital for stores, radio maintenance and garages.

Over the years that these services have been provided, the rate of expenditure and the amount of income from services rendered has varied to the extent that an unbudgeted surplus has resulted. The unbudgeted surplus which appears in the 1954-55 Budget showing actual and estimated expenditures for the past, current and budget year, for the three activities, is as follows:

<i>Activity</i>	<i>Actual 1952-53</i>	<i>Estimated 1953-54</i>	<i>Estimated 1954-55</i>
Stores -----	\$306,670	\$247,651	\$177,962
Garages -----	16,573	28,076	31,096
Radio Maintenance ----	457,497	434,560	431,500
Totals -----	\$780,740	\$710,287	\$640,558

These surpluses may be controlled by adjusting the rate of charges for the service up or down; for example, the percentage markup for merchandise handled by stores, the mileage rate for the use of pool vehicles or the per unit charge for radio maintenance. We understand that both the overhead charge for stores and the rate for radio maintenance have been reduced. This has affected the surplus and will continue to reduce it if operating costs exceed income.

We are of the opinion that there should be no unbudgeted surplus in the Purchasing Revolving Fund. These functions can be budgeted, as they are basically no different than other functions of the State. The working capital provided from the General Fund was established to cover all financial requirements of the functions with the service charges reimbursing the working capital for the cost of operations.

The current policy with respect to the surplus appears to provide for gradual reduction of the surplus over a period of year by reducing rates. The surplus in stores is being depleted by reducing the handling charges. The unbudgeted surplus in stores will be reduced approximately \$70,000 by the end of the 1954-55 Fiscal Year according to the present plan. Nevertheless, at that time the surplus will still be approximately \$177,000. The surplus in the communications operation by July 1, 1955, will be approximately \$431,000; it is being reduced by a decrease in the charge per unit from \$150 to \$125 per unit. Although a surplus in the garage operation of \$28,076 will exist at the end of the current fiscal year, no rate changes are proposed.

We do not agree with the plan of the Department of Finance to adjust rates in an amount which uses up the surplus. We do, however, believe in adjusting rates to provide a current balance between costs and revenues. Changing rates to absorb a previously accumulated surplus disturbs the proper cost of the function to the receiving agencies and makes difficult any analysis of cost between various fiscal years. A realistic and consistent charge for services of stores, garages and radio maintenance will always reflect actual cost and will provide a sounder basis for budgeting.

Therefore, we recommend that the actual cost of service be charged and that the surplus as of the end of the Fiscal Year 1953-54, amounting to \$710,287, be apportioned to the funds from which service charges were paid in proportion to payments made by the various funds during the current fiscal year.

EDUCATIONAL AGENCY FOR SURPLUS PROPERTY

The State Educational Agency for Surplus Property was established in 1946 to distribute surplus property of all federal agencies as well as surplus foods to schools and other eligible institutions. Since its establishment it has distributed close to \$50,000,000 worth of food and hardware. To provide the initial working capital \$100,000 was advanced from the General Fund at the beginning of the 1947-48 Fiscal Year. An additional \$150,000 was advanced in 1948-49 and was repaid during the same year.

All expenses related to the handling of surplus property are paid from the Surplus Property Revolving Fund and are recovered by service charges to the agencies which receive the property. Since it is impossible to estimate precisely the expenses to the state agency, they, in effect, initially over-charge their customers. The excess revenues for a given year are then refunded. The fund maintains sufficient reserves to cover any obligations and maintains the \$100,000 working capital advanced from the General Fund. There is no doubt that it is necessary to maintain working capital. However, it does not appear to be a necessity to keep the original \$100,000 General Fund advance in the revolving fund. Consequently, we recommend that the \$100,00 be repaid to the General Fund over a two-year period from any accumulated surplus which is over and above the necessary minimum for working capital as determined by the agency and by decreasing the refunds to participating institutions. To accomplish this \$50,000 could be returned at the end of the 1953-54 Fiscal Year and a like amount at the end of the next fiscal year. The Director of Finance may, by executive order, return any portion of the revolving fund to the unappropriated moneys in the State Treasury.

WATER PROBLEMS

In our analyses the past two years we pointed to the need for a reorganization of state water agencies if the State is to meet its expanding responsibilities in the field of conservation, development, and control of water resources. We indicated that the numerous boards and agencies that have been created in the past to cope with particular problems provide antiquated and inadequate administrative machinery for the solution of the complex water problems facing the State at the present time.

Confusion of responsibility and duplication of effort are the natural consequences of having 10 state agencies, whose primary concern is with water resources, dealing with separate and distinct phases of the over-all water problem. The magnitude of such tasks as construction of the Feather River Project and possible acquisition by the State of the Central Valley Project make the need for a reorganization of the existing water agencies even more urgent.

We repeat our recommendation to the effect that the Legislature "consider the enactment of legislation which would eliminate duplication and confusion among existing agencies and create an administrative organization responsible for dealing with all major water problems, in which there would be clearly defined lines of authority."