

State Water Rights Board—Continued

be construed as an unqualified approval of presently uncertain staffing plans. Rather the agency should be prepared next year to completely justify its total budget request, based on one year's actual operating experience. Although the Department of Finance has provided for salary savings of \$58,334 in the current year and of \$15,000 in the budget year, it is still possible that additional savings will occur because not all new positions may be filled. Therefore, *we recommend that the Department of Finance be instructed to assure that any funds provided for salaries and equipment which remain from such unfilled positions should not be expended for purposes not included in such positions as described in the budget. To that end the Department of Finance should provide a report to the Legislature at the next budget session of the amounts and sources of such savings if any should occur.*

WORKMEN'S COMPENSATION BENEFITS FOR STATE EMPLOYEES

ITEM 274 of the Budget Bill

Budget page 991
Budget line No. 36

FOR SUPPORT OF WORKMEN'S COMPENSATION BENEFITS FOR STATE EMPLOYEES FROM THE GENERAL FUND

Amount requested	\$1,300,000
Estimated to be expended in 1956-57 Fiscal Year	1,120,000
 Increase (16.1 percent)	 \$180,000

RECOMMENDATIONS

Amount budgeted	\$1,300,000
Legislative Auditor's recommendation	1,300,000
 Reduction	 None

The cost of workmen's compensation benefits for state officers and employees whose salaries are paid from the General Fund is estimated at \$1,300,000 for the budget year. This is an increase of \$180,000 or 16.1 percent over the amount estimated to be expended in the current year.

The State is self-insured for this purpose and the State Compensation Insurance Fund administers the details of handling claims and making payments.

We recommend approval of the budget as submitted.

**PAYMENTS FOR ADDITIONAL WORKMEN'S COMPENSATION
FOR SUBSEQUENT INJURIES**

ITEM 275 of the Budget Bill

Budget page 991
Budget line No. 54

**FOR PAYMENT OF ADDITIONAL WORKMEN'S COMPENSATION FOR
SUBSEQUENT INJURY AS PROVIDED BY SECTION 4751 OF THE
LABOR CODE FROM THE GENERAL FUND**

Amount requested	\$610,000
Estimated to be expended in 1956-57 Fiscal Year	434,000
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Increase (40.6 percent)	\$176,000

RECOMMENDATIONS

Amount budgeted	\$610,000
Legislative Auditor's recommendation	610,000
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Reduction	None

GENERAL SUMMARY

This fund is established to pay Workmen's Compensation benefits for permanent disabilities resulting from industrial injuries to employees who have previously suffered another specific permanent disability. The intent of the law is to encourage the employment of handicapped persons by relieving the employer of liability for the effects of a combination of injuries, some of which do not result from the hazards of his business.

Prior to the amendments of 1955 (Chapter 1092, Statutes of 1955) any pre-existing permanent disability which when combined with a current compensable injury resulted in a combined total permanent disability rating of 70 percent or more became a liability of the subsequent injury fund. The 1955 amendments were designed to limit the liability of the fund:

1. To cases where the subsequent injury was related to a previous disability of an opposite and corresponding member of the body,
2. Or to cases where the permanent disability resulting from the subsequent injury accounted for 40 percent or more of the total disability.
3. By preventing payment from the fund of certain duplicating payments on account of the pre-existing disability,
4. And to prohibit the commutation of payments from the fund to a lump sum.

These amendments were limited to a two-year period and will no longer be effective after some time in September of this year unless they are continued as a result of legislation passed at this session of the Legislature.

The progressively increasing annual cost to the General Fund of payments from this fund is set out in the analysis of this item in the 1957-58 Governor's Budget at page 991, lines 70-83. The increasing liability for future payments from the fund is illustrated by the following table:

Workmen's Compensation for Subsequent Injuries—Continued

<i>Fiscal year ending</i>	<i>Compensation awarded payment not started</i>	<i>Compensation awarded payment being made</i>	<i>Total outstanding</i>
June 30, 1948	\$59,294.00	\$146,252.00	\$205,546.00
June 30, 1949	89,699.00	224,124.14	313,823.14
June 30, 1950	17,011.00	301,742.76	318,753.76
June 30, 1951	179,414.00	364,716.07	544,130.07
June 30, 1952	494,615.00	644,182.14	1,138,797.14
June 30, 1953	513,601.00	1,198,178.54	1,711,779.54
June 30, 1954	780,703.00	1,451,501.22	2,232,204.22
June 30, 1955	891,115.00	1,995,557.15	2,886,672.15
To June 30, 1956	1,378,297.00	2,684,963.50	4,063,260.50

The growth in the number of claims against the fund and of awards from the fund is illustrated by the following table:

<i>Fiscal year</i>	<i>Total claims</i>	<i>Rejected (as of June 30, 1956)</i>	<i>Net</i>
1947-48	20	7	13
1948-49	13	3	10
1949-50	27	11	16
1950-51	44	27	17
1951-52	83	43	40
1952-53	166	93	73
1953-54	160	67	93
1954-55	181	56	125
1955-56	206	17	189

These tables do not reflect a decline in the rate of growth of the cost of this program since the limiting amendments were passed in 1955. This may be partially explained by the fact that current awards are generally related to injuries occurring one or more years ago. Consequently there is not currently sufficient data upon which to base a reliable judgment as to the extent of the effect of these amendments upon the fund. The minimal experience under the amended law, however, does appear to afford a basis for the adjudication of claims against the fund which will result in less liability than formerly. Consequently, it appears desirable to continue the amendments in effect past their presently scheduled termination, at least until a factual determination of the extent of their effect in limiting the liability of the fund can be made.

ANALYSIS

In view of the increases in the numbers of awards and in the amount of liability and of payments in the last fiscal year the estimates of fund requirements for the current and budget years as set out in the 1957-58 budget appear reasonable.

We recommend approval of the budget as submitted.

REFUND OF LICENSES, TAXES AND OTHER FEES

ITEM 276 of the Budget Bill

Budget page 992
Budget line No. 12

FOR REFUND OF TAXES, LICENSES, AND OTHER FEES, FROM THE GENERAL FUND

Amount requested	\$15,000
Estimated to be expended in 1956-57 Fiscal Year	15,000
Increase	None

RECOMMENDATIONS

Amount budgeted	\$15,000
Legislative Auditor's recommendation	15,000
Reduction	None

ANALYSIS

This request is for an appropriation for the refunding of licenses, taxes, and other fees erroneously collected and paid into the General Fund. In these cases there are no other specific provisions of law by which such refunds can be made.

We recommend approval of this item as budgeted.

LEGISLATIVE CLAIMS

ITEM 277 of the Budget Bill

Budget page 992
Budget line No. 26

FOR CLAIMS OF THE STATE BOARD OF CONTROL FROM THE SEVERAL FUNDS

Amount requested	\$42,344
Estimated to be expended in 1956-57 Fiscal Year	147,783
Decrease	\$105,439

ANALYSIS

The Board of Control has approved claims against the State of \$42,344, of which \$680 represents claims against nonrevenue funds. This sum will be increased when the Board of Control introduces amendments to cover later claims. The final review of all claims approved by the board will be made by the Legislature when the board has transmitted a statement of reasons for approval as required in Section 16020 of the Government Code.

PURCHASING REVOLVING FUND

ITEM 278 of the Budget Bill

Budget page 993
Budget line No. 67

FOR REAPPROPRIATION OF BALANCE IN ITEM 273.5, BUDGET ACT OF 1955, AS AMENDED BY ITEM 287, BUDGET ACT OF 1956

ANALYSIS

An amount of \$266,000 was appropriated under Item 273.5, Budget Act of 1955, for augmentation of the Purchasing Revolving Fund. The original request was based primarily on the need for capital to fund the expansion of the automotive pool.

An unexpended balance of this appropriation in the amount of \$187,470 was made available during the current year through the appropriation by Item 287, Budget Act of 1956. This item would extend the availability of these funds through the budget year.

We recommend approval.

PERMANENT REVOLVING FUNDS

ITEMS 279 and 280 of the Budget Bill

Budget page 993
Budget line No. 59

FOR SUPPORT OF PURCHASING REVOLVING FUND AND CORRECTIONAL INDUSTRIES REVOLVING FUND FROM THE GENERAL FUND

Amount requested	\$1,500,000
Estimated to be expended in 1956-57 Fiscal Year	191,978
Increase	\$1,308,022

RECOMMENDATIONS

Amount budgeted	\$1,500,000
Legislative Auditor's recommendation	1,500,000
Reduction	None

ANALYSIS

Item 279—Purchasing Revolving Fund, increase	\$500,000
Item 280—Correctional Industries Revolving Fund, increase	1,000,000
Total increase	\$1,500,000

(See also 1957-58 Budget, page 1419, "Purchasing Revolving Fund Operations.")

The Purchasing Revolving Fund showed total assets on June 30, 1956, of \$3,968,360. Of this, \$677,345 represented cash on hand (Assets, Budget page 1419, lines 6-8), against which there were accounts, taxes and expenses payable of \$253,773 (Liabilities, lines 6-9). Purchased Stores items of \$1,276,815 (Assets, line 11) almost balanced the working capital advanced by other funds of \$1,255,245 (Liabilities, line 11). "Frozen assets" in the form of equipment, primarily state automobile pool vehicles, accounted for \$831,501 (Assets, lines 12 and 14 less lines 13 and 15). A portion of these "frozen assets" were obtained by transfer of motor vehicles from the various departments to the motor pool, and appear as "Working Capital—General Fund—Equipment" under the heading Net Worth.

Permanent Revolving Funds—Continued

In round numbers, the Purchasing Revolving Fund had \$4,000,000 with which to operate on June 30, 1956. A third of this represented supplies and equipment "in the pipeline." Over a fifth represented "frozen assets," consisting primarily of the State's central motor pool. Funds advanced from departmental budgets could be considered as an offset either to supplies "in the pipeline" or supplies delivered and not paid for. It appears that an additional half million dollars, under these circumstances, is not excessive.

The circumstances surrounding the request of the Correctional Industries Revolving Fund have been investigated by the Department of Finance and reviewed by this office. The Department of Finance has recommended a number of improvements in operation, after which the department believes \$1,000,000 additional working capital is still needed for a reasonable level of efficiency.

We recommend that the Department of Finance adopt, as an administrative procedure, a rule for the Correctional Industries Revolving Fund similar to that applied to the Purchasing Revolving Fund. So far as possible, transfer of funds from departmental funds or the Purchasing Revolving Fund to the Correctional Industries Revolving Fund should be made at time of order from the Correctional Industries. The purpose is to reduce to a minimum the amount of state funds lying idle.

Approval of these items is recommended.

PURCHASING REVOLVING FUND**ITEM 281 of the Budget Bill****ANALYSIS**

This item is identical to Item 288 of the Budget Act of 1956. It provides that the State Controller upon approval of the State Board of Control shall transfer to this item, from any appropriation in Section 2 of this act made from the General Fund, that part of such appropriation intended for the purchase of automobiles. These funds shall be available for augmentation of the Purchasing Revolving Fund.

This item provides the machinery whereby funds appropriated from the General Fund to the various state agencies for the replacement of or purchase of additional automobiles may be used to augment the Revolving Fund which finances the Department of Finance car pool. We have urged that centralized control of all automobiles and central pool operation to the extent possible and economical should be effected as rapidly as possible.

We recommend approval of this item as submitted.

PROVISION FOR SALARY INCREASE

ITEMS 282 and 282.1 of the Budget Bill

Budget page 995
Budget line No. 7

FOR SUPPORT OF SALARY INCREASE FUND FROM THE GENERAL FUND

Amount requested ----- \$18,039,173

RECOMMENDATIONS

Amount budgeted ----- \$18,039,173

Legislative Auditor's recommendation ----- 18,039,173

Reduction ----- None

GENERAL SUMMARY

The request for \$18,039,173 from the General Fund for a salary increase fund is being requested upon the basis of a recommendation by the State Personnel Board that this amount is necessary in order that state salaries may be kept in line with salaries paid in private industry and other governmental jurisdictions.

The State Personnel Board is required by Section 18712 of the Government Code to report annually to the Governor and the Legislature on the position of state salaries in relation to those in private industry and other governmental jurisdictions. The board in its report of December 1, 1956, has recommended that funds be appropriated for a general 5 percent salary increase for state employees.

ANALYSIS

Since the Personnel Board's salary jurisdiction relates only to civil service and state college salaries, no specific recommendation was made with respect to the University of California nor exempt employees. The amount requested in the budget provides for carrying out the board's recommendation for both General Fund employees and, in a separate section, special fund employees, and in addition it provides in this salary increase fund item amounts sufficient to provide comparable adjustments to University of California employees and for employees exempt from civil service whose salary is set by other than the Personnel Board. The item also includes \$2,500,000 for special salary adjustments for civil service employees paid from the General Fund. The total cost of salary adjustments for General Fund and Special Fund employees is \$30,922,947. Item 282 of the Budget Act proposes \$12,960,017 from the General Fund for civil service and exempt employees.

The State of California has since 1949 required the Personnel Board to submit findings as to salary comparability between State and outside employment and to recommend salary adjustments. The Legislature has consistently appropriated funds to implement this policy. Regular salary surveys are made by the board in October and March of each year. The October survey for 1956 consisted of a field analysis of industrial wages in the San Francisco Bay and Los Angeles areas. This survey covered approximately 70 industry classes comparable to state classes. In March, 1957, prior to the adjournment of the Legislature, it is anticipated that a report will be submitted that will verify the October, 1956, survey.

Provision for Salary Increase—Continued

The Personnel Board in its annual report dated January 21, 1956, stated that "if the trend of salary increases in business and in other governmental agencies continues, salaries of state employees will be 5 percent or more below prevailing rates when the March, 1956, salary surveys are conducted by the Personnel Board." By March, 1956, it became apparent to the board that many classes were more than 5 percent below prevailing rates. The Personnel Board reported its conclusions to the Legislature in March, 1956, and recommended that the fund for special salary adjustments be increased. The Legislature appropriated an amount sufficient to provide a 5 percent adjustment to all state employees, plus an amount of \$4,900,000 from the General Fund for special salary adjustments. A corresponding amount was appropriated from special funds.

With funds appropriated by the Legislature, the Personnel Board granted a general 5 percent increase to practically all state employees effective July 1, 1956. An additional 5 percent salary increase was granted to those classes where this extra adjustment was needed to bring state salaries in line with prevailing rates. Included in this group were employees in the clerical, engineering, trade, labor, legal, medical and social welfare classes. About 8,000 employees in the psychiatric technician and hospital nursing classes also received an additional 5 percent salary increase. In total 57 percent of the employees received an increase of 10 percent.

Recent findings by the board have led it to conclude that between March and October of 1956, salaries in outside employment have increased an average of $3\frac{1}{2}$ percent and that if the trend continues by March, 1957, wages and salaries in outside employment will have risen 5 percent or more above salaries paid to state employees. On this assumption the Personnel Board recommended that an appropriation be made into the salary increase fund.

It is our opinion that the sampling methods and interpretation of data made by the Personnel Board are essentially sound. Surveys have been conducted on this basis over a period of several years and follow the established methodology of conducting such measurements. The Personnel Board has available to it extensive data accumulated by other public and private surveys made in California.

Although we recommend conditional approval of the amount requested by the Personnel Board, several aspects of this request should be pointed out to the Legislature.

1. This year, as last year, the Personnel Board in recommending the amount of money necessary to bring state salaries in line with private industry, is basing its recommendation upon an anticipated trend. The funds requested are not simply the difference between state salaries, by and large, and industry salaries, as measured in the last salary survey, but, rather, the difference which will occur by projecting the trend in industry. We think this is significant for two reasons: (a) it indicates that the time lag between the industry wage curve and the state wage curve is being reduced or eliminated entirely, and (b) it indicates an obligation on the part of the Personnel Board to resurvey

Provision for Salary Increase—Continued

and verify the industry trend prior to final legislative action on this item.

2. The request this year includes an amount sufficient for a general adjustment of 5 percent to all state employees and, in addition, \$2,500,000 for "special adjustments." In our opinion, this request requires further explanation and justification by the Personnel Board before it is finally appropriated by the Legislature. Some of the questions raised are the following:

a. The Personnel Board has never been required by the Legislature to administer the Salary Increase Fund from two pockets: one for a general increase for all employees, and one for special increases for certain classes. The wage surveys have always shown that comparability with private industry has varied with different classes, with the result that some classes would justify no increase and some would justify an increase greater than 5 percent. The only directive of the Legislature is that the funds be used to maintain internal consistency and external comparability within the limits of funds made available. Is it the intent of the Personnel Board in requesting \$2,500,000 for special adjustments, in addition to the full amount for a general adjustment, that a general adjustment of 5 percent will be made for all classes of positions regardless of the results of the salary survey with respect to individual classes of positions? If the answer to this question is in the negative, then a certain portion of the amount requested for "general adjustments" is actually also for "special adjustments."

b. In view of the fact that the Legislature has appropriated every amount requested by the Personnel Board in its reports to the Governor and to the Legislature, and has on several occasions appropriated amounts in excess of the amounts requested by the board, including \$2,525,000 appropriated last year, with no actual strings on its administration of these funds except those contained in the Government Code, the question is raised as to how, and over what period, did a situation arise in which now "special" adjustments are called for to the extent of 2.5 million dollars. The amount for special adjustments is requested to "enable the Personnel Board to recognize change in internal relationships and extreme changes in prevailing rates." It would appear that the latter condition can be measured by wage surveys, and should, to that extent, be a part of the amount requested for general adjustments. Since the Personnel Board submitted an amended request in March of 1956 for \$2,375,000 for special adjustments and \$4,900,000 was appropriated by the Legislature, all of which was expended, we believe further explanation should be made of the changes since July 1, 1956, in internal relationships to warrant the additional funds.

University of California

Item 282.1 of the Budget Act provides \$5,079,156 of the total amount for a general 5 percent salary increase for employees of the University of California. This amount is an estimate put forth by the Personnel Board which has no jurisdiction over the salaries paid university em-

Provision for Salary Increase—Continued

ployees. We feel that allocations to the University of California should be made upon certification by the regents that proposed salary ranges for nonacademic personnel are substantially comparable to those granted state officers and employees of the civil service. It is also recommended that academic salary increases should be supported by the findings of a survey of wage rates for comparable academic institutions and positions.

We recommend approval of this item.

RESERVES FOR CONTINGENCIES

Emergency Fund

ITEM 283 of the Budget Bill

Budget page 998

Budget line No. 15

FOR THE EMERGENCY FUND TO BE EXPENDED ONLY ON WRITTEN AUTHORIZATION OF THE DEPARTMENT OF FINANCE FOR EMERGENCIES FROM THE GENERAL FUND

Amount requested	\$2,000,000
Estimated to be expended in 1956-57 Fiscal Year	1,000,000
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Increase (100 percent)	\$1,000,000

RECOMMENDATIONS

Amount budgeted	\$2,000,000
Legislative Auditor's recommendation	1,000,000
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Reduction	\$1,000,000

ANALYSIS

It is prescribed that this Emergency Fund is to be expended only on written authorization of the Department of Finance for emergencies, provided that loans may be made from the Emergency Fund to state agencies which derive their support from sources other than the General Fund.

The Budget Act of 1956 appropriated \$1,000,000 for this Emergency Fund and an additional \$1,000,000 was provided by special appropriation under Chapter 14, Statutes of 1956, First Extraordinary Session for emergency expenditures incurred by state agencies in connection with the flood disaster of December, 1955.

Because of the past experience of the expenditures from this fund, and the purpose of the fund, we recommend that this item be reduced to \$1,000,000, which is the same as the amount appropriated last year except for the emergency of known flood damage to state properties. This, in our opinion, should be sufficient for the "ordinary" emergencies intended to be financed from the fund.

ITEM 284 of the Budget Bill

FOR THE EMERGENCY FUND TO BE EXPENDED ONLY ON WRITTEN AUTHORIZATION OF THE DEPARTMENT OF FINANCE FOR EMERGENCIES, FROM THE SPECIAL FUNDS, EXCLUSIVE OF MOTOR VEHICLE FUND, AND STATE HIGHWAY FUND

This item has the effect of appropriating the unexpended balance of each special fund to be expended on written authorization of the Department of Finance in such amounts as it determines to be necessary to effectuate the purpose for which a particular appropriation from the fund has been made.

There is justification for the granting of authorization to augment appropriations from special funds. However, in our opinion, the language of this item is far too broad, in the sense that it appropriates the unexpended balance in each special fund for expenditure by administrative discretion.

The purpose of this item can be served if the wording is amended to restrict expenditures to emergencies of the same type and to the same extent as applies in the case of allocations from the General Emergency Fund, Item 283, and we recommend that the item be so amended.