

Woman's Relief Corps Home—Continued

is contracted for with a private nursing home for \$3,600 per year and the remaining \$300 is provided for hospital care that may be required.

We recommend approval as requested.

Department of Veterans Affairs

UNITED SPANISH WAR VETERANS COMMISSION

ITEM 290 of the Budget Bill

Budget page 775

FOR SUPPORT OF UNITED SPANISH WAR VETERANS COMMISSION FROM THE GENERAL FUND

Amount requested	\$3,400
Estimated to be expended in 1963-64 fiscal year	3,400
Increase	None
TOTAL RECOMMENDED REDUCTION	\$3,400

ANALYSIS

Chapter 430 of the Statutes of 1957 created the five-member United Spanish War Veterans Commission. The duty of the commission is to promote and provide for the welfare and assist in the maintenance of the Department of California, United Spanish War Veterans.

The \$3,400 budgeted includes \$1,000 for travel and general expenses of the commission and \$2,400 for maintenance of the Department of California United Spanish War Veterans headquarters.

We question the total amount as an unnecessary expenditure of state funds.

We recommend disapproval of the item.

PROVISION FOR SALARY INCREASES FUND

ITEMS 291 and 292 of the Budget Bill

Budget page 776

FOR SUPPORT OF PROVISION FOR SALARY INCREASES FROM THE GENERAL FUND

Amount requested	Item 291	\$1,200,000
	Item 292	2,119,893
		<u>\$3,319,893</u>
TOTAL RECOMMENDED REDUCTION		None

ANALYSIS

At the 1963 Special Session, the Legislature appropriated \$58,470,000 from the General Fund to finance salary increases for the majority of civil service, university, state college and exempt positions from January 1, 1964 through June 30, 1965. It is now proposed to augment these funds by a total of \$3,759,783 for salary increases in both 1963-64 and in 1964-65. The augmentations would consist of two budget act items and a deficiency appropriation. The amounts previously appropriated and the requested augmentations are shown in the following table.

Items 291-292

Miscellaneous

Provisions for Salary Increase Fund—Continued
Provisions for Salary Increases, General Fund, 1963-64 and 1964-65
Previously Authorized by Legislative Action

Salary increases for:				Source of funds
Civil Service, university and state colleges ----	1963-64	1964-65		
	\$17,900,000	\$40,300,000		Chapter 8, Statutes of 1963, Special Session, Items 35 through 39.
Exempt positions -----	90,000	180,000		
Total authorized -----	\$17,990,000	\$40,480,000		
<i>Requested augmentation</i>				
Exempt positions -----	\$146,630	\$293,260		Proposed deficiency appropriation, 1964 Special Session.
New positions, 1964-65 ----	-	1,200,000		Budget act Item 291, 1964-65.
Statutory positions -----	-	136,501		Budget act Item 292, 1964-65.
Exempt positions -----	-	28,692		
Justices, judges and attachés	-	1,954,700		
Total requested augmentation -----	\$146,630	\$3,613,153		
Total, previously authorized and requested -----	\$18,136,630	\$44,093,153		

The individual proposed budget act and deficiency appropriation augmentations are:

1. Item 291 of the budget act requests \$1,200,000 to finance salary increases for new positions authorized in 1964-65. These funds show on budget page 777, line 7, and represent the total of the amounts shown on budget page 776, lines 40, 52 and 59. In preparing the budget for 1964-65, the Department of Finance, in all cases, used the salaries prevailing as of June 30, 1963. For positions existing in 1963-64, the additional funds necessary because of salary increases were appropriated by Items 35 through 39 of Chapter 8, 1963 Special Session. For positions created new in 1964-65, the additional funds requested by Item 291 will be required. *We recommend approval of this request.*

2. Item 292 of the budget act asks for \$2,119,893 to be used for three separate salary increase programs. These funds show on budget page 777, line 8.

a. \$1,954,700, budget page 776, line 77, would be used to finance salary increases for justices, judges and their attachés in 1964-65. Pending the introduction of the legislation necessary to implement such a program, we are unable to make a recommendation on this specific request except to note that the last adjustment in judges' salaries was in 1960-61, since which year civil service salaries have been increased over 14 percent.

b. \$136,501, included in the amount of \$165,193, budget page 776, line 71, would be used to provide salary increases in 1964-65 for

Provisions for Salary Increase Fund—Continued

positions with statutory salaries. Since legislation would also be required to increase statutory salaries, we are unable to make any recommendation until such legislation is introduced. It should be noted here, however, that, like judges, such salaries have not been increased since 1960-61.

c. \$28,692, also included in the amount of \$165,193, budget page 776, line 71, is requested to finance additional salary increases in 1964-65 for positions which are exempt from civil service and whose salaries are fixed by the Department of Finance. Salary increases which were effective generally as of January 1, 1964, were withheld from certain exempt positions by the Department of Finance since the increases would have aggravated already serious problems of salary compaction between these exempt positions and those with statutory salaries. The Department of Finance plans to increase these exempt salaries if legislation is enacted by a 1964 Special Session of the Legislature increasing statutory salaries. In the following paragraphs we discuss the subject of additional funds requested for further increases in exempt position salaries generally in both 1963-64 and 1964-65. The comments below apply in large part to this request.

3. A deficiency appropriation of \$439,890, budget page 777, line 10, is requested to finance salary increases for both the last four months of 1963-64 and all of 1964-65 for exempt positions whose salaries are set by the Department of Finance. Of this amount, \$146,630 would be expended in 1963-64 and the balance of \$293,260 carried forward to 1964-65. We invite the Legislature's attention to Item 39 of Chapter 8, Special Session of 1963, which appropriated \$270,000 for exempt salary increases from January 1, 1964 through June 30, 1965. The Legislature, in enacting this item, specified that no more than \$90,000 of the \$270,000 was to be used in 1963-64. Despite this limit, the Department of Finance has placed into effect exempt salary increases which will exhaust the \$90,000 within the first three months of 1964. The requested deficiency appropriation contains \$146,630 to continue these increases so that a total of \$236,630 would be expended through June 30, 1964. The balance of the proposed appropriation would be used to augment the \$180,000 remaining from the Chapter 8 funds on June 30, so that a total of \$473,260 would be available for 1964-65.

In addition to the augmentations from the General Fund discussed above, appropriations would be made from special and other funds.

There is an obvious inconsistency in granting larger salary increases to civil service personnel of a given classification than to positions of like classification in an exempt agency or an exempt classification. Over 50 percent of exempt positions are comparable in classification with civil service positions, and their salaries are specifically related, whether such positions are high level or low level. Since civil service positions obtain certain employment benefits not granted to exempt employees, there would appear to be no special reason to make salary concessions to civil service positions on that basis. We know of no special reasons

Provisions for Salary Increase Fund—Continued

for a distinction, or that this was discussed in connection with the salary item.

Nevertheless, there is no indication that the Legislature did not take this factor or other overriding factors into account in establishing its limitation. For this reason we believe this item requires legislative review despite Department of Finance action.

Personnel Board Actions

On November 29, 1962, the State Personnel Board, as required by law, submitted its report to the Governor which pointed out that its salary survey data supported a 5-percent increase for about one-quarter of state employees, a 10-percent increase for about one-half, and no increase for about one-quarter, effective July 1, 1963, in order to bring state civil service salaries into appropriate relationships with those paid for comparable positions in private industry and other governmental jurisdictions.

The Legislature, in Item 35 of Chapter 8, Statutes of 1963, First Extraordinary Session, appropriated funds to implement this program for an 18-month period starting January 1, 1964, and a comparable program for nonacademic employees at the University of California and the state colleges, subject to two restrictions:

(1) That not to exceed a specified amount, no more than one-third of the total in each case, could be expended during the period from January 1 to June 30, 1964.

(2) That the money could be used only for increases where state salaries were at least 5 percent below outside salaries on January 1, 1964, and for those not eligible on January 1, 1964, only when they were found to lag by 5 percent, but in no case prior to July 1, 1964.

The State Personnel Board reported to the Governor on December 20, 1963, that based on October 1963 salary survey data, 43 percent of the State's civil service employees were entitled to a 5-percent increase, 33 percent to a 10-percent increase and 24 percent to no increase, effective January 1, 1964, and took action to adjust civil service pay scales accordingly.

Among the occupational groups receiving a 5 percent increase were police and law enforcement, nursing, psychiatric social work, laboring and equipment operation, and custodial and protective.

Included in the groups receiving a 10-percent increase were psychiatric technicians, medical and allied, parole and correctional officers, social welfare consultants, employment security, personal services and laundry, food service, property appraisal and acquisition, education administration, administrative levels in agriculture and conservation, portions of fiscal management and staff services, engineering and allied services and legal.

General clerical classes, some insurance classes, and some building trades classes were the major groups receiving no salary range increases.

We are informed by the State Personnel Board staff that there remains for salary range adjustments during 1964-65, \$4,743,358 from the General Fund and that this, plus comparable amounts from other

Provisions for Salary Increase Fund—Continued

funds will be sufficient to provide a 5-percent increase effective July 1, 1964, for all civil service classes not receiving increases on January 1, 1964, should the data so warrant at that time.

The State Personnel Board's report to the Governor on December 20, 1963, contains no recommendation for additional salary increase funds for 1964-65 and states "the board will reserve its judgment on the status of state salaries in the 1964-65 fiscal year until after it has reviewed prevailing rates in industry and government as of March 1964."

The report points out that salary differentials between department directors, whose salaries are fixed by statute, and their top civil service subordinates have been reduced from an average of 22 percent in 1955 to an average of 8 percent in 1964, and that in certain major departments such as Public Health, Public Works, Water Resources and Conservation, the differential is almost nonexistent.

These statutory ceilings have had the effect of limiting the increases granted to certain top level civil service positions to less than that supported by the survey data for these positions.

It is our understanding that the salary adjustments granted to the nonacademic employees of the University of California and the state colleges followed the same general pattern as those granted state civil service employees and that the same conditions exist with respect to funds available for increases during 1964-65.

RESERVES FOR CONTINGENCIES—EMERGENCY FUND

ITEM 293 of the Budget Bill

Budget page 778

FOR SUPPORT OF THE EMERGENCY FUND TO BE EXPENDED ONLY UPON THE WRITTEN AUTHORITY OF THE DEPARTMENT OF FINANCE FROM THE GENERAL FUND

Amount requested	\$1,000,000
Appropriated by the 1963 Budget Act	1,000,000
 Increase	 None
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This item provides funds for allocation by the Department of Finance to state agencies for expenses related to contingencies and emergencies not covered by appropriations made by law.

Item 293 also authorizes temporary loans up to \$500,000 to state agencies whose operations would otherwise be curtailed due to delayed receipt of revenues or reimbursements upon such terms as may be prescribed by the Department of Finance. *We recommend approval of this provision on condition that interest be charged on loans to special funds.*

Original amounts appropriated by this item have had little meaning in recent years since the total allocations have consistently exceeded the original appropriations and large deficiency appropriations have been necessary. The budget indicates that the Department of Finance

Reserves for Contingencies—Emergency Fund—Continued

is requesting \$3,700,000 for 1963-64 in addition to the \$1,000,000 which is already available from Item 283, Budget Act of 1963.

The following table shows a 10-year history of actual allocations and appropriations. In 6 of these 10 years, deficiency appropriations have been necessary. The unallocated balance at the end of each year reverts to the General Fund.

Fiscal year	Contingency Fund, Appropriations And Allocations, 1953-54 to 1963-64		
	Appropriated	Allocated to agencies	Deficiency appropriation
1953-54	\$1,150,000	\$915,717	-
1954-55	1,614,858	806,840	-
1955-56	1,000,000	879,777	\$220,234
1956-57	1,000,000	1,089,345	500,000
1957-58	1,500,000	561,342	-
1958-59	1,000,000	995,925	-
1959-60	1,000,000	2,123,785	1,325,839
1960-61	1,000,000	1,212,920	340,000
1961-62	1,000,000	3,675,690	3,200,000
1962-63	1,000,000	2,010,668	1,500,000
1963-64	1,000,000	3,967,773 (est.)	3,700,000 (est.)
1964-65	1,000,000 (prop.)	-	-

Of the estimated total allocations of \$3,967,773 for 1963-64, 59.3 percent is for state operations, 39.3 percent for local assistance and 1.4 percent for capital outlay. The major items in each category are shown below:

State Operations

Department of Youth Authority:

Increased admissions ----- \$500,000

Department of Veterans Affairs:

Increased educational assistance ----- 486,183

Board of Equalization:

Auto Use Tax Law ----- 280,761

Department of Conservation:

Emergency fire suppression ----- 150,000

All other agencies ----- 939,781

Total state operations ----- \$2,356,725

Capital Outlay

Unallocated project planning ----- \$50,000

Local Assistance

Free textbooks—new adoptions ----- \$1,111,000

All other ----- 450,048

Total local assistance ----- \$1,561,048

Total allocations ----- \$3,967,773

The five individual allocations shown above total \$2,527,944, or 63.7 percent of the total allocations from the fund expected in 1963-64. None of these expenditures, the least of which is \$150,000, have been subject to legislative review. In our analysis of the individual agency budget proposals for 1964-65, these expenditures are discussed in detail.

We recommend approval as budgeted.

CALIFORNIA ARTS COMMISSION

ITEM 294 of the Budget Bill

Budget page 784

FOR SUPPORT OF THE CALIFORNIA ARTS COMMISSION FROM THE GENERAL FUND

Amount requested	\$50,000
Estimated to be expended in 1963-64 fiscal year	50,000
Increase	None
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

To insure, encourage and assist the production of artistic and cultural events in various communities in the State so that the role of the arts in the life of our communities will continue to grow and to play a more significant part in the welfare and educational experience of our citizens, the Legislature by Chapter 1742, Statutes of 1963, created the California Arts Commission.

The commission is composed of 15 members broadly representative of all fields of the performing and visual arts and appointed by the Governor. The commission and its staff will make a survey of institutions within the State engaged in artistic and cultural activities, determine the artistic and cultural needs and aspirations of our citizens, ascertain how existing and proposed resources should serve the cultural needs, and assist communities in originating their own cultural and artistic programs. Within 10 calendar days of the opening of each general session the commission shall submit a report to the Governor and the Legislature concerning the studies and recommendations of the commission. The 1964-65 budget for the California Arts Commission requests \$50,000 from the General Fund which would be in addition to the \$50,000 amount appropriated, but at present unused, for 1963-64.

We recommend approval as submitted.

LEGISLATIVE CLAIMS

ITEM 295 of the Budget Bill

Budget page 784

FOR CLAIMS OF THE STATE BOARD OF CONTROL FROM SEVERAL FUNDS

Amount requested	\$62,328
Estimated to be expended in 1963-64 fiscal year	272,119
Decrease	\$209,791
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This item represents claims filed with and approved by the State Board of Control and the Governor. Such claims are of two general types in accordance with the following provisions of the Government Code:

Section 620:

"There shall be presented to the board and it shall audit claims against the State for which settlement is provided by law but for which:

- (a) No appropriation has been made,

Legislative Claims—Continued

(b) No fund is available, or

(c) An appropriation or fund has been exhausted.

“Upon approval of such a claim by unanimous vote of the board, it shall with the consent of the Governor be transmitted to the Legislature with a brief statement of the reasons for approval.”

Section 621:

“Any person having a claim against the State, the settlement of which is not otherwise provided for by law, shall present it to the board at least four months before the meeting of the Legislature. . . .”

Section 622:

“... It may hear evidence for and against them and, with the approval of the Governor, report to the Legislature such facts and recommendations concerning them as it deems proper.”

In addition, individual legislative claim bills are often filed which if approved by the Legislature, may be added to and paid out of this appropriation, or may be the subject of special appropriations.

The \$62,328 represent claims approved by the Board of Control up to November 1, 1963. Individual claims bills and Board of Control claims heard and approved subsequent to this date, but prior to final passage of the 1964 Budget Act, less Board of Control claims not approved by the Legislature, will be amended into the Budget Bill. Accordingly, this amount does not truly reflect the figure which will finally appear in the Budget Act.

Miscellaneous

INTEREST PAYMENTS ON LOANS TO GENERAL FUND

ITEM 296 of the Budget Bill

Budget page 785

FOR SUPPORT OF INTEREST PAYMENTS ON LOANS TO GENERAL FUND FROM THE GENERAL FUND

Amount requested	\$87,500
Estimated to be expended in 1963-64 fiscal year.....	129,167
Decrease (32.3 percent).....	\$41,667

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

Interest payments on borrowings have been required under Section 16,310.5 of the Government Code since 1961, when the section first became operative. Since that time amounts budgeted have been substantially in excess of actual requirements, as indicated in the following:

<i>Fiscal year</i>	<i>Amount budgeted</i>	<i>Actual expenditures</i>	<i>Savings</i>
1961-62.....	\$310,000	\$8,904	\$301,096
1962-63.....	500,000	67,534	432,466
1963-64 (estimated)	335,000	129,167	255,833
1964-65 (proposed)	87,500	NA	NA

The improved cash position of the General Fund expected on June 30, 1964, will decrease the need for temporary borrowing from special

Interest Payments on Loans to General Fund—Continued

funds during the budget year, and correspondingly, the statutory interest on these loans will be less.

We recommend approval as budgeted.

Department of General Services
SERVICE REVOLVING FUND

ITEM 297 of the Budget Bill

Budget page 786

**FOR SUPPORT OF THE SERVICE REVOLVING FUND
FROM THE GENERAL FUND**

Amount requested -----	\$1,330,093
Recommended for approval -----	859,779
TOTAL RECOMMENDED REDUCTION -----	\$470,314

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Central Stores—deficit budgeted -----	-\$27,725	786	45
Data processing equipment rental—new service -----	-224,451	786	45
Reproduction services—new services -----	-143,280	786	45
Transportation services—deficit budgeted -----	-74,858	786	45

ANALYSIS

The Service Revolving Fund, within the Department of General Services, provides the funding for various services to state agencies on a wholly reimbursable basis. It therefore requires no appropriation for support of ongoing programs. Money for working capital and equipment needed for new operations, to expand existing operations, or for replacement of equipment not fully covered by depreciation charges is generally provided from the General Fund. It is for such an augmentation that this appropriation is requested.

Activities included under the Service Revolving Fund are indicated in Tables 2 and 3. It is proposed that certain of these activities be expanded, and the following new sections be added during 1964-65: data processing equipment rental, data processing section and telephone services, although the last two are included in the budget presentation of item 34—Department of General Services for 1964-65.

Table 1 is a condensed balance sheet for the Service Revolving Fund as of June 30, 1963, which shows the assets and liabilities of the Printing Division, those of the General Service functions, and the total, and is based on the statement of financial condition on budget page 1152 and the "Adjustments to surplus" sections for the individual functions on budget pages 1144 to 1149.

Table 2 shows actual income, expenses and net income or loss for 1962-63 while Table 3 shows the corresponding data on a proposed basis, for 1964-65, as summarized from the detail on budget pages 1144 to 1149.

Service Revolving Fund—Continued

Table 1
Condensed Balance Sheet, Service Revolving Fund
June 30, 1963

	<i>All functions</i>	<i>Printing</i>	<i>General Services</i>
Current assets -----	\$10,296,501	\$6,081,250	\$4,215,251
Current liabilities -----	5,273,024	2,601,498	2,671,526
Net current assets (working capital) ---	\$5,023,477	\$3,479,752	\$1,543,725
Equipment (depreciated value) -----	4,563,650	1,574,973	2,988,677
Fund balance -----	\$9,587,127	\$5,054,725	\$4,532,402
Represented by:			
General Fund appropriations -----	\$4,137,629	\$1,089,766	\$3,047,863
Transfers from other agencies -----	1,024,606	-	1,024,606
Surplus (retained earnings) -----	4,424,892	3,964,959	459,933
TOTAL -----	\$9,587,127	\$5,054,725	\$4,532,402
Surplus Represents:			
Central Stores -----	\$113,246	-	\$113,246
Documents -----	194,560	\$194,560	-
Office machine repair -----	1,034	-	1,034
Printing -----	3,770,399	3,770,399	-
Radio maintenance -----	-21,517	-	-21,517
Rented buildings -----	816	-	816
Reproduction Section -----	42,021	-	42,021
Transportation Service -----	324,333	-	324,333
TOTAL -----	\$4,424,892	\$3,964,959	\$459,933

Table 2
Income and Expenses by Function, Actual for 1962-63

<i>Function</i>	<i>Income</i>	<i>Expenses</i>	<i>Net income or (-) loss</i>
Central Stores -----	\$3,516,643	\$3,548,425	\$-31,782
Documents Section -----	316,435	289,360	27,075
Office machine repair -----	109,496	109,496	-
Office of State Printing -----	9,042,529	8,513,451	529,078
Radio maintenance -----	1,041,397	1,016,223	25,174
Rented buildings -----	116,698	116,822	-124
Reproduction Section -----	232,012	196,769	35,243
Transportation Service -----	3,824,558	3,739,503	85,055
TOTAL -----	\$18,199,768	\$17,530,049	\$669,719

Table 3
Income and Expenses by Function, Proposed for 1964-65

<i>Function</i>	<i>Income</i>	<i>Expenses</i>	<i>Net income or (-) loss</i>
Central Stores -----	\$3,576,000	\$3,611,518	-\$35,518
Rental of data processing equipment --	136,080	101,616	34,464
Documents Section -----	325,000	325,000	-
Office machine repair -----	243,992	243,992	-
Office of State Printing -----	15,680,000	15,680,000	-
Radio maintenance -----	1,282,295	1,282,295	-
Rental buildings -----	115,883	115,423	460
Reproduction Section -----	534,667	534,667	-
Transportation Service -----	4,439,900	4,514,758	-74,858
TOTAL -----	\$26,333,817	\$26,409,269	-\$75,452

It will be noted that for 1964-65 two of the activities are budgeted at a profit, two at a loss and the remainder on a break-even basis.

Service Revolving Fund—Continued

We recommend that all operations of the Service Revolving Fund, including subfunctions, be budgeted and operated on a break-even basis and that new or expanded operations be funded by General Fund augmentation rather than through profits.

Budgeting at either a profit or a loss results in a distortion of charges with services overcharged in some agencies and undercharged in others.

There appear to be three subfunctions in Central Stores, as indicated on budget page 1144, lines 58 to 60 and eight in Transportation Services, as indicated on budget page 1149, lines 5 to 12, and we believe that each of these should stand on its own feet.

Generally, the operations of the Service Revolving Fund have not been subject to budgetary review by the Legislature in the past and there has been no program reporting to permit evaluation of services rendered in terms of cost.

Also, because activities in the Service Revolving Fund are not supported by appropriation items, the Legislature does not give the same annual budget reviews given agencies supported by annual budget bill appropriations.

In order that legislative control over these functions and expenditures may be strengthened, we recommend:

1. That program reporting be required in addition to the financial reporting currently provided in the budget for the activities of the Service Revolving Fund, and

2. That the expenditure program be made the subject of a Budget Act appropriation in a manner similar to the support appropriation for the Division of Architecture from the Architecture Revolving Fund, as evidenced by Item 441 of the Budget Act of 1963.

Proposed Augmentation

Essentially, the augmentation is for new equipment, for expanded or more efficient operations which cannot be funded otherwise, to cover losses sustained through operations, and for alterations. The total augmentation requested is shown in Table 4, as shown in the summary of augmentation requirements on page 1151 of the printed budget.

Table 4
Proposed Augmentation

Central stores -----	\$27,725	
Data processing equipment rental -----	224,451	
Documents Section -----	3,076	
Office of State Printing -----	234,879	
Radio maintenance -----	178,548	
Reproduction Section -----	143,280	
Transportation service -----	520,594	
	Total -----	\$1,332,553
Less:		
Office Machine Repair (excess depreciation charge) -----	\$2,000	
Rented building (profit on operations) -----	460	2,460
	Proposed augmentation -----	\$1,330,093

Service Revolving Fund—Continued

Central Stores

In the 1963 analysis, we recommended that the status of the surplus property reutilization function be revised. It was previously partially financed out of the General Fund, with profits accruing to the Service Revolving Fund.

As a result, during 1962-63, the profit of \$20,910 from this activity was transferred as a reimbursement to the Department of General Services, although not specifically identified in the printed budget. Central Stores sustained a loss of \$31,782 for that year, partially due to the loss of profits from surplus property reutilization.

For the current and budget years additional losses on operations are anticipated, which in both instances are proposed to be recovered by General Fund augmentation. The rationale is that the accrued surplus warrants operating at a loss.

We do not believe that such an augmentation is proper for reasons previously stated. If a loss is anticipated, action by management to increase income or decrease operating expenses should be required to offset the loss.

Correspondingly, we recommend a reduction of \$27,725 for Central Stores.

This illustrates the point of budgeting subfunctions at a profit or loss. The fact that the entire activity breaks even does not mean that the components are doing so. In this case, stores activity was losing money and property reutilization was apparently making a sufficient profit to compensate.

Data Processing Equipment Rental

An augmentation of \$224,451 is requested to initiate a new program which contemplates the purchase of basic data processing equipment at a cost of \$332,891, maintenance of this equipment under contract, and leasing it to using agencies at the commercial rate. A profit of \$34,464 is anticipated for the budget year plus depreciation of \$73,976, which represent the difference between the cost and the augmentation, or \$108,440. A like profit in subsequent years will accrue which, together with depreciation charges, will enable the department to purchase additional equipment, without further augmentation.

We recommend deletion of \$224,451 from the proposed augmentation for data processing equipment rental.

Our reasons are that we do not believe there has been any showing of need for the State to embark on a program involving secondary rentals of such equipment, that placing such an activity in the Service Revolving Fund would make more difficult legislative review of the need for such installations in the budgets of the operating agencies and that the operation as proposed is contrary to our recommendation that all operations of the Service Revolving Fund be conducted on a break-even basis.

Service Revolving Fund—Continued

Documents Section

An augmentation of \$3,076 is requested to purchase additional equipment required in part due to the shift of this section organizationally and physically from the Office of State Printing to Central Stores.

We recommend approval.

Office of State Printing

The proposed augmentation is calculated as follows:

New equipment (Table 5) -----		\$353,358
Replacement equipment (Table 6) -----		182,521
	Total	\$535,879
Less depreciation -----		<u>360,500</u>
	Net equipment	\$175,379
Alterations -----		59,500
	Net augmentation	<u>\$234,879</u>

We have reviewed in detail the justification submitted in support of all additional and replacement equipment listed in Tables 5 and 6 and find that all are required on a workload basis or in order to provide for a more efficient and economical operation.

We recommend approval of all equipment listed in Table 5 and 6.

The amount of \$59,500 requested for alterations is for work which appears to be justified in the interests of increased operating efficiency and including the conversion to office space of that formerly used by the Documents Section. In our analysis of Item 34 we have recommended that the Office of State Printing operate its own data processing section in space provided at the plant.

We recommend approval of \$59,500 for alterations subject to provision for housing and operation of data processing at the plant.

Table 5—Additional Equipment, Printing Plant, 1964-65

Unit	Amount
Composing room (11 miscellaneous items) -----	\$6,490
Pressroom:	
Rotary card press -----	40,000
Battery -----	1,748
Offset pressroom:	
(2 miscellaneous items) -----	4,244
Automatic film processor -----	17,680
Two-color sheetfed offset press -----	176,800
Bindery (9 items) -----	81,750
Materials handling:	
(1 item) -----	550
Forklift truck -----	10,000
Machine shop (2 items) -----	900
Office -----	11,740
Rubber stamp and plate-making (saw) -----	1,456
Total -----	<u>\$353,358</u>

Service Revolving Fund—Continued

Table 6—Replacement Equipment, Printing Plant, 1964-65

Unit	Amount
Composing room (15 miscellaneous items) -----	\$8,857
Pressroom, 12x18 platen press -----	7,000
Offset pressroom:	
(1 miscellaneous item) -----	624
23x30 offset press -----	26,000
One-color offset press -----	28,080
Bindery (6 items) -----	89,695
Materials handling (4 items) -----	4,312
Rubber stamp and plate-making (repairs) -----	5,000
Machine shop (2 items) -----	1,352
Office -----	1,601
Miscellaneous -----	10,000
Total -----	\$182,521

Radio Maintenance

An augmentation of \$178,548 is requested for new and replacement equipment not funded by depreciation charges.

We recommend approval.

Reproduction Section

An augmentation of \$143,280 is requested, primarily for new equipment with which installations in the Retirement Building in Sacramento, and in San Francisco and Los Angeles, will be initiated.

We recommend disapproval of the proposed \$143,280 augmentation.

In each of the new installations, the purpose is to consolidate under one operation the work currently performed by numerous, individual reproduction sections in the building or areas serviced. When the unit in Office Building No. 1 in Sacramento was formed, both the equipment and positions were transferred from existing units in various departments into the revolving fund. Until such time as it can be demonstrated that the formation of these units will not result in excess equipment being retained by using agencies, we cannot recommend approval.

Related hereto, but not the subject of augmentation, is the indication on Budget page 1140 that 36 new positions will be required to operate these units. If a consolidated operation is more efficient than several independent ones, presumably more than 36 positions are currently engaged in reproduction work in the various departments. It should be required that a minimum of 36 positions be deleted in the departments before these new positions are established in the revolving fund or the intent to reduce the cost of reproduction service will not result.

Service Revolving Fund—Continued

Transport Services

The augmentation requested is calculated in the following manner:

Additional equipment:		
Miscellaneous, primarily for San Diego -----		\$19,000
132 additional autos -----		242,880
		\$261,889
Replacement equipment:		
Miscellaneous -----	\$2,140	
413 replacement autos -----	759,920	
66 replacement autos -----	121,440	
Rebuild Beechcraft -----	50,000	
	\$933,500	
Less depreciation and sale of autos -----	753,653	
Net replacement -----		\$179,847
Change in inventory (San Diego) -----		4,000
Loss on operations -----		74,858
		\$20,000
Total -----		\$520,594

A new pool is budgeted for San Diego, which requires basic equipment and inventory. The 132 new cars represent that required for an estimated 5 percent increase in auto mileage for the budget year.

Of the replacement cars requested, 413 are for vehicles attaining 100,000 miles during the budget year, and 66 are for 10 percent of the fleet over 70,000 miles which under a new policy may be replaced if they are expected to incur unusually high maintenance expense before reaching 100,000 miles.

Of the two airplanes operated by this section, the Beechcraft, a six-passenger airplane, is to be rebuilt. A pilot and clerk are also added, the cost of which will be recovered through charges for use. The 1963 appropriation for an executive airplane was used to purchase a 19-passenger Convair. However, the Department of General Services has requested \$134,255 for the cost of operation and maintenance in its appropriation for support. Elsewhere in this analysis we have recommended that this amount be transferred to the departments using the aircraft, and be increased to include the cost of operating personnel which are currently financed through the military department's support budget rather than revolving fund charges.

We recommend a reduction of \$74,858 representing the loss on operations budgeted for transport services.

As we have stated previously, we have no means of determining the nature of the loss or the corrective action which should be taken and believe that such losses should not be budgeted nor offset by augmentation.

Other Services

Although no augmentation is requested for them, two new activities are proposed to be included in the Service Revolving Fund.

The Data Processing Service was operated out of the fund during the current year, but for purposes of Legislative review has been returned to the support item of General Services for the budget year.

Service Revolving Fund—Continued

It is intended that actual operations be conducted out of the fund for the budget year.

The telephone service is also to be transferred to the Service Revolving Fund from support in the budget year.

In our discussion of the support item 34, Department of General Services, in this analysis, we have expressed reservations about these proposals. However, should the reporting for these activities be initiated as recommended, and the opportunity for positive review and control by the Legislature implemented as suggested previously under this item, we would have no objection to this transfer.

AUGMENTATION OF SERVICE REVOLVING FUND BY TRANSFER

ITEM 298 of the Budget Bill

ANALYSIS

This item is identical to Item 292 of the Budget Act of 1963. 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 Service 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 Service Revolving Fund which finances the Department of Finance car pool.

We recommend approval.

PERSONAL SERVICES NOT ELSEWHERE REPORTED

ITEM 299 of the Budget Bill

Budget page 787

**FOR THE STATE'S CONTRIBUTION FOR THE COST OF A
BASIC HEALTH PLAN FOR ANNUITANTS
FROM THE GENERAL FUND**

Amount requested	\$845,000
Estimated to be expended in 1963-64 fiscal year	684,500
Increase (23.4 percent)	\$160,500
Increase to maintain existing level of service	\$160,500

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

A sum of \$845,000 is proposed as the State's contribution for health and welfare benefits for annuitants of retirement systems to which the State contributes. This amount is \$160,500, or 23.4 percent more than is estimated to be expended during the current fiscal year.

The State pays \$6 per month plus 5 percent of the total cost of premiums for annuitants of the various retirement systems to which state

Service Revolving Fund—Continued

employees belong, in accordance with the provisions of the Meyers-Geddes State Employees' Medical and Hospital Care Act.

During the current year \$188,500 was made available from the Emergency Fund for this item since the amount of \$496,000 appropriated by the 1963 Budget Act was not adequate. Two factors necessitated the Emergency Fund money. The first was the increase from \$5 to \$6 of the State's contribution effective Oct. 1, 1963 and the second was the fact that in February 1963 there was an open enrollment period, during which annuitants had the opportunity to enroll in the program if they were not already in it. The 1963-64 budget had not provided funds for those annuitants.

The increase for the budget year is based on an estimated 18.8 percent increase in the number of enrolled annuitants.

We recommend approval as budgeted.

EXPENSE OF PRESIDENTIAL ELECTORS

ITEM 300 of the Budget Bill

Budget page 788

FOR PAYMENT OF EXPENSES OF PRESIDENTIAL ELECTORS FROM THE GENERAL FUND

Amount requested ----- \$1,500

TOTAL RECOMMENDED REDUCTION----- None

ANALYSIS

The amount of \$1,500 is requested to pay compensation and mileage to presidential electors, in accordance with Section 25108 of the Elections Code which provides that each presidential elector shall receive \$10 for his services and mileage at the rate of 5 cents per mile from his domicile to the State Capitol and return.

We recommend approval of this item as budgeted.

REFUND OF TAXES, LICENSES AND OTHER FEES

ITEM 301 of the Budget Bill

Budget page 788

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

Amount requested ----- \$20,000

Estimated to be expended in 1963-64 fiscal year----- 20,000

Increase ----- None

TOTAL RECOMMENDED REDUCTION----- None

ANALYSIS

The heading and description of this item as printed in the budget does not precisely define the purpose of the appropriation. Actually, no refunds of taxes are made therefrom, but only those refunds described in Sections 13140-5 of the Government Code, i.e.,

1. Fees imposed or collected for or as a condition precedent to the issuing, making, taking or securing of any permit, filing, examination, or inspection.

Service Revolving Fund—Continued

2. Overpayments received by a state agency in connection with a revolving fund in the State Treasury maintained by such an agency for the purpose of assisting persons under the jurisdiction or care of the agency, or providing for the welfare of such persons.

The procedure is designed to allow expeditious refunds of non-controversial amounts erroneously paid and deposited in other than "feeder funds," thereby avoiding the necessity of filing a claim with the State Board of Control and inserting the item in a claims bill. For example, fees erroneously paid for retail sales tax permits are not included as they are refunded by the State Board of Equalization out of the "feeder" Retail Sales Tax Fund. On the other hand, fees paid to the Corporation Commissioner are deposited directly into the General Fund and the item is mainly used to allow this and comparable agencies to certify refunds directly to the Controller for payment out of the special appropriation.

In addition, funds are hereby made available for payment of prior judgments, liens, or encumbrances under Section 12516 of the Government Code.

We recommend approval as budgeted.

TORT LIABILITY CLAIMS

ITEM 302 of the Budget Bill

Budget page 788

FOR THE ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS FROM THE GENERAL FUND

Amount requested	\$970,000
Estimated to be expended in 1963-64 fiscal year	660,000
Increase (47 percent)	\$310,000

RECOMMENDED FOR SPECIAL REVIEW \$970,000

ANALYSIS

This item, which appears in the budget for the first time this year, appropriates funds for the administration and payment of tort liability claims against the State. Historically, the State has insured against certain kinds of liability, paying annual insurance premiums of around \$800,000 for such situations as automobile accidents involving state employees. Prior to 1961, the State had available the defense of "sovereign immunity" against tort actions, and therefore did not insure against possible liability of this kind.

In 1961, in the decision of *Muskopf vs. Corning*, the right to claim the defense of sovereign immunity in tort actions was stripped from the State. The 1961 Legislature passed a bill suspending activity on tort claims against the State until 90 days after adjournment of the 1963 General Session. Legislation enacted in 1963 defined the conditions under which the State would be liable and Chapter 8, Special Session 1963, appropriated \$990,000 from the General Fund, and necessary amounts from special funds, to pay tort liability claims and related expenses in 1963-64. Estimated General Fund costs for 1963-64, when

Tort Liability Claims—Continued

the statute will be in effect for only nine months, will be \$660,000. For 1964-65, \$970,000 is requested from the General Fund and \$646,000 from special funds.

Chapter 8, Special Session 1963 (Item 40), provided that the \$990,000 appropriation could be used for payment of tort liability claims arising after July 1, 1963, or purchase of insurance protecting the State against such claims.

The State has purchased comprehensive insurance coverage on a three-year basis effective September 20, 1963, to provide for settlement of substantially all tort liability claims against the State by the insurance carriers. In general, premiums are calculated on a retrospective rating basis under which the carrier is reimbursed for losses plus a fee based on a percentage of loss to cover administrative costs.

Following the action to insure the risk, which was regarded at the time as an interim arrangement, the Department of Finance contracted with Corporate Policyholders Counsel, Inc., a nationally recognized insurance consulting firm, to provide advice concerning the State's risks management program with respect to tort claims, and their report was rendered on January 10, 1964. The recommendation contained in this report reads as follows:

“We recommend that the State embark on a plan of noninsurance, with excess coverage for catastrophe-type loss.”

The bases for this recommendation were the conclusions drawn after reviewing the situation in this and other states, the insurance plan currently in effect in the State, and alternatives. These conclusions were to the effect that the existing plan was uneconomical in several respects, that it did not provide for state control because the interests of the State under the policy have been delegated to the company, and that through the Department of Public Works, the Attorney General, and catastrophe insurance, the State could overcome the significant drawbacks of excessive cost and lack of control.

It was suggested in the report that termination of the existing plan be made effective on July 1, 1964, notwithstanding that such cancellation would be subject to a penalty, which might be as much as \$100,000 depending upon loss experience at the time of cancellation. Evidently, the consultant felt that this penalty would be more than offset by future benefits of noninsurance.

We have not had an opportunity to review the report of the consultants adequately to express any recommendation or comment upon the total fiscal requirements of the alternatives proposed therein. *Accordingly, we recommend the item for special review by the Legislature.*

WORKMEN'S COMPENSATION BENEFITS FOR STATE EMPLOYEES

ITEM 303 of the Budget Bill

Budget page 790

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

Amount requested	\$3,000,000
Estimated to be expended in 1963-64 fiscal year	2,700,000
Increase (11.1 percent)	\$300,000

Increase to maintain existing level of service ____ \$300,000

TOTAL RECOMMENDED REDUCTION..... None**ANALYSIS**

This appropriation, made annually from the General Fund, is to provide funds to support the state's self-insurance program under the Workmen's Compensation Act. These funds are administered by the State Compensation Fund and are used to provide medical and hospitalization care as well as compensation payment to employees of state agencies supported by the General Fund who are injured in the course of their employment. Included in the total cost is the 12.5 percent service charge paid by the State to the State Compensation Insurance Fund under an agreement executed in 1943. The amount requested from the General Fund for the budget year is \$3,000,000, or 11.1 percent, greater than that estimated as being required for the current year. Similar costs for Special Fund supported agencies appear as line items in those agencies' budgets.

As in past analyses, we again invite attention to these spiraling costs and the accident rates which create them. In the table following

Benefits and service charges	1958-59	1959-60	1960-61	1961-62	1962-63
General Fund	\$1,367,023	\$1,675,064	\$2,027,245	\$2,225,195	\$2,415,750
Special funds	783,220	948,720	1,034,301	1,134,667	1,400,930
Totals	\$1,941,787	\$2,150,243	\$2,623,784	\$3,061,546	\$3,359,862
Increase over prior year		10.7%	22.0%	16.7%	9.7%
Injury claims	9,128	9,635	10,396	11,026	12,000 est.
Increase over prior year		5.5%	7.9%	6.0%	8.8%
Incurred cost	2,223,000	2,816,000	3,504,000	6,303,000	7,600,000 est.
Increase over prior year		26.7%	24.4%	79.9%	20.6%
Man-years of state em- ployment	84,232	89,603	95,553	100,432	107,446 est.
Increase over prior year		6.4%	6.6%	5.1%	6.9%
Total salaries and wages	\$456,315,096	\$510,641,727	\$581,268,836	\$625,675,596	\$704,395,379 est.
Percent in- crease over prior year		11.9	13.8	7.6	12.6 est.

Workmen's Compensation Benefits for State Employees—Continued

there is shown the actual costs to the State as well as estimates of the annual incurred costs as provided the State Compensation Insurance Fund.

While the above tabulation sets out the specific and estimated dollar costs of the industrial accident experience of the State, it does not show the cost in lost man-years of production nor does it show the losses to individuals and their families, in the form of economic cost and personal misfortune.

In view of the rate of increase in the cost of such items we recommend that the state government's entire approach to the problem of industrial safety be reviewed in an effort to improve the deteriorating position it finds itself in today. A review should include determination of: prevention services available to the state as compared to other employers, the effectiveness of the safety organizations within state agencies, what type of reporting system is used to keep top management advised of numbers of injuries, causation, and lost time in state agencies, the controls used in state agencies to expedite the return to work of injured employees or their rehabilitation, and other pertinent information in this large problem area. It might be well for an advisory committee composed of private employers rendering services similar in nature to these rendered by the State to make a survey and specific recommendations for corrections of this problem.

We recommend approval as budgeted.

WORKMEN'S COMPENSATION FOR SUBSEQUENT INJURIES

ITEM 304 of the Budget Bill

Budget page 791

**FOR SUPPORT OF PAYMENTS FOR ADDITIONAL WORKMEN'S
COMPENSATION FOR SUBSEQUENT INJURIES
FROM THE GENERAL FUND**

Amount requested	\$775,000
Estimated to be expended in 1963-64 fiscal year	690,000
<hr/>	
Increase (12.3 percent)	\$85,000
Increase to maintain existing level of service.....	\$85,000

TOTAL RECOMMENDED REDUCTION None

ANALYSIS

This annual appropriation from the General Fund is made to provide funds from which to pay claimants an additional amount of disability compensation for second or subsequent injuries in order to encourage employers to employ persons who have already sustained a partially disabling injury.

The amount requested, \$775,000, is \$85,000, or 12.3 percent, above the amount estimated as required for the current year.

We recommend approval as budgeted.

Workmen's Compensations for Subsequent Injuries—Continued

In past analyses we have discussed the increasing burden this annual appropriation places on the General Fund.

The recommendations we have made in prior analyses briefly stated would have funded this annual expenditure from a fund into which workmen's compensation death benefits of persons dying without heirs or beneficiaries would be deposited at no loss in any way to persons at present or in the future participating in these benefits. These recommendations were embodied in Proposition 5 (ACA 72 of 1961) appearing on the ballot at the General Election of 1962 which failed of passage.

TEMPORARY LOANS TO GENERAL FUND FROM CALIFORNIA WATER FUND**ITEM 305 of the Budget Bill****ANALYSIS**

This item, which is similar to Item 297 of the Budget Act of 1963, would authorize temporary transfers from the California Water Fund (formerly the Investment Fund) to the General Fund in the event the cash position of the General Fund would require such transfers. Under the terms of Section 16310 of the Government Code transfers made from special funds to the General Fund, upon a determination of necessity by the Governor, Controller, and Treasurer, are to be returned to the fund from which transferred as soon as there is sufficient money in the fund to return it. This section also provides that no transfers can be made which will interfere with the object for which a special fund was created.

Section 16310.5, added by Chapter 1861, Statutes of 1961, provides, in effect, that interest must be paid by the General Fund on any such temporary transfers from the California Water Fund at the maximum rate of interest allowed by banks on interest bearing time deposits at the time of the transfer. An appropriation to cover such interest payments is made by Item 296 of the current budget bill.

Since this authorization is in the nature of temporary, contingent financing only, *we recommend approval.*