

**COMMISSION OF THE CALIFORNIAS—Continued**

approval of these contracts would not have been granted because the services could have been provided through employment of a temporary civil service position. We recommend that the commission comply with the contract review regulations of the State Administrative Manual.

**DEPARTMENT OF JUSTICE**

Items 36-38 from the General Fund, Item 39 from the Peace Officers' Training Fund, and Item 40 from the Motor Vehicle Account, State Transportation Fund

Budget p. 39

Requested 1976-77 .....	\$56,070,084
Estimated 1975-76.....	52,530,953
Actual 1974-75 .....	43,041,797
Requested increase \$3,539,131 (6.7 percent)	
Total recommended reduction .....	\$21,248

**1976-77 FUNDING BY ITEM AND SOURCE**

Item	Description	Fund	Amount
36	Department Support	General Fund	\$46,774,844
37	Fingerprint Fees	Fingerprint Fees, General Fund	2,435,112
38	Antitrust	Attorney General's Antitrust Account, General Fund	1,290,705
39	Advanced Training Center	Peace Officers' Training Fund	176,045
40	Department Support	Motor Vehicle Account, State Transportation Fund	5,393,378
			<u>\$56,070,084</u>

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
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1. *Advanced Training Center. Reduced by \$21,248 (from Item 36 and partially from Item 39). Recommend reduction for special agent overtime.* 44
2. *Antitrust Program. Recommend transfer of \$97,385 (Item 38) from consultant services to personnel services and other operating expense categories to allow Attorney General to hire three attorneys rather than employ consultants.* 44
3. *Automated Criminal Justice History. Withhold recommendation on 44 proposed General Fund positions (Item 36) pending specified report.* 45

**GENERAL PROGRAM STATEMENT**

The Department of Justice, under the direction of the Attorney General who is the chief law enforcement officer in the state, provides legal and law enforcement services to state and local agencies. Departmental func-

tions are carried out through three programs: Administration, Legal Services, and Law Enforcement, each of which is divided into several elements.

#### **Administration Program**

Administration, which includes the Attorney General's executive office, provides the following functions and services: (1) coordination and preparation of legal opinions, (2) management analysis, (3) library services for the legal staff, (4) manpower and personnel services, and (5) administrative services, including all fiscal functions and legal office support such as stenographic and typing services.

#### **Legal Services Program**

The legal services program is conducted by the Divisions of Civil Law, Criminal Law and Special Operations, each consisting of attorneys specialized in particular fields of law.

*Civil Law Division.* This division (1) provides legal representation for most state agencies, boards and commissions, (2) renders legal opinions, (3) represents the state and its employees in the field of tort liability, (4) assists the Board of Control in the disposition of claims by victims of crimes of violence, and (5) provides legal services necessary for processing claims against the Subsequent Injury Fund. Reimbursements are received for legal services provided to state agencies which are supported by special funds and significant amounts of federal funds.

*Criminal Law Division.* This division (1) represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts, (2) assists the Governor's office in extradition matters, (3) serves as prosecutor in criminal trials when a district attorney is disqualified or otherwise unable to handle the proceedings, and (4) assists local jurisdictions in enforcing child support through maintenance of the Parent Locator Services, a unit which collects data on parents who have deserted or abandoned their children.

*Special Operations Division.* This division seeks to protect the public's rights and interests through legal representation in five program components: (1) public resources law, which provides formal and informal legal assistance to state agencies which administer and enforce laws and programs relating to the use and protection of the state's natural resources, (2) land law, which handles all litigation arising from the administration of state-owned lands by the State Lands Commission, (3) statutory compliance, which investigates the financial practices of charitable trusts to insure compliance with state law and (4) environment and consumer protection, which represents the public's interest in consumer fraud, environmental, antitrust, and constitutional rights matters. Chapter 941, Statutes of 1975 (AB 138), transferred the health care registration program under the Knox-Mills Health Plan Act to the Department of Corporations.

#### **Law Enforcement Program**

The Division of Law Enforcement, the department's largest and most complex, provides a variety of law enforcement services, under the direction of its executive office, through a Crime Prevention and Control Unit

**DEPARTMENT OF JUSTICE—Continued**

and five branches.

*Crime Prevention and Control.* The Crime Prevention and Control Unit provides overall coordination and direction to public and private agencies for obtaining community involvement in reducing the rate of crime in the state. It also prepares and distributes numerous crime prevention publications including a quarterly journal, "Crime Prevention Review."

*Enforcement and Investigation.* The Enforcement and Investigation Branch through a program of field investigative services (1) aids local enforcement agencies in the solution and prosecution of significant crimes, particularly those which affect more than one county or area, (2) provides investigative services to the department's civil law programs such as the tort liability, subsequent injury, antitrust and charitable trust programs, (3) develops intelligence and gather evidence to apprehend major narcotics violators, (4) administers a triplicate prescription system to prevent diversion of legal supplies of narcotics into illegal channels, and (5) trains local and state enforcement personnel in techniques of narcotic enforcement.

*Investigative Services.* The Investigative Services Branch maintains a system of laboratories for providing analyses of criminal evidence, blood-alcohol samples and controlled substances.

*Identification and Information.* The Identification and Information Branch (1) collects crime data from state and local agencies which administer criminal justice, (2) compiles, analyzes and prepares statistical reports on crime and delinquency and the operations of criminal justice agencies in California, (3) processes fingerprints and makes tentative identification through fingerprint comparisons in criminal cases, (4) processes noncriminal fingerprints for law enforcement, licensing and regulatory agencies (the cost of which is totally reimbursed by fees), (5) maintains a central records system (now being automated) consisting of approximately six million individual record folders and 8.5 million fingerprints, (6) assists law enforcement officers in locating stolen property and missing or wanted persons, and (7) processes applications for permits to carry concealable weapons.

*Organized Crime.* The Organized Crime and Criminal Intelligence Branch gathers, compiles, evaluates, disseminates and stores criminal intelligence information which may indicate the presence of organized crime.

*Consolidated Data Center.* The Consolidated Data Center is one of four such centers established by Chapter 787, Statutes of 1972. The primary objective of this center is to provide centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement agencies. The center's automated communications systems in Sacramento and Los Angeles enable the linking of over 450 California law enforcement agencies to computerized files in Sacramento, Los Angeles, Washington, D.C. and other states.

**ANALYSIS AND RECOMMENDATIONS**

The department proposes state appropriations totaling \$56,070,084, an increase of 6.7 percent over the current year. This increase is largely attributable to a proposed net increase of 128.6 General Fund positions. Table 1, which shows the department's proposed funding by source and expenditures by program, reflects a total expenditure program of \$73,125,261, including reimbursements and federal funds. For the first time, an appropriation is proposed directly from the Peace Officers' Training Fund to offset costs for training local police officers through the department's Advanced Training Center. In addition, funds are appropriated for the first time from the Attorney General's Antitrust Account in the General Fund. This was made possible by the recovery of \$4.4 million in legal fees over and above actual departmental expenses from settlement of the antibiotics and asphalt cases. Of this amount, \$3 million was retained in the Antitrust Account (the statutory maximum balance for this fund) and the remainder was deposited in the General Fund. No Health-Care-Service-Plan moneys are appropriated because the registration program was transferred to the Department of Corporations by Chapter 941, Statutes of 1975 (AB 138).

The decrease in reimbursements reflects a reduction of \$449,620 to correspond with the amount budgeted by the Department of Consumer Affairs for Attorney General legal services and a shift of fingerprint fees from scheduled reimbursements to an appropriated item. The latter results from Chapter 1222, Statutes of 1975, (AB 1674) which requires all revenue collected from fees by the department to be appropriated by the Legislature effective January 1, 1976. This also requires the department to seek a deficiency appropriation of \$1,649,045 from fingerprint fees for the current year. The Governor's Budget also identifies the need for a deficiency appropriation of \$193,830 from the Attorney General's Antitrust Account in the General Fund. The department is expected to request legislation in the current session to appropriate funds for these deficiencies.

The federal funds in Table 1 consist of discretionary grants awarded directly to the department by the federal Law Enforcement Assistance Administration and grants authorized by the California Office of Criminal Justice Planning (OCJP).

The Office of Criminal Justice Planning funds are identified as reimbursements in the Governor's Budget because they also contain the state's cash match. Both categories of funds (except for the state cash match reflected in OCJP fund) are derived under the Omnibus Crime and Safe Streets Act. These grants, their dollar amounts and number of proposed positions are reflected in Table 2.

## DEPARTMENT OF JUSTICE—Continued

**TABLE 1**  
**Budget Summary**  
**Department of Justice**

<i>Funding</i>	<i>Estimated 1975-76<sup>a</sup></i>	<i>Proposed 1976-77<sup>a</sup></i>	<i>Change from Current Year</i>	
			<i>Amount<sup>a</sup></i>	<i>Percent</i>
General Fund .....	\$45,414,675	\$46,774,844	\$1,360,169	3.0%
Health Care Service Plan Moneys (General Fund) .....	178,514	—	-178,514	100.0
Fingerprint Fees (General Fund) .....	1,791,608	2,435,112	643,504	35.9
Attorney General's Antitrust Account (General Fund) .....	193,830	1,290,705	1,096,875	565.9
Peace Officers' Training Fund .....	—	176,045	176,045	100.0
Motor Vehicle Account, State Trans- portation Fund .....	4,952,326	5,393,378	441,052	8.9
Total State Funding .....	\$52,530,953	\$56,070,084	\$3,539,131	6.7
Reimbursements .....	12,664,878	10,692,541	-1,972,337	-15.6
Federal Funds				
Law Enforcement Assistance Ad- ministration (discretionary grants)	1,073,191	3,283,515	2,210,324	206.0
Office of Criminal Justice Planning funds .....	4,490,990	3,079,121	-1,411,869	31.4
Total Expenditures .....	\$70,760,012	\$73,125,261	\$2,365,249	3.3%
<i>Programs</i>				
Administration				
Distributed .....	(\$7,818,636)	(\$8,109,293)	(\$290,657)	3.7%
Undistributed .....	\$3,711,153	\$3,906,309	\$195,156	5.2
Man-years .....	144.9	152.2	7.3	
Legal Services				
Civil Law .....	\$12,056,660	\$10,517,404	\$-1,539,256	-12.8%
Man-years .....	354.1	313.4	-40.7	
Criminal Law .....	\$8,269,124	\$9,052,176	\$783,052	9.5%
Man-years .....	314.1	305.9	-8.2	
Special Operations .....	\$6,360,912	\$6,501,650	\$140,738	2.2%
Man-years .....	209.2	193.8	-15.4	
Grant Projects .....	\$372,500	—	\$-372,500	100.0
Law Enforcement				
Executive .....	(\$2,231,117)	(\$2,314,135)	(\$83,018)	3.7
Man-years .....	(13.0)	(13.0)	—	
Enforcement and Investigation .....	\$7,597,798	\$7,834,029	\$236,231	3.1
Man-years .....	263.0	259.5	-3.5	
Investigative Services .....	\$2,499,941	\$3,677,772	\$1,177,831	47.1
Man-years .....	99.7	139.9	40.2	
Identification and Information .....	\$12,875,624	\$12,978,038	\$102,414	0.8
Man-years .....	913.9	921.7	7.8	
Organized Crime and Criminal In- telligence .....	\$2,267,603	\$2,195,761	\$-71,842	-3.1
Man-years .....	98.4	94.5	-3.9	
Crime Prevention and Control .....	\$378,509	\$390,060	\$11,551	3.1
Man-years .....	14.2	14.0	-0.2	
Consolidated Data Center .....	\$8,806,007	\$9,442,410	\$636,403	7.2
Man-years .....	230.7	237.0	6.3	
Grant Projects .....	\$5,564,181	\$6,629,652	\$1,065,471	19.2
Man-years .....	170.5	332.0	161.5	
Program Totals .....	\$70,760,012	\$73,125,261	\$2,365,249	3.3%
Man-years .....	2,812.7	2,963.9	151.2	

<sup>a</sup> Amounts in parentheses are distributed among other items and are shown to avoid double counting.

**Table 2**  
**Department of Justice Grant Projects**  
**Funded by the Law Enforcement Assistance Administration (LEAA) and**  
**the Office of Criminal Justice Planning (OCJP)**

<i>Grant Description</i>	<i>1976-77</i>	
	<i>Amount</i>	<i>Positions</i>
Funded Directly by LEAA		
Criminal Justice Data Analysis Center .....	\$143,800	7
Uniform Crime Reporting System .....	176,667	12
Offender-Based Transaction Statistical System .....	1,923,030	96
Drug Diversion Investigative Unit .....	377,346	5
California Narcotics Information Network .....	71,372	6
Automated Criminal Intelligence Index .....	369,756	22
Western Regional Training Institute .....	379,782	10
Urban Terrorist Training Project .....	147,962	2
Subtotal .....	\$3,589,715	160
Funded by OCJP		
Statewide Criminalists Laboratory System .....	\$696,157	22
Criminal Record Purge .....	2,343,780	150
Subtotal .....	\$3,039,937	172
Grand Total .....	\$6,629,652	332

#### **New Positions**

The department proposes a total of 558.2 new positions, 181.6 of which would be financed by the General Fund, 44.6 from special funds and reimbursements and 332 from federal grants. Fifteen and one-half of these new positions (three for antitrust and 12.5 for federal grants) were established in the current year and are proposed for continuation in the budget year. This increase is partially offset by proposed reductions totaling 91.5 positions (53 General Fund and 38.5 special fund and reimbursable positions), leaving a net increase of 466.7 proposed new positions (128.6 from the General Fund, 6.1 from special funds and 332 from reimbursements).

The large number of grant positions results from a new procedure used for the first time last year whereby all such positions are established under a single authorization or "payroll blanket" rather than on an individual basis as previously practiced. This procedure, which is similar to budgeting for "temporary help", requires the reestablishment of the "blanket" each year. Thus, the budget shows a reduction of 580.5 current-year grant positions and the establishment of 332 for the budget year. Most of the latter are existing positions which are proposed for renewal under the new system. The department's proposed new positions and funding are shown in Table 3.

## DEPARTMENT OF JUSTICE —Continued

**Table 3**  
**Proposed New Positions**  
**Department of Justice**

<i>Program and Purpose</i>	<i>Number of Professional and Technical Positions</i>	<i>Number of Clerical Positions</i>	<i>Personal Services Costs</i>	<i>Source of Funding</i>
<b>Administration</b>				
Accounting, warehouse and legal time reporting workload .....	5.5	3.0	\$73,288	General Fund and reimbursements
Legal support services .....	—	15.0	144,811	General Fund and reimbursements
The Advanced Training Center <sup>a</sup> .....	11.0	6.0	306,555	General Fund, Peace Officers' Training Fund
<b>Division of Civil Law</b>				
Recovery of excessive Medi-Cal payments and general workload .....	5.0	—	108,180	General Fund and reimbursements
<b>Division of Criminal Law</b>				
Legal information for law enforcement .....	1.0	—	12,720	Reimbursements
Writs, appeals and extradition workload .....	7.0	—	151,452	General Fund
Parent Locator Services .....	4.0	2.0	75,046	General Fund and reimbursements
<b>Division of Special Operations</b>				
General workload .....	3.5	2.0	90,606	General Fund and reimbursements
Antitrust .....	2.0	3.0	58,048	Attorney General's Antitrust Account; General Fund
<b>Division of Law Enforcement</b>				
<b>Investigative Services Branch</b>				
Crime laboratories grant conversion .....	33.0	10.0	\$741,300	General Fund
Polygraph examination workload .....	1.0	—	18,228	General Fund
<b>Identification and Information Branch <sup>b</sup></b>				
Ongoing criminal history purge .....	—	32.0	249,180	General Fund
Automated criminal history workload .....	1.0	33.0	285,756	General Fund
Automated criminal history quality control <sup>c</sup> .....	3.0	18.0	199,315	General Fund
Special service and fingerprint workload .....	1.0	5.0	54,600	General Fund
<b>Organized Crime and Criminal Intelligence Branch</b>				
CA Narcotics Enforcement Network (CNIN) grant conversion <sup>d</sup> .....	2.0	3.0	24,378	General Fund
<b>Law Enforcement Consolidated Data Center</b>				

Table 3

Special hardware study and workload .....	6.2	8.0	169,648	General Fund, Motor Vehicle Account, State Transportation Fund & Reimbursements
Total proposed new positions .....	226.2		\$2,763,111	
Total grant positions (See Table 2) .....	332.0		\$3,977,492	
Subtotal .....	558.2		\$6,740,603	
Workload & administrative adjustments .....	-91.5		980,323	
Net total new positions .....	466.7		\$5,760,280	

<sup>a</sup> These positions are "zero base budgeted." That is, they are deleted in the budget year and proposed for renewal as a means of facilitating greater administrative and legislative evaluation of their need.

<sup>b</sup> Proposed new positions for this branch are offset by the reduction of 45 positions because of reduced workload and changes in the marijuana laws.

<sup>c</sup> Eleven of these positions, which are currently funded by fingerprint fees, are proposed for continuation from the General Fund.

<sup>d</sup> The department anticipates federal funding for CNIN through December 31, 1976. Consequently, the budget provides funds for this program for the period January 1 to June 30, 1977.

#### Reconciliation of Proposed New Positions and Man-years

While the department proposes 558.2 new positions, actual man-year utilization increases by only 151.2 as reflected in Table 4. This difference is explained by workload and administrative adjustments and higher salary savings in the budget year.

Table 4

#### Reconciliation of Proposed New Positions with Man-years Department of Justice

Total authorized positions (1975-76) .....	3,306.1
Minus current-year grant "payroll blanket" .....	-580.5
Other workload and administrative adjustments .....	-91.5
Proposed new positions .....	558.2
Minus salary savings .....	-228.4
Total proposed 1976-77 man-years .....	2,963.9
Minus budgeted 1975-76 man-years .....	2,812.7
Net proposed man-year increase .....	151.2

### ADMINISTRATION

#### Budget Process Improved

Last year upon our recommendation the Legislature adopted language requiring the Department of Justice to submit its completed budget to the Department of Finance and to the Joint Legislative Budget Committee by October 1 of each year. Although it missed this deadline by approximately three weeks, the department improved its performance in this area over the previous year, when it was more than seven weeks late. Moreover, it has established a uniform standard of 1,850 hours for budgeting attorney workload. In the previous year it used three different figures.

#### Accounting for Legal and Investigative Services

Last year the Legislature also directed the department to develop an accounting system to allow it to identify, for billing purposes, each of the legal and investigative services which it provides to other state agencies.

**DEPARTMENT OF JUSTICE —Continued**

The Governor's budget contains funds for 5.5 new accounting and clerical positions to implement a new legal time and reporting system. The new procedures, now partially implemented, permit the department to show hours by case or project on the billing invoice which it sends to the agency being served. Previously, its invoices identified only the billing rate per hour, the number of attorneys and investigative hours expended, and the total charge of the billing. The department is planning to automate this system.

**Advanced Training Center**

*We recommend a reduction of \$21,248 (from Item 36 and partially from Item 39) for narcotic agent overtime from the Advanced Training Center.*

The Advanced Training Center is budgeting \$21,248 in overtime for the five special narcotics agents assigned to it to instruct local narcotics officers in narcotics investigation and enforcement procedures. We believe that overtime compensation should be limited to those agents who are engaged in peace officer duties as opposed to clerical, administrative or training duties.

We have asked the department for a report on the extent to which other special agents in the department are paid overtime for activities not directly involving peace officer duties. The department in the current year has budgeted \$4,422 per special agent in the Bureau of Narcotics Enforcement and \$3,008 per agent in the Bureau of Investigation for overtime pay purposes. Salaries, without overtime compensation for these agents, range from a low of \$14,616 for a Special Agent I to a maximum of \$26,292 for a Special Agent IV. The department does not have readily available data on the use of such overtime. Thus, a special report will be necessary.

**LEGAL SERVICES****Antitrust Program**

*We recommend the transfer of \$97,385 (Item 38) from consultant and professional services to personnel services and other operating expense categories to allow the Attorney General to hire three attorneys for the antitrust program rather than to engage consultants for such services.*

The Governor's Budget proposes an increase of \$404,785 from the Attorney General's Antitrust Account in the General Fund to hire two associate program analysts, three man-years equivalents of temporary help and for expert economic and petroleum consultant experts. This augmentation was requested primarily to bring an antitrust action against 11 California petroleum companies. The case was filed in the federal district court on June 15, 1975. Funds for three additional attorneys which were requested by the department for this function were placed in consultant and professional services in the belief that trained antitrust attorneys are not readily available for employment by the department. However, we believe that in the long run the department should develop this expertise in its staff because of the frequency of violations of antitrust laws over the years. The department's antitrust staff returned a total of nearly \$40 million to the people of California in the last two years from the antibiotics, asphalt, and

snack foods cases. The courts awarded a total of \$4.4 million in legal fees over and above actual costs to the department for these cases. Of this amount, \$3 million was retained in the Attorney General's Antitrust Account and the remainder went to the General Fund.

We also believe that it is more economical in the long run to utilize state attorneys for this function. We understand that the prevailing rate for an experienced private antitrust lawyer is \$150 per hour compared to a maximum of \$35 per hour for departmental staff.

#### LAW ENFORCEMENT

##### Automated Criminal Justice History File

*We withhold recommendation on 44 new General Fund positions (Item 36) for the automated criminal history justice program pending receipt of specified cost and benefit information of the automated system.*

The Governor's Budget proposes a total of 44 new positions at a cost of \$479,197 for additional workload involving the department's Criminal Justice Information program (CJIS) which is designed to computerize the department's criminal history files or "rap sheets." The request includes 34 positions at a cost of \$365,345 for a general workload increase largely attributable to updating already automated files by entering new arrest and disposition data. The remaining 10 positions, at a cost of \$113,852, are requested to perform "quality control" functions, i.e., to ensure that disposition data are correct before they are entered into the computer. In the last three years, a total of 98 positions have been added for the same purpose at a total cost of approximately \$846,817 annually. This has been partially offset by annual savings of \$236,437 for 32 positions as workload shifted from the manual criminal history file to the automated file.

**Slow Rate of Automation.** The number of automated criminal history files has fallen far below departmental projections when it first proposed automating its criminal history files. In 1970 in its five-year plan for implementing CJIS, it planned to automate a total of 2,819,618 criminal history files by the end of the current fiscal year consisting of 1,374,030 new offender records and 1,445,588 converted records. However, converting existing records was quickly abandoned because many such records were found to be incomplete and incorrect and because the costs of completing and correcting such records proved prohibitive.

However, the department has fallen far behind its goal of automating 1,374,030 new offender records. At the end of the current fiscal year, it will have converted 780,000 new offender records and has actually automated only 685,000 at this writing. At the present time, approximately 30 percent of the persons which are identified as having criminal records resulting from inquiries from peace officers are found in the automated file and the remainder are found in the manual file. Preliminary estimates by the department indicate that the department will have spent almost \$12 million or a little more than \$15 per record by the end of the fiscal year to automate and update and maintain the records in the automated file. We believe that the Legislature should reevaluate this program because the department has failed to meet its schedule for automation and because the costs appear far greater than those anticipated when the program began.

**DEPARTMENT OF JUSTICE —Continued**

We have therefore asked the department to reestimate future costs of this program and future savings in the manual system, to indicate when the manual system will be phased down to its minimum level and to identify the benefits of the system relative to costs.

**Drug Abuse**

Problems associated with drug addiction, especially heroin, are rising sharply in California as well as throughout the nation. Although reliable statistics are not readily available, most local law enforcement agencies are reporting sharp increases in the number of narcotic-related overdose deaths as well as a significant increase in the number of seizures of illicit drugs. For example, the department's Bureau of Narcotics Enforcement reports that it seized 32,742 grams of heroin (approximately 72 lbs.) in 1975 compared to 18,505 grams in 1974.

These developments are mainly attributable to increased production of heroin in Mexico and the formation of sophisticated heroin trafficking organizations which complicate the efforts of state and federal agents to reduce the incidence of smuggling heroin across the border. These organizations are utilizing private automobiles, ships and boats of all kinds and aircraft which land at isolated landing strips to transfer their contraband to trucks. They are also concealing heroin in shipments of otherwise legitimate products, such as in false bottoms of aerosol cans. At times, these organizations utilize more advanced equipment than is available to law enforcement agencies, made possible by the huge profits associated with heroin trafficking.

*Enormous Profits.* According to the Los Angeles Police Department, one kilo of heroin (2.2 lbs.) selling wholesale for \$16,000 to \$18,000 in Mexico will retail for more than \$1 million on the streets of Los Angeles. Moreover, the street price for cocaine is approximately 100 times its cost to manufacture. These profits have allowed sophisticated organizations to utilize the most advanced equipment in their enterprises, to "budget" money for bail in the event they are apprehended and to make what little time they actually spend in prison appear cost effective. The high profits have also encouraged the development of a new type of smuggler called the "weekend trafficker" who, while maintaining legitimate employment, occasionally makes trips to Mexico to smuggle heroin and other drugs for resale in California.

Magazines and other publications aimed specifically at the drug subculture have recently emerged. One such magazine, which is published on a nationwide basis and can be readily purchased in legitimate stores in California, provides market price quotations of several illicit drugs including cocaine, LSD and marijuana in the major cities in this country. It contains articles on how to use and smuggle illicit drugs. It advertises paraphernalia used in conjunction with drug abuse, including a \$400 electronic device which can detect the presence of electronic equipment such as used by undercover law enforcement agents when buying narcotics from illicit dealers for purposes of gathering evidence for prosecution.

*Heroin Addiction and Crime.* There is an indisputable link between heroin usage and crimes, especially those against property. The high cost

of heroin usually forces addicts to commit crimes to support their habits. The average cost to a heroin addict for maintaining his habit is approximately \$100 per day. The federal Drug Enforcement Administration estimates that there are 80,000 heroin addicts in California. This represents a very costly problem to California residents in terms of property losses and other crime-related expenses. It has a significant bearing on a number of state programs. We are therefore examining the drug problem in greater detail and may develop some recommendations for legislative consideration during this session.

### COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

Items 41-42 from the Peace Officers' Training Fund

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Requested 1976-77 .....	\$11,429,309
Estimated 1975-76.....	11,419,745
Actual 1974-75 .....	10,802,635
Requested increase \$9,564 (0.1 percent)	
Total recommended reduction .....	\$4,890

#### 1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
41	Commission on Peace Officer Standards and Training (Support)	Peace Fund Officers' Training	\$2,276,917
42	Assistance to Cities and Counties for Peace Officer Training	Peace Fund Officers' Training	9,152,392
			<hr/> \$11,429,309

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Out-of-State Travel.* Reduce Item 41 by \$4,890. Recommend reduction in out-of-state travel costs to eliminate overbudgeting and multiple attendance at conferences in Miami and Washington, D.C. 50
2. *Retention of Positions.* Recommendation withheld pending submission of workload data justifying planned transfer of five positions from the Administrative Counseling Division to the Standards and Training Division. 50
3. *Out-of-Pocket Expenses.* Recommend commission reimburse all out-of-pocket expenses incurred by local law enforcement agencies in sending personnel to POST-certified courses. 52
4. *Training.* Recommend commission conduct study of specialized courses. 52

#### GENERAL PROGRAM STATEMENT

The Commission on Peace Officer Standards and Training (POST) is a 10-member body appointed by the Governor. It is responsible for raising the level of professional competence of city, county and special-district peace officers by establishing minimum recruitment and training standards and by providing management counseling services to local law enforcement agencies.

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

The commission and its local assistance program are supported by the Peace Officers' Training Fund, which derives its revenues from a penalty assessment of \$5 for each \$20, or fraction thereof, of criminal fines and \$1 for each \$20, or fraction thereof, of traffic fines levied by municipal and justice courts. Additionally, 25 percent of the penalty assessment on juvenile traffic fines obtained from specified traffic violations is deposited in the fund. Table 1 illustrates the revenues from the preceding sources.

**Table 1**  
**Peace Officers' Training Fund Revenues**

<i>Year</i>	<i>Penalties on Criminal Fines</i>	<i>Penalties on Traffic Fines<sup>a</sup></i>	<i>Total</i>
1971-72 .....	\$3,621,527	\$5,625,026	\$9,246,553
1972-73 .....	3,226,272	5,438,132	8,664,404
1973-74 .....	2,764,714	6,189,026	8,953,740
1974-75 .....	3,082,229	8,157,294	11,239,523
1975-76 (estimated) .....	3,250,000	8,600,000	11,850,000
1976-77 (estimated) .....	3,400,000	9,000,000	12,400,000

<sup>a</sup> Recent increases in traffic assessments are attributable to adoption of Chapter 1059, Statutes of 1973, and to enforcement of the 55 m.p.h. speed limit.

The commission is organized to function under the five following programs.

**ADMINISTRATION DIVISION PROGRAM**

This division includes the executive section element, which provides overall direction and supervision to the POST program. It administers the training reimbursements to participating police agencies and issues "general certificates" (basic, intermediate, advanced, management and executive) for attaining specified levels of college credits, POST-course credits and years of law enforcement experience. The division also maintains records of education, training and experience on all participating law enforcement personnel.

**STANDARDS AND TRAINING DIVISION PROGRAM**

This division monitors the quality and suitability of commission (POST) certified courses. Division consultants evaluate course content and preparedness of instructors of some 130 educational institutions and police academies sponsoring approximately 410 certified courses. The division also recommends certification of training institutions and courses, provides training and educational counseling to some 405 participating local law enforcement agencies, formulates and proposes improved instructional techniques, reviews qualifications of candidate instructors, coordinates with local advisory committees to identify needs for new and diversified police training and recommends decertification of institutions and courses failing to meet commission standards.

**TECHNICAL SERVICES DIVISION PROGRAM**

This division is the research arm of POST. It engages in management research and development directed towards improving organization, administration, operations and personnel practices of local law enforcement agencies. It researches management models applicable in a general way to all local law enforcement agencies and disseminates this research information to all interested police agencies.

The division also maintains a resource library, and through its center for police management provides local law enforcement with publications on the solutions of specific management questions or problems.

#### ADMINISTRATIVE COUNSELING DIVISION PROGRAM

This division conducts surveys, makes recommendations, provides implementation assistance and prepares special studies to improve management and operational techniques of local law enforcement agencies. It differs from the technical services function by dealing with individual police agencies and their problems, whereas the former deals with the entire field of police management.

#### ASSISTANCE TO CITIES AND COUNTIES PROGRAM

This item provides assistance to all police agencies for mandatory training of peace officers pursuant to Chapters 477 and 478, Statutes of 1973, and to cities and counties that qualify for state aid for peace officer training pursuant to Chapter 1823, Statutes of 1959. Each jurisdiction participating in the program is reimbursed by the commission from the Peace Officers' Training Fund for some of the costs of training all personnel, except volunteers and part-time employees.

#### ANALYSIS AND RECOMMENDATIONS

Table 2 summarizes the commission's \$11,429,309 budget request, indicating expenditure levels by program area and proposed dollar and position changes from the current year. The decrease in the administration program reflects reduced operating expenses.

The increase in the standards and training program reflects the addition of one position (law enforcement consultant II) to review the training needs and set standards for state agency peace officers as required by Chapter 1171, Statutes of 1975 (SB 1021).

Decreases in the technical services program reflect the termination of the crime prevention training institute, partially offset by the addition of one position to analyze local law enforcement training needs. The crime

**Table 2**  
**Budget Summary**

Program	Current Year	Proposed	Change from Current Year	
			Amount	Percent
Administration.....	\$680,235	\$666,696	\$-13,539	-2.0%
Man-years.....	24	24	—	—
Standards and Training.....	\$583,513	\$607,291	\$+23,778	+4.1
Man-years.....	20	20	—	—
Technical Services.....	\$511,049 <sup>a</sup>	\$474,074	\$-36,975	-7.2
Man-years.....	19.5	16	-3.5	-17.9
Administrative Counseling.....	\$516,670	\$528,856	\$+12,186	+2.4
Man-years.....	19	19	—	—
Subtotal.....	\$2,291,467	\$2,276,917	\$-14,550	-0.6%
Assistance to Cities and Counties.....	\$9,152,392	\$9,152,392	—	—
Total Expenditures.....	\$11,443,859	\$11,429,309	\$-14,550	-0.1
Total Man-years.....	82.5	79	-3.5	-4.4%

<sup>a</sup> Reflects \$24,114 in current-year reimbursements which will not be received in the budget year.

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued**

prevention institute was initiated in 1974-75 as a two-year project with Office of Criminal Justice Planning (OCJP) funds. However, second-year OCJP funding was denied because of an over-commitment of federal action grants to state agencies by the previous OCJP administration, and most costs for this project in 1975-76 will be borne by the Peace Officers' Training Fund. This program will terminate by May 31, 1976.

The increase in the administrative counseling program reflects salary adjustments and increased operating expenses.

**Out-of-State Travel**

*We recommend a reduction of \$4,890 in out-of-state travel costs to (1) reflect the lower expenditure level proposed by the commission (\$2,240 less than the amount contained in the Governor's Budget), and (2) eliminate multiple attendance at conferences in Miami and Washington, D.C. (\$2,650).*

The Governor's Budget contains \$15,080 for out-of-state travel for the POST staff, but detail of the POST budget shows scheduled out-of-state travel requirements of \$12,840. We are advised that the \$2,240 difference represents funding for "unanticipated travel requirements." However, provision for such contingencies is not standard practice and, in our view, this item is overbudgeted.

The \$12,840 requested for the scheduled trips includes funds for four persons (the director and three assistant directors) to attend the International Association of Chiefs of Police (IACP) conference in Miami, and for two persons (the director and one assistant director) to attend the National Association of State Directors of Law Enforcement Training (NASDLET) conference in Washington, D.C. We believe that attendance, at state expense, of more than one representative of POST is unnecessary and accordingly recommend a further reduction of \$2,650.

Table 3 shows the components of our recommended reduction.

**Table 3**  
**POST Out-of-State Travel**

Amount in Governor's Budget .....	\$15,080
Amount in POST Budget .....	12,840
Difference.....	\$2,240
Eliminate 3 persons to IACP Conference .....	2,050
Eliminate 1 person to NASDLET Conference .....	600
Total Reduction.....	\$4,890
Recommended POST Out-of-State Travel Budget .....	\$10,190

**Staff Realignment Needs Justification**

*We withhold recommendation on the retention of five positions which are proposed to be transferred from the Administrative Counseling Division to the Standards and Training Division, pending the submission of workload data.*

Last year on our recommendation the Conference Committee on the Budget Bill adopted language requesting the commission to study the administrative counseling program and to evaluate alternatives for delivering such services to local police agencies.

The commission's report concluded that administrative counseling services should continue to be provided by POST staff, but that the most time-consuming service, the general administrative survey, be discontinued except for cases demonstrating exceptional need and specifically approved by the commission. The resulting workload reduction will permit three professional and two clerical positions to be deleted from the Administrative Counseling Division. The commission has indicated that these five positions should be assigned to the Standards and Training Division in 1976-77. Although this proposal is not reflected in the Governor's Budget, we understand that the commission desires to implement it during the budget year.

While we agree that five positions can be deleted from the Administrative Counseling Division because of the program reduction, we find no workload basis for transferring the positions to the Standards and Training Division. Unless the commission can justify this action, the positions should be deleted for a savings of \$120,000 in Item 41.

#### Local Assistance Program

Table 4 illustrates the broad categories of courses comprising the POST program.

**Table 4**  
**POST-Certified Course Categories**

	<i>Number of Courses Certified</i>	<i>Minimum Hours of Training</i>	<i>Maximum Hours Reimbursed</i>	<i>Completion Requirements</i>
Basic .....	39 <sup>a</sup>	200	400	Prior to exercise of peace officer powers
Advanced Officer .....	49	20	40	Once every four years
Supervisory .....	28	80	100	Within 18 months of promotion
Middle Management .....	8	100	120	Within 18 months of promotion
Executive Development ....	1	100	120	Optional
Management, Supervisory, and				
Executive Seminars ....	12	18	40	Optional
Technical/Special .....	242 <sup>b</sup>	Unlimited	None	Optional

<sup>a</sup> Includes eight courses for specialized law enforcement personnel.

<sup>b</sup> Includes 70 courses established pursuant to Penal Code Section 832.

The commission establishes the amount of reimbursement provided for each course by assigning individual courses to one of four reimbursement plans as outlined in Table 5.

**Table 5**  
**POST Reimbursement Plans**

<i>Plan No.</i>	<i>Salary</i>	<i>Subsistence</i>	<i>Travel</i>	<i>Tuition</i>
I .....	60%	Yes	Yes	Yes
II .....	60%	Yes	Yes	No
III .....	None	Yes	Yes	Yes
IV .....	None	Yes	Yes	No

**COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING—Continued****Reimburse Out-of-Pocket Expenses**

*We recommend that the commission reimburse local law enforcement agencies for all out-of-pocket (travel, subsistence and tuition fees) expenses incurred in sending peace officers to POST-certified courses.*

The stated purpose of salary reimbursement is to encourage police agencies to participate in training programs by providing funds to pay overtime costs or hire auxiliary police from other jurisdictions to fill in for those in training. Two years ago we reported in the Analysis that overtime was seldom used, and substitute officers almost never used, to replace officers who are attending POST courses because POST reimbursements are paid directly into local general funds. This results in a tendency for local budget authorities to incorporate a major portion of these monies into the regular budget base for support of the ongoing staffing level of the law enforcement agencies. No action was taken on our suggestion of the need for legislation to tighten administration of the salary reimbursement to insure that the money is used to cover overtime costs, employ substitute officers or otherwise enhance the local police program.

An analysis of reimbursements made during the first quarter of 1975-76 shows that 70 percent of total expenditures is for salary costs (at the 60 percent rate). On an annual basis, salary reimbursements will amount to about \$6.3 million out of a total reimbursement program of over \$9.1 million.

In view of the above local budgetary practices, we believe the first priority in the POST local assistance program should be to reimburse law enforcement agencies for all out-of-pocket expenses incurred by officers attending POST certified courses. As shown in Table 5, tuition and fees are not reimbursed for all courses and, consequently, local agencies either have to absorb these costs in their operating budgets or forego participation. Unlike salary reimbursements which tend to remain in the local general funds, reimbursements of these expenses should "flow through" to the individual law enforcement budgets because they can be tied directly to expense claims submitted by program participants. This policy should encourage greater participation in those more specialized POST courses which have the highest tuition. Annual implementation costs, estimated at \$1.3 million, could be offset by a reduction in the level of salary reimbursements.

**Specialized Training Above the Basic Course**

*We recommend that the commission study methods for increasing participation in specialized courses and report recommendations to the Joint Legislative Budget Committee by November 1, 1976.*

As indicated in Table 4, the POST basic course provides 200 to 400 hours of training (with 60 percent salary reimbursement) designed to prepare a new recruit to function as a peace officer. The basic course covers such elementary police subjects as weapons handling, accident and crime scene investigation, arrest procedures and report writing. Other courses which provide "job specific" or specialized training in such areas as juvenile justice and burglary, homicide and narcotics investigations are classified

as technical training and, as such, do not qualify for salary reimbursements. We believe that the state should encourage local law enforcement agencies to upgrade the training of officers assigned to these specialized law enforcement areas.

In implementing this recommendation, the commission should consider development of a two-tier salary reimbursement factor with appropriate guidelines and accounting controls (to avoid the local budgetary procedures noted earlier) as a means of encouraging greater utilization of these specialized courses by local law enforcement agencies. Rather than limiting the reimbursement to 60 percent of salary as under present policy, a higher reimbursement percentage could be established for the "job specific" law enforcement courses.

### OFFICE OF CRIMINAL JUSTICE PLANNING

Items 43, 44, 45 from the General Fund

Budget p. 63

Requested 1976-77 .....	\$3,909,168
Estimated 1975-76.....	5,056,892
Actual 1974-75 .....	5,373,212
Requested decrease \$1,147,724 (22.7 percent)	
Total recommended reduction .....	Pending

#### 1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
43	Office of Criminal Justice Planning—Support	General	\$141,945
44	State Operations—Cash Match	General	1,000,000
45	Local Assistance—Cash Match	General	2,767,223
			<u>\$3,909,168</u>

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. Expanded Civil Rights Compliance. Withhold recommendation pending development of program detail.

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#### GENERAL PROGRAM STATEMENT

Chapter 1047, Statutes of 1973, created out of the staff arm of the California Council on Criminal Justice (CCCJ) the Office of Criminal Justice Planning (OCJP) to be administered by an executive director appointed by the Governor. The council, which remains as a separate entity and acts as the supervisory board to OCJP, consists of 29 members: the Attorney General, the Administrative Director of the Courts, 15 members appointed by the Governor and 12 members appointed by the Legislature.

The Office of Criminal Justice Planning is designated the state planning agency for administering the federal block grant programs authorized under the Federal Omnibus Crime Control and Safe Streets Act of 1968 (Safe Streets Act), as amended in 1973. Its statutory responsibilities are to:

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

(1) develop, with the advice and approval of the council, a comprehensive statewide plan for the improvement of criminal justice and delinquency prevention throughout the state; (2) define, develop and correlate programs and projects for the state criminal justice agencies; (3) receive and disburse federal funds and perform all necessary staff services required by the council; (4) develop comprehensive procedures to insure that all local plans and all state and local projects are in accord with the state plan; (5) render technical assistance to the Legislature, state agencies and units of local government on matters relating to criminal justice; and (6) conduct evaluation studies of the programs.

**Support for Criminal Justice Planning**

Funding for OCJP operations and state agency and local awards is derived largely from an annual federal block grant consisting of planning and "action" funds (designated Part B funds and Part C funds, respectively) which is awarded to the state by the federal Law Enforcement Assistance Administration (LEAA). Unlike previous years when, due to a higher staffing level, OCJP consumed its legal maximum (60 percent) of the federal planning grant (Part B funds), only about one-third of these funds will be allocated to the state planning agency in the budget year. The remaining two-thirds will be distributed to the 21 criminal justice planning regions. Through this grant the federal government pays 90 percent of the state and 100 percent of the regional planning expenses. In the budget year, a maximum of 26.6 percent of the federal action grant (Part C funds) can be allocated to the state and at least 73.4 percent (subject to CCCJ approval of individual grants) must be allocated to local agencies for the general purpose of improving the criminal justice system.

An additional category of federal money (Part E action grants) is available for state and local correctional facilities and institutions, but these grants are not divided between the state and localities under a set formula. The federal funds cover 90 percent of all action grants. The state pays 10 percent, if applicable to a state project. For local grants, the local project proponent pays 10 percent.

Construction projects funded from Part C or E block grants require a 50/50 state/federal match. The state pays 50 percent, if applicable to a state project, but for local grants the state pays 25 percent and the local project proponent pays 25 percent.

**Program Consolidation**

Under a reorganization implemented by the new administration, the previous six programs of OCJP have been restructured and consolidated into four program areas as described below. The new OCJP organization has resulted in a staff reduction of 147.5 man-years, from 194.1 in 1974-75 to 46.6 in the current year. The Governor's Budget proposes a further reduction to 38 man-years in the budget year as discussed more fully later in this analysis.

**Operations (Item 43)**

This program, through a presently authorized staff of 22.6 man-years, provides technical assistance and evaluation services to state, local and private agencies which receive federal Safe Streets Act funds. It administers three main functions (1) the state plan function, which prepares the state comprehensive plan for submission to the federal Law Enforcement Assistance Administration; (2) the state and private agency function, which assists proponents in developing plans and projects, reviews the grant applications for program content and provides staff support to the executive director of OCJP and to CCCJ; and (3) the man-power function, which recommends plans and policies in the personnel management area.

**Administration (Item 43)**

This program, which utilizes the remaining 24 authorized man-years, provides executive and management services, including CCCJ liaison, personnel, accounting, business services and budgeting. The program also reviews grant requests for technical sufficiency and provides technical guidance to grantees. The grant audit function, required by federal law, is being performed under an interagency agreement by the Department of Finance.

**State and Private Agency Awards (Item 44)**

This program provides for awards of Safe Streets Act funds to state and private agencies to stimulate improvements within the criminal justice system.

**Local Project Allocation (Item 45)**

This program provides grants for regional criminal justice planning and action projects undertaken by local jurisdictions with the aim of improving law enforcement and the criminal justice system at the local level.

Table 1 shows the proposed funding, by source, for each of these four programs.

**Table 1**  
**1976-77 Office of Criminal Justice Planning**  
**Program Expenditures**

<i>Program</i>	<i>Federal Funds</i>	<i>Reimbursements</i>	<i>State General Fund</i>	<i>Total</i>
Operations .....	\$1,035,551	\$400,000 *	\$65,153	\$1,500,704
Administration .....	721,118	-	76,792	797,910
State Agency Awards .....	14,759,398	-	1,000,000	15,759,398
Local Agency Awards .....	55,761,027	-	2,767,223	58,528,250
Totals .....	\$72,277,094	\$400,000	\$3,909,168	\$76,586,262

\* Federal grant funds used by OCJP to support the Northern California Criminal Justice Training and Education System, a program which serves the training needs of criminal justice personnel in the 26 northern counties.

**ANALYSIS AND RECOMMENDATIONS**

Table 2 summarizes OCJP expenditure levels for the past, current and budget years, indicating the sources of funding by category, expenditure levels by program area, and proposed changes from the current year.

## OFFICE OF CRIMINAL JUSTICE PLANNING—Continued

Table 2  
Budget Summary

Funding	Actual 1974-75	Estimated 1975-76	Proposed 1976-77	Change from Current Year	
				Amount	Percent
General Fund .....	\$5,373,212	\$5,056,892	\$3,909,168	\$-1,147,724	-22.7%
Federal Funds .....	62,510,320	86,170,236	72,277,094	-13,893,142	-16.1
Reimbursements....	2,298,646	1,153,661	400,000	-753,661	-65.3
Totals .....	\$70,182,178	\$92,380,789	\$76,586,262	\$-15,794,527	-17.1%
<i>Programs</i>					
Operations <sup>a</sup> .....	\$3,266,082	\$1,938,699	\$1,500,704	\$-437,995	-22.6%
Man-years .....	135.7	22.6	14	-8.6	-38.0
Administration .....	\$1,914,991	\$741,899	797,910	+56,011	+7.5
Man-years .....	58.4	24	24	-	-
Subtotal .....	\$5,181,073	\$2,680,598	\$2,298,614	\$-381,984	-14.2%
Man-years .....	194.1	46.6	38	-8.6	-18.4
State Agency					
Awards .....	\$26,465,652	\$21,733,494	\$15,759,398	\$-5,974,096	-27.5%
Local Project Allo-					
cations .....	38,535,453	67,966,697	58,528,250	-9,438,447	-13.9
Total .....	\$70,182,178	\$92,380,789	\$76,586,262	\$-15,794,527	-17.1%
Man-years .....	194.1	46.6	38	-8.6	-18.4

<sup>a</sup> Includes the planning and programs, standards and evaluations and research and technical assistance programs for 1974-75.

## Current-Year Budget Reductions and Reorganization

The Budget Act of 1975, as approved by the Legislature, included funds to support the Office of Criminal Justice Planning at a staffing level of approximately 231 positions. However, the Governor reduced the state funding match for the office from \$328,114 to \$125,578 (thereby producing a corresponding reduction in federal support based on the 90 percent federal 10 percent state cost-sharing formula) and proposed to retain a staff of only 10 or 12 positions to audit the expenditures of the regions and individual grant recipients. The administration stated its intention to transfer the on-going management responsibility for the program to the state's 21 regional criminal justice planning agencies.

In response to a legislative request, our office reviewed the Governor's proposal and issued a report on August 15, 1975, entitled "A Review of the Governor's Proposed Reorganization of the Office of Criminal Justice Planning." In that report we concluded that a staff of at least 46 positions would be required if the program is to remain viable and perform federally mandated and other clearly state-level responsibilities.

## OCJP Staffing

The Governor's Budget indicates an OCJP staffing level of 46.6 man-years in the current fiscal year. An additional 10 positions, budgeted to the Department of Finance, are currently performing the federally required audit function under a contract with OCJP. The budget proposes an OCJP staffing level of 38 man-years in the budget year plus continuation of the Department of Finance auditor positions.

While this staffing approximates the minimum level recommended in

our report, we believe that improved organization and workload management procedures would increase staff productivity and enhance the overall program efficiency of OCJP. Staff assignments within the operations program have not been defined or positions specifically allocated to program functions. Hence, employees work in various capacities which tends to obscure individual job responsibility. As a result, one of the primary responsibilities of this agency—program evaluation—is not accomplished in a consistent and productive manner.

While this “pool” approach to staff utilization may facilitate the handling of immediate problems and program requirements, such as preparing CCCJ meeting agendas and compiling the state comprehensive plan, it has precluded the development of planning guidelines and management procedures under which total program requirements could be addressed in an orderly fashion. Although OCJP’s long history of program deficiencies cannot be resolved overnight, particularly during a period of reorganization, we believe that the new OCJP management should focus more attention on improving administrative and grants processing procedures.

#### **Budget Proposal**

As shown in Table 2, the total proposed OCJP expenditure program of \$76,586,262 represents a decrease of \$15,794,527 from estimated current-year expenditures. General Fund costs decline by \$1,147,724, from \$5,056,892 in the current year to \$3,909,168 in the budget year. The lower expenditures result from several factors. First, approximately \$4 million of the total decrease reflects the transfer of state agency discretionary grants (LEAA awarded) and the General Fund cash match to the budgets of the recipient departments.

Second, \$2,183,922 in federal action funds which are available until June 30, 1978, are not included in the budget because state matching funds are not being requested.

Third, in both the current and budget years, the General Fund amounts required to match federal planning grants for OCJP have been reduced by applying “indirect” state expenses to the matching requirement in accordance with revised LEAA regulations which allow funds expended by state control agencies (such as the State Controller) for overhead support of the planning agency to be credited against the state match requirement. The administration is currently negotiating with LEAA to determine the amount of actual cash match that will be required for the current and budget years. Based on OCJP’s present estimate of the minimum cash match amount that will be acceptable to LEAA, the \$3,909,168 requested in the budget is the minimum state appropriation required to match federal funds totaling \$72,277,094. If a lower cash match requirement is approved by LEAA, language in Item 43 of the Budget Bill will prevent OCJP’s expenditure of General Fund amounts above the minimum match requirement.

The decrease of 8.6 man-years and \$437,995 in the operations program primarily reflects the termination of a project to develop improved administrative and operating procedures for criminal justice agencies which

**OFFICE OF CRIMINAL JUSTICE PLANNING—Continued**

was initiated in the current year. The increase of \$56,011 in the administration program reflects higher personnel costs and increased operating expenses.

**Additional Civil Rights Compliance Effort Undefined**

*We withhold recommendation on a proposed contract with the Fair Employment Practices Commission to increase the Office of Criminal Justice Planning's civil rights compliance program pending development of program detail.*

The federal, state and local governments share responsibility for insuring that federal grant recipients comply with federal civil rights guidelines. OCJP, as required by LEAA regulations, employs a civil rights compliance officer to assist persons in filing discrimination complaints with LEAA. The complaints are investigated by LEAA personnel, who also selectively review recipient agency equal employment opportunity programs. Additionally, most local jurisdictions must maintain a civil rights compliance effort in order to be eligible for federal revenue sharing funds.

The OCJP budget proposes to award a \$222,222 contract to the Fair Employment Practices Commission (FEPC) for the purpose of increasing OCJP's oversight of civil rights compliance by grantee agencies. The contract will be financed by \$200,000 of federal planning funds (Part B) and the required \$22,222 General Fund match. This level of funding will support five to eight man-years of effort, in effect expanding the current OCJP civil rights compliance function by five to eight times. No data have been presented to support the need for this funding level, nor is information available on how the added FEPC staff will be used. The contract is not reflected in the FEPC budget.

While OCJP has a responsibility to insure compliance with federal and state civil rights provisions (including equal employment opportunity guidelines), the grant recipients themselves, as public and private agencies, share this responsibility. Unless OCJP can demonstrate the need for expansion of this program and identify how the money will be used, we believe that the funds could be better utilized for essential program needs within OCJP, such as expanded project review, a grant indexing and cataloging system and development of a "project information and dissemination system" to aid in evaluating individual project results and implementation feasibility elsewhere in the state. Alternatively, a portion of the federal funds allocated to this program could be transferred to the regional criminal justice planning agencies for expansion of their civil rights efforts. If these funds were transferred to the regions, a General Fund match would not be required.

## STATE PUBLIC DEFENDER

Item 46 from the General Fund

Budget p. 73

Requested 1976-77 .....	\$3,036,682
Estimated 1975-76.....	76,720
Actual 1974-75 .....	None
Requested increase \$2,959,962	
Total recommended reduction .....	\$261,550

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- |   | <i>Analysis<br/>page</i> |
|---|--------------------------|
| 1. <i>Downgrade Four Positions. Reduce \$19,598.</i> Recommend reduction in personal services to reflect downgrading of four associate deputy public defenders III to the grade II level. | 61                       |
| 2. <i>Salary Levels. Reduce \$241,952.<sup>a</sup></i> Recommend budgeting all proposed new positions at first step rather than third step of each salary range.                          | 61                       |

<sup>a</sup> Based on adoption of both recommendations 1 and 2.

### GENERAL PROGRAM STATEMENT

The office of State Public Defender was created by Chapter 1125, Statutes of 1975, primarily to provide legal representation for indigents before the Supreme Court and the courts of appeal, either upon appointment by the court or at the request of the person involved. Such services are now provided by private attorneys appointed by the courts. The responsibilities of the new office include the following functions, the first three of which take precedence over all others:

1. Handling appeals, petitions for hearing or rehearing before any appellate court, petitions for certiorari to the United States Supreme Court or petitions for executive clemency from a judgment relating to criminal or juvenile court proceedings;
2. Engaging in proceedings for extraordinary writs, injunctions or declaratory relief relating to final judgments of conviction or wardship or to the punishment or treatment imposed thereunder;
3. Handling appellate or other legal procedures after imposition of a death sentence;
4. Representing at any proceeding persons entitled to legal representation at public expense;
5. Substituting for a county public defender (under a contract of reimbursement) when the local defender is unable to represent an eligible party due to conflict of interest or other valid reason; and
6. Appearing as a friend of court or at legislative, administrative or other similar proceedings.

### ANALYSIS AND RECOMMENDATIONS

The legislation creating this office became effective January 1, 1976. It requires the Governor to appoint the State Public Defender to a minimum term of four years, subject to Senate confirmation. Because no appoint-

**STATE PUBLIC DEFENDER—Continued**

ment had been made at the time the Governor's Budget was prepared, the budget proposes that the office will commence receiving cases at the beginning of the 1976-77 fiscal year, and that start-up costs of \$76,720 will be incurred in the current year for 2.5 positions and related operating expenses. This cost will be financed from the Emergency Fund.

**The Budget Proposal**

Chapter 1125 authorizes the State Public Defender to employ staff and establish offices as necessary to perform his duties. It also authorizes him to contract with county public defenders, private attorneys and nonprofit corporations to provide authorized legal services to eligible indigents. Under these provisions, the Public Defender may perform all of his functions with state employees (i.e., his own staff), contract with private attorneys and nonprofit corporations or utilize a combination of these arrangements. Pending appointment of a Public Defender, the Governor's Budget contemplates that state employees will be used to provide defender services in all courts of appeal except the fourth district (San Diego and San Bernardino), where services would be provided through expansion of a contractual arrangement which now exists in the San Diego division of that district.

Defense services would be rendered in the other four appellate districts by offices located in Los Angeles (the second district), San Francisco (the first district) and Sacramento (serving both the third district and the fifth district at Fresno). The proposed staffing, operating and equipment costs are patterned after the Attorney General's office and assume an attorney caseload of 40 cases per year.

**Staffing Request.** The budget proposes a staff of 94 positions at a cost of \$2,209,974 based on the classifications and salaries shown in Table. 1.

**Table 1**  
**Projected Staffing, Office of State Public Defender**  
**(Not Shown in Governor's Budget)**

<i>Position</i>	<i>Salary Range</i>	<i>Annual Salary Per Position</i>
State Public Defender.....	\$42,500 (statutory)	\$42,500
Chief Deputy Public Defender.....	40,440	40,440
5 Associate deputy public defenders IV.....	2,664-3,236	35,400
9 Associate deputy public defenders III.....	2,301-2,796	30,444
5 Associate deputy public defenders II.....	1,987-2,416	26,292
22 Associate deputy public defenders I.....	1,803-2,191	23,844
16 Legal counsel.....	1,279-1,635	18,684
1 Administrative officer II.....	1,758-2,137	23,376
1 Law librarian.....	1,517-2,036	21,324
30 Senior legal stenographers.....	753-955	10,392
1 Library technical assistant.....	717-872	9,540
1 Accounting technician.....	665-872	9,228
1 Clerk-typist II.....	604-850	8,724

The legal staff consists of the statutorily authorized state Public Defender, a chief deputy and two exempt positions normally authorized for department heads and 55 positions required to process an anticipated

caseload of 40 cases per attorney. The caseload estimate may be low because it is based on the number of appeals filed in 1974-75. If the recent growth rate of criminal appeals continues, the workload estimate may be understated by 250-300 cases, which would require six to seven additional legal positions. However, the normal delay in attaining full staffing for this new office at the beginning of the 1976-77 fiscal year should produce salary savings sufficient to hire needed additional staff if the caseload exceeds that on which this budget is based. Otherwise, a deficiency appropriation may be required. We find the proposed staffing excessive in two respects as discussed below.

#### **Downgrade Four Positions**

*1. We recommend a reduction of \$19,598 in personal services to reflect the downgrading of four associate deputy public defenders III to the grade II level.*

As shown in Table 1, the projected staffing pattern for the public defender's office includes 5 grade IV supervisor attorney positions, 9 grade III's, 5 grade II's and 22 grade I's. Although these ratios are patterned after the Attorney General's office, having more grade III positions than grade II level appears questionable, particularly in the absence of operating experience and detailed information on how the public defender will provide for delivery of legal services. While the grade III position is generally considered the top journeyman level among legal positions, entry to that classification normally occurs on a promotional basis following satisfactory performance at a lower level. Therefore, we believe it would be more appropriate to downgrade four of the grade III positions to a grade II level for an annual saving of \$19,598.

#### **Hire at First Salary Step**

*2. We recommend that all new positions be budgeted at the first step rather than the third step of the applicable salary range for a saving of \$241,952<sup>a</sup> in personal services.*

The Governor's Budget proposes that all 92 positions (professional and clerical) be budgeted at the middle step of the five-step salary range for each classification. This costs an additional \$243,764 compared to hiring at the first step of each salary range, and it disregards the state Administrative Manual which directs that salaries for new positions be computed at the minimum step for each classification. The objective of the budget proposal is to facilitate transfer of experienced personnel (especially professional classes) from other governmental agencies at salaries above the entry level. We believe that provision for four levels of attorney positions above the entry position of legal counsel provide sufficient flexibility for recruiting experienced personnel. For example, persons now holding top level grade II positions could be hired at the first step of the grade III category.

Note that if our first recommendation is not adopted, the reduction under this recommendation should be \$243,764 to reflect reduced salary costs for the four grade III attorney positions.

<sup>a</sup> Based on adoption of both recommendations 1 and 2.

**ASSISTANCE TO COUNTIES FOR PUBLIC DEFENDERS**

Item 47 from the General Fund

Budget p. 74

Requested 1976-77 .....	\$775,000
Estimated 1975-76.....	775,000
Actual 1974-75 .....	774,957
Requested increase None	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

This item reimburses counties for a portion of their expenditures in providing legal assistance to indigents charged with criminal violations in the trial courts or who are involuntarily detained under the Lanterman-Petris-Short Act. The reimbursements are authorized by Section 987.6 of the Penal Code and may not exceed 10 percent of the counties' expenditures for these purposes. The state has never contributed the 10 percent maximum permitted.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The proposed contribution of \$775,000 represents the traditional dollar level of state support for this program. This is a diminishing percentage of total costs.

**PAYMENTS TO COUNTIES FOR COSTS OF HOMICIDE TRIALS**

Item 48 from the General Fund

Budget p. 74

Requested 1976-77 .....	\$100,000
Estimated 1975-76.....	495,840
Actual 1974-75 .....	55,000 <sup>a</sup>
Requested decrease \$395,840 (79.8 percent)	
Total recommended reduction .....	None

<sup>a</sup> Governor's Budget reports 1974-75 expenditure of \$500,000; however, \$55,000 is the actual expenditure.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

This item provides reimbursements to counties for specified costs relating to two categories of criminal trials. First, pursuant to Penal Code Section 4700.2, counties are reimbursed for trial and related costs arising from crimes committed in connection with an escape, or a conspiracy to effectuate an escape, from custody of the Department of Corrections. The escape could be from an institution, a courtroom or from other locations while the prisoner is in the custody of the department. Reimbursement under this Penal Code provision is limited to trials based on indictments filed between November 1, 1970 and June 30, 1971. Reimbursements were made in fiscal years 1971-72 through 1973-74 and will be made in 1975-76,

but no further claims are anticipated due to the limited application of this provision.

Secondly, this item, pursuant to Government Code Sections 15200-15203, reimburses counties for the costs of a trial or trials in a homicide case beyond that point where total trial costs exceed a five cent local property tax rate. The item was first included in the 1973-74 Governor's Budget to reflect an expenditure of \$95,964 in the 1971-72 fiscal year through a deficiency appropriation. Expenditures under this program since that time have been as follows:

<i>Fiscal Year</i>	<i>Expenditure</i>
1971-72	\$ 95,964
1972-73	370,105
1973-74	164,824
1974-75 (estimated)	55,000
1975-76 (estimated)	150,000
1976-77 (proposed)	100,000

The Department of Finance advises that the \$500,000 expenditure reported in the 1976-77 Governor's Budget for the 1974-75 fiscal year under this program should be \$55,000. The department advises that the larger figure was based on claims filed, and anticipated to be filed, in the 1975-76 fiscal year which were expected to be paid out of the 1974-75 appropriation. Subsequent audit of these claims revealed they were not eligible for reimbursement but this was not determined in time to be reflected in the 1976-77 Governor's Budget.

Except in 1972-73 and 1973-74 when reimbursements were made for an unusual case (the Juan Corona trial), the expenditures have been under \$100,000 per annum. Therefore, the amount budgeted appears to be reasonable.

### ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS

Item 49 from the General Fund

Budget p. 75

Requested 1976-77 .....	\$1,583,374
Estimated 1975-76.....	1,566,027
Actual 1974-75 .....	1,822,234
Requested increase \$17,347 (1.1 percent)	
Total recommended reduction .....	None

### GENERAL PROGRAM STATEMENT

Existing law defines the extent of the liability of the state and its employees for tort actions and makes the Board of Control responsible for administration of the program. The Attorney General investigates all claims to determine their validity, provides legal services to the board for the program and, with the board's approval, settles small claims directly.

This item provides funds for payment of (1) claims for all state agencies except the University of California and a small number of agencies with unique liability problems which are covered by special insurance, (2) legal

**ADMINISTRATION AND PAYMENT OF TORT LIABILITY CLAIMS—Continued**

and investigative services provided by the Attorney General, and (3) insurance premiums to cover claims between \$2 million and \$50 million and for the state's liability up to \$2 million for accidents involving state-owned and state-hired aircraft. Except for aircraft, the state assumes direct liability for payment of claims of less than \$2 million and more than \$50 million because insurance against the smaller claims has proved too costly and insurance to protect against those exceeding \$50 million is not generally available.

The amount budgeted for claims should fund those which can reasonably be anticipated. No moneys are budgeted for larger claims which are generally funded by special appropriations to the Department of Justice. The budget shows that \$1,563,148 was appropriated for four such claims in 1974-75 and \$1,107,500 for three claims in the current year. Special fund agencies (with the exception of the Department of Transportation which investigates, litigates and pays its own claims) reimburse the General Fund for payments made under the program on their behalf.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The proposed 1.1 percent increase in this program reflects higher Attorney General costs for legal and investigative services. Table 1 shows the funding and proposed expenditures for the tort liability program.

**Table 1**  
**Budget Summary**

	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Funding</i>				
General Fund .....	\$1,566,027	\$1,583,374	\$17,347	1.1%
Reimbursements .....	22,250	22,250	—	—
Total .....	\$1,588,277	\$1,605,624	\$17,347	1.1%
<i>Program</i>				
Attorney General .....	\$970,112	\$987,459	\$17,347	1.8%
Claims .....	385,533	385,533	—	—
Insurance Premiums .....	232,632	232,632	—	—
Total .....	\$1,588,277	\$1,605,624	\$17,347	1.1%

Table 2, which compares the dollar amount of tort claims filed with amounts paid, is indicative of the Attorney General's workload in this program.

**Table 2**  
**Tort Liability Claims Workload**

	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76 (est.)</i>	<i>1976-77 (est.)</i>
Tort Claims filed with the Board of Control .....	\$6,582,222,275	\$1,988,006,946	\$2,000,000,000	\$2,250,000,000
Total Claims Paid ..	\$1,538,127	\$2,210,595	\$1,513,033	\$405,533 <sup>a</sup>

<sup>a</sup> Exclusive of amounts which will be appropriated by special legislation.

**INDEMNIFICATION OF PRIVATE CITIZENS**

Item 50 from the General Fund  
and Item 51 from the Indem-  
nity Fund

Budget p. 76

Requested 1976-77 .....	\$6,610,782
Estimated 1975-76 .....	6,727,204
Actual 1974-75 .....	1,710,758
Requested decrease \$116,442 (1.7 percent)	
Total recommended reduction .....	None

**1976-77 FUNDING BY ITEM AND SOURCE**

Item	Description	Fund	Amount
50	Indemnification of Private Citizens	General	\$6,607,782
51	Indemnification of Private Citizens	Indemnity	3,000
			<u>\$6,610,782</u>

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Indemnification of Private Citizens. Recommendation with-  
held pending receipt of report on administrative changes  
and workload standards.

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**GENERAL PROGRAM STATEMENT**

This program, which is administered by the Board of Control, provides compensation to needy residents of California (1) who are victims of crimes of violence or are financially dependent upon a victim, or (2) who sustain damages or injury as a result of acts benefiting the public. Under the provisions of Chapter 1144, Statutes of 1973, (effective July 1, 1974) total recovery for claims by needy residents is limited to \$10,000 for lost wages, \$10,000 for medical expenses, \$3,000 for rehabilitation and \$500 for attorney fees.

Before claims are considered by the Board of Control, they are first investigated by the Attorney General to determine their validity. The Attorney General also provides all necessary legal services for the program.

Although the General Fund is responsible for the support of this program, the annual appropriation is partially offset by fines which are levied on the perpetrators of the crimes. Receipts from these fines, estimated at \$3,000 for the budget year, are deposited in the Indemnity Fund (Item 51) but transferred to the General Fund for support of this program.

**ANALYSIS AND RECOMMENDATIONS**

*We withhold recommendation pending receipt of the report requested by the Legislature on administrative changes and workload standards.*

As shown in Table 1, the Governor's Budget proposes a net decrease of \$116,422 for this program, reflecting an anticipated lower expenditure for victim claims partially offset by Board of Control expenses for administer-

**INDEMNIFICATION OF PRIVATE CITIZENS—Continued**

ing the program which, for the first time, are budgeted to these items. Previously, they were budgeted directly to the board.

**Table 1**  
**Budget Summary**

<i>Funding</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
General Fund Appropriation.....	\$6,720,204	\$6,607,782	\$-112,422	-1.7%
Indemnity Fund .....	7,000	3,000	-4,000	-57.1
Total.....	\$6,727,204	\$6,610,782	\$-116,422	-1.7%
<i>Program</i>				
Claims—Victims of Crimes .....	\$5,963,210	\$5,614,865	\$-348,345	-5.8%
Claims—Victims Benefiting the Public.....	50,000	50,000	—	—
Attorney General Expenses.....	713,994	713,994	—	—
Board of Control Expenses .....	—	231,923	231,923 <sup>a</sup>	100
Total.....	\$6,727,204	\$6,610,782	\$-116,422	-1.7%

<sup>a</sup> Budgeted directly to the Board of Control in the current year in the amount of \$228,957.

Last year upon our recommendation, the Legislature directed the Department of Finance to examine the Indemnification of Private Citizens program to make desirable administrative changes and to develop workload standards for processing and investigating claims. The department advises that the report will not be completed until the end of January. We believe that the report may contain some important considerations for the future funding and administration of this program. Therefore, we withhold our recommendation pending receipt of the report.

**FAIR POLITICAL PRACTICES COMMISSION**

Item 52 from the General Fund

Budget p. 77

Requested 1976-77 .....	\$96,280
Estimated 1975-76.....	Not Applicable
Requested increase \$96,280	
Total recommended reduction .....	\$96,280

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. *Position Reduction.* Reduce \$96,280. Recommend augmentation to statutory budget be denied. 67
2. *Auditing Standards.* Recommend procedures be established to insure coordination with the Franchise Tax Board in developing auditing standards. 67

**GENERAL PROGRAM STATEMENT**

The Fair Political Practices Commission was established by the Political Reform Act of 1974 and is responsible for the administration and implementation of the Act. The commission consists of five members, includ-

ing the chairman and one other member who are both appointed by the Governor. The Attorney General, the Secretary of State and the State Controller each appoint one member. The commission is supported by a staff hired under its authority and receives a statutory General Fund allocation of \$1 million adjusted annually for cost-of-living changes.

#### **ANALYSIS AND RECOMMENDATIONS**

*We recommended that \$96,280 budgeted in augmentation of the commission's statutory budget be deleted.*

In accordance with the Political Reform Act of 1974, the commission's statutory budget for 1976-77 is \$1,200,000. The Governor's Budget proposes to augment this amount by \$96,280 to provide six new positions. The commission maintains that two of these positions will be required to handle a high volume of conflict of interest violations anticipated with the promulgation in 1976 of state and local conflict of interest codes. These codes are required by the Political Reform Act. Two other positions are requested to handle statements required of candidates and holders of state and local offices and to perform other document handling functions. The two remaining new positions are requested to replace accounting services provided currently by the Department of General Services.

The request for additional funding is based on a workload directly related to requirements of the Political Reform Act. If these positions were requested to perform functions not anticipated in the Act, the request might be considered differently. However, the Act itself provides a statutory budget (with automatic cost-of-living adjustments) to enable the commission to fulfill its statutory duties. Therefore, the commission should live within that budget and allocate the resources provided in accordance with its priorities.

#### **Auditing Standards**

*We recommend that the commission establish formal procedures to insure coordination with the Franchise Tax Board in developing auditing standards.*

Although the Fair Political Practices Commission is authorized to define auditing standards and procedures, it has delegated this authority to the Franchise Tax Board. The standards of criminal and civil liability with respect to the provisions of the Political Reform Act are broadly described in the Act and will be specifically defined through future court and commission rulings. Unless there is adequate coordination between these standards of liability and the Franchise Tax Board auditing standards, underenforcement or overenforcement of the Act may occur.

**AGRICULTURE LABOR RELATIONS BOARD**

Item 53 from the General Fund

Budget p. 79

Requested 1976-77 .....	\$6,688,000
Estimated 1975-76.....	5,218,571
Requested increase \$1,469,429 (28.2 percent)	
Total recommended reduction .....	Pending

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Workload and Staffing Standards. Withhold recommendation pending development of workload and staffing standards and report to Joint Legislative Budget Committee by April 15, 1976. 70
2. Board Proceedings. Recommend greater emphasis on conciliation and more effective use of hearing officers. 70

**GENERAL PROGRAM STATEMENT**

The Agricultural Labor Relations Board was established by Chapter 1, Statutes of 1975, Third Extraordinary Session for the purpose of guaranteeing agricultural workers the right to join employee organizations, to bargain collectively with their employers and to engage in concerted activities through representatives of their own choosing. Agricultural workers are currently excluded from coverage under the National Labor Relations Act which guarantees similar benefits to other workers in the private sector. To fulfill its objectives, the board provides services through the following programs:

1. General administration, which provides such services as budget, accounting, personnel and support services to the board, the general counsel and four regional offices.
2. Board administration, which includes the five-member Agricultural Labor Relations Board and the board's executive secretary. The board establishes policy, procedures and regulations for purposes of carrying out the Agricultural Labor Relations Act and holds hearings to adjudicate disputes between employees and their employers involving such matters as representation elections and complaints of unfair labor practices by employers or employees. The executive secretary is responsible for such matters as scheduling and arranging board hearings and supervising administrative law offices who hear matters delegated by the board.
3. General counsel administration, which through the office of the general counsel:
  - a. Conducts secret ballot elections for purposes of enabling employees to select employee representatives of their own choosing;
  - b. Investigates and prosecutes complaints of unfair labor practices before the board or the administrative law officers; and
  - c. Defends all board actions in the courts and obtains court orders when necessary to carry out decisions of the board regarding such

matters as providing remedies for unfair labor practices.

### ANALYSIS AND RECOMMENDATIONS

As shown in Table 1, the Agriculture Labor Relations Board proposes a General Fund appropriation of \$6,688,000, which is 28.2 percent above estimated expenditures in the current year. The Governor's Budget shows current-year expenditures consisting of (1) a \$1.3 million General Fund appropriation, (2) a \$1.25 million loan from the Emergency Fund, (3) a proposed deficiency appropriation of \$3,825,054 for repaying the Emergency Fund loan and for financing the program for the remainder of the current year, (4) a \$93,517 allocation for salary increases and TEC, and (5) \$80,000 in federal funds under the Intergovernmental Personnel Act. The latter was used for initial training of the board's staff in carrying out its duties under the new law.

**Table 1**  
**Budget Summary**  
**Agriculture Labor Relations Board**

Funding	Estimated 1975-76	Proposed 1976-77	Change from Current Year	
			Amount	Percent
General Fund .....	\$5,218,571	\$6,688,000	\$1,469,429	28.2%
Federal funds .....	80,000	—	—	-100.0
	<u>\$5,298,571</u>	<u>\$6,688,000</u>	<u>\$1,389,429</u>	<u>26.2%</u>
<b>Program</b>				
General administration (distributed to other programs) .....	(\$198,729)	(\$269,614)	(\$70,885)	35.7%
Man-years .....	13.3	12.5	-0.8	
Board administration .....	\$1,666,136	\$2,114,639	\$448,503	26.9
Man-years .....	40.6	53.3	12.7	
General Counsel Administration				
Representation cases .....	\$1,831,218	\$1,870,344	\$39,126	2.1
Man-years .....	82.8	80.5	-2.3	
Unfair labor practice cases .....	\$1,513,023	\$2,040,262	\$527,239	34.9
Man-years .....	67.9	87.3	19.4	
Court litigation .....	\$288,194	\$662,755	\$374,561	130.0
Man-years .....	13.2	26.4	13.2	
Total .....	<u>\$5,298,751</u>	<u>\$6,688,000</u>	<u>\$1,389,429</u>	<u>26.2%</u>
Man-years .....	<u>217.8</u>	<u>260.0</u>	<u>42.2</u>	

The board's budget is higher than anticipated because of a much greater workload resulting from a larger number of petitions for representation elections than projected, an unprecedented high percentage (95 percent) of challenges to elections, an unanticipated large number of unfair labor practice complaints (1,630 projected in 1976-77) and a high number of legal challenges to the board's policies and operating procedures. We are unable to validate the board's budget estimates because it has not had sufficient time to develop workload and staffing standards and its operational experience parallels that of no other governmental program. Many of the board's current operational problems are directly attributable to its lack of start-up time. For instance, the board started operations on the effective date of the law, August 28, 1975, and began receiving petitions for representation elections on September 2, 1975. It held 486 representa-

**AGRICULTURE LABOR RELATIONS BOARD—Continued**

tion elections during the first three months of its existence compared to 35 held by the National Labor Relations Board during its first year of operation.

Work flow has been complicated by various factors, including the controversial nature of the farm labor program and the board's lack of time to develop policies and operating procedures and to recruit and train its staff. The entire staff functioned as "temporary help" until February 1, 1976.

**Lacks Performance and Staffing Standards**

*We withhold recommendation pending development of workload and staffing standards and a report to the Joint Legislative Budget Committee by April 15, 1976.*

Because the board has been in operation only since August 28, 1975, it has not had sufficient operating experience to develop workload and staffing standards. Therefore, it is difficult to assess its budget estimates at this time. As workload conditions stabilize and more operating experience is accumulated, the board should develop such standards as a basis for evaluating its future budget proposals.

**Need Less Formal Proceedings**

*We recommend that wherever possible the board attempt to conciliate formal election challenges and unfair labor practice charges and that the board use its hearing officers to make final but appealable decisions.*

In its short life, we believe that the board has overlooked the use of conciliation to resolve some of the formal complaints. The National Labor Relations Board settles approximately 88 percent of its unfair labor practice cases and about 83 percent of its representation cases prior to a public hearing under its policy of striving for voluntary settlement whenever possible. The California Agriculture Labor Relations Board reports that it is now adopting procedures which will allow regional directors to attempt to conciliate some complaints rather than following the more expensive formal legal procedures in all cases.

Moreover, we are concerned that the board currently is using hearing officers to ascertain facts and make recommendations to the board in election representation challenges rather than allowing the hearing officers to make final decisions which may be appealed to the board. The board's reason for following this procedure is to create a body of case precedents to guide hearing officers in making future decisions. However, we believe that such precedents could emerge from hearing officers' decisions as well as from board action on appeals.

**STATE CONTROLLER**Items 54-57 from various  
funds

Budget p. 85

Requested 1976-77 .....	\$18,976,568
Estimated 1975-76.....	16,383,699
Actual 1974-75 .....	12,581,512
Requested increase \$2,592,869 (15.8 percent)	
Total recommended reduction .....	Pending

**1976-77 FUNDING BY ITEM AND SOURCE**

Item	Description	Fund	Amount
54	State Controller	General	\$17,484,349
55	State Controller	Motor Vehicle Fuel Account, Transportation Tax	1,200,183
56	State Controller	State School Building Aid	218,667
57	State Controller	Aeronautics Account, State Transportation	73,369
			<u>\$18,976,568</u>

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. Inheritance Tax Administration. Recommend (1) legislation to replace the existing administration of the inheritance tax, especially as it relates to tax referees, with a self-assessment or modified self-assessment plan and (2) Controller present to the Legislature by April 1, 1976 a report containing specific proposals for such legislation and an appropriate implementation plan. 77
2. PIMS Report. Withhold recommendation of request for Personnel Information Management System (PIMS) pending receipt of report to be prepared by PIMS Steering Committee to be used in directing further systems development. The report should be completed by March 15, 1976 for the fiscal committees hearing the budget. 83
3. PIMS Management Review. Recommend Department of Finance immediately begin development of procedures to produce ongoing comprehensive statewide management reviews of PIMS. 86

**GENERAL PROGRAM STATEMENT**

The Controller is an elected constitutional official who is the accounting and disbursing officer of the state. The Controller serves on a number of boards and commissions including the State Board of Equalization, the Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, Board of Control, and the various bond finance committees.

**STATE CONTROLLER—Continued**

The Controller's office, which is responsible for administering five major programs, is organized into seven divisions and the Personnel Information Management System (PIMS). The office draws support from four funds and, in addition, is reimbursed for services provided to other agencies.

Table 1 shows departmental organization, estimated 1975-76 program expenditures and proposed 1976-77 program expenditures. Of the total increase of \$2,592,869 requested in the Controller's 1976-77 budget, approximately 80 percent is associated with PIMS and the unclaimed property program. The increased amount proposed for continuing development of the PIMS system and operation of its completed components accounts for \$1,760,553 (68 percent), while an increase of \$292,560 is requested for the unclaimed property program including increased workload anticipated under Chapter 578, Statutes of 1975 (AB 1986).

**Table 1**  
**State Controller's Program Budget—All Funds (in thousands)**

<i>By Program, Division and Element</i>	<i>Estimated 1975-76<sup>a</sup></i>	<i>Proposed 1976-77<sup>a</sup></i>	<i>Change<sup>a</sup></i>	<i>Percentage Change</i>
<b>I. Fiscal Control</b>				
Accounting Division				
Control accounting .....	\$999	\$1,061	\$62	6.2%
Financial analysis .....	352	385	33	9.4
Audits Division				
Claim audit .....	632	650	18	2.9
Field audit .....	1,766	1,736	-30	-1.7
Disbursements Division				
General disbursements .....	1,986	2,028	42	2.1
Payroll .....	2,186	2,176	-10	-0.5
Data processing (distributed to other elements) .....	(479)	(509)	(30)	6.3
Subtotal, Fiscal Control .....	\$7,919	\$8,037	\$118	1.5%
<b>II. Tax Administration</b>				
Inheritance and Gift Tax Division				
Inheritance tax .....	\$2,598	\$2,768	\$170	6.5%
Gift tax .....	399	417	18	4.5
Tax Collection and Refund Division				
Tax collection .....	40	42	2	5.0
Gas tax refund .....	780	783	3	0.4
Subtotal, Tax Administration .....	\$3,818	\$4,010	\$192	5.0%
<b>III. Local Government Fiscal Affairs</b>				
Local Government Fiscal Affairs Division				
Financial reporting, budgeting and accounting .....	\$574	\$640	\$66	11.5%
Streets and roads .....	475	484	9	1.9
Tax-deeded land .....	210	219	9	4.3
County cost plans .....	115	120	5	4.4
Subtotal, Local Government .....	\$1,374	\$1,463	\$89	6.5%

IV. PIMS Project				
Personnel services .....	\$2,155	\$3,889	\$1,734	80.5%
System development .....	1,709	1,736	27	1.6
Subtotal, PIMS Project .....	\$3,864	\$5,625	\$1,761	45.6%
V. Unclaimed Property				
Unclaimed Property Division				
Estates of deceased persons .....	\$80	\$84	\$4	5.0%
Abandoned property .....	639	928	289	45.2
Subtotal, Unclaimed Property .....	\$719	\$1,012	\$293	40.8%
VI. Administration				
Distributed to other elements .....	(\$607)	(\$766)	(\$159)	26.2%
Undistributed administration .....	375	383	8	2.1
Reimbursements .....	-1,685	-1,552	-133	-7.9%
Total, All Programs .....	\$16,384	\$18,977	\$2,593	15.8%

<sup>a</sup> Numbers may not total due to rounding.

### I. FISCAL CONTROL

The objectives of this program are to maintain an effective system of internal control over the state's financial transactions, and to report accurately the state's financial condition and operations in order to assure fiscal integrity in the administration of state government. The divisions of accounting, audits and disbursements carry out the activities of the seven program elements. Unclaimed property, previously a program element within the accounting division, has been reorganized into a separate major program and division outside the fiscal control program. The allocation of personnel to these program elements and budget changes from the current year are shown in Table 2.

**Table 2**  
**Fiscal Control Program Staff**

	Man-years		Change
	Estimated 1975-76	Proposed 1976-77	
Accounting Division			
Control accounting .....	44.6	46	+1.4
Financial analysis .....	12.2	13.2	+1.0
Audits Division			
Claims audit .....	41.8	42.3	+0.5
Field Audit .....	72.6	69.3	-3.3
Disbursement Division			
General disbursements .....	42.3	42.2	-0.1
Payroll .....	125.7	116.3	-9.4
Data processing .....	21.0	21.0	—
Total .....	360.2	350.3	-9.9

### Changes in 1975-76 and Proposed Changes in 1976-77

In the current year eight clerk II positions and two man-years of temporary help were added in the disbursements division for the current year only, to provide payroll audit support required by increased workload due to PIMS conversion delays and other factors. These positions have not been requested to be continued in the budget year.

The audits division has proposed deletion of four governmental auditor positions associated with a decrease in county welfare field audit workload. The Governor's Budget also requests that two accounting officers be

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added to the accounting division based upon workload increases.

**Audit Independence Stymied**

In our 1975-76 Analysis we recommended, and the Legislature subsequently adopted, supplementary budget language requiring the Controller to (1) study the feasibility of eliminating interagency audit contracts, (2) suggest alternative funding means, (3) seek the response of the involved departments, (4) develop a 1976-77 budget proposal which eliminates interagency contracts where feasible, and (5) describe the perceived problems in each subvention program which justify the proposed allocation of audit resources. The basis of our recommendations was that it is the statutory responsibility of the constitutionally established office of State Controller to provide independent control and review of state expenditures. The 19 interagency contracts between the state departments or federal government and the Controller for auditing various subvention programs tended to reduce the Controller's effectiveness because the amount of auditing to be performed under such contracts was determined by the contracting department and not the Controller. This arrangement was preventing the Controller from locating audit resources to the subvention programs with the greatest problems.

In reporting to us on these matters, the Controller noted a number of disadvantages to the contracting procedure as opposed to direct appropriation for audit services. Under a contract the Controller is obligated to do the work estimated at the time of entering into the contract and, if the work does not flow as contemplated, problems arise which necessitate an amendment of the contract and related problems in the funding of the contract. In addition, contract funds must be budgeted by the contracting state department and, in part because of this and in part due to other factors, the Controller's audit independence is threatened in certain circumstances. The Controller specifically informed us that the major problem concerning audit independence involves the Controller's agreement to provide audit services to the Department of Benefit Payments, in connection with the audit of county welfare programs. In our 1975-76 Analysis we discussed such specific problems as the auditing schedule and distribution of audit findings related to the restrictive interagency contract between the Department of Benefit Payments and the Controller. Many of these problems still remain.

Table 3 summarizes the Controller's information on interagency contracts and man-year requirements, distinguishing programs on the basis of whether administrators would be willing to cancel existing contracts for audit services, where administrators would not be willing to cancel such contracts, and where the elimination of such a contract is impractical due to federal or state requirements. In developing the 1976-77 budget proposal, the Controller felt that it would not be appropriate to insist on direct funding if at the present time the program administrators would prefer to enter into contracts for audit services. In determining the resources to be allocated on a program basis for 1976-77, the Controller has emphasized such factors as prior year's audit findings, program complexity, opportu-

nity for misuse of state funds, reasonable backlogs, time limitations established by the administrative agency and the statute of limitations.

**Table 3**  
**Responses From State Departments Regarding**  
**Contracts for Audit Services<sup>a</sup>**

**A. Program Administrators *willing* to cancel existing contracts for audit services provided Controller's Budget has funds for audit in 1976-77.**

Program (total of five programs)	Man-years <sup>b</sup>		Proposed 1976-77
	1974-75	1975-76	
California Youth Authority Probation Services .....	1.66	1.76	1.76
California Youth Authority Camp Operation and Construction .....	0.03	0.15	0.13
Flood Control, Department of Water Resources .....	1.14	1.17	1.10
Legal Assistance to Indigents, Department of General Services .....	0.25	0.45	0.31
Open Space Land, Department of Conservation .....	0.20	0.22	0.24
Total .....	3.28	3.75	3.54

**B. Program Administrators *not willing* to cancel existing contracts for audit services:**

Program (total of five programs)	Man-years		Proposed 1976-77
	1974-75	1975-76	
County Welfare, Department of Benefit Payments .....	24.48	25.00	25.00
Community Mental Health, Department of Benefit Payments .....	1.33	1.28	1.10
Air Pollution, Air Resources Board .....	1.53	1.33	1.66
Peace Officers' Standards and Training, Commission on Peace Officers .....	1.12	1.32	1.62
Local Water Projects, Department of Water Resources .....	0.72	0.56	0.17
Total .....	29.18	29.49	29.55

**C. Programs now audited by contract in which it is impractical to change due to federal or state requirements.**

Program (total of five programs)	Man-years		Proposed 1976-77
	1974-75	1975-76	
Flood Relief .....	2.89	2.87	1.61
Traffic Safety .....	2.47	2.34	2.41
Clean Water .....	0.61	0.50	2.03
HUD Planning grants .....	0.02	0.30	0.42
Waste Water .....	0.26	0.22	—
Total .....	6.25	6.23	6.47

<sup>a</sup> 1976-77 proposed allocations as of August 1975

<sup>b</sup> All funded from the General Fund in 1975-76

As seen from Table 3, the major roadblock hampering achievement of overall audit independence by the Controller involves the Department of Benefit Payments. The U.S. Department of Health, Education, and Welfare informed the Controller in writing in August 1975 that, under the present contract between the Controller and the Department of Benefit Payments, control and direction over the county audits must remain in the

**STATE CONTROLLER—Continued**

single state agency (the Department of Benefit Payments). This position is counter to the conclusions and recommendations in the report to the Congress in June 1975, by the Comptroller General of the United States regarding problems in reimbursing state auditors for audits of federally assisted programs. Given this current lack of agreement at the federal level, attainment of meaningful overall audit independence for the Controller is not reflected in the proposed 1976-77 budget.

In our 1975-76 Analysis we recommended, and the Legislature concurred, that the Controller publish an annual Audit Accountability Document. The intended purpose of this document was to summarize audit findings and identify problem areas for welfare audits, thereby providing policy and budget decision-makers with information useful in (1) determining audit priorities, (2) understanding the nature and causes of inter-county differences in welfare administration costs and their growth, and (3) evaluating alternatives available for promoting cost-efficiency and/or cost effectiveness in county welfare administration. The Controller has informed us that representatives of the Department of Benefit Payments are of the opinion that resources available under the contract agreement with the Controller for audit services may not be used for preparation of such a document. The Controller has stated that such a report could be prepared only if resources were provided in the 1976-77 fiscal year. The Controller has not requested such resources and, given the above circumstances, we believe that preparation of the proposed document is best postponed until such time as the federal authorities approve of and the Controller achieves county welfare audit independence.

**H. TAX ADMINISTRATION**

The function of this program is to administer the gift and inheritance taxes and gas tax refunds and collect various delinquent taxes administered by other state departments. The allocation of personnel to the two divisions and four program elements are shown in Table 4, together with proposed budget changes from the current year.

**Table 4**  
**Tax Administration Program Staff**

<i>Division and Program Element</i>	<i>Estimated 1975-76</i>	<i>Man-Years</i>	
		<i>Proposed 1976-77</i>	<i>Change</i>
Inheritance and Gift Tax Division			
Inheritance tax .....	127.0	134.4	7.4
Gift tax .....	18.2	19.2	1.0
Tax Collection and Refund Division			
Tax Collection .....	2.4	2.4	—
Gas tax refund .....	40.1	40.2	0.1
Total .....	187.7	196.2	8.5

**New Positions Requested**

*We recommend approval.*

The Controller is requesting an increase of 8.5 authorized positions in the inheritance tax and gift tax program elements for the budget year.

These position requests appear to us to be justified on the basis of workload increases which have occurred since 1970-71. Three of these requested positions are for permanent paralegal positions which will replace continuous Graduate Legal Assistant positions which have been funded from temporary funds. The remaining requested positions involve clerical and auditing activities.

#### **Interest Rate Issue Resolved**

In our 1974-75 and 1975-76 Analysis we recommended legislation to raise the interest rate applied to all delinquent state taxes and tax refunds. Existing annual interest charges then specified by state law were well below comparable market rates for short term investments and borrowing costs to consumers. This situation was both encouraging delinquencies and providing the state with interest payments less than the returns such delinquent tax amounts would have yielded if invested by the Pooled Money Investment Board. This problem has been resolved by enactment of Chapter 661, Statutes of 1975 (AB 2306), which increases the interest charge on delinquent state taxes to 12 percent for all taxes except for the first year of delinquent personal income taxes.

#### **Referee Reform Recommended**

*We recommend legislation to replace the existing administration of the inheritance tax, especially as it relates to tax referees, with a self-assessment or modified self-assessment plan.*

*We further recommend that the Controller submit to the Legislature by April 1, 1976 a report developing and containing specific proposals for such legislation and an appropriate implementation plan.*

Our recommendation to abolish the present inheritance tax appraiser/referee system has appeared on numerous occasions over the past 30 years. For example, in our 1965-66 Analysis we recommended that a system of self-assessment be adopted and repeated this recommendation from 1967-68 through 1970-71. Despite some improvement in the existing system in recent years, we believe that it still contains serious inherent defects and should be abolished.

*Present Practice.* The two major criticisms of the current inheritance tax administration involve the method of appointing and reimbursing appraisers, and the role played by county treasurers.

Under existing law, inheritance tax referees are appointed by the State Controller for each county. These referees receive as compensation fees established by statute and certain expenses from the estate or the transferee of property appraised by them. Such referees derive most of their compensation not from the state but from the estates taxed, based on the appraised value of the estates. County treasurers participate in the process by examining and inventorying safe-deposit boxes, issuing consents to transfer intangible property, making tax collections and transmitting the funds to the State Treasurer. For these services, county treasurers receive compensation according to a reimbursement formula.

*Current Shortcomings.* Major defects of the existing referee system include (a) a method of referee compensation which is unrelated to required workload, (b) no guarantee that referees will actually perform or

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directly supervise all important appraisal functions, (c) no specific educational or training qualifications for referees in the areas of accounting and property appraising, and (d) absence of normal administrative controls over referees by the Controller (because such referees are legally considered officers of the courts).

The two basic approaches to meaningful reform include self-assessment and civil service systems. We believe that both approaches could produce better administration of the tax.

*Civil Service Alternative.* Under this approach, all inheritance tax appraisers would be (a) full-time civil service personnel, (b) compensated solely on a salary basis and (c) appointed through normal testing and hiring procedures, subject to appropriate qualifications prescribed by the State Personnel Board. Administrative responsibility over the appraisers could remain with the Controller or be shifted to the State Board of Equalization. These civil service employees would appraise all assets in estates, other than possibly certain specified assets with clearly defined market values (such as money, currency and bank accounts, listed stocks and other securities), which would be appraised by an estate's executor or administrator. Fees currently paid to appraisers by the estates for their services, and compensation now received by such appraisers for reimbursable expenses and report fees, could be deposited in the General Fund. This approach could also include the elimination of county treasurers from the inheritance tax administration, in which case bank officials could be delegated the responsibility for inventorying safe-deposit boxes. We believe the civil service approach to be more costly than the self-assessment reform alternatives, because (a) existing procedures and practices are merely transferred to civil service employees and (b) civil service appraisers would be required to assess a large number of estates and evaluate both taxable and nontaxable property.

*Self-Assessment Alternative.* Under this approach, the estate would be responsible for appraising its assets, subject to state civil service audit. Referees and county treasurers would be eliminated from the inheritance tax process. There could be an elimination of existing inheritance tax fees, probate appraisal fees and inheritance tax report fees. An estate's executor or administrator would have the responsibility for preparing the estate's inventory, value the assets, compute the tax and submit the tax return to the Inheritance and Gift Tax Division for examination and audit. Bank officials could be given responsibility for inventorying safe-deposit boxes, while the state would provide for the issuing of consents to transfer property currently handled by county treasurers. The probate courts would have final jurisdiction over setting the tax, deciding questions of law and valuation, and serving as an appeal body concerning disputes between the estate, the heirs or the Inheritance and Gift Tax Division. However, valuations and processes for inheritance tax purposes would serve also for probate purposes. It would be the responsibility of the Controller to audit and report on taxes due. We believe that the self-assessment alternative would be less costly than the civil service alternative because fewer assets in taxable and nontaxable estates would have to be field audited or ap-

praised.

*Modified Self-Assessment Alternatives.* Various modifications of the self-assessment approach are possible. For example, the executor or administrator of an estate can be required to appraise money, currency, bank accounts, listed stocks and other securities with a clearly defined market value, with the option of valuing all assets (the estimate of which would be verified by the State Controller's Office). Assets not chosen to be valued by the estate would be appraised by the Controller, who could contract with professional persons in public agencies or in private business to assist in appraisal activities. Alternatively, appraisal responsibilities of executors and administrators could be limited to estate assets with clearly definable market values, subject to audit by the state administering agency and appraisal of remaining assets by its representatives or such other persons appointed by the probate court. These modified self-assessment alternatives may or may not be accompanied by abolishment of existing county treasurers' functions in inheritance tax administration. In the event of such abolishment of functions of county treasurers, officials of safe deposit companies or bank officials could be given responsibility for inventorying the contents of safe deposit boxes and sending the Controller a list of contents. Inheritance taxes would then be directly paid to the Controller rather than to the county treasurer. Although the Controller could be given responsibility for computing the amount of inheritance tax which is due, the probate court would continue to have the final responsibility of establishing the tax liability. Existing probate appraisal fees could either be abolished or, if continued in effect, be transferred to the General Fund. We anticipate that a modified self-assessment system could be the best alternative for the state, since inheritance tax appraisers could be responsible for valuing only complicated assets. In addition, the state would not have to evaluate all estates or appraise non-taxable estate assets.

*Potential for Net Savings.* Depending upon the specific characteristics of a particular reform proposal for inheritance tax administration, potential savings would be anticipated due to (a) the reduction and/or elimination of appraisal fees and appraisal report fees, (b) the elimination of commission payments to county treasurers, and (c) increased interest income associated with more timely receipt of tax funds by the state. In addition, the Controller's use of professional appraisers to value real and certain types of personal property could result in more accurate and in some cases probably higher valuations which in turn would increase General Fund revenues. Again, depending upon the reform proposal suggested, these potential savings would be offset by administrative and related staff costs of a civil service appraisal system, costs of policing self-assessed returns, costs of issuing consents to transfer property which are currently handled by county treasurers, etc. Based upon previous studies of various reform proposals over the past years we have reason to anticipate that there are numerous variants of the basic civil service and self-assessment reform alternatives which would yield net savings. We further note that estates, which currently provide referees with the major portion of their compensation, are expected to realize large savings under such reforms. Some portion of such estate savings could be used to offset any net cost

**STATE CONTROLLER—Continued**

increases to the state associated with operation of a civil service appraisal system or the auditing of self-assessments.

*Propose Legislation Be Proposed.* The recommended Controller's report should develop and contain specific proposals for legislation which would abolish the existing inheritance tax administration appraiser system, and substitute a self-assessment or modified self-assessment plan. This report should address such issues as the elimination of county treasurers from participating in the tax's administration, abolishment of probate fees for appraisers, and the optimal extent of self-assessment and state auditing. The report should also present an appropriate implementation plan for the suggested legislation and clearly document the costs and benefits (both fiscal and nonfiscal) of such legislation relative to the existing system and other major reform alternatives.

**III. LOCAL GOVERNMENT FISCAL AFFAIRS**

This program is responsible for (1) prescribing uniform accounting systems for local government, (2) reporting local government financial transactions, (3) developing and approving county cost plans, (4) administering tax-deeded lands, and (5) reporting and auditing property tax rates and rate increases. These functions are encompassed within four program elements. Table 5 shows the divisions's organization and proposed changes in staff.

**Increased Workload**

*We recommend approval.*

Two positions are requested in the budget year to meet workload generated by a cooperative federal-state data collection program related to local revenue sharing, aimed at insuring uniformity and eliminating duplicate filings with federal and state offices. One fully reimbursable position is requested for the budget year by the streets and roads program element to handle audit workload increases under contract with the Department of Transportation.

**Table 5**  
**Local Government Fiscal Affairs Program Staff**

<i>Division and Program Element</i>	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change 1975-76 to 1976-77</i>
Local Government Fiscal Affairs Division:				
Financial reporting, budgeting and accounting ....	21.1	23.2	23.4	0.2
Streets and roads.....	20.2	20.2	20.0	-0.2
County cost plans .....	6.0	5.5	5.5	0.0
Tax-deeded lands .....	8.5	10.0	10.1	0.1
	55.8	58.9	59	0.1

**Audit Responsibility Clarified**

In our 1975-76 Analysis we recommended, and the Legislature subsequently adopted, supplementary budget language requiring the Controller to seek clarification from the federal government concerning where the responsibility for field auditing of county cost allocation plans lies, and

to report to the Legislature on what the state's needs and responsibilities are in this area.

The Controller has informed us that the state has no responsibility for the post-audit of countywide cost allocation plans, although the Controller's office would be permitted to make audits at its discretion. We have been told that the findings of several such audits, made in connection with the audit of county welfare programs by the Division of Audits, have been substantial with respect to both federal and state funds. The Controller feels that there appears to be strong state justification to audit additional counties having cost allocation plans without regard to the federal exceptions, and has assured us that sufficient audit resources will be available for the current and budget years to continue such audits.

#### **IV. PERSONNEL INFORMATION MANAGEMENT SYSTEM (PIMS)**

The PIMS project is a joint effort initiated in 1973 and conducted by the State Controller, State Personnel Board, Public Employees' Retirement System (PERS) and the California State University and Colleges (CSUC). Funding and resources for this jointly conducted project are requested in the Controller's budget. A steering committee comprised of high-level representatives of these four control agencies is responsible for overall direction of the project.

Development of the system is intended to improve the state's personnel and payroll processes, and is being accomplished through a combination of organization and procedural changes, and the employment of computer technology. The resulting automated system will replace a fragmented personnel/payroll process which has long been in need of a major overhaul in order to effectively respond to established personnel and payroll requirements of state government. Given the millions of state personnel and payroll transactions handled annually, the PIMS project has necessarily evolved into a large scale, time consuming and expensive undertaking.

The magnitude of the PIMS project in terms of levels of and growth in man-year requirements and funding is presented in Table 6. The PIMS program is divided into the two elements of Personnel Services Division (PSD) and System Development. Personnel Services Division is responsible for operating and maintaining the various subsystems now in operation and to be developed under PIMS, while System Development is responsible for the design and development of such subsystems. When all system design is completed, the System Development element will in essence become a maintenance function, and the major effort will be in the PSD element. The budget year request for PIMS is \$5,624,470 versus the current year amount of \$3,863,917. This 46 percent requested budget year increase of \$1,760,553 constitutes nearly 70 percent of the requested budget year increase for the Controller's entire budget. In addition, a net increase of approximately 50 man-years is requested for PIMS in the budget year above the current year. Given the magnitude of the PIMS project and the centralization of its funding and resource requests in the Controller's Budget, continued monitoring and evaluation of PIMS will receive special priority in our assessment of the Controller's office in the future.

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**Table 6**  
**Historical Comparisons of Funding and**  
**Manpower Levels for PIMS Project**

	<i>Personnel</i>		<i>System</i>		<i>Totals</i>	
	<i>Services Division</i>		<i>Development</i>			
	<i>Man-years</i>	<i>Funding (\$000)</i>	<i>Man-years</i>	<i>Funding (\$000)</i>	<i>Man-years</i>	<i>Funding (\$000)</i>
1973-74.....	—	—	35.4	\$999	35.4	\$999
1974-75.....	44.8	\$829	26	1,012	70.8	1,841
1975-76 (estimated) .....	86.4	2,155	46	1,709	132.4	3,864
1976-77 (proposed) .....	146.1	3,889	36	1,736	182.1	5,625

**Project Progress**

The major emphasis in terms of PIMS budget dollars is continuing the shift from Systems Development to operational PSD which began with initial implementation of the first subsystem in late 1974. This first subsystem, known as the Employment History Data Base, provides an on-line data base of both civil service and CSUC employees and interfaces with the current payroll system. The employment history subsystem has already been operationally implemented in most state departments and, by the end of the current fiscal year, will encompass all civil service and CSUC employees. Other subsystems in the process of or awaiting development include payroll and position control, examination and certification, PERS active member data base, and PERS Health Benefits data base.

In our monitoring of PIMS we have found continued progress being made toward project goals. However, we remain concerned that slippage in the proposed completion schedule for the project continues to occur. Estimates of computer use cost have been revised upward substantially as operations are implemented. We are also concerned by an apparent lack of well-developed procedures to (1) justify incremental system development activities, (2) assign priorities to developmental and operational activities, (3) allocate project resources and (4) identify and track proposed savings. These concerns provide the basis for our recommendations concerning PIMS' 1976-77 budget request.

*Initial User Reactions Positive.* In an initial effort to assess the experience, reactions and problems encountered by users of the employment history component of PIMS, we have met with representatives of a variety of departments which became operational in the first half of 1975. Although differing in their enthusiasm for PIMS and highlighting many conversion and operational problems, these users appeared to us to be generally positive toward the new system. Major advantages of PIMS appear to include minimizing verification time for most personnel documents, increasing accuracy of personnel processing, facilitating completion of complex transactions, and the elimination of large numbers of changes on individual personnel forms. Negative aspects included increased filing activity, more forms to be processed, enlarged audit workload, and longer processing time for problem documents. We are somewhat disturbed by the lack of observed workload reductions for these users, and our observation that departmental responses to PIMS conver-

sion exhibit significant differences. For example, some departments continue to maintain employee roster cards while others do not. Some departments have reduced error rates on PIM forms more effectively than others. And some departments have been more active than others in accomplishing internal staff reorganizing most consistent with effective use of the employment history base.

Additionally, we have observed a number of technical problems encountered by these users. After discussing these problems with representatives of PIMS and the Controller, we feel that appropriate corrective action is being undertaken.

Although we plan to continue to monitor user problems involving the employment history component, it appears to us that this subsystem's performance is acceptable and should continue to improve. An excellent working relationship appears to exist between most users and the PSD staff, which should contribute to the solution of actual and anticipated user problems as encountered.

#### **Game Plan Needs Planning—Recommend Delay in Approval**

*We withhold recommendation on the request for the PIMS project pending receipt from the PIMS Steering Committee of a report on improved procedures to be used in directing further system development and operational conversion under the PIMS project. The report should be completed by March 15, 1976 for the fiscal committees hearing the budget.*

**Critical Crossroads.** With complete conversion of the employment history component for civil service and CSUC employees anticipated by July 1976, PIMS is currently facing System Development decisions which will crucially impact on the project's overall timing completion pattern, scope, cost efficiency and effectiveness, budgetary requirements and ability to trace and evaluate system benefits. Preliminary and detailed system design work has been proceeding on the examination, health benefits and payroll subsystems. PIMS must now decide how to define the limits of the various proposed subsystems, and establish priorities for the allocation of project funding and resources by subsystem overtime.

**Initial Feasibility Study Outdated.** Experience has proved the initial PIMS feasibility study to be outdated and of little, if any, practical use in application to the current situation. The original estimated time frames for subsystems' completions, the system design and implementation costs, anticipated savings, and time necessary to recover initial investment costs through such savings bear little resemblance to the current experience. Continual schedule slippage has occurred, computer cost estimates have continuously been revised upward, and whatever (if any) savings are being experienced are unknown. The original study also fails to describe specifically subsystem definitional limits, provide currently meaningful cost/benefit relationships for basic subsystem definitions and possible enhancements, offer a viable methodology for allocating resources and funding overtime and over subsystems, or suggest procedures for identifying and measuring efficiency levels and savings associated with current and future PIMS operations.

**Approval Should be Delayed.** The budget augmentation request for

**STATE CONTROLLER—Continued**

1976-77 for the PIMS project of \$1,760,553 includes funds both for further System Development and for continued conversion to and operation of the Personnel Services Division (PSD). Although the employment history component is nearing successful completion and system design progress is continuing for selected subsystems including payroll, we do not believe that a meaningful evaluation and recommendation concerning an adequate funding level is possible at this time. Before an evaluation can be accomplished, we believe that PIMS must properly define the limits of the proposed subsystems, determine methods of assigning priorities to the use of funds and resources, establish realistic time schedules for achieving specific project goals, and ensure efficient and cost effective project operation. We have discussed our concerns with representatives of PIMS and the Controller's office and understand that PIMS is aware of and in the process of attempting to responsibly address many of these issues.

The following are illustrative of the concerns which we will review upon receipt of the recommended report from the Steering Committee:

1. Subsystem definitions. To what extent should definitional limitations be placed on basic subsystem designs?
2. Potential subsystem benefits. What procedures are feasible to evaluate effectively the potential benefits of proposed basic subsystems?
3. Subsystems rejustification. Are all of the initially proposed PIMS subsystems currently justified on cost-benefit criteria? Have appropriate steps been taken to ensure that unnecessary overlaps do not occur between subsystem development activities of PIMS and those independently carried on by various users?
4. System enhancements. What procedures should be used to establish cost-benefit relationships and priorities for subsystem enhancement requests by users?
5. Prioritize allocations. What are the feasible scenarios of project resource allocation and target completion scheduling by individual subsystem, and how should priorities be determined?
6. Realistic schedule. Given subsystem definitions and current EDP cost experience, are existing funding requests and proposed allocation patterns sufficient to meet suggested subsystem completion dates and avoid repeating previous schedule slippage?
7. Savings. What potential personnel savings should occur due to documenting personnel transactions, maintaining records, and need for personnel clerks? What are the problems involved in identifying, monitoring and insuring realization of such savings?
8. PSD staffing requirements. Are the requested man-hour augmentations in PSD associated with reducing the present turn-around time for processing documents justified on a cost-benefit basis? Are such position increases necessary in light of the gains in operating experience and reduced user error rates?
9. Allocation of operating costs. Should operating costs of PSD be fully or partially allocated to control agencies and departmental users requesting special reports, as a means of facilitating accounta-

bility for PSD workload?

10. Efficiency incentives. Should PSD costs associated with users' form errors be allocated to control agencies and departmental users as a method of encouraging efficiency and minimizing error costs?
11. On-line user capabilities. Is there a need to begin to examine the costs and benefits associated with future decentralization of PSD operations through the use of on-line user capabilities for data entry and inquiry?

#### **Potential Payroll Hazard Threatening**

The design and implementation of a revised state payroll system is a key aspect of the PIMS project. The present system is operated by the Controller's office on outmoded equipment and maintained by programing staff in the disbursements division. Although this staff is required to support necessary modifications to the present system, some of these personnel are considered essential to the design and implementation of the new system. In our 1975-76 Analysis, we recommended that the Controller resolve the problem of providing sufficient personnel in the Controller's disbursements division to the PIMS project so as to not further delay the design and implementation of the new system. Although there has been past delay in providing an adequate level of such support to PIMS, the Controller's staff has indicated to us that this particular problem has been addressed as well as is currently possible.

Even though it now appears that PIMS will not incorporate a fundamentally different payroll system as an alternative to that currently used, there is widespread agreement that conversion and implementation of this existing system with certain enhancements will relieve what we would describe as a potentially dangerous payroll situation. The most critical factors currently threatening the state payroll system include the increasing complexity and constant change of the pay and benefit structure, the substantial increase in recent years in payroll transactions processed and warrants issued, and the inability of the Controller's presently outdated computer system and programs to cope with these changes. Major malfunctions of this outmoded computer system could seriously delay timely distribution of payments to state employees. In addition, successful operation of the existing payroll system relies heavily on a limited number of key personnel.

Given the critical nature of the present situation, we are concerned with the continual slippage in the payroll subsystem's completion schedule. For example, the Governor's 1975-76 Budget predicted that this subsystem would be implemented in July 1976. This deadline has been moved back to January 1978 in the 1976-77 budget. The payroll subsystem is currently in the detailed design phase and the Controller has indicated to us that further slippage cannot be ruled out. The Controller shares our concern, and we strongly urge the Steering Committee to place top priority on an expeditious completion of the payroll subsystem as it proceeds in reevaluating the resource allocation and time scheduling for PIMS project goals.

**STATE CONTROLLER—Continued****Track Record Needs Tracking**

*We recommend that the Department of Finance immediately begin development of procedures capable on an ongoing basis of producing comprehensive statewide management reviews of PIMS operational performance.*

The initial PIMS feasibility study predicted not only improved personnel and payroll activity performance, but also substantial savings following conversion. These savings were anticipated due to personnel reductions in user staffs and avoidance of the rapid rate of increase in personnel system operating costs under the original system. The initial PIMS feasibility study conservatively estimated annual savings at over \$1 million, predicted the recovery of programing and implementation costs within three years following complete operation, and suggested a net reduction in personnel positions of over 150 *exclusive* of reductions in payroll clerks. We recognize that such figures are no longer relevant because of increased computer use costs and the actual pattern which system development has taken. However, the principle of identifying and realizing potential savings is *very* relevant, especially since the PIMS project is now becoming operational.

*Savings Should Be Documented.* In a supplement to the original PIMS feasibility study the Steering Committee stated the following: "No one will disagree that substantial cost savings and great benefits will result after PIMS becomes operational. Only with an adequate post-implementation savings and benefits measurement methodology will accurate cost savings be determined." We agree completely. At present, no such methodology exists. This is especially of concern to us because of the varied responses which we received from our surveys of the employment history system users concerning workload responses to PIMS. We, therefore, are recommending that the Department of Finance establish procedures to examine regularly the operational performance of PIMS by user, with the overall aim of achieving maximum benefits and realizing potential savings. We particularly feel there is a need to require individual users to share in the accountability for cost minimization. Examples of issues deserving attention include differences between users concerning use of employee roster cards, error rates on PIMS personnel forms, number and quality of personnel position requirements associated with conversion to PSD operations, and the influence of department or agency size on the speed and extent to which users convert to PIMS in cost minimizing fashion.

**V. UNCLAIMED PROPERTY**

The Unclaimed Property Division has been established as a result of upgrading the status of the former Unclaimed Property Bureau previously within the Division of Accounting. This program performs both custodial and revenue functions, and is responsible for administering laws relating to estates of deceased persons and unclaimed or abandoned property. Under the Unclaimed Property Law, holders of property (banks, insurance companies, etc.) which has not been claimed for a specified period of time must deliver such property to the state. The state may liquidate

any noncash items, and the proceeds are deposited in the General Fund. Any owner who appears, however, is entitled to a refund. Because many items are never claimed and because the state retains the interest earned while custodian, revenues are generated to the General Fund. Table 7 shows the allocation of personnel to the two program elements together with proposed budget changes from the current year.

**Table 7**  
**Unclaimed Property Program Staff**

Division and Program Element	Man-Years			Change from current to budget year
	Actual 1974-75	Estimated 1975-76	Proposed 1976-77	
Division of Unclaimed Property				
Abandoned property .....	10.5	26.1	35.4	9.3
Estates of deceased persons.....	1.8	4.5	4.5	—
Total.....	12.3	30.6	39.9	9.3

#### Personnel Request Justified

*We recommend approval of the Controller's requested increase of nine authorized positions in the abandoned property program element.*

We support the Controller's desire to administer the unclaimed property program aggressively. Table 8 depicts current expansion in the program's activity levels. Four of these new positions are needed to supplement compliance program auditing of records of abandoned property holders. The Controller estimates that each position will generate \$250,000 annually in General Fund revenue.

**Table 8**  
**Abandoned Property Program Element**  
**Output Measures**  
**(dollars in thousands)**

Output Measure	Actual 1974-75	Estimated 1975-76	Proposed 1976-77	Change	
				Amount	Percent
Receipts .....	\$3,825	\$5,069	\$6,237	\$1,168	23%
Claims paid .....	\$565	\$565	\$712	\$147	26
General Fund revenue.....	\$3,297	\$4,504	\$5,525	\$1,021	23
New accounts established .....	21,056	27,000	55,283	28,283	105
Names published .....	18,143	27,000	55,283	28,283	105

**Accelerated Escheating.** The remaining five new position requests are associated with anticipated workload increases under Chapter 578, Statutes of 1975 (AB 1986). This legislation reduces the period financial organizations may hold unclaimed demand deposits and stock certificates before escheating to the state, from 15 to 7 years and from 20 to 7 years, respectively. As Table 8 shows, new accounts are expected to double in the budget year over the current year, largely due to this accelerated escheating. This legislation also increases the dollar value of unclaimed property subject to state collection by (a) restricting the withholding of lawful service charges by holders of specified unclaimed property and (b) prohibiting the discontinuance of financial interest or dividends on inactive accounts subject to the unclaimed property law.

**STATE CONTROLLER—Continued****Future Staff Needs Uncertain**

The 1976-77 unclaimed property program staff requirements have been estimated without the benefit of a full year's ongoing experience with a complete staff. Adequately developed workload measurement and time allocation procedures did not become operative until July 1975, and prior to that time the new division was being organized and work-flows were being established. An ongoing "normal" situation was absent and man-year allocations could not be meaningfully determined.

In addition, the amount of unreported unclaimed property is large but unknown. In late 1974 the Auditor General estimated that \$3.6 million was due the state by the eight largest California banks alone from 1968 through 1973, plus undetermined amounts for other banks and organizations holding property during this period and for all holders of property prior to 1968. We believe that the known amount is but a small part of the total.

Although there is an obvious General Fund revenue potential and a high benefit-to-cost ratio for past unclaimed property field audits, relatively few new positions are being requested for the budget year. The Controller has informed us that this is because of (a) uncertainty as to the amount of outstanding unclaimed property, its rate of accumulation and the way in which audit benefit-cost ratios would be affected by large sudden staff increases, (b) uncertainty concerning the outcome of pending litigation involving unclaimed property and (c) time constraints preventing any significant immediate staff expansion associated with the lack of currently available qualified personnel and the time required to train available candidates. There is also a problem in distinguishing "normal" workload from "catch-up" workload, due to previous low levels of enforcement and the initial impact of Chapter 578.

As additional operating experience is evaluated during the current and budget years, the Controller will be better able to assess accurately personnel and resources necessary to develop and administer effectively the unclaimed property program and maximize the net rate of unclaimed property recovery.

**VI. ADMINISTRATION**

This program assists the Controller in his responsibilities on various boards and commissions and provides policy direction and administrative services to other operating units in the office. Apart from normal workload increases, no significant changes are requested in this program.

## STATE BOARD OF EQUALIZATION

Item 58-60 from various funds

Budget p. 99

Requested 1976-77 .....	\$45,109,687
Estimated 1975-76.....	43,248,124
Actual 1974-75 .....	38,214,902
Requested increase \$1,861,563 (4.3 percent)	
Increase to improve level of service \$754,199	
Total recommended reduction .....	\$377,000

### 1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
58	State Board of Equalization	General	\$42,832,825
59	State Board of Equalization	Resources Conservation and Development Special Account, General Fund	31,497
60	State Board of Equalization	Motor Vehicle Fuel Account, Transportation Tax Fund	2,245,365
			<u>\$45,109,687</u>

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. Internal Study. Recommend board develop plan for comprehensive internal study and present to the Legislature by September 1, 1976. 91
2. *Sales Tax Auditing.* Reduce Item 58 by \$377,000. Recommend deletion of 20 of the 40 sales tax field auditors requested to increase audit coverage. 100
3. Sample Audit Study. Recommend future requests for staff to expand audit coverage be supported by sample audit results which meet acceptable standards of reliability. 101

### GENERAL PROGRAM STATEMENT

The Board of Equalization, which is the largest tax collection agency in California, consists of five members. Four are elected from geographic districts, the fifth is the State Controller, who serves ex officio. All members of the board serve four-year terms and are elected at each gubernatorial election. The chairmanship of the board is rotated among the members annually, with the chairman automatically serving as a member of the Franchise Tax Board, which administers the personal income and bank and corporation franchise taxes.

### Responsibilities of the Board

The main responsibility of the board is the administration of six major state and local taxes. Administration of these taxes includes registration of taxpayers, processing tax returns, auditing accounts, and collecting taxes receivable. This and the board's various other responsibilities are described briefly below.

**STATE BOARD OF EQUALIZATION—Continued**

*Administration of State and Local Taxes.* The primary function of the board is to administer and collect the state's 4¼ percent sales and use tax, the local 1¼ percent sales and use tax, and a ½ percent sales and use tax for the San Francisco Bay Area Rapid Transit District (BARTD). The board is either responsible or shares responsibility for the administration of five state excise taxes: the alcoholic beverage tax, the cigarette tax, the motor vehicle fuel license tax (gasoline tax), the use fuel tax (diesel tax), and the insurance tax. The board also administers the private car tax, which is imposed on privately owned railroad cars, and a surcharge on the consumption of electricity.

*Local Property Tax Equalization.* The board investigates the operations of county assessors' offices, issues rules governing assessment procedures and trains property appraisers. The board is also required to determine annually for each county the ratio of assessed value to full cash value of property subject to local assessment.

*Assessment of Public Utilities.* The board determines the value of the property of public utilities and allocates assessed values to each local taxing jurisdiction in which such property is located.

*Review of Appeals From Other Governmental Programs.* The board hears appeals by taxpayers and property tax assistance claimants from decisions of the Franchise Tax Board. In addition, hearings are also provided to review local assessments of property owned by a city or county, when these assessments are contested.

*Auditing of Campaign Statements.* The board completed all audits of campaign expenditure statements filed with respect to elections held during 1974, as required under the Waxman-Dymally Campaign Disclosure Act (Chapter 1186, Statutes of 1973). Because proposition 9 (approved by the electorate in the June 1974 primary election) effectively shifted this function to the Franchise Tax Board on an ongoing basis as of January 7, 1975, the Board of Equalization's budget includes no resources for campaign auditing in 1976-77.

**Revenues Administered by the Board**

Table 1 summarizes estimated General and Special Fund revenues from programs administered by the board in the current and budget years. Total estimated revenues of \$5.6 million represent a growth of 8.6 percent over the \$5.2 million estimated for 1975-76.

**Table 1**  
**Board of Equalization**  
**Estimated Tax and Surcharge Revenues**  
**(Millions of Dollars)**

	Revenues		Change	
	1975-76	1976-77	Amount	Percent
State sales and use taxes.....	\$3,724.2	\$4,112.2	\$388.0	10.4%
Alcoholic beverage taxes and fees.....	148.6	153.1	4.5	3.0
Cigarette tax .....	268.6	272.9	4.3	1.6
Motor vehicle fuel license tax.....	710.0	730.0	20.0	2.8
Use fuel tax .....	57.0	61.0	4.0	7.0
Insurance tax.....	230.0	254.0	24.0	10.4
Private car tax.....	7.3	8.4	1.1	15.1
Energy resources surcharge .....	13.9	13.9	—	—
Totals.....	\$5,159.6	\$5,605.5	\$445.9	8.6%

**ANALYSIS AND RECOMMENDATIONS**

The responsibilities of the board are divided among 13 administrative programs. Table 2 provides a breakdown by program of authorized man-years and expenditures for the current and budget years. As shown in this table, 2,509 man-years budgeted for all programs in 1976-77 represent a net increase of 4 percent over the 2,413 authorized for 1975-76. Total expenditures from reimbursements and state funds will grow from \$52.3 million estimated for 1975-76 to the \$54.9 million budgeted for 1976-77, an increase of 4.9 percent. Both the increase in authorized man-years and expenditures reflect the loss of 32 positions and \$626,000, which were budgeted in the current year for completion of the board's campaign audit responsibilities.

**Comprehensive Internal Study Needed**

*We recommend that the board develop and present to the Legislature by September 1, 1976, a plan outlining the scope, organization, and time schedule for a comprehensive internal study of the board's organization and procedures.*

The board administers and collects a diverse group of major state taxes and, concurrently, is responsible for implementing procedures for equalizing locally-assessed property values and establishing and allocating values for state-assessed property. The efficient operation of this large and complex agency is substantially dependent on an effective organizational structure and on well-managed and properly executed procedures. Although the board indicates that it is continually in the process of analyzing staff organization and procedures with respect to new programs and any significant proposed changes to existing activities, a general internal review of all major operations of the agency has not been conducted since 1958.

The 1958 board study produced a three-volume report, entitled "Basic Internal Study of the State Board of Equalization", which was reviewed by this office at that time and considered to be both thorough and objective. The major recommendations included in the report proposed fundamental organizational changes, many of which were implemented as a direct result of the study. Because a comprehensive and thorough analysis of the board's operations has not been conducted in 18 years, we believe that the board should undertake such an analysis toward the end of developing recommendations which can result in significant cost savings and/or an improved level of service. We believe the following areas of concern should be given particular attention.

1. *Number and Location of Administrative Districts.* The board's business tax and property value equalization and assessment activities are distributed among 17 administrative districts located throughout the state.

## STATE BOARD OF EQUALIZATION—Continued

**Table 2**  
**Board of Equalization**  
**Authorized Man-years and Expenditures by Program**  
**(amounts in thousands)**

	<i>Authorized Man-years</i>		<i>Change</i>		<i>Expenditures</i>		<i>Change</i>	
	<i>1975-76</i>	<i>1976-77</i>	<i>Number</i>	<i>Percent</i>	<i>1975-76</i>	<i>1976-77</i>	<i>Amount</i>	<i>Percent</i>
1. Local property tax equalization .....	159.5	163.0	3.5	2.2%	\$4,457.3	\$4,653.2	\$195.9	4.4%
2. State-assessed property tax .....	86.8	86.8	—	—	2,055.8	2,111.6	55.8	2.7
3. Sales and use tax .....	1,935.9	2,054.9	119.0	6.1	40,493.2	43,245.1	2,751.9	6.8
4. Alcoholic beverage tax .....	32.4	32.4	—	—	603.4	619.9	16.5	2.7
5. Cigarette tax .....	15.1	15.1	—	—	1,044.1	1,066.7	22.6	2.2
6. Motor vehicle fuel license tax .....	14.3	14.3	—	—	323.7	332.9	9.2	2.9
7. Use fuel tax .....	93.8	96.1	2.3	2.5	1,823.9	1,912.4	88.5	4.9
8. Motor vehicle transportation license tax .....	—	—	—	—	—	—	—	—
9. Insurance tax .....	4.5	4.5	—	—	116.4	119.6	3.2	2.7
10. Appeals from other governmental programs .....	11.3	14.3	3.0	2.7	328.1	404.7	76.6	23.4
11. Campaign statement auditing .....	32.0	—	-32.0	—	626.0	—	-626.0	—
12. Energy resources surcharge .....	2.0	2.0	—	—	31.3	31.5	0.2	0.8
13. Administration and support								
(a) Distributed to other programs .....	(162.5)	(162.7)	(0.2)	(0.1)	(3,659.8)	(3,811.5)	(151.7)	(4.1)
(b) Undistributed .....	25.1	25.1	—	—	394.3	371.5	-22.8	-5.8
Totals .....	2,412.7	2,508.5	95.8	4.0%	\$52,297.4	\$54,869.2	\$2,571.8	4.9%
Less reimbursements .....					-9,049.3	-9,759.5	-710.2	7.8
Total from state funds .....					\$43,248.1	\$45,109.7	\$1,861.6	4.3%

These districts subdivide the four basic equalization districts, but in no instance do the administrative district boundaries extend across equalization district boundaries. In 1972, the four equalization districts were substantially re-drawn by the Legislature as part of a general reapportionment. At that time, administrative district boundaries were also changed where necessary so that they would not cross the new equalization district lines. Thus, it is apparent that the board's administrative districts are not specifically designed for the purpose of providing for the efficient and effective administration of business taxes. Because there are no constitutional or statutory provisions which relate administration district boundaries to equalization district boundaries or which specifically prohibit such boundaries from crossing equalization district boundaries, we believe the board should explore the potential advantages of significant revisions in the boundaries of its administrative districts. Additionally, the board should assess potential savings in administrative overhead which would result from a reduction in the total *number* of administrative districts, if this were accomplished concurrently with the revision of district boundaries.

2. *Sales Tax Audit Selection.* Later in this analysis we discuss in some detail the procedures used by the board to select sales tax accounts for audit. For purposes of the proposed internal study, we believe the board should conduct a general review of its basic audit selection process. Sales tax accounts are grouped for purposes of audit selection into several categories (cells) based primarily on industry type and on the amount of taxes paid. Except for minor refinements, this basic process has remained substantially unchanged since its inception nearly 25 years ago. We believe the board should thoroughly examine its sales tax audit selection process with specific emphasis on the following: (a) the continued validity of the basic cell structure concept; (b) the costs and benefits of expanding industry codes; and (c) the potential for revising or augmenting the audit selection criteria.

3. *Sales Tax Return Review and Data Collection.* In the budget year, an estimated 2.2 million sales tax returns will be processed at the board's headquarters office. Presently, a very limited amount of information is required to be reported on these returns (e.g., the amount of specified exemptions, local sales tax, prepayments and net tax due), and only a portion of these data are key-entered into computer storage. As a result, all mathematical verification and "desk auditing" of returns is accomplished manually with desk calculating equipment. We believe that the board should assess the costs and benefits of (a) expanding the information required on sales tax returns and (b) utilizing data processing techniques to verify mathematical computations and perform limited desk audit functions. Additional cost or inconvenience to the taxpayer should be taken into consideration. As part of this analysis, the board should consider the value of additional data collected in terms of its potential use for field audit selection, taxpayer assistance, research, and other possible applications.

4. *Determination and allocation of Public Utility Values.* The board determines the value of most state-assessed property according to the

**STATE BOARD OF EQUALIZATION—Continued**

principle of "unitary valuation". This involves an estimate of the market value of *all* properties associated with a particular activity (e.g., a railroad or public utility) as a single unit, rather than valuing each parcel separately and accumulating these values to arrive at the total. The principal methods used to determine unitary value are (a) historical cost less depreciation, (b) capitalized net earnings and (c) stock and debt value. The board allocates unitary assessed value to individual taxing jurisdictions on the basis of the relationship of the value of property located in a tax rate area to the total value of an assessee's property. For purposes of developing allocation factors, value is not based on the unitary concept, but on the reproduction cost new less depreciation (RCNLD) of each separate parcel.

The allocation process is cumbersome and time consuming, requiring detailed information from assessees on the financial and physical characteristics of their separate properties located in each tax rate area. We believe the board should thoroughly examine (a) alternative allocation methods (i.e., methods other than allocation based on RCNLD values) and (b) existing procedures used to verify data provided by assessees (either by the board itself or by the Public Utility Commission in its rate-regulation audits).

These several areas of concern are not intended to limit the scope of the board's review of its operations. They represent particular subject areas which we believe should be thoroughly explored and which also can serve as examples of specific objectives of a major internal study.

To facilitate the planning and organization of the proposed study, we are recommending that the board submit to the Legislature by September 1, 1976, a report identifying (a) specific programs or activities to be examined (b) the number, classification and organization of staff involved, and (c) the time table for completion of individual projects and the study as a whole.

**LOCAL PROPERTY TAX EQUALIZATION PROGRAM**

*We recommend approval of \$58,395 requested to provide two property appraiser positions and one supporting clerical position.*

In each of the last three years, augmentations to increase staff size have been approved by the Legislature and subsequently vetoed by the Governor. The 1975-76 augmentation would have provided 10 new property appraisers at a cost of \$194,138.

Augmentation of this program has been recommended because the number of sample parcels appraised by the Division of Intercounty Equalization decreased from a three-year average of 5,620 parcels in 1966-67 to 5,290 properties appraised in 1974-75, while state expenditures which are allocated on the basis of these appraised values increased from \$420 million to \$1.8 billion during this same period. Analysis of the board's workload data indicates that the decrease in sample size has occurred for two reasons.

1. *Office of Appraisal Appeals.* The creation of this unit in 1966 as an intermediate appellate agency for reviewing county contested board ap-

praisals has necessitated the reallocation of approximately eight man-years of direct appraisal time to review findings with assessors and document findings on contested properties.

2. *Shifting Workload.* The growth in the number of large commercial and industrial properties has required the reallocation of appraisal time from smaller more easily appraised properties to the larger more complicated parcels with the net effect of reducing the overall number of samples.

The board estimates that the addition of the two property appraisers requested for the budget year will prevent further erosion of sample size in 1976-77.

#### **Importance of Equalization**

The Division of Intercounty Equalization appraises a small sample of properties in each county every three years to determine if overall values in one county are equivalent to values determined for similar properties in other counties. Resulting findings of under-assessment or over-assessment are "equalized" by computing a ratio for each county which reflects the difference between assessor's determination of values and the board's values. These ratios, when compared to the statewide average for all counties become the so-called "Collier factors" which are used to distribute uniformly \$1.5 billion in school equalization aid and \$500 million in county contributions for Medi-Cal. This magnitude of expenditures demonstrates the importance these ratios have in the determination of the distribution of state and local funds. To the extent that the ratios established by the board become unreliable, due to the decrease in sample size, the equity of the distribution of intergovernmental payments becomes adversely affected.

These determinations of value serve a second useful purpose. They also measure the variability in the accuracy of the assessor's appraisals between different properties within the county and these measures (termed coefficients of dispersion) are used by the Division of Assessment Standards to evaluate the performance of each county assessor.

In view of the fact that the administration has consistently disapproved increasing the size of the board's sample, we believe that alternative measures should be pursued which will allow the board to maximize the use of existing appraisal staff. Program alternatives which should be considered include:

1. *Reallocation of appraisal time from single-family residential to other more complicated properties.* The board presently allocates approximately 25 percent of direct appraisal time to the valuation of single-family parcels. Significant savings in residential appraisal time might be achieved if the selection of the board's sample is limited to recently sold properties rather than the present system of randomly selecting samples from the universe of all residential parcels. The accuracy of sales data analysis has been demonstrated in a growing number of counties which have converted to a computer assisted analysis of residential sales as a determinant of value.

2. *Reduce sampling in counties with demonstrated consistency in ap-*

**STATE BOARD OF EQUALIZATION—Continued**

*praised values.* Table 3 lists 14 selected counties in ascending order of assessment variability. The level of assessment variability measures the consistency of value between similar properties. A variability of zero would be ideal, indicating perfect appraisal consistency. Consequently, confidence that the board's sample is a reliable measure of true value for all properties increases as assessment variability approaches zero. The board presently allocates appraisal time between counties on the basis of (1) an absolute minimum sample size, (2) total assessed value of the county relative to the assessed value of other counties, and (3) the variability in property values. More effective reliability in sampling results might be achieved if a greater portion of appraisal time is concentrated in those counties where prior surveys have revealed significant inconsistency in the application of appraisal methods.

**Table 3**  
**Division of Intercounty Equalization**  
**Assessment Variability and Sample Size for Selected Counties**

<i>County</i>	<i>Assessment Variability<sup>a</sup></i>	<i>Sample Size<sup>b</sup></i>
Marin .....	7%	225
Santa Clara .....	7	275
Yolo .....	7	195
Orange .....	8	325
Fresno .....	10	245
Glenn .....	11	210
Butte .....	12	260
Los Angeles .....	12	350
Contra Costa .....	13	290
San Francisco .....	16	325
Monterey .....	18	300
Del Norte .....	25	185
Kern .....	28	255
Mariposa .....	44	190

<sup>a</sup> Coefficients of dispersion, which are the average percentage deviations of all property values from the median divided by the median assessment ratio.

<sup>b</sup> The total number of parcels included in the board's sample for the most recent survey year.

3. *Reduce sampling in small counties.* Table 3 shows that the distribution of samples between large and small counties is not proportional to differences in total assessed value or total number of parcels. The board has established a minimum sample size of 150 parcels regardless of county size based upon the premise that appraising a fewer number of parcels would seriously erode the reliability of sample values. While reducing the number of appraisals in the smaller rural counties would decrease the reliability of these values, the resulting released time would allow increasing sample size and reliability in the large metropolitan counties.

Consideration of any of these alternatives involves a significant change in the board's policy which has been to canvas all counties comprehensively every three years. By shifting appraisal time into (1) more complicated properties with higher assessment variability, and (2) large metropolitan counties, sample reliability should be improved relative to the state's total population, assessed value and the distribution of equalized state subventions.

## SALES AND USE TAX PROGRAM

## Sales Tax Auditing

The auditing of sales tax accounts is the largest single activity of the Board of Equalization. For 1976-77, 938 man-years and nearly \$21 million are budgeted for this function, representing, respectively, 37 percent of total authorized man-years and 38 percent of total expenditures. Table 4 summarizes data which illustrate the size and other characteristics of the audit program over the period 1964-65 through 1974-75.

Table 4  
Sales Tax Audit Data  
1964-65 Through 1974-75

Audit Period	Direct Field Audit Man-Years	Auditing Costs <sup>a</sup>	Net Recoveries <sup>b</sup>	
			Amount	Per Dollar of Cost
1964-65.....	440.6	\$9,907,769	\$18,399,005	\$1.86
1965-66.....	448.2	10,728,409	17,951,603	1.67
1966-67.....	437.0	10,739,369	19,082,858	1.78
1967-68.....	425.3	10,675,939	19,737,329	1.85
1968-69.....	436.1	11,405,122	24,430,580	2.14
1969-70.....	432.5	12,005,560	25,742,075	2.14
1970-71.....	433.8	12,601,516	32,498,870	2.58
1971-72.....	424.4	12,021,154	31,466,390	2.62
1972-73.....	439.4	14,451,896	43,852,875	3.03
1973-74.....	440.7	15,210,530	38,652,965	2.54
1974-75.....	479.2	16,746,848	44,712,161	2.67

<sup>a</sup> Includes all direct costs and allocable overhead and collection costs.

<sup>b</sup> Represents audit assessments less refunds, cancellations and uncollectibles.

As shown in this table, almost 480 direct field audit man-years produced net recoveries of nearly \$45 million in 1974-75.

## Audit Selection

Sales tax accounts are selected for audit largely on the basis of the probability that an audit will be productive, i.e., that it will yield revenue which exceeds the cost of the audit. All eligible accounts (firms which have been active and unaudited for at least three years) are grouped into 16 categories, or "cells", based on the industry type and amount of sales taxes paid. (For example, a packaged liquor store which pays taxes of from \$600 to \$1,200 per year would be placed in cell 9.) The cells represent groups of similar accounts and are arranged in order of decreasing potential productivity. This cell structure, which was based originally on a comprehensive sample audit study conducted nearly 25 years ago, is revised periodically to reflect apparent shifts in the relationship between potential audit productivity and the selection criteria as indicated by an analysis of data collected from the annual audit program.

A list of eligible accounts is provided to each of the board's 17 administrative districts along with quotas which indicate the level of desired audit coverage in each of the individual cells. These quotas are based on the board's estimate of that level of coverage which will maximize audit revenues, assuming accounts are audited selectively within each cell in de-

**STATE BOARD OF EQUALIZATION—Continued**

creasing order of productivity. In the 1974-75 audit period, the quotas required coverage over a three-year audit cycle ranging from nearly 100 percent of all accounts in those cells with the greatest revenue potential (cells 1 through 5) to about 15 percent in cells with a moderate probability of productivity (cells 6 through 16). The final selection of individual accounts for audit within the quotas set for each cell is made at the district level based on available information relating to specific firms. This information typically includes prior audit results, leads or special reports, and data on local or unique conditions.

**Maintaining Existing Audit Coverage**

*We recommend approval of 21 sales tax field auditor positions to maintain the existing level of audit coverage.*

Twenty one field audit positions are requested for 1976-77 to maintain the level of audit coverage effectively authorized for 1974-75. Based on a projected growth in eligible accounts from 1974-75 to 1976-77 of about nine percent and a potential audit revenue gain of \$364,000 above the incremental audit costs, we believe these additional positions are justified on a workload basis.

Table 5 shows for the period 1966-67 to 1976-77 the growth of eligible sales tax accounts and completed audits. As indicated in this table, the board's annual audit coverage is estimated to decrease from 5.3 percent in 1974-75 to 5 percent in the budget year. (Based on the projected annual coverage for 1976-77, approximately 15 percent of *all* firms would be audited over a full three-year cycle.)

**Table 5**  
**Sales Tax Audit Coverage**  
**1966-67 Through 1975-76**

<i>Audit Period</i>	<i>Eligible Accounts<sup>a</sup></i>	<i>Accounts Audited<sup>b</sup></i>	<i>Percent Coverage</i>
1966-67 .....	278,272	26,685	9.6%
1967-68 .....	280,280	25,933	9.3
1968-69 .....	285,212	22,512	7.9
1969-70 .....	289,790	20,296	7.0
1970-71 .....	294,069	19,479	6.6
1971-72 .....	298,796	16,972	5.7
1972-73 .....	303,425	17,117	5.6
1973-74 .....	308,572	17,400 <sup>c</sup>	5.6
1974-75 .....	321,803	17,103	5.3
1975-76 .....	337,568	17,533 <sup>d</sup>	5.2
1976-77 .....	350,799 <sup>d</sup>	17,533 <sup>d</sup>	5.0

<sup>a</sup> These are firms which have been active for at least three years.

<sup>b</sup> Excludes audits of short-term close outs.

<sup>c</sup> The number of audits completed in 1973-74 has been adjusted down from the actual figure of 18,562 to reflect the temporary increase in coverage resulting from the special sample audit study conducted in that year.

<sup>d</sup> Estimated.

At the existing level of audit coverage, it is estimated that audits of even the *least* productive accounts will, on the average, yield revenue in excess of cost. Because the board attempts to audit accounts selectively in order of decreasing productivity, it is further assumed that any reduction in this

level of coverage effectively will result in a net *loss* of potential audit revenue as productive accounts go unaudited. Thus, we believe an augmentation of the board's sales tax audit staff can be justified for the purpose of realizing potential revenues resulting from the projected growth in eligible accounts.

#### **Expanding Audit Coverage**

For many years both this office and the board have been concerned with the development and application of an appropriate means of determining the proper size of the sales tax audit program. Generally, we believe that the concept of "marginal analysis" is the most conclusive approach for establishing the optimum program level. Briefly stated, this concept defines an "optimum" level of audit coverage as that level where the revenue from audits made at the margin (i.e., audits of the *least* productive accounts in each cell) just offsets the cost of making these audits. At this point, net revenue from the program is maximized. An increase in coverage *beyond* this level would result in nonproductive audits, while a reduction in coverage *below* the optimum would be accompanied by a loss of potential audit revenue.

Once an optimum level of audit coverage, as defined, is achieved, we believe any further expansion of the audit program could properly be supported only if the nonrevenue benefits justify the net costs of such an expansion. Above-optimum auditing for such purposes as discovering and refunding over-assessments or "policing" nonproductive accounts to promote increased self-assessments should be evaluated separately. Although there may be desirable secondary objectives of a tax audit program, they can not logically be incorporated into the basic framework of marginal analysis, which is concerned solely with the production of net audit recoveries.

#### **Sample Audit Study Inconclusive**

Although in recent years we have generally supported increases in the board's audit staff to reflect growth in audit workload, we have been hesitant to recommend approval of staff augmentations beyond those necessary to maintain the existing level of audit coverage. This is because adequate empirical data have not been available with which to determine the "optimum" level of the audit program. For the purpose of developing such information, we recommended in our 1973-74 Analysis that the board conduct a special sample audit study. The primary objective of this study was to determine the potential net productivity of audits of accounts not normally selected for audit and, thus, to permit an estimate of that level of coverage where revenues from marginal audits would just offset costs (i.e., the optimum level of audit coverage). Additionally, it was hoped the study would provide data for purposes of revising the cell structure used in the audit selection process and evaluating the deployment of field audit staff among administrative districts. This study was completed during the 1973-74 fiscal year and involved the auditing of a random sample of approximately 2,500 moderately productive sales tax accounts (i.e., accounts in cells 6 through 16) selected from the universe of all such accounts which were active and unaudited during the three-year period 1970-71 through

**STATE BOARD OF EQUALIZATION—Continued**

1972-73.

Based on a thorough analysis of the results of this study, we believe that the data collected generally indicate sales tax audit coverage over the period studied was *below* the optimum level. However, because the sample taken was not of sufficient size to ensure reliable results within generally accepted standards, we have further concluded that a reasonably accurate estimate of the optimum level of coverage cannot be derived from the study. Moreover, it appears that the statistical limitations of the sample will also preclude effective use of the results for cell structure revisions or staff redeployment.

**Modest Increase In Coverage Justifiable**

*We recommend that 20 of the 40 sales tax field auditor positions requested to increase audit coverage be deleted for a total reduction of \$377,000 for salaries and related expenses (Item 58).*

Although it is our opinion that the board's 1973-74 sample audit study does *not* identify an optimum level of audit coverage, we believe the results of this study in conjunction with other factors can be used to support a modest augmentation of the sales tax audit staff. As indicated above, the findings of the study do suggest that the level of audit coverage was *below* the optimum over the period 1970-71 through 1972-73. Two basic factors occurring subsequent to the study period indicate that the gap between the actual level of audit coverage and the optimum level has probably increased.

First, in 1973-74 the combined state and local sales tax rate was raised from 5 percent to 6 percent. This rate change ultimately can be expected to result in some increase in revenues per audit. Secondly, a high rate of inflation since 1972-73 (consumer price level increases have averaged approximately nine percent annually over the 1972 to 1975 period) has contributed to significant increases in retail sales. To the extent this increase in sales is reflected in higher per-audit assessments, audit recoveries should increase concurrently. Both of these factors indicate a probable increase since 1972-73 of revenues per audit relative to increases in per-audit costs occurring over the same period. Thus, to the extent currently unaudited sales tax accounts can be expected, on the average, to be more productive in the budget year than in the period covered by the sample audit study, it can be assumed that the "optimum" level of audit coverage has also increased.

The probability that the level of audit coverage in 1972-73 was somewhat below the optimum combined with the likelihood that in recent years potential revenues per audit of currently unaudited accounts have increased relative to per-audit cost suggests that a limited increase in sales tax audit staff is justified. We believe that an augmentation of 20 auditor positions can be expected to result in a significant increase in net audit revenues. An increase of *more* than this, however, can not be supported on the basis of available empirical data, and in the absence of such data would involve a significant risk in terms of the potential for a net revenue loss.

**Further Sample Auditing Needed**

*We recommend that future requests for staff to expand audit coverage be supported by sample auditing which meets acceptable statistical reliability standards and is confined to accounts which have a high probability of productivity.*

Although we have indicated that the board's 1973-74 sample audit study (on which our support of additional audit coverage is partially based) produced results which, because of significant statistical limitations, are not conclusive, we continue to believe that this approach represents the only empirically effective means of supporting audit staff augmentations for purposes of expanding audit coverage. Thus, we are recommending that future requests for additional audit staff be supported with sample data which allow for reasonably reliable estimates.

Table 6 shows the sampling variability in each audit selection cell for the 1973-74 study and compares the actual sample size with that which would have been required to limit the possible error to plus or minus 20 percent of estimated average audit recoveries. For example, in cell 6 average recoveries from unaudited accounts were estimated to be \$695. Based on the actual sample size of 186 and the variability of audit results in this cell, the "true" figure is expected to range from \$431 to \$959 ( $\pm 38$  percent of \$695). A sample size of 674, on the other hand, would have resulted in a range of \$556 to \$834 ( $\pm 20$  percent of \$695).

**Table 6**  
**1973-74 Sample Audit Study**  
**Sample Size and Sampling Variability**

<i>Audit Selection Cell</i>	<i>Actual Sample Size</i>	<i>Estimated Average Recoveries</i>	<i>Sampling Variability<sup>a</sup></i>	<i>Augmented Sample Size<sup>b</sup></i>
6.....	186	\$695	38%	674
7.....	248	541	45	1,256
8.....	334	330	44	1,612
9.....	320	321	33	875
10.....	288	280	41	1,186
11.....	217	161	58	1,875
12.....	241	116	64	2,528
13.....	191	229	62	1,797
14.....	208	35	51	1,325
15.....	136	54	54	972
16.....	119	22	73	1,817

<sup>a</sup> Represents potential deviation from the estimated recoveries within 95 percent statistical confidence limits.

<sup>b</sup> Represents estimate of the sample size necessary to limit variability to plus or minus 20 percent.

Although this comparison indicates that, given a 20 percent variability standard, a substantial increase in the size of the sample taken in each cell would be necessary to achieve reasonably reliable results, we believe that the net cost of future sample audit studies can be minimized if sampling is confined to those cells where there exists the greatest probability that sample audits conducted on a random basis will yield revenue in excess of cost. Based on the results of the 1973-74 study, it appears that such could be the case in cells 6 through 10. However, further sampling in cells 11 through 16 would be costly and would be unlikely to support a general

**STATE BOARD OF EQUALIZATION—Continued**

increase in audit coverage in these cells. The board indicates that auditing of these smaller accounts is regularly done on a highly selective basis, with audits chosen largely on the basis of leads and special reports. We seriously doubt that the concept of marginal analysis can be effectively applied under these circumstances. We suggest that the board also investigate the feasibility of stratification of the sample within cells as a means of minimizing the cost of sample auditing.

We further believe that data from future sample audit studies which meet the above standards can and should be used for purposes of revising the board's audit selection cell structure and, to the extent feasible, for redeploying district audit staff.

**Tax Return Processing**

The board's business tax return processing responsibilities primarily consist of the registration of new accounts and the processing of total returns filed. Registration activities include (1) issuance of permits; (2) obtaining data for purposes of determining the appropriate reporting basis (i.e., monthly, quarterly, or annually), establishing the amount of security required to be posted by the taxpayer, allocating local taxes, and selecting accounts for audit; (3) instructing the taxpayer with respect to his legal obligations; and (4) obtaining information for the Employment Development Department. The processing of tax returns filed by all registered taxpayers includes cashing, data entry, mathematical review and desk auditing, allocation of local funds, responses to taxpayer questions, and central filing.

**Increased Registration and Processing Workload**

*We recommend approval of 44.5 positions requested for registration and processing of additional business tax return workload.*

For 1976-77, the board is requesting a total of 44.5 clerical positions on a workload basis, 14 for registration of new accounts and 30.5 to process additional tax returns. This request is based on a projected growth in annual registration and processing workload from 1974-75 to 1976-77 of 8.7 percent, as determined on the basis of the average growth in workload experienced prior to 1974-75.

Table 7 illustrates the growth in business tax return workload from 1968-69 to 1976-77 and compares this to the percentage change in California personal income (a key indicator of changes in the state's economy) expressed both in current dollars and in constant 1967, or "real", dollars.

As shown in this table, the percentage growth from 1974-75 to 1976-77 in tax return workload estimated by the board significantly exceeds that projected for "real" personal income over this period: workload is estimated to increase by an annual average of 4.3 percent in these two years, while the average annual growth in real income from 1974 to 1976 is projected at less than 0.4 percent.

Because, intuitively, we would expect the number of business tax returns filed (which are tied directly to the number of active firms) to be closely related either on a current or lagged basis to the general level of

**Table 7**  
**Growth in Business Tax Return Workload**  
**1968-69 to 1976-77**

Year	Sales <sup>a</sup> Tax Returns	Gas and Diesel Tax Returns	Total Returns		Percent Change <sup>b</sup> in Personal Income	
			Number	Percent Change	Current	Real
1968-69.....	1,758,613	112,708	1,871,321	—	—	—
1969-70.....	1,830,795	116,499	1,947,294	4.1%	8.3%	3.1%
1970-71.....	1,927,046	124,505	2,051,551	5.4	7.5	2.3
1971-72.....	1,991,086	129,871	2,120,957	3.4	5.7	1.9
1972-73.....	2,096,142	136,676	2,232,818	5.3	8.1	4.7
1973-74.....	2,156,147	143,828	2,299,975	3.0	11.4	5.3
1974-75.....	2,262,555	142,594	2,405,149	4.6	10.9	0.6
1975-76 <sup>c</sup> .....	2,361,892	146,091	2,507,983	4.3	8.7	-1.6
1976-77 <sup>c</sup> .....	2,465,864	149,674	2,615,538	4.3	10.2	2.4

<sup>a</sup> Includes monthly and quarterly prepayment forms.

<sup>b</sup> Represents calendar-year changes based on the year ending on December 31 of the indicated fiscal year.

<sup>c</sup> Estimated.

economic activity, we developed independent projections of workload growth using statistical methods which quantified the historical relationship between selected economic variables and the number of new business tax accounts. This approach, however, failed to support our initial hypothesis that the growth in new accounts (and consequently, in total returns filed) would diminish two, or possibly, three years after the economic decline experienced in 1974 and 1975. Thus, these projections generally indicate that the board's estimates of workload growth are reasonable. Although the exact reasons for a sustained growth of active retail business firms concurrent with a serious economic decline are not known, it appears that the establishment of new businesses responds more readily to the growth in population, employment and personal savings than to changes in personal income and expenditures.

Based on the estimated growth in tax return workload (which also is partially substantiated by actual data available for the first five months of the current year), we believe the 44.5 positions requested for tax return registration and processing are justifiable.

#### CAMPAIGN STATEMENT AUDITING PROGRAM

The Waxman-Dymally Campaign Disclosure Act (Chapter 1186, Statutes of 1973) required the board to audit campaign expenditure statements filed by state political candidates and committees with respect to elections held during the 1974 calendar year. Provisions of Proposition 9 (approved by the voters in the June 1974 primary election) effectively shifted this function on an ongoing basis to the Franchise Tax Board as of January 7, 1975. The Board of Equalization completed its campaign auditing responsibilities in September 1975, and no resources are budgeted in 1976-77 for this program.

#### Campaign Audit Workload Overestimated

Based on limited campaign auditing experience in 1974-75 and estimates of the time necessary to review and reconcile campaign expenditure statement, the board projected in late 1974 that a total of 56 field audit

## STATE BOARD OF EQUALIZATION—Continued

man-years would be required to complete all campaign auditing in 1974-75 and 1975-76. The total expenditures budgeted for this two-year period, on the other hand, effectively provided approximately 42 man-years for campaign field auditing. Based on this apparent discrepancy between the resources needed and those actually provided, we pointed out in our Analysis of the 1975-76 Budget a potential shortage of campaign audit resources. It now appears that the board substantially overestimated the amount of total direct field audit time necessary to fulfill its responsibilities under the Waxman-Dymally Act.

Table 8 compares the board's estimates of the number of campaign audits and average audit hours required with actual workload data. As this table shows, a total requirement of nearly 80,000 campaign field audit man-hours, or 64 hours per audit, was estimated for 1974-75 and 1975-76. This compares to the 17,580 field audit man-hours, or 15 hours per audit, actually expended in these two years. Thus, the actual requirement of 16 field audit man-years fell substantially below both the 56 man-years estimated and the 42 man-years effectively provided by budgeted resources.

**Table 8**  
**Campaign Audit Workload**  
**Comparison of Estimated and Actual**  
**1974-75 and 1975-76**

Type of Audit	Estimated			Actual		
	Number of Audits	Field Audit Hours Required		Number of Audits	Field Audit Hours Required	
		Average	Total		Average	Total
Governor .....	245	80	19,600	293	13	3,713
Lieutenant Governor .....	32	80	2,560	56	13	753
Secretary of State .....	24	80	1,920	30	12	368
Treasurer .....	20	80	1,600	23	14	319
Attorney General .....	20	80	1,600	36	10	344
Superintendent of Public Instruction .....	10	80	800	7	13	94
Senate .....	125	80	10,000	85	16	1,394
Assembly .....	450	64	28,800	342	16	5,325
Judicial .....	20	40	800	30	17	505
Other <sup>a</sup> .....	294	38	11,192	289	16	4,765
Totals .....	1,240	64	78,872	1,191	15	17,580
Man-years required .....			56 <sup>b</sup>			16

<sup>a</sup> Includes propositions, special elections, statewide committees, county committees and major contributors.

<sup>b</sup> Based on the board's estimate that one man-year would provide approximately 1,400 direct field audit man-hours.

Expenditures budgeted for campaign auditing in 1974-75 and 1975-76 totalled \$1,076,000. This compares to actual expenditures for this function in these two years (including allocated overhead costs) of \$618,000, for an apparent net savings of \$458,000. The board indicates that these savings will be reflected in excess salary savings resulting from unfilled sales tax auditor positions which were budgeted for use in the Campaign Audit program.

# SECRETARY OF STATE

Items 61-64 from the General  
Fund

Budget p. 119

Requested 1976-77 .....	\$6,555,352
Estimated 1975-76.....	4,969,801
Actual 1974-75 .....	4,834,942
Requested increase \$1,585,551 (31.9 percent)	
Total recommended reduction .....	\$266,717

## 1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
61	Secretary of State operations	General	\$5,135,287	106
62	Printing ballot measures	General	1,387,615	108
63	Presidential elector per diem and mileage	General	2,000	106
64	Subvention to local government	General	30,450	106
			<u>\$6,555,352</u>	

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- |   | Analysis<br>page |
|---|------------------|
| 1. <i>Roster of Public Officials. Reduce Item 61 by \$15,939.</i><br>Recommend deletion of funding to print roster.   | 107              |
| 2. <i>New automobile. Reduce Item 61 by \$3,500.</i> Recommend amount requested for purchase of new auto be reduced.  | 107              |
| 3. <i>Voter Registration Program. Reduce Item 61 by \$354,234.</i> Recommend elimination of nonessential elements of new program.   | 107              |
| 4. <i>Ballot Pamphlet Revision.</i> Recommend legislation to reduce size and cost of the ballot pamphlet.   | 108              |
| 5. <i>Overprinting of Ballot Pamphlet.</i> Recommend Secretary of State report by November 1, 1976 on ways to minimize the printing of ballot pamphlets which are not used.   | 109              |
| 6. <i>Archival Backlog.</i> Recommend Secretary of State report by October 1, 1976 regarding methods to reduce archives backlog.  | 109              |
| 7. <i>California Heritage Preservation Commission. Augment Item 61 by \$800.</i> Recommend commission funding be provided in the Secretary of State budget.   | 110              |
| 8. <i>Enforcement of Notary Laws. Augment Item 61 by \$94,306.</i> Recommend funding to enable improved screening of applicants and proper disposition of citizens' complaints regarding notary public commissions. | 111              |
| 9. <i>Data Processing Positions. Augment Item 61 by \$11,850.</i> Recommend one data processing support position to make more effective use of computer programmers.  | 111              |

**SECRETARY OF STATE—Continued****GENERAL PROGRAM STATEMENT**

The Secretary of State is a constitutional officer. In addition to performing numerous duties prescribed in the Constitution, the office has statutory responsibility with regard to the filing of specified corporate-related documents and financing statements, statewide elections, notaries public, and the state archival function.

**CORPORATE FILINGS**

Attorneys and document examiners on the staff of the Secretary of State examine articles of incorporation and related documents which establish, revise, or dissolve corporate entities and attest to their compliance with the appropriate statutes before accepting them for formal filing. Information regarding corporate officers and corporate addresses is also maintained as required by law.

**ELECTIONS**

Responsibilities in the area of elections include the overseeing and coordination of all statewide elections, the production of various statistical reports required by the Elections Code, the preparation of the state ballot pamphlet, the compilation of a semiofficial and official canvass of election results, and membership on the State Commission on Voting Machines and Vote Tabulating Devices.

**UNIFORM COMMERCIAL CODE**

Under the Uniform Commercial Code, Uniform Federal Tax Lien Registration Act and the Government Code, the Secretary of State is required to accept for filing as a public record financing statements which perfect security interests in personal property.

**NOTARY PUBLIC**

The Office has responsibility for the appointment of notaries public, including the issuance of original certificates and renewals. It also provides verification of the authenticity of notary signatures upon request from the public.

**ARCHIVES**

The Chief of Archives and his staff collect, catalog, index and preserve historic and otherwise valuable papers and artifacts. These documents are by law received from both state and local government. Reference services are provided for the public. Advice and direction is received from the California Heritage Preservation Commission and the Secretary of State serves as its secretary.

**ANALYSIS AND RECOMMENDATIONS**

The proposed budget of \$6,555,352 represents an increase of \$1,585,551 (or 31.9 percent) over the current year estimate of expenditures. The major increase is in the elections program. Two minor items included in the budget are for (1) the reimbursement of local government for lost fees due to candidates for public office submitting signatures in lieu of a filing

fee (Item 64), and (2) per diem and mileage for presidential electors (Item 63).

#### **Roster of Public Officials**

*We recommend that \$15,939 budgeted in Item 61 to print a roster of public officials be deleted.*

Section 12240 of the Government Code requires that whenever the Legislature appropriates funds for the purpose, the Secretary of State shall compile, publish and distribute a roster of the state and local public officials of California. The 1975-76 roster consists of 171 pages (approximately one-third is not related to California officials).

Because the roster is quickly outdated due to elections, retirements or reorganization, its utility is impaired. In some cases it merely duplicates information found in the state phone directory. We believe that no funds should be appropriated for a new roster. However, if the Legislature does wish to continue the roster, we would recommend that the amount requested be reduced by one-half which would be possible if the roster were limited to California officials, nonessential data was eliminated and it was printed on less-expensive paper stock.

#### **New Automobile**

*We recommend that the amount budgeted in Item 61 for a new automobile for the Secretary of State be reduced \$3,500.*

The proposed budget includes \$8,000 for the purchase of a new automobile for the Secretary of State. Because the Secretary of State's current vehicle (a 1973 Cadillac) will have an estimated trade-in value of \$3,130, the total amount available for a new car will be \$11,130. The office plan to trade in the Cadillac is based on the assumption that the car's mileage, which will be attained in the budget year, will necessitate "continuous expensive repair work." According to the office, the Cadillac's mileage was 60,000 in December 1975. Although some major repairs for a Cadillac can be anticipated at 100,000 miles, the current vehicle could be maintained in lieu of a new one. Reducing the amount budgeted for a new car will still provide \$7,630, an amount which will provide adequate transportation should the office elect to purchase a new automobile.

#### **ELECTION ACTIVITIES**

*We recommend that the amount budgeted in Item 61 to support a new voter registration program be reduced by \$354,234.*

Chapter 704, Statutes of 1975, imposes a number of new requirements on the Secretary of State with regard to voter registration. In summary, this legislation establishes a registration by mail process and makes the Secretary of State responsible for the design, printing and distribution of voter registration-related materials to the counties. Some of these materials, such as affidavits of registration, are currently provided by the counties. Others are new, such as registration forms with prepaid postage which will be distributed at various places throughout counties. Under the law, the Secretary of State will absorb the cost of providing the required forms and also postage associated with their use. Chapter 704 requires also that the Secretary of State adopt regulations to be used by the counties in

**SECRETARY OF STATE—Continued**

implementing programs to register qualified electors who are not registered. These activities have been termed "outreach" programs.

The \$1,331,585 budgeted for 1976-77 is based on the assumption that \$276,556 to allow initial program implementation will be provided in the current year through legislation to be requested by the Secretary of State. Therefore, we have analyzed the proposed budget based on this assumption, and have compared the office plans with the specific statutory requirements this program is intended to meet.

According to Chapter 704, the objective of the new program is that "... voter registration be maintained at the highest possible level." Given this objective and the requirement that the Secretary of State implement a major new program, the fiscal requirements for implementation are best estimates based on the Secretary of State's planning with regard to how many of various forms must be printed and distributed and how many will be used and what this will mean in terms of postage. There are two aspects of the proposed plan which we question.

We believe that \$309,234 budgeted for the development of a computerized statewide voter registration system is not required to implement Chapter 704 and should be deleted from the budget. The Secretary of State maintains that the automated system is necessary in the event a county does not comply with the statutory requirement that it design and implement a voter "outreach" program. Should a county fail in this regard, Chapter 704 requires the Secretary of State to design a program for the county. In such an event, it is conceivable that the Secretary of State might design a program based on the county's automated registration file. However, there appears to be no justification for the development and maintenance of a costly computerized *statewide* registration system in the Secretary of State's Office.

We recommend that an additional \$45,000 budgeted for manuals, publicity, orientation, and staff travel associated with the development of county "outreach" programs be deleted because a sufficient amount for this purpose (\$95,000) is planned for expenditure in the current year.

**Statewide Ballot Pamphlet**

*We recommend that legislation be enacted to (1) eliminate the requirement that the ballot pamphlet include the text of a proposed measure and also existing law as it would be altered by the proposed measure, and (2) allow reformatting of the ballot pamphlet to use space more efficiently.*

The proposed budget includes \$1,387,615 for the printing of ballot pamphlets for the November 1976 general election. The Secretary of State believes that this amount is substantially less than what will be required due to (1) Federal Voting Rights Act requirements concerning the availability of certain foreign language versions of election materials, and (2) increased printing costs. Although the Secretary of State had estimated the probable 1976-77 cost of the ballot pamphlet at \$5.5 million, the office is in the process of determining how to reduce this cost and still comply with federal requirements.

Because the cost to produce the ballot pamphlet has increased dramati-

cally in a relatively short time (it was \$512,000 in 1972-73), we suggest that the cost of the pamphlet can be reduced substantially (as much as one-half) if the text of measures and existing law as it would be altered by the proposals were not printed in the pamphlet, and if some reformatting were done to minimize blank spaces. The information not provided in the pamphlet could still be made available upon request to voters who desired such information.

#### **Surplus Ballot Pamphlets**

*We recommend that the Secretary of State investigate means of reducing the number of ballot pamphlets which are printed but not used and report findings and recommendations resulting from this investigation to the Joint Legislative Budget Committee by November 1, 1976.*

The Secretary of State is required by law to provide ballot pamphlets to the counties in order that these may be distributed to registered voters. The current practice is to provide a county as many pamphlets as the county requests. An examination of county requests for pamphlets and the number of voters actually registered to vote at a statewide election reveals significant variations in the degree to which counties overestimate their requirement. For example, an analysis of the June 1974 primary election revealed that the range of overestimating varied from a low of approximately 4 percent in one county to about 26 percent in another.

We have estimated that the cost to the state for the June 1974 pamphlet could have been reduced by about \$60,000 if overprinting had been held to five percent. Because the cost of the pamphlet has increased substantially since that time, even higher savings would result today if overprinting could be reduced or otherwise offset. One possible way would be to require counties to reimburse the state for the cost of an excessive number of surplus pamphlets. The Secretary of State should determine whether a practical means to reduce such ballot pamphlet overprinting can be devised.

#### **Reports to Legislature**

In the current year the Secretary of State has submitted two reports to the Legislature in compliance with the 1975-76 Supplementary Report of the Committee on Conference. The first was on the office's distribution of foreign language ballot pamphlets and the desirability of expanding the program. In it the Secretary of State points out that the Federal Voting Rights Act now mandates foreign language voting materials for certain language groups, and this applies to the ballot pamphlet.

The second report considers ways in which the Secretary's role in election activities can be strengthened and it essentially recounts recent legislation for this purpose. The report does not address the desirability of further strengthening.

#### **ARCHIVES**

*We recommend that the Secretary of State undertake a review of the archival function as to possible ways of reducing (1) the rate of document acquisition, and (2) the unprocessed document backlog. Findings and recommendations resulting from this review should be presented to the*

**SECRETARY OF STATE—Continued**

*Joint Legislative Budget Committee and the Department of Finance by October 1, 1976.*

The Governor's Budget states that without the archival program "... many valuable and needed records would be lost or otherwise destroyed, leaving the state with a reference vacuum that could not be filled." Yet, according to the Secretary of State, the volume of unprocessed records on deposit in the state archives equaled 6,602 cubic feet as of August 1, 1975, and at the current and budgeted position levels, this backlog will grow at an estimated average rate of 488 cubic feet annually.

Therefore, it is apparent that an increasing number of documents will continue to be unavailable for reference use by researchers and others, and will also be subject to deterioration in an unprocessed state. These facts were noted by the Auditor General in an October 1974 report which recommended that sufficient personnel be approved to eliminate the backlog in a reasonable amount of time.

The Secretary of State estimates that the backlog could be eliminated by 1981 with the addition in the budget year of two professional and two clerical positions. Before we would recommend such an augmentation, however, we believe that the present program should be evaluated in terms of whether (1) the number of documents being deposited with the archives can or should be reduced, and (2) alternative means (such as a joint-program with a university or historical society) can be used to assist in reducing the backlog. The Secretary of State should undertake this evaluation and work in conjunction with the California Heritage Preservation Commission (discussed below) to address this problem. The result of this effort should be a report of findings and recommendations to the Joint Legislative Budget Committee and the Department of Finance for consideration in preparing the 1977-78 budget.

**CALIFORNIA HERITAGE PRESERVATION COMMISSION**

*We recommend that funding of the California Heritage Preservation Commission be established as a special item of expense in the Secretary of State Budget in the amount of \$800 in Item 61.*

The California Heritage Preservation Commission was established by Chapter 1938, Statutes of 1963, and continued by Chapter 1383, Statutes of 1965. The Secretary of State is secretary of the commission, which is comprised of representatives of four designated state agencies, a private college or university, six private citizens appointed by the Governor and two members of each house of the Legislature. Members serve without compensation.

The purpose of the commission is to advise the Secretary of State (whose duty it is to preserve historical and otherwise valuable documents) on matters regarding the identification, restoration and preservation of such documents.

The Governor's Budget for 1975-76 deleted any funding for the commission (it had received \$800 annually for expenses) and proposed instead that the commission be abolished and its function transferred to the Secretary of State. The Legislature augmented the Secretary of State's Budget

by \$800 in the Budget Act of 1975 to continue this minimal funding level, but the Governor vetoed the augmentation on the grounds that the Secretary of State would assume the commission's function.

This has not occurred, however, nor are we aware of any legislation to eliminate the commission. We believe that the commission can continue to provide valuable assistance to the Secretary of State and we propose that the commission work with the Secretary of State toward a solution of the archive's backlog problem.

#### NOTARIES PUBLIC

*We recommend that the budget be augmented \$94,306 in Item 61 to enable necessary investigations and hearings related to notary public commissions.*

The Secretary of State is responsible for granting and renewing commissions and conducting investigations and complaints regarding alleged violations of the laws governing notaries public. The proposed budget includes 5.6 positions and \$114,347 to manage the notary program. It is estimated that fees charged for notary commissions will generate \$245,568 in revenue in 1976-77.

Efforts of the former Secretary of State directed toward vigorous enforcement of notary public laws received substantial publicity which has resulted in increased public awareness. The result has been an increase in complaints to the Secretary of State regarding notaries. However, the Governor's Budget provides no funds to meet the increased workload required to resolve these complaints. Further, the Secretary of State wants to screen applicants for commissions more effectively to resolve a deficiency in this regard which was noted in "A Study of the Cost-Effectiveness of the Operations of the Secretary of State" completed in December 1972 by the Legislative Analyst.

Because of the increased public interest and the fact that disciplinary actions against notaries by the Secretary of State will be limited without added funding, we recommend the budget be augmented to provide for one legal counsel, one investigator, and two clerk-typist II positions. With this augmentation, the program would still produce a net General Fund revenue at the current fee level.

#### DATA PROCESSING SUPPORT

*We recommend that the budget be augmented \$11,850 in Item 61 to provide one data processing technician position to support the Secretary of State's data processing programs.*

In 1972 when the computer operations of the Secretary of State were transferred to the Stephen P. Teale Consolidated Data Center, all computer operation positions were transferred to the Teale Center. Because of this transfer, the Secretary of State has had to use programming personnel to perform some of the computer job preparation tasks which could not be transferred to the Teale Center (such as data control and job set-up). The position of data processing technician is a more appropriate classification to perform these tasks and such a new position would free valuable programmer time for more productive work.

**STATE TREASURER**

Item 65 from the General Fund

Budget p. 125

Requested 1976-77 .....	\$1,673,745
Estimated 1975-76.....	1,603,117
Actual 1974-75 .....	1,354,457
Requested increase \$70,628 (4.4 percent)	
Total recommended reduction .....	\$32,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Investment Reports and Information. Recommend report to Legislature on status and capability of investments reporting system. 114
2. *Public Information Officer. Reduce \$12,000.* Recommend deletion of position. 116
3. *Secretarial Staffing for Administration. Reduce \$12,000.* Recommend deletion of two temporary help positions. 117
4. *In-state Travel Allowance. Reduce \$8,000.* Recommend reduction of in-state travel allowance in excess of needs. 117

**GENERAL PROGRAM STATEMENT**

The State Treasurer has the following responsibilities:

1. Provide custody of all money and securities belonging to, or held in trust by the state.
2. Invest temporarily idle state and other designated funds.
3. Pay warrants and checks drawn by the State Controller.
4. Prepare, sell and redeem general obligation bonds.
5. Prevent the issuance of unsound securities by irrigation, water storage and certain other districts.

**ANALYSIS AND RECOMMENDATIONS**

The Treasurer's responsibilities are implemented through the six program elements shown in Table 1. A 4.5 man-year increase is requested for the budget year.

**Table 1**  
**Budget Summary**

<i>Program Elements</i>	<i>Man-Years</i>			<i>Expenditures</i>		
	<i>Actual 1974-75</i>	<i>Authorized 1975-76</i>	<i>Proposed 1976-77</i>	<i>Actual 1974-75</i>	<i>Authorized 1975-76</i>	<i>Proposed 1976-77</i>
1. Bond sales and services.....	11	12.5	12.7	\$258,165	\$274,204	\$289,478
2. Investment services .....	5.4	6.4	7.4	196,094	225,012	264,157
3. Paying and receiving.....	28.1	32.3	34.9	644,777	838,773	890,535
4. Trust services .....	14.9	16.5	16.5	372,258	418,364	443,450
5. Districts securities division.....	7	7	7	206,766	220,164	229,125
6. Administration (distributed to other elements) .....	12.3	16.6	17.3	(366,485)	(400,961)	(423,415)
Totals.....	78.7	91.3	95.8	\$1,678,060	\$1,976,517	\$2,116,745
Reimbursements.....				-323,603	-373,400	-443,000
General Fund costs .....				\$1,354,457	\$1,603,117	\$1,673,745

### BOND SALES AND SERVICES

This program element is responsible for selling, issuing, servicing and redeeming all general obligation and revenue bonds, and bond anticipation notes. In the budget year, reimbursements of approximately \$100,000 are expected for sales of special fund bonds.

The Treasurer's bond marketing activities are summarized in Table 2. California's bonded indebtedness is discussed in the Expenditure Summary Section of the Analysis.

**Table 2**  
**Treasurer's Bond and Note Sales**

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Projected 1976-77</i>
<b>General Obligation Bonds</b>			
Number of issues .....	11	7	11
Amount (millions) .....	\$505	\$485	\$660
Average interest rate .....	5.70%	5.65%	5.70%
<b>Revenue Bonds</b>			
Number of issues .....	3	14	16
Amount (millions) .....	\$11.2	\$295	\$225
Average interest rate .....	7.22%	7.11%	7.20%

### INVESTMENT SERVICES

The main objective of this element is to maximize earnings on the state's temporarily surplus cash within the statutory limitations and the policy decisions of the Pooled Money Investment Board.

The investment program provides services to the Pooled Money Investment Account and to several other independent state funds. The Pooled Money Investment Account is composed of temporarily surplus cash in the General Fund and other state funds in the pool. As the result of legislation, the Condemnation Deposit Fund joined the pool in January 1975. The State Highway Fund joined the pool in October 1975.

#### Investment Earnings Remain High in 1974-75

Table 3 shows the results of the investment program for the last three fiscal years. Under the policies of the Pooled Money Investment Board (composed of the State Treasurer, State Controller and Director of Finance) the Treasurer's staff has earned record amounts although the rate of earnings was slightly below the record levels of 1973-74. The increased resources available (average daily amount invested) resulted in the high level of earnings in spite of reduced yields.

**Table 3**  
**Investments Results**

	<i>Pooled Money Account</i>			<i>Condemnation Deposit Fund</i>		
	<i>Average Daily Investments (millions)</i>	<i>Earnings (millions)</i>	<i>Percent Yield</i>	<i>Average Daily Investments (millions)</i>	<i>Earnings (millions)</i>	<i>Percent Yield</i>
1972-73.....	\$2,239.1	\$124.3	5.51%	\$15.3	\$8	5.42%
1973-74.....	2,577.2	231.2	8.97	17.4	1.6	9.21
1974-75.....	2,740.1	236.3	8.62	9.3	1.0	10.96

**STATE TREASURER—Continued****Earnings Outlook Less Favorable**

The outlook for the current year and the budget year is not as favorable as the three previous years shown in Table 3. During the current year, interest rates are significantly lower, while the amount available for investment is expected to be only slightly higher. The budget year forecast is less predictable though it is believed that interest rates will rise slightly from the 1975-76 level and that the amount available for investment will decrease. In both the current year and the budget year, earnings will be in the \$200 million range.

**Investment Authority Expanded**

*We recommend approval of one new investment analyst.*

Following recommendations of the Legislative Analyst and the Auditor General, the Treasurer sought and received legislation expanding his investment authority. As of January 1976, the Treasurer is authorized to utilize negotiable certificates of deposit, security loan agreements and commercial paper of a longer term and to a greater extent. The new investment analyst position will allow the Treasurer's office to increase the effectiveness of the investment program through use of its expanded investment authority.

**More Information Needed on Investment Program**

*We recommend that the Treasurer's office report to the Legislature by December 1, 1976 on the status and capabilities of the investment reporting and information system.*

Now in its 20th year, the Pooled Money Investment Board operates with average daily investments, dollar volume of transactions, number of transactions and a range of investment choices which far exceed the levels of its first year of operations (1956-57). With \$2.7 billion in average daily investments, and transactions approaching 10,000 in number and \$67 billion in volume, the Treasurer's investment program does not have an information system adequate to the needs of management or those who must monitor and evaluate management performance. This deficiency was noted in the September 1974, Auditor General's report on the Treasurer's investment practices and policies and was discussed in last year's Analysis.

We note that the Data Processing Unit within the Treasurer's office has listed the investment portfolio reports on its agenda of anticipated projects. We believe that this project merits the highest priority. Such improvements could be used by management to enhance its investment program and would allow more effective monitoring and evaluation.

**PAYING AND RECEIVING**

The State Treasurer provides banking services for state agencies. Such services include depositing state moneys and redeeming warrants issued by the Controller and other state agencies. In addition, this element provides information to the investment division on the state's daily cash position.

In January 1976, the Treasurer began processing vouchers for the Department of Health Supplemental Food Program. The increase in the annual volume of vouchers will amount to over seven million. The Treasurer's budget has been increased by 2.5 man-years in the current year, and 5 man-years of temporary help are requested for the budget year. The cost of this processing will be fully reimbursed by the Department of Health. Table 4 reviews the activities of the Paying and Receiving Program.

**Table 4**  
**Paying and Receiving Program**

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Projected 1976-77</i>
Dollars deposited (billions).....	\$61.1	\$63	\$65
Warrants processed (millions) .....	17.1	20.9	24.7
Personnel man-years.....	28.1	32.3	34.9
Program cost.....	\$644,777	\$838,773	\$890,535

### TRUST SERVICES

The Trust Services Program element is responsible for the safekeeping of securities owned by or pledged to the state. Such securities are held in the Treasurer's vault or in approved depositories. As of June 30, 1975, the Treasurer had responsibility for over \$13 billion in securities. In 1974-75 there were approximately 16,000 transactions involving over 493,000 securities. In addition, 1.8 million coupons were clipped and processed so that interest on bonds held could be collected.

One new guard position is requested to control the entry of persons into the Trust Division. Currently, access to both the Trust Division and the vault can be controlled by vault personnel. The relocation of offices to the State Office Building No. 1 will put the vault and the Trust Division on separate floors.

As of January 1976, one position is vacant in the Trust Services Division. We believe this position should be filled only when the projected increase in securities processed is realized.

### DISTRICT SECURITIES DIVISION

The primary function of the division is the technical and fiscal evaluation of construction projects proposed by water, irrigation and certain other districts. By promoting sound financial programs for these districts, the division acts to protect the public from unsound securities, and to protect the credit standing of the state and its local jurisdictions.

The division is budgeted from the General Fund but is expected to recover an equal amount through fees charged for its services. The division has recovered its program costs in three of the last four fiscal years.

Table 5 details program cost, reimbursements and personnel for the past year, the current year and the budget year.

**Table 5**  
**District Securities Division**

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Projected 1976-77</i>
Program cost.....	\$206,766	\$220,164	\$229,125
Reimbursements .....	\$241,941	\$221,000	\$230,000
Personnel (man-years) .....	7	7	7

**STATE TREASURER—Continued****ADMINISTRATION**

The administrative element is comprised of the executive officers and the general services section including the budgeting, personnel and accounting functions. The executive officers consist of the State Treasurer, the assistant treasurer, the chief deputy treasurer, and the assistant deputy treasurer.

**Administrative Staff Expands**

Table 6 shows actual man-years used in the administrative element during the last three years, the authorized staffing for 1975-76 and the proposed staffing for 1976-77.

**Table 6**  
**Administrative Element Personnel**

	<i>Man-Years</i>
1972-73 .....	11.9
1973-74 .....	11.7
1974-75 .....	12.3
1975-76 .....	16.6
1976-77 (proposed) .....	17.3

The five man-year personnel increase between the actual level of 1974-75 and the 1976-77 proposed level consists of one assistant treasury officer to act as a public information officer, one accounting technician and three secretarial positions. This increase was achieved by transferring man years from other program elements.

Early in 1975-76, the State Treasurer opened a Los Angeles office. By arrangement with the Controller's office, space allocated to the Controller in the Los Angeles State Office Building has been turned over to the Treasurer's office "rent free". The Treasurer's office expended approximately \$8,000 to make suitable alterations to the facilities. The combined office of the Controller and the Treasurer includes one secretary on the Controller's payroll and one staff services analyst (slightly more than one-half time) on the payroll of the Treasurer's office.

**Public Information Officer Not Justified**

*We recommend that the public information position (assistant treasury officer I) be deleted in the amount of \$12,000.*

For the past several years, the public information function has been carried out by the assistant treasurer. We find no change in responsibilities of the Treasurer's office which would justify a full-time public information officer. We believe this function can be adequately carried out by the assistant treasurer with the additional secretarial help which is available to him.

**Secretarial Staffing Excessive**

*We recommend that two temporary help positions be deleted from the administrative element in the amount of \$12,000.*

During the 1974-75 fiscal year, the administrative element of the Treasurer's office functioned effectively with approximately 4.5 man-years for secretarial and clerical duties. The proposed 1976-77 budget requests 7.5 man-years, including the .6 man-year staff services analyst for the Los Angeles office. We find no increased responsibilities which would justify such a large increase. One of the proposed positions is currently unfilled, so the effective impact of a reduction of two positions would be a loss of one man-year of clerical help. We believe 5.5 man-years of secretarial help will adequately meet the responsibilities of the Treasurer's Administrative Division.

**In-State Travel Allowance**

*We recommend the in-state travel budget be reduced by \$8,000.*

Table 7 shows the actual in-state travel expenses for the past four years and the budgeted amounts for the current and budget years. Currently, both the Treasurer and the assistant treasurer spend approximately one to two days per week in Los Angeles.

**Table 7**  
**In-State Travel Budget**

1971-72 .....	14,396
1972-73 .....	16,172
1973-74 .....	14,394
1974-75 .....	16,027
1975-76 .....	26,600
1976-77 (proposed) .....	28,600

We see no new responsibilities of the Treasurer's office which would require this additional amount of travel and believe that an in-state travel budget of \$20,600 based on prior years' experience adjusted for price increase is adequate.

**DEPARTMENT OF FINANCE**

Item 66 from the General Fund

Budget p. 128

Requested 1976-77 .....	\$8,108,614
Estimated 1975-76 .....	7,286,782
Actual 1974-75 .....	6,447,725
Requested increase \$821,832 (11.3 percent)	
Total recommended reduction .....	\$157,566

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. *Administrative Staffing. Reduce by \$15,621. Recommend deletion of a proposed personnel assistant position.* 120
2. *Personal Services Category. Reduce by \$113,322. Recom-* 121

**DEPARTMENT OF FINANCE—Continued**

- mend elimination of salary overbudgeting.
3. *Temporary Help Budget. Reduce by \$34,662.* Recommend deletion of excess temporary help funds. 122
  4. *Funding for Executive Duties. Reduce by \$94,000.* Recommend deletion of double budgeting for executive duties. 122
  5. Statewide EDP
    - a. *Intergovernmental Board on EDP. Augment by \$100,039.* Recommend transfer of the board, staff and budget to the Department of Finance. 123
    - b. State EDP Management Office. Recommend increased Department of Finance role. 124
    - c. Consolidated Data Centers. Recommend development of specific plans and assignment of departmental programs to consolidated data centers. 124
    - d. State EDP Training. Recommend Finance direct departments to coordinate EDP training with central program and coordinate with General Services. 125
    - e. Quarterly EDP Progress Reports. Recommend improvements in quarterly departmental progress reports under Section 4 of Budget Act. 126
    - f. Rotational Program. Recommend implementation of program to rotate EDP personnel in Finance EDP management unit. 126
    - g. Data-entry Optimization. Recommend active Finance support of program to improve cost-effectiveness of data-entry. 126
    - h. Computer Output Microfilm. Recommend criteria for optional uses of computer output microfilm be made more restrictive. 127
    - i. Computer Printer Optimization. Recommend feasibility of consolidating printer processes be studied. 127

**GENERAL PROGRAM STATEMENT**

The Department of Finance is responsible for (1) advising the Governor on the fiscal condition of the state, (2) assisting in preparation and enactment of the Governor's budgetary and legislative programs, (3) evaluating state programs for efficiency and effectiveness and (4) providing economic and demographic information. These responsibilities are implemented through the five programs shown in Table 1.

**ANALYSIS AND RECOMMENDATIONS**

Increased personal services and operating expenses associated with a proposed staff increase of 38 positions and reduced reimbursements account for the \$821,832 (11.3 percent) increase in the proposed net expenditures. The department is reimbursed for its cost of providing certain economic and demographic information to various public and private entities. Reduction in the budget-year reimbursements is the result of decreased census services provided by the department to local governments at the latter's cost.

**Table 1**  
**Program Requirements of the Department of Finance**

Programs	Personnel (staff-years)			Expenditure		
	Actual 1974-75	Estimated 1975-76	Proposed 1976-77	Actual 1974-75	Estimated 1975-76	Proposed 1976-77
Budget preparation and enactment.....	75.6	82.8	83.8	\$1,852,162	\$2,065,125	\$2,187,620
Budget support and direction .....	21.1	22.8	23.0	504,072	569,893	610,591
Assessment of state programs .....	145.3	156.2	168.3	3,484,836	3,859,225	4,398,347
Development of supportive data .....	31.1	33.6	35.3	792,679	899,220	972,056
Administration (cost distributed to other programs) ..	(10.1)	(12.0)	(12.0)	(331,111)	(363,495)	(364,260)
Totals .....	273.1	295.4	310.4	\$6,633,749	\$7,393,463	\$8,168,614
Reimbursements .....				-186,024	-106,681	-60,000
Net, General Fund Cost.....				\$6,447,725	\$7,286,782	\$8,108,614

### Major Staff Increase Proposed

The department is requesting legislative approval of 38 new positions for the budget year as shown in Table 2, in order to handle more effectively increased budgetary, legislative and administrative workload, as well as to improve the existing level of evaluation of state programs.

**Table 2**  
**Summary of Proposed Staff Increases for the Department of Finance**

Program/Element	Type of position	1975-76		1976-77	
		Staff-years	Expenditures <sup>a</sup>	Staff-years	Expenditures <sup>a</sup>
Program assessment					
Fiscal management .....	auditor	4	\$44,908 <sup>b</sup>	14	\$271,754
Program evaluation .....	analyst	2 <sup>d</sup>	33,458	2	37,292
Budget preparation and support					
Budgeting and legislation .....	analyst	4	66,916	5	93,230
Support .....	clerical	12	166,007	12	173,376
Administration					
Internal management .....	analyst	1 <sup>d</sup>	8,364 <sup>c</sup>	1	18,646
	clerical	1 <sup>d</sup>	6,101 <sup>c</sup>	1	14,325
	personnel assistant	1 <sup>d</sup>	14,141	2	31,242
Supportive data					
Demographic research .....	analyst	1 <sup>d</sup>	8,364 <sup>c</sup>	1	18,646
Totals .....		26	\$348,259	38	\$658,511

<sup>a</sup> Total cost of these positions as proposed, including salaries and wages, benefits, as well as operating expenses and equipment for the entire year, unless otherwise noted.

<sup>b</sup> Represents funding for 7 months.

<sup>c</sup> Represents funding for 6 months.

<sup>d</sup> Unfilled, as of January 15, 1976.

As Table 2 indicates, 26 of the 38 positions have already been established administratively (through Section 28 letter notification) for the current year and have been filled or are in the process of being filled. They are

**DEPARTMENT OF FINANCE—Continued**

being funded from excess salary savings and from temporary help funds, except the four auditor positions which are proposed to be funded from the Emergency Fund.

**Comments on Current-year Staff Increases**

We have reviewed the justification provided by the department in support of establishing these positions administratively and have the following concerns and comments.

1. *Twelve clerks.* These positions are being converted from temporary help to permanent positions. This change is appropriate from the budgetary standpoint, because the workload appears to be permanent. Most of these 12 positions have been filled for over a year, but have been paid from temporary help funds. Recognizing the permanence of the workload, the department is requesting the Legislature to authorize these positions on a continuing basis beginning in 1976-77 and we believe that this is appropriate.

2. *Eight analysts, one clerk and one personnel assistant.* These positions are being added as of January 1, 1976, and are proposed to be funded from excess salary savings which the department expects to realize during the current year.

Table 2 shows that, as of January 15, 1976, six of these 10 positions are yet to be filled, but, except for three positions, they are being budgeted for the entire year. This full-year budgeting of half-year positions will result in excess salary savings for the department.

3. *Four auditors.* We believe that currently there is a staff deficiency in the department's fiscal audits unit and suggest that approximately 15 more auditors are needed just to raise the level of fiscal auditing to an acceptable minimum. For this reason, the addition of four new auditors in 1975-76 is desirable. The proposed use of the Emergency Fund to finance these positions, however, raises concern in light of the apparent availability of excess salary savings, as noted above. The majority of the new auditor positions should be assigned to those audit functions with the greatest potential for cost-savings, such as auditing state appropriations to school districts for funding kindergarten through grade 14 programs.

**Budget-year Staff Additions**

For 1976-77, the department proposes addition of 38 new positions, as detailed in Table 2. These positions include the 26 administratively established during the current year, plus 12 new positions, consisting of 10 fiscal auditors, one budget analyst and an additional personnel assistant.

We have reviewed in detail the workload justifications submitted by the department in support of these proposed positions and have determined that the workload data justify their establishment, except for the personnel assistant.

**Additional Personnel Assistant Not Needed**

*We recommend disapproval of a proposed personnel assistant position for a General Fund savings of \$15,621.*

At the beginning of 1975-76, the department had one authorized per-

sonnel assistant position to handle the paperwork for departmental employees.

Effective January 1, 1976, the department established administratively a second personnel assistant position to reduce paperwork backlog for departmental personnel and authority to continue this position on a permanent basis is proposed for the budget year. In addition, a third position is requested for 1976-77. We have reviewed the current and projected workload of the department's personnel unit and believe that the addition of the second personnel assistant is justified on a workload basis. This would raise the number of personnel assistants responsible for departmental employees from one to two.

However, we find no permanent workload justification for the third personnel assistant position requested for the budget year. This request is based on a desire to lower the ratio of total departmental staff (including temporary help) to personnel assistant from the current 160 employees to approximately 107 employees.

State Personnel Board guidelines for this ratio range from 100 to 350 employees per personnel assistant, depending on staff size and other personnel-related workload, such as the amount and type of training and the number of different job classifications, which vary among the state agencies.

Upon review of these other personnel-related workload components for the department, we believe the two personnel assistants (providing the ratio of 160 employees per personnel assistant) appear adequate to handle the regular personnel workload of the department. We find no permanent workload justification for the third personnel assistant requested for the budget year. There is one other currently authorized personnel assistant in the department that is assigned to handle workload related to exempt appointment in the various state agencies. We believe this position could assist with departmental personnel work during peak workload periods without having a negative impact on the exempt-position workload.

#### Salaries Overbudgeted

*We recommend a reduction of \$113,322 in the personal services category of the department's proposed budget to eliminate overbudgeting of salaries for several positions.*

In course of our review of the department's proposed budget, we discovered several technical errors in budgeting salaries including one instance of underbudgeting and three instances of overbudgeting positions, as shown in Table 3.

**Table 3**  
**Summary of Salary Overbudgeting**  
**in the Department's Proposed Budget**

Type of position	Number of positions	Salaries and Wages for 1976-77		
		Required	As shown in budget document	Difference
Fiscal auditor .....	4	\$47,184	\$27,454	\$-19,730
Stenographer I .....	6	51,624	62,106	10,482
Clerk-typist II .....	7	58,800	60,630	1,830
Fiscal auditor .....	10	117,960	238,700	120,740
Totals .....	27	\$275,568	\$388,890	\$113,322

**DEPARTMENT OF FINANCE—Continued**

We find no justification for this overbudgeting of salaries in the net amount of \$113,322 and recommend deletion of this amount from the proposed budget.

**Excess of Temporary Help Funds**

*We recommend a reduction of \$34,662 in the amount budgeted for temporary help.*

In accordance with Section 28 of the Budget Act of 1975, the department reported it had "administratively converted 12 clerical positions from overtime and temporary help funds" to permanent positions during the current year and these positions are proposed to be continued in the budget year. We believe this action is appropriate, provided the amount budgeted for temporary help during the budget year is correspondingly reduced. However, the budget document shows that temporary help funds are actually being increased by \$2,365, rather than decreased.

Of the \$86,634 budgeted for temporary help in 1976-77, \$36,972 will be earmarked for temporary staff required by recently enacted legislation and we believe that about \$15,000 should be budgeted to hire temporary clerical help during peak workload periods. The balance of \$34,662, however, appears to be excess temporary help funds and should be deleted from the proposed budget.

**Executive Duties Budgeted Twice**

*We recommend that funding for two unfilled deputy director positions be deleted for a General Fund savings of \$94,000.*

Previous budgets have provided funds for three deputy directors who were exempt from the civil service requirements. One of these has been stationed in California's Washington D.C. office. The other two have served in high level policy and management roles but these positions have been unfilled since early 1975. Instead, the department chose to rely on Career Executive Assignment (CEA) appointments to perform these high level duties.

This resulted in the State Personnel Board adjusting upwards the salaries of four CEA positions in recognition of the higher level duties that had been assigned to them. These positions are proposed for continuation at these higher salaries in the 1976-77 budget. At the same time, funds for the two exempt deputies are proposed for continuation in 1976-77. As a result, funds for these high level duties have been included in the budget twice.

In the approved organization chart of the Department of Finance, dated December 1, 1975, no provision is made for the two deputies. Further, we are not aware of any pending reorganization in the department which would require two additional deputies. Hence, we are recommending the deletion of the funding for the two deputies at a savings of \$94,000.

**STATEWIDE ELECTRONIC DATA PROCESSING****Support for Intergovernmental Board on EDP**

*We recommend that state fiscal support for the Intergovernmental Board on Electronic Data Processing (EDP) be provided through the State Data Processing Management Office and that \$100,039 of the appropriation included in Item 80 be transferred to this item.*

The Governor's Budget includes \$106,300 to fund state support of the Intergovernmental Board on Electronic Data Processing in the budget year. In our analysis of the board's budget (Item 80), we recommend that this support be provided through the State Data Processing Management Office (SDPMO) in the Department of Finance. The rationale for this recommendation is discussed in detail in our analysis of the board's budget. We believe that this change will provide benefits to both the board and the SDPMO which would not be realized if the functions continue to be separate. General Fund savings of \$6,261 (\$106,300-\$100,039) would result, due to a reduction in operating expenses made possible by the transfer.

**Management of Statewide EDP**

The Department of Finance is responsible for statewide coordination and control of electronic data processing (EDP) for all state agencies except the University of California, the State Compensation Insurance Fund, agencies provided for by Article IV of the Constitution, and the Legislature. Its responsibilities are prescribed in the Government Code and Section 4 of the Budget Act of 1975. The State Data Processing Management Office (SDPMO) in the Department of Finance consists of 12 authorized positions, primarily systems analysts. The effort is under the direction of a state data processing officer, appointed by the governor. It is estimated that the magnitude of the state's total EDP expenditure over which the department has specified responsibility is about \$125 million annually.

The expenditure level for this unit in the 1976-77 fiscal year has been budgeted at \$274,047, an increase of approximately 9.2 percent over the amount estimated for the current year.

**Significant Redirection**

In both the 1974-75 Analysis and the 1975-76 Analysis we were critical of the performance record of the Finance EDP control function. At legislative hearings on the 1975-76 budget, the Director of Finance indicated that the department was prepared to redirect the control function to make it more effective.

Since that time, a significant redirection has occurred and in our judgment the Department of Finance role in statewide EDP has been improved substantially. In contrast to previous practice, the department has made the EDP control function an integral part of the Department of Finance. A new state data processing officer has been appointed and his activities have been instrumental in improving the unit's effectiveness.

Accomplishments of the SDPMO which have occurred in a relatively short time include (1) institution of critical design reviews of major state

**DEPARTMENT OF FINANCE—Continued**

EDP systems, (2) initial work on a new state EDP long-range master plan, (3) adoption of a policy intended to reduce the cost of computer output by using microfilm in lieu of paper, (4) establishing a position in the SDPMO to manage the state's new EDP personnel program (developed under a legislative authorization of \$100,000), and (5) preliminary work to determine the benefit potential of entering into master contracts for the acquisition of certain EDP equipment.

These accomplishments illustrate, in our opinion, that the department has fulfilled its pledge to work to improve the effectiveness of EDP leadership. The result to date has been to rebuild general state confidence in the SDPMO while at the same time fostering a more responsible use of EDP. We support Finance's efforts in this regard and suggest that even greater progress in managing EDP effectively can be realized if the following recommendations are implemented.

**More Direct Involvement in EDP Projects**

*We recommend that the State Data Processing Management Office assume a more direct role in state EDP projects by (1) assisting in the selection of project managers and key team members for proposed departmental EDP programs subject to Finance approval, (2) reviewing thoroughly the manner in which a department proposes to manage a project, including key user involvement, and (3) surveying departments with recognized EDP expertise to identify those departments which are in a position to provide proven skilled resources to other departments on a contractual basis.*

In our February 1, 1973, report *Electronic Data Processing in California State Government* we listed a "graveyard" of state EDP projects with a total cost of \$11.1 million which failed to attain a successful operational status. A new list compiled today would include numerous additional projects. (Many factors account for unsuccessful EDP projects, and these are discussed in detail in our 1973 report.)

We believe that one way to decrease systems failures is to assure that projects are initiated on a sound footing. Currently, departments sophisticated in the uses of EDP and fortunate enough to have competent in-house staff have a better opportunity for successful system development. It is the smaller and often less sophisticated department that suffers, because it may not even possess sufficient capability to know how to acquire competent data processing assistance. Because of the increasing reliance on computer processes and the inherent liabilities of complex automated systems, we recommend that Finance assume a strong leadership role in this area.

**Policies Regarding Consolidated Data Centers**

*We recommend that the State Data Processing Management Office (1) assume leadership responsibility for the development of consolidated data center plans which will recognize a practical limit on the size and scope of each consolidated data center, and (2) use its existing authority to place departmental computer programs on consolidated data center computers where a choice exists.*

At present, there is no plan regarding practical limits to the size and scope of consolidated data centers. For example, the Teale Data Center has a duplexed system (two large-scale computers linked together). The capacity of these systems can be expanded and a third computer added to the complex. Questions such as the following must be answered:

- (1). Is it practical to continue developing systems for Teale until there is no room for expansion?
- (2). Would it be better to stop with two computers at Teale or should the state plan on eventually installing a third machine?
- (3). Would dual duplexed systems be reasonable?

The answers to these and similar questions should be considered at this time and Finance should be responsible for this effort.

With regard to selecting which state computer should be used to process departmental computer programs, we note that in some cases Finance has allowed programs to be developed for processing on non-consolidated data centers even though a consolidated data center was available. For example, the Department of Consumer Affairs was allowed to receive bids from the Teale Data Center and the Franchise Tax Board to develop and operate an on-line master file for Consumer Affairs. Such inter-departmental competition may not be in the best interest of the state, but our primary concern is that the Teale Center was established at a substantial start-up expense to provide the very computer resources required by Consumer Affairs.

Further, in approving the development of the system for operation at the Franchise Tax Board, Finance has allowed unique vendor-oriented programs to be written. This is a deviation from a long-standing Finance policy of encouraging the use of standard programming languages (such as COBOL and FORTRAN). We believe Finance needs to firm up its policy in this regard and should use its present authority regarding the placement of computer programs in a manner consistent with the purpose of consolidated data centers.

#### **EDP Training Coordination**

*We recommend that the State Data Processing Management Office direct that departmental EDP training efforts be coordinated with General Services.*

The Department of General Services operates the State EDP Education Program (SEEP) to meet the EDP training requirements of state departments. The total state cost to meet these requirements is estimated to be approximately \$400,000 annually. In instances where SEEP has not been able to meet a training request with its own staff it has secured outside assistance which might be from another state agency or from a private firm.

Some departments operate independent EDP training programs and secure outside consultants independently. We believe that if the central training function is to be effective, it must be coordinated. Finance should specify procedures which will eliminate redundant training efforts and independent EDP training consultant acquisition.

**DEPARTMENT OF FINANCE—Continued****Inadequate Reports**

*We recommend that the State Data Processing Management Office adopt guidelines for departments to ensure more meaningful quarterly progress reports submitted under Section 4 of the Budget Act.*

Despite modifications to the criteria contained in the Supplementary Report of the Committee on Conference regarding Section 4 which was intended to improve the value of reports which describe progress in implementing EDP systems, many reports continue to be generated in non-standard formats with varying degrees of detail not necessarily related to the magnitude of the project. Other reports for projects simply do not allow real progress to be evaluated.

Considering the amount of time spent by departments to prepare, produce and distribute these reports, and the time spent by our office and the SDPMO in attempting to evaluate them, all parties would benefit significantly if the reports followed a standard format and were kept brief and to the point. In developing such guidelines, Finance may wish to consider an exception or short-form reporting for projects which are on schedule, within cost and have no significant problems. Also, consideration should be given to including total project costs in reports, and not just those attributed to the EDP portion of a project.

**Need for Job Rotation**

*We recommend that the State Data Processing Officer implement a program of job rotation, whereby selected state EDP personnel will be assigned to the State Data Processing Management Office (SDPMO) and SDPMO personnel will be assigned to operating departments.*

The objective of such a program would be to bring new skills to the SDPMO while at the same time providing regular SDPMO analysts an opportunity to understand better the needs and problems encountered by operating departments. Failure to carry out this recommended program will result in the state not applying those modern skills and techniques which the SDPMO does not now possess to computer problems, and will continue to reinforce a limited perspective on the part of SDPMO analysts.

**Data-entry Optimization**

*We recommend that the State Data Processing Management Office support actively the Department of General Services' efforts to develop cost-effective data-entry programs in state departments.*

The Department of General Services initiated in 1975-76 a data-entry optimization program to effect economies in the state's data-entry program (estimated by General Services to be approximately \$15 million). At present, data-entry is decentralized and many departments maintain their own systems, although some contract with General Services for this service. The objective of the data-entry optimization program has not been to create more business for General Services, but to effect economies in the data-entry process.

According to an October 14, 1975, progress report published by General

Services, significant savings will be realized as a result of the optimization program. Because the program operates on a reimbursable basis, its effectiveness is limited to the degree that departments avail themselves of the service. Finance should develop a means to ensure that the General Services' program attains full implementation, and that recommendations made by General Services are implemented unless they are found to be unsound. In some instances, Finance may wish to direct the employment of the data-entry optimization staff to evaluate certain data-entry operations.

#### **Strengthen COM Policy**

*We recommend that the State Data Processing Management Office strengthen its policy on computer output microfilm (COM), as expressed in management Memo 75-48 by restricting further criteria for the optimal use of COM.*

In the 1975-76 Analysis we were critical of Finance for not taking a leadership position in encouraging departments to replace many costly computer printouts with a less expensive computer output microfilm (COM) process. In response to our concern, the department on October 31, 1975, issued Management Memo 75-48. This directive establishes for the first time statewide criteria for mandatory and optional uses of COM.

According to a December 11, 1975, General Services report, the directive, coupled with a master contract for COM services with a private contractor under the auspices of General Services, will result in a net annual savings to the state of \$198,000 at the current rate of COM use. According to that same report, "... the state can conservatively expect to pay 162 percent more for paper than COM." These findings are in general agreement with the reported experience of numerous private and governmental organizations which have determined COM to be a cost-effective replacement for paper.

Therefore, Management Memo 75-48 has proven to be a first step in the right direction. We believe, however, that COM savings can be increased further if the criteria for mandatory use of COM are expanded to include types of output which now fall under the criteria for optional use of COM.

#### **Computer Printer Optimization**

*We recommend that the State Data Processing Management Office study the feasibility of consolidating computer printer processes.*

The SDPMO should evaluate current departmental computer printer usage and determine the feasibility of consolidating processes to reduce the number of computer printers necessary. This study should consider the extent to which new laser-oriented devices can reduce the total cost of computer printing.

## COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

Item 67 from the General Fund

Budget p. 135

Requested 1976-77 .....	\$130,592
Estimated 1975-76.....	129,120
Actual 1974-75 .....	97,843
Requested increase \$1,472 (1.1 percent)	
Total recommended reduction .....	\$20,000

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. *Consultant and Professional Services. Reduce by \$20,000.* 128  
 Recommend reduction of commission's request for \$50,000  
 for consultant and professional services.

### GENERAL PROGRAM STATEMENT

The Commission on California State Government Organization and Economy conducts studies to promote economy and efficiency in state government. Commission members are reimbursed for necessary expenses incurred in the performance of their duties but receive no salary. The permanent staff consists of an executive secretary and a secretary. Additional staff is obtained on an as-needed basis from other agencies or by contract with outside consultants.

### ANALYSIS AND RECOMMENDATIONS

#### Excess Funds for Consulting Service.

*We recommend a reduction of \$20,000 in the commission's request for \$50,000 for consultant and professional services.*

*History of Consultant Services Expenditure Item.* In our 1972-73 Budget Analysis we recommend that interdepartmental transfers of positions be identified in the budgets of both the lending and receiving agencies. As a result the commission requested \$50,000 in the 1973-74 budget for reimbursements to other state agencies for the use of personnel. In our 1973-74 Budget Analysis we recommended approval with the conditions that (1) this amount be used solely for reimbursing other state agencies for temporary transfer of personnel, (2) the commission provide detail in future budget requests as to the projects it expects to undertake for the budget year, the agencies that will provide the staff, and the approximate reimbursement that will be made to each agency. The Legislature approved the increase for the 1973-74 budget but placed no restrictions on the use of the funds. Subsequently, the commission spent almost \$3,500 in 1973-74 for services of a public relations firm. In our 1974-75 Budget Analysis we concluded this use of funds to be unjustifiable. We recommended that the use of outside consulting services be limited to professional and technical services necessary for the commission's investigations when such services were unavailable from state agencies. The Legislature adopted our recommendations in the Budget Act of 1974 and the Budget

Act of 1975.

*Consistent Consultant Services Surplus.* Since 1972-73 the commission has spent considerably less than the amounts appropriated for consultant and professional services.

Amounts for Consultant and Professional Services	Fiscal Year				
	1972-73	1973-74	1974-75	(est) 1975-76	(est) 1976-77
Authorized .....	\$2,198	\$53,437	\$50,000	\$50,000	\$50,000
Spent .....	1,693	29,561	24,484	30,000	-
Unexpended .....	505	23,876	25,516	20,000	-
Total unexpended balance .....	\$4,290	\$20,754	\$23,847	\$20,000	-

We feel these savings have resulted from the commission's ability to obtain low cost or free professional services from state agencies and from the private sector by virtue of the commission's reputation and the resourcefulness of its members and executive secretary. We are unable to predict the level of spending for consultant services in 1976-77 because the commission has been unable to detail the costs or topics of projects it plans to undertake in 1976-77.

*Use of Outside Consultants.* The commission's past experience indicates paid outside consultants were *not* used in most of the commission's studies which identified specific cost savings to the state. On the contrary, very few of the studies by paid outside consultants identified specific cost-savings to the state.

Outside consultants are expensive relative to the cost of using state personnel. The hourly cost of a principal program budget analyst (Department of Finance) is approximately \$25. The hourly cost of private consultant services at a comparable professional level is in excess of \$50.

Viewing the commission's past experience with paid outside consultants, and its proven ability to stay well within its consultant services budget, we believe a reduction of the consultant services authorization will not adversely affect the commission's ability to perform its duties.

## COMMISSION ON INTERSTATE COOPERATION

Item 68 from the General Fund

Budget p. 136

Requested 1976-77 .....	\$90,000
Estimated 1975-76 .....	None
Actual 1974-75 .....	110,730
Requested increase \$90,000	
Total recommended reduction .....	None

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The Commission on Interstate Cooperation provides for the state's participation as a member of the Council of State Governments, a national association whose goal is to strengthen the role of state government in the

**COMMISSION ON INTERSTATE COOPERATION—Continued**

federal system and promote interaction among the states. Through organizations affiliated with the national body, the state commission has opportunities to confer with officers of other states and of the federal government and formulate proposals for interstate cooperation.

The amount budgeted in this item provides the state's membership fee for the Council of State Governments. It represents the difference between the council's total state assessment (which is based on a population formula) and the amount required for the National Governor's Conference which is contained in the budget of the Governor's Office and the amount required for the National Conference of State Legislatures as contained in the budget of the Senate.

The Legislature eliminated this budget item from the Budget Act of 1975 because of dissatisfaction with some policies of the national body. We hope that these matters have been resolved so that the state can again participate in this national organization.

**ARTS COUNCIL**

Item 69 from the General Fund

Budget p. 136

Requested 1976-77 .....	\$1,400,000 <sup>a</sup>
Estimated 1975-76.....	797,480
Actual 1974-75 .....	None
Requested increase \$602,520 (75.6 percent)	
Total recommended reduction .....	Pending

<sup>a</sup> New item replacing California Arts Commission.

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Basic Operational Programs. Recommendation withheld 131  
pending information on basic programs.

**ANALYSIS AND RECOMMENDATIONS**

A nine-member Arts Council was established on January 1, 1976, by Chapter 1192, Statutes of 1975, to replace the California Arts Commission. The council members, all of whom are to be appointed by the Governor, will receive \$100 per meeting plus travel and related expenses. The council's duties and powers will include promoting artistic awareness and employment of artists, helping independent local groups develop their own arts programs, appointing advisory groups which will serve without compensation except for expenses, accepting federal grants or unrestricted gifts from private sources, establishing a grant application program and awarding prizes or grants to individuals or organizations. The Governor will appoint a staff director and two deputies to serve at his pleasure.

**Basic Operational Programs**

*We withhold recommendation on this item pending information on basic operational programs.*

The budget document estimates current-year General Fund expenditures for the Arts Council of \$797,480 consisting of \$700,000 appropriated under Chapter 1192, Statutes of 1975, and \$97,480 representing the unencumbered balance of the \$175,000 budgeted in the current year to the California Arts Commission which expired January 1, 1976, when the Arts Council became operational. In addition, a block grant of \$205,000 from the federal National Endowment for the Arts will be used in the remainder of fiscal year 1975-76 for the following purposes:

1. Artists-In-Communities .....	\$112,000
2. Consultancies .....	12,500
3. Technical Talent Bank .....	8,000
4. Grants Program .....	72,500
Total .....	\$205,000

The Artists-in-Communities is a program to increase the public's awareness and appreciation for the arts by assisting nonprofit, community-based organizations such as schools, service clubs and arts organizations to retain professional artists on a long-term basis. The consultancies program allows arts organizations to contract for the services of a professional consultant in the area they choose for up to two days with state financial assistance. The Technical Talent Bank is a project to develop a computerized listing of all artists and arts organizations in the state for a variety of uses. The remaining federal funds will be used to continue the state's grants program.

The proposed budget year support level consists of a General Fund appropriation of \$1,400,000 and continuation of the \$205,000 federal block grant for a total program expenditure of \$1,605,000. No detail is provided on Arts Council staffing, operating expenses or anticipated programs. We therefore withhold recommendation until such determinations are made.

**COMMISSION FOR ECONOMIC DEVELOPMENT**

Item 70 from the General Fund

Budget p. 137

Requested 1976-77 .....	\$169,303
Estimated 1975-76 .....	160,621
Actual 1974-75 .....	88,138
Requested increase \$8,682 (5.4 percent)	
Total recommended reduction .....	\$169,303

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. *Funding. Reduce \$169,303.* Recommend deletion of General Fund support for Commission for Economic Development. 134

**COMMISSION FOR ECONOMIC DEVELOPMENT—Continued****ANALYSIS AND RECOMMENDATIONS**

The commission was created in 1972 to provide guidance for statewide economic development. It is composed of legislative and private sector members and chaired by the Lieutenant Governor. Its statutory responsibilities include considering and recommending economic development programs and annually reporting activities, findings and recommendations to the Legislature and the Governor. In addition, the law requires the commission to provide policy guidance to the State Department of Commerce. However, that responsibility cannot presently be fulfilled because that department is not funded for either the current year or the budget year.

The commission's staffing and expenditures are summarized in Table 1.

**Table 1**  
**Budget Requirements of the Commission**  
**for Economic Development**

	<i>Personnel</i> <i>(staff-years)</i>			<i>Expenditures</i>		
	<i>Actual</i> <i>1974-75</i>	<i>Estimated</i> <i>1975-76</i>	<i>Proposed</i> <i>1976-77</i>	<i>Actual</i> <i>1974-75</i>	<i>Estimated</i> <i>1975-76</i>	<i>Proposed</i> <i>1976-77</i>
Personal services .....	3.2	3	3	\$54,602	\$83,389	\$88,592
Operating expense and equipment....				33,635	77,232	80,711
Reimbursements .....				-99	—	—
Total General Fund costs .....				\$88,138	\$160,621	\$169,303

Reclassification of a research analyst position to an assistant executive officer position and additional funds for printing account for most of the proposed 5.4 percent increase in total expenditures for the budget year.

**Disappointing Past Record**

In our Analysis of the Budget Bill for 1974-75 we found the commission's past record disappointing and its contribution inadequate. We recommended its abolishment but the recommendation was not accepted and the commission was funded at the proposed level. However, supplemental language to the Budget Act required the commission to work with other agencies toward a comprehensive approach to economic development.

During the following year, the commission failed to take any effective action toward meeting the preceding year's legislative directive. In addition, it did not have any clear-cut objectives or programs for meeting its statutory responsibilities. We concluded that the commission was improperly structured and lacked the capability to provide effective economic development guidance. Therefore, we recommended that 1975-76 General Fund support be withheld from the commission. Our recommendation was not accepted and the commission's originally proposed budget of \$62,090 was more than doubled, to \$152,331, not including salary increase or TEC allocations.

Most of the \$90,241 augmentation was earmarked for three purposes, (1) a substantial salary increase for the commission's new executive director,

(2) for travel (both in and out-of-state) and (3) consultant and professional services. This augmentation was requested by the chairman of the commission to permit the body to "... vigorously pursue a new direction ..." in economic development, including the task of providing professional economic development guidance.

Under law in existence at that time, the commission was scheduled to be terminated on January 1, 1976. However, the enactment of Chapter 253, Statutes of 1975, (SB 55) extended the statutory life of the commission from January 1, 1976 to June 30, 1977.

#### **Current Year Record**

Assessment of the commission's prospects for completion of projects started in 1975 and implementation of programs contemplated is unfavorable at this writing.

*Task Force Activities.* In early 1975, the commission appointed voluntary task forces in housing construction, international trade, small business and economic planning. These task forces, composed of specialists from several fields, were to provide general and specific guidance in their respective areas of expertise. Prior to going out of existence in September, the Task Force on Housing Construction was reported to have provided some input on legislation which established the California Housing Finance Agency. The task forces on international trade and small business are still in existence but appear to be dormant and there is no information currently available on their objectives, programs and accomplishments.

The recently established additional task forces on the rural economy and on women in the economy are still in the formative stage with no record to evaluate.

*Task Force on Economic Planning.* The most important and most visible of the task forces has been the one on economic planning. This voluntary advisory body was appointed by the commission to provide economic guidance in the assessment of California's economic situation and in the formulation of economic development policy.

However, we believe the task force is too large in size (currently 30 members representing business, academia, labor, environmental, consumer and other special interest groups) and too diverse in opinion to provide a meaningful consensus on planning advice. In fact, the task force's stated approach to economic planning was a series of ongoing debates to produce ideas and alternatives for improvement of the state's economic climate. In September the task force submitted a proposal of its planning activities which called for a report to be submitted to the commission by June 1976. The report was to include (1) in-depth description and analysis of the state's economy, (2) economic development proposals from business, labor, environmental and human services perspective and (3) recommendations for policy and action. To accomplish these planning activities by the proposed June 1976 deadline, the task force requested a budget of \$62,000 for temporary research and clerical staff, travel, as well as for general operating funds. The commission's staff is currently trying to obtain federal grant money to fund this budget request but we are informed that the prospects for obtaining these funds are not favorable at

**COMMISSION FOR ECONOMIC DEVELOPMENT—Continued**

this writing. In the meantime, the task force has become dormant with no indication as to when it will resume its planned activities.

**Commission Remains Inactive**

Although the Task Force on Economic Planning provided the initiative and some follow-up action, the commission remained rather inactive during 1975. It met on five occasions during this period, approved the task forces proposed by its chairman and acted on routine administrative matters. However, the commission took no guidance initiative on its own, sponsored no legislation and proposed no programs. A conference on unemployment was held but it is difficult to identify any tangible benefits resulting from it. Meeting attendance by members has been poor and four positions on the commission have been vacant since early 1975.

**Continued State Funding Not Justified**

*We recommend deletion of General Fund support for the commission in the amount of \$169,303.*

During the three years it has been in existence, the commission has failed to meet its statutory responsibility of providing effective statewide economic development guidance. We believe that, in its present form, the commission does not have the capability to provide this function at a level and in a form which would justify state fiscal support.

As we stated in last year's analysis, it would be desirable to have a small body of professional economists to provide state government with guidance in (1) assessment of California's economic situation and (2) formulation of economic development strategy. This strategy might include economic development objectives and programs to achieve the objectives. We suggest, however, that this guidance may be provided through an existing economic advisory group to the Department of Finance at little or no additional state cost.

Should the Legislature consider establishing and funding a small group of professionals for providing economic guidance instead of using the existing voluntary advisory group we suggested, the group could be funded substantially below the proposed 1976-77 budget for the commission.

**MILITARY DEPARTMENT**

Item 71 from the General Fund

Budget p. 138

Requested 1976-77 .....	\$6,612,636
Estimated 1975-76.....	6,435,454
Actual 1974-75 .....	6,237,238
Requested increase \$177,182 (2.8 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Contract Negotiations. Recommend inclusion of Department of Finance in contract negotiations with National Guard Bureau. 138
2. Classification Study. Recommend Department of Finance, in cooperation with the State Personnel Board, conduct staff classification study and report to Joint Legislative Budget Committee by December 1, 1976. 138
3. Emergency Plans. Recommend inclusion of Military Department in a Department of Finance study of emergency plans relating to natural disasters. 139

**GENERAL PROGRAM STATEMENT**

The purpose of the Military Department is to provide an effective military organization in California with the capability to: (1) protect the lives and property of the people in the state during periods of natural disaster and civil disturbances, (2) perform other functions required by the California Military and Veterans' Code or as directed by the Governor, and (3) provide military units ready for federal mobilization. The Military Department consists of three major units: the Army National Guard, Air National Guard, and the Office of the Commanding General.

**Army National Guard**

The troop strength of the Army National Guard is determined by the Department of the Army to meet the current contingency plans of the United States as developed by the Joint Chiefs of Staff with concurrence of the Governor. The Army National Guard currently consists of 20,870 officers and enlisted personnel in 177 company-size units.

**Air National Guard**

The Air Guard consists of four flying bases providing tactical airlift, tactical air support, air rescue and recovery, and air defense capabilities as well as communications units at six locations in the state. The Department of the Air Force allocates the units and the 5,275 authorized personnel throughout the state with the concurrence of the Governor.

**MILITARY DEPARTMENT—Continued****Office of the Commanding General**

The Office of the Commanding General is composed of state active-duty personnel and state civil service personnel responsible for the command management element, and the emergency plans and operations element. Command management entails those activities necessary to accomplish departmental objectives. Emergency plans and operations includes collection of data and preparation of plans, procedures, and orders for the deployment of California National Guard personnel and resources to assist state and local authorities in responding to natural or man-caused emergencies. Also included in this activity is the California Specialized Training Institute (CSTI) at Camp San Luis Obispo, which is a federally funded training course in civil disturbance management, officer survival, and school security offered to civilian and military personnel.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The total proposed budget for the Military is \$126,043,590. Of this amount, approximately 94.8 percent is federally funded with the remaining 5.2 percent from the General Fund. The proposed General Fund appropriation for departmental support is \$6,612,636, or 2.8 percent above the current year.

Table 1 shows the funding proposal by program area for departmental support, reflecting a net increase of 1.4 man-years (from 497.1 to 498.5). After deducting the equivalent of 12.1 man-years in salary savings, the budget provides for utilization of 486.4 man-years in the budget year, a decrease of 15.8 man-years from the current level of 502.2.

**Table 1**  
**Budget Summary**

<i>Program</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
I. Army National Guard .....	\$4,349,300	\$4,404,431	\$55,131	1.3%
II. Air National Guard .....	718,163	783,760	65,597	9.1
III. Office of the Commanding General	1,367,991	1,424,445	56,454	4.1
Total .....	\$6,435,454	\$6,612,636	\$177,182	2.8%
Positions .....	497.1	498.5	1.4	0.3%

**Staff Changes**

State authorized positions in the Military Department are funded either (1) entirely by the state, (2) by the federal government through *reimbursements* paid to the state, or (3) by a combination of state and federal funds. Positions which are financed *directly* by the federal government do not appear in the Governor's Budget.

The budget proposes a net increase of 1.6 authorized positions, reflecting the deletion of 15 positions and the addition of 16.6 positions as summarized in Table 2. These staff changes produce a net reduction of \$62,335 in salary costs.

**Table 2**  
**Changes in Authorized Positions**

	<i>Positions Added</i>	<i>Positions Reduced</i>	<i>Net Changes to Salaries and Wages</i>
Army Division .....	1	-14	\$-203,649
Air Division .....	13	0	121,529
Command Management .....	2.6	-1	19,785
	16.6	-15	\$-62,335

Twelve of the positions deleted from the Army Division currently are assigned to the Camp Roberts and Fort Irwin training installations. They are scheduled to be transferred from 100 percent federally reimbursable state active duty status to direct federal support as federal technicians. This reflects the recent policy of the National Guard Bureau to achieve nationwide uniformity in the salaries and classification of 100 percent federally supported positions at state training installations. The remaining three positions are deleted because of termination of their federal support.

The 16.6 requested positions are shown in Table 3.

**Table 3**  
**Proposed New Positions**

<i>Army Division</i>	<i>Positions</i>	<i>Salary Cost</i>
Custodian II.....	1	\$8,808
<i>Air Division</i>		
Building maintenance worker .....	1	11,466
Janitor .....	4	29,040
Sergeant E-5 (security guard) .....	8	81,023
<i>Command Management</i>		
Major (operations officer) .....	1	22,253
Temporary help/overtime .....	1.6	15,350
	16.6	\$167,940

The custodian II is needed for increased workload caused by an expansion of the office space occupied by the department's tenant at Camp San Luis Obispo, the United States Property and Fiscal Officer (USPFO). The department is required by contract to furnish janitorial service to the USPFO for which it receives 75 percent reimbursement from the federal government.

The building maintenance worker and four janitors are needed to maintain additional facilities resulting from six major federal military construction projects at the Fresno Air National Guard (ANG) Base. These positions are 80 percent federally reimbursable.

Four of the security guards were administratively added in the current year at the Fresno ANG Base to provide around-the-clock protection of the main installation, nonalert aircraft, and the missile storage site. These positions are 80 percent federally reimbursable. The remaining four guards are proposed for the Ontario ANG Base. Their costs are 100 percent federally reimbursable.

**MILITARY DEPARTMENT—Continued**

The operations officer (100 percent state funded) is proposed to augment the department's capacity to develop and implement emergency plans relating to natural disasters. The budget also provides funding to upgrade the aide to the commanding general from the level of warrant officer to captain. The \$15,350 for additional temporary help and overtime is requested for clerical workload performed by state civil service positions in the Office of Administration within the Office of the Commanding General.

**Federal Funding Expires**

The budget also reflects the deletion of 21.3 positions assigned to the California Specialized Training Institute which were added administratively in the current year upon renewal of a federal grant which now expires June 30, 1976. Current-year support for the institute, including the federal grant (90 percent) and state matching funds (10 percent), totals \$727,030. It is anticipated that CSTI will again be added administratively in the budget year when grant funds become available.

**Strengthen Federal Budgetary Negotiations**

*We recommend that the Department of Finance be included in contract negotiations with the federal National Guard Bureau.*

A program review of the Military Department conducted by the Department of Finance dated July 1975, indicates that the level of federal support for California National Guard programs is, in certain situations, based on negotiations between state and federal officials. Such decisions are sometimes made on the basis of administrative discretion in the context of a broad contract rather than on specific federal regulations.

While the level of federal support is high relative to the department's total budget, the state may be able to increase the ratio of federal funding and obtain greater cost-sharing uniformity in certain program areas. For example, the National Guard Bureau has agreed to fund 100 percent of the proposed new security guards at Ontario ANG Base, a nonalert base, but it will finance only 80 percent for the proposed security guards at Fresno ANG Base, an alert base containing considerably more valuable federal aircraft.

The department negotiates its contracts with the National Guard Bureau several times a year. We believe that these negotiations should include a representative from the Department of Finance in addition to Military Department personnel. Inclusion of a fiscal representative of the Governor in this process could provide more balanced representation of the state's interest in the program.

**Classification Study**

*We recommend that the Department of Finance, in cooperation with the State Personnel Board, conduct a staff classification study of the Military Department and report thereon to the Joint Legislative Budget Committee by December 1, 1976.*

Section 164 of the Military and Veterans Code authorizes the Adjutant General (Commanding General) of the Military Department to fix the

salaries of department personnel subject to Department of Finance approval. The code also requires that the department be organized as generally set forth in the regulations of the Departments of Army and Air Force when those regulations are not inconsistent with California law. In practice, this statute has permitted the department considerable freedom in setting the salaries and determining the classifications of new positions and in reclassifying existing positions.

There appears to be some disparity in the classifications (hence, the salaries) of military and civilian positions. For example, the duties performed by the Military Department's budget officer position, a major on state active duty, are comparable to those of an associate budget analyst in state civil service. In addition to the staff benefits (retirement, health insurance, etc.) provided for state civil service positions, the major also receives the same tax-free housing and food allowances given to federal military personnel which, for the rank of major, approximate \$300 per month. These benefits, when added to the salary for a major, produce monthly compensation which exceeds that of the civil service counterpart by \$180 (excluding the tax advantage) at the top step of the salary range.

We believe that wherever possible, state active duty classifications and salaries should be made comparable to those of state civil service when the duties are similar. We therefore recommend that the Department of Finance, in cooperation with the State Personnel Board, conduct a staff classification study for the purpose of determining whether the department is using the proper classifications for its employees and whether, there is parity between the classifications and salaries paid to state active duty and state civil service positions.

#### **Study of Emergency Plans**

*We recommend that the Military Department be included in a comprehensive Department of Finance study of state emergency plans relating to natural disasters.*

As discussed more fully in our analysis of the Office of Emergency Services budget (Item 33, page 28), both the Military Department and the Office of Emergency Services prepare plans for use in state emergencies. In a July 1975, report on these planning functions, the Department of Finance stated that the Military Department has devoted more planning effort to law enforcement-related emergencies than to emergencies caused by natural disasters. The operations officer position (major) is requested to provide better planning balance by developing and updating emergency plans relating to natural disasters.

As noted in our analysis of Item 33, the Department of Finance report did not examine thoroughly the quality or implementation feasibility of the various emergency plans, and we have accordingly recommended that the study team be directed to examine these matters in a subsequent report.

**Military Department**  
**MILITARY RETIREMENT**

Item 72 from the General Fund

Budget p. 138

Requested 1976-77 .....	\$778,892
Estimated 1975-76.....	736,043
Actual 1974-75 .....	577,146
Requested increase \$42,849 (5.8 percent)	
Total recommended reduction .....	None

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

This program applies only to military personnel ordered to state active duty prior to October 1, 1961. The law provides that persons ordered to active duty subsequent to October 1, 1961, are members of the Public Employees' Retirement System (PERS). The benefits under this program are similar to those of the federal military retirement system.

There are currently 45 people retired under this program. They account for the current year cost of \$736,043. The proposed \$42,849 increase in the budget year reflects the full-year cost of three additional eligible people who retired during the current year and are receiving benefits. Nine more people will be eligible to retire under this program in future years.

**Military Department**  
**CALIFORNIA CADET CORPS**

Item 73 from the General Fund

Budget p. 141

Requested 1976-77 .....	\$245,506
Estimated 1975-76.....	139,116
Actual 1974-75 .....	121,648
Requested increase \$106,390 (76.5 percent)	
Total recommended reduction .....	\$54,683

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis*  
*page*

1. *Captain-coordinator. Reduce \$32,168.* Recommend deletion of proposed captain-coordinator position and related expenses. 141
2. *Uniforms. Reduce \$22,515.* Recommend reduction in state support costs for cadet uniforms. 141

**GENERAL PROGRAM STATEMENT**

The objective of the California Cadet Corps is to develop in youth the qualities of leadership, patriotism and citizenship under conditions of military discipline. The program provides training in basic military subjects,

first aid, survival and marksmanship. About 3,200 students in 68 junior and senior high schools are presently participating in the courses, which are taught by credentialed teachers as part of the regular educational program. The Military Department currently provides 3.7 positions for statewide coordination and program direction in addition to uniforms, rifles, awards and other materials.

#### **ANALYSIS AND RECOMMENDATIONS**

The Military Department is requesting \$245,506 for this program in the budget year which is an increase of \$106,390 or 76.5 percent over current-year expenditures. The proposed increase consists primarily of a new captain-coordinator position and the purchase of 2,400 new uniforms to allow extension of the program to an additional 1,600 students at 34 more schools in the budget year and 800 more students in 1977-78.

#### **New Position Not Justified**

*We recommend that the proposed captain-coordinator position be deleted for an annual General Fund saving of \$32,168.*

The department states that the proposed new captain-coordinator position would be used to conduct three one-half day inspection visits annually including the 34 additional schools to be brought into the program next year. The department advises that it maintains this inspection standard for the 68 schools already in the program by assigning some inspections to the cadet program supervisor.

We believe that the program expansion could be handled with existing staff by reducing the inspection standard. Except for a few minor adjustments, this program is taught in the same way with the same types of materials each year. There is little need for the department to visit a school three times yearly if it has participated in the program for a number of years and the instructor has demonstrated the ability to teach the course properly. Visits of this frequency should be reserved for newly formed cadet programs and those which have demonstrated deficiencies in the past. Any reduction in the psychological value of such visits to the cadets or the instructors could be offset by correspondence and regional meetings to make better use of existing departmental staff. We therefore recommend deletion of the new position for a General Fund saving of \$32,168 consisting of salary, benefits, an automobile and related travel expenses.

#### **Cadet Uniforms**

*We recommend that the department conform to the statutory limitation regarding state costs for cadet uniforms for a General Fund saving of \$22,515.*

The department provides uniforms at no cost to the cadets, including replacement of lost or unserviceable items. The proposed budget includes \$58,515 to purchase 2,400 new uniforms for the 1,600 new cadets expected in the budget year and 800 additional cadets anticipated in 1977-78.

Section 511.5 of the Military and Veterans Code, which authorizes expenditure of state funds for cadet uniforms, sets a ceiling on state support of \$15 per uniform. The maximum support the state may legally provide for these 2,400 uniforms is therefore \$36,000. We recommend compliance

**CALIFORNIA CADET CORPS—Continued**

with this statutory support limitation for a General Fund savings of \$22,515. The department would still be able to provide uniforms for 2,032 cadets within this statutory limitation without requiring cadet contributions if it lowers the per uniform cost by continuing its five-year-old practice of not including lightweight jackets as part of the uniforms.

We understand that the department may request legislative authorization to increase the uniform support limit. We believe the department should, instead, seek other means of meeting cadet corps uniform needs, such as requiring cadets to contribute to the costs of their uniforms when this would not represent a severe economic hardship and requiring cadets to pay for replacement of lost or damaged uniforms or portions thereof.

**PUBLIC UTILITIES COMMISSION**

Item 74 from the General Fund, Item

75 from the Transportation Rate

Fund and Item 76 from the State Energy Resources Conservation and Development Special Account

Budget p. 145

Requested 1976-77 .....	\$19,742,572
Estimated 1975-76.....	19,254,028
Actual 1974-75 .....	16,986,257
Requested increase \$488,544 (2.5 percent)	
Total recommended reduction .....	\$100,000

**1976-77 FUNDING BY ITEM AND SOURCE**

Item	Description	Fund	Amount
74	Public Utilities Commission	General	\$10,954,308
75	Public Utilities Commission	Transportation Rate	8,666,224
76	Public Utilities Commission	State Energy Resources Conservation and Development Special Account	122,040
			<hr/>
			\$19,742,572

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

Analysis  
page

1. *Temporary Help (Consultants). Reduce Item 74 by \$100,000.* Recommend deletion of proposed consultant funds. 146
2. *Electronic Data Processing.* Withhold recommendation on EDP expansion pending review of feasibility study. 147
3. *Transportation Rate Fund.* Recommend legislation abolishing Transportation Rate Fund. 148
4. *Hearing Delays.* Recommend stricter controls over procedures for submission of testimony involving filings of ap- 148

- plications for rate increases.
5. Routine Filings. Recommend legislation authorizing executive director to decide routine matters on behalf of the commission. 149
  6. Reorganization. Recommend greater direct administrative and decision-making authority be delegated to southern California office. 150

#### **GENERAL PROGRAM STATEMENT**

The Public Utilities Commission (PUC), created by constitutional amendment in 1911, is responsible for the regulation of privately owned public utilities. The term "public utility" includes such entities as truck, bus, and airline companies, pipeline corporations, electric companies, telephone companies, gas companies, and warehouse companies. For operating purposes, however, the PUC distinguishes between regulation of "transportation" companies and regulation of the remaining "utilities." The commission's primary objective is to insure adequate facilities and services for the public at reasonable and equitable rates consistent with a fair return to the utility on its investment.

#### **Commission Organization**

The commission is composed of five members appointed to staggered six-year terms by the Governor with the advice and consent of the Senate. The commissioners annually elect one of their members as president. The executive director serves as the administrative head of the commission.

The commission's staff of 858.5 authorized positions is organized into six divisions: Administrative, Utilities, Transportation, Finance and Accounts, Examiners, and Legal. The commission is headquartered in San Francisco with an area office in Los Angeles and some staff located in 14 Division of Transportation field offices throughout the state.

#### **Programs**

The commission's two major programs are (1) regulation of transportation companies and (2) regulation of utilities. These programs are administered by the Division of Transportation and the Division of Utilities, each of which receives supportive services from the other four divisions. Approximately 38 percent of the commission's total staffing and expenditures are allocated to regulation of utilities, while the remaining 62 percent relate to regulation of transportation.

#### **Operating Procedures**

The commission passes judgment on all changes in operating methods and rate schedules proposed by regulated utilities and transportation companies. It investigates complaints registered against utilities and may also initiate investigations of utility companies on its own volition. In all such cases, data are accumulated by the staff, hearings are held, decisions rendered, and compliance secured through enforcement procedures. Appeal of commission decisions may be made only to the California Supreme Court, whose review power is limited to questions of law.

An application or complaint presented to the commission by or against

**PUBLIC UTILITIES COMMISSION—Continued**

a utility, for example, would be studied by the Utilities Division. Any financial implications would be reviewed and evaluated by the Finance and Accounts Division. The Legal Division advises the commission on questions of law and assists the staff and other interested parties in presenting their findings before the commission at hearings which are conducted by the Examiners Division. The Administrative Division provides staff supervision, administers commission policies, and maintains housekeeping services.

**Support of the Commission**

The commission is supported by the General Fund, the Transportation Rate Fund, and the State Energy Resources Conservation and Development Special Account. The Transportation Rate Fund finances only those commission activities relating to the rates, charges and practices of highway freight carriers.

Transportation Rate Fund revenues are derived from a fee on the gross operating revenues of highway freight carriers. Currently, this fee is set at one-third of 1 percent of such revenues. Additional Rate Fund revenue is produced by a \$4 quarterly "filing fee" paid by all highway carriers when filing their quarterly reports on gross operating revenue. Other revenues are derived from a miscellany of penalties, application fees for permits and certificates, registration fees and from the sale of documents.

The Energy Resources Account supports a portion of the commission's activities relating to energy conservation. All other commission functions are supported by the General Fund.

**ANALYSIS AND RECOMMENDATIONS**

Table 1 shows the commission's budget request (excluding federal funds and reimbursements) on a program basis.

**Table 1**  
**Budget Summary**

	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Change from Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Program</i>				
Regulation of Utilities Expenditures	\$6,910,087	\$7,414,713	\$504,626	7.3%
Man-years .....	309.1	318.2	9.1	—
Regulation of Transportation Expenditures .....	\$12,343,941	\$12,327,859	\$-16,082	-0.1
Man-years .....	527.9	530	2.1	—
Administration (distributed to other programs) Expenditures .....	(\$3,054,190)	(\$3,185,861)	(\$131,671)	4.3
Man-years .....	(114)	(114)	0	—
Total .....	\$19,254,028	\$19,742,572	\$488,544	2.5%
	837	848.2	9.1	—
<i>Funding</i>				
General Fund .....	\$10,773,594	\$10,954,308	\$180,714	1.7%
Transportation Rate Fund .....	8,480,434	8,666,224	185,790	2.2
State Energy Resources Conservation and Development Special Account	—	122,040	122,040	100.0%
	\$19,254,028	\$19,742,572	\$488,544	2.5%

The commission's budget-year request of \$19,742,572 is \$488,544 or 2.5 percent above estimated current-year expenditures. This reflects an increase of \$350,130 in personal services (including a net increase of 11.5 positions discussed later) and \$158,487 in operating expenses and equipment partially offset by an increase of \$20,073 in reimbursements. The commission also anticipates \$20,000 in federal funds for gas pipeline safety analysis and grade crossing safety studies plus reimbursements totaling \$652,584 (consisting primarily of document sales and fees for environmental impact reports) resulting in a total program expenditure of \$20,415,156.

The budget indicates that \$10,954,308 or 55 percent of the net program expenditures (those excluding reimbursements and federal funds) is to be paid from the General Fund, \$8,666,224 or 44 percent from the Transportation Rate Fund, and \$122,040 or 1 percent from the State Energy Resources Conservation and Development Special Account.

#### New Positions

The commission proposes a net increase of 11.5 positions, 15 new positions less 3.5 authorized positions reflecting completion of a legislatively-mandated study to determine priorities for providing energy to customers during periods of shortage. After deducting the equivalent of 21.8 man-years for salary savings, the budget provides for utilization of 848.2 man-years. The new positions plus funding for consultants and temporary help are shown in Table 2.

**Table 2**  
**Proposed New Positions**

	<i>Positions</i>	<i>Salary</i>
Administrative Division		
CEA III .....	1	\$28,572
Supervising utilities engineer .....	1	25,776
Associate utilities engineer .....	1	19,224
Assistant utilities engineer .....	1	15,816
Senior stenographer .....	1	10,248
Temporary help (consultants) .....	—	100,000
Utilities Division		
Associate utilities engineer .....	1	17,340
Associate economic analyst .....	1	16,524
Finance and Accounts Division		
Financial examiner IV .....	1	20,088
Transportation Division		
Associate data processing systems analyst .....	2	38,280
Assistant transportation engineer .....	1	14,280
Programmer I .....	1	12,948
Senior Clerk .....	1	8,808
Legal Division		
Counsel I .....	1	21,636
Legal stenographer .....	1	8,196
Examiners Division		
Temporary help .....	—	90,000
Total .....	15	\$447,736

The five positions identified in the Administrative Division would allow the commission to staff an energy conservation team to evaluate and implement utility conservation programs recommended by the Energy

**PUBLIC UTILITIES COMMISSION—Continued**

Resources Conservation and Development Commission and mandated by the PUC and the Legislature. The costs for these five positions would be paid from the State Energy Resources Conservation and Development Special Account which consists of a surcharge imposed on the consumption of electrical energy.

An amount of \$100,000 is requested in the Administrative Division to enable the commission to hire consultants on a temporary basis for a variety of activities discussed in greater detail below.

The two positions in the Utilities Division are requested to offset workload increases in the commission's processing of environmental impact reports. These positions are fully reimbursable through the collection of report review fees.

A financial examiner IV is requested in the Finance and Accounts Division for workload increases involving cost of capital and rate of return studies that accompany rate increase application reviews.

Two associate data processing systems analysts and one programmer are proposed in the Transportation Division to extend the commission's electronic data processing capability (which is now largely confined to transportation matters) to additional utility operations. This request will also be discussed below.

An assistant transportation engineer and a senior clerk are proposed in the Transportation Division to handle workload increases in formal filings and informal complaints regarding surface passenger carriers.

A legal counsel I and a legal stenographer are requested to reduce regulatory lag in the processing of major rate cases.

The sum of \$90,000 is requested to provide additional hearing reporters in the Examiners Division as temporary help. The costs of the additional reports would be recoverable from a resultant increase in revenues from the sale of hearing transcripts.

**Commissioner's Discretionary Fund**

*We recommend deletion of the proposed temporary help (consultants) allocation for a General Fund savings of \$100,000 (Item 74).*

The commission's 1975-76 budget was augmented by \$400,000 to implement an Economic Analysis and Planning Unit composed of five economists and clerical support (\$150,000) and to provide consultant services for a variety of purposes, including review of major rate increase applications, investigation of oil pipeline transportation practices, studies on natural gas supply and demand, and an evaluation of a proposed coal gasification plant (\$250,000). This amount (subsequently reduced to \$300,000 in the current year) was deposited into an account known as the "Commissioner's Discretionary Fund," which the commissioners used to employ consultants and fund other expenses related to special projects.

The commission advises that as of November 30, 1975, approximately \$52,000 of the original allocation had been expended. About 21 percent of this amount represented expenses incurred by four commissioners and three staff members for out-of-state travel relating primarily to contracts between two major utilities and suppliers of Alaskan natural gas.

The remaining expenditures have been for consultant services. However, only four of the 13 persons employed as consultants could be considered technically expert in the fields proposed for study. Approximately 30 percent of the costs for consultants has been for law students and clerical help. Commission staff members have been required to devote considerable time and effort to assist the consultants, which raises the question why regular employees were not used for the work in the first place. In addition, we understand that the commission does not intend to utilize these funds to implement the Economic Analysis and Planning Unit originally proposed for the current year.

The \$100,000 proposed in the budget year for temporary help (consultants) would be used to continue activities similar to those currently financed from the Commissioner's Discretionary Fund.

We believe the commission has not justified a continuing need for these consultant services, has not detailed the actual services to be provided, and has not placed sufficient controls on past uses of consultant funds. We therefore recommend deletion of the temporary help (consultants) allocation for a General Fund savings of \$100,000 (Item 74).

#### **Electronic Data Processing**

*We withhold recommendation on three proposed data processing positions and funding for additional computer services pending receipt of a feasibility study.*

In addition to proposing three new positions to expand its electronic data processing capability, the commission is requesting \$105,000 to lease additional computer equipment and to purchase additional computer time. These requests are justified by the commission on the basis of a December 1974, study of the commission by the Commission on California State Government Organization and Economy (Little Hoover Commission) which recommended expansion of the data processing operations to include more support of the regulation of utilities program.

The commission has listed 23 possible program areas to which data processing systems might be applied. However, the commission has not yet developed an organizational data processing plan or determined the feasibility of such expansion in terms of implementation costs, adaptability, or possible administrative cost savings.

We believe that while there may be a need to expand the commission's data processing system, the decision to do so should be based on a thorough study of the projects to be undertaken and the costs and benefits that would result. The commission is currently preparing a feasibility study on this proposal for the Department of Finance. We therefore withhold a recommendation on the proposed expansion pending our review of that study.

#### **Funding Deficiency**

As stated, the Transportation Rate Fund finances the commission's costs of regulating highway freight carriers. Commission staff are required to keep a daily log detailing the amount of time they spend on assignments relating to the regulation of such carriers in order to assure proper allocation of costs to the Transportation Rate Fund. The remaining staff time is

**PUBLIC UTILITIES COMMISSION—Continued**

a General Fund expense.

Because workload in the utilities area has increased considerably in recent years, commission staff members who had been charging all or a portion of their time to the Transportation Rate Fund have been transferred to functions supported by the General Fund. This shift resulted in the need for a \$160,554 Emergency Fund appropriation to the General Fund in 1974-75. As stated in the narrative of the Governor's Budget (page 145) it is estimated that the General Fund deficiency will reach \$588,000 in the current year and \$941,000 in the budget year. The budget does not provide for this deficiency because the administration considers the problem as arising from a redirection of personnel efforts (from the Transportation Rate Fund to the General Fund) that has not been approved by the Legislature.

The commission is seeking emergency legislation authorizing it to assess a fee on the gross revenue of utility companies to support its utility regulation costs in the same manner as a portion of the transportation regulation costs are supported from the Transportation Rate Fund. Without emergency legislation or an emergency appropriation, the commission will be required to achieve sufficient economies to offset the anticipated current-year General Fund deficiency.

**Transportation Rate Fund**

*We recommend legislation to abolish the Transportation Rate Fund, and deposit its revenue in the General Fund.*

We believe that the deficiency created by the shift of personnel from Transportation Rate Fund to General Fund support could be alleviated by abolishing the Rate Fund, thereby allowing all fees collected by the commission to be paid into the General Fund for support of overall commission activities. Historically, we have opposed the creation of special funds in state government and have recommended the abolition of such funds in the interest of sound budgetary administration.

In its 1974 study of the Public Utilities Commission, the Little Hoover Commission recommended abolishing the Rate Fund and commented that "The special interests who make payments into special funds are prone to consider the special funds as 'their' money and to assert a strong influence in its expenditure." The Governor made a similar assessment of special funds in his 1976 State of the State Address in which he advocated elimination of special funds and their transfer to the General Fund.

For similar reasons, we recommend legislation abolishing the Transportation Rate Fund and transfer of these revenues to the General Fund for redistribution as part of the regular budgetary process. This would provide the General Fund with additional revenue with which commission activities could be adequately supported.

**Hearing Delays**

*We recommend that the commission institute stricter controls over the procedures for submissions of written and oral testimony involving formal filings of applications for rate increases.*

Because "regulatory lag" (the time elapsed between filing of a formal

application and issuance of a commission decision) can sometimes cover more than two years in major rate increase cases, utility companies occasionally file "skeleton" applications to secure a place on the commission's hearing calendar. The commission staff must expend time and effort studying these applications and preparing findings for presentation at a hearing. As the hearing date approaches, utility companies typically amend their applications, which entails the submission of additional evidence to support their revised requests. This requires commission staff to rework their original findings based on new data, thereby aggravating the problem of regulatory lag. This situation could be alleviated if the commission either prohibited amendments after a certain stage in the staff's review process or simply required an application to be filed in final form.

The commission should also consider the adoption of procedural guidelines to minimize repetitive and obstructive testimony during major rate case hearings. While the commission has an obligation to consider all pertinent testimony before making a ruling, it also has an obligation to ensure a fair rate of return to the utility on its investment. Hearings that are unduly protracted contribute to regulatory lag to the detriment of both objectives. Therefore, the commission should develop reasonable rules to ensure both adequate expression of public opinion and an expeditious hearing process.

#### **Executive Director Should Handle Routine Filings**

*We recommend legislation authorizing the commission's executive director to decide routine, noncontroversial matters on behalf of the commission.*

The Public Utilities Code requires the five commissioners to issue every order emanating from the commission. Every matter requiring formal action by the commission is assigned to a commissioner who conducts an investigation with staff assistance, holds hearings if necessary, and returns a recommendation to the other commissioners in the form of a proposed order. Each commissioner is normally assigned about 150 formal filings, many of which are noncontroversial, routine and uncontested. A commissioner's recommendation on these matters is generally adopted by the commission.

The commissioners have important policy responsibilities and should not continue to be burdened with essentially ministerial matters. Pursuant to legislation effective January 1976, the commission secretary was redesignated the executive director and was given the executive and administrative functions formally assigned to the commission president. We believe that the upgrading of the position to executive director should be accompanied with the authority to decide such noncontroversial matters as may be identified by the commission. We therefore recommend legislation allowing the commission to determine specific filings which can be delegated to the executive director for ruling, subject to appeal to the commission.

**PUBLIC UTILITIES COMMISSION—Continued****Need to Strengthen Southern California Office Administration**

*We recommend the commission reorganize to provide greater direct administrative and decision-making authority at the southern California office.*

There are approximately 140 commission staff members at the southern California office in Los Angeles assigned to every division of the commission's organization except legal. The office is headed by a "commission representative" who functions largely as a coordinator of commission activities in southern California. Although this position is responsible for the actions of employees at the Los Angeles office, it has little formal staff authority. The Los Angeles staff generally report to their divisional supervisors in the San Francisco headquarters.

We are advised by utility company officials that because many decisions have to be submitted to headquarters, utility companies are reluctant to seek direction from the Los Angeles office staff. This limits the usefulness of that office and overburdens personnel in the headquarters office.

We recommend that the commission reorganize to strengthen the administrative authority of the commission representative and the decision-making authority of Los Angeles staff supervisors.

**COMMISSION ON THE STATUS OF WOMEN**

Item 77 from the General Fund

Budget p. 152

Requested 1976-77 .....	\$197,224
Estimated 1975-76.....	161,292
Actual 1974-75 .....	140,575
Requested increase \$35,932 (22.3 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Workload Study. Recommend proposed management services assistant II position be authorized for one year only. 151
2. Newsletter Subscription. Recommend commission study and report on the feasibility of charging a subscription fee for newsletter. 152

**GENERAL PROGRAM STATEMENT**

The Commission on the Status of Women, successor to a limited-term agency established in 1965, is a 17-member body consisting of two statutory members (the Superintendent of Public Instruction and the Chief of the Division of Industrial Welfare), one public member and three assembly-

men appointed by the Speaker of the Assembly, one public member and three senators appointed by the Senate Committee on Rules, and seven public members appointed by the Governor. The public members have staggered, four-year terms of office.

The commission received permanent status and broadened functions in 1971. It is directed by statute to study:

- (1) Women's educational and employment problems, needs, and opportunities.
- (2) State laws regarding the civil and political rights of women.
- (3) The effect of social attitudes and pressures and economic considerations in shaping the roles assumed by women in society.
- (4) Any laws, practices, or conditions concerning or affecting women which impose special limitations or burdens upon them or upon society, or which limit or tend to limit opportunities available to women.

#### **ANALYSIS AND RECOMMENDATIONS**

The commission is proposing a General Fund expenditure of \$197,224, which is \$35,932 or 22.3 percent above the current General Fund support level. This increase is largely attributable to adjustments in authorized positions, a \$10,000 increase for printing expenses, price increases, and staff benefits. The proposed budget does not reflect carry-over second-year funding from an Office of Criminal Justice Planning grant entitled "Women in Transition" for training volunteers to provide counseling and support services for women inmates. This grant, totaling \$47,778, was added administratively in the current year and expires August 31, 1976. The commission anticipates receiving third-year funding of approximately \$48,000 to be added administratively in the budget year.

The proposed budget also does not reflect carry-over second-year funding from a Rockefeller Foundation grant totaling \$199,000 to study conformity of state laws to the proposed Equal Rights Amendment. The grant was added administratively in the current year, but the commission does not anticipate continued funding after its expiration on September 30, 1976.

#### **Per Diem for Commission's Public Members**

The proposed budget provides \$5,000 for payment of a \$50 per diem to the nine public members of the commission, reflecting the administration's desire to encourage participation on the commission by persons who cannot afford to serve without suffering economic hardship. Chapter 1378, Statutes of 1965, which limits commission members to actual necessary expenses incurred while on official business would have to be amended to authorize such per diem payments.

#### **Position Shift Needs Study**

*We recommend that the proposed management services assistant II position be authorized for one year only.*

The budget proposes deletion of one clerk typist II authorized last year and addition of one management services assistant II, thereby retaining the presently authorized staffing level of 8.5 positions with a net increase

**COMMISSION ON THE STATUS OF WOMEN—Continued**

of \$594 in salaries and wages.

The management services assistant II is proposed to assist with workload increases in the commission's information center function, primarily regarding written and oral requests for information on current legislation and women's rights issues. These functions and others are currently handled by one management services assistant III. The commission advises it cannot continue to answer the growing volume of inquiries without neglecting other mandated functions. We have not had an opportunity to examine, thoroughly, the commission's information center workload or its time lag in responding to questions from the public. Our preliminary review raises questions about the nature of the commission's information workload and the need for an additional position in this function in lieu of instituting administrative economies such as focusing the service on specific areas such as pending legislation or using student interns on a voluntary basis. Therefore, we recommend that the management services assistant II be authorized for one year only during which time we can study the commission's staffing requirements in this area for use in our 1977-78 Analysis.

**Newsletter Subscription**

*We recommend that the commission study the feasibility of charging a subscription fee for its newsletter and report its findings to the Joint Legislative Budget Committee by October 1, 1976.*

The commission publishes a monthly newsletter which is distributed to over 8,000 persons, most of whom have asked to be included on the mailing list. The printing and mailing cost of each newsletter approximates \$1,500. In view of the apparent demand for this publication, the commission should be able to institute a subscription fee to offset a portion of the increasing General Fund costs for printing and distributing the newsletter and operating the information center. We note that other commission publications are already made available through the state's Documents Section at a cost.

**POLITICAL REFORM ACT OF 1974****(Display of Support Budgeted in Other Items)**

Item 78 from the General Fund

Budget p. (See below)

Requested 1976-77 .....	\$4,973,745
Estimated 1975-76.....	3,849,823
Requested increase \$1,123,992 (29.2 percent)	

**GENERAL PROGRAM STATEMENT**

The Political Reform Act of 1974, an omnibus elections measure, includes provisions relating to (1) campaign expenditure reporting and limitations, (2) conflict-of-interest codes and related disclosure statements required of public officials, (3) the state ballot pamphlet, (4) regulation of lobbyist activity, and (5) establishment of the Fair Political Practices Commission.

The implementation of these provisions has necessitated the budgeting of funds for six state agencies. Because Item 78 is intended only to display the cost effect of the Political Reform Act, analyses and recommendations regarding each of the agencies involved are contained within the appropriate budget items.

The departments which have budgeted funds in support of the act, the estimated expenditures and the general functions performed are displayed in Table 1.

**Table 1**  
**Budgeted Support for Political Reform Act of 1974**

<i>Agency</i>	<i>Function</i>	<i>Estimated 1975-76</i>	<i>Proposed 1976-77</i>	<i>Increase</i>	<i>Budget Page</i>
Legislative Counsel	Related to statewide ballot pamphlet	\$25,000	\$25,000	—	5
Secretary of State	Document filing and copying	326,920	326,920	—	119
Franchise Tax Board	Auditing Statements	2,136,903	2,880,805	\$743,902	287
Attorney General	Enforcement	43,000	220,100	177,100	39
General Services	Printing	216,000	224,640	8,640	296
Fair Political Practices Commission	Administration of Act	1,102,000	1,296,280	194,280	77
Total		<u>\$3,849,823</u>	<u>\$4,973,745</u>	<u>\$1,123,922</u>	

**EDUCATIONAL EMPLOYMENT RELATIONS BOARD**

Item 79 from the General Fund

Budget p. 153

Requested 1976-77 .....	\$521,000
Estimated 1975-76.....	300,000
Requested increase \$221,000 (73.6 percent)	
Total recommended reduction .....	Pending

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis  
page*

1. Withhold recommendation pending receipt of an itemized budget. 154
2. Unexpended Balance. Recommend carry forward of 1975-76 unexpended balance. 154

**GENERAL PROGRAM STATEMENT**

Chapter 961, Statutes of 1975, (SB 160) repealed the Winton Act and authorized new procedures effective July 1, 1976, pertaining to employment relations between public school employers, including community colleges, and public school employees. The bill established the Educational Employment Relations Board to govern negotiating procedures of public school employers and employees, with the exception of elected officials, management and confidential employees. When necessary, the board has the adjudicatory power to determine the appropriateness of the collective bargaining units.

The board is also authorized to conduct secret ballot representation elections, establish lists of qualified mediators, arbitrators and fact finders, conduct related studies and recommend needed legislation, adopt rules and regulations, investigate and determine charges of unfair practices, hold hearings, and issue subpoenas. The board is to be comprised of three members appointed by the Governor.

**ANALYSIS AND RECOMMENDATIONS**

*We withhold recommendation pending submission by the board of an itemized budget to the legislative fiscal committees.*

*We recommend that control section language be added to the Budget Bill to authorize the carry forward to 1976-77 of any unexpended balance of the \$300,000 appropriated by Chapter 961.*

The Governor's Budget proposes \$521,000 for operation of the board in 1976-77. The Department of Finance advises that there is no line item detail for this budget and that the board, when established, will develop and submit its own budget.

We are concerned about the lack of definition in the proposed appropriation of \$521,000. We also believe it very likely that a substantial portion of the \$300,000 appropriated by Chapter 961 for the initial support of the board will not be expended by June 30, 1976.

## INTERGOVERNMENTAL BOARD ON ELECTRONIC DATA PROCESSING

Item 80 from the General Fund

Budget p. 154

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Requested 1976-77 .....	\$106,300
Estimated 1975-76 .....	66,296
Actual 1974-75 .....	57,622
Requested increase \$40,004 (60.3 percent)	
Increase to improve level of service \$40,004	
Total recommended reduction .....	\$106,300

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### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

- |  |     |
|--|-----|
| 1. <i>Transfer Support to Department of Finance. Reduce \$106,300.</i> Recommend the staff and operational support for the board be transferred to the State Data Processing Management Office in the Department of Finance in the amount of \$100,039 for a net reduction of \$6,261. | 156 |
| 2. <i>Demonstrate Effectiveness.</i> Recommend available technical positions be assigned to those tasks which will demonstrate an increased level of effectiveness.  | 156 |
| 3. <i>Fulfillment of Responsibilities.</i> Recommend board's annual report relate the progress in each of its statutory responsibilities.  | 157 |

### GENERAL PROGRAM STATEMENT

The primary statutory responsibilities of the Intergovernmental Board on Electronic Data Processing include the establishment of policies, goals and objectives relative to intergovernmental information systems, and the development of a methodology to achieve appropriate coordination and review of such systems. Also under its statutory authority, the board may recommend legislation to insure the protection of individual privacy and the confidentiality of information contained in intergovernmental information systems.

The board consists of 14 members appointed by the Governor. It elects its own chairman. Members serve without compensation except the chairman who is reimbursed for expenses incurred in the performance of his duties.

A technical advisory committee consisting of representatives of state and local government provides substantial staff assistance to the board.

### ANALYSIS AND RECOMMENDATIONS

The Governor's Budget request of \$106,300 represents a 60.3 percent increase over the current year budget and reflects the proposed addition of one full-time technical and one clerical position to the board's present staff of two authorized positions.

**INTERGOVERNMENTAL BOARD ON  
ELECTRONIC DATA PROCESSING—Continued****Transfer Support**

*We recommend that state support for the board in the amount of \$100,039 be transferred to the State Data Processing Management Office in the Department of Finance and the remaining \$6,261 be deleted. In accomplishing this transfer, we recommend that existing and proposed board staff positions be transferred to Finance with the following position changes: (1) downgrade the executive director position to a data processing manager III level, and (2) replace the proposed clerk-typist I with an associate data processing analyst.*

The establishment of an additional technical position in the proposed budget reflects the desire of the board to fulfill its statutory responsibilities to a greater degree than has occurred at current staffing levels. The board has repeatedly come under criticism at legislative budget hearings for lack of productivity and has contended that its productivity has been limited because of insufficient staff resources.

We agree that additional staff should improve responsiveness and increase compliance with statutory responsibilities. However, we are concerned that even with an increased staff, the isolated nature of such a small unit will result in a less than optimum use of available personnel resources. Given this concern and recognizing the ongoing question of whether the unit serves a useful purpose, we believe the board's ability to be effective would be considerably enhanced by placing its state support within the State Data Processing Management Office (SDPMO) of the Department of Finance.

**Placement in Finance Offers Savings**

The SDPMO consists of the State Data Processing Officer and a staff of high-level EDP personnel. We believe that the State Data Processing Officer can provide overall guidance to the board staff, thus making it possible to downgrade the board's executive director position (\$29,844 annually) to a data processing manager III level (\$26,940 maximum). Additionally, we have determined that the proposed clerk-typist I position was intended to be an associate data processing analyst, and we would recommend the establishment of the analyst position in lieu of the clerk.

Placing such support in the SDPMO in the manner recommended would provide the board with an expanded base of qualified leadership and full-time staff resources consisting of three technical and one clerical positions. This will also enable the State Data Processing Officer to effect a better match of tasks to personnel skills in accomplishing both SDPMO and board functions. Further, transferring support to the SDPMO will result in a net reduction of \$6,261 in the board's budget because of savings in operating expenses made possible by a transfer.

**Need to Demonstrate Effectiveness**

*We recommend that technical positions provided in support of the board be assigned tasks which will demonstrate conclusively an increased level of effectiveness.*

The expanded staff should focus on tasks which will provide a quantifiable demonstration of effectiveness. To the extent practical, tasks should be selected which offer such demonstration prior to the board's next budget submittal and reported in the annual report. Further, in selecting tasks consideration should be given to those which will bring benefits to the state as well as local government, thereby providing justification for continued state funding at the increased level in subsequent fiscal years.

#### **Fulfillment of Responsibilities**

*We recommend that in future annual reports the board address the progress in each of its statutory responsibilities.*

Although the most recent annual report represents an improvement over previous years, it does not provide a clear picture of the degree to which board activities have fulfilled statutory requirements. This could be remedied by listing each area of responsibility together with a summary of relevant progress for each area.

### **HORSE RACING BOARD**

Item 81 from the Fair and Ex-  
position Fund

Budget p. 159

Requested 1976-77 .....	\$651,232
Estimated 1975-76.....	644,025
Actual 1974-75 .....	567,371
Requested increase \$7,207 (1.1 percent)	
Total recommended reduction .....	None

#### **SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Study Regulation and Racing Schedule. Recommend Department of Finance report on regulatory and legislative changes necessary to maximize state horseracing revenue.

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#### **GENERAL PROGRAM STATEMENT**

The Horse Racing Board, which consists of three persons appointed by the Governor and a staff of 28.2 authorized positions in 1975-76, supervises all race meetings in the state where pari-mutuel wagering is conducted. The board's responsibilities include the licensing of all persons participating in horseracing, enforcing the horseracing law, and collecting the state's revenue from horseracing meets.

#### **ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

No additional positions are requested for the budget year. The increase of \$7,207 (1.1 percent) primarily reflects continuing licensing and enforcement program element costs involving general expenses, in-state travel and contractual services.

**HORSE RACING BOARD—Continued****Self-Support Issue Resolved**

The board issues occupational licenses for a wide variety of job classifications for all persons who are participants in activities associated with horseracing. In our 1975-76 Budget Analysis we recommended that the board review its license fee structure annually to insure that its three program elements of licensing, enforcement and administration were fully "self-supported." The board subsequently received legislative direction that such support should at least cover the licensing and enforcement program elements. Table 1 shows that this support level is being met for the current and budget years, and that no significant change in the licensing workload is expected in 1976-77.

**Table 1**  
**Horseracing Program Element Costs for Licensing and Enforcement**  
**(Dollars in Thousands)**

Program Element Costs	<i>Actual</i>			<i>Estimated</i>	
	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
Licensing.....	\$100	\$109	\$129	\$132	\$134
Enforcement .....	212	253	264	293	\$296
Subtotal .....	\$312	\$362	\$393	\$425	\$430
Licensing Activities					
Licenses issued .....	17,351	17,397	17,834	18,300	18,800
Licensing personnel.....	8	8.7	9.3	9.2	9.2
Fees collected (thousands) .....	\$307	\$314	\$402	\$450	\$461

Additional fees in excess of the Table 1 estimate are expected to accrue during 1976-77 based upon the board's recent decision to make non-refundable the \$75 certificate cost which prospective horse owners must pay in order to register to "claim horses" at "claiming races." The board should evaluate the impact of this change on decreasing workload prior to submission of the 1977-78 budget request.

**Interstate Racing Information System (IRIS) Participation**

The board will continue its participation in IRIS for the second full year at a 1976-77 cost of \$9,700 for computer equipment and computer time, unchanged from 1975-76. Investment in this system, which pools information from different states on horseracing licensees and persons violating horseracing laws and regulations, will increasingly aid the board's enforcement efforts as additional states join. Table 2 shows that enforcement workload (as measured by the number of disciplinary hearings) will increase modestly in the budget year, although no additional authorized positions are requested.

**Table 2**  
**Disciplinary Hearings and Enforcement Personnel**

	<i>Actual</i>		<i>Estimated</i>	
	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
Disciplinary hearings .....	123	133	143	153
Enforcement personnel .....	11	10.5	11	11

Participation in IRIS is also expected, eventually, to expedite the processing of license renewals, which currently constitute over one-half of annual license applications received by the board. This expedition is consistent with the intent of our comments and recommendations made in the 1972-73, 1973-74 and 1974-75 Budget Analyses concerning modification of the requirement that all occupational licenses be renewed annually. Because participation in IRIS will reduce the licensing workload and should minimize future requirements for staff increases in this activity, the board should evaluate the impact of IRIS on both licensing and enforcement workloads prior to submission of the 1977-78 budget request.

#### **Increased State Revenue May Be Possible**

*We recommend that the Department of Finance submit to the Joint Legislative Budget Committee by December 1, 1976, a report proposing regulatory and legislative changes necessary to maximize state horseracing revenue, subject to the overall intent of the Horse Racing Law.*

**Legislative Commitment to Revenue Maximization.** This state has previously committed itself statutorily to encouraging and regulating horseracing, horse raising and horse breeding under the Horse Racing Law, Sections 19400-19665 of the Business and Professions Code. The Horse Racing Law includes (a) specification of the maximum number of racing days, by type and location of racing, that are permitted in California, (b) designation of the method, level and state share of pari-mutuel wagering taxation and (c) granting the board authority to allocate racing days for horseracing meetings in a manner consistent with providing uniformity of regulation for each type of horseracing and maximizing revenue to the state. Given this established commitment to the objective of revenue maximization, we feel that the proposed report should identify, examine and make recommendations concerning possible current constraints to state revenue maximization. Possible constraints considered should include a lack of effective competition between racing associations, unregulated industry activities which impact on state revenues, state support for horserace meetings held by state and local government bodies, patterns of racing day allocations by geographic location and racing type, legislative restrictions on maximum racing days, and the specific method and state share of pari-mutuel wagering taxation.

**Track Interests and State Interests May Conflict.** The state effectively grants "market monopolies" to race meets and shares in the tax receipts generated from pari-mutuel wagering. In 1974, horseracing provided the state with over \$80 million in direct revenue excluding related state income taxes, over 90 percent of which was accounted for by state license fees on pari-mutuel wagering. However, total horseracing receipts in California consist of both pari-mutuel and nonpari-mutuel receipts, the latter including revenues from parking, concessions, admissions, and the sale of racing programs and other publications. Unlike pari-mutuel receipts, nonpari-mutuel receipts are not shared with the state and, thus, constitute an important share of net track receipts. California does not regulate the rates of return for licensees, and the relative freedom of racing meet management to set price levels for admissions, parking, concessions, etc.,

**HORSE RACING BOARD—Continued**

automatically influences track attendance, the total amount wagered and, thus, total state revenues. The proposed study should determine the extent to which such factors constrain state revenue maximization beyond a point consistent with "normal" rates of return for licensees, and should consider alternative solutions in addition to more complete regulation of the pricing of nonpari-mutuel horseracing revenue sources. For example, use of a "bidding" system to allocate racing weeks might improve state revenues by increasing competition between applicants seeking allocations, while at the same time encouraging efficiency, freedom of entry and normal rates of return as in competitive, unregulated industries.

*Existing Racing Schedule May Not Be Optimal.* The existing racing schedule is a result of maximum racing day limitations by racing type and location specified in the Horse Racing Law, and the allocation of such days by the board to individual horseracing meets. Table 3 summarizes attendance and pari-mutuel wagering information for California horseracing by type and location of meets. It is obvious that (a) thoroughbred racing generates a disproportionately large share of total pari-mutuel wagering and racing attendance relative to its share of racing days when compared with quarter horseracing, harness racing and fair racing, (b) thoroughbred revenue potential varies considerably between alternative racing locations, with several large metropolitan locations most attractive, and (c) fair racing offers less revenue potential than the thoroughbred racing which it replaces on the racing schedule.

In addition to the possibility that the existing allocation of racing days by type and location of racing may not be optimal with regard to the objective of state revenue maximization, there appears to be evidence suggesting that California's maximum racing day limitations are overly restrictive. Table 4 compares California to the other eight largest horseracing wagering states in terms of pari-mutuel wagering, numbers of racing days and racing attendance. California has the fewest per capita racing days of these major racing states. It is not presently known whether these racing day limitations explain the fact that California's average daily wagering and attendance levels exceed those of the other major racing states, given the multiplicity of economic and demographic factors involved.

We thus recognize that these high California wagering and attendance levels might experience some decline due to an expansion in racing and also that an immediate expansion might be somewhat restricted by a limited supply of high quality horses. We further recognize that a reliable estimate of increased pari-mutuel wagering and state revenue resulting from expansion cannot be projected simplistically from the per capita figures of other major racing states, given interstate variation in demographic and economic characteristics such as age distribution, income levels, population concentration and out-of-state racing attendance. However, the experience of other states does seem to suggest that state revenues might significantly benefit from such an expansion. This expansion could be phased-in over a time period sufficient to allow for an increase in the supply of quality horses to reduce the state's reliance on

**Table 3**  
**Comparative 1974 California Horseracing**  
**Statistics for Racing Type, Location, Racing Days, Amount Wagered and Attendance**

<i>Type of Racing</i>	<i>Location</i>	<i>Days</i>	<i>Percent Share of Total<sup>a</sup></i>		<i>Average Daily Amount Wagered</i>	<i>Average Daily Attendance</i>	<i>Average amount Wagered Per Attendance</i>
			<i>Days</i>	<i>Amount Wagered</i>			
1. Thoroughbred .....	<i>North</i>						
	All locations .....	168	19%	17%	\$1,136,738	8,547	\$133
	<i>South</i>						
	Santa Anita, Arcadia.....	97	11	24	2,706,799	23,256	116
	Hollywood Park, Ingle- wood .....	76	9	23	3,331,830	28,353	118
	Del Mar .....	43	5	6	1,619,651	14,522	112
	Totals, all locations .....	384	43%	70%	\$2,021,863	16,851	\$120
2. Harness .....	Hollywood Park, Inglewood..	77	9%	8%	\$1,185,696	11,788	\$101
	All other locations.....	143	16	6	436,502	4,575	95
	Totals, all locations .....	220	25%	14%	\$698,720	7,099	\$98
3. Quarter horse .....	All locations .....	188	21	10	\$574,005	6,207	\$93
4. Fairs .....	All locations .....	105	12	7	\$708,765	6,689	\$106
	Totals, all types .....	897	100%	100%	\$1,240,187	11,039	\$112

<sup>a</sup> Figures rounded.

## HORSE RACING BOARD—Continued

**Table 4**  
**Comparisons of Racing Days, Amounts Wagered and Attendance for**  
**Major Pari-Mutuel Horseracing States in 1974<sup>a</sup>**

State	Total Amount Wagered (000,000)	Total Racing Days		Thoroughbred Racing Days		Average Daily Wagering		Average Daily Attendance	
		Number Per 1,000,000 Population	Percent of California	Number Per 1,000,000 Population	Percent of California	Total Racing (000)	Thoroughbred Racing (000)	Total Racing	Thoroughbred Racing
California.....	\$1,113	42.9	100	18.4	100	\$1,240	\$2,022	11,039	16,851
Florida .....	308	72.6	169	35.7	194	525	913	4,741	6,918
Illinois .....	746	78.2	182	29.9	163	857	1,068	8,092	9,749
Maryland .....	306	103.3	241	64.7	352	724	988	7,109	9,053
Michigan .....	364	66.2	154	25.5	139	604	797	5,992	7,516
New Jersey .....	508	69.6	162	35.3	192	996	1,429	8,182	8,860
New York .....	1,679	88.5	206	24.6	134	1,048	1,813	9,014	13,784
Ohio .....	284	90.5	211	32.0	174	292	490	3,897	5,053
Pennsylvania .....	483	76.1	177	47.8	260	536	527	5,550	5,362
All racing states <sup>b</sup> .....	7,513	89.1	208	39.1	213	615	865	6,138	7,947

<sup>a</sup> Includes states with 1974 pari-mutuel turnover in excess of \$250 million.

<sup>b</sup> Includes 29 states engaged in pari-mutuel wagering in calendar year 1974.

the present "circuit" system, and could take a variety of forms including economically feasible overlaps and the filling-in of current openings on the racing schedule such as for year-end thoroughbred racing in southern California. We also feel that procedures should be examined which would ensure a racing schedule mirroring public preferences as closely as possible. Such procedures might include the use of a "bidding" system to allocate specific meeting dates at particular locations, and the flexibility to designate new meets according to type, time and location when shown to be economically feasible by the applicants.

Given these factors, the proposed study should examine and provide recommended regulatory and legislative changes concerning:

1. An allocation of existing total racing days by racing type, location and meet which would maximize state revenues from pari-mutuel wagering.
2. The possibility of expanding total racing days and thoroughbred racing days to maximize state revenues from pari-mutuel wagering, including the feasibility of economically desirable overlaps, filling-in of the racing schedule, and specification of a phase-in period sufficient to allow for an expanded supply of quality racing horses.
3. The possibility of increased reliance on market-oriented mechanisms such as "bidding" and economic feasibility studies in determining a racing schedule which will reflect public demand and state revenue maximization.
4. The extent to which equity problems might constrain any increase in state revenues from being fully maximized, given that past state policies have brought into being associations, fairs, breeders and stables whose continued existence may in certain cases be threatened by changes in the existing racing schedule and allocation procedures.

### MOTION PICTURE DEVELOPMENT COUNCIL

Item 82 from the General Fund

Budget p. 158

Requested 1976-77 .....	\$70,700
Estimated 1975-76.....	— <sup>a</sup>
Requested increase \$70,700	
Total recommended reduction .....	\$70,700

<sup>a</sup> \$33,350 from Governor's Office—support budget for period January 1-June 30, 1976.

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. *Elimination of Office. Reduce \$70,700.* Recommend deletion of General Fund support for the Motion Picture Development Council.

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**MOTION PICTURE DEVELOPMENT COUNCIL—Continued****GENERAL PROGRAM STATEMENT**

The Motion Picture Development Council was created by Chapter 1226, Statutes of 1974, to serve as an advisory body to the Division of Economic Development in the former Department of Commerce. The council consists of 12 members of which 10 are public members with specific qualifications and two are members of the Legislature, one appointed by the Senate Rules Committee and one by the Speaker of the Assembly. The council's functions include recommending to the Department of Commerce legislative or administrative actions necessary to "maintain and improve the position of the state's motion picture industry in the national and world market," accepting federal funds and gifts from private and public agencies, and coordinating the activities of similar councils within the state.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that this item be deleted for a General Fund savings of \$70,700.*

The council is requesting a budget of \$70,700 for two positions and related operating expenses. The positions, an executive secretary and a stenographer, would be limited to June 30, 1977. The council was established in the Governor's Office on January 1, 1976, and will receive estimated current-year funding of \$33,350 from the Governor's Office—support budget item. The budget indicates that the council will be self-supporting by fiscal year 1977-78. This support will presumably be derived from fees charged motion picture producers for council services.

Although the council was created as an advisory body to the Department of Commerce, the 1975-76 Governor's Budget has deleted funding for that department and its reinstatement is not contemplated. Therefore, the council is without a department to advise. Legislation would be required to remove the statutory limitation on the functions of the council. In the current legislative session, the Governor vetoed SB 1189, which would have created in the Business and Transportation Agency a Department of Tourism and Motion Picture Development and a Motion Picture Development Council to serve as an advisory body to that department.

We agree with the essence of the Governor's veto message on SB 1189 that there is no credible evidence that a special state organization can promote the state's interests in this area more effectively than the state Chamber of Commerce or local business. Moreover, the state's ability to attract motion picture production depends more on its ability to compete economically with other areas, including foreign countries, than on the existence of a state advisory council. We, therefore, recommend deletion of General Fund support for the Motion Picture Development Council.

**BOARD OF OSTEOPATHIC EXAMINERS**

Item 83 from the Contingent

Fund of the Board of Osteopathic Examiners

Budget p. 161

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Requested 1976-77 .....	\$122,800
Estimated 1975-76.....	112,849
Actual 1974-75 .....	48,937
Requested increase \$9,951 (8.8 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The five-member Board of Osteopathic Examiners was established in December 1922, by an Initiative Act for the purpose of regulating the practice of osteopathy. The board licenses osteopaths through an examination process and takes appropriate disciplinary action for violations of laws, rules or regulations. The board's office is in Sacramento and is staffed by one executive secretary and two clerical positions. The board's support services, e.g. legal assistance, are provided by the Department of General Services.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The board proposes an expenditure of \$122,800 which is a net increase of \$9,951 or 8.8 percent above estimated current year expenditures. This increase reflects the addition of 0.1 man-year of temporary help to assist with the licensing of osteopaths and rising operating and equipment costs.

**BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF  
SAN FRANCISCO, SAN PABLO AND SUISUN**Item 84 from the Board of Pilot  
Commissioners' Special Fund

Budget p. 162

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Requested 1976-77 .....	\$43,845
Estimated 1975-76.....	42,883
Actual 1974-75 .....	29,894
Requested increase \$962 (2.2 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun is responsible for supplying qualified pilots for vessels entering or leaving those bays. The three-member board (appointed by the Governor) administers a single program of licensing and regulating pilots by conducting pilot examinations and acting on disciplinary complaints. The board maintains an office in San Francisco staffed by one

**BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF  
SAN FRANCISCO, SAN PABLO AND SUISUN—Continued**

full-time secretary to provide support for the board and the Pilotage Rate Committee. This committee is composed of five members appointed by the Governor. Its function is to prepare recommendations on pilotage rates for the Legislature.

Both the board and committee are supported by the Board of Pilot Commissioners' Special Fund. Revenue for this fund is derived from a percentage assessment on pilot fees which are collected directly by the pilots from ships they serve. The law provides for a maximum assessment of 5 percent on pilotage fees to be paid to the fund. The current assessment is 2 percent.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

In fiscal year 1976-77, the board proposes to expend \$43,845 which is \$962 or 2.2 percent above estimated expenditures for the current year. This increase reflects rising operating and equipment costs.

**HEALTH BENEFITS FOR ANNUITANTS**

Item 85 from the General Fund

Budget p. 163

Requested 1976-77 .....	\$10,306,388
Estimated 1975-76.....	9,487,843
Actual 1974-75 .....	7,976,601
Requested increase \$818,545 (8.6 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

This appropriation provides the state's contribution toward payment of the health insurance premiums of annuitants of retirement systems to which the state makes contributions as an employer, (i.e., retired members of the judges', legislators', public employees' and teachers' retirement systems).

The objective of this program is to provide a degree of post-retirement security for annuitants and their dependents by contributing one of the following amounts toward the monthly premium of a state-approved health insurance plan (1) \$22 for an annuitant only, (2) \$37 for an annuitant and one dependent, and (3) \$47 for an annuitant and two or more dependents. This level of state contribution was authorized by Chapter 175, Statutes of 1975.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes the expenditure of \$10,306,388 to support this program in fiscal year 1976-77. This is an increase of \$818,545 or 8.6 percent above the amount estimated to be expended during the current year. Table 1 shows the number of annuitants by system and the cost of annuitant's benefits.

**Table 1**  
**Annual Health Benefit Cost by Retirement System**

<i>Retirement System</i>	<i>Number of Annuitants</i>		<i>Cost of Benefits</i>	
	<i>1975-76</i>	<i>1976-77</i>	<i>1975-76</i>	<i>1976-77</i>
Judges' .....	265	285	\$79,825	\$86,085
Legislators' .....	83	93	24,419	27,549
Public Employees' .....	30,917	33,517	9,287,021	10,085,221
Teachers' .....	326	361	96,578	107,533
Totals .....	31,591	34,256	\$9,487,843	\$10,306,388

This program for retired state employees is funded initially from the General Fund. Special fund agencies are assessed pro rata charges for their retired employees which are credited to the General Fund.

### REFUNDS OF TAXES, LICENSES AND OTHER FEES

Item 86 from the General Fund Budget p. 165

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Requested 1976-77 .....	\$30,000
Estimated 1975-76 .....	30,000
Actual 1974-75 .....	5,388
Requested increase—None	
Total recommended reduction .....	None

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### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

This item provides a source from which expeditious refunds can be made for erroneous payments or overpayment of taxes, licenses, and other fees which are noncontroversial, thereby avoiding the necessity of filing claims with the Board of Control and inserting items in the Claims Bill.

### CALIFORNIA INFORMATION SYSTEMS IMPLEMENTATION COMMITTEE

Item 87 from the General Fund Budget p. 166

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Requested 1976-77 .....	\$33,870
Estimated 1975-76 .....	33,102
Actual 1974-75 .....	28,610
Requested increase \$768 (2.3 percent)	
Total recommended reduction .....	None

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**CALIFORNIA INFORMATION SYSTEMS IMPLEMENTATION  
COMMITTEE—Continued**
**GENERAL PROGRAM STATEMENT**

The California Information Systems Implementation Committee is a statutory body comprised of 12 designated members of the Legislature and the executive branch. It is responsible for recommending specific legislative and executive actions necessary to implement the state's electronic data processing (EDP) policies. These policies are set forth in Government Code Chapter 7 (commencing with Section 11700), and Chapter 8 (commencing with Section 11775).

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The \$33,870 requested for the 1976-77 fiscal year will provide for one committee consultant and associated operating expenses. The consultant assists the committee in its efforts to review the use of EDP by state agencies and to prepare the committee's reports to the Governor and the Legislature due February 1 of each year.

Recommendations made in the committee's last annual report which are in various stages of implementation include development of a data communications master plan by the Department of General Services and a general updating of the state's long-range EDP plan by the Department of Finance.

During the current year the committee has received testimony regarding several areas of EDP application including policies and plans of the University of California, computing equipment requirements in the Health and Welfare Agency and the state's new EDP personnel program.

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE**

Item 88 from the General Fund

Budget p. 168

Requested 1976-77 .....	\$51,200,000
Estimated 1975-76.....	51,400,000
Actual 1974-75 .....	50,035,313
Requested decrease \$200,000 (0.4 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
page*

1. Inflation Adjustment. Recommend statutory revision of the schedule of assistance to reflect impact of inflation. 169

**GENERAL PROGRAM STATEMENT**

This program reimburses homeowners over age 62 for a percentage of property taxes paid according to a fixed statutory schedule. The percentage of assistance ranges from 96 percent to 4 percent depending on incomes below the \$10,000 maximum.

Table 1 shows for selected ranges of income, the distribution of claim-