

Agriculture and Services

DEPARTMENT OF FOOD AND AGRICULTURE

Items 108-110 from the General
Fund and special funds

Budget p. 197

Requested 1976-77	\$32,071,841
Estimated 1975-76.....	34,918,260
Actual 1974-75	30,802,332
Requested decrease \$1,846,419 (5.3 percent)	
Total recommended reduction	None

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
108	Department of Food and Agriculture (support)	General	\$17,817,107
109	Department of Food and Agriculture (support)	Department of Agriculture	13,851,329
110	Department of Food and Agriculture	Fair and Exposition	403,405
			<hr/>
			\$32,071,841

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Budget Format. Recommend budget show expenditure, funding source and significant changes for control and eradication. 202
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6. *Chemistry Laboratory—U.C. Davis. Revert \$717,900 in Item 374(a), 1974, for laboratory.* Recommend (1) reversion and (2) reevaluation of laboratory plans because of reduction in need. 208

GENERAL PROGRAM STATEMENT

Chapter 225, Statutes of 1972, changed the title of the Department of Agriculture to the Department of Food and Agriculture in order to emphasize the food and consumer aspects of the department's work.

Under the Food and Agricultural Code, the department is directed to (1) promote and protect the agricultural industry of the state, (2) protect the public health, safety and welfare, and (3) assure producers, handlers, and consumers true weights and measures of commodities and services.

The department's activities are broad in scope, and vary from short-

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

term crop forecasts, financial supervision of local fairs, through agricultural pest and disease control, to enforcement of quality, quantity, and safety standards of certain agricultural and consumer goods.

ANALYSIS AND RECOMMENDATIONS

Funding

The financial resources of the department are derived mainly from the General Fund and the Department of Agriculture Fund. The General Fund supports those activities which benefit the general public, while the Department of Agriculture Fund supports activities that serve identifiable interests. Because of changing program conditions, the determination of benefit for some programs has become increasingly difficult.

The budget for next year reflects the administration's philosophy to avoid tax increases in fiscal year 1976-77. To accomplish this, the administration has examined all programs which:

1. Do not show results, or indicate only marginal performance.
2. Have substantially met the needs for which they were established.
3. Overlap significantly with other programs.
4. Benefit only special interests which more properly should support themselves.
5. Ignore better alternatives.
6. No longer enjoy the support of the people.

Consistent with this policy General Fund support for the following programs has been reduced.

<i>Program</i>	<i>Reason for Reduction</i>	<i>Amount of Reduction</i>
Predatory Animal Control Program	Special interest benefit	-\$183,075
Japanese Beetle Eradication Program	Needs met	-253,185
Meat Inspection Program	Better alternative	-2,773,816
Market News Service	Special interest benefit	-97,561
Total reductions		\$3,307,637

The total support appropriation made by the Budget Bill is \$32,071,841. However, the total proposed expenditures, including federal fines and reimbursements, in 1976-77 is \$40,353,657, a \$4,516,573 reduction over the current year's projected expenditure. Of the proposed expenditures, including local assistance, \$18,662,007 will come from the General Fund and the Department of Agriculture Fund will provide \$18,206,733. The Fair and Exposition Fund, which is derived from horseracing revenues, provides \$403,405 for support of the department's Division of Fairs and Expositions.

The department also plans to collect and expend approximately \$11 million in industry fees for inspection services performed by the state at the request of industry. These programs are included in the Governor's Budget under Supplemental Information on page 210 for the first time since 1971 when they were removed pursuant to Chapter 284, Statutes of 1970. In addition, the department will handle approximately \$32 million

under 37 marketing orders or similar programs established at industry request to aid in production, control and advertising of agricultural products. These marketing order expenditures are not scheduled in the Governor's Budget but are handled as special trust fund accounts in the Department of Agriculture Fund.

Federal government reimbursements in the past averaged \$4 million annually. Total federal reimbursements for the budget year are estimated to be \$923,112. The major work financed by federal funds has been the meat inspection program.

MEAT INSPECTION

The responsibility for inspection of meat products in both inter and intrastate commerce rests at the federal level. The federal law allows states to perform the intrastate inspection work. If they meet federal standards, they receive certain federal payments through cooperative agreements. California has been operating under such a cooperative agreement since about 1968. However, federal law requires that the U.S. Department of Agriculture perform the inspection if a state does not perform satisfactorily or chooses not to perform the inspection. As a consequence, the same level of existing state service can be provided through federal assumption of responsibility for the work and federal assumption of all costs. The previous administration had assumed the responsibility for the state to perform the inspection work with partial state funding.

This budget proposes that the meat inspection program be turned over to the federal government with an accompanying state workload reduction of 354 positions and \$6,667,104 in combined state-federal funding. The phase out of state involvement is anticipated to begin April 1, 1976, with an initial reduction of 302 positions. The remaining reduction is anticipated to occur in the 1976-77 fiscal year. It appears that the administration can make the shift to federal inspection merely by not providing for state inspection.

The department indicates that this transfer of responsibility is consistent with the actions of other states and as discussed at a recent nationwide conference between state and federal leaders. Final details of the phase out are still being developed.

Personnel Transfer Problems

The federal program is expected to utilize many of the personnel now in state service. However, the department indicates that the transfer of personnel from the state to federal program may result in some losses in retirement benefits. Additionally, transferees may be required to accept positions at the entry salary level which would mean a possible 20 percent reduction in salary for some. Because of these potential problem areas, the department is exploring early retirement or accelerated retirement, similar to the techniques used in the Caltrans program reduction.

The department expects that approximately 50 supervisory positions may not be transferrable and is exploring means to assist in relocating these employees within the department or elsewhere.

DEPARTMENT OF FOOD AND AGRICULTURE—Continued**Reductions in Other Expenses**

The dollar reduction for meat inspection in the Governor's Budget does not include approximately \$400,000 in overhead costs accruing from the program. With the loss of the meat program there is a reduction of approximately 20 percent of the department's staff and about 16 percent of its total program. This will undoubtedly affect other work not yet identified. One such area that has been identified is laboratory space. This will be discussed later in the analysis of the department's budget under the section entitled Departmental Chemistry Laboratory.

AGRICULTURE PEST AND DISEASE PREVENTION

The basic objective of this program is to prevent the introduction or spread of plant and animal disease which may represent a threat to the public health and welfare and the agricultural industry. The program includes entomology, plant pathology, plant quarantine, apiary inspection, nursery service, weed and vertebrate pest control, animal health, and necessary diagnostic laboratory services.

The cost for this program is \$15,919,948 next year. The General Fund portion is \$12,393,585 or 78 percent, while the Department of Agriculture Fund portion is \$3,010,493 or 25 percent. The remainder of the program expenditure is in reimbursements and federal funds.

Significant Program Changes

The Governor's Budget proposes increased livestock industry participation in funding the predatory animal control program. Therefore, the General Fund contribution is proposed to be reduced by \$183,075.

The Dutch elm disease eradication program will expend \$1,440,262 during the budget year through a combination of \$670,000 carried over from the current year as provided by Chapter 1000, Statutes of 1975, and a \$770,262 General Fund appropriation in this item. The funding for the current year and the carryover comes from unclaimed gas tax money in the Department of Food and Agriculture Emergency Fund.

Additional Budget Presentation Needed

We recommend that the Department of Finance and the Department of Food and Agriculture show in the Governor's Budget the amount of expenditures for eradication and control programs, the source of funding, and any significant changes in effort or funding.

Control and eradication programs will account for \$6,283,036 or approximately 16 percent of the total department expenditures for next year. This is a major portion of the department's budget, but budget data such as on page 199 of the Governor's Budget do not provide any expenditure breakdown.

The general policy of both the Legislature and the department has been that funding for those eradication programs which are primarily beneficial to the general public be paid by the General Fund; control programs which essentially benefit industry are to be industry funded, and where there is a mixture of benefits, costs are apportioned accordingly.

In the past the department's budget has frequently mixed control and eradication programs to such an extent that their funding and beneficiaries were not related. General Fund support, for what should have been short-term eradication efforts, have become long-term state cost without clearly identifying that change and determining the responsibility of the agricultural industry or the General Fund.

Page 199 of the Governor's Budget lists the various programs but does not include funding information, schedules of completion or data on changes in program. In addition, Table 1 shows that the budgeted figures do change.

Table 1
Control and Eradication Expenditures
(Figures Rounded)

	1974-75 Actual	1975-76 Budgeted	1975-76 Revised	1976-77 Budgeted
Total Program.....	\$5,239,000	\$5,456,000	\$6,268,000	\$6,283,000
Reimbursements	387,000	199,000	242,000	211,000
Net Total	4,851,000	5,256,000	6,026,000	6,070,000
General Fund	3,721,000	2,981,000	4,072,000	4,036,000
Agricultural Fund.....	1,129,000	2,275,000	1,953,000	2,034,000
Man Years.....	184	185	186	138

The purpose of the budget document is to show expenditures and changes in them. Because control and eradication programs have been a source of budgetary problems for many years, we recommend that the expenditures be set out in the Governor's Budget in a meaningful way that will specifically show the amounts and sources of funding for control and eradication efforts.

ANIMAL HEALTH

The purpose of the Animal Health program is to detect, control or eradicate livestock and poultry diseases. The total cost of the program for the budget year is estimated to be \$3,025,285 of which approximately 86 percent or \$2,615,464 is provided by the General Fund. The remainder of the program is financed through the Department of Agriculture Fund.

The Bureau of Animal Health has effectively contained many diseases financially significant to the livestock and poultry industry, such as tuberculosis, hog cholera, equine encephalitis, pullorum, etc. The bureau's current priorities include bringing brucellosis under control and preventing outbreaks of contained diseases through regulatory testing, quarantine, and destruction of diseased animals.

Public Health officials have indicated that many of the diseases affecting livestock and poultry are not transmissible to man, and that others, while constituting occupational or industrial health problems, are not generally recognized as public health problems. For this reason last year we recommended and the Legislature directed a review of the department's work on brucellosis because there was a need for new approaches.

The department submitted a study of the brucellosis program to the legislature in December 1975. In its report the department states that the current brucellosis program may have shifted costs too far into the public sector. Accordingly, the department has made several recommendations for more direct industry participation in funding brucellosis eradication in

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

cattle. We concur with these recommendations and believe that they should be adopted. There is no indication in the department's report of an intent to implement the recommendations nor does the Governor's Budget provide for action. Accordingly, we are making the following recommendations in order to stimulate action on the report.

Cattle Indemnity Funds

We recommend that language be added to the Budget Bill limiting expenditure of cattle indemnity funds appropriated to no more than \$50 per slaughtered animal for purposes of brucellosis indemnity payments rather than the maximums of \$300 authorized under the Food and Agriculture Code.

Current law provides for the indemnification of cattle owners if their animals are condemned pursuant to the provisions of the brucellosis eradication program. Food and Agriculture Code Section 10405 provides indemnity payments up to \$300 when the condemned animal reacts positively to brucellosis tests and must be slaughtered. In addition, Section 10422 provides that owners of negatively reacting cattle may receive up to \$400 for grade animals or up to \$500 for purebred animals when these animals are not diseased but are condemned as part of the total destruction of seriously diseased herds.

The department's brucellosis report indicates that California has one of the most generous indemnity provisions in the country. We concur and believe this may be creating a disincentive to rapid eradication of the disease.

The Bureau of Animal Health indicates that when it appraises condemned cattle to establish the indemnity payment, it does not consider depreciation already taken on the animal. The purpose of depreciation is to permit the owner to recoup his investment as the productive life or asset value of the animal is used up. The U.S. Internal Revenue Service indicates that cattle can be fully depreciated over a 24-36 month period. Applying this time frame, one-third of the average herd could be replaced each year and statistically, one-third of the condemned cattle could have approached full depreciation. However, the department appraises them at full value and this appraised value is used for determination of the indemnification. In addition, the owner receives the salvage value of the carcass for meat. In some instances the owner may receive more than the full value of a condemned animal. This condition gives the owner no reason to prevent the entry of diseased animals into his herd.

The reduction in indemnity as recommended by the department could provide an increased incentive for cooperation by the industry. It would create an incentive to avoid the entry of diseased animals into herds and thus facilitate eradication of the disease. The department estimates that the limitation may save the General Fund approximately \$3,968,000 over the projected course of this new eradication effort (1985).

Use of Brand Inspectors

We recommend that the department be directed to utilize its brand inspectors to enforce provisions of law requiring evidence of brucellosis vaccination as well as title when shipping animals.

Brand inspection by departmental staff for determination of ownership is required for virtually all cattle movement, either intrastate or interstate to assure that strayed or stolen cattle are not shipped illegally. Consequently, almost all cattle could be checked at one time or another for evidence of vaccination by the brand inspector. Vaccination is a major means to control brucellosis. However, the brand inspectors do not normally inspect for evidence of vaccination during their inspection of brands. This small added duty could greatly assist the department in its effort to prevent the importation or shipment of the unvaccinated animals which is a significant means of transmitting the disease. The brand inspection is already industry funded. This added duty should be a minor cost for the efficiency it would add to the brucellosis control efforts.

Other Brucellosis Recommendations

Two other recommendations in the department's report on brucellosis have fiscal significance and warrant support here. These recommendations require legislation.

Slaughter Tax. The department indicates that the lack of funding has caused a diversion of manpower to brucellosis from other essential regulatory areas of the animal health program. The department estimates that a slaughter tax of \$1 per head on all slaughtered beef and dairy cattle would provide \$550,000 annually to augment the current General Fund expenditures. Such industry participation would provide additional staff and allow a return of manpower to other important animal health assignments.

Tax on Diseased Herds. The department has recommended establishing a tax on brucellosis diseased herds to defray state expenses in retesting such herds. Such a procedure would require the owner of an infected herd to share in the continuing cost of retesting, again placing the cost upon the causative factor. It has been suggested by the department that a tax of 10 cents per hundred weight of milk be collected from infected dairy herds after the third complete blood test. Our analysis of departmental figures indicates that the revenue from the milk tax would approximate the state's cost of testing the herd. The assessment on beef herds could be paid through retaining indemnity payments, directly billing the owner, or through a lien placed on the cattle which could be collected at slaughter.

Nonprofessional Veterinary Positions

We recommend that (1) appropriate reclassification of veterinary positions as indicated in the State Personnel Board review be undertaken, and (2) the Bureau of Animal Health shift assignment as legally permitted from professional to subprofessional staff.

The 1974-75 Analysis noted that the animal health program had various deficiencies in program and management. We recommended that the Bureau of Animal Health shift to the use of subprofessional or technical positions for many of the routine tasks now performed by veterinarians.

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

We further recommended that the State Personnel Board (SPB) review the bureau's classification of veterinarian personnel.

The classification review by SPB has been completed. The SPB found (1) overclassification of veterinarians and (2) that 10 to 15 man-years of the work performed by veterinarians in the animal health program is routine and capable of being accomplished by subprofessionals and/or by clerks.

The department has, until recently, been reluctant to utilize subprofessionals for certain routine functions, presumably because the Veterinary Practices Act would prohibit such uses. We believe that Business and Professions Code Section 4826(c) in fact provides for the use of subprofessionals.

Several opinions on the legality of using subprofessional personnel have recently been secured including our request from the Legislative Counsel. The opinions cover several points regarding the services of subprofessionals and the degree of professional supervision that the law requires they receive. However, no opinions that we have seen state that subprofessional personnel cannot work as a crew under the direct supervision of a veterinarian and the Legislative Counsel specifically agrees with the legality of that work situation.

Consequently, it appears clear that the department can now use subprofessionals when working under the direct supervision of a veterinarian. We recommend that it proceed to do so. There are presently 49 veterinarian positions and 15 subprofessional positions plus 15 man-years of temporary help. The 49 to 15 ratio should be reversed and the department should develop a program to achieve that approximate goal.

The savings from the use of subprofessional personnel should be substantial. Based in part on the department's memorandum of April 23, 1974 to the Board of Veterinary Medical Examiners, the following duties should be assigned to subprofessionals:

1. Obtaining blood samples from livestock for testing purposes.
2. Conducting field diagnostic tests for brucellosis and pullorum.
3. Vaccinating animals for brucellosis.
4. Tuberculosis surveillance (screening) testing of livestock (not *diagnostic* tuberculin tests which are more complex procedures).
5. Conducting postmortems and assisting in surgery.
6. Securing skin scrapings for scabies examinations and specimens of other external parasites for identification.

Agricultural Planning

We recommend that the Department of Food and Agriculture prepare a planning work outline including necessary additional staff to implement a planning function for submission to the Joint Legislative Budget Committee by December 1, 1976.

California agriculture within the past few decades has evolved from the family farm concept to a vastly diversified, capital intensive segment of world commerce. This evolutionary path has, however, increased agriculture's dependency on other related industries, technical disciplines, gov-

ernment institutions, and on planning long-range resource utilization.

Present Agricultural Planning

The department presently has two short-term planning related programs (1) Market News which makes seasonal projections of commodity supply and demand and (2) Agricultural Statistics, which through analyses of agricultural production data can provide some limited forecasting ability. Both of these programs have severe limitations with respect to medium or long-range planning perspectives.

The state agency with the best long-range agricultural oriented planning capabilities and the most significant work under way to develop agricultural oriented planning is the Department of Water Resources (DWR). Through the \$6.5 million annual expenditure for the program entitled "Continuing Formulation of the California Water Plan" the department gathers and evaluates hydrologic, meteorologic, land use, water use and other demand data for general planning activities with a primary objective "to prepare and maintain . . . a coordinated . . . statewide plan for timely economic . . . development of . . . water resources . . .". Within this framework DWR has attempted to relate its water resources planning to agricultural water needs.

However, DWR has been unable to achieve fully the objectives of the above work because (1) it has only indirectly considered the substantial farm income assistance activities of the state and federal departments of agriculture, (2) it has not considered the developing land use concepts at all levels of government, (3) the method of economic analysis used by DWR to evaluate irrigation projects tends to be on a project-by-project basis which may not benefit the state as a whole, and (4) DWR's planning bulletins have only indirectly considered the impact upon the consumer/taxpayers caused by increases in irrigated acreage as projected by it. This effort is further hindered because the Department of Food and Agriculture, which presently has no long-range planning capacity, cannot adequately participate with DWR in estimating land and water needs.

The Department of Water Resources should not be expected to establish or evaluate agricultural policies. Only recently has the Department of Food and Agriculture attempted to coordinate with DWR to assure that the combination of programs operates efficiently and economically.

Planning Needed

The simplest and most direct approach to improve relationships between water development programs and agricultural programs would be to establish all data gathering and program coordination responsibilities concerning agricultural and food needs within the Department of Food and Agriculture. Under this concept the Department of Food and Agriculture would (1) establish an agricultural data base including land use, (2) coordinate the data base, including agricultural land use data, with marketing, supply, production and other departmental data, (3) coordinate the state's activities regarding governmental programs related to agriculture, (4) improve the monitoring of principal economic indicators related to the interests of the agricultural industry and the consumer/taxpayer, and (5) determine additional agricultural land and water need-

DEPARTMENT OF FOOD AND AGRICULTURE—Continued

ed by the state's agricultural industry. From this, the Department of Water Resources would develop the amount of needed agricultural production for its water planning activities. It should treat the input from agriculture in the same general manner as it currently treats population data prepared by the Department of Finance's population projection unit. Once the system became operational, the Department of Food and Agriculture's input to the Department of Water Resources would substantially improve the effectiveness of the overall resource planning for both agencies.

In addition, data on agricultural production and on agricultural land use should provide a resource base for use by the Office of Planning and Research in its efforts next year to initiate a rural development plan.

We therefore recommend that the Department of Food and Agriculture prepare a planning work outline including necessary additional staff to implement (1) through (5) above and to relate to the rural development plan of the Office of Planning and Research. The outline should be completed by December 1, 1976 for submission to the Joint Legislative Budget Committee.

DEPARTMENTAL CHEMISTRY LABORATORY

Since at least 1972, the department has been attempting unsuccessfully to obtain alternate space for its chemistry laboratories located in the departmental building at 1220 N Street. The chemistry laboratory currently occupies space on three floors which is considered overcrowded, inefficient and unsafe. In 1973-74 a General Fund appropriation of \$100,000 was made for a review and working drawings for new laboratory space. The following year Item 374 of the 1974-75 Budget Bill appropriated \$717,900 from the General Fund for construction which was one-half of the total \$1,652,800 cost. The remainder was to be financed from the Agriculture Building Fund.

The proposed facility is a 24,505 gross square foot, single-story building to be constructed on leased property at the University of California, Davis Campus. The original estimated cost was approximately \$67 per gross square foot. This figure has now risen to about \$93 per square foot, for an estimated cost of about \$2.3 million for the total project.

Reversion of Laboratory Construction Funds

We recommend (1) that \$717,900 for chemistry laboratory construction in Item 374 (a), Budget Act of 1974, be reverted and (2) that the department reevaluate its reduced chemistry laboratory needs.

With the decision to transfer meat inspection to the federal government, it appears that much of the justification for construction of the new chemistry laboratory is no longer valid. According to the Governor's Budget, meat analysis in the laboratory represents about 46 percent of the workload and uses approximately 25 percent of the laboratory space. With this workload being phased out, the department should reexamine its total laboratory needs. It should also be noted that the Department of Food and Agriculture and the University appear to be in the second year of an impasse over provisions in the draft of the lease.

Because of the considerable workload reduction represented by the loss of the meat program, it appears timely for the department to reevaluate all its laboratory needs including alternative locations. The department should consider placing the scaled down chemistry laboratory adjacent to its veterinary laboratory on Meadowview Road in South Sacramento. This could provide certain benefits due to the commonality of laboratory equipment, staff flexibility, and economies of scale that the two separate laboratories do not now enjoy. The department should also consider remodeling its current facilities now that less space will be needed.

Agriculture and Services

SALARIES OF COUNTY AGRICULTURAL COMMISSIONERS

Item 111 from the General Fund

Budget p. 208

Requested 1976-77	\$174,900
Estimated 1975-76.....	174,900
Actual 1974-75	174,900
Requested increase None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates funds in accordance with Sections 2221-2224 of the Food and Agricultural Code, which provide for cost-sharing agreements on agricultural commissioners' salaries in order to provide adequate and uniform enforcement of applicable Agricultural Code provisions. This appropriation makes available, through agreement between the Director of Agriculture and any county board of supervisors, a sum not to exceed \$3,300 per year or two-thirds of the salary of each commissioner, whichever is less. Fifty-two counties are participating in this program.

Agriculture and Services

ENGINEERING SUPERVISION OF FAIR CONSTRUCTION

Item 112 from the Fair & Exposition Fund

Budget p. 208

Requested 1976-77	\$132,355
Estimated 1975-76.....	144,672
Actual 1974-75	119,266
Requested decrease \$12,317 (8.5 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item appropriates the sum of \$132,355 from the \$2.25 million continuing statutory appropriation payable from the Fair and Exposition Fund for county and district agriculture fairs or citrus fruit fairs. The money is used for engineering services performed by the Division of Fairs and Expositions of the Department of Food and Agriculture. The services cover construction supervision on local fair projects financed under Business and Professions Code, Section 19630, for (1) permanent improvements, (2) purchase of equipment for fair purposes, and (3) acquisition or purchase of real property, including appraisal and incidental costs.

MUSEUM OF SCIENCE AND INDUSTRY

Item 113 from the General Fund

Budget p. 221

Requested 1976-77	\$1,884,392
Estimated 1975-76.....	1,852,153
Actual 1974-75	1,560,440
Requested increase \$32,239 (1.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer Ownership. Recommend legislation to transfer museum's ownership to the County of Los Angeles. 212

GENERAL PROGRAM STATEMENT

The museum is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors, appointed by the Governor. The museum's exhibits feature scientific accomplishments and its education program is designed to stimulate students' interest in science and the arts. A major portion of this program is financed by the Museum Foundation Fund which is supported from private contributions. Several facilities of the museum are

available to public and private groups for educational, recreational and civic functions. The museum also owns and operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park which is owned and maintained by the state, through the museum. In addition to providing security for its own facilities, the museum is also responsible for security in Exposition Park.

ANALYSIS AND RECOMMENDATIONS

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

Table 1
Museum of Science and Industry
Budget Summary

Programs	Personnel (staff-years)			Expenditures		Change from Current Year	
	Estimated	Proposed	Change from	Estimated	Proposed	Amount	Percent
	1975-76	1976-77	Current Year	1975-76	1976-77		
Education	93.1	94.1	1	\$1,708,288	\$1,717,723	\$9,435	6%
Administration.....	35.0	35.0	0	570,293	593,097	22,804	4.0
Total Program Costs	128.1	129.1	1	\$2,278,581	\$2,310,820	\$32,239	1.4
Reimbursements				-426,428	-426,428	-	-
General Fund costs				\$1,852,153	\$1,884,392	\$32,239	1.7

The reimbursement figures represent projected revenues from the museum's parking lots.

The addition of one museum-guard position and minor increases in several operating-expense categories, partially offset by reduction of minor capital outlay, account for the proposed \$32,239 (1.7 percent) net increase in the General Fund support for the budget year.

Historical Background

State ownership of the museum is through the Sixth District Agricultural Association, created by the Legislature in 1880. The land (what now is Exposition Park) was donated to the state by private parties for the purpose of holding agricultural fairs and horseraces, primarily for the Sixth Agricultural District. Facilities were constructed and operated at state expense for this purpose. In the early 1900's, this purpose was expanded to include sports and recreational activities and the Coliseum, Swimming Stadium and Sports Arena were constructed during the following decades, financed mostly from revenue bonds. The County of Los Angeles also located its Museum of Natural History within Exposition Park.

Gradually, during the 1930-1960 period, the district's facilities were transformed from agriculture-oriented facilities to general education-oriented facilities with science, industrial, natural resources and art exhibits. In 1962, the law was changed to recognize that the Sixth District Agricultural Association should also be known as the California Museum of Science and Industry. Officially, however, the museum and Exposition Park remained the Sixth District Agricultural Association, under the administration and budgetary control of the Agriculture and Services Agency.

Under the Joint Powers Agreement of 1945 in effect today, the Coliseum

MUSEUM OF SCIENCE AND INDUSTRY—Continued

and Sports Arena are jointly owned (one-third each) and operated by the state, County and City of Los Angeles through the Coliseum Commission. The commission is composed of three representatives each from the state, county and city. The state is represented by members of the museum's board of directors, the county by three supervisors and the city by one councilman and two members of the city's Park and Recreation Commission. Operating costs of the Coliseum and Sports Arena are covered from revenues produced by these facilities. The commission pays the state a specified annual rental fee for the lease of the land (Exposition Park grounds). This fee is currently \$50,000 for the Coliseum and \$20,000 for the Sports Arena. In 2006, these facilities are scheduled to revert to the Sixth District Agricultural Association (the museum), unless the option to renew the agreement for another 49 years, with specified provisions, is exercised. The Swimming Stadium is owned and operated by the City of Los Angeles and is not part of the Joint Powers Agreement. Exposition Park is owned "in perpetuity" by the state.

Table 2 displays these ownerships and operating responsibilities by type of facility.

**Table 2
Ownership and Operating Responsibilities
for Land and Facilities in Exposition Park**

	State	County	City	Joint Commission
Land	x			
Museum of Science and Industry	x			
Museum of Natural History.....		x		
Coliseum.....				x
Sports Arena				x
Swimming Stadium			x	
Rose Garden			x	

Museum Should Become Local Entity

We recommend legislation whereby the state would deed the museum grounds and its share of the facilities to the County of Los Angeles.

The educational, civic and recreational services of the museum are used primarily by residents of Los Angeles County and the surrounding counties. These residents comprise most of the museum's general attendance, as shown by recent survey data summarized in Table 3. Because of their

**Table 3
Composition of the Museum's
Attendance by Domicile**

Place of Residence	Easter Week ^a	Christmas Week ^a
	1975	1975
Los Angeles County	61%	71%
Other southern California counties ^b	21	11
Northern and central California counties	6	10
Other states and countries	12	8
TOTAL	100%	100%

^a These surveys were conducted for the museum by a private opinion research firm.

^b Includes Imperial, Orange, San Bernardino, Santa Barbara, San Diego, Riverside and Ventura Counties.

physical proximity, they have the most frequent and best opportunity to enjoy the educational, civic and recreational benefits offered by the museum and the surrounding Exposition Park.

Special educational programs of the museum, such as group tours and science workshops for students also benefit primarily the residents of Los Angeles County and other southern California counties, as shown in Table 4.

Table 4
Attendance of the Museum's Special Educational Programs by Domicile^a

<i>Place of Residence</i>	<i>Student Group Tours</i>		<i>Summer Science Workshop</i>	
	<i>Number of Groups</i>	<i>Percent of Total</i>	<i>Number of Students</i>	<i>Percent of Total</i>
Los Angeles County.....	3,085	77.0%	3,446	97.0%
Other southern CA counties ^b	897	22.5	80	2.5
Northern and central CA counties	18	.5	16	.5
TOTAL	4,000	100.0%	3,542	100.0%

^a Represents data for calendar-year 1975.

^b Includes Imperial, Orange, San Bernardino, Santa Barbara, San Diego, Riverside and Ventura Counties.

Although the benefits are primarily local, the operation and maintenance of the museum and Exposition Park are funded by state taxpayers. Local fiscal support of these facilities is limited to providing the exhibits in the Hall of Health by the County of Los Angeles and maintaining the Rose Garden in Exposition Park by the City of Los Angeles.

We believe the limited statewide benefits provided by the museum do not justify the exclusive state financial support of its maintenance and operation. Therefore, we recommend legislation which would transfer the title and financial responsibility for all land (Exposition Park) and facilities owned by the state (through the museum) to the County of Los Angeles.

It should be noted that the Governor's Budget includes a proposed \$75 million, three-year program (\$25 million in 1976-77) for Urban Parks. If title to Exposition Park is deeded to the county, any reevaluation by the county of the uses of some of the land and/or facilities might be considered for inclusion as an Urban Park project.

Agriculture and Services Agency
DEPARTMENT OF CONSUMER AFFAIRS

Items 114-155 from various
funds

Budget p. 223

Requested 1976-77	\$31,657,031
Estimated 1975-76.....	29,565,446
Actual 1974-75	21,663,008
Requested increase \$2,091,585 (7.0 percent)	
Total recommended reduction	None

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
114	Board of Behavioral Science Examiners	Board of Behavioral Science Examiners	\$219,790
115	Board of Chiropractic Examiners	State Board of Chiropractic Examiners	203,448
116	Board of Dental Examiners	State Dentistry	1,053,970
117	State Board of Guide Dogs for the Blind	General	13,140
118	Board of Medical Quality Assurance	Contingent Fund of Board of Medical Quality Assurance	5,622,299
119	Acupuncture Advisory Committee	Acupuncturist	65,000
120	Hearing Aid Dispensers	Hearing Aid Dispensers	97,303
121	Physical Therapy	Physical Therapy	125,568
122	Physicians' Assistants	Physicians' Assistants	115,000
123	Speech Pathologists and Audiologists	Speech Pathology and Audiology Examining Committee	120,782
124	Board of Examiners of Nursing Home Administrators	Board of Examiners of Nursing Home Administrators	195,252
125	Board of Optometry	State Optometry	318,136
126	Board of Pharmacy	Pharmacy Board Contingent	962,825
127	Board of Registered Nursing	Board of Registered Nursing	1,690,635
128	Board of Examiners in Veterinary Medicine	Veterinary Examiners Contingent	269,805
129	Animal Health Technician Examining Committee	Animal Health Technician Examining Committee	34,832
130	Board of Vocational Nurse and	Vocational Nurse and	982,937
131	Psychiatric Technician Examiners	Psychiatric Technician Examiners	191,094
132	Board of Accountancy	Accountancy	890,378
133	Cemetery Board	Cemetery	150,145
134	Bureau of Collection and	Collection Agency	328,980
135	Investigative Services	Private Investigator and Adjusters	600,275
136	Tax Preparers' Program	Tax Preparers	241,780
137	Board of Architectural Examiners	Architectural Examiners	346,252
138	Contractors' State License Board	Contractors' License	6,196,928
139	Board of Registration for Geologists and Geophysicists	Geology and Geophysics	107,744

140	Board of Landscape Architects	Landscape Architects	68,229
141	Board of Registration for Professional Engineers	Professional Engineers	1,216,482
142	Structural Pest Control Board	Structural Pest Control	1,157,313
143	State Athletic Commission	General	353,135
144	Bureau of Automotive Repair	Automotive Repair	2,696,165
145	Board of Barber Examiners	Barber Examiners	555,866
146	Board of Cosmetology	Cosmetology Contingent	1,508,437
147	Bureau of Employment Agencies	Employment Agencies	577,430
148	Board of Fabric Care	Fabric Care	563,177
149	Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	250,919
150	Bureau of Home Furnishings	Bureau of Home Furnishings	777,743
151	Nurses' Registry	Nurses' Registry	22,214
152	Bureau of Repair Services	Repair Services	636,988
153	Certified Shorthand Reporters' Board	Certified Shorthand Reporters	78,635
154	Division of Consumer Services	General	50,000
155	Departmental Administration	Consumer Affairs ^a	(8,599,521)
			\$31,657,031

^a Revolving fund established to pay administrative costs. Revenues derived from pro rata charges to boards and bureaus.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Board of Landscape Architecture. Recommend legislation to merge board into Board of Architectural Examiners. 221
2. Bureau of Automotive Repair. Recommend legislation to transfer vehicle emission inspection program (Chapter 1154, Statutes of 1973) to Air Resources Board. 221
3. License Renewal. Recommend legislation to implement staggered license renewal. 222
4. Division of Consumer Services. Recommend legislation to fund division from General Fund rather than from charges prorated to special funds of departmental boards. 222

GENERAL PROGRAM STATEMENT

The Department of Consumer Affairs was established by the Consumer Affairs Act (Chapter 1394, Statutes of 1970) as the state agency responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices.

Subject to such authority as is conferred upon the director by specific statute, each of the present 32 boards or bureaus within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each agency seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates or a registration procedure. It also includes the establishment of curricula, school accreditation and required experience periods. Enforcement activities include inspections, investigations, and administrative hearings (before an officer of the Office of Administrative Hearings) or court

DEPARTMENT OF CONSUMER AFFAIRS—Continued

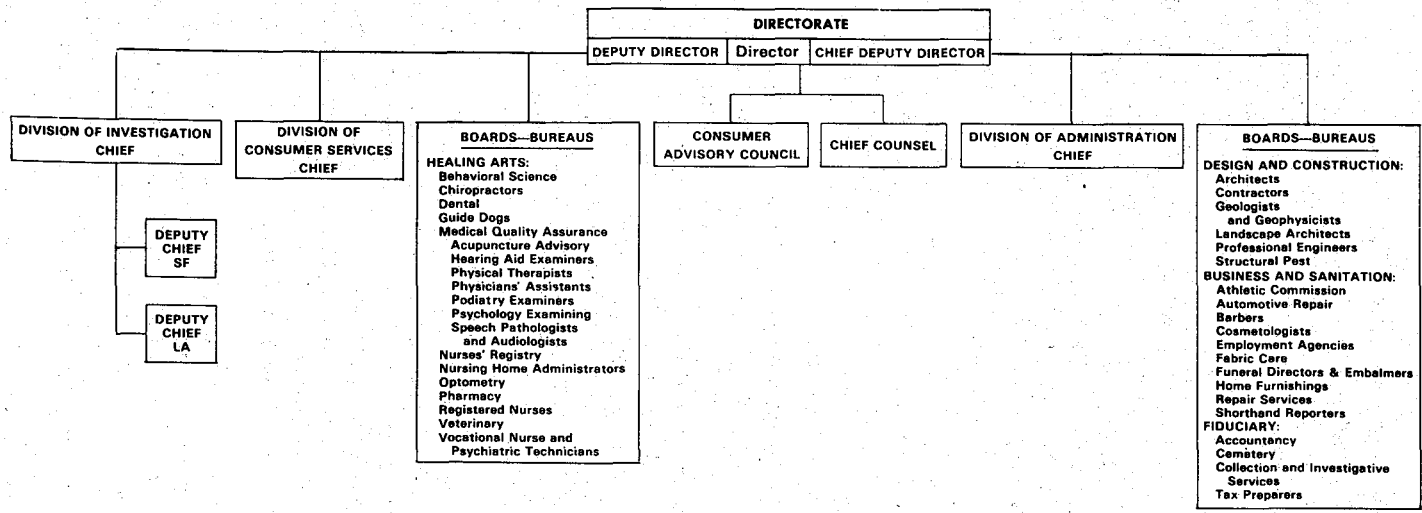
proceedings.

The Division of Consumer Services was established by Chapter 1399, Statutes of 1970. The division is responsible for the department's statewide consumer protection activities which include research and advertising compliance, representation and intervention, consumer education and information, and consumer protection legislation.

The department's Division of Investigation provides investigative and inspection services for most constituent agencies. However, a few boards and bureaus have their own inspectors and investigators. Boards and bureaus are charged \$17.47 per hour for inspections and \$20.37 per hour for investigations by the division.

The Division of Administration provides centralized services such as accounting, budgeting, personnel management, internal auditing, legal assistance and building operation and maintenance. The costs of the Divisions of Administration and Consumer Services are largely distributed on a pro rata basis to each constituent agency. Exhibit 1 depicts the organization of the Department of Consumer Affairs.

Exhibit 1
 Organization of the Department of Consumer Affairs



DEPARTMENT OF CONSUMER AFFAIRS—Continued**ANALYSIS AND RECOMMENDATIONS**

The net budget request for the department is \$31,657,031 which is \$2,091,585 or 7 percent above estimated net expenditures for the current year. Reimbursements of \$8,994,800 to the Automotive Repair Fund from the Air Resources Board and undistributed administrative costs estimated at \$1,366,911 will produce a total expenditure program of \$42,018,742. The department's administrative costs are estimated at \$8,649,521 in the budget year. Of this amount, \$7,232,610 will be distributed on a pro rata basis to the boards and bureaus in the department. \$1,366,911 of administrative costs will be paid from the Consumer Affairs Fund (not a budget item) which was established as a revolving fund pursuant to Sections 203 and 405 of the Business and Professions Code to facilitate the paying of administrative expenses. The remaining \$50,000 of administrative costs is for support of the Division of Consumer Services and is funded from the General Fund (Item 154).

Most of the increases requested by the department result from the effects of inflation on operating costs, increased Attorney General costs and a new emphasis on broad-based consumer protection programs.

The budget requests of various boards and bureaus reflect the enactment of recent legislation.

Board of Medical Quality Assurance (Item 118)

Chapter 1 of the Second Extraordinary Session (Chapter 1xx), Statutes of 1975, renames the Board of Medical Examiners the Board of Medical Quality Assurance and increases the board from 11 to 19 members. The board is divided into three divisions. The Division of Medical Quality will review the quality of medicine practiced by physicians and surgeons, hear cases referred by medical quality review committees, and carry out disciplinary actions against licensees as recommended by the committees. The Division of Licensing will approve undergraduate and graduate medical education programs, develop and administer the physician and surgeon examination, approve clinical clerkships and special programs, issue licenses and reciprocity certificates, suspend, revoke or limit licenses and certificates and administer continuing education programs for certificate holders. The Division of Allied Health Professions will supervise the activities of the examining committees (physician assistants, hearing aid dispensers, physical therapy, speech pathology and audiology) under the jurisdiction of the board, discipline nonphysician certificate holders, act as a liaison with other healing arts boards and certify individuals in technical health occupations.

Chapter 1xx deletes the five district review committees of the existing Board of Medical Examiners and creates 14 medical quality review committees under the jurisdiction of the Division of Medical Quality. Each committee will hear complaints from the public involving licensees, initiate investigations of licensees, continually review the quality of medicine, perform necessary remedial functions, and seek injunctions and restraining orders.

Chapter 1xx also establishes the Bureau of Medical Statistics under the

board to compile statistical data. Insurers are required to furnish the bureau with the names of all health care providers whose malpractice insurance has been terminated.

In order to implement Chapter 1xx, 34 new positions were administratively added in the current year as follows: 4 medical consultants and 7 consumer services representatives for the 14 medical quality review committees, 1 program manager and 1 deputy chief for the Division of Medical Quality, 1 program manager each for the Divisions of Licensing and Allied Health Professions, 1 administrative services coordinator, 1 associate research analyst, 1 assistant statistician, 1 statistical clerk and 1 stenographer for the Bureau of Medical Statistics, and 1 secretary, 7 stenographers and 6 clerk-typists II for clerical support. The board's request for the budget year proposes the continuation of the above positions plus the addition of four clerical positions. Chapter 1xx requires the Division of Medical Quality to develop a continuing education program for physicians and surgeons by July 1, 1977. The four positions will absorb the increased clerical workload generated by this program.

Acupuncture Advisory Committee (Item 119)

Chapter 267, Statutes of 1975, created the seven-member Acupuncture Advisory Committee under the jurisdiction of the Board of Medical Quality Assurance to assist the board with the certification of acupuncturists. Applicants must satisfy certain requirements regarding age, moral character and educational experience and successfully pass an examination administered by the board. Clerical positions (1.1 man-years) were established administratively in the current year to process correspondence from the public. The budget proposes an additional 0.3 man-year of clerical help for this purpose. The program is not fully operational because the Governor has not yet appointed the advisory committee.

Physicians' Assistants Examining Committee (Item 122)

Chapter 634, Statutes of 1975, created the Physicians' Assistants Examining Committee under the jurisdiction of the Board of Medical Quality Assurance to examine and approve physicians' assistants education programs, recommend the scope of practice for physicians' assistants, develop guidelines for approving physicians' applications to supervise assistants and certify assistants to practice by means of a written examination. In order to implement Chapter 634, two positions (0.8 consultant, one clerk-typist II, 0.2 temporary help) were established administratively in the current year. The committee requests that these positions be continued and 0.2 man-year of temporary help be added in the budget year to absorb increased clerical activity.

Bureau of Employment Agencies (Item 147)

Chapter 1236, Statutes of 1975, requires musician booking agencies to be licensed by the Bureau of Employment Agencies. Agencies are required to deposit a \$1,000 surety bond with the bureau, submit forms for approval which will be used as written contracts with artists, file a schedule of fees with the bureau and keep detailed records. In order to implement Chapter 1236, two clerical positions and 0.5 man-year of temporary help were

DEPARTMENT OF CONSUMER AFFAIRS—Continued

administratively established in the current year to absorb increased clerical activity. The bureau requests that these positions be continued in the budget year.

Bureau of Home Furnishings (Item 150)

Chapter 1183, Statutes of 1972, requires upholstered furniture manufactured or sold in California after April 1, 1975 to be made from fire-retardant material. In order to enforce the provisions of Chapter 1183, three positions (one textile chemist I, one textile technician I and one clerk-typist II) were administratively established in the current year. The bureau requests continuation of these positions in the budget year.

Workload Increases

The budget requests of various boards reflect an increased workload. For example, the Board of Accountancy (Item 132) requests the addition of two general auditor III positions to conduct complex audits associated with public complaints and one clerk-typist II to prepare audit reports. The Tax Preparers' Program (Item 136) requests the continuation of one clerical position in the budget year which was administratively established in the current year to assist with the workload generated by increased tax preparer registrations. The Board of Registration for Professional Engineers (Item 141) requests that five clerical positions which were established administratively in the current year to register nine new classes of engineers be continued in the budget year.

Division of Investigation (Item 155)

The division's budget requests the continuation of 19 positions (3 supervising special investigators, 13 special investigators, 3 clerk-typists) that were administratively established in the current year to implement Chapter 1xx, Statutes of 1975. The positions will be used solely to investigate complaints initiated by the 14 medical quality review committees of the Board of Medical Quality Assurance.

Division of Consumer Services

The Legislature augmented the division's 1975-76 budget by \$475,000 from the General Fund to enable the division to employ sufficient staff to implement the consumer protection provisions of the Consumer Affairs Act. The Governor vetoed the augmentation. However, a deficiency authorization of \$475,000 was approved during August 1975, by the Department of Finance from the department's Consumer Affairs Fund.

The division is utilizing the deficiency authorization to employ 19 additional staff members to establish (1) a joint research and advertising compliance program staffed by one program manager, two staff research analysts, three junior staff analysts, one clerk-typist II and 0.5 man-year of temporary help; (2) a representation and intervention program to represent consumers before state and federal agencies and courts. The program will be staffed by four staff counsels, one legal stenographer, one staff services analyst and 0.5 man-year of temporary help; and (3) a joint consumer education and information program to improve the content of

educational materials disseminated to the public. The program will be staffed by one associate analyst and one staff services analyst, and (4) a legislative program to propose new consumer protection legislation and analyze existing consumer legislation. The program will be staffed by one legislative coordinator, one junior staff analyst and one clerk-typist.

Authority to fill the 19 positions was granted by the Department of Finance during October 1975 and most of the positions are now filled. The division is requesting that 16 of the 19 positions be continued in the budget year. Funding will be primarily from the Consumer Affairs Fund. However, Item 154 appropriates \$50,000 from the General Fund for support of the division.

Projected Fund Deficits

The Board of Dental Examiners, Board of Optometry, Board of Vocational Nurse and Psychiatric Technician Examiners (Licensed Vocational Nurse Program), Bureau of Collection and Investigative Services (Collection Agency Fund), and Bureau of Employment Agencies are projecting deficits in their support funds at the end of the budget year. The fees of each agency are at their statutory maximum. We are advised that each agency intends to have a fee bill introduced to revise its fee schedule.

POLICY RECOMMENDATIONS

We believe that the following will improve the efficiency and effectiveness of the department.

1. *We recommend legislation to merge the Board of Landscape Architects into the Board of Architectural Examiners.*

Currently, the Board of Architectural Examiners licenses 8,100 architects and registers 1,000 building designers while the Board of Landscape Architects licenses 900 landscape architects. In our opinion, a separate licensing board should not exist to regulate one particular area of architectural design. Furthermore, consolidation of the two boards would reduce clerical costs and per diem and travel expenses.

2. *We recommend legislation to transfer the vehicle emission inspection program (Chapter 1154, Statutes of 1973) from the Bureau of Automotive Repair to the Air Resources Board.*

Under provisions of the Automotive Repair Act (Chapter 1578, Statutes of 1971) the mission of the Bureau of Automotive Repair (BAR) is to protect the public from fraudulent automotive repair practices. Accordingly, the bureau licenses and regulates automotive repair dealers and official lamp, brake, and smog stations.

Chapter 1154, Statutes of 1973, required the BAR to implement a pilot program of periodic, mandatory vehicle emission inspection for all light duty vehicles registered in Los Angeles, Orange, Riverside, San Bernardino, Santa Barbara, and Ventura Counties. Implementation of the program commenced in November 1975 with the activation of four inspection lanes in Riverside County for testing equipment and procedures. The second phase of the program will begin in late 1976 and will include 25 inspection stations and 519 additional positions. Funds for the program are provided by the Air Resources Board (Item 222) through an interagency agreement and are to be repaid from the Automotive Repair Fund as

DEPARTMENT OF CONSUMER AFFAIRS—Continued

revenues accrue from the sale of inspection stickers.

The BAR was willing to assume the responsibility for implementing the vehicle emission inspection program at a time when no other state agency would agree to take it. Therefore, this organization was designated by the Legislature as the unit responsible for the program. After extensive evaluation of this program, we have determined that the statutory responsibility for implementing the vehicle emission inspection program should be transferred to the Air Resources Board because the program properly falls within the mission of the board. Transfer of the program would also improve administrative procedures through the elimination of the inter-agency agreement and the termination of the budgetary practice of placing the funds for the program in the Air Resources Board budget and the staff positions in the BAR budget.

3. *We recommend legislation to require staggered renewal of licenses every one or two years during the month of the licensee's birthday.*

Currently only the Board of Vocational Nurse and Psychiatric Technician Examiners renews licenses on a staggered basis. The other licensing agencies in the department renew all licenses on the same date every one or two years. In our judgment, renewing licenses during the month of a licensee's birthday would spread the workload over an entire fiscal year and eliminate the need to hire temporary help for license renewal periods.

4. *We recommend legislation to fund the Division of Consumer Services from the General Fund rather than from charges prorated to the special funds which support the departmental boards and bureaus.*

We have consistently recommended in the Analysis and in budget hearings that the division be supported from the General Fund because it performs broad consumer protection functions for the public on a statewide basis. In our judgment, it is poor budgetary practice to fund such activities from license fees collected from 32 professional and occupational groups. After reviewing various provisions of the Business and Professions Code regarding the special funds in the department, we requested an opinion from the Legislative Counsel on the legality of funding the division's activities from the special funds. It is the counsel's opinion that a pro rata charge can be assessed against the special funds for the division's administrative services which are performed to assist the boards in the performance of specified duties.

However, most of the activities of the Division of Consumer Services are related to *statewide* consumer protection activities. Therefore, funding from the General Fund would be a more appropriate budgeting procedure. This method of funding would also eliminate the need to withdraw funds from the Consumer Affairs Fund to help support the division. As previously stated, the Consumer Affairs Fund is a revolving fund established to facilitate the paying of licensing agencies' administrative expenses. Monies from this fund are also used to maintain the Consumer Affairs building and pay the expenses (as a loan) of boards that experience a budget deficit. The Division of Consumer Services' deficiency authorization of \$475,000 for the current year for 19 positions and continued funding of 16 positions for the budget year will reduce the surplus in the fund to

\$1,063,534 on June 30, 1977. In our judgment, this level of surplus is too low to meet unexpected contingencies involving administrative expenses and building maintenance.

Legislative Requests

The department was specifically requested by the Supplementary Report of the Committee on Conference (Budget Bill of 1975) to take specific action and submit reports on several subjects to the legislative fiscal committees. The results of these requests are summarized below.

1. *Contractors' State License Board (Warning Letter)*. The supplementary report recommended that the board develop and utilize a warning letter system for licensee violations.

We are informed that the board has developed and implemented such a system. The letter is sent to a licensee upon settlement of a complaint against the licensee to inform him that the board maintains a record of complaints and future complaints involving violation of the Contractors' License Law could result in license suspension or revocation.

2. *Bureau of Automotive Repair (Workload Standards)*. The supplementary report recommended that the bureau report to the fiscal committees of the Legislature on workload standards developed for its consumer services representatives and field representatives by December 1, 1975. The bureau submitted a report to the fiscal committees and the Joint Legislative Budget Committee during December 1975. The management analyst staff of the Department of Consumer Affairs conducted a six-week study of the complaint handling procedures performed by the bureau's consumer services representatives. The study concluded that 0.7 complaints closed per representative per hour of complaint mediation is a realistic workload standard. During the first three years of the bureau's operation representatives devoted one-half of their time to receiving complaints on the toll-free telephone lines and the other one-half to mediating complaints. The management analyst staff found during the course of developing a workload standard that clerical positions could be used to screen incoming calls, thus allowing the representatives to devote more time to mediation. Based on the workload standard developed from the study, the bureau's 15 consumer services representatives will be able to close 13,000 complaints in the budget year.

The management analyst staff is currently working on developing workload standards for the bureau's field representatives. The results of this study will be submitted to the Legislature by April 1, 1976.

3. *Bureau of Automotive Repair (Toll-Free Telephone Lines)*. The supplementary report recommended that the Audits Division in the Department of Finance audit the use of the toll-free lines in the Bureau of Automotive Repair to determine their cost-effectiveness.

The audit of the bureau's toll-free telephone lines has been completed by the Audits Division in the Department of Finance. The report on the results of this audit will be produced shortly and forwarded to the Legislature for review, according to the division.

4. *Pilot Program for Centralized Complaint Handling*. The supplementary report recommended that the department submit a report to the

DEPARTMENT OF CONSUMER AFFAIRS—Continued

fiscal committees of the Legislature by November 1, 1975 regarding the feasibility of establishing a pilot program for centralized complaint handling. The report was submitted to the fiscal committees and the Joint Legislative Budget Committee during November 1975. In it the department states that a centralized complaint handling unit involving licensing boards would require legislative changes to authorize the boards to delegate their responsibility for reviewing complaints and determining disciplinary action to the unit. The report estimates that a pilot project involving six boards would cost approximately \$71,534 for one administrative assistant, three consumer services representatives, one clerk-typist and operating expenses and equipment.

The report establishes the feasibility of conducting a pilot program for centralized complaint handling. However, in view of the estimated cost and need for extensive revision of sections of the Business and Professions Code we believe that such a project would not be cost-effective.

OFFICE OF THE STATE FIRE MARSHAL

Item 156 from the General Fund

Budget p. 284

Requested 1976-77	\$2,397,423
Estimated 1975-76	2,345,070
Actual 1974-75	2,039,956
Requested increased \$52,353 (2.2 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Department of Health Reimbursement Contract. Recommend the State Fire Marshal report on the contract status during budget hearings. 226
2. Fire Protection Standards. Recommend a report to consolidate all responsibility for fire protection standards and regulations under his authority. 226

GENERAL PROGRAM STATEMENT

The basic objectives of the State Fire Marshal's Office are to prevent the loss of life and property by developing ways to protect the public from fire and panic. To achieve these objectives the State Fire Marshal prepares and adopts minimum statewide standards, aids in enforcement of laws and regulations, and disseminates information relative to public fire safety. Enforcement of the standards is the responsibility of local fire authorities except in state-owned buildings, cargo tanks used in the transportation of flammable liquids and where no local authority exists. In these excepted cases the State Fire Marshal assumes enforcement responsibility.

Within the State Fire Marshal's Office there are three major elements: (1) enforcement, (2) analysis and development and (3) administration.

These elements are described below.

Enforcement

This element consists of nine components, concerning building occupancies, portable fire extinguisher servicing concerns, fireworks, transportation of flammable liquids and occupational safety and health. Enforcement is conducted on a two-phase basis, (1) review of construction plans and (2) onsite inspection.

Analysis and Development

This element contains four components: (1) approval and listing services, (2) consumer protection, (3) public information, and (4) training and fire statistics.

Administration

This element provides planning, coordination and application of statistical, physical and technical information. For accounting purposes the cost of this element is distributed to the enforcement and analysis development elements in the amount attributable to each.

ANALYSIS AND RECOMMENDATIONS

The budget request is for \$2,397,423, an increase of \$52,353 (2.2 percent) over estimated expenditures in the current year. However, the actual total cost of the office has declined by \$252,644. This difference, as shown in Table 1, is the result of a \$304,977 decrease in reimbursements.

Table 1
Summary of Program Requirements

	1975-76	1976-77	Percent change
Program I—Public Fire Safety			
a. Enforcement.....	\$2,794,338	\$2,486,310	-11.0%
b. Analysis and Development.....	660,697	716,101	8.3
Program II—Administration			
a. Administration (distributed to Program I) ..	(\$323,838)	(\$303,201)	-6.4
Totals, Programs	\$3,455,035	\$3,202,411	-7.3%
Reimbursements	1,109,965	804,988	-27.5
Net Totals (Budget Request)	\$2,345,070	\$2,397,423	2.2
Personnel man-years	132.5	115	-17.5%

Programs funded by reimbursements are listed in Table 2 which shows reductions in three programs. The first is the phase-out of inspections performed by the State Fire Marshal under contract with the Department of Industrial Relations. Previously, the Fire Marshal provided facility inspection and code enforcement related to the California Occupational Safety and Health Act (Cal-OSHA). This contract has been terminated and represents a reduction of \$88,940 and four positions.

The second reduction is in the contract with the Department of Health. Under this contract, the State Fire Marshal provides inspection and enforcement of fire and life safety codes associated with health care facilities. This contract has been reduced from \$683,400 and 27.5 positions to \$618,400 and 25 positions.

OFFICE OF THE STATE FIRE MARSHAL—Continued

The third reduction is in the contract with the Office of the State Architect. This contract is for schoolhouse plan checking. During this past year there has been one additional temporary position which is not to be carried forward. This amounts to a reduction of \$25,785.

Although not reported in the budget, reimbursements and corresponding expenditures for 1975-76 have been overstated by \$134,252 based upon current information. This reduced level is shown in the 1976-77 budget.

Table 2
Contract Reimbursements to the State Fire Marshal

	<i>Estimated Man-years 1975-76</i>	<i>Projected Man-years 1976-77</i>	<i>Estimated 1975-76 reimbursed cost</i>	<i>Projected 1976-77 reimbursed cost</i>
Office of the State Architect (OSA)	4	3	\$114,373	\$88,588
Industrial Relations	4	0	88,940	—
Department of Health	27.5	25	683,400 ^a	618,400
Fire extinguisher licensing			53,000	53,000
Building materials and construction			36,000	45,000
Potential unrealized reimbursements			134,252	—
Total	35.5	28	\$1,109,965	\$804,988

^a Subject to negotiation with the Department of Health and Department of Health, Education, and Welfare.

Reimbursement Contract With Department of Health

We recommend that the State Fire Marshal report to the fiscal committees during budget hearings on the status of the reimbursement contract with the Department of Health for budget years 1975-76 and 1976-77.

We footnoted in Table 1 the fact that 1975-76 contract reimbursements with Health are subject to negotiation. Currently, the State Fire Marshal is providing 27.5 man-years directly related to this contract. However, the Department of Health has indicated that funding at the level of 25 man-years is all that is available.

The two offices currently are negotiating this difference. Should Health not reimburse the Fire Marshal, our concern is (1) the Fire Marshal will have to fund this difference from the General Fund, which we believe is inappropriate, or (2) current resources within the budget are \$65,000 in excess of the office's needs and should be reduced accordingly. Therefore, we recommend the State Fire Marshal report the status of the negotiations or their outcome during budget hearings.

Fire Protection Standards and Regulations

We recommend that the Fire Marshal develop a plan for consolidating all responsibility for fire standards and regulations under his authority. This report should be submitted to the Joint Legislative Budget Committee by November 1, 1976.

The State Fire Marshal currently develops and enforces many of the state's standards and regulations. In addition, the Fire Marshal collects and interprets all fire data for the state which is published in July.

However, there are many areas where the State Fire Marshal has no

jurisdiction because statutes give specific authority for development of some standards and regulations to other departments. For example, Housing is an area where the State Fire Marshal does not establish standards and for which fatalities are high. Table 3 lists the casualties for single family residences, duplexes, apartments and mobile homes.

Table 3
Fire Casualty Summary—1974

<i>Classification</i>	<i>Firemen injured</i>	<i>Firemen deaths</i>	<i>Civilian injured</i>	<i>Civilian deaths</i>	<i>Number of fires</i>
1 and 2 Family homes	590	3	1,099	133	30,000
Apartments	177	5	550	69	14,000
Mobile homes	17	0	44	19	1,100
Total (all incidents)	2,008	13	2,793	335	216,000

Source: California Fire Incident Reporting System, July 1975.

By dividing the number of deaths by the number of fires for each category we can compare the rates of deaths per incident. For example, mobile homes deaths per each incident are more than ten times higher than for all other fires and more than three times higher than for fires in any other type dwelling unit. Residences in general have a death per incidence rate three times that of all other fires.

Other areas of jurisdiction not under the auspices of the State Fire Marshal include plastic foam construction systems, factory built housing, home furnishings, along with others.

We believe that by consolidating activities related to the Fire Marshal's function there will be many benefits.

First, the Fire Marshal collects all fire data and can easily determine the hazardous areas for which standards and regulations should be developed or applied. Additionally, the consolidation of expertise is beneficial for coordination in the development of standards and regulations thereby reducing department duplication of services.

Secondly, to have one fire authority is beneficial. The public would have one focal point for all state concerns related to fire standards and regulations, thus, improving the effectiveness of state government.

Section 13100.1 of the California Government Code states that the primary function of the State Fire Marshal's office, "shall be to foster, promote and develop ways and means of protecting life and property against fire and panic."

FRANCHISE TAX BOARD

Items 157, 157.1 and 158 from
the General Fund

Budget p. 287

Requested 1976-77	\$52,230,110
Estimated 1975-76.....	50,466,977
Actual 1974-75	40,984,619
Requested increase \$1,763,133 (3.5 percent)	
Total recommended reduction	\$98,850

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
157	General Support of Franchise Tax Board	General	\$49,304,105
157.1	Political Reform Act	General	2,880,805
158	Legislative Mandate for Reimbursing Local Costs	General	45,200
			\$52,230,110

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Personal Income Tax Returns Processing. Reduce Item 157 by \$82,400.* Recommend reduction of 10.5 man-years of temporary help based on lower estimates of workload. 229
2. *Political Reform Audit Program.* Withhold recommendation on board's request for 137.8 man-years and \$2,880,805 for this program pending receipt of further data on lobbyist auditing activities. 234
3. *Political Reform Audit Workload.* Recommend board provide field audit workload data to the fiscal committees and the Joint Legislative Budget Committee by April 1, 1976. 236
4. *Senior Citizens' Property Tax Assistance. Reduce Item 157 by \$16,450.* Recommend reduction of 2.0 man-years for this program, based on lower estimate of workload. 237
5. *Wage Incentive Study.* Recommend the Department of Finance conduct a study to determine the feasibility of a wage incentive experiment at the Franchise Tax Board. 237

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is comprised of the Director of Finance, the Chairman of the State Board of Equalization and the State Controller. The board has vested its administrative responsibilities in an executive director. The major program expenditures are displayed in Table 1.

Table 1
Expenditures by Program Area
for 1975-76 and 1976-77

	1975-76	1976-77	Percent	
	Current Year Estimate	Budget Year Request	Man-Years	Dollars
I. Personal Income Tax Program (PIT) ..	\$34,854,705	\$35,600,231	0.5%	2.1%
II. Bank and Corporation Tax Program ..	11,754,097	12,061,926	1.3	1.6
III. Political Reform Audit Program	2,136,903	2,890,805	17.1	34.8
IV. Senior Citizens' Property Tax Assist- ance	1,871,229	1,897,285	0.0	1.4
V. Administration and Other	760,043	797,609	0.0	4.9
Totals	\$51,376,977 ^a	\$53,237,856 ^b	1.4%	3.6%

^a Includes \$910,000 of reimbursable contract work.

^b Includes \$1,000,000 of reimbursable contract work, and \$7,746 carry over from current year's appropriation.

The major activities performed within the five major programs are as follows.

1. *The Personal Income Tax Program.* Major activities include processing over 8 million returns filed annually, contracting with the Employment Development Department and the Department of Benefit Payments to collect taxes withheld by employers (employer withholding), auditing returns, and administering refunds and collections.

2. *Bank and Corporation Tax Program.* Major activities are similar to the Personal Income Tax Program but on a smaller scale. The program annually sets the bank tax rate, administers an income tax on corporations doing business in California, and on corporations having incomes from California sources but not doing business in this state.

3. *Political Reform Audit Program.* The Political Reform Act of 1974 (Proposition 9) requires the board to conduct audits of campaign candidates and committees and lobbyists.

4. *Senior Citizens' Property Tax Assistance Program.* This program provides property tax relief through an income based property tax reimbursement formula to homeowners over age 62.

5. *Administration and Other Programs.* The board also provides Electronic Data Processing services for other state agencies through interagency contracts and makes reimbursements for certain mandated local costs.

ANALYSIS AND RECOMMENDATIONS

I. PERSONAL INCOME TAX PROGRAM

PIT Return Workload Overestimated

We recommend a reduction of 10.5 man-years of temporary help in the Personal Income Tax Program for a savings of \$82,400, based on our estimates of workload.

The Franchise Tax Board has estimated that 8.45 million PIT returns will be filed in the current year and 8.7 million in the budget year. These

FRANCHISE TAX BOARD—Continued

estimates are based on prior years employment and population data. In recent years there have been significant changes in the California state income tax laws affecting the relationship of the number of returns filed for a calendar year to the average level of employment during that year. Employee withholding, effective in 1972, and the refundable renters' credit effective for 1973, both increased the number of returns relative to the level of employment. Thus, we believe the ratio of the actual number of returns to employment in 1973 and 1974 is the only historical data valid for use in future projections. Our projections, based essentially on these two years, are shown in Table 2 in comparison to the Franchise Tax Board projections.

Table 2
Projections of PIT Returns

Income Year	PIT Returns					
	Employment ^a		FTB Estimate		Legislative Analyst Estimate	
	Number	Change From 1974	Number	Change From 1974	Number	Change From 1974
1974.....	8,526	—	8,207	—	8,207	—
1975 (est.).....	8,505	-21	8,450	+243	8,180	-27
1976 (est.).....	8,750	+224	8,700	+493	8,460	+253

^a Estimates by Department of Finance, Governors Budget p. A-62.

Because of the limited data available from which to make projections, we conferred with the Internal Revenue Service as to the expected growth in federal returns relative to current and expected changes in employment levels. We were advised that the number of returns estimated to be filed in 1976 (for the 1975 year), excluding an adjustment for the refundable earned income credit, is expected to drop in proportion to the national level of employment. This estimate is consistent with historical patterns over a 25-year period, during which an absolute decline in returns occurred in each of the three years in which the level of employment dropped.

On the basis of the lower estimate of returns for the 1976 income year, we believe that the budget should be reduced by 10.5 man-years of temporary help, and \$82,400 for salaries, benefits and operating expenses. This reduction is based on only those man-years identified in the board's budget proposal as directly variable with the return processing workload, and does not include audit, filing enforcement, collections or allocated administrative man-years. Also excluded from the proposed adjustment are such relative fixed staffing as supervision and training.

Employer Withholding

The Governor's 1976-77 Budget includes an additional \$117,350 for the board's contracts with the Department of Benefit Payments and the Employment Development Department for the administration of employer withholding.

In our 1975-76 Analysis we reported three major problems with the employer withholding program: (1) insufficient workload detail resulting in conflicting revenue estimates, (2) a questionable cost allocation system which is not based on actual administrative costs incurred and (3) potentially conflicting audit priorities preventing audit revenue maximization.

On the basis of these findings we recommended that the Department of Finance evaluate the income tax collection and audit activities of the Department of Benefit Payments and report to the Legislature. This evaluation is currently in progress and is expected to be completed by April, 1976.

Auditing and Collections Activities Expanded

An increase of 3.6 positions and \$60,857 requested in the Governor's 1976-77 Budget stems from recommendations made in a report released by the Auditor General in January 1975. As a result of that report, a total of 151.5 man years and \$1,791,221 were added to the 1975-76 budget last June.

The Auditor General's report identified several problem areas in the auditing and collections operations of the Franchise Tax Board.

1. *Suboptimal Utilization of Alternative Income Information Sources.* The Franchise Tax Board has access to four major sources of information on individuals' incomes: (1) tax returns filed by the individual, (2) computer tapes provided by large businesses and banks, the Employment Development Department and the Internal Revenue Service, (3) individual information returns filed by smaller businesses, and (4) partnership information returns. By comparing these alternative sources of information, the board can discover instances where an individual failed to report taxable income, or failed to file a return.

The Auditor General reported that neither the individual information returns nor the partnership information returns were being used by the board to identify taxpayers who failed to file or who underreported their income. The Auditor General also reported that information on the computer tapes was not being fully utilized to reconcile discrepancies in the income reported by taxpayers who filed returns. The Auditor General's report estimated \$34.1 million in additional revenue could be gained at a cost of \$3.1 million by improving the utilization of these income information sources.

The Franchise Tax Board felt the additional revenue estimates made by the Auditor General were too high, primarily because the computer tapes

FRANCHISE TAX BOARD—Continued

from the Employment Development Division were of inferior quality, and because much of the data on the informational returns was duplicated on the computer tapes received from the Internal Revenue Service. The board is presently processing data from the partnership information returns and the individual information returns. A final report on the usefulness of these two income information sources will be completed by the board in June 1976.

2. *Suboptimal Audit Manpower.* The board conducts two types of audits on personal income tax returns, field audits and desk audits.

The Auditor General's report noted an increase in returns having field audit potential and a simultaneous decrease in field audits performed by the board from 1971 to 1974. The report recommended an increase in field audit activity.

The board disagreed with the Auditor General's recommendation, and indicated that the decline in field audits performed by the board was more than offset by an increase in Internal Revenue Service field audits performed in California. The board also contended the Auditor General's measure of field audit potential was inaccurate and that additional field audits would yield unacceptably low dollar tax change per dollar cost. No additional manpower for this activity was requested by the board.

The Franchise Tax Board also performs desk audits on returns selected by a computerized screening process. These audits are performed by clerical and audit personnel. Beginning in January 1976, the audit program will have access to account abatement data which may be used to refine this screening process. The Auditor General and the board agreed that expanded desk audit coverage in this area is desirable, but disagreed on the level of expansion. The board felt there was less audit potential and need for fewer additional audit positions than the Auditor General recommended. The board requested and received 50.6 additional man-years, including 24.6 auditing man-years, to expand desk audit coverage. The expansion will enable the board to audit 1.5 million returns annually selected by the computerized screening process mentioned above, and by other screening procedures.

3. *Untimely Collections of Delinquent Accounts.* The Auditor General's report estimated a one-time tax revenue loss to the state of \$51.6 million because of a backlog in delinquent accounts. Prior to the time the Auditor General's report was issued, the board had undertaken an internal review of the entire collections program. The Auditor General and the board agreed that more collections manpower was desirable but disagreed on the amount. The board requested and received a total of 65 man-years, including 35 additional tax representative man-years to step-up collections of the backlogged accounts. The board is also in the process of redesigning its computerized collections procedures and management information system.

4. *Taxpayer Assistance Functions Were Being Performed by Auditors and Tax Representatives Instead of Taxpayer Service Personnel.* The increasing demand by taxpayers for assistance at district offices, and the board's policy to provide assistance whenever it is requested, resulted in the diversion of auditors and tax collectors to taxpayer services activities. The board requested and received 29.1 man-years to augment taxpayer services. The board has indicated that the augmentation has allowed tax auditors and collections personnel to devote full time to auditing and collections activities.

Table 3 presents a summary of the allocation of the board's 1975-76 augmentation to the various activities described above.

Table 3
Summary of 1975-76 Franchise Tax Board Budget Augmentation for PIT Auditing and Collections Activities

<i>Activity</i>	<i>Man-years^a</i>	<i>Cost^b</i>
1. Increase utilization of income information sources	6.8	\$59,791
2. Increase desk audits	50.6	627,349
3. Increase collections.....	65.0	860,718
4. Increase taxpayer assistance manpower	29.1	243,363
Total	151.5	\$1,791,221

^a Includes clerical support and administrative overhead.

^b Includes operating expenses and equipment.

Coordinating Assessments and Collections

In reviewing the board's 1974-75 Operations Report, we noted in the statistics on collection activities that the average dollar amount of a delinquent PIT account that was closed by collection was \$390, by abatement, \$859, and by discharge, \$685. These data suggest that larger accounts were being abated or discharged more frequently than the smaller ones. A report released in November 1975, on the Internal Revenue Service observed a related pattern of collections with respect to federal returns. The report, published by the Administrative Conference of the United States, concluded that the larger the government's initial assessment against a taxpayer, the smaller the percentage of the assessment that is ultimately collected.

To determine if a similar situation existed with respect to state returns we analyzed over 250,000 delinquent PIT accounts closed by the board's collection units over a five month period in 1975. We determined that accounts are assigned to different units on the basis of age and size of account, and the type of assessment. Each unit uses different procedures to collect their accounts. The regional offices were found to have most of the larger accounts in inventory. However, these offices demonstrated a collection rate above average (see Table 4).

Table 4

	<i>Average Size of Account in Inventory</i>	<i>Percentage of Accounts Closed Which Were Collected</i>	
		<i>Number</i>	<i>Dollar Amount</i>
Regional offices.....	\$1,664	91.0%	77.2%
All units	324	80.0	64.8

FRANCHISE TAX BOARD—Continued

The results of our analysis suggest that the differences in average amounts collected, abated or discharged from an account may be more closely related to the accuracy of the auditor's initial assessment rather than the efforts of the collections units. However, existing data limitations prevent further analysis in this area at the present time.

Starting in January 1976, the board informs us it will have the ability to match an account's initial assessment and the basis for the assessment with its final disposition in terms of amounts collected, abated, or discharged. This will enable the board to determine which type of assessments are most likely to be collected, abated or discharged. This information may be used to identify specific tax code provisions which are relatively ambiguous or inconsistent and lead to abatements or discharged assessments.

The board is also in the process of implementing a new collections management information system. The board informs us this will enable it to compare collection rates to determine whether the amounts collected per account per month vary with the size of the initial assessment or the taxpayer's income. The board expects complete implementation of this system in 1978. We will maintain close contact with the board to ensure adequate development of these capabilities.

II. BANK AND CORPORATION TAX PROGRAM**Auditing and Collections**

The Governor's 1976-77 Budget requests an increase of 6.4 man-years and \$155,555 to expand field audit coverage of out-of-state corporations and increase collections activity. The board estimates each additional auditor will generate between \$300,000 and \$400,000 in net audit revenues annually after an initial two- to three-year training period.

This increase in auditing manpower is part of a three-year plan to enable the board to attain 100 percent field audit coverage of major out-of-state corporations (corporations with annual federal net income of \$100,000 or more). The board plans to request two more augmentations in this area, in 1977-78 and 1979-80.

III. POLITICAL REFORM AUDIT PROGRAM

We withhold recommendation on the board's request for 137.8 man-years and \$2,880,805 for the Political Reform Audit program in 1976-77, pending further analysis of ongoing activities.

The Political Reform Act of 1974 was adopted by the voters as a statewide ballot initiative (Proposition 9) in June 1974, and superseded the Campaign Disclosure Act of 1973 (Waxman-Dymally Act). The costs of administering the provisions of the act are shown in Table 5.

Chapter 10 of the act requires that the Franchise Tax Board audit all statements and reports of the following:

- (1) All lobbyists required to register with the Secretary of State under the act;
- (2) Candidates who receive 15 percent or more of the total votes cast in a general or special election and their committees;

Table 5
Proposition 9 Administrative Costs

Agency	1975-76 (Estimated)		1976-77 (Requested)		Increase	
	Amount	Percent ^b	Amount	Percent ^b	Amount	Percent ^b
Franchise Tax Board	\$2,136,903	55.5%	\$2,880,805	57.9%	\$743,902	34.8%
Fair Political Practices Commission....	1,102,000	28.6	1,296,280	26.1	194,280	17.6
Secretary of State	326,920	8.5	326,920	6.6	—	—
Department of General Services	216,000	5.6	224,640	4.5	8,640	4.0
Attorney General	43,000	1.1	220,100	4.4	177,100	411.9 ^a
Legislative Counsel	25,000	0.6	25,000	0.5	—	—
Total	\$3,849,823	100.0%	\$4,973,745	100.0%	\$1,123,922	29.2%

^a Includes a shift of manpower from Waxman-Dymally related activities.

^b Percentages may not add to 100.0 due to rounding.

FRANCHISE TAX BOARD—Continued

- (3) Candidates who spend, or for whom is spent, more than \$25,000 in a general, primary or special election and their committees;
- (4) Independent committees, including state and local political party committees which spend more than \$10,000 annually (an individual may qualify as an independent committee subject to audit); and
- (5) Statements of specified elected officials regarding their income and expenditures.

Field Audit Workload Estimates

We recommend the Franchise Tax Board submit a report to the fiscal committees and the Joint Legislative Budget Committee by April 1, 1976, itemizing the field audit, field review, and policy level review time spent for each lobbyist and campaign audit undertaken by the board.

In our 1975-76 Analysis we expressed reservations concerning the board's field audit workload projections. We requested that the State Board of Equalization supply us with data on its field auditing experience of 1974 election campaigns (conducted pursuant to the Waxman-Dymally Act of 1973). The Board of Equalization supplied us with data on the approximately 1,200 campaign audits it conducted during 1974 and 1975. Our analysis of these data raises further questions concerning the Franchise Tax Board workload projections.

The Franchise Tax Board assumed that a campaign audit would involve a minimum fixed amount of field audit time (39.3 hours) and a variable amount of audit time based on the number of pages of reports filed by candidates or committees. The board's estimates indicate that the total field audit time for an average campaign audit in 1976-77 would be 69 hours (including five hours of field level review and supervision). The Board of Equalization's experience was substantially different. Its total field audit time for an average campaign audit in 1974-75 was 26 hours (including field level review and supervision). Our analysis of the time expended per field audit by the Board of Equalization did not substantiate the relationship of audit time with page count that is the basis for the Franchise Tax Board estimates. Although the financial reporting requirements under the Fair Political Practices Act are more stringent than under Waxman-Dymally, we believe that the Board of Equalization experience should be given some consideration in the budget estimates for the Franchise Tax Board.

The Department of Finance, Program Evaluation Division has completed a study of the Board of Equalization campaign auditing experience. This analysis also indicates a significant difference between Franchise Tax Board workload projections and Board of Equalization workload experience with campaign auditing.

The Board of Equalization did not audit financial statements of lobbyists, and the Franchise Tax Board has not yet completed enough lobbyist audits for an adequate evaluation. The board has indicated to us it expects

to have completed some 300 lobbyist audits by the end of March. In addition, the board expects to have completed campaign audits from three special elections. We believe that the board will be in a better position to support its budget request after these data are available.

IV. SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Workload Reduction

We recommend a reduction of 2.0 man-years for a saving of \$16,450 for the Senior Citizens' Property Tax Assistance program (Item 157).

This program reimburses homeowners over age 62 with incomes under \$10,000 a portion of their property taxes, (see page 168). Because of inflationary increases in incomes, the number of people eligible for assistance under this program is declining. Estimates of eligible claimants by the Department of Finance as shown in the Governor's Budget for this program are less than the estimates of claims allowed by the Franchise Tax Board. A comparison of these estimates is shown in Table 6.

**Table 6
Estimates of Eligible Claimants for
Senior Citizens' Property Tax Assistance**

	1975-76	1976-77
Franchise Tax Board	325,000	325,000
Department of Finance	298,000	295,000
Difference	27,000	30,000
Percent	8.3%	9.1%

Based on the number of man-years *directly* variable with the returns processing workload in this program, it appears that a reduction of 2.0 man-years and \$16,450 in salaries, benefits and operating expenses would be appropriate.

V. ADMINISTRATION

Wage Incentive Study

We recommend that the Department of Finance, Program Evaluation Division, conduct a study to determine the feasibility of a wage incentive experiment at the Franchise Tax Board.

The board has more than 500 man-years budgeted in 1976-77 for such tasks as stamping, sorting, slitting, scanning, unstapling, filing and key-punching returns and documents. These activities are coordinated using assembly line management techniques, and are similar to production operations in private industry for which wage incentives have been successfully developed.

Precedent. A wage incentive plan is not without precedent in California State Civil Service. Legislation in 1968 (Chapter 1460) established a "job agent" classification in which "compensation (was) based on the job agent's achievement in obtaining successful completion of training and employment goals by eligible persons." An incentive pay plan pilot project was initiated in July 1972, and discontinued in January 1973, without definitive findings.

While the job agent classification provides a precedent, it must be distin-

FRANCHISE TAX BOARD—Continued

guished from what we are proposing on one crucial point—the nature of the work involved. Wage incentives have been successful in industries where the units of output are uniform physical quantities. Many of the tasks performed at the board are of this nature. It is doubtful a job agent's output could be so categorized.

Other States Experiences. The National Commission on Productivity and Work Quality surveyed state and local government usage of employee incentives and published its findings in March, 1975. Of the 41 responding states, 93 percent reported experience with at least one type of employee incentive program. Of the 509 responding local governments, 84 percent reported experience with incentives. Three states reported the use of piecework incentives. Pennsylvania reported a formal evaluation of their piecework incentive program.

Pennsylvania's Bureau of Employment Security uses a piecework incentive program in which employees receive a bonus for each unit of output above a standard amount. The program covers approximately 85 non-supervisory employees in the Electronic Data Processing Unit. Workers in this unit enter over four million wage records into a tape file each quarter, usually within an 8- to 10-week period. Workers in this unit also perform other tasks such as record verification, training new employees, clerical assignments, etc.

Before the plan was implemented, output was estimated at 280 wage records per hour, at a unit cost of 86 cents per 100. Two years later, output averaged 450 wage records per hour at an average cost of 54 cents per 100. Unit costs dropped by 37 percent.

Labor relations consultants we have contacted have indicated employers and employees in industry generally approve of incentives. The employee benefits by higher wages. The employer benefits by lower employee overhead costs.

Any wage incentive system should meet three criteria. First, it should provide some element of job security for existing permanent employees. Second, it should provide an adequate base wage rate. Third, it should be cost-effective, i.e., the costs of implementing an incentive system should be less than the savings resulting from increased productivity.

The State Personnel Board assures us that the first two criteria—base wages and job security for permanent employees—would be met. To determine whether the third criterion can be met, we recommend that the Department of Finance, Program Evaluation Division undertake a preliminary cost-study covering the following areas:

1. Identification of *tasks* appropriate for wage incentives.
2. Costs of monitoring production *for each task* identified.
 - a. Existing monitoring capabilities.
 - b. Costs of monitoring alternative *production units*.
 - (1) Costs of monitoring individual production.
 - (2) Costs of monitoring group production.
3. Productivity within each *unit* examined.
 - a. Average, range, standard deviation, sample size.

There is the argument that a wage incentive system discriminates un-

fairly against employees whose output is not readily measurable. We feel this is not an argument against wage incentive systems as such but a criticism of barriers preventing employees from entering into a wage incentive system. For this reason we recommend the State Personnel Board work closely with the Franchise Tax Board and the Joint Legislative Budget Committee in the evaluation of the cost study outlined above and the design of any subsequent experiment.

**Agriculture and Services Agency
DEPARTMENT OF GENERAL SERVICES**

Item 159 from the General Fund, Item 162 General Fund transfer to Service Revolving Fund, Item 163 from the Service Revolving Fund—other activities, Item 164 from the Service Revolving Fund—Printing, Item 165 from the State School Building Aid Fund and Item 166 from the Deferred Compensation Plan Fund

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Requested 1976-77	\$155,749,612
Estimated 1975-76.....	150,024,702
Actual 1974-75	125,596,703
Requested increase \$5,724,910 (3.8 percent)	
Total recommended reduction	\$6,057,000

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	<i>Analysis page</i>
159	Department of General Services. For direct support of department operations.	General	\$4,934,714	241
162	Department of General Services. Provides authority whereby funds appropriated from General Fund or other funds for purchase of automobiles or reproduction equipment may be used to augment Service Revolving Fund which finances General Services car pool and reproduction services.	General Fund transfer to Service Revolving Fund	N/A	241
163	Department of General Services. For support in form of revenues from agencies receiving products or services other than printing.	Service Revolving Fund, other activities	121,272,554	241

DEPARTMENT OF GENERAL SERVICES—Continued

164	Office of State Printing. For support in form of revenues from agencies receiving printing services.	Service Revolving Fund, Printing	28,443,074	255
165	Office of Local Assistance. For support of the School Building Aid Program.	State School Building Aid Fund	1,014,828	252
166	Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees as authorized by Chapter 1370, Statutes of 1972.	Deferred Compensation Plan Fund	84,442	251
	Subtotal of department's items included in this analysis.		\$155,749,612	
160	Office of the State Architect. For direct support of specified plan checking services. (Item analyzed on page 257.)	Architecture Public Building Fund	2,217,790	257
161	Office of the State Architect. For support of operations. (Item analyzed on page 257.)	Architecture Revolving Fund	8,582,662	257
Note ^a	Department of General Services. For maintaining and improving properties (1) acquired under the Property Acquisition Law and (2) declared surplus prior to disposition by state.	General	1,506,526	249
Note ^b	Department of General Services. For maintaining, protecting and administering state parking facilities.	General	753,508	255
Note ^c	Office of the State Architect. For verifying that plans of structures purchased by state funds are accessible for use by physically handicapped.	General	122,146	249
	Reimbursements to Office of Architecture and Construction.		139,376	—
	Total expenditures budgeted		\$169,071,620	

^a Gov't. Code (Sec. 15850-65) (continuing appropriation)

^b Gov't. Code Sec. 14678 (continuing appropriation)

^c Gov't. Code Sec. 4454 (continuing appropriation)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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page</i> |
|---|--------------------------|
| 1. Building Alterations. Recommend adding Budget Act control section language requiring state building alteration projects to be subject to legislative review with specified reporting requirements. | 245 |
| 2. Surplus Property. Recommend department submit by April 1, 1976 to the Joint Legislative Budget Committee and the Department of Finance a list of "suspect" surplus state parcels. Thereafter, such a list should be submitted each November 1. | 247 |
| 3. <i>Building Temperature Control. Reduce Item 159 by \$97,000.</i> | 249 |

- Recommend deletion of funds for control monitoring system to heat and cool state buildings.
4. Mobile Equipment. Recommend adding Budget Act control section language requiring General Services approval before departments rent specified types of mobile equipment from a nonstate source, with specified reporting requirements. 250
 5. Interagency Mail Service. Recommend department submit to the Joint Legislative Budget Committee and the Department of Finance by April 1, 1976, a plan for reducing interagency mail cost. 253
 6. *Office Copiers. Augment Item 159 by \$3 million.* Recommend a General Fund loan of \$3 million for department to purchase copier equipment for lease to state agencies. 253
 7. *Textbooks. Reduce Item 164 by \$8,960,000.* Recommend deletion of 171 positions and \$8,960,000 for related salaries and other expenses if recommendation under Department of Education (Item 335) is approved. 255
 8. General Fund Repayment. Recommend department repay the \$7,353,842 appropriated previously from the General Fund to support its working capital requirements. 256

GENERAL PROGRAM STATEMENT

The Department of General Services exists to improve the overall efficiency of state government operations by (1) performing certain management and support functions as assigned by the Governor and specified by statute, (2) providing central services to operating departments more economically than they can provide individually for themselves, and (3) establishing, maintaining and enforcing statewide standards and developing and implementing improved statewide policies and procedures.

Key Characteristics of the Department

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1976-77.

The department is funded by (1) direct support appropriations, (2) revolving fund appropriations and (3) reimbursements. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving fund appropriations and reimbursements permit the department to expend specified amounts from revenues it earns from providing services and products to customer agencies. Table 1 shows that 93.7 percent of department costs is supported from revenues earned while only 6.3 percent of the costs is funded by direct support.

Table 2 indicates the wide diversity of functions in which the department is engaged and presents for each such function the total expenditures by source of funds for the 1976-77 fiscal year. Although the functions appear in the budget as program elements, it is more realistic to view them as individual programs because of their magnitude and degree of specialization. The department's line operations fall into two categories, as follows:

1. Those functions relating to state ownership, use or regulation of real

DEPARTMENT OF GENERAL SERVICES—Continued

property which appear as elements under the "property management services" program.

2. Other operations which appear as elements under the "statewide support services" program.

The administration program contains executive and staff support elements which provide fiscal, personnel and management services to the department's line operations.

Table 3, shows the allocation of staff among the various department functions over the three-year period ending June 30, 1977. This indicates that there are 4,152.9 positions requested (a net reduction of 39.7 positions) for the budget year. The most significant staff changes are as follows:

1. Termination of 35 positions in the Office of Administrative Hearings which were added in the 1975-76 fiscal year to conduct fair hearings for the Department of Benefit Payments.

2. An increase of 12.8 positions in the buildings and grounds division for assuming maintenance and operation services for the Santa Ana state building. (General Services has been contracting with Orange County for these services.)

3. A decrease of 10 positions in the Office of Local Assistance resulting from a workload reduction in the state school building aid program.

4. A decrease of 7.8 positions in the real estate services division, because positions added for processing increased workload during the 1975-76 fiscal year are not continued in 1976-77.

Table 1
Department of General Services
Total Expenditures by Source of Funds
1974-75 through 1976-77

<i>Source of Funds</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>Percent of Total</i>
Direct support:				
General Fund	\$6,147,575	\$7,087,106	\$7,316,894	
State School Building Aid Fund.....	1,018,955	1,114,026	1,014,828	
Architecture Public Building Fund..	1,871,102	2,162,886	2,217,790	
Deferred Compensation Plan Fund	39,499	80,608	84,442	
Total	\$9,077,131	\$10,444,626	\$10,633,954	6.3%
Revolving funds:				
Service Revolving Fund, printing	\$22,357,472	\$27,018,744	\$28,443,074	
Service Revolving Fund, other activities	98,454,974	116,973,350	121,272,554	
Architecture Revolving Fund.....	5,073,731	8,494,439	8,582,662	
Total	\$125,886,177	\$152,486,533	\$158,298,290	93.6%
Reimbursements:				
Service Revolving Fund activities....	\$3,640	\$176,751	—	
Architecture Revolving Fund activities	189,316	139,376	139,376	
Total	\$192,956	\$316,127	\$139,376	0.1%
Total Expenditures	\$135,156,264	\$163,247,286	\$169,071,620	100.0%

Table 2
Department of General Services
Total Expenditures by Source of Funds and Programs
1976-77

<i>Program</i>	<i>Direct support appropriations</i>	<i>Revolving fund appropriations</i>	<i>Reimbursements</i>	<i>Total expenditures</i>	<i>Percent of total</i>
I. Property management services	\$6,808,559	\$51,149,697	\$139,376	\$58,097,632	34.4%
A. Architectural consulting and construction	2,285,290	10,167,574	139,376	12,592,240	
B. Buildings and grounds	—	21,789,413	—	21,789,413	
C. Long-range facilities planning	—	266,514	—	266,514	
D. Real estate services	28,080	2,058,032	—	2,086,112	
E. Space management	—	1,925,777	—	1,925,777	
F. Building standards	60,014	—	—	60,014	
G. Rented buildings	2,557,358	14,942,387	—	17,499,745	
H. Minor capital outlay	249,145	—	—	249,145	
I. Property acquisition act	1,506,526	—	—	1,506,526	
J. Physically handicapped plan checking	122,146	—	—	122,146	
II. Statewide support services	3,825,395	105,096,558	—	108,921,953	64.4%
A. Administrative hearings	—	2,004,883	—	2,004,883	
B. Communications	55,902	19,796,146	—	19,852,048	
C. Fleet administration	100,473	11,193,148	—	11,293,621	
D. Insurance services	84,442	2,843,685	—	2,928,127	
E. Legal services	—	569,037	—	569,037	
F. Local assistance	1,033,058	—	—	1,033,058	
G. Management services office	8,015	7,552,989	—	7,561,004	
H. Office services	—	6,122,279	—	6,122,279	
I. Procurement	—	22,168,138	—	22,168,138	
J. Security and protection	1,526,409	4,403,179	—	5,929,588	
K. State printing	—	28,443,074	—	28,443,074	
L. Small business procurements and contracts	263,588	—	—	263,588	
M. Motor vehicle parking facilities	753,508	—	—	753,508	
III. Administration	—	2,052,035	—	2,052,035	1.2
Totals	\$10,633,954	\$158,298,290	\$139,376	\$169,071,620	100.0%
Percent of Total	6.3%	93.6%	0.1%	100.0%	

DEPARTMENT OF GENERAL SERVICES—Continued

5. An increase of six positions in the office services division to provide office machine repair service at four CSUC campuses which have been obtaining such service from the private sector.

6. A decrease of 5.5 positions in the administration program, reflecting the termination of positions added in the 1975-76 fiscal year only to develop state procurement opportunities for minority and small businesses. (Such positions were funded by the Federal Office of Minority Business Enterprise.)

Table 4, which presents total expenditures by program element during the three-year period ending June 30, 1977, indicates a \$5.8 million or a 3.6 percent increase in the department's total budget for the 1976-77 fiscal year. Program elements showing the greatest increases are communications (\$2.8 million), state printing (\$1.4 million) and buildings and grounds (\$1 million).

Table 3
Department of General Services
Staff by Programs
1974-75 through 1976-77

<i>Operating Unit</i>	<i>Filled positions 1974-75</i>	<i>Authorized positions 1975-76</i>	<i>Requested positions 1976-77</i>	<i>Percent of total</i>
I. Property management services	1,622.4	1,709.8	1,714.8	41.3%
A. Architectural consulting and construction	292.5	342.0	341.0	
B. Buildings and grounds	1,204.6	1,214.4	1,227.2	
C. Long-range facilities planning....	9.0	10.7	9.7	
D. Real estate services	57.7	77.5	69.7	
E. Space management	58.6	65.2	67.2	
II. Statewide support services.....	2,265.9	2,392.2	2,353.0	56.7
A. Administrative hearings	91.3	99.1	64.1	
B. Communications	289.7	315.7	315.7	
C. Fleet administration.....	156.8	159.4	159.4	
D. Insurance services	10.1	12.1	12.1	
E. Legal services.....	16.6	18.7	18.7	
F. Local assistance	51.2	51.5	41.5	
G. Management services office.....	296.5	316.4	317.4	
H. Office services.....	181.7	214.6	220.6	
I. Procurement	177.3	187.8	187.8	
J. Security and protection	297.9	309.5	308.3	
K. State printing.....	691.0	696.4	696.4	
L. Small business procurements and contracts	5.8	11.0	11.0	
III. Administration	76.9	90.6	85.1	2.0
Totals	3,965.2	4,192.6	4,152.9	100.0%
Percent of Increase	2.5%	5.7%	-0.9%	

ANALYSIS AND RECOMMENDATIONS

This analysis is presented in the sequence of program elements appearing in Table 4. The analysis of each element is preceded by a statement of funding which specifies the types of support, source of funds, proposed expenditures and proposed staff.

Table 4
Department of General Services
Total Expenditures by Program
1974-75 through 1976-77

Program	Actual 1974-75	Estimated 1975-76	Estimated 1976-77
I. Property management services	\$46,765,616	\$56,213,471	\$58,097,632
A. Architectural consulting and construction	7,788,842	12,373,766	12,592,240
B. Buildings and grounds	17,974,341	20,724,098	21,789,413
C. Long-range facilities planning	216,516	287,689	266,514
D. Real estate services	1,578,220	2,174,898	2,086,112
E. Space management	1,528,556	2,005,301	1,925,777
F. Building standards commission	39,211	57,706	60,014
G. Rented buildings	15,783,895	16,737,196	17,499,745
H. Minor capital outlay	99,303	249,145	249,145
I. Property acquisition act	1,628,421	1,481,526	1,506,526
J. Physically handicapped plan checking	128,311	122,146	122,146
II. Statewide support services	85,779,029	103,414,598	108,921,953
A. Administrative hearings	2,223,120	2,708,480	2,004,883
B. Communications	13,801,206	17,031,116	19,852,048
C. Fleet administration	8,631,562	11,122,894	11,293,621
D. Insurance services	2,662,572	2,786,148	2,928,127
E. Legal services	424,457	535,325	569,037
F. Local assistance	1,058,826	1,194,722	1,033,058
G. Management services office	6,512,912	7,121,225	7,561,004
H. Office services	4,465,958	5,951,270	6,122,279
I. Procurement	17,053,622	21,239,281	22,168,138
J. Security and protection	5,805,859	5,859,716	5,929,588
K. State printing	22,357,472	27,018,744	28,443,074
L. Small business procurements and contracts	116,423	200,217	263,588
M. Motor vehicle parking facilities ..	665,040	645,460	753,508
III. Administration	2,611,619	3,619,217	2,052,035
Totals	\$135,156,264	\$163,247,286	\$169,071,620
Percent of Increase	13.2%	20.8%	3.6%

I. PROPERTY MANAGEMENT SERVICES

Building Alterations Should be Subject to Legislative Review

We recommend that a new control section be added to the Budget Act:

1. Prohibiting the expenditure of support appropriations for building alteration projects costing in excess of \$100,000.

2. Requiring the Department of General Services to report all building alteration projects estimated to cost (a) from \$25,000 to \$100,000 to the Joint Legislative Budget Committee at least 30 days prior to the scheduled commencement of work and (b) from \$5,000 to \$25,000 on a post-audit basis 90 days after the close of each fiscal year.

Because provisions of the State Administrative Manual (SAM) are not being followed, major state building alteration projects are not receiving

DEPARTMENT OF GENERAL SERVICES—Continued

proper review. The SAM provides that a building alteration project costing \$100,000 or more is a major capital outlay project and, as such, must be included as a capital outlay item in the Governor's Budget. Under this provision, such a project is subject to review by (1) the Department of Finance and the Legislature as to its need and proper level of funding and (2) the Public Works Board to ensure compliance with administrative and legislative intent.

According to Department of General Services' records, 11 such projects costing more than \$100,000 each have been initiated under the supervision of General Services for various state agencies since July 1, 1974. Not one, however, was presented as a capital outlay budget item. One such project, for the State Personnel Board (SPB), is estimated by General Services to require \$556,000 for construction alone, totaling \$918,000 when furniture and consultant fees are included. (We make specific recommendations regarding this particular project in our analysis of the SPB under Item 172, page 275.)

High Dollar Volume

According to General Services' records, 101 individual state building alteration projects costing \$5,000 or more (including the 11 projects costing over \$100,000 individually, discussed above) were initiated between July 1, 1974 and December 1, 1975. Total state costs for these projects are estimated to approximate \$4.5 million.

In our judgment, such projects should be subject to review and evaluation by the Legislature. We, therefore, suggest that those projects costing (1) over \$100,000 be submitted as a capital outlay item in the Budget Bill, (2) \$25,000 to \$100,000 be reported by General Services to the Joint Legislative Budget Committee at least 30 days prior to the scheduled commencement of work, and (3) \$5,000 to \$25,000 be reported by General Services to the Legislature on a post-audit basis.

Program Elements

The property management services program consists of the following 10 elements which relate to state ownership, management, use and regulation of real property.

A. Architectural Consulting and Construction

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 159	\$67,500	341.0
Direct support.....	Item 160	2,217,790	—
Revolving fund.....	Item 161	8,582,662	—
Revolving fund.....	Item 163	1,584,912	—
Revolving fund—reimbursements.....	Item 163	139,376	—
Total.....		<u>\$12,592,240</u>	<u>341.0</u>

This program element is discussed under our analysis of Items 160 and 161 which make separate appropriations from the Architecture Public Building Fund and Architecture Revolving Fund respectively.

B. Buildings and Grounds

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving Fund	Item 163	\$21,789,413	1,227.2

The buildings and grounds division is responsible for maintaining state buildings and grounds and for making minor building alterations.

C. Long-Range Facilities Planning

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund	Item 163	\$266,514	9.7

The long-range facilities planning division is responsible for (1) developing long-range facilities plans to satisfy future state space requirements in metropolitan areas, (2) developing a five-year capital outlay program, (3) analyzing state parking requirements, (4) making economic analyses, (5) maintaining the Capitol area plan and (6) reviewing space requests of state agencies to ensure consistency with long-range statewide objectives.

D. Real Estate Services

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$28,080	69.7
Revolving fund	Item 163	<u>2,058,032</u>	—
Total		\$2,086,112	69.7

The real estate services division acquires, manages and disposes of real property for state agencies.

Surplus Property Should be Disposed of More Expeditiously

We recommend that the Department of General Services submit to the Joint Legislative Budget Committee and Department of Finance by April 1, 1976 a list identifying "suspect" surplus state parcels which should be subject to consideration by the Legislature for inclusion in the annual state surplus property bill. The list should indicate for each parcel (a) the controlling state entity, (b) a brief description, (c) its location, (d) its present or planned use and (e) estimates of its market value and disposal cost.

We recommend, further, that in the future General Services submit a surplus parcel list annually by November 1, to the Joint Legislative Budget Committee and the Department of Finance.

Under existing law (Government Code Section 11011), each state department is required to notify the Department of General Services annually of its surplus real property, and General Services reports to the Legislature the property declared surplus and requests authorization to dispose of it by sale or otherwise. Legislative authorization presently is granted in the form of a bill which specifies each surplus parcel and the conditions under which it may be disposed of. Money from the sale of such

DEPARTMENT OF GENERAL SERVICES—Continued

property is paid to the General Fund, unless specified otherwise by law.

Significant Saving Potential—but No Incentive. Surplus state properties frequently are retained because there is no incentive for the controlling state entities to dispose of them.

At our request, General Services' staff made a brief survey and prepared a preliminary "suspect list" of parcels appearing to be surplus to state needs. The staff estimated the value of the property at \$18.4 million (\$10.8 million of which is controlled by the California State University and Colleges Trustees). We have identified additional parcels which appear to be surplus to state requirements, including Otay Mesa (vacant land purchased several years ago for a state prison site in San Diego County) which we discuss under Item 393.

"Suspect" Surplus Property Should be Subject to Legislative Review. Because of the substantial saving potential from disposing of surplus state property in a more expeditious manner, we believe an objective review of all state property should be made annually to identify for legislative review and consideration those parcels which appear to be surplus to state needs. For this reason, we suggest that General Services (1) submit an all-inclusive list of suspect surplus state property by April 1, 1976 for consideration by the Legislature during the budget hearings and (2) submit such lists annually thereafter, beginning November 1, 1976.

E. Space Management

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund	Item 163	\$1,925,777	67.2

The space management division provides services for the assignment, coordination, contract and lease management of noninstitutional state office and warehouse space. The division also is responsible for supervising state building alteration projects and ensuring that approval procedures relative to such projects are followed.

F. Building Standards

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 159	\$60,014	—

The Building Standards Commission receives staff support from the Office of the State Architect. It is responsible for reviewing building code regulations and conducting hearings of construction industry appeals.

G. Rented Buildings

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct Support.....	Item 159	\$2,557,358	—
Revolving fund	Item 163	14,942,387	—
Total		\$17,499,745	—

The Department of General Services collects rent on a nonprofit basis from occupants of a number of state buildings. All such rent is deposited in the Service Revolving Fund. Payments are made from the fund for all building costs including insurance, building maintenance and amortization of loans of the Public Building Construction Fund buildings. The standard monthly rental rate for the 1976-77 fiscal year is 50 cents per square foot for office space and 13 cents per square foot for storage space.

The direct support expenditure indicated above for this element represents the amount requested from the General Fund for rental of legislative office space and for the Department of General Services to maintain the State Capitol, Capitol Park and the Governor's Office and residence.

H. MINOR CAPITAL OUTLAY

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$249,145	—

The minor capital outlay element consists of nine minor alterations planned to state facilities in the 1976-77 fiscal year.

Fully Automated Monitoring System is Needed

We recommend deletion of \$97,000 proposed for installing a partially automated control monitoring system for heating and cooling state buildings in downtown Sacramento (Reduce Item 159).

A fully automated central control monitoring system would be more efficient and economical, than a partially automated one, because (1) less fuel would be consumed and (2) fewer employees would be required for equipment control.

We, therefore, recommend (1) deletion of the \$97,000 requested for installing a partially automated system and (2) instead, planning funds be provided under Item 373 to enable General Services to have a fully automated system designed.

I. Property Acquisition Act

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Government Code (Sec. 15850-65)	\$1,506,526	—

This program element represents expenses incurred by the real estate services and buildings and grounds divisions in maintaining and improving properties (1) acquired under the Property Acquisition Law and (2) declared surplus to state needs prior to their disposition.

J. Physically Handicapped Plan Checking

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Government Code (Sec. 4454)	\$122,146	—

DEPARTMENT OF GENERAL SERVICES—Continued

This program element represents expenses incurred by the Office of the State Architect in verifying that plans and specifications of structures purchased by state funds provide for adequate accessibility and use by the physically handicapped.

II. STATEWIDE SUPPORT SERVICES

Program Elements

The statewide services support program consists of the following 13 program elements.

A. Administrative Hearings

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund.....	Item 163	\$2,004,883	64.1

The Office of Administrative Hearings (1) conducts quasi-judicial hearings, (2) compiles and publishes the California Administrative Code and (3) conducts studies of administrative law and procedure.

B. Communications

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$55,902	315.7
Revolving fund.....	Item 163	19,796,146	—
Total		\$19,852,048	315.7

This program element involves planning for and managing state telecommunication facilities, assisting agencies in defining and satisfying their telecommunication requirements, providing installation and maintenance services and ensuring system reliability.

C. Fleet Administration Division

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 159	\$100,473	159.4
Revolving fund.....	Item 163	11,193,148	—
Total.....		\$11,293,621	159.4

This division conducts various vehicle service activities including vehicle pool operations, garage operations, preventive maintenance, statewide inspection services, parking services for state employees and the public, and central management and coordination.

Equipment Sharing: More Control Needed

We recommend that:

1. Control Section 22 of the Budget Act be expanded requiring state departments to obtain specific approval from General Services before renting from a nonstate source specified types of mobile equipment having an original purchase price of \$25,000 or more.

2. *General Services continue in future years submitting quarterly reports to the Joint Legislative Budget Committee on the volume of transactions and dollar savings resulting from the interagency mobile equipment sharing program and from General Services' motor vehicle reutilization program.*

"Management by Committee". The central state mobile equipment sharing program continues to be managed by a council of middle management equipment specialists who take time from their regular jobs to participate in the council's activities. In order for the program to achieve its maximum potential and because continued "management by committee" seemed inappropriate, we recommended in the 1975-76 Analysis that the Director of General Services appoint a full-time coordinator to work with the council and be responsible for expediting program implementation. We recommended further that General Services prepare instructions in the State Administrative Manual (SAM) requiring departments to participate in the program, submit information on their equipment for listing in the central state mobile equipment inventory and obtain approval from the coordinator before renting from a nonstate source specified types of equipment having high rental rates.

The recommendations were not adopted. General Services, however, subsequently issued SAM instructions requiring departmental participation in the program in line with some of our recommendations.

Significant savings are possible—but are not being achieved. The state equipment council's July 1973, report stated that savings of \$3 million annually could be realized by using state heavy equipment vehicles only 10 percent of the time during which they are idle. The report also stressed the need for top management direction and control.

According to the council's annual reports, the program resulted in net state savings of \$450,000 during fiscal year 1973-74 and \$368,000 during fiscal year 1974-75.

Rentals From Nonstate Sources Should be Controlled. The Department of General Services should be required to grant specific approval before state departments are permitted to rent from a nonstate source specified types of mobile equipment having an original purchase price of \$25,000 or more. Approval would not be granted unless comparable state-owned equipment is not available. Members of the council have estimated that such an approval procedure alone, if applied properly, should result in additional state savings of \$500,000 annually. To ensure that the approval procedure is workable, however, it should be subject to approval by the equipment council.

D. Insurance Office

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 166	\$84,442	12.1
Revolving fund.....	Item 163	<u>2,843,685</u>	<u>—</u>
Total		<u>\$2,928,127</u>	12.1

The insurance office administers a comprehensive program for recover-

DEPARTMENT OF GENERAL SERVICES—Continued

ing damages to state-owned vehicles, advises agencies on risk management problems, analyzes agencies' insurance requirements and negotiates for insurance procurement based on such analyses. The office also administers a driver accident prevention program and the state's deferred compensation program.

E. Legal Services

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving Fund.....	Item 163	\$569,037	18.7

The legal office provides direct legal services to the Departments of General Services and Finance and various boards and commissions. The office also reviews transactions entered into by other state agencies which are subject to approval by General Services.

F. Local Assistance

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$18,230	41.5
Direct support	Item 165	<u>1,014,828</u>	<u>—</u>
Total		<u>\$1,033,058</u>	<u>41.5</u>

This office administers the State School Building Aid Program, which provides financial assistance to school districts for the acquisition and development of school sites, construction of buildings and purchase of equipment. Other activities include (1) reimbursing counties for providing legal counsel to indigents and (2) administering other programs offering financial assistance to local agencies.

G. Management Services Office

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$8,015	317.4
Revolving fund	Item 163	<u>7,552,989</u>	<u>—</u>
Total		<u>\$7,561,004</u>	<u>317.4</u>

The management services office provides a number of services including accounting, data processing, management analysis and state records management. The office also administers the central state EDP education program.

H. Office Services

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund.....	Item 163	\$6,122,279	220.6

The office services division provides office machine repair, reproduction, mail and clerical services to state agencies.

Failure to Comply with Legislative Request for Report on Interagency Mail Service

We recommend that the office services division, on the basis of its survey of external messengers used by state agencies in the Sacramento area, submit to the Joint Legislative Budget Committee and Department of Finance, a report (1) identifying positions being used as messengers which should be eliminated in the various agencies; (2) presenting a plan, schedule and budget for providing interagency messenger service to such agencies; and (3) indicating annual net savings in state costs which would result if the plan were implemented. The report should be submitted by April 1, 1976 for consideration by the subcommittees hearing the department's budget items.

In line with our recommendation in the 1975-76 Analysis, the Supplementary Report of the Committee on Conference (on the Budget Act of 1975), required the office services division, with the assistance of the Department of Finance, to survey the use of external messengers used by state agencies in the Sacramento area, and submit to the Joint Legislative Budget Committee by November 1, 1975, a report (1) indicating such messenger positions which should be eliminated, (2) presenting a plan for providing interagency messenger services to such agencies and (3) indicating net state savings which would result if the plan were implemented.

It is our understanding that the office services division completed the survey but, as of January 1, 1976, had not submitted the report as required. We believe this report should be submitted by April 1, 1976 for consideration at the budget hearings.

I. Office of Procurement

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund.....	Item 163	\$22,168,138	187.8

The procurement element consists of three program components: (1) direct purchasing, (2) central stores and (3) traffic management.

State Should Purchase Office Copiers

We recommend that:

1. A special appropriation of \$3 million from the General Fund be approved to provide a loan to the Department of General Services to purchase office copier equipment and lease it to state agencies when purchase is cost-justified (Augment Item 159).

2. General Services report annually, beginning November 1, 1976, to the Joint Legislative Budget Committee on (a) the number and cost of copiers it purchased since July 1, 1976, (b) estimated annual state savings from such purchases and (c) whether the number of such purchases should be increased and, if so, to what extent and how they should be funded.

In prior Analyses, we emphasized the need to improve the state's acquisition and use of office copy equipment and made a number of specific recommendations for achieving such improvements.

During the last year, General Services made satisfactory progress in this

DEPARTMENT OF GENERAL SERVICES—Continued

area. It negotiated more advantageous master state lease and purchase contracts for acquiring office copy equipment and implemented procedures designed for ensuring that only those copiers are acquired which are capable of satisfying stated work requirements efficiently and economically.

Significant Savings are Possible. Almost all office copiers in state use (about 2,500) are leased, although in practically all cases it would be to the state's economic advantage to own them. It is our understanding that the average useful life of a copier is eight years, while the average "break-even" point (time when cumulative lease cost equals purchase cost) is between three and four years.

Central Ownership Indicated. Existing leases of copiers typically are extended simply because sufficient funds have not been budgeted by the using agency for purchasing the equipment. In such cases, when it is clearly to the state's advantage to own the equipment, we believe General Services should purchase it and lease it to the using agency.

An Issue of Funding. All copiers now leased by the state could be purchased at a total cost of about \$28 million. However, because of the limited funds available and in order to ensure thoughtful implementation, we believe (1) a central state copier purchase program should be implemented on a limited basis and (2) initially only those purchases offering the greatest cost/benefit advantage should be made. In our opinion, the program should be entirely self-supporting.

General Fund Loan is Proposed. In order for General Services to initiate such a program, we propose that it receive a \$3 million loan from the General Fund to be repaid entirely in annual installments of about \$375,000 from program "profits" over a period of approximately eight years.

Under the program, General Services would:

1. Use the \$3 million loan to purchase those copiers offering the greatest cost/benefit advantage.
2. Lease the copiers to using state agencies at regular lease rates.
3. Use one-half (estimated \$375,000) of the program's annual "profit" (estimated at about \$750,000 for the first year) to repay the loan in annual installments and use the balance of the profit to purchase additional equipment.

In our judgment, such a program, if implemented properly, would be fully self-supporting and generate significant cost savings over the years.

J. Security and Protection

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support	Item 159	\$1,526,409	308.3
Revolving fund	Item 163	4,403,179	—
Total		\$5,929,588	308.3

The state police division provides services to protect state property and buildings, their occupants and visitors from hazards and criminal actions.

K. State Printing

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund.....	Item 164	\$28,443,074	696.4

The Office of State Printing (OSP) provides printing services for the Legislature and all state agencies, except the University of California. It also produces elementary textbooks for distribution to local school districts.

Textbook Manufacturing Process

We recommend that, if the recommendation contained in our analysis of the Department of Education (Item 335) is adopted to phase-out the Office of State Printing (OSP) from the textbook manufacturing process in the 1976-77 fiscal year, an adjustment be made to delete 171 positions and \$8,960,000 for related expenses to correspond with reduced work volumes and reduced revenues resulting from termination of textbook production.

In our analysis of the Department of Education (Item 335) we point out that, pursuant to major changes in the textbook law in 1969 and 1972, it is no longer to the advantage of the state or local school districts for the OSP to continue printing textbooks. We indicate a projected loss in 1976-77 from the state manufacture of textbooks in relation to what such books would cost if ordered by the school districts directly from the publishers. We state, further, that inclusion of the OSP in the textbook acquisition and delivery process delays for approximately a year the time from which a school district orders a book until it is delivered.

We recommend under the Department of Education Item 335 that the OSP be phased-out of the textbook manufacturing process in 1976-77. If this recommendation is adopted, 171 positions and \$8,960,000 should be deleted, as a technical adjustment, from the OSP budget in line with the decline in workload and revenue which would result from termination of textbook printing.

L. Small Business Procurements and Contracts

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Item 159	\$263,588	11.0

The stated purpose of this office is to facilitate small business participation in state procurements and construction contracts.

M. Motor Vehicle Parking Facilities

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Direct support.....	Government Code (Sec. 14678)	\$753,508	—

This program element represents expenses incurred by the department's divisions of (1) buildings and grounds, (2) security and protection

DEPARTMENT OF GENERAL SERVICES—Continued

and (3) fleet administration for maintaining, protecting and administering state parking facilities.

III. ADMINISTRATION

<i>Funding</i>	<i>Source of funds</i>	<i>Proposed expenditures</i>	<i>Proposed staff</i>
Revolving fund.....	Item 163	\$2,052,035	85.1

The administration program consists of executive management, fiscal and personnel functions which support the department's operational programs. Program costs are distributed among the department's line programs. The department also provides on a reimbursement basis accounting, budgeting and personnel services to a number of smaller state entities.

General Fund Should Be Repaid

We recommend that the Department of General Services repay the \$7,353,842 appropriated previously from the General Fund to support its working capital requirements.

The Department of General Services operates primarily as a conglomeration of businesses, providing services and products to customer agencies at a price. Almost all of its operating expenses are financed from revenues paid into the Service Revolving Fund (SRF) by the agencies it serves.

When the SRF was created, the initial working capital required for General Services to meet its operating expenses was appropriated from the General Fund. On numerous occasions, General Fund augmentations have been made to the SRF to provide adequate cash for working capital and program expansion. To date, a total of \$7,353,842 has been so appropriated from the General Fund.

Advance Payments System. Prior to the 1972-73 fiscal year, the department relied mainly on cash advances from its customers to satisfy its working capital needs. Under this approach, funds were transferred to General Services from the various agencies on the basis of forecasted dollar purchase volumes.

Surcharge Approach Initiated. During 1972-73, General Services, with Department of Finance approval, initiated a plan to acquire the working capital it needs by adding a surcharge to its rates. After an adequate amount of working capital is obtained, the surcharges are to be dropped.

If the surcharge approach is to be used for providing General Services' working capital, we believe it appropriate that it be used as well for repaying the \$7,353,842 appropriated previously from General Fund to support its working capital needs. Because about one-half of the revenues General Services receives from its customers are from sources other than General Fund appropriations, the net effect of the repayment would be to provide an estimated \$3.6 million increase to the General Fund.

Working Capital Objectives, Plans and Progress Reports Not Submitted

The Supplementary Report of the Committee on Conference (Budget Act of 1975) required the Department of Finance (1) to identify objectives for overcoming deficiencies in General Services' working capital system and (2) in cooperation with General Services, to prepare a plan and schedule for achieving the objectives specified. The objectives, plans and schedule were to be submitted to the Joint Legislative Budget Committee and both legislative fiscal committees by August 15, 1975. In addition, General Services was to report quarterly to the Legislature beginning October 1, 1975, on progress in achieving the objectives specified.

As of January 1, 1976, the objectives, plan and reports had not been submitted as required.

**Department of General Services
OFFICE OF STATE ARCHITECT**

Item 160 from the Architecture
Public Building Fund and
Item 161 from the Architecture
Revolving Fund

Budget p. 296

Requested 1976-77	\$10,800,452
Estimated 1975-76.....	10,657,325
Actual 1974-75	6,260,833
Requested increase \$143,127 (1.3 percent)	
Total recommended reduction	None

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
160	Office of State Architect	Architecture Public Building	\$2,217,790	258
161	Office of State Architect	Architecture Revolving	<u>8,582,662</u>	258
			<u>\$10,800,452</u>	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis page</i> |
|---|----------------------|
| 1. Workload Standards. Recommend development of workload standards and report to Joint Legislative Budget Committee by November 1, 1976. | 260 |
| 2. General Fund Support. Recommend specific activities be funded from the General Fund beginning in 1977-78 after report to Joint Legislative Budget Committee by November 1, 1976. | 260 |
| 3. State Architect Position Requirements. Recommend legislation to delete requirement for State Architect to belong to American Institute of Architects. | 260 |

OFFICE OF STATE ARCHITECT—Continued**GENERAL PROGRAM STATEMENT**

The Office of Architecture and Construction is undergoing a reorganization and has been renamed the Office of the State Architect (OSA). This reorganization and resulting implications are discussed on page 259.

The OSA provides two basic services. First OSA provides the full spectrum of architectural and engineering services similar to large private architectural firms, and operates a construction inspection service for all state projects as required by law.

Second, OSA functions as a policing agency to assure compliance with the (1) Physically Handicapped Building Accessibility Law, (2) School Building Field Act and (3) hospital seismic safety code.

OSA is reimbursed for all of its out-of-pocket and overhead expenses in connection with any one job. All of OSA's related architectural and engineering activities are funded from the Architectural Revolving Fund, Item 361, which does not receive any revenue directly. Rather, funds appropriated by the Legislature for specific projects are deposited in the revolving fund as required by the project's progress. Assessments are then made against each project account for the services provided. Consequently, the actual volume of work for the office, and hence the amount of funds available to cover all expenditures, is completely dependent upon the level of capital outlay appropriations provided by the Legislature.

ANALYSIS AND RECOMMENDATIONS

The budget of OSA's Architectural Revolving Fund activities identifies six major categories of services. These categories and the anticipated construction value for each is identified in Table 1.

Table 1
Office of the State Architect Services
Categories and Estimate Construction Values

	1973-74	1974-75	1975-76
I. Basic Architectural and Consulting.....	\$33,737,130	\$33,068,000	\$37,036,000
II. Nonbasic Architectural and Consulting.....	49,638,112	54,153,000	60,652,000
III. Contract Architect program.....	31,037,480	37,977,000	42,534,000
IV. Basic construction.....	44,250,000	76,915,957	86,145,872
V. Nonbasic construction.....	51,500,000	50,389,000	56,436,000
VI. Special services (hours).....	(9,750)	(10,902)	(10,989)

Budget year staffing proposals are the same as the current year (216.5 man-years) less 0.5 man-years for temporary help/overtime. This projection of current workload levels into the budget year is consistent with legislative intent expressed in the Budget Act of 1972. However, the budget does not contain a breakdown of expenditures or proposed staffing by category. We have requested this information and it should be available during the budget hearing.

Schoolhouse and Hospital Construction Inspection Program

Item 160 from the Architecture Public Building Fund, plus \$1,584,912 from the continuously appropriated Structural Revolving Fund, supports the OSA's plan checking and construction inspection activities related to

all public school and hospital construction in the state.

The OSA does not perform any design work under this program. Rather, plans developed by others are checked for conformance to code requirements. After the plans are approved, OSA inspects and monitors construction programs to assure compliance. For this service, the OSA receives a set filing fee under the schoolhouse program and a uniform fee based on a percentage of the estimated construction cost under the hospital program.

Table 2 shows the current estimated trend in schoolhouse and hospital construction and the resulting budgetary impact on OSA's plan checking program.

Table 2
Comparison of Workload Funding and Staffing Changes

	<i>Actual 1974-75</i>	<i>Estimated 1975-76</i>	<i>Estimated 1976-77</i>	<i>Percent Change From Current Year</i>
Construction value:				
Public Schools	\$498,381,000	\$439,040,000	\$491,724,800	+12.0%
Hospitals	210,505,000	376,320,000	421,478,400	+12.0
Total	\$708,886,000	\$815,360,000	\$913,203,200	+12.0%
Total Program				
Expenditures	\$2,525,795	\$3,682,451	\$3,802,702 ^a	+3.2%
Production				
man-years	84.2	125.3	124.8	-.004%

^a Includes \$2,217,790 from the Architecture Public Building Fund and \$1,584,912 from the Structural Revolving Fund.

The 12 percent increase reflects the estimated impact of inflation in the construction industry. We believe inflation will be closer to 9 percent. Therefore, this estimate may be slightly high. However, this projection is merely an indicator revealing that the workload in this area will remain stable. The budget proposes an increase of \$55,000 in item 160 for this OSA function. This represents salary and wage adjustments and price increases.

Reorganization

In January 1976, the Office of Architecture and Construction was renamed the Office of the State Architect and reorganized in an attempt to create a more responsive service organization. One significant change is the emphasis on providing design policy and facilities program development. We have pointed out for several years that OSA was lacking leadership in (1) establishment of design and (2) providing professional expertise to state departments that have physical space needs. The proposed changes hopefully will provide this needed service. If so the state should benefit by obtaining efficient, functional and less costly facilities.

In addition, the reorganization should result in expediting capital projects. This should occur because of (1) programming at the proper time, (2) improved scheduling of projects to be designed by OSA, and (3) streamlined procedures for and increased utilization of private architectural and engineering firms.

OFFICE OF STATE ARCHITECT—Continued**Workload Standards**

We recommend that the Office of the State Architect develop workload standards for the "in-house" design function and provide a report to the Joint Legislative Budget Committee by November 1, 1976.

Because of various considerations, including rules and regulations governing layoff and demotion, the OSA does not have the flexibility to adjust to fluctuations in workload as readily as private firms. This inflexibility coupled with a rapid decrease in workload led to cost overruns totaling \$1,592,647 from 1970 to 1972. This was ultimately recovered by a one-time deficiency transfer and a surcharge on future work. In an attempt to alleviate this problem, the Legislature established a "valley workload ceiling" by incorporating specific language in the Budget Act of 1972. OSA was directed to gradually reduce its staff "in-house" capabilities to a workload volume of \$25 million by June 30, 1973. The ceiling has been raised annually by subsequent Budget Acts to reflect inflation in the construction industry. However, the major drawback of this concept has been the lack of workload standards to determine the proper staffing which would reflect the intended results. Hence, we believe the OSA should develop workload standards for this function and report to the Joint Legislative Budget Committee by November 1, 1976. In developing the standards the OSA should include surveys of private architectural firms.

General Fund Support

We recommend that the Office of the State Architect report to the Joint Legislative Budget Committee by November 1, 1976 indicating workload in specific activities and that General Fund support be provided for those activities in 1977-78.

All OSA's cost are reimbursed from charges made to specific projects. Hence, overhead expenses that are not related to specific projects must be recovered from charges against those projects in progress. This procedure is the only means available for OSA. However, we believe it is inappropriate to charge a department or agency for services provided to another. These functions would appropriately be a General Fund expense rather than inappropriately charged to unrelated projects. Services under this function provided to special fund agencies should be based on reimbursement to the General Fund.

In order to fund this function properly it will be necessary for the OSA to provide adequate workload data based on (1) past experience, (2) projected activities and (3) comparison costs and workload factors in private firms. This information should be reported to the Joint Legislative Budget Committee by November 1, 1976 so that a proper level of funding can be proposed for the 1977-78 fiscal year.

Delete American Institute of Architects Requirement

We recommend legislation to delete the requirement that the State Architect be a member of the American Institute of Architects (AIA).

Government Code Section 14950 states in part that "no person shall be eligible for the Office of the State Architect who is not a member of the

American Institute of Architects at the time of his first appointment". The AIA is a professional organization which requires an architects' license for membership.

There is no requirement that a person be a member of AIA to be licensed or practice architecture in California. We believe the other requirement under Section 14950, "for five years next preceding his appointment hold a certificate to practice architecture in California," is appropriate. This requirement should assure that knowledgeable architects are selected for this position.

**Agriculture and Services Agency
CALIFORNIA PUBLIC BROADCASTING COMMISSION**

Item 166.1 ^a from the California
Public Broadcasting Fund

Budget p. 326

^a The Budget Bill does not include an item for the commission. This item number is used for organizational and discussion purposes only.

Requested 1976-77	\$ (130,000)
Estimated 1975-76.....	(53,000)
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- 1. Legislative consideration. Withhold recommendation pending presentation of commission's program. 261

GENERAL PROGRAM STATEMENT

The 11-member California Public Broadcasting Commission was established effective January 1, 1976 by Chapter 1227, Statutes of 1975, as an independent entity in state government in order to encourage the growth and development of public broadcasting. The commission is to assume all educational television responsibilities held formerly by the Department of General Services. Specified duties and powers of the commission include (1) making grants to public broadcasting stations, (2) facilitating statewide distribution of public television and radio programs, (3) applying for, receiving and distributing funds, (4) conducting research, (5) promulgating regulations, and (6) reporting annually to the Governor and Legislature.

The 11-member commission is composed of (1) the Superintendent of Public Instruction, (2) the Director of the Postsecondary Education Commission, (3) two appointees of the Senate Rules Committee, (4) two appointees of the Speaker of the Assembly and (5) five appointees of the Governor.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation pending presentation of proposed program of the commission.

CALIFORNIA PUBLIC BROADCASTING COMMISSION—Continued**Program Funding**

Chapter 1227, which created the commission, established the California Public Broadcasting Fund and transferred to it \$183,000 from the General Fund in 1975-76. That measure did not specify the annual level of program expenditures by the commission, or source of program funds. The Governor's Budget allocates the entire \$183,000 transferred to the California Public Broadcasting Fund to support the commission's activities through June 30, 1977. Of this amount, \$53,000 is for expenditure during the 1975-76 fiscal year and \$130,000 for expenditure in 1976-77. No other program funding is budgeted. For this reason, the commission's budget is not included under a specific item in the 1976 Budget Bill and, therefore, would not normally be subject to review by the Legislature in the budget hearings.

For administrative support to the commission, the budget proposes 3.2 positions consisting of an executive secretary, analyst, stenographer and 0.2 staff years of temporary help plus related expenses totaling \$42,226 in 1975-76 and \$83,998 in 1976-77. In addition to administrative expenses, the budget provides \$10,774 in 1975-76 and \$46,002 in 1976-77 for grants to public broadcasting stations. Under the provisions of Chapter 1227, the grants would be distributed between public television and public radio broadcasting stations as follows:

	<i>Percent</i>	<i>1975-76</i>	<i>1976-77</i>
Radio	83.25%	\$8,969	\$38,297
Television	16.75	1,805	7,705
Totals	100.00%	\$10,774	\$46,002

Program Should Be Subject to Legislative Consideration

We include discussion of the commission in our Analysis although it is not included in the Budget Bill because we believe its activities should be subject to legislative consideration and approval regarding public policy, program direction and funding. As of the date of this writing, the five Governor's appointments have not been made and the commission has not met. As a result, the budget was developed without input from the commission. We are withholding our recommendation on this item pending development of the commission's program.

Agriculture and Services
BOARD OF CONTROL

Item 167 from the General
Fund

Budget p. 324

Requested 1976-77	\$307,789
Estimated 1975-76.....	505,278
Actual 1974-75	316,368
Requested decrease \$197,489 (39.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Board of Control investigates and processes all claims for money or damages against the state. These include tort liability claims, claims of citizens benefiting the public and claims of victims of crimes of violence. The board also reviews numerous fiscal transactions including discharge of accounts receivable of the state, refunds, credits and cancellation of taxes, sale and disposal of unclaimed property and transfer of funds between state agencies. It also determines each state agency's pro rata share of the costs of statewide administrative programs, rules on employee travel claims, and holds hearings on appeals regarding rulings by the Office of Procurement on contract bid awards and other purchasing matters.

Funds are included in this item for the statewide suggestion system which is administered by a five-member Merit Award Board appointed by the Board of Control. Activities of this program include establishing standards and policies, providing guidance and assistance to departments and agencies and reviewing suggestion evaluations.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The decrease of \$197,489 or 39.1 percent proposed for the General Fund appropriation reflects the transfer of the board's administrative costs for processing claims of crime victims to the Indemnification of Private Citizens program (victims of violent crimes, Item 50). These costs are now identified as reimbursements under this item. Table 1 shows the board's proposed funding and expenditures for the budget year.

Table 1
Budget Summary

	Estimated 1975-76	Proposed 1976-77	Change from Current Year	
			Amount	Percent
<i>Funding</i>				
General Fund appropriation.....	\$505,278	\$307,789	\$-197,489	-39.1%
Reimbursements.....	46,317	290,261	243,944	526.7
Total Expenditures	\$551,595	\$598,050	\$46,455	8.4%
Man-years.....	25.5	26.8	1.3	

BOARD OF CONTROL—Continued

The board's reimbursement level also reflects the proposed addition of 1.3 positions to handle increased workload in the victims of violent crimes program. An additional \$10,000 is requested to obtain professional services from the Office of Administrative Hearings as a means of relieving some of the board's projected workload as shown in Table 2.

**Table 2
Workload Measures**

	1974-75	1975-76	1976-77
Crime victim claims.....	4,287	6,500	8,300
Other claims.....	4,830	5,978	7,293
Merit award suggestions.....	3,053	3,350	3,700

**Agriculture and Services Agency
DEPARTMENT OF INDUSTRIAL RELATIONS**

Items 168 and 169 from the
General Fund

Budget p. 329

Requested 1976-77	\$55,427,480
Estimated 1975-76.....	58,250,940
Actual 1974-75	42,875,048
Requested decrease \$2,823,460 (4.9 percent)	
Total recommended reduction	None

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
168	Department Support	General	\$40,726,543
169	Local Mandates	General	14,700,937
			\$55,427,480

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|--|--------------------------|
| 1. Administration. Recommend legislation requiring all division chiefs to be appointed by Director of Industrial Relations, subject to state civil service regulations, rather than by Governor. | 268 |
| 2. Division of Fair Employment Practices. Recommend legislation making the Chief of the Division of Fair Employment Practices, rather than Fair Employment Practice Commission, responsible for settling alleged discrimination cases. | 269 |
| 3. Uninsured Employers' Fund. Recommend legislation repealing the program. | 269 |

GENERAL PROGRAM STATEMENT

The purpose of the Department of Industrial Relations is to "foster, promote and develop the welfare of the wage earners of California, improve their working conditions and advance their opportunities for profitable employment." To fulfill these broad objectives, the department provides services through the following nine programs:

1. Administrative Supporting Services, which includes the Office of the Director, provides overall policy direction, legal and public information, management analysis, fiscal management, personnel and training and data processing services.

2. The Self-Insurance Plans Unit, which issues certificates of self-insurance to those enterprises demonstrating financial capability to compensate their workers fully for industrial injuries and monitors financial transactions involving such injuries.

3. The State Conciliation Service, which investigates and mediates labor disputes, promotes sound union-employer relationships for preventing disputes and arranges for the selection of boards of arbitration.

4. The Division of Industrial Accidents and the Workers' Compensation Appeals Board, which adjudicate disputed claims for compensating workers who suffer industrial injury in the course of their employment.

5. The Division of Industrial Safety, which administers the California Occupational Safety and Health Act (Cal-OSHA), enforces all laws and regulations concerning the safety of work places (including mines and tunnels), and inspects elevators, escalators, aerial tramways, radiation equipment and pressure vessels.

6. The Division of Labor Standards Enforcement, which enforces a total of 15 wage orders promulgated by the Industrial Welfare Commission and other state laws relating to wages, hours and working conditions, child labor, the licensing of artists' managers and farm labor contractors. This division was created by Reorganization Plan No. 2 of the current legislative session by consolidating, as we recommended, the former Divisions of Labor Law Enforcement and Industrial Welfare.

7. The Division of Apprenticeship Standards, which promotes apprenticeship programs and other "on-the-job" training for apprentices and journeymen, promotes equal opportunity practices in these programs and inspects, approves and monitors such programs for veterans under a contract with the U.S. Veterans Administration.

8. The Division of Labor Statistics and Research, which gathers data regarding collective bargaining agreements, work stoppages, union membership and work-related injuries and illness as part of the Cal-OSHA plan for use, among other things, in identifying high-hazard industries for intensified safety enforcement efforts.

9. The Division of Fair Employment Practices, which enforces laws promoting equal opportunity in housing and employment on the basis of race, religion, creed, national origin, ancestry, sex, marital status, age, physical handicaps, and medical conditions relating to cancer.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued**Legislative Mandated Local Costs**

Under Section 2231(a) of the Revenue and Taxation Code, the state reimburses local governmental agencies for increased costs mandated by state legislation enacted after January 1, 1973. The budget contains funding for the following four mandates within the program area of the Department of Industrial Relations, all relating to workers' compensation benefits which affect local entities as employers.

(a) Chapter 1021, Statutes of 1973, which reduced the period over which an injury must extend to qualify a worker for disability benefits.

(b) Chapter 1022, Statutes of 1973, which increased workers' death benefits.

(c) Chapter 1023, Statutes of 1973, which increased the maximum rate of workers' disability payments.

(d) Chapter 1147, Statutes of 1973, which increased the mileage reimbursement rate paid to workers required to undergo medical examinations for determining eligibility for compensation benefits.

ANALYSIS AND RECOMMENDATIONS

The department's proposed General Fund appropriation of \$55,427,480 is 4.9 percent below estimated General Fund expenditures for the current year. The request consists of \$40,726,543 (Item 168) for support of the department and \$14,700,937 (Item 169) for legislative mandates. The department's proposed expenditure program, including reimbursements and federal funds, totals \$63,949,027. Table 1 shows funding sources and expenditures by program.

The department's proposed net program decrease of \$2,872,532 (as reflected in Table 1) results from an increase of \$1,828,473 in support costs offset by a decrease of \$4,701,005 in mandated local program expenditures. The decrease in legislative mandates reflects one-time adjustments in the current year resulting from (1) Chapter 1084, Statutes of 1975, which appropriated \$5,028,000 to cover a reimbursement deficiency in 1974-75 and (2) Chapter 1086, Statutes of 1975, which appropriated \$373,204 for claims filed in 1973 that were inadvertently submitted too late for funding. The budget also shows an anticipated deficiency authorization in the amount of \$2,718,676 for the local assistance program in the current year.

The reduction in anticipated federal funds reflects a reduction in the veteran's apprenticeship training program and the termination of a contract with the federal Equal Employment Opportunity Commission (EEOC) under which the Fair Employment Practice Commission performs work for EEOC. However, the department expects the contract to be renewed in the budget year.

Proposed New Positions

The increase in the support budget is mainly attributable to the proposed net addition of 64.5 new positions (see Table 2), most of which are requested on a workload basis. Included, however, are an additional departmental deputy director authorized by Chapter 993, Statutes of 1973, and two associate research analysts for the Division of Apprenticeship Standards. The new deputy is proposed to assist the director to exercise

Table 1
Budget Summary

	Estimated 1975-76	Proposed 1976-77	Change	
			Amount	Percent
<i>Funding</i>				
General Fund	\$58,250,940	\$55,427,480	\$-2,823,460	-4.9%
Reimbursements	458,848	504,941	46,093	10.1
Federal funds	8,111,771	8,016,606	-95,165	-1.2
Total	\$66,821,559	\$63,949,027	\$-2,872,532	-4.3%
<i>Programs</i>				
Administrative Support Distributed to Other Programs	(\$2,210,154)	(\$2,438,892)	(\$228,738)	10.3%
Undistributed or Distributed to Other State Departments	\$114,069	\$70,000	\$-44,069	-38.6
Man-years	115.7	122.6	6.9	-
Regulation of Workers' Compensation Self-In- surance Plans	\$310,341	\$376,861	\$66,520	21.4
Man-years	13.6	16.5	2.9	-
Conciliation of Employer-Employee Disputes (State Conciliation Service)	\$622,854	\$694,349	\$71,495	11.5
Man-years	21.3	23.2	1.9	-
Adjudication of Workers' Compensation Dis- putes (Division of Industrial Accidents) ...	\$15,560,092	\$16,626,260	\$1,066,168	6.9
Man-years	636.5	670.4	33.9	-
Prevention of Industrial Injuries and Deaths (Division of Industrial Safety)	\$17,505,569	\$17,808,848	\$303,279	1.7
Man-years	540.0	548.1	8.1	-
Enforcement of Laws Relating to Wages, Hours and Working Conditions (Division of Labor Standards Enforcement)	\$6,764,564	\$7,043,557	\$278,993	4.1
Man-years	300.0	313.5	13.5	-
Apprenticeship and Other on the Job Training (Division of Apprenticeship Standards)	\$3,148,711	\$3,183,787	\$35,076	1.1
Man-years	131.5	130.2	-1.3	-
Labor Force Research and Data Dissemina- tion (Division of Labor Statistics and Re- search)	\$1,145,936	\$1,177,837	\$31,901	2.8
Man-years	50.8	53.3	2.5	-
The Prevention and Elimination of Discrimi- nation in Employment and Housing (Divi- sion of Fair Employment Practices)	\$2,247,481	\$2,266,591	\$19,110	0.9
Man-years	94.1	91.2	-2.9	-
Subtotal	\$47,419,617	\$49,248,090	\$1,828,473	3.9
Man-years	1,903.5	1,969.0	65.5	-
Legislative Mandates	\$19,401,942	\$14,700,937	\$-4,701,005	-24.2
Total	\$66,821,559	\$63,949,027	\$-2,872,532	-4.3%

greater control over the departmental programs. The two associate research analysts are proposed to explore the possibility of adding additional occupational fields to the apprenticeship program.

The proposed new positions also include three additional safety engineers for the OSHA program to perform fire safety inspections previously performed by the State Fire Marshal under a \$332,337 contract with the department. The contract has been canceled because the department believes its staff can perform these inspections, thereby eliminating one of the three state agencies involved in the OSHA Inspection program. The Department of Health will continue providing inspections involving occu-

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

paternal health. Data on the department's proposed new positions are presented in Table 2.

Table 2
Proposed New Positions
Department of Industrial Relations

<i>Organizational Unit</i>	<i>Number of New Professional and Technical Positions</i>	<i>Number of New Clerical Positions</i>	<i>Annual Cost</i>	<i>Source of Funding</i>
Administration.....	3	3	\$97,452	General Fund
Self Insurance Plans.....	2	1	38,244	Reimbursements
State Conciliation Service ..	2	0	43,272	General Fund
Division of Industrial Accidents.....	18	17	535,248	General Fund
Division of Industrial Safety	5.5	1	98,592	General Fund, Federal funds
OSHA Appeals Board	1	0	27,612	General Fund, Federal funds
OSHA Standards Board.....	1	0	27,612	General Fund, Federal funds
Division of Labor Standards Enforcement	11	6	219,900	General Fund, Federal funds
Division of Apprenticeship Standards	2	0	33,048	General Fund
Division of Labor Research and Statistics	<u>1</u>	<u>2</u>	<u>32,592</u>	General Fund
Total.....	<u>46.5</u>	<u>30</u>	<u>\$1,153,572</u>	
Total Proposed New Positions		<u>76.5</u>	<u>\$1,153,572</u>	
Total Workload and Administrative Adjustments.....		<u>-12.0</u>	<u>-205,197</u>	
Net Total New Positions.....		<u>64.5</u>	<u>\$948,375</u>	

Although the department proposes a net increase of 64.5 positions, its proposed man-years increase by 65.5. This difference reflects administrative adjustments and salary savings in both the current and budget years.

ADMINISTRATION

We recommend legislation requiring all future division chiefs to be appointed by the Director of Industrial Relations, subject to competitive examination under state civil service regulations, rather than by the Governor.

Under current law, all division chiefs, with the exception of the supervisor of the State Conciliation Service, are appointed by the Governor but serve at the pleasure of the director. Because of this, the department tends at times to resemble nine autonomous programs rather than a single unified department. Moreover, because division chiefs generally change every four to eight years, it is difficult to develop and maintain consistent and uniform operating procedures and workload standards in the divisions.

**THE PREVENTION AND ELIMINATION OF
DISCRIMINATION IN EMPLOYMENT AND HOUSING
(Division of Fair Employment Practices)**

We recommend legislation making the Chief of the Division of Fair Employment Practices responsible for settling cases of alleged discrimination within a policy framework established by the Fair Employment Practice Commission and subject to appeal to the commission.

Under current law, the entire Fair Employment Practices program is under the direction and control of the part-time, seven-member Fair Employment Practice Commission (FEPC). Each commissioner serves without salary but receives \$50 per diem plus travel expenses. Under current law, a commissioner controls the investigation, dismissal or settlement of every complaint. In addition, each commissioner clears the issuance of all written reports such as affirmative action plans. Division staff serve, as their titles imply, as "consultants" to the commissioners in investigating complaints or developing affirmative action plans.

The program has grown too large and complex to continue to operate in this manner. The total number of complaints has increased from approximately 500 annually when the program began in 1959 to approximately 5,900 in the budget year. Part of this increase is due to the extension of the FEPC's jurisdiction to matters involving discrimination based on sex, marital status, age, physical handicaps and medical conditions relating to cancer. The part-time commissioners are now unable to handle the large number of complaints received, as evidenced by the fact that it takes an average of one year to resolve a formal complaint once it has been filed. We therefore believe that the Chief of the Division of Fair Employment Practices and his staff should be made responsible for settling cases of alleged discrimination, with the role of the commission limited to establishing broad overall policy for the division within the framework of the law and hearing appeals of decisions by the chief and his staff. We also believe that adoption of this recommendation would establish a higher degree of accountability for program performance that has been lacking under the existing organizational structure.

UNINSURED EMPLOYERS' FUND

We recommend legislation repealing the Uninsured Employers' Fund program.

The Uninsured Employers' Fund, was established by Chapter 1598, Statutes of 1971 (operative March 4, 1972), for the purpose of providing workers' compensation benefits for employees, injured in the course of their work, whose employers fail to provide compensation. It was contemplated that the program would be self-supporting, but experience to date indicates that this will not be the case. The program is supposed to operate in the following manner.

After making an award to a work-injured employee based on a rating of the disability provided by the State Compensation Insurance Fund, the Director of Industrial Relations is authorized to recover the amount of the award from the uninsured employer through civil action. The recovered award, plus a penalty equivalent to a year's premium cost for workers' compensation insurance (workers' compensation insurance rates range from 17 cents to \$18. per \$100 unit of payroll) is used to replenish the fund.

DEPARTMENT OF INDUSTRIAL RELATIONS—Continued

The Attorney General is responsible for legal defense of the fund and is reimbursed for his services at the rate of \$32.50 per attorney hour in the current year and \$35 per attorney hour in the budget year.

The State Compensation Insurance Fund (a public enterprise) charges the Uninsured Employers' Fund at the rate of 12 percent of all awards for providing the disability rating service and a flat \$35 fee for determining the rate at which the uninsured employer would have paid workers' compensation insurance (had he been insured) for purposes of establishing the employer's penalty. The fund was "seeded" with \$50,000 borrowed from the Human Resources Development Contingent Fund, which amount has not been repaid.

As shown in Table 3, the fund is now depleted, having, as of November 30, 1975, approximately \$1.7 million in outstanding obligations which could not be paid. Since its inception, the fund has paid only 59 claims totaling \$74,115.

Table 3
Financial Status of the Uninsured Employers' Fund
As of November 30, 1975
Department of Industrial Relations

Receipts	
Amount initially borrowed from the Human Resources Development Contingent Fund.....	\$50,000
Penalties and Recoveries	36,543
Allocation from the Emergency Fund	22,960
Total Receipts	\$109,503
Disbursements	
Payment for 59 claims.....	\$74,115
Attorney General Legal Services	16,856
State Compensation Insurance Fund Services	1,993
State Controller's Services	442
Total Disbursements	\$93,406
Balance in Fund as of November 30, 1975.....	\$16,097
Unpaid Obligations	
277 Unpaid Claims	1,367,205
Attorney General legal services (1/1/73 to 10/31/75)	98,952
State Compensation Insurance Fund Services (4/1/73 to 10/31/75)	172,723
Repayment to Human Resources Development Contingent Fund	50,000
Total Unpaid Obligations as of November 30, 1975.....	\$1,688,880
Total Unpaid Obligations Minus Balance in Fund.....	\$1,672,783

As we have pointed out for the past three years, this program cannot possibly become self-supporting using recoveries and penalties alone because of the large number of insolvent, uninsured employers who are, for all practical purposes, immune from judgment recoveries. This is borne out by the experience of other states such as New York which reports that 50 percent of its uninsured employers fall into this class.

In past years we reviewed the problems of this program and recommended either (1) abolishment of the program, (2) corrective legislation and General Fund support for the program, or (3) a constitutional amendment to finance the program from a special tax on insurance companies. In demonstrating preference for the second alternative, the Legislature augmented the fund by \$150,000 (Item 154.1) in 1973 and \$1,366,000 (Item

178.1) in 1974, which the Governor vetoed on the basis that the program should become self-supporting. After authorizing a \$22,960 Emergency Fund allocation to pay obligations of the fund in the 1972-73 fiscal year, the administration announced that no additional General Fund support, even for administration or legal services, would be provided for the program. This policy has been continued by the present administration.

We believe this policy is unsupportable because claims are now being filed at the rate of 60 per month and, as reflected in Table 3, 277 claims totaling \$1,367,205 have been awarded by the Workers' Compensation Appeals Board but cannot be paid for lack of money. After completing the process of having his claims litigated and awarded, the victim of an uninsured employer is now notified by the department that the fund has no money and that he will be paid when funds are available. The few claims now being paid were filed over two years ago. Under present funding provisions, it is clear that most claims will never be paid. Further, the state is unable to defend itself adequately against these claims. With the increase in the number of claims and without budgeted financial support, the Department of Justice is not supplying attorneys to defend the state's interest in all proceedings where these claims are litigated. Moreover, the State Compensation Insurance Fund is unable, without financial support, to supply a medical evaluation of the injury to assist in the defense of the claim. This program should be repealed in view of the unwillingness of the administration to fund it. If the Legislature desires to continue an uninsured employers' fund program, it should reestablish it on a solid financial basis.

Agriculture and Services Agency
WORKERS' COMPENSATION BENEFITS FOR
SUBSEQUENT INJURIES

Item 170 from the General fund	Budget p. 345
<hr/>	
Requested 1976-77	\$1,500,000
Estimated 1975-76.....	1,188,000
Actual 1974-75	1,121,877
Requested increase \$312,000 (26.3 percent)	
Total recommended reduction	None
<hr/>	

GENERAL PROGRAM STATEMENT

Existing law provides that when a worker with a preexisting permanent disability or impairment suffers a subsequent industrial injury resulting in a combined permanent disability of 70 percent or more, the employer is responsible only for that degree of permanent disability arising from the subsequent injury. The balance of the disability benefit obligation is assumed by the state. The purpose of this program is to provide an incentive for employers to hire persons who have a permanent (but partial) disability or impairment.

The cost of this program is paid by an annual budget appropriation and by revenue from Chapter 1334, Statutes of 1972 (as amended by Chapter 21, Statutes of 1973) which implemented Proposition 13 of that year. This legislation requires employers or their insurance carriers to pay to the

state, in a lump sum, workers' compensation benefits in cases of industrial deaths where there are no surviving heirs. These payments are collected by the Department of Industrial Relations, placed in the General Fund and used to offset the cost of the subsequent injury program. Subsequent injury payments are awarded by the Workers' Compensation Appeals Board and administered by the State Compensation Insurance Fund (a public enterprise). The money appropriated by this item includes the service charges of that agency and the Attorney General who represents the state's interests in the hearings before the appeals board or court.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The proposed funding and expenditures for the subsequent injury program, shown in Table 1, are based on estimates prepared by the State Compensation Insurance Fund which administers the program. An estimated 460 subsequent injury claims will be processed in the budget year compared to 450 in 1974-75.

**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 (Item 170)	\$1,188,000	\$1,500,000	\$312,000	26.3%
Chapter 1334, Statutes of 1973 (Death Benefit Payments) ^a	<u>1,600,000</u>	<u>1,700,000</u>	<u>100,000</u>	<u>6.3</u>
TOTAL	\$2,788,000	\$3,200,000	\$412,000	14.8%
Program				
Benefit Payments	\$2,161,524	\$2,528,357	\$366,833	17.0%
State Compensation Insurance Fund Service Charges	108,076	126,418	18,342	17.0
Attorney General	<u>518,400</u>	<u>545,225</u>	<u>26,825</u>	<u>5.2</u>
TOTAL	\$2,788,000	\$3,200,000	\$412,000	14.8%

^a Under current law, each workers' compensation death benefit payable to the state under this program totals \$36,432.53. However, many claims involving disputes as to whether they are industrially related are settled for lower amounts to avoid extensive litigation.

Agriculture and Services

**WORKERS' COMPENSATION FOR DISASTER SERVICE
WORKERS**

Item 171 from the General
Fund

Budget p. 346

Requested 1976-77	\$125,000
Estimated 1975-76.....	125,000
Actual 1974-75	72,562
Requested increase None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides funds for the payment of workers' compensation benefits to volunteer personnel (or their dependents) who are injured or killed while providing community disaster services. The total amount of compensation paid fluctuates with the volume of both training exercises and actual emergencies such as fire, flood or earthquakes. Past experience indicates the cost estimates prepared by the State Compensation Insurance Fund, which administers the service, have been realistic.

**Agriculture and Services Agency
STATE PERSONNEL BOARD**

Item 172 from the General Fund and Item 173 from the Cooperative Personnel Services Revolving Fund

Budget p. 347

Requested 1976-77	\$17,493,889
Estimated 1975-76	17,127,419
Actual 1974-75	12,704,399
Requested increase \$366,470 (2.1 percent)	
Total recommended reduction	\$268,629

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
172	State Personnel Board (SPB). For direct support of board's operations.	General	\$16,303,511	274
173	Local government services. For support in form of revenues for services provided.	Cooperative Personnel Services Revolving Fund.	1,190,378	279
	Subtotal of board's items included in this Analysis.		\$17,493,889	
	Reimbursements (to various SPB programs for services to state and other government agencies).		2,030,998	
	Total expenditures budgeted		\$19,524,887	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Building Alterations. Revert to General Fund the balance of \$500,000 reserved for alterations. Amount reserved by SPB from 1974-75 and 1975-76 Budget Act appropriations. 2. Furniture and Equipment. Reduce Item 172 by \$110,268. Recommend deletion of proposed furniture and equipment replacement. | <p>Analysis page</p> <p>275</p> <p>276</p> |
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STATE PERSONNEL BOARD—Continued

3. *Consultant and Professional Services.* Reduce Item 172 by \$145,601. Recommend reduction to correct double budgeting of expenses associated with consultant and professional services. 276
4. *Travel Expenses.* Reduce Item 172 by \$12,760. Recommend reduction to correct overbudgeting for out-of-state travel. 277
5. *Loan Repayment.* Recommend balance of General Fund loan to revolving fund be (a) repaid by June 30, 1978 and (b) reflected accurately in budget. 279

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts state civil service rules and regulations. The state civil service system is administered by a staff of approximately 570 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees to ensure compliance with federal requirements. The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971, responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries. The board also is responsible for coordinating affirmative action and equal employment opportunity efforts within state and local government agencies in accordance with state policy and federal law.

ANALYSIS AND RECOMMENDATIONS**Programs and Resources**

The SPB conducts six programs. Table 1 presents a summary of resources required for each such program during the three-year period ending June 30, 1977. For the 1976-77 fiscal year, total expenditures are expected to increase \$156,843 (0.8 percent) and the total staff is expected to decline by 12.3 positions. The staff reduction is attributable primarily to the discontinuance of (1) 5.3 temporary positions added to the personnel management services program for the 1975-76 fiscal year only, to assist in converting employee records to the automated Personnel Information Management System (PIMS) operated by the State Controller's office and (2) eight temporary positions added to the public employment and affirmative action program during the 1974-75 fiscal year for coordinating state participation under the federal Comprehensive Employment and Training Act (CETA), which is expected to terminate on June 30, 1976.

Table 1
State Personnel Board
Summary of Resources Expended by Program

	1974-75		1975-76		1976-77	
	Man-years	Budget	Man-years	Budget	Man-years	Budget
1. Employment services.....	298.4	\$5,032,345	277.2	\$5,678,065	277.6	\$5,755,736
2. Personnel management services.....	131.1	2,226,729	97.9	2,174,942	92.7	2,172,743
3. Personnel development.....	26.4	807,284	27.7	887,290	27.8	916,271
4. Public employment and affirmative action.....	87.8	4,845,749	74.6	8,646,445	66.8	8,595,918
5. Local government services..	109.0	2,237,443	99.3	1,981,302	99.5	2,084,219
6. Management services (distributed among other programs).....	(134.8)	(3,533,740)	(138.5)	(4,436,409)	(139.5)	(4,238,102)
Totals.....	652.7	\$15,149,550	576.7	\$19,368,044	564.4	\$19,524,887

Major Building Alterations Without Legislative Review

We recommend that the unexpended balance of the \$500,000 reserved by the SPB for building alterations revert to the General Fund.

The SPB transferred \$250,000 contained in its 1974-75 budget for "consultant and professional services" (Budget page 355, line 10) to the Department of General Services Architecture Revolving Fund and intends to so transfer a like amount from its 1975-76 budget, providing a total of \$500,000 to fund major office space alterations of its building at 801 Capitol Mall in Sacramento.

A "Departmental Summary of Planning and Space Requirements for California State Personnel Board" dated May 23, 1975, and related documents, were prepared at a cost of approximately \$25,000 by an architectural consulting firm under the direction of the Department of General Services. We are advised by the Department of General Services that amounts actually expended and committed for expenditure on the project by the SPB as of December 31, 1975 totaled approximately \$35,000.

A Questionable Undertaking. We question whether the project's benefits would justify its cost.

A June 9, 1975, letter from General Services to the SPB stated that the project would be only an "interim solution" to the board's space needs until "a permanent solution can be found". The SPB has reserved a total of \$500,000 which, according to the board's staff, is expected to cover the entire project cost. The Department of General Services, however, estimates that the project will require \$556,000 for construction cost alone plus an additional \$47,700 for consulting fees and \$315,000 for furniture and equipment, for a total project cost of \$918,700.

In addition, the SPB staff's plan and schedule for implementing the project appear to be indefinite and unrealistic. For example, the staff stated that they are contemplating having five entire floors of the six-floor building remodeled at the same time while most of the employees are on vacation. We believe that the size and complexity of this project in conjunction with the large number of employees involved would make this approach unfeasible.

Circumvention of Project Review. Because provisions of the State Administrative Manual (SAM) have not been followed, this project has not

STATE PERSONNEL BOARD—Continued

been subject to proper review by the administration and the Legislature. The SAM provides that a building alteration project costing \$100,000 or more is a major capital outlay project and, as such, must be included as a capital outlay item in the Governor's Budget. Under this provision, such a project is subject to review by (1) the Department of Finance and the Legislature as to its need and proper level of funding and (2) the State Public Works Board to ensure compliance with administrative and legislative intent.

For these reasons we propose the project be halted and resubmitted in the proper manner for review in the budget process. We, therefore, recommend that the unexpended balance of the \$500,000 reserved by the SPB for building alterations revert to the General Fund under Control Section 11 of the Budget Act.

In order for future state building alterations to be subject to legislative review, we recommend in our analysis of the Department of General Services, on page 245 under Item 159, that control section language be added to the Budget Act requiring that each proposed state building alteration estimated to cost (1) \$5,000 to \$25,000 be reported to the Legislature on a post-audit basis, (2) \$25,000 to \$100,000 be reported to the Joint Legislative Budget Committee at least 30 days prior to the scheduled commencement of work and (3) over \$100,000 be submitted as a major capital outlay item in the Budget Bill.

New Furniture and Equipment Not Needed

We recommend that equipment funds of \$110,268 proposed as "consultant and professional services" be deleted (reduce Item 172, General Fund).

Included in the 1976-77 budget under "consultant and professional services" is \$110,268 for replacing office furniture and equipment at the SPB office building in Sacramento. According to SPB staff, this is for new furniture and equipment related to the proposed office remodeling project discussed above. We cannot recommend this item for several reasons.

First, we have recommended above that the project not proceed. If this recommendation is approved, these funds also should be deleted.

Second, we believe it is improper to budget these funds as "consultant and professional services". They should be shown as equipment.

Third, we question the need for the equipment because (1) the SPB does not anticipate hiring additional staff, (2) the existing equipment and furniture appears adequate for satisfying the board's present staff requirements and (3) there would be no justification for upgrading the existing furniture or equipment even if the above building alterations were made.

Expenses "Double Counted"

We recommend that the budget be reduced by \$145,601 to correct over budgeting for "consultant and professional services" (reduce Item 172, General Fund).

The SPB is being reimbursed fully by the federal government for providing technical personnel services to the Liberian government. For pro-

viding these services during the 1976-77 fiscal year, the SPB is to be reimbursed a total of \$438,000, of which \$333,000 is for "consultant and professional services". An examination of the board's detailed budget support documents reveals that the board has included \$478,601 as its consultant and professional services to be provided to the Liberian government, rather than the correct \$333,000 figure for which the board is to be reimbursed. The result of this technical error is to overstate the board's General Fund support requirement by \$145,601. Therefore, we suggest the funding of the SPB budget be reduced accordingly.

Travel Expenses Overbudgeted

We recommend that the budget be reduced by \$12,760 to correct overbudgeting for out-of-state travel (reduce Item 172, General Fund).

The budget proposes \$19,760 for out-of-state travel which is substantially greater than the \$5,655 actually expended for this purpose in 1974-75. The SPB is unable to explain the reason for such a large increase or how the amount requested was developed. Without information of this type we believe that out-of-state travel should be adjusted to reflect actual experience. If the \$5,655 actual expenditure were adjusted for price increase and workload, an amount of \$7,000 is adequate.

EMPLOYMENT SERVICES PROGRAM

The employment services program includes the responsibility for recruiting, selecting and placing qualified candidates in state jobs.

PERSONNEL MANAGEMENT SERVICES PROGRAM

This program involves (1) maintaining the state position classification and pay plan, (2) providing personnel consultation and services to state agencies, (3) processing personnel transactions and (4) administering the state civil service salary and total compensation programs. The total compensation program is administered by the board in cooperation with the PERS.

PERSONNEL DEVELOPMENT PROGRAM

The stated purpose of this program is to provide central employee development programs and consultation services.

PUBLIC EMPLOYMENT AND AFFIRMATIVE ACTION PROGRAM

The stated objectives of this program are to (1) provide policy guidelines for achieving a fully integrated state work force, (2) assist in removing artificial barriers to the employment of disadvantaged and minority persons and (3) assist in developing affirmative action plans.

Program elements are (1) coordination and program support, (2) welfare recipient jobs and (3) affirmative action.

Comprehensive Employment and Training Act

In January 1975, the Governor signed an executive order (1) initiating state participation under the Federal Comprehensive Employment and Training Act (CETA) and (2) directing the SPB to coordinate and manage public employment programs under the CETA for jobs in state agencies. The CETA Public Service Employment Program is intended to

STATE PERSONNEL BOARD—Continued

create additional government jobs during periods of high employment. This program, which is expected to expire effective June 30, 1976, is funded primarily by the federal government. Participant salaries are paid entirely from federal funds. The SPB reported that as of December 1975, the state had hired over 2,100 persons under the program.

Welfare Recipients Jobs

We recommend approval of the \$6,120,400 General Fund support as budgeted.

The jobs for welfare recipients program, created pursuant to the Welfare Reform Act of 1971, provides for fully reimbursing state and local governments for their payroll costs of employing welfare recipients during their initial on-the-job training period. Prior to 1974-75, the program received \$7 million annual General Fund support, with \$5.5 million earmarked for salaries of program participants with the balance available for program administration. The SPB has operated the program since its inception in cooperation with the Employment Development Department (EDD) and funds earmarked for salaries have been matched on a 50/50 basis with EDD work incentive program (WIN) funds (90 percent federal) providing a total of \$11 million annually for program participants.

Reduced Support in 1974-75 in Anticipation of Increased Federal Funds. Because it was anticipated that WIN funds would be available in 1974-75 at a federal-state ratio of 80/20, the requested General Fund support in the 1974-75 Governor's Budget for welfare recipient salaries was reduced from \$5.5 million to \$2 million. When it became apparent that the additional WIN funds would not become available as expected, the Legislature augmented the budget by \$3.5 million, thereby restoring the state portion of the program's salary funds to \$5.5 million. The Governor, however, vetoed the augmentation. The reduced funding enabled only about 950 welfare recipients to enter public employment under the program, an estimated 1,620 fewer recipients than if the augmentation had not been vetoed.

Federal Matching Funds Not Available During 1975-76. As a result of various complex changes in federal procedures, federal WIN funds were not available to match the \$5.885 million (\$5.5 million plus a \$385,000 cost-of-living adjustment) appropriated from the General Fund for participant salaries during the 1975-76 fiscal year. As a result, only about 1,200 recipients are expected to enter public employment under the program, an estimated 890 fewer than if full federal matching funds had been available. At this time, however, it appears probable that WIN matching funds will be available again on a 50/50 basis during the 1976-77 fiscal year.

High Benefits in Relation to Costs. Based on information provided by the SPB, 63.5 percent of the program's participants have been placed in permanent government jobs. According to the board's October 15, 1975 *Report to California State Legislature on State Personnel Board Activities Under the Welfare Reform Act of 1971* (1) average total cost per program participant is approximately \$4,200 and (2) government benefits (including reduced welfare costs and other hard dollar savings) per participant

are calculated at \$1,571 during the first year and \$19,679 after the first five years.

The \$6,120,400 requested for the 1976-77 fiscal year represents an additional \$235,400 (four percent) cost-of-living adjustment over the \$5,885,000 appropriated for participant salaries in the Budget Act of 1975. Because this level of funding would enable the program (on the expected 50/50 matching basis) to place approximately 2,800 welfare recipients, we suggest that it be funded at the level requested.

LOCAL GOVERNMENT SERVICES PROGRAM

Under this program, which operates on a fully reimbursable basis, the SPB (1) provides recruitment, selection and other technical personnel and consultant services and (2) approves or operates merit systems for a number of local government jurisdictions.

General Fund Loan Should be Repaid Promptly

We recommend that the balance of the \$125,000 transferred from the General Fund to the SPB Cooperative Personnel Services Revolving Fund be:

1. *Repaid entirely by June 30, 1978.*
2. *Reflected accurately in the Governor's Budget.*

Chapter 838, Statutes of 1973, established the SPB Cooperative Personnel Services Revolving Fund to enable the board to satisfy requests of its local government customers in a more responsive manner. In establishing the revolving fund, the act transferred \$125,000 to it from the General Fund and provided that the amount be repaid under conditions mutually agreeable to the SPB and the Department of Finance.

20-Year Repayment Period Should be Reduced. We are advised by the Department of Finance that the amount transferred from the General Fund is being repaid at the rate of \$6,250 annually over the 20-year period ending June 30, 1995. Because of the substantial amount of revolving fund revenues received from the board's local government customers (approximately \$1.2 million annually), we believe the board should be required to repay the entire balance owed to the General Fund by June 30, 1978.

Inadequate Fund Statement. The Fund Condition Statement of the board's revolving fund presented in the Governor's Budget fails to reflect (1) transfer of the \$125,000 from the General Fund, (2) repayments of the amount so transferred and (3) status of the \$125,000 (i.e., how it has been applied). We propose that in future years the statement be modified to overcome these deficiencies.

MANAGEMENT SERVICES PROGRAM

This program consists of executive management and central support services including accounting, budgeting, personnel, mail and duplicating. Program costs are distributed among the board's five line programs.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Item 174 from the General Fund, Item 175 from the Public Employees' Retirement Fund, Item 176 from the State Employees' Contingency Reserve Fund, Item 177 from the Legislators' Retirement Fund, and Item 178 from the General Fund

Budget p. 357

Requested 1976-77	\$10,586,263
Estimated 1975-76.....	10,724,752
Actual 1974-75	8,023,418
Requested decrease \$138,489 (1.3 percent)	
Total recommended reduction	Pending

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
174	Social Security and TEC Administration	General	\$351,202
175	Retirement Administration	Public Employees' Retirement	9,209,074
176	Health Benefits Administration	State Employees' Contingency Reserve	971,987
177	Retirement Administration	Legislators' Retirement	40,000
178	Local Assistance (Legislative Mandates)	General	14,000
			\$10,586,263

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. PERS System Redesign Project. Withhold recommendation on project pending submission of work plan to the Joint Legislative Budget Committee and fiscal committees by April 15, 1976.

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GENERAL PROGRAM STATEMENT

The objective of the Public Employees' Retirement System (PERS) is to provide the state and other public employers and their employees the opportunity to participate in the retirement and health benefits plans (including three major medical plans) administered by the system, thereby aiding in the recruitment and retention of competent personnel by assuring a measure of post-retirement financial security for older or long-term employees and financial assistance for active and retired employees in times of illness or other temporary physical impairment. All of these plans are statutorily authorized and are funded jointly in different proportions by the employer and the employee. Responsibility for establishing policy direction and guidance for the system is vested in its board of administration.

The Public Employees' Retirement System administers three major programs: a retirement program, a health benefits program, and a social

security program. The latter program consists of the administration of the coverage and reporting aspects of the Federal Old Age Survivors, Disability, and Health Insurance Program which applies to most state employees on a mandatory basis and to local public employees whose employers have elected such coverage. Through the Health Benefits Program, the state and (since 1968) other public employers who so elect offer their employees a number of health benefits and major medical plans on a premium-sharing basis.

The administration of a number of alternate retirement plans is the primary program of the system. Through this program, the state and various contracting agencies provide their employees with a variety of benefits. The contracting agencies are granted by statute a number of optional retirement plans from which they may choose. Table 1 shows selected workload data for the system's retirement program. These data indicate that employers made 56.7 percent of total contributions in 1970-71, but the ratio has increased to 63.2 percent by 1974-75.

Table 1
Retirement Program, Selected Workload Data

<i>Detail</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>
Membership					
State University and the University of California	169,084	172,319	175,973	177,823	179,269
Public agencies	264,342	291,007	305,277	322,386	356,517
Total	433,426	463,326	481,250	500,209	535,786
Retired members	62,623	72,571	82,87	91,618	100,321
Number contracting agencies	715	743	804	850	901
Public employers' contributions ^a	\$273.7	\$298.8	\$347.1	\$389.8	\$500.1
Public employees' contributions ^a	\$209.2	\$221.0	\$263.8	\$278.5	\$291.0
Benefit payments ^a	\$131.1	\$168.1	\$203.6	\$244.1	\$291.4
Death benefits ^a	\$13.5	\$14.8	\$16.8	\$17.9	\$19.8

^a In millions of dollars

The Board of Administration and the staff of the Public Employees' Retirement System also administer the Legislators' Retirement System as well as the investments of the Legislators' Retirement Fund. Pursuant to Chapter 655, Statutes of 1975, the cost of administration is to be paid from earnings of the Legislators' Retirement Fund. Chapter 655 appropriated \$20,000 for this purpose for the last six months of the current year. The budget proposes an appropriation of \$40,000 for expenditure during 1976-77. The Legislators' Retirement Fund is reviewed under Item 15 of this analysis.

Appropriation for Mandated Local Costs

Also included as a PERS expenditure in the Governor's Budget is a General Fund appropriation of \$14,000 to pay for costs mandated by the Legislature on local agencies. Chapter 1322, Statutes of 1974, changed the definition of dependent children for the purposes of special death benefits for safety members. Nine local agencies are estimated to be affected by this legislation in the budget year at a cost of \$14,000.

While the appropriation made by Item 178 is to the State Controller, the expenditure of the funds is reflected in the PERS budget because it is a

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

retirement system related cost.

ANALYSIS AND RECOMMENDATIONS

Table 2 outlines the system's proposed funding for 1976-77 and shows the changes from the estimated expenditures in the current year. The net change is a proposed reduction of \$21,075 or 0.2 percent.

Table 2
PERS Budget Summary

Funding	Proposed 1976-77	Change From Current Year	
		Amount	Percent
General Fund ^a	\$365,202	\$36,522	11.1%
Special funds	10,221,061	-175,011	-1.7
Subtotal	10,586,263	-138,489	-1.3
Reimbursements	666,431	116,784	21.3
Total	\$11,252,694	\$-21,075	-0.2%

^a Includes \$14,000 appropriated to the State Controller for payment of state mandated costs related to PERS.

Proposed New Positions

The Governor's Budget proposes 30 new positions to support various activities of the system in 1976-77. Eighteen of these positions have been administratively established during the current year and are proposed for continuation in the budget year, while the remaining 12 positions are proposed new for 1976-77. Of the 30 proposed new positions, 13 appear to be justified on the basis of increased workload or growth in the system. Five of the 13 positions are proposed for the retirement program and the remaining eight positions are related to the administration of the system.

The remaining 17 proposed new positions are related to the PERS system redesign project and are discussed below.

PERS System Redesign Project

We withhold recommendation on the \$374,908 proposed to support the PERS system redesign project pending submission of a project work plan to the Joint Legislative Budget Committee and the fiscal committees of the Senate and Assembly by April 15, 1976.

The Governor's Budget proposes the establishment of 17 new positions and the expenditure of \$374,908 to continue an effort begun during the current year to evaluate the total information processing requirements of the Public Employees' Retirement System (PERS). The objective of the project is to improve existing automated and manual processes to achieve a more cost-effective and efficient departmental operation. The project is based on a system redesign plan published by PERS in April 1975, and is in accordance with the management review of PERS by the Department of Finance published in November 1975. The Finance review states in part that ". . . procedures which could be automated are still done manually, and those which have been automated have not been developed and reviewed." According to PERS, the Department of Finance is anticipating this plan by February 15, 1976.

Given the magnitude of the task to be performed and the fact that the

project director is newly hired, it is our opinion that a February 15 deadline imposes a severe restriction on the ability of PERS to develop a meaningful work plan, and that an extension of the due date to April 15, 1976, would allow the development of a plan which is more realistic in terms of the objectives of the redesign project.

STATE TEACHERS' RETIREMENT SYSTEM

Item 179 from the Teachers' Retirement Fund

Budget p. 363

Requested 1976-77	\$6,067,521
Estimated 1975-76.....	6,601,619
Actual 1974-75	5,690,620
Requested decrease \$534,098 (8.1 percent)	
Total recommended augmentation	\$24,600

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Member Services Staffing. Augment \$24,600.* Recommend addition of two clerks to process family benefit claims. 285
2. *Microfilm Project.* Recommend 1975-76 appropriation of \$70,000 be reappropriated for use in the budget year. 286

GENERAL PROGRAM STATEMENT

The State Teachers' Retirement System (STRS) has the following primary responsibilities:

1. Maintaining a fiscally sound plan for funding approved benefits.
2. Providing authorized benefits to members and their beneficiaries in a timely manner.
3. Furnishing pertinent information to teachers, school districts and other interested groups.

The STRS was established in 1913 as a statewide system for payment of retirement benefits to public school teachers. Administratively, it became part of the Department of Education under the jurisdiction of the State Board of Education. In 1963, the system was placed under the management of a newly created State Teachers' Retirement Board and under the administrative jurisdiction of the Agriculture and Services Agency.

The Governor-appointed members of the board include three members each from the school system and from the public. The Superintendent of Public Instruction, the State Director of Finance and the State Controller are ex-officio members of the board. In addition to having overall management responsibility for STRS, the board reviews applications for benefits provided by the system.

Administrative expenditures of the STRS are funded out of interest income from the system's investments at no state cost. Therefore, these expenditures are excluded from the total state budget figure.

Funding of the the benefits provided by the system is discussed under

STATE TEACHERS' RETIREMENT SYSTEM—Continued

"Contributions to the Teachers' Retirement Fund" (Item 343).

ANALYSIS AND RECOMMENDATIONS

Staffing and expenditures for the system are summarized in Table 1.

Table 1
Budget Requirements of the State Teachers' Retirement System

Programs	<i>Personnel (staff-years)</i>			<i>Expenditures</i>		
	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>
	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
Records and statistics.....	164.5	147.7	117.6	\$2,496,346	\$2,824,434	\$2,266,687
Member services.....	69.2	65.9	64.6	1,177,582	1,425,018	1,412,267
Accounting.....	36.7	34.1	33.9	816,190	929,322	915,724
Data processing.....	39.0	41.1	40.8	882,058	1,062,071	1,094,592
Management services.....	22.8	20.9	20.8	537,903	590,774	608,251
Administration (Cost distributed to other programs).....	9.3	9.0	9.0	(198,035)	(218,452)	(226,156)
Totals.....	341.5	318.7	286.7	\$5,910,079	\$6,831,619	\$6,297,521
Reimbursements.....	—	—	—	-219,459	-230,000	-230,000 ^a
Net Teachers' Retirement Fund Costs.....				\$5,690,620	\$6,601,619	\$6,067,521

^a Reimbursements represent actual and projected revenues from administrative fees charged by the STRS for refunding contributions to members who leave the system.

Significant Program Changes for the Budget Year

Termination of 34 limited-term positions, as well as reduced equipment costs and pro rata charges, partially offset by addition of three new positions and augmentations for increased operating expense in several categories account for the majority of the proposed \$534,098 (8.1 percent) net reduction in the budget year. Table 2 details these significant changes.

Table 2
Summary of 1976-77 Budgetary Changes

<i>Proposed Changes</i>	<i>Number of positions</i>	<i>Fiscal Impact</i>
Reductions		
Verification project.....	-25	\$-295,963
Limited-term positions.....	-9	-108,505
Equipment costs.....	—	-70,000
Pro rata charges.....	—	-128,188
One-time, 1975-76 appropriations.....	—	-214,335 ^b
Subtotals.....	-34	\$-816,991
Additions		
New positions.....	3	\$69,186
Disability reexaminations.....	—	69,240
Attorney General services.....	—	50,000
Investment services costs.....	—	40,568
Merit salary adjustment.....	—	53,899
Subtotals.....	3	\$282,893
Net change.....	-31 ^a	\$-534,098

^a This figure becomes -32, if adjusted for temporary help used during the current year to handle the increasing legal workload for which a new attorney position is being proposed.

^b Includes appropriations for clerical bonus, actuarial study and temporary help.

Verification Project Scheduled for Phase-Out

Commencing in 1971-72, a five-year project was designed to speed up the process of verifying member records. It was to produce economies in processing retirement applications by eliminating the need to verify service records of applicants after receipt of the retirement application, which was the procedure prior to initiation of this project. A staff augmentation of 50 limited-term positions was scheduled to complete the project by the end of 1975-76, at which time these positions were to terminate. Because the project did not get fully staffed and underway until 1972-73, the Department of Finance agreed to phase it out over a two-year period, starting with 25 positions in 1975-76. The proposed reduction of 25 positions for this project represents the second and final step of the phase-out process.

Due to additional workload, changes in the data processing system and administrative problems unanticipated at the beginning, the project will be only about two-thirds completed by the end of 1976-77. However, the records of all members over age 42 are expected to be verified by that date and the remaining 34 permanently authorized positions are expected to maintain the verification process in future years.

Clerical Positions Should be Continued

We recommend an augmentation of \$24,600 for the permanent establishment of two current limited-term clerical positions to process family benefit claims.

Passage of the Barnes Act (Chapter 1305, Statutes of 1971) provided significant improvements in family and death benefits to members of the system, increasing substantially the number of claims filed. In addition, subsequent legislation removed the need for the member's spouse to be a dependent in order to be eligible for family benefits. This action increased the number of persons eligible for benefits and compounded the workload of the Claims Unit of the Member Services Division. During the 1972-75 period the family benefit-workload (claims filed) of this unit has increased by an annual average of 40 percent and a workload gain of 39 percent is projected for the budget year.

In 1973-74, two limited-term clerical positions were approved to assist the five clerks authorized for this unit in handling the additional workload. However, these two positions are scheduled to terminate on June 30, 1976.

We believe that the past, current and anticipated future workload trends justify continuation of these two positions. They will help to attain this unit's objective of processing benefit claims in a timely manner.

Three New Positions

The three proposed new positions include one analyst to insure prompt and accurate monthly payroll and contribution reporting by school districts, one staff attorney to handle the increasing legal workload and one limited-term analyst position (authorized only for 1976-77) to develop procedures for verifying continued qualification of disability benefit recipients.

STATE TEACHERS' RETIREMENT SYSTEM—Continued**Operating Expense and Equipment Changes**

The proposed budget also includes several major changes in the operating expense and equipment categories, as shown in Table 2. Additional funds for medical reexaminations (\$69,240) are to verify continued qualification of disability benefit recipients in order to prevent fraud in this program. Funds are also budgeted for legal services (\$50,000) provided to STRS by the Office of the Attorney General. In the past, the system has not been charged for these services but starting in 1976-77, the Attorney General will require reimbursement. The increasing cost of investment services (\$40,568), provided for STRS by the Public Employees' Retirement System, must also be funded.

However, these augmentations are offset by proposed reductions in equipment costs (\$70,000 for microfilm equipment) and in pro rata charges (\$128,188) for the cost of state services provided to the STRS.

Microfilm Project Needs Reappropriation of Authorized Funds

We recommend that the 1975-76 appropriation of \$70,000 for microfilm equipment be reappropriated for use in 1976-77.

Based on our recommendation last year, the 1975-76 budget authorized a two-year project for 1975-76 and 1976-77 to speed up the process of microfilming STRS members' records. This project was to produce cost-savings by permitting the STRS to shift to a more efficient all-microfilm system faster than anticipated in 1970 at the beginning of the microfilming process. The approval included a \$70,000 appropriation for additional microfilming equipment. However, this appropriation was made contingent on STRS receiving the related staffing from federally-funded public service employment programs. As of this writing, STRS has not been able to obtain the federal funding for these positions and the prospects for doing so during the balance of the current year do not appear favorable. As a result, the \$70,000 appropriation is being held by the Controller and will revert to the Teachers' Retirement Fund, unless released prior to June 30, 1976.

In the event this allocation is not released, we recommend its reappropriation for use in the budget year without the restriction regarding federal funds. This action will permit the STRS to begin the accelerated microfilming project, using existing staff, until federal funds become available for additional staffing.

DEPARTMENT OF VETERANS AFFAIRS

Items 180, 181, 183, and 184
 from the General Fund and
 Item 182 from the Veterans'
 Farm and Home Building
 Fund

Budget p. 366

Requested 1976-77	\$11,763,500
Estimated 1975-76.....	12,884,167
Actual 1974-75	11,070,164
Requested decrease \$1,120,667 (8.7 percent)	
Total recommended reduction	\$55,400

1976-77 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
180	Administration	General	\$1,223,364
181	Educational Grants	General	2,000,000
182	Administration	Farm and Home Building	(354,836)
183	Veterans' Home	General	7,540,136
184	Local Assistance	General	1,000,000
			<u>\$11,763,500</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Food Service Assistants. Reduce Item 183 by \$55,400.* Recommend deletion of six food service assistant I positions for an annual General Fund savings of \$55,400. 290
2. *Farm and Home Loan Billing Cycle. Withhold recommendation pending completion of departmental study.* 290

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs, through four major programs, provides services for qualified California veterans and dependents. The department's principal aim is to help qualified and needy veterans or dependents obtain direct federal or state aid and to provide a hospital-nursing-home-domiciliary facility for those veterans requiring such services not otherwise available to them.

In addition, the department administers a loan program to enable veterans to own their own homes, farms or mobilehomes on a more economical basis than would be available to them by conventional means. This service is self-supporting and self-liquidating from regular payments made by participating veterans.

Farm and Home Loans

The Farm and Home Loans to Veterans program, also known as the Cal-Vet loan program, provides low-interest farm, home and mobilehome loans to qualified veterans through the sale of general obligation bonds which are redeemed from the monthly payments of the participating veterans. Home loans are limited to a maximum of \$30,000 except when

DEPARTMENT OF VETERANS AFFAIRS—Continued

a veteran's assets are less than \$5,000, in which case the maximum loan is \$35,000. The maximum loan for a farm is \$80,000 and \$12,500 for a mobile-home.

Educational Assistance

The Educational Assistance to Veterans and Dependents program provides counseling and financial assistance to qualified dependents of veterans who were killed or totally disabled as a result of active military services. Full-time college students receive \$50 per month and high school students receive \$20 per month. In past years, financial assistance was provided to veterans in addition to their dependents, but this program element has been discontinued because of anticipated federal legislation to expand G.I. Bill educational benefits.

Veterans' Claims and Rights

The Veterans Claims and Rights program provides information to veterans and their dependents concerning the availability of federal and state benefits and assists eligible persons in obtaining them. These benefits include hospital and out-patient medical and dental care, pensions, insurance, burial benefits, educational assistance, employment preference and others.

County Subvention. The program also administers grants to local veteran service offices, operating in 55 of the state's counties, which assist veterans in establishing their claims and rights. Prior to January 1, 1975, this subvention was limited to \$75 monthly for each county veteran service officer. Legislation in 1974 removed this monthly limit and increased the total subvention to \$1 million.

Care of Sick and Disabled

The Care of Sick and Disabled Veterans program operates the Veterans' Home in Yountville, which is one of the largest geriatric facilities in the country. The home maintains an 854-bed medical and nursing unit and domiciliary quarters with a bed capacity of 1,489. The home provides war veterans who are California residents with several levels of medical care (acute, skilled nursing and intermediate care), rehabilitation services and residential services. The home is licensed by the state and its hospital is fully accredited.

Administration

General Administration provides for administrative implementation of policies established by the California Veterans Board and the department director. Fiscal, legal, personnel and other functions not specifically assigned to the other programs are included in this program.

ANALYSIS AND RECOMMENDATIONS

Table 1 details the department's administrative support by funding sources, consisting of Items 180, 182 and 183, a continuing appropriation from the Farm and Home Building Fund, federal funds and reimbursements. The continuing appropriation (\$4,243,731) is provided by Section 988 of the Military and Veterans Code for administrative support of the

Cal-Vet loan program.

The \$2 million contained in Item 181 provides educational grants to veterans' dependents. As indicated previously, the administration has terminated grants for veterans because of proposed federal legislation to expand G.I. Bill educational benefits. This element of the program, which was budgeted at \$2.5 million in 1975-76 (and subsequently reduced to \$1.5 million) accounts for the net reduction of \$1.1 million in state funding for the budget year. Item 184 provides \$1 million for assistance to county veterans service offices.

Table 1
Funding Summary

Funding	Estimated 1975-76	Proposed 1976-1977	Change from Current Year	
			Amount	Percent
General Fund (Item 180)	\$1,180,282	\$1,223,364	\$43,082	3.7%
General Fund (Item 183)	7,203,885	7,540,136	336,251	4.7
Total General Fund	\$8,384,167	\$8,763,500	\$379,333	4.5%
Special Fund (Item 182)	\$322,190	\$354,836	\$32,646	10.1
Special Fund (Continuing Appropriation)	4,310,471	4,243,731	-66,740	-1.5
Subtotal, Special Fund	\$4,632,661	\$4,598,567	\$-34,094	-0.7%
Federal (direct)	\$3,650,218	\$3,771,515	\$121,297	3.3
Reimbursements	2,214,002	2,267,062	53,060	2.4
Grand Total	\$18,881,048	\$19,400,644	\$519,596	2.8%

The direct federal funding consists of medical and billet payments in behalf of residents of the Veterans' Home. The reimbursements represent federal funds paid through the veteran to the home for "aid and attendance" and fees paid directly by the veteran.

Table 2 summarizes the department's administrative costs by program.

Table 2
Program Cost Summary

Program	Estimated 1975-76	Proposed 1976-77	Change from Current Year	
			Amount	Percent
Farm and Home Loan	\$4,310,471	\$4,243,731	\$-66,740	-1.5%
Man-years	191.6	192.2	.6	-
Educational Assistance	\$264,863	\$274,898	\$10,035	3.8
Man-years	15.3	15.3	-	-
Veterans Claims and Rights	\$618,012	\$641,427	\$23,415	3.8
Man-years	37.7	37.7	-	-
Home and Hospital	\$13,067,905	\$13,578,513	\$510,608	3.9
Man-years	755.2	768.2	13	-
General Administration	\$619,797	\$662,075	\$42,278	6.8
Man-years	(29.6)	(29.6)	-	-
Total	\$18,881,048	\$19,400,644	\$519,596	2.8%
Man-years	999.8	1,013.4	13.6	-

DEPARTMENT OF VETERANS AFFAIRS—Continued**New Positions**

The department and the Veterans Home have a combined authorized staff of 1,030.8. The budget proposes a net increase of 13.6 positions over the current level which, after deducting 31.0 man-years for salary savings, results in a proposed staffing level of 1,013.4 man-years.

The net increase of 13.6 positions consists of one legal counsel funded from the Farm and Home Building Fund, 12 geriatric nursing assistants and one respiratory therapist at the Veterans Home offset by a reduction of .4 in temporary help. The legal counsel is needed because of workload increases in the Cal-Vet program. Eight of the geriatric nursing assistant positions are needed to augment the level of medical supervision in the domiciliary units during nights and weekends and to permit the transfer of additional residents from nursing units. The remaining four geriatric nursing assistants would be trained by the proposed respiratory therapist to provide professional therapy to those residents requiring such treatments. The department anticipates that the additional positions at the Veterans Home will permit an increase in population during the budget year which, in turn, will increase both federal funds and reimbursements by an amount sufficient to offset approximately 53 percent of the costs for the new positions.

Food Service

We recommend deletion of six food service assistant I positions in Item 183 for an annual General Fund saving of \$55,400.

The department advises that it feeds 400 to 450 persons during the noon meal at the Veterans' Home main dining hall. This meal has the largest number of home members in attendance. The department further advises that 18 food service assistant I's are assigned to serve the noon meal to the members and to assist with clean-up duties afterwards. This is a ratio of one food service assistant I for each 24 members.

Our discussions with banquet managers in large restaurants and hotels indicate that the private industry standard is one waitress per 50 diners if a uniform meal is to be served to the table, without individual orders, as is done at the Veterans' Home. Using this standard, the department should be able to meet existing workload with 8.5 positions rather than its current level of 18. However, although the members who attend the noon meal at the main dining hall are ambulatory, they do require more attention than a diner in a private restaurant. For this reason, approximately 3.5 positions above the industry standards would appear to be justified for a total of 12 positions.

Annual Billing

We withhold recommendation on the billing system in the Farm and Home Loan program pending completion of a departmental report on the feasibility of changing to an annual cycle.

In our 1974-75 Analysis, we recommended that the billing cycle for the Farm and Home Loan program be placed on a yearly, rather than monthly, basis for savings of at least \$100,000 annually. The Conference Commit-

tee on the Budget adopted language recommending implementation of the annual system. In our February 1975, report to the Legislature on compliance of state agencies with legislative requests, we noted that the department had this recommendation under study. Subsequently, the department's new director instructed the staff to develop a plan for converting to the annual cycle early in 1976. In examining alternatives for this purpose, the department concluded that savings from an annual billing would be substantially less than \$100,000 annually (in the range of \$20,000 to \$25,000) and that the conversion would result in a loss of flexibility in making billing changes, some of which could be very important. The department also estimated EDP costs for the conversion at \$70,000. Some of the assumptions used by the department in this report were addressed in a Department of Finance management audit of the department dated August 1975. This report concluded that an annual billing system would produce net annual savings of \$99,900 and recommended its adoption.

The Department of Veterans Affairs is presently reviewing its cost estimate to reflect the impact of the recent 30 percent increase in postage rates and is also investigating the billing experience of private lending institutions, some of which we are advised have reported dissatisfaction with an annual billing system. We therefore withhold recommendation on this issue pending completion of the department's report, which will be available for legislative review during the budget hearings.

Business and Transportation Agency

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 185 from the General Fund

Budget p. 380

Requested 1976-77	\$187,241
Estimated 1975-76.....	181,198
Actual 1974-75	142,676
Requested increase \$6,043 (3.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate. The board members are salaried and meet regularly in Los Angeles, San Francisco and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not subject to departmental control.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal, which, upon petition, reviews board decisions. During 1974-75, 114 appeals were filed and 107 decisions issued. The appeals board reversed 17 departmental decisions. As of June 30, 1975, it has processed 4,321 cases since its creation in 1954.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget-year expenditure of \$187,241, which is \$6,043 or 3.3 percent above the current-year estimate. This increase consists of \$1,863 for merit salary increases and \$4,180 for higher operating costs.

As mentioned in the analysis of the Department of Alcoholic Beverage Control (Items 279-280), should the Legislature repeal or modify the price-posting program, there would be savings in this item because a high proportion of the board's workload involves price-posting violations.

Business and Transportation Agency

STATE BANKING DEPARTMENT

Item 186 from the State Banking Fund

Budget p. 381

Requested 1976-77	\$3,461,622
Estimated 1975-76.....	2,991,302
Actual 1974-75	2,499,120
Requested increase \$470,320 (15.7 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Research and Information Services. Withhold recommendation of \$64,508* for one market analyst position, one associate economist position and consultant services pending review of additional data prior to budget hearings. 293
2. *Departmental Regulations. Recommend department explain to the fiscal committees why the second installment of regulations has not been issued as requested by the 1974-75 Supplementary Report.* 295

GENERAL PROGRAM STATEMENT

The primary responsibility of the State Banking Department is to protect the public from economic loss resulting from bank and trust company failures. Not all banks in California are regulated by this department because some choose to operate under federal authority.

The department is administered by the Superintendent of Banks, who