

tion may be applicable only to future enrollees in the system.

NATIONAL CENTER FOR STATE COURTS

Item 23 from the General Fund	Budget p. 15
Requested 1977-78	\$14,000
Estimated 1976-77	14,000
Actual 1975-76	14,000
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The National Center for State Courts was established in 1971 to encourage judicial reform, recommend standards for fair and expeditious judicial administration and seek solutions to state judicial problems.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item provides the state's membership fee in the National Center for State Courts, which is supported by a combination of state fees and a federal grant. The fee is based on state population. California's fee represents approximately 7 percent of the total state fees requested. Prior to 1975-76, cash match requirements for the federal grant were met by donations from private foundations.

GOVERNOR'S OFFICE

Items 24-27 from the General Fund	Budget p. 16
Requested 1977-78	\$3,366,415
Estimated 1976-77	3,366,415
Actual 1975-76	3,128,348
Requested increase—None.	
Total recommended reduction	None

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
24	Governor's Office—Support	General	\$2,984,015
25	Residence—Support (Primarily for Security and Housekeeping)	General	17,400
26	Contingency Expenses	General	15,000
27	Governor's Budget—Printing	General	350,000
			<u>\$3,366,415</u>

GOVERNOR'S OFFICE—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Under the California Constitution, the Governor is chief executive of the state and responsible for seeing that the law is executed.

The Governor's Budget request consists of four elements as shown above. The budget contains information only on broad expenditure categories with no supporting detail. Increases for general expenses, rent, automobile support and office supplies are offset by reductions in travel and office printing, resulting in no change in the budget total.

Governor's Office

SECRETARY FOR AGRICULTURE AND SERVICES

Item 28 from the General Fund

Budget p. 17

Requested 1977-78	\$427,985
Estimated 1976-77	406,316
Actual 1975-76	457,372
Requested increase \$21,669 (5.3 percent)	
Total recommended reduction	\$12,158

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Agency Overbudgeted. Reduce by \$12,158.* Recommend reduction in operating expenses and equipment which was transferred to personal services. 19

GENERAL PROGRAM STATEMENT

As one of the Governor's four agency secretaries, the Secretary for Agriculture and Services is responsible for (1) providing leadership and policy guidance to the departments under the agency's jurisdiction, (2) serving as a communications link between the Governor and the departments, and (3) reviewing departmental budgets and legislative and administrative programs. The departments over which the secretary exercises general supervision include:

1. Department of Food and Agriculture
2. Department of Industrial Relations
3. Public Employees' Retirement System
4. Department of General Services
5. Department of Consumer Affairs
6. Teachers' Retirement System
7. Department of Veterans Affairs
8. State Fire Marshal
9. Franchise Tax Board
10. State Personnel Board
11. Museum of Science and Industry
12. California Public Broadcasting Commission

In addition, the secretary is responsible for administering (1) the California plan for the development and enforcement of occupational safety and health standards (Cal/OSHA) and (2) the state's federally funded program for improving personnel administration in state and local government through education and training under the Federal Intergovernmental Personnel Act.

The secretary also serves as the Governor's liaison agency to the Agricultural Labor Relations Board. The secretary's former employee relations responsibility to "meet and confer" with state employee groups under the George Brown Act was transferred in 1975-76 to the Governor's Office.

ANALYSIS AND RECOMMENDATIONS

The Secretary of Agriculture and Services is requesting \$427,985 from the General Fund in the budget year, an increase of \$21,669 or 5.3 percent over anticipated expenditures for the current year. The rise is mainly attributable to general price increases and for the costs of staff upgrades.

The Governor's Budget states that the secretary is also planning to utilize \$287,334 in the current year and \$431,002 in the budget year in federal Public Works Employment Act funds for developing a statewide pesticide use plan and an accompanying environmental impact report in compliance with the California Environmental Quality Act. However, the secretary reports that these figures have been revised to \$338,214 in the current year and \$330,122 in the budget year. Our recommendations regarding the above activities are included under Item 58 for the Department of Food and Agriculture.

Agency Overbudgeted

We recommend reduction of \$12,158 reflecting the amount of overbudgeting in operating expenses and equipment which was transferred to personal services.

The agency has overbudgeted for operating expenses and equipment by \$12,158, the amount which it transferred to personal services for the upgrading of two positions: a special assistant I which was reclassified to a special assistant II and a staff services analyst (range A) which was reclassified to a staff services analyst (range C). The reclassification increased the salary of the special assistant from \$2,325 to \$2,811 monthly and the staff services analyst from \$919 to \$1,288 per month. The agency also reports that the action necessitated the transfer of \$12,158 in the current year from operating expenses and equipment to personal services. The agency proposes to increase personal services in the budget year by the same amount to continue the promotions. Only the reclassification of the staff services analyst is shown in either the Governor's 1976-77 or 1977-78 budgets. These reclassifications appear to be inconsistent with the administration's 1976-77 employee compensation plan which provided, for most employees, a flat pay increase of \$70 per month.

The budget also shows that the agency had an unexpended balance of \$52,156 in 1975-76. However, part of these savings resulted from the transfer of the Office of Employee Relations (which had a number of vacant positions for several months) from the agency to the Governor's Office.

Governor's Office
SECRETARY FOR BUSINESS AND TRANSPORTATION

Item 29 from the Motor Vehicle
 Account and Item 30 from
 the General Fund

Budget p. 19

Requested 1977-78	\$421,252
Estimated 1976-77	516,872
Actual 1975-76	321,397
Requested decrease \$95,620 (18.5 percent)	
Total recommended reduction	None

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
29	Support	Motor Vehicle Account	\$401,812
30	Support	General	19,440
			\$421,252

GENERAL PROGRAM STATEMENT

The Secretary for Business and Transportation, as one of four agency secretaries in the Governor's Cabinet, administers the Office of the Business and Transportation Agency. As the title implies, the organization of this agency includes two distinct groupings of departments, those oriented toward business regulatory activities and those related to various transportation activities. The agency consists of the following departments:

- California Highway Patrol
- Department of Motor Vehicles
- Department of Transportation
- Office of Traffic Safety
- Department of Alcoholic Beverage Control
- Department of Banking
- Department of Corporations
- Department of Housing and Community Development
- Department of Insurance
- Department of Real Estate
- Department of Savings and Loan
- California Job Creation Board
- Housing Finance Agency

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an expenditure of \$621,252 which, in addition to the proposed appropriation from the Motor Vehicle Account and the General Fund (\$421,252), includes \$200,000 in federal funds for planning grants. The proposed expenditure represents funding for 16.4 positions (9 professional and 7.4 clerical), the same number authorized in the current year. The proposed budget also contains a reimbursement of \$227,758

which is derived from charging constituent departments a pro-rata share of the cost of using 7 exempt professional positions on a contractual basis from selected departments in the agency. An additional reimbursement of \$100,000 is provided from the Departments of Banking (\$40,000), Savings and Loan (\$40,000) and Corporations (\$20,000) to support a task force established by the agency to study electronic funds transfers systems.

The proposed budget is \$95,620 or 18.5 percent less than the current year. The expenditure reduction is primarily the result of a one-time expenditure of \$125,000 from the Transportation Planning and Research Account in the current year. The expenditure was related to a demonstration project for the purpose of converting a bus from conventional power to hydrogen power pursuant to Chapter 1130, Statutes of 1975.

Governor's Office
SECRETARY FOR HEALTH AND WELFARE

Item 31 from the General Fund

Budget p. 21

Requested 1977-78	\$688,308
Estimated 1976-77	624,354
Actual 1975-76	750,189
Requested increase \$63,954 (10.2 percent)	
Total recommended reduction	\$82,192

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Native American Program Coordinator. Reduce by \$52,192.* Recommend funds for native American program coordinator be transferred to the Governor's office. 22
2. *Displaced Homemakers Project.* Recommend agency submit to the fiscal committees prior to budget hearings a plan which describes the service and evaluation activities for the final year of the displaced homemakers project. 23
3. *EDP Consultant Funds. Reduce by \$30,000.* Recommend funds budgeted for EDP consultant and professional services be reduced. 25

GENERAL PROGRAM STATEMENT

The Secretary for Health and Welfare provides the administrative and policy direction for state departments and organizations providing health, welfare, manpower, and correctional services. The following departments are within the agency:

- Department of Aging
- Department of Corrections

SECRETARY FOR HEALTH AND WELFARE—Continued

Department of Benefit Payments
 Department of Health
 Department of Rehabilitation
 Department of the Youth Authority
 Employment Development Department

Also within the agency are the Office of Alcoholism, the Office of Narcotics and Drug Abuse, and the California Health Facilities Commission.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of \$688,308 for the 1977-78 fiscal year, which is \$63,954 or 10.2 percent more than is estimated for the current fiscal year. The primary reason for this increase is the establishment of several new positions.

Department of Health Liaison

We recommend approval of one and one-half positions to provide agency liaison with the Department of Health.

The budget proposes the continuation of one Career Executive Appointment (CEA) II position which was administratively established during the current fiscal year and proposes creation of one-half senior clerk typist position to provide clerical support. The proposed cost to the General Fund for these two positions including salaries, benefits and operating expenses is \$55,216. The CEA II position will act as agency liaison with the Department of Health. Currently, this liaison function is shared by three agency positions. However, due to the size and scope of problems in the health care area, we believe an additional position which will assume primary responsibility for departmental liaison is justified.

Special Program Coordinators

We recommend deletion of \$52,192 budgeted for a CEA I position for a native American program coordinator and one-half senior clerk typist position. However, if the administration desires these positions, they should be transferred to the Governor's office and we would recommend approval.

We further recommend that Budget Bill language be added to the Employment Development Department's budget item prohibiting use of EDD funds for the activities of the rural and migrant affairs program coordinator.

In May 1976, the Governor issued executive orders establishing positions of native American program coordinator and rural and migrant affairs program coordinator in the Health and Welfare Agency. The purpose of these positions is to coordinate program-related activities of departments both within the Health and Welfare Agency and in other agencies as well. The budget proposes the establishment of one CEA I position to function as a native American program coordinator and one-half senior clerk typist position to provide clerical support. The total cost to the General Fund of these positions including salaries, staff benefits and operating expenses is \$52,192.

During fiscal year 1976-77, the agency designated the Chief of the Mi-

grant Services Section of the Employment Development Department (EDD) to assume the additional responsibilities of the rural and migrant affairs program coordinator. According to the agency, this arrangement will be continued for fiscal year 1977-78. The coordinator estimates he spends approximately 20 percent of his time on coordinator-related activities. No funds have been included in the agency budget to reimburse EDD for these expenses.

The native American program coordinator is required to define the relationship between the native American population and the state and federal government and to assure that native Americans receive equitable treatment from state governmental agencies. Specific duties of the rural and migrant affairs coordinator are to assure that the Governor's rural and migrant affairs policy is carried out in the various state departments and to act as an arbiter in disputes between departments. According to the budget, most of the current year activities of the rural and migrant affairs program coordinator have involved departments outside the Health and Welfare Agency including the Department of Housing and Community Development, and the Department of Education.

We question the ability of these special coordinators to adequately achieve integration and cooperation among programs which are located in other agencies. Located within the Health and Welfare Agency, these coordinators lack the direct authority needed to fulfill their stated duties with departments outside the agency. We therefore recommend deletion of \$52,192 budgeted for the native American program coordinator position. We further recommend that budget language be added to EDD's budget item prohibiting use of EDD funds for the activities of the rural and migrant affairs program coordinator.

If the administration desires to continue one or more of these positions and wishes to delegate the necessary authority for them to carry out their described functions effectively, then the positions should be established in the Governor's Office and we would recommend approval.

Displaced Homemakers' Project

We recommend that prior to budget hearings the agency submit to the fiscal committees of the Legislature a plan which describes the service and evaluation activities for the final year of the displaced homemakers' pilot project. We further recommend that the plan include clearly defined and measurable project objectives, a timetable for achieving such objectives, data needs, and scheduled data collection activities including client follow-up.

Chapter 1063, Statutes of 1975, requires the Secretary of Health and Welfare to establish a two-year pilot service center for displaced homemakers in Alameda County. The project is designed to provide counseling, training, jobs, services and health care for homemakers who find themselves "displaced" in their middle years through divorce, death of spouse, or other loss of family income. Chapter 1063 appropriated \$200,000 to be made available for the project from January 1, 1976, until January 1, 1978. The agency encumbered \$180,000 of that amount during fiscal year 1975-76 to contract with a private organization to run the center for a period

SECRETARY FOR HEALTH AND WELFARE—Continued

of 21 months. The center began operation in May 1976. In addition, the agency encumbered \$20,000 during fiscal year 1976-77 to contract with a private consultant to evaluate the project. No project funds appear in the budget for fiscal year 1977-78.

Legislation required that periodic evaluations of the project be filed with the Agency Secretary. The first evaluation is due February 1, 1977. In addition, the Secretary and the Legislative Analyst are required to report to the Legislature in January, 1978, on the effectiveness of the program. Our office has reviewed the center's first quarterly activity report and the first quarterly evaluation prepared by the evaluation consultant. Between May and December 1976, the center provided job training and stipends to 27 interns and provided information and workshops to an undetermined number of additional clients.

We are concerned about the project's current planning and evaluation activities. Even though the project is halfway through its allocated period of time, there has been no identification of measurable program objectives or a timetable for achieving these objectives. At this point, it appears that some basic data concerning project applicants and clients is not being collected. Unless this is done, it will be impossible for the Legislature to determine the project's effectiveness at the end of two years. We, therefore, recommend that the agency submit to the Legislature an activity plan and updated evaluation plan for the project's final year.

Computer Requirements Task Force

The Governor's Budget includes \$209,800 to continue an effort initiated in the 1975-76 fiscal year to determine and provide for the agency's projected total computer requirements. Excluding the processing of Medical claims, the bulk of current agency computing requirements is met by the use of four agency computers and the Stephen P. Teale Consolidated Data Center. Recognized inefficiencies in current automated processes, limited capacity and capabilities on agency computers and the continued development of new systems have provided the impetus for the task force effort.

Including the proposed budget, funds which will have been allocated to this effort total \$506,644. Personnel resources assigned to the project are a combination of 7 personnel on loan from agency departments and 3 positions which have been established at agency level. According to the approved project goals, a plan to meet the agency's computing requirements is scheduled to be available for review toward the end of January 1977. Once this plan has been approved, task force resources will be applied to the computer procurement process.

Consultant Funds

We recommend that funds budgeted for consultant and professional services be reduced by \$30,000.

The proposed budget includes \$60,000 for consultant and professional services to assist in the anticipated computer procurement and evaluation and selection processes. In our opinion, most if not all, of this type of assistance should be drawn from existing personnel resources in the several agency departments, as was done in the last major state competitive computer procurement (the Teale Data Center). Outside assistance should be held to a minimum to avoid diffusion of project responsibility. Therefore, we would support a budget year allocation for consultant and professional services in the reduced amount of \$30,000.

Questionable Personnel Transfers

Although documentation supporting the proposed budget discusses the problem of maintaining adequate staffing on this important project, the agency has aggravated this problem by allowing the project director and at least one other task force member to transfer to another agency project. We recall that this same agency encouraged an alarming turnover in project managers for the recent (and ultimately abandoned) multi-million dollar Medi-Cal Management System project. We believe that it is incumbent upon the agency to use its best efforts to maintain project staff continuity and that it should discourage continuous turnover of key personnel.

**Governor's Office
SECRETARY FOR RESOURCES**

Item 32 from the General Fund

Budget p. 23

Requested 1977-78	\$789,475
Estimated 1976-77	770,203
Actual 1975-76	440,348
Requested increase \$19,272 (2.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary for Resources, as the administrative head of the Resources Agency, is responsible directly to the Governor for the state's activities relating to the management, preservation and enhancement of California's air, water and land; its natural, wildlife, and recreational resources; and general coordination of environmental programs. The Secretary is a member of the Governor's Cabinet. The Secretary also is responsible for liaison between the Governor's office and the agency's commissions and boards, coordination of state and federal programs, and supervision of departmental fiscal affairs.

The Resources Agency is composed of the following units:

Department of Conservation

SECRETARY FOR RESOURCES—Continued

Energy Resources Conservation and Development Commission
 Department of Fish and Game
 Department of Forestry
 Department of Navigation and Ocean Development
 Department of Parks and Recreation
 Department of Water Resources
 Air Resources Board
 California Coastal Commission
 Colorado River Board
 State Coastal Conservancy
 State Lands Division
 State Water Resources Control Board and nine regional water quality control boards
 Solid Waste Management Board

In addition, the Resources Secretary has been designated in the Governor's Budget as the coordination point in the administration for the San Francisco Bay Conservation and Development Commission. By statute the Secretary is also responsible for allocating open-space subventions among cities and counties on the basis of those prime and nonprime lands which are found eligible.

The Secretary issues the state guidelines for preparation of environmental impact reports and designates the classes of activities which receive blanket exemptions from the preparation of environmental impact reports. The Waterways Management Planning Program and several miscellaneous programs including certain activities in the Lake Tahoe basin are budgeted to the Secretary's office.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget year request of \$789,475 for the Secretary for Resources is essentially level with the current year. The major change is the conversion of four positions from Career Executive Assignment (CEA) to exempt status.

In the last two years the Secretary has secured an increase from 13.1 positions to 23.5. There would actually have been a 100 percent increase if the Legislature had not denied two requested positions. The budget last year included a major expenditure increase both to cover the new positions and to finance three positions which had been financed by assessment on the constituent departments and commissions of the agency. The request for the budget year essentially continues the practice of full financing through the appropriation to the Secretary (Item 32).

However, four CEA positions requested and approved last year were not used. Instead, the money was used to finance (by contract) four employees who were placed in exempt positions which were borrowed from the Department of Water Resources, the Department of Parks and Recreation, the Division of Mines and Geology, and the Board of Forestry. (Three of these exempt positions had been used by the Secretary's office in the past). The justification given for this use of exempt positions is that

qualified employees were not available in the civil service for appointment to CEA or else that the employees selected could not qualify for civil service and CEA appointment.

As a result the present professional staff in the Secretary's office consists of six exempt employees, four CEA employees and one civil service employee.

Governor's Office
OFFICE OF EMPLOYEE RELATIONS

Item 33 from the General Fund

Budget p. 26

Requested 1977-78	\$231,200
Estimated 1976-77	216,081
Actual 1975-76	85,881
Requested increase \$15,119 (7.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Conflicts of Interest. Recommend Office of Employee Relations eliminate conflicts in employee relations activities and preclude state managers from belonging to the same organizations as nonsupervisory employees. 28
2. Management Benefits. Recommend Office of Employee Relations develop an alternate program to allow managers to continue group benefits now derived from membership in employee organizations. 29

GENERAL PROGRAM STATEMENT

This item supports the Office of Employee Relations (OER) which administers the "meet and confer" process prescribed by the George Brown Act. This act requires the state to "meet and confer with representatives of employee organizations upon request and to consider as fully as possible as such representatives deem reasonable" presentations made by the employee representatives before adopting a policy or determining a course of action affecting employees. It also gives employee organizations the right to represent their members in employee relations matters, including grievances.

OER was established by an executive order in 1973 in the Agriculture and Services Agency and transferred to the Governor's Office in 1975. Its responsibilities include (1) representing the Governor in meeting and conferring with employee groups, (2) establishing policies and procedures for conducting an employee relations program in the state under the meet and confer process, (3) providing leadership and guidance to state agencies in employee relations, (4) establishing a communications link between the Governor and the various state agencies on employee relations matters, (5) identifying managerial and supervisory staff and

OFFICE OF EMPLOYEE RELATIONS—Continued

training them in employee relations, (6) analyzing and advising the Governor on legislation affecting employee benefits, (7) developing contingency plans for utilization in the event of work stoppages, and (8) establishing procedures for handling employee grievances which are not under the jurisdiction of the State Personnel Board. These types of grievances, which have always been under the jurisdiction of the appointing power, include such things as discretionary salary rates, leaves of absence, working conditions and other employee relations matters. Under an Executive Order (R-25-71) formulated by the previous administration, the agency secretaries have final authority to settle such grievances on an appeal basis.

Other types of grievances may be appealed to the State Personnel Board. Examples of these appealable matters are position classification, layoff procedures, denial of sick leave or merit salary adjustment, appraisal of job performance and job transfer. Employee organizations usually represent employees in such proceedings.

ANALYSIS AND RECOMMENDATIONS

The Office of Employee Relations (OER) requests \$231,200, which is an increase of 7.0 percent over estimated expenditures of \$216,081 for the current year. The increase consists largely of merit salary adjustments and related staff benefits. The budget also reflects current-year salary savings of approximately \$14,000. No such savings are anticipated in the budget year.

Conflicts of Interest Affect Management Staff

We recommend that the Office of Employee Relations, in cooperation with the State Personnel Board, eliminate conflicts of interest among state managers in the meet and confer and grievance processes by precluding such persons from belonging to the same employee organizations which represent nonsupervisory employees.

We further recommend that the office report on its corrective actions to the Joint Legislative Budget Committee no later than November 1, 1977.

Under the "meet and confer" provisions of state law, relations between state managers and employee organizations are becoming more formal because the latter, increasingly, are adopting negotiation techniques used by the more traditional, industrial types of unions. Some of these unions are gaining membership among state workers.

Because of this competition for membership, the more traditional state employee organizations are providing training programs for their employees in trade union bargaining and grievance representation techniques. Several state agencies have added specially trained personnel in an effort to match the representation expertise of such organizations. The number of such state agencies has increased from three in 1973 to at least six at the current time. These include the Departments of Water Resources, Transportation, Health, Forestry, Employment Development and the California Highway Patrol. Together, these agencies currently employ a total of 19 professional employee relations specialists. In addi-

tion, the State University and Colleges System employs one specialist and the University of California has approximately 30 such specialists in its central office and on the various campuses and laboratories.

In view of the growing intensity and formalization of the employee relations process, we believe the OER has failed to provide sufficient leadership in identifying managerial personnel and precluding them from representing employee groups in meet and confer sessions. This identification should also be extended to employees who assist or act in a confidential capacity to managers who are closely involved in employee relations functions. There are numerous examples throughout state service of managers holding positions of responsibility in employee organizations and representing employee groups in "meet and confer" sessions.

Ironically, OER has sponsored training programs for state managers in employee relations without first taking formal steps to identify them and ascertain whether conflicts of interest exist because of their membership in employee organizations. OER has only recently begun to identify such personnel. It should eliminate all such potential conflicts of interest by requiring managers to discontinue their membership in employee organizations which represent rank and file employees.

Allow Management Staff to Retain Benefits

We recommend that the Office of Employee Relations, in cooperation with the State Personnel Board, develop an alternative group benefits program for managerial personnel to replace the benefits, such as life insurance, which they would lose from discontinuing membership in employee organizations and report to the Joint Legislative Budget Committee by November 1, 1977.

Many managerial employees maintain membership in employee organizations primarily because of the availability, at favorable rates, of benefits such as group life insurance which are incidental to such membership. We believe that OER, in conjunction with the State Personnel Board, should develop a similar program for managerial personnel who would otherwise lose such benefits upon terminating membership in employee organizations. Such a program could be developed in the same manner that the Public Employees' Retirement System solicits proposals for Meyers-Geddes health benefits plans and represents the interest of state employees in negotiating periodic revisions in benefit schedules and premium costs.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 34 from the General Fund

Budget p. 27

Requested 1977-78	\$1,020,634
Estimated 1976-77	625,030
Actual 1975-76	465,551
Requested increase \$395,604 (63.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|---|----|
| 1. Environmental Goals and Policy Report. Recommend OPR give priority to expediting adoption and implementation of policies updating the Environmental Goals and Policy Report. | 32 |
| 2. State Funding of Prime State Responsibilities. Recommend OPR prepare its 1978-79 budget to provide that General Fund moneys go for support of prime state responsibilities. | 35 |

GENERAL PROGRAM STATEMENT

The Office of Planning and Research (OPR) is responsible for developing recommendations to the Governor on statewide policies relating to land use, development, environmental protection, and planning. OPR is also responsible for reviewing and coordinating a variety of state and local agency activities in terms of consistency with these state policies. Related responsibilities include (1) serving as research staff to the Governor on a wide range of subjects, (2) administering federal financial assistance programs directed toward improving local planning, (3) acting as a clearinghouse for environmental impact reports and grant applications, (4) assisting in improving California Environmental Quality Act procedures, and (5) coordinating state permit granting processes.

ANALYSIS AND RECOMMENDATIONS

When preparing the 1975-76 budget, the new administration determined to reexamine the role, purpose and programs of the Office of Planning and Research, to explore new orientations that the office could assume, and to define activities which would assist the Governor in formulating planning policies as well as to improve implementation of OPRs statutory planning responsibilities. The review was made by OPR staff, the Department of Finance, federal Department of Housing and Urban Development (HUD), Assembly Ways and Means Committee, Senate Finance Committee, and this office. The resulting budget was submitted to the Legislature and approved.

The 1976-77 proposed budget continued that reorientation. Our analysis last year initially deferred recommendation because much of the information necessary to evaluate the budget adequately was not available. Many of OPRs new programs had been underway only a few months and addi-

tional time was needed before future budget requirements could be clarified and justified. Approval was eventually recommended and accepted by the Legislature.

Draft "Urban Development Strategy" Completed

Since early 1975 progress has been made in a number of OPRs programs. Of particular importance is the submission to the Governor of a draft of the "Urban Development Strategy," which is a partial update of the Environmental Goals and Policy Report. This draft, although limited in scope, addresses three significant problem areas—urban sprawl, the deterioration of central cities, and the competition for tax base among local jurisdictions. When approved or revised by the Governor, it will be the basis for OPR to prepare an implementation program that would propose actions to achieve its policies. Such actions are likely to include draft legislation and revised regulations on such issues as tax sharing, housing subsidies, public facilities location, and industrial siting.

It is important, however, to put this progress in perspective. First, according to budget figures, the following amounts have been spent or budgeted on the "Urban Development Strategy":

1974-75	\$105,870
1975-76	283,421
1976-77 (Est.)	<u>264,712</u>
Total	\$654,003

Last year's budget stated that the "Urban Development Strategy" would be presented to the Governor in the spring of 1976 and that the 1976-77 planning efforts would be directed towards preparing a Rural Development Strategy. Not until December 1976, was a *draft* of the "Urban Development Strategy" presented to the Governor and major work on the "Rural Development Strategy" has yet to get underway. Thus, the work has been more costly and time consuming than originally contemplated.

Second, the "Urban Development Strategy" is only a draft. It may be significantly revised following review by the Legislature and the public before it is adopted by the Governor (adoption is now projected for late spring 1977). Third, the full measure of the usefulness of this work will come with the development of programs to implement the policy recommendations. Finally, the "Urban Development Strategy" is only the first in a projected series of major policy development reports to expand and update the Environmental Goals and Policy Report. OPR intends to develop a "Rural Development Strategy" next and then an "Economic Development Strategy." It should be noted that the Legislature has directed that the Environmental Goals and Policy Report also address a wide range of issues related to the conservation of natural resources (see Chapter 1534, Statutes of 1970).

Need for Approved Development Policies

The formulation and implementation of state development policies is central to OPRs other missions. These include review and coordination of a variety of planning and regulatory activities of other state agencies and local government. A principal purpose of OPRs review and coordination

OFFICE OF PLANNING AND RESEARCH—Continued

is to ensure that state and local government development actions are consistent with adopted state policies.

OPR is moving ahead in a procedural manner with its review and coordination efforts. For example, a formal procedure has been established according to which the major plans of state agencies must be reviewed and evaluated by OPR and other affected agencies. In addition, OPR for the first time this year assisted the Department of Finance in reviewing the budgets of selected state agencies and in setting priorities. However, until state policies are formally adopted, the effectiveness of these mechanisms will be limited and the full impact of major policy decisions will not be achieved.

Priority for Environmental Goals and Policy Report

We recommend that OPR (1) give priority attention to the Urban Development Strategy and related strategy reports, and (2) clearly focus its efforts on (a) expediting adopting policies in this area, (b) developing programs for implementing those policies, and (c) moving ahead with work on other components of the Environmental Goals and Policy Report.

OPR is becoming involved in a widening range of activities. Examples include:

1. A study of the promotion of family farm development within the Westlands Water District.
2. Streamlining the permit procedures of state agencies, including leadership in the consolidated hearing on the Dow petrochemical facility as proposed for the Collinsville area.
3. A study of the impact of oil drilling on the outer continental shelf.
4. Continuing review of the California Environmental Quality Act.
5. Establishing the Office of Appropriate Technology (OAT) administratively within OPR.

This rapid proliferation of activities indicates a tendency to spread resources too thinly. OPR is struggling to achieve solid accomplishments in many areas but it has yet to achieve its goals in any major effort.

It can readily be argued that a large number of studies or coordinative roles fit into OPR's broad mandate. However, as OPR enters into new and complex activities, it may dilute its attention to responsibilities which are more central to its mission.

An example of diluted attention is that the entire amount to be spent during fiscal year 1977-78 on the Environmental Goals and Policy Report is only \$286,930 for 9.4 personnel-years. Of this amount only \$122,346 is allocated for developing the implementation program for the "Urban Development Strategy." The remaining work on this strategy may be both difficult and costly. By OPR's own account the implementation of the strategy will involve working with appropriate state and federal agencies on changes in administrative guidelines and regulations, drafting legislation, and preparing detailed background papers to provide additional explanation and justification on selected actions recommended in the strategy. Greater emphasis on priorities is needed.

Dependence on Federal Funds

Part of the proliferation of OPRs activities results from its funding structure which historically has been dominated by federal grants. Federal grants frequently become available in some subject areas and not others. The fund arrangements often require that they be used in part for specified activities and that the state contribute matching funds, usually on a two federal, one state basis. Thus, part of OPRs proliferation of activities and problems of focus relate to its dependence on federal funds.

The federal funds are not entirely reliable sources of support. The shifting pattern of federal funding, as well as its importance in supporting OPRs programs, can be seen in Table 1, which compares OPRs federal funds with General Fund money from fiscal year 1972-73 to 1977-78 (federal funds passed through to local governments and "reimbursements" such as Title II funds under the Public Works Employment Act of 1976 are excluded).

The table also shows that both the amount and the relative proportion of federal funding to state funding has varied significantly over the years. For example, the estimated decrease in federal funding between the current year and the budget year is \$615,001, or 38.5 percent. Approximately \$360,000 of this decrease will be in HUD 701 funds of which approximately \$350,000 will be replaced with state General Fund money and Title II money from the Federal Public Works Employment Act of 1976. The remainder of the decrease represents a reduction of about \$255,000 in various federal funds passed through to other state agencies.

Table 1
Comparison of Expenditure of Federal Funds
With General Fund Money

<i>Funding Source</i>	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
General Fund.....	\$88,115	\$504,000	\$462,068	\$465,551	\$625,030	\$1,020,634
Direct federal grants	101,115	725,622	1,070,601	1,264,119	1,598,001	983,000
General Fund as a percent of federal money	87.2%	69.5%	43.2%	36.8%	39.1%	103.8%

The General Fund budget request for OPR increases by \$395,604 or 63.3 percent next year. This increase provides for a variety of expenditures and may be summarized as follows:

1. New responsibilities mandated by legislation passed last session:

- a. To develop a uniform classification system for social services information in Chapter 646, Statutes of 1976, (AB 3507), to identify key social indicators to be used in preparing social profiles in Chapter 1382, Statutes of 1976, (AB 3508), and to determine the feasibility of establishing a common format for reporting social services information (ACR 169); 2 additional analyst positions \$55,470
- b. To manage new OPR responsibilities related to the Coastal Zone Act of 1976—Chapter 1330, Statutes of 1976, (SB 1277, Section 30415), and the Santa Monica

OFFICE OF PLANNING AND RESEARCH—Continued

Mountain Planning Commission; 2 additional positions	44,134
2. To offset approximately one-half the anticipated decreases in federal funding (HUD 701)	175,000
3. To adjust Department of Finance estimates of the 1977-78 baseline budget	60,209
4. To respond to a request from the Governor for work on the Westlands project, and to assist in coordinating state research activities and in legislative analysis; 2 additional positions	44,727
5. To handle the increase in workload resulting from the administration of several new grants and the increase in the number of OPR employees; 1 additional clerical position	13,064
Total	\$395,604

Public Works Employment Act of 1976 (PWEA)

The Public Works Employment Act of 1976 (see Item 257, Employment Development Department, for full discussion of PWEA) also is providing additional federal funding for OPR. These funds are not being used for any clear priorities or expenditure patterns. Title II money totals \$305,667 for the current year and \$311,750 for the budget year. It will be expended as follows:

1. For increased clearinghouse workload resulting from Title I applications (the average weekly volume of federal grant documents has increased from 147 to 450 documents).
Current year \$35,000..... Budget year \$0
2. For development of a statewide industrial site planning program and continuation of the Outer Continental Shelf (OCS) project. The OCS project continuation is to provide further technical assistance to local government in responding to proposals to site oil facilities along the southern California coast. (OPR indicates that funding for the OCS project from a federal grant to the Coastal Commission terminated on December 31, 1976. OPR states that an additional \$300,000 will be available for the project on October 1, 1977 from the Coastal Commission although the Coastal Commission budget does not show this reimbursement to OPR).
Current year \$100,000..... Budget year \$52,000
3. For continued support for the Office of Appropriate Technology (OAT) to develop plans and programs for conservation of natural resources. (Total funding for OAT from all sources for the current year is \$370,417 and for the budget year is \$260,333.)
Current year \$170,667..... Budget year \$85,333
4. For a continued level of funding of OPRs support activities to make up for one-half of the anticipated decrease in HUD 701 funding in the budget year (the other one-half is to be made up by the General Fund increase discussed above).

Budget year \$174,417

State Needs to Fund Prime State Responsibilities

We recommend that, in preparing the 1978-79 budget, OPR be directed that the funding provided by state General Fund go for support of those activities which are prime state responsibilities.

It is apparent from the above discussion on General Fund and Title II increases that there is no clear state policy or basis for judging how much of the work done by OPR should be funded by federal or General Fund money. The precarious nature of OPRs funding may have an adverse impact on the continuity of its program and the stability of its operation. Even more importantly the state needs to determine which among OPRs activities ranging from (1) the "Urban Development Strategy" Report, to (2) the improved administration of the California Environmental Quality Act, to (3) industrial siting policies, are of sufficient priority to warrant legislative appropriation of state money for their exclusive support.

**Governor's Office
OFFICE OF EMERGENCY SERVICES**

Item 35 from the General Fund	Budget p. 33
<hr/>	
Requested 1977-78	\$2,369,819
Estimated 1976-77	2,460,844
Actual 1975-76	1,913,566
Requested decrease \$91,025 (3.7 percent)	
Total recommended reduction	None
<hr/>	

GENERAL PROGRAM STATEMENT

The Office of Emergency Services coordinates emergency activities necessary to save lives and reduce property losses arising from natural or other disasters in the state. Its mission is carried out under two programs, administration and emergency mutual aid services. The latter has four elements.

1. *Provision and Coordination of Mutual Aid.* This program encourages and coordinates mutual aid agreements between and among various state and local agencies having fire, rescue, law enforcement and communication capabilities and equipment. It also distributes federal surplus equipment and federal and state disaster aid funding. The latter function results from Chapter 290, Statutes of 1974 (The Natural Disaster Assistance Act), which created the Natural Disaster Assistance Fund, abolished certain other funds and made the Director of the Office of Emergency Services responsible for administration of the program.

2. *Development and Utilization of Emergency Communications Systems.* This program maintains a statewide disaster warning system on a 24-hour basis with major control exercised at the Sacramento headquarters. It assists in the development of local communication networks to permit interties between and among state and local fire and law enforcement agencies as well as local civil defense agencies.

3. *Development and Implementation of Emergency Plans.* This pro-

OFFICE OF EMERGENCY SERVICES—Continued

gram maintains a statewide emergency plan and assists other agencies and local jurisdictions in the development and periodic updating of compatible local plans. It also administers the Dam Safety Program established by Chapter 780, Statutes of 1972, which directed the owners of certain dams throughout the state to file maps of the downstream areas showing various levels of possible inundation in the event of a total dam failure at both high-pool and low-pool conditions behind the dam.

4. *Management and Maintenance of State Resources.* The state owns a substantial inventory of fire pumper trucks and equipment; rescue trucks and equipment; communications trucks or vans and portable equipment; and medical, radiation detection, and training equipment, most of which is deployed to local governmental jurisdictions and other state agencies.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Office of Emergency Services (OES) proposes a General Fund expenditure of \$2,369,819. This is \$91,025 or 3.7 percent below estimated current-year expenditures. Federal funds and reimbursements produce a total expenditure program of \$22,360,945. Funding sources, dollar and personnel-year expenditures by program are presented in Table 1.

Table 1
Office of Emergency Services
Budget Summary

	Estimated 1976-77	Proposed 1977-78	Change from Current Year	
			Amount	Percent
<i>Funding</i>				
General Fund	\$2,460,844	\$2,369,819	\$-91,025	-3.7%
Federal funds (support)	1,176,406	943,373	-233,033	-19.8
Federal funds (local assistance)	16,173,089	19,004,354	2,831,265	17.5
Reimbursements	200,856	43,399	-157,457	-78.4
Total	\$20,011,195	\$22,360,945	\$2,349,750	11.7%
<i>Program</i>				
Administration	(\$573,395)	(\$629,180)	(\$55,785)	9.7%
Personnel-years	25.2	24.7	-0.5	—
Provision and Coordination of Mutual Aid				
Personnel-years	\$16,970,432	\$19,849,196	\$2,878,764	17.0
	23.9	23.2	-0.7	—
Development and Utilization of Emer- gency Communications Systems	\$1,216,005	\$1,142,841	-\$73,164	-6.0
Personnel-years	15.8	15.0	-0.8	—
Development and Implementation of Emergency Plans	\$1,139,615	\$937,037	-\$202,578	-17.8
Personnel-years	36.6	28.7	-7.9	—

Management and Maintenance of State				
Mutual Aid Resources	\$685,143	\$431,871	-\$253,272	-37.0
Personnel-years	12.7	9.2	-3.5	—
Total	\$20,011,195	\$22,360,945	\$2,349,750	11.7%
Personnel-years	114.2	100.8	-13.4	—

Table 1 shows that \$19,004,354 in federal disaster assistance will be distributed to local government agencies, although the amount of such aid cannot be determined precisely because the cost of damages caused by natural disasters cannot be forecast. Approximately \$64.4 million in such aid was distributed in 1975-76 and an estimated \$16.2 million will be allocated in the current year. The reimbursements reflect a grant from the Law Enforcement Assistance Administration (LEAA), matched with state funds from the Office of Criminal Justice Planning (OCJP) to conduct a statewide mutual aid training program. The overall decline in reimbursements reflects the expiration of two OCJP grant programs in the current year.

The decline in General Fund support results primarily from the one-time expenditure in the current year of \$192,000 for three replacement fire pumper trucks. Federal funds decline because of the implementation of new, more stringent standards for funding state emergency service programs by the federal government. In past years it financed almost 50 percent of the total costs of such programs, but now it will pay only 50 percent of the costs of the positions which support a "national mission" involving nuclear civil protection and 25 percent of the cost of positions which spend one-half or more of their time in support of a "national" as opposed to a "state" mission involving protection against natural disasters. Positions used exclusively for the state mission receive no federal support.

Higher Costs for New Communications System

OES is requesting \$101,058 to cover higher user charges imposed by the Department of General Services as OES's share of the cost of maintaining the statewide microwave communications system which was completed in 1975-76. The Governor's Budget shows that \$101,058 also was allocated to OES in the current year for the same purpose. The system provides a communications link with 54 counties and selected state agencies (Department of Transportation, the California Highway Patrol and the Department of Water Resources) for purposes of control and information in disaster situations.

New Positions

OES expects to utilize 13.4 fewer *total* personnel-years in the budget year largely because of the decline in federally funded projects. However, as shown in Table 2, 11.5 new positions will be established in the budget year.

OFFICE OF EMERGENCY SERVICES—Continued

Table 2
Office of Emergency Services
New Positions

Function	Number of New Positions	Salary Costs	Percent General Fund	Percent Federal Funds
Provision and Coordination of Mutual Aid				
a. Fire and rescue.....	1	\$20,928	100%	-
b. Financial assistance	1	9,648	50	50%
c. Law enforcement mutual aid contract.....	2	35,564	-	100 ^a
Development and Implementation of Emergency Plans				
a. Medical emergency planning	2 ^b	41,856	75	25
b. Earthquake and dam safety	1 ^b	22,992	50	50
c. Nuclear civil protection contract	1.2 ^c	18,819	-	100
d. Radiological instrument maintenance contract	3.3 ^c	42,455	-	100
Totals	11.5	\$192,262		

^a Office of Criminal Justice Planning funds are shown as reimbursements in the Governor's Budget.

^b Limited-term positions extended one year to June 30, 1978.

^c Funded until September 30, 1977, when the contract with the federal government expires.

A senior account clerk is proposed to handle additional workload in processing claims for federal assistance administered by OES but provided under the federal Civil Defense Preparedness Agency program. The remaining 10.5 new positions were established in the current year and are proposed for continuation. They include a fire coordinator to provide liaison with FIRESCOPE, a federal research and development program designed to improve management of resources in combating large, multi-agency wildland fires, primarily in southern California. Also included are two positions to continue the mutual aid training contract with OCJP funds and three positions to continue the development of medical emergency plans and earthquake and dam safety plans. The latter three positions will terminate June 30, 1978.

The remaining 4.5 positions, also shown in Table 2, are proposed to continue work on the Nuclear Civil Protection and Radiological Instrument Maintenance contracts. These positions are deleted each year when the federal contract terminates and are reestablished administratively when the contract is renewed. The current contract terminates September 30, 1977, but is expected to be renewed after that date.

Emergency Plan Study in Progress

Last year the Legislature adopted our recommendation directing the Department of Finance to conduct a comprehensive study of certain state emergency plans and report to the Joint Legislative Budget Committee by November 1, 1976. Unforeseen circumstances have required the department to seek and receive an extension for completing the report to February 1, 1977. Accordingly, the report should be available for legislative review during the budget hearings.

LIEUTENANT GOVERNOR'S OFFICE

Item 36 from the General Fund

Budget p. 38

Requested 1977-78	\$651,871
Estimated 1976-77	599,211
Actual 1975-76	511,343
Requested increase \$52,660 (8.8 percent)	
Total recommended reduction	\$21,401

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. **Federal Reimbursements.** Recommend federal reimbursements be sought for expenses of activities which may be charged to or are at the request of the federal government. 40
2. **Highway Patrol Reimbursement. Reduce \$11,401.** Recommend patrol reimbursement be reduced based on current experience. 40
3. **Contract Personnel. Reduce \$10,000.** Recommend proposed augmentation be deleted because it duplicates other potential funding sources. 41

GENERAL PROGRAM STATEMENT

The Lieutenant Governor is elected pursuant to the California Constitution to serve concurrently with the Governor. He assumes the responsibilities of chief executive in the absence of the Governor and serves as presiding officer of the Senate, voting only in the case of a tie. The Lieutenant Governor serves on numerous commissions and boards and also may be assigned special tasks by the Governor.

In addition to the Lieutenant Governor, the office currently is authorized 21 staff and clerical positions.

ANALYSIS AND RECOMMENDATIONS

The budget request of \$651,871 is \$52,660 and 8.8 percent above the current level of estimated expenditures. Increases arise from (1) two new clerical positions, (2) consultant and professional services and (3) out-of-state travel. Our analysis is limited to those areas of increase where we have concerns. Because some of the increases directly relate to a new activity, we begin with a discussion of the Border States Commission.

Border States Commission

Information originally provided our office reported that during 1976-77, "at the direction of Governor Brown, the Lieutenant Governor focused his attention and energies to the creation of a Border States Commission. Consisting of the states of California, New Mexico, Arizona, and Texas, this commission will direct itself to those mutual problems inherent to the four states by virtue of their common borders with Mexico. Aside from the obvious benefits to be gained from possible solutions to these problems, California stands to gain a substantial economic boost in the form of

LIEUTENANT GOVERNOR'S OFFICE—Continued

federal revenue.”

We subsequently received a news release which indicated that the Governors of the four states will serve as commissioners although California's Governor has named the Lieutenant Governor as our official representative.

This new commission is one of eight that will share in a \$350 million fund established by Congress for a broad range of regional economic development projects over the next four years. Two-thirds of the funds are earmarked for the 11-state Appalachian Commission leaving about \$125 million to be divided among the other seven commissions.

Regional development project proposals may focus on such areas as transportation, health care and health delivery systems, vocational education, energy development and arts and cultural development. The federal funds would not cover the total costs of development projects but would serve as “seed money.” Federal funding will cover initial planning efforts thereafter providing 50 percent of the project money on a matching basis.

Federal Reimbursement

We recommend that federal reimbursements be sought when the Lieutenant Governor or his staff undertake activities which may be charged to or are at the request of the federal government.

Current year expenses of the Lieutenant Governor arising from his travel and activity related to the Border States Commission provide an example where we believe partial reimbursement for General Fund costs should be sought. Information we received on the commission indicates federal funding would cover initial planning efforts. However, federal reimbursement has not been requested for the Lieutenant Governor's expenses on behalf of the commission.

In addition, we believe some of these expenses could have been charged to federal funds which have been made available to the Office of the Lieutenant Governor during the current year but are not shown in the Governor's Budget. That is, a grant award of \$78,959 (\$56,200 in federal funds and \$22,759 in state matching services) was received from the U.S. Department of Commerce for a border area development study in September 1976. We believe some of the activities of the Lieutenant Governor on behalf of the Border States Commission parallel and could qualify for federal reimbursement within the scope of this federal grant. However, as of January 21, 1977, no reimbursement of General Fund expenditures had been made from these federal funds.

Highway Patrol Reimbursement

We recommend funds budgeted for California Highway Patrol reimbursement be reduced by \$11,401 based on current experience.

The budget request contains a major increase in consultant and professional services as shown. The contract personnel element will be discussed later.

Consultant and Professional Services

	Actual 1973-76	Budgeted 1976-77	Revised 1976-77	Proposed 1977-78	Change Over Budgeted	
					Amount	Percent
Contract personnel	\$9,506	0	\$4,595	\$10,000	\$10,000	100.0%
California Highway Patrol reim- bursement	0	\$29,082	47,393	50,237	21,155	72.7
Total	\$9,506	\$29,082	\$51,988	\$60,237	\$31,155	107.1%

The increase (from \$0 to \$29,082) in the amount originally budgeted for 1976-77 for California Highway Patrol (CHP) reimbursement arose from a request by the Governor to charge this budget with the cost of an officer assigned to drive and protect the Lieutenant Governor. However, invoices from the CHP for the first two months (July, August 1976) reflected an average monthly cost of \$3,949.42 or \$47,393 on an annual basis. An additional 6 percent cost increase was added to develop the \$50,237 level shown as the 1977-78 budget request.

All of the increase above the budgeted level for the current year relates to overtime pay and expenses for assigned CHP officers during the two-month billing period. Specifically, during July and August the billing includes 161 hours of overtime (50 percent more hours than a normal full-time work schedule for one officer) and \$1,600 in expenses. We believe this two-month experience base is inadequate substantiation for requesting such a major increase.

Based on our analysis of invoices for *six months* (July through December), we found costs, including overtime and expenses, averaged \$3,053.12 monthly. This appears to be a more reasonable experience base. Therefore, we recomputed a 1977-78 budget request for CHP reimbursement on this base and added a 6 percent increased cost allowance for a total of \$38,836. A savings of \$11,401 results when our estimate is compared with the budget request (\$50,237 - \$38,836 = \$11,401).

Research and Student Intern Increase

We recommend that a proposed augmentation for research personnel and student interns be deleted, based on potential alternative funding sources, for a General Fund savings of \$10,000.

The contract personnel element of the consultant and professional services budget category is used to employ research personnel and student interns. No funds were budgeted for this purpose in 1976-77 although we are informed that \$4,595 will be expended under this element. Therefore, the budget request reflects a \$10,000 increase above the 1976-77 budget and a \$5,404 increase over estimated expenditures for 1976-77.

We question this proposed enrichment because of (1) budgeted temporary help of \$2,196; (2) a history of past, unbudgeted salary savings which may be used for such purposes and (3) the potential for funding research personnel and students with federal funds which we are informed will be available.

Out-of-State Travel Increase

The Lieutenant Governor's Budget contains a major increase in out-of-state travel.

LIEUTENANT GOVERNOR'S OFFICE—Continued

Out-of-State Travel

<i>Actual</i> 1975-76	<i>Budgeted</i> 1976-77	<i>Revised</i> 1976-77	<i>Proposed</i> 1977-78	<i>Change Over</i> <i>Budgeted</i>	
				<i>Amount</i>	<i>Percent</i>
\$1,107	\$7,459	\$9,453	\$10,907	\$3,448	46.2%

Based on the travel accomplished in the first six months of this year plus anticipated travel for the remaining six months, out-of-state travel expense is now estimated at \$9,453 for 1976-77 which is approximately \$2,000 and 27 percent more than originally budgeted. It should be noted also that the Lieutenant Governor has performed additional out-of-state travel to a number of Asian nations (funded by the travel budget of the Commission for Economic Development) and to Mexico (funded by the travel budget of the Commission of the Californias).

COMMISSION OF THE CALIFORNIAS

Item 37 from the General Fund

Budget p. 39

Requested 1977-78	\$73,664
Estimated 1976-77	71,536
Actual 1975-76	65,073
Requested increase \$2,128 (3.0 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Budget Detail. Withhold recommendation pending receipt of substantiating detail. 42

GENERAL PROGRAM STATEMENT

The Commission of the Californias was established in 1964 to promote favorable economic and cultural relations with the States of Baja California and Baja California Sur of the Republic of Mexico. Chapter 965, Statutes of 1975, (1) expanded this mission to include educational relations, (2) increased the size of the commission to 18 members by adding the Lieutenant Governor to the seven public members and 10 legislative members and (3) authorized the commission to accept grants from private foundations or individuals in support of its duties and functions.

The commission has an authorized staff of two, the executive director and a stenographer.

ANALYSIS AND RECOMMENDATIONS

Budget Detail

We withhold recommendation on this budget pending receipt of substantiating detail.

Section 6120 of the State Administrative Manual requires all agencies to prepare specified budget expenditure substantiation. When requested, this information was not available from the commission.

Although the increase proposed by the Governor's Budget is relatively

minor, we understand there may be a current year deficit in travel expenditures which is not reflected in the published schedules. As a result, we have requested a schedule be completed on out-of-state travel in addition to other substantiating budget detail. Based on our review of this requested information, we will prepare an analysis and recommendations prior to the scheduled budget hearings.

DEPARTMENT OF JUSTICE

Items 38-40 and 42 from the General Fund, and Item 41 from the Motor Vehicle Account, State Transportation Fund

Budget p. 41

Requested 1977-78	\$65,020,068
Estimated 1976-77	59,389,702
Actual 1975-76	53,160,516
Requested increase \$5,630,366 (9.5 percent)	
Total recommended reduction	\$422,674

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
38	Department Support	General Fund	\$55,286,849
39	Fingerprint Fees	Fingerprint Fees, General Fund	1,862,487
40	Antitrust	Attorney General's Antitrust Account, General Fund	1,396,330
41	Department Support	Motor Vehicle Account, State Transportation Fund	6,402,402
42	Legislative Mandate	General Fund	72,000
			<u>\$65,020,068</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Services to Victims of Violent Crimes Program. Reduce reimbursements (Item 38) by \$100,688. Recommend deletion of funding for six new positions in Item 367. 51
2. Parent Locator Service. Withhold recommendation on 16 proposed positions pending cost benefit information. 52
3. *Division of Law Enforcement. Reduce Item 38 by \$108,388.* Recommend reduction of five positions in the Executive Office of the Division of Law Enforcement to avoid duplication with the Division of Administration. 52
4. *Division of Law Enforcement Rent. Reduce Item 38 by \$314,286.* Recommend deletion of increase in rental expense. 53
5. Comprehensive Data System Conversion. Withhold recommendation pending more data on the need for criminal 53

DEPARTMENT OF JUSTICE—Continued

- statistics program.
- | | |
|--|----|
| 6. Telecommunications System (CLETS) | 55 |
| a. Cost Accounting. Recommend Department of Justice provide annual accounting of the state's cost to maintain the CLETS system. | 55 |
| b. Motor Vehicle Fund Appropriation. Recommend Departments of Justice and Finance provide fiscal committees with justification for maintaining Motor Vehicle Account appropriation at the current level for support of the CLETS system. | 55 |
| c. Cost Effectiveness. Recommend Department of Justice, in cooperation with local law enforcement agencies, develop procedures to assess cost-effectiveness of computer services provided to local agencies through the CLETS system and report to the Joint Legislative Budget Committee by December 1, 1977. | 56 |

GENERAL PROGRAM STATEMENT

The Department of Justice, under the direction of the Attorney General who is the chief law enforcement officer in the state, provides legal and law enforcement services to state and local agencies. Departmental functions are carried out through three programs: Administration, Legal Services, and Law Enforcement, each of which is divided into several elements.

Administration Program

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

Legal Services Program

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

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

Criminal Law Division. This division (1) represents the state in all criminal appeals from felony convictions and in connection with writs in criminal proceedings before state and federal courts, (2) assists the Governor's office in extradition matters, (3) serves as prosecutor in criminal

trials when a district attorney is disqualified or otherwise unable to handle the proceedings, and (4) assists local jurisdictions in enforcing child support through maintenance of the Parent Locator Service, a unit which collects data on parents who have deserted or abandoned their children.

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

Law Enforcement Program

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

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

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

Investigative Services. The Investigative Services Branch, maintains a system of laboratories for providing analyses of criminal evidence, blood-alcohol samples and controlled substances and interprets the significance of scientific findings to law enforcement agencies and the courts.

Identification and Information. The Identification and Information Branch (1) collects crime data from state and local agencies which administer criminal justice, (2) compiles, analyzes and prepares statistical reports on crime and delinquency and the operations of criminal justice agencies in California, (3) processes fingerprints and makes tentative identification through fingerprint comparisons in criminal cases, (4) proc-

DEPARTMENT OF JUSTICE—Continued

esses noncriminal fingerprints for law enforcement, licensing and regulatory agencies (the cost of which is totally reimbursed by fees), (5) maintains a central records system (now being automated) consisting of approximately 5.5 million individual record folders and 8.5 million fingerprints, (6) assists law enforcement officers in locating stolen property and missing or wanted persons, and (7) processes applications for permits to carry concealable weapons.

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

Consolidated Data Center. The Consolidated Data Center is one of four such centers established by Chapter 787, Statutes of 1972. The primary objective of this center is to provide centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement agencies. The center's automated communications systems in Sacramento and Los Angeles enable the linking of over 550 California criminal justice agencies to computerized files in Sacramento, Los Angeles, Washington, D.C. and other states.

ANALYSIS AND RECOMMENDATIONS

The department proposes state appropriations totaling \$65,020,068, an increase of \$5,630,366 or 9.5 percent over the current year. This increase is largely attributable to the conversion from federal to 100 percent General Fund support of (1) crime laboratory facilities at Modesto and Santa Rosa, (2) the comprehensive data system in the Bureau of Criminal Statistics, and (3) related administrative support staff in the Division of Administration. Table 1, which details the department's proposed funding and expenditures, reflects a total expenditure program of \$78,961,430, including reimbursements and federal funds. Legislative mandate funds are appropriated for the first time to pay the costs incurred by cities and counties for destroying or obliterating records of courts and public agencies concerning arrests and convictions for possession of marijuana. (Section 2231(a) of the Revenue and Taxation Code requires the state to reimburse the cost of any new local program mandated by legislation enacted after January 1, 1973.) In addition, an appropriation to the Department of Justice for services provided under the Political Reform Act is shown as a separate item for the first time. This previously was shown as a reimbursement.

The decrease in reimbursements primarily reflects a reduction in federal grant support and a change in the method by which Office of Criminal Justice Planning (OCJP) funds are identified. In previous years, OCJP grants were reported as reimbursements in the Governor's Budget because they also contained the state's cash match. In the budget year, only the state's cash match is shown as a reimbursement, while the federal money is reflected as a federal expenditure. The Department of Justice's grants, their dollar amounts, state match, and number of proposed posi-

tions are shown in Table 2.

Table 1
Department of Justice
Budget Summary

	Estimated ^a 1976-77	Proposed ^a 1977-78	Change from Current Year	
			Amount	Percent
Funding				
General Fund	\$49,732,171	\$55,286,849	\$5,554,678	11.2%
Fingerprint Fees (General Fund)	2,557,371	1,862,478	-694,894	-27.2
Attorney General's Antitrust Account (General Fund)	1,363,238	1,396,330	33,092	2.4
Motor Vehicle Account (State Transportation Fund)	5,700,922	6,402,402	701,480	12.3
Legislative Mandate (General Fund)	36,000	72,000	36,000	100.0
Total State Funding	\$59,389,702	\$65,020,068	\$5,630,366	9.5%
Reimbursements	14,922,516	11,851,592	-3,070,924	-20.6
Federal Funds ^b	3,283,515	1,918,183	-1,365,332	-41.6
Political Reform Act ^c	-	171,587	171,587	-
Total Expenditures	\$77,595,733	\$78,961,430	\$1,365,697	1.8%
Programs				
Administration				
Distributed	(\$8,514,067)	(\$8,827,072)	(\$413,005)	4.9%
Undistributed	\$4,237,689	\$4,835,704	\$598,015	14.1
Personnel-years	168.4	184.6	16.2	9.6
Legal Services				
Civil Law	\$11,200,723	\$12,005,888	\$805,165	7.2
Personnel-years	346.9	355.6	8.7	2.5
Criminal Law	\$9,565,095	\$9,638,343	\$73,248	0.8
Personnel-years	327.9	322.6	-5.3	-1.6
Special Operations	\$6,838,375	\$7,416,207	\$577,832	8.4
Personnel-years	216	218.4	2.4	1.1
Law Enforcement				
Executive	(\$3,241,920)	(\$2,597,053)	(\$-644,867)	-19.9
Personnel-years	(38.7)	(37.1)	(-1.6)	-4.1
Enforcement and Investigation	\$8,511,008	\$8,648,434	\$137,426	1.6
Personnel-years	267	262.9	-4.1	-1.5
Investigative Services	\$3,834,104	\$4,513,940	\$679,836	17.7
Personnel-years	143.8	157.9	14.1	9.8
Identification and Information	\$14,506,444	\$16,321,938	\$1,815,494	12.5
Personnel-years	937.8	997.9	60.1	6.4
Organized Crime and				
Criminal Intelligence	\$2,335,941	\$2,466,725	\$130,784	5.6
Personnel-years	96.7	94.6	-2.1	-2.2
Crime Prevention and Control	\$405,676	\$426,151	\$20,475	5.0
Personnel-years	13.9	14	0.1	0.7
Consolidated Data Center	\$9,495,026	\$10,259,487	\$764,461	8.1
Personnel-years	232.6	233.9	1.3	0.6
Grant Projects	\$6,629,652	\$2,042,427	\$-4,587,225	-69.2
Personnel-years	332	100.5	-231.5	-69.7
Facilities	-	\$314,186	\$314,186	-
Legislative Mandate ^d	\$36,000	\$72,000	\$36,000	100.0
Program Totals	\$77,595,733	\$78,961,430	\$1,365,597	1.8%
Personnel-years	3,083	2,942.9	-140.1	-4.5%

^aAmounts in parentheses are distributed among other items and are so shown to avoid double counting.

^bState matching funds totaling \$124,244 are included as reimbursements.

^cReflected as a separate item for the first time in the proposed budget.

^dFunds to pay the costs incurred by cities and counties for legislatively mandated record destruction of possession of marijuana files.

DEPARTMENT OF JUSTICE—Continued

Table 2

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

Grant Description	1977-78		
	Amount	State Match	Positions
<i>Funded by LEAA</i>			
Western Regional Training Institute	\$481,964	\$63,299 ^a	13
Urban Terrorist Training Project	124,978	14,000 ^a	3
Interstate Organized Crime Index	193,041	No Match Required	8.5
Subtotal	\$799,983	\$77,299	24.5
<i>Funded by OCJP</i>			
Criminal Record Purge	\$1,000,000	\$111,111 ^b	71
Automated Latent Print System	118,200	13,333 ^b	5
Subtotal	\$1,118,200	\$124,444	76
Grand Total	\$1,918,183	\$201,743	100.5

^a Peace Officers' Standards and Training Fund.^b General Fund.**New Positions**

The department proposes a total of 311.8 new positions, 154.22 of which are financed by the General Fund, 39.1 by reimbursements, 17.98 by special funds, and 100.5 by federal grants. The new positions are offset by workload and administrative reductions of 359.9 positions, resulting in a net reduction of 48.1. Most of the deleted positions are assigned to federally supported projects which terminate at the end of the current year. Under a procedure developed in 1975-76, these grant positions are established under a single authorization or "payroll blanket" rather than on an individual basis as practiced previously. This procedure requires the reestablishment of the "blanket" each year. Thus, the budget shows a reduction of 332 current-year grant positions and the establishment of 100.5 for the budget year, for a net reduction of 231.5. The remaining 27.9 deleted positions include eight attorneys and six support positions reflecting decreased workload in the Uninsured Employers' Fund (which has serious budgetary problems—see analysis of Item 122), the Occupational Safety and Health Act program, and the Departments of Corrections and the Youth Authority, both of which are requesting additional in-house legal staff in the budget year. The department's proposed new positions and funding are shown in Table 3.

Table 3
Department of Justice
Proposed New Positions

<i>Program and Purpose</i>	<i>Number of Professional and Technical Positions</i>	<i>Number of Clerical Positions</i>	<i>Personal Services Costs</i>	<i>Source of Funding</i>
Administration				
Grants—Indirect Conversion	13	8	\$235,452	General Fund
New Line Program Support	3	1	40,836	General Fund
Division of Civil Law				
Health licensing, Medi-Cal recovery and general workload	15.5	12.3	468,394	General Fund and reimbursements
Victims of Violent Crimes Program ^a	5	1		Reimbursements
Division of Criminal Law				
Writs and appeals workload	1	0.8	30,653	General Fund
Parent Locator Service	3	13	155,784	General Fund and reimbursements
Division of Special Operations				
General workload	3.5	2	99,113	General Fund and reimbursements
State lands workload	4	4	130,787	General Fund and reimbursements
Consumer protection temporary help	—	—	41,796	Reimbursements
Investigative Services Branch				
Crime laboratories grant conversion ^b	17	5	404,580 ^c	General Fund and Motor Vehicle Account
Tort investigation	4	1	104,205 ^c	Tort reimbursements
Identification and Information Branch				
Comprehensive data system grant conversion	35.5	9.2	705,036	General Fund
Bureau of Identification				
Workload	28	14	379,771	General Fund
Failure to Provide	—	1.5	12,420	General Fund
Consolidated Data Center				
General Workload	6	—	78,864	General Fund and Motor Vehicle Account
Total Proposed New Positions	—	211.3	\$2,958,071	
Total Grant Positions (See Table 2)	—	100.5	1,158,966	
Subtotal	—	311.8	\$4,117,037	
Workload and Administrative Adjustments	—	-359.9	-4,146,007	
Net Reduction in Positions	—	-48.1	\$-28,970	

^a Proposed to be funded from savings resulting from the reclassification of five special agent II to claims specialists.

^b Represents the final phase of crime lab conversion from federal to state funding.

^c Includes overtime.

DEPARTMENT OF JUSTICE—Continued**Reconciliation of Proposed New Positions and Personnel-Years**

While the department proposes 311.8 new positions, actual personnel-year utilization decreases by 140.1 as reflected in Table 4. This difference is explained by the significant decrease in grant personnel and higher salary savings in the budget year.

Table 4
Reconciliation of Proposed
New Positions with Personnel-Years^a

Total authorized positions (1976-77)	3,197.3
Minus current-year grant "payroll blanket"	-332.0
Other workload and administrative adjustments	-27.9
Proposed new positions	311.8
Minus salary savings	-206.3
Total proposed 1977-78 personnel-years	2,942.9
Minus budgeted 1976-77 personnel-years	-3,083.0
<i>Net reduction in personnel years</i>	-140.1

^a The net reduction of 48.1 positions identified in Table 3 reflects the reduction in payroll blanket and administrative adjustments totaling 359.9 offset by 311.8 new positions.

ADMINISTRATION**Position Upgrades Pose Funding Problem**

Since the beginning of the current fiscal year, the Department of Justice has processed 156 position upgrades resulting in additional salary costs of \$267,964. During the course of preparing its 1977-78 budget request, the department submitted six budget change proposals totaling \$214,177 to cover higher salary costs resulting from prior-year, current-year and anticipated budget-year position upgrades. All of these funding requests were denied by the Department of Finance. The department hopes to fund these reclassified positions with anticipated salary savings, but it is questionable whether sufficient salary savings will be available to cover these costs. A departmental decision on this matter is pending.

Many of the current-year upgrades were in clerical, identification specialist, and analyst classifications; for example, the reclassification of a clerk typist II to a steno, a staff services analyst to an associate government program analyst, and a criminal identification specialist I to a criminal identification specialist III. Upgrades also included the reclassification of a staff services manager III to a career executive assignment I and an administrator III to a bureau chief. As noted in our analysis of the State Personnel Board's budget, in the current fiscal year the Personnel Board delegated further its responsibility to approve position upgrades to line agencies, subject only to Department of Finance review. Reclassification proposals generally have been routinely approved by the Department of Finance upon the agencies' representation that the higher salary costs could be funded from existing resources. While we lack full information on position upgrades, there is some indication that various state agencies have used the reclassification process, on a selective basis, to nullify the Governor's flat \$70 salary increase policy of last year.

LEGAL SERVICES**Victims of Violent Crimes Program**

We recommend deletion of six new positions (one claims supervisor, four claims specialists and one clerk typist) for the Victims of Violent Crimes program and a corresponding reduction of \$100,688 in reimbursements.

The Victims of Violent Crimes program, which is administered by the Board of Control, provides compensation to needy residents of California (1) who are victims of crimes of violence or are financially dependent upon a victim, or (2) who sustain damages or injury as a result of acts benefiting the public. Under the provisions of Chapter 1144, Statutes of 1973, (effective July 1, 1974) total recovery for claims by needy residents may not exceed \$23,500, including a maximum of (a) \$10,000 for lost wages, (b) \$10,000 for medical expenses, (c) \$3,000 for rehabilitation, and (d) \$500 for attorney fees.

Before claims are considered by the Board of Control, they are first investigated by the Attorney General to determine their validity. The Attorney General also provides all necessary legal services for the program. The department is requesting six new positions on the basis of increased workload projections. Following our recommendation of last year, the department is converting five special agents to claims specialists during the current year for a net savings of \$153,724 (claims specialists have lower salaries and benefits, no overtime and significantly less travel and equipment requirements compared to special agents.) The department proposes to fund the six proposed new positions from these net savings.

The administration advises that legislation will be proposed in 1977 to consolidate the total funding for the administration of this program under the Board of Control. This proposal is consistent with a recommendation we made last year in a supplemental analysis on the victims of violent crimes program. A similar conclusion was reached in a report prepared by the Department of Finance. The Board of Control estimates that adoption of the proposed legislation should provide overall savings of \$186,565 in personnel and operating expenses in the budget year. Additional benefits to be realized by consolidation are (1) simplification of the administrative process, (2) reduction in the average time required to process a claim, and (3) minimization of duplication.

In view of the consolidation proposal and its attendant personnel and operating savings, it is inappropriate, in our judgment, to increase the department's staff. Staffing needs should be determined by the agency responsible for the program in the budget year. We therefore recommend the deletion of one public liability claims supervisor, four claims specialists, and one clerk typist for a reduction of \$100,688 in Department of Justice reimbursements. These funds are appropriated under Item 367 (Indemnification of Private Citizens) and reimbursed to the department for Attorney General expenses.

DEPARTMENT OF JUSTICE—Continued**California Parent Locator**

We withhold recommendation on 16 new positions proposed for the California Parent Locator Service, pending receipt of cost-benefit information.

The purpose of the California Parent Locator Service is to provide information on the location of absent parents to law enforcement officers to enable them to enforce the parents' obligation to support their children. This program is mandated by federal statute and the state is reimbursed by the federal government for 75 percent of its costs. The penalty for failing to provide this service is a 5 percent reduction in federal Aid to Families with Dependent Children (AFDC) reimbursements to the state. At the request of local district attorneys, the service searches motor vehicle and drivers' license registrations, social security, state income tax and unemployment records for an up-to-date address of the absent parent. The Department of Benefit Payments, as the department designated with overall program responsibility, reimburses the costs incurred by the Department of Justice for the parent locator service.

The Department of Justice is requesting \$226,979 for 16 new positions to handle (1) additional requests for location of absent parents from district attorneys, (2) the increased complexity of the district attorney statistical report which must be submitted each month summarizing case and collection activity in connection with child support enforcement, and (3) liaison activities with the State Department of Benefit Payments, the federal Department of Health, Education and Welfare, and various other child support enforcement agencies.

We have several concerns regarding the proposed augmentation which should be resolved before making a recommendation. First, there should be clarification of why the Department of Benefit Payments is budgeting a \$305,329 augmentation (all funds) when the Department of Justice is requesting an augmentation of \$226,979 (all funds). Secondly, data should be presented to demonstrate the cost-benefit relationship between locating the address of an absent parent and obtaining support payments from that parent. The cost of increasing this location service should be more than offset by increased collections. Finally, information should be provided to explain why the existing 17 positions assigned to this program cannot process the incoming workload and avoid the large backlog now accumulating. The address locating process basically involves an automated search of the computerized files of various state departments. Based on our preliminary review, it is not clear why this function cannot be handled more expeditiously.

LAW ENFORCEMENT**Executive Office Positions Reestablished**

We recommend reduction of five positions (administrator III, two associate government program analysts, senior clerk typist, and stenographer I) in the Executive Office of the Division of Law Enforcement for a General Fund savings of \$108,388 (Item 38), to avoid duplication with

the departmental Division of Administration.

The Executive Office of the Division of Law Enforcement plans, organizes, directs and coordinates the activities of the division. In our 1975-76 Analysis we recommended the deletion of four positions (administrator III, associate data processing systems analyst, associate crime studies analyst, and senior stenographer) on the basis of duplication of effort with the departmental Division of Administration. The Legislature concurred, and these four positions were abolished, along with the transfer of an administrator I to the Division of Administration per our analysis discussion. However, in the intervening period, comparable staff positions have been reassigned, on an administrative basis, to perform budgeting, manpower planning, program evaluation and employer/employee relations functions for the division. This duplicates the functions of the departmental Division of Administration, and we recommend that these positions be eliminated (two from administrative assistance, and three from program support) for a savings of \$108,388, including staff benefits and operating expenses.

Rental Expense

We recommend deletion of \$314,186 (Item 38) proposed for the Division of Law Enforcement for increase in rental expense.

The department is requesting \$314,186 in the budget year for increased rental costs. This amount reflects the difference in rent to be charged if the Department of General Services purchases the Division of Law Enforcement facility at 33rd and C Streets in Sacramento compared to the lease cost paid to the present owner. Inasmuch as purchase negotiations between the Department of General Services and the property owner have failed, we recommend that this amount be deleted.

Comprehensive Data System Conversion Needs More Review

We withhold recommendation on the Comprehensive Data System conversion pending more data on the need for and use of the Bureau of Criminal Statistics program.

In 1974 the Bureau of Criminal Statistics (BCS) began developing the comprehensive data system (CDS) with the financial assistance and guidance of the Law Enforcement Assistance Administration (LEAA). The bureau compiles, analyzes, interprets and reports statistical facts on crime and delinquency and the processes of criminal justice in California. The BCS collects data from city, county and state agencies which administer criminal justice, including courts, prosecutors, correctional and law enforcement agencies. The comprehensive data system program consists of the following four basic components.

1. *Offender-Based Transaction Statistics (OBTS)*—OBTS systematically collects, analyzes and reports uniform data on activities of offenders who are arrested. OBCA (Offender-Based Correctional Activity) is an extension of OBTS and is responsible for tracking felony offenders from the point of judicial disposition to exit from state and local correctional treatment programs.

2. *Uniform Crime Reports (UCR)*—UCR compiles crime data from all law enforcement agencies for statewide analysis and submits monthly

DEPARTMENT OF JUSTICE—Continued

crime data reports to the national UCR program on their behalf.

3. *Statistical Analysis Center (SAC)*—SAC reports crime and delinquency statistics that describe how criminal justice agencies carry out their duties. In addition, this component edits, reviews and finalizes all output reports for the comprehensive data center.

4. *Technical Assistance (T/A)*—T/A provides the technology needed at the state and local level to implement and use CDS data.

Proposed Conversion

The department is proposing to convert 100 percent of the comprehensive data system program funding to General Fund support in the budget year. The state expended \$247,472 in fiscal year 1975-76 and will provide funding in the amount of \$239,465 in the current year in support of the system. In the budget year, the department requests funding for 44.7 positions at a total cost of \$1,066,758 to convert all components of the system to state support. Of these positions, 17.7 are assigned to OBTS, four to OBCA, 14 to UCR, three to SAC and six to special studies/special projects.

In our judgment, the 345.5 percent increase in General Fund support (from \$239,465 in 1976-77 to \$1,066,758 in the budget year) requires careful consideration. An additional issue to be investigated is whether the state should be obligated to assume programs previously funded by federal monies when this financial support is terminated.

Specifically, we have the following concerns:

- Is there duplication within the components of CDS?
- Have the stated results of CDS been realized, i.e., more efficient management, better legislation, and more cost-effective methods for dealing with crime?
- Is there duplication of coding effort between the Bureau of Identification (BID) and the Bureau of Criminal Statistics?
- How do the data processing needs of the comprehensive data system impact on the department's computer center and its capacity requirements?
- How is CDS data used, and by whom, once it is collected and disseminated?
- Has the Bureau of Criminal Statistics output changed during the last five years in terms of types of data collected and available?
- Is the hierarchical reporting system of arrest data the most appropriate method for gathering criminal data?

Pending receipt of data required to answer the fundamental questions raised above, we withhold recommendation on this item.

Marijuana Impact Legislation

The Supplementary Report of the Conference Committee on the Budget Act of 1976 directed the Department of Health and the Department of Justice to report to the Legislature by December 1, 1976, on the effects of the enactment of Chapter 248, Statutes of 1975. This law provides for revised penalties and recordkeeping requirements for possession of marijuana. Our office was requested at that time to include a review of this

report in our 1977-78 Analysis. The report, however, was not received in time to include in this analysis. We plan to issue a supplemental analysis with our comments for consideration at the budget hearings.

TELECOMMUNICATIONS SYSTEM/COMPUTER UPGRADE

In accordance with Chapter 1595, Statutes of 1965, the Department of Justice maintains the California Law Enforcement Telecommunications System (CLETS). This system consists of a computer-based data communications network which provides local law enforcement agencies direct electronic access to specific Department of Justice and Department of Motor Vehicles information files. These files include data on criminal history, wanted persons, stolen vehicles, vehicle registration and driver licenses. In addition to providing access to these files, CLETS also provides direct access to federal data bases through the National Crime Information Center, and to those of other states through the National Law Enforcement Telecommunications System. Currently, the five computers in the department's Law Enforcement Consolidated Data Center meet departmental administrative data processing requirements as well as CLETS requirements.

Cost of CLETS

We recommend that the Department of Justice provide an annual accounting of the state's cost to maintain the California Law Enforcement Telecommunications System.

Chapter 1595 requires that CLETS be maintained at all times with equipment and facilities adequate to meet the needs of law enforcement. The cost to provide this capability is borne by the state. Local agencies pay only the cost to connect to CLETS.

Although the state's cost to support CLETS amounts to several million dollars annually, the department does not account separately for CLETS. The department is now in the process of replacing its entire complement of computers due in large measure to the increasing CLETS workload. Because this replacement will be accomplished at a substantial cost (conversion cost alone is estimated at \$2.6 million to \$4.1 million) and future replacements due to CLETS workload can be anticipated, we believe that the annual cost of CLETS to the state should be specifically identified in the Governor's Budget or in the supporting documentation.

Motor Vehicle Account Funding of CLETS

We recommend that prior to the budget hearings, the Departments of Justice and Finance provide the fiscal committees with justification for continued allocation of Motor Vehicle Account funds at the current level to the Department of Justice for support of the California Law Enforcement Telecommunications System.

State funding of CLETS historically has been shared between the General Fund and the Motor Vehicle Account in the State Transportation Fund. The amount of Motor Vehicle Account support has been based on a 100 percent reimbursement to the Department of Justice for the cost of processing message traffic on the CLETS network which is attributable to accesses to Department of Motor Vehicle files or the stolen vehicle file.

DEPARTMENT OF JUSTICE—Continued

Table 5 displays the extent to which Motor Vehicle Account funds support the Law Enforcement Consolidated Data Center operation (CLETS is a part of this center).

Table 5
Law Enforcement Consolidated Data Center Fund Source

Fund	Fiscal Year		
	1975-76	1976-77	1977-78
Motor Vehicle Account, State Transportation Fund	\$4,121,948	\$4,898,183	\$5,215,780
General Fund	4,092,240	4,597,023	5,043,707
Total	\$8,214,188	\$9,495,206	\$10,259,487

The original basis for partial support of CLETS from the Motor Vehicle Account appears to have centered around an assumption that all message traffic to the DMV files was directly related to traffic offenses, driver identification or other related law enforcement activities such as information on stolen vehicles. (Stolen vehicle information was maintained by the California Highway Patrol when CLETS was first established. This file now resides in the department's system.)

We believe that one of the factors contributing to the rapid growth in CLETS workload (see discussion under next recommendation below) can be attributed to local law enforcement agencies using the data contained in DMV files for general law enforcement purposes, such as identification of possible offenders or verification of address. This observation is based on a limited review of the larger local law enforcement agencies in an attempt to determine how such agencies use CLETS and why the workload has increased so substantially.

The department does not account for CLETS inquiries to distinguish between general law enforcement and vehicle related inquiries and indicates that the level of Motor Vehicle Fund support is simply based on a traditional arrangement. In our judgment, this situation should not continue. The state is now faced with expending substantial new funds to meet an increasing CLETS workload and the status of the Motor Vehicle Account is such that it will barely support the activities of DMV and CHP with no funds scheduled for transfer to the Highway Account during the budget year.

We recommend therefore that the Departments of Justice and Finance be prepared to discuss this issue during the budget hearings. Some support of CLETS from the Motor Vehicle Account is justified, but we question support at the proposed level.

Costs and Benefits of Computer Services

We recommend that the Department of Justice cooperate with local law enforcement agencies to develop procedures for assessing the cost-effectiveness of computer services provided to local agencies through the California Law Enforcement Telecommunications System and report its progress to the Joint Legislative Budget Committee by December 1, 1977.

The department is continuing a project in the budget year which will result in a replacement of its existing computer system. The impetus for

this effort has been the continued and substantial growth in inquiries to CLETS generated at the local law enforcement level. According to the recent feasibility study of the proposed computer replacement, the CLETS peak workload will grow from 313,000 messages per day in 1975-76 to 644,000 by 1978-79 and 1.6 million by 1984-85. This rapid growth in message volume can be attributed to increased automation and improved communications equipment at the local level, which in an increasing number of jurisdictions will include the use of terminals located in police patrol cars. An additional factor has been the establishment of new state data files, such as criminal history records, which can be accessed by computer.

The department has determined that even with modifications to its present computer system it will be unable to meet projected 1980-81 workload. Therefore, a replacement computer system must be installed during 1978-79 in order to allow sufficient time for system checkout and conversion of existing programs and processes.

The law establishing CLETS is open-ended in that the state is obligated to finance required computing and data communications capacity. Given the increasing nature of this cost, we believe there should be a means of assessing the cost-effectiveness of the state's continuing investment in CLETS.

The department should begin to work with local law enforcement agencies to develop measures which can be used to assist in the assessment of CLETS from the perspective of cost-effectiveness. The primary objective should be to develop evaluation procedures which would include presentation of detailed and objective data relating to the various uses of CLETS and the costs and benefits associated with each use. This type of information should be provided on an annual basis to support the budget proposal. It will be useful also in evaluating the justification for future computer upgrades or replacements.

Potential Facility Consolidation

In addition to the Department of Justice computer replacement effort, the Department of Motor Vehicles is planning to replace its current multi-computer equipment configuration. Because of the timing of these two procurements, and similarities in the nature of each department's data processing and communications requirements, we wrote in December 1976, to each department suggesting that the respective hardware replacement studies address the feasibility of a combined computing facility servicing both departments. In response to this request, the State Data Processing Management Office in the Department of Finance has assured us that the feasibility of a combined facility will be evaluated. Such an evaluation is warranted because a combined facility could offer both cost and operational benefits.

STATE CONTROLLER

Items 43-46 from the various
funds

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Requested 1977-78	\$24,438,931
Estimated 1976-77	21,682,792
Actual 1975-76	16,549,570
Requested increase \$2,756,139 (12.7 percent)	
Total recommended reduction	\$364,094

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
43	State Controller	General	\$22,812,929
44	State Controller	Motor Vehicle Fuel Account, Transportation Tax	1,355,185
45	State Controller	State School Building Aid	185,787
46	State Controller	Aeronautics Account, State Transportation	85,030
			\$24,438,931

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Disbursements and Payroll. Withhold recommendation pending receipt of further information on increased costs. 60
2. *Maximum Tax Rates Audit. Reduce Item 43 by \$50,332.* Recommend deletion of two auditor positions. 63
3. *County Cost Plans. Reduce Item 43 by \$34,728.* Recommend deletion of two analyst positions. 63
4. *PIMS System Development. Reduce Item 43 by \$279,034.* Recommend deletion of nine positions in the employee history subsystem. 64

GENERAL PROGRAM STATEMENT

The State Controller is the elective fiscal officer of the state. As such he is the chief accounting and disbursing officer, and serves on several fiscally oriented boards and commissions including the State Board of Equalization, Franchise Tax Board, State Lands Commission, Pooled Money Investment Board, Board of Control and various bond finance committees.

The State Controller's office administers five major programs (see Table 1) through seven operating divisions and the PIMS project (Personnel Information Management System). The Controller's office is funded primarily from the General Fund with the remainder from three special funds and reimbursements from other agencies.

ANALYSIS AND RECOMMENDATIONS

Major changes in the budget are related to (1) expected implementation by the fiscal control program of Phase I of a new payroll system, (2) continued growth in the PIMS project and (3) continued growth of the Unclaimed Property program.

Table 1
State Controller's Program Summary
(dollars in thousands) °

<i>Program</i>	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>
I. Fiscal control.....	\$7,942	\$13,670	\$16,067
II. Tax administration.....	3,917	4,227	4,473
III. Local government fiscal affairs	1,387	1,574	1,753
IV. Personnel Information Management System (PIMS)	3,955	1,674	2,001
V. Unclaimed property	801	1,540	2,032
VI. Legislative mandates	24,147	37,943	52,843
Less: Amounts shown in other budgets.....	-24,147	-37,943	-52,843
VII. Administration:			
Distributed to other programs.....	(686)	(708)	(666)
Undistributed	343	834	788
Total, programs.....	\$18,346	\$23,520	\$27,114
Reimbursements	-1,796	-1,837	-2,675
Net totals, programs.....	\$16,550	\$21,683	\$24,439
Personnel-years	791.9	913.2	974.5

° Numbers may not total due to rounding.

I. FISCAL CONTROL

The Fiscal Control program seeks to maintain an effective system of internal control over the state's financial transactions, and to report accurately the state's financial condition and operations. The program is car-

Table 2
Fiscal Control Program Summary
(dollars in thousands) °

<i>Program Elements</i>	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>	<i>Actual 1975-76</i>	<i>Estimated 1976-77</i>	<i>Proposed 1977-78</i>
Accounting Division						
Control accounting	44.4	45.3	44.8	\$941	\$1,108	\$1,147
Financial analysis	12.2	13.1	13.1	330	405	426
Audits Division						
Claim audit	39.9	40.9	40.9	600	677	700
Field audit	67.3	76.4	76.4	1,653	2,033	2,140
Disbursements Division						
Disbursement services	48.2	105.0	111.0	2,223	3,726	3,953
Data processing services:						
Distributed to other programs ..	17.7	30.6	32.6	(479)	(678)	(754)
Undistributed	—	—	—	—	30	32
Personnel and Payroll Services Divi- sion						
Personnel services	—	132.2	132.6	—	4,251	4,662
Payroll services.....	129.2	97.8	118.7	2,195	1,441	3,009
Totals, fiscal control.....	358.9	541.3	570.1	\$7,942	\$13,670	\$16,067
Reimbursements.....	—	—	—	-1,534	-1,617	-1,744
Net total, Fiscal Control program				\$6,408	\$12,053	\$14,323

° Numbers may not total due to rounding.

STATE CONTROLLER—Continued

ried out through four divisions: Accounting, Audits, Disbursements, and the newly organized Personnel and Payroll Services. The new division consists of the payroll element from the Disbursements Division and the personnel services element from the PIMS project. Because they will be using a common data base, the two program elements were merged to form the new division. Table 2 summarizes by element the personnel and expenditures of the Fiscal Control program. The major increases are requested for the disbursements and payroll elements.

Audits and Accounting Divisions Request Minor General Fund Increases

The budget shows a net decrease of one-half of a position in the control accounting element, which eliminated one position due to an on-line EDP system and added a one-half position in temporary help. The financial analysis element requests a \$10,000, one year appropriation for the quadrennial actuarial valuation of the Judges Retirement Fund. The field audits element was expanded by nine new positions in the current year and continuation is requested in the budget year. These positions are financed through reimbursements, primarily from the Water Resources Control Board.

Disbursements and Payroll Show Substantial Increase

The state's bills are paid by the Controller through two program elements, disbursements and payroll. This year's budget shows a \$1.8 million increase in the cost of paying the state's bills including approximately \$1 million in new Teale Data Center costs. There are uncertainties concerning the remaining portions of this increase. Table 3 shows the expenditures and personnel needed to carry out this function for a five-year period through 1977-78. The costs of payroll and disbursements will have approximately doubled in this time.

Table 3
Growth in Personnel and Expenditures of The
Disbursements and Payroll Program Elements
(dollars in thousands) *

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Payroll</i>	<i>Dis- burse- ments</i>	<i>Total</i>	<i>Payroll</i>	<i>Dis- burse- ments</i>	<i>Total</i>
Actual						
1973-74	135.1	39.1	174.2	\$1,672	\$1,855	\$3,527
Actual						
1974-75	128.7	42.0	170.7	1,978	1,681	3,659
Actual						
1975-76	129.2	48.2	177.4	2,195	2,223	4,418
Authorized						
1976-77	97.8	105.0	202.8	1,441	3,726	5,167
Proposed						
1977-78	118.7	111.0	229.7	3,009	3,953	6,962

* Numbers may not total due to rounding.

More Information Needed

We withhold recommendation on the disbursement services element and the payroll services element pending receipt of further information on increased costs.

One factor reflected in the budget is operating problems within the payroll element. This element receives attendance records from all state departments and prepares the documents necessary for issuance of the checks. The problems the payroll element is experiencing are resulting in excessive overtime and employee turnover. In 1975-76, 9.4 personnel-years of overtime were necessary to meet the payroll deadline. From January through August 1976, the payroll element experienced personnel turnover of 56 percent.

It is claimed that the payroll element has not received adequate resources over the years to meet an increasing workload. As a result, support and supervisory staff have gradually been drawn into "production" of payroll, at the expense of management and support responsibilities. The situation is serious, and the payroll element needs to be put on a stable operating basis.

New Payroll System on the Horizon

The budget reflects costs related to Phase I of the new payroll system, which is expected to be in operation by November 1977.

The new payroll system is needed primarily because the 20 year old computer used for the current system will no longer be serviced by the manufacturer after 1979.

Because the new payroll system is integrated with the operational employee history data base, a new division has been created which includes the personnel services element from the PIMS project (discussed on page 64) and the payroll element from the Disbursements Division. The budget reflects overhead and administrative costs associated with the new division.

Because of the substantial increase in expenditures for payroll and disbursements, we have requested additional information from the Controller's office. Our recommendation will be based on clarification of the following:

One-Time Workload. The budget increase is based in part on the need to deal with certain one-time workload items associated with the transition to the new payroll system. We have asked the Controller to identify these resources, and specify when they will no longer be needed.

Existing Operation No Longer Needed. Because the current computer program will be replaced, certain existing resources will no longer be needed. We have requested that the Controller identify such resources and specify when they will be phased out.

Continuing Operational Problems. The budget contains increased funding to resolve operational problems in the payroll services program. We have asked the Controller to identify these problems more specifically and indicate the magnitude of the effort in personnel-years necessary for their resolution.

STATE CONTROLLER—Continued

II. TAX ADMINISTRATION

The Tax Administration program is carried out through two operating divisions, the Inheritance and Gift Tax Division and the Tax Collection and Refund Division. Table 4 shows the program elements, personnel-years and expenditures for the Tax Administration program.

Table 4
Tax Administration Program Summary
(dollars in thousands) °

Program Elements	Personnel-Years			Expenditures		
	Actual 1975-76	Estimated 1976-77	Proposed 1977-78	Actual 1975-76	Estimated 1976-77	Proposed 1977-78
Inheritance and Gift Tax Division:						
a. Inheritance tax.....	128.3	136.8	135.9	\$2,710	\$2,920	\$3,042
b. Gift tax	18.8	19.3	21.3	422	439	495
Tax Collection and Refund Division:						
c. Tax collection.....	2.4	2.3	2.3	43	49	59
d. Gas tax refund.....	37.6	38.8	40.3	741	820	877
Totals, Tax Administration.....	187.1	197.2	199.8	\$3,917	\$4,227	\$4,473
Reimbursements.....				3	3	3
Net Totals, Tax Administration.....				\$3,914	\$4,224	\$4,470

° Numbers may not total due to rounding.

Minor Workload Increases Requested

The budget requests one new accounting technician position, and \$22,000 for equipment in the Los Angeles and Sacramento offices for the Inheritance Tax program.

The Gift Tax program requests one audit position in Los Angeles and an accounting technician in Sacramento. The accounting technician will allow more effective use of existing audit staff, and the auditor is requested because of increases in the specialized work of the Los Angeles office.

Inheritance Tax Referees to Serve Gift Tax Program

The budget requests an appropriation of \$15,000 for payments to state Inheritance Tax Referees (ITR) for appraising real property reported on gift tax returns. In previous years, this activity has been funded from general expenses. In order to expand this activity in the budget year, a specific appropriation is requested. For these appraisal services, the referees are paid one-tenth of one percent of the value of the property appraised plus mileage. This is the statutory fee paid to ITR for services under the Inheritance Tax program.

III. LOCAL GOVERNMENT FISCAL AFFAIRS

This program is responsible for (1) prescribing uniform accounting systems for counties and special districts, (2) reporting local government financial transactions, (3) reviewing and reporting the use of state gas tax funds, (4) prescribing procedures for and approving county cost allocation plans, and (5) prescribing procedures for tax collection and the sale of tax-delinquent property. Table 5 shows the program elements for the Division of Local Government Fiscal Affairs.

Table 5
Local Government Fiscal Affairs
 (dollars in thousands)°

Program Elements	Personnel-Years			Expenditures		
	Actual 1975-76	Estimated 1976-77	Proposed 1977-78	Actual 1975-76	Estimated 1976-77	Proposed 1977-78
a. Financial reporting, budgeting and accounting	23.1	24	25.7	\$590	\$729	\$805
b. Streets and roads	19.5	20.5	20.3	493	509	534
c. County cost plans	5.7	5.5	8.4	120	139	223
d. Tax-deeded land	10.3	8.7	8.5	185	197	190
Totals, Local Government Fiscal Affairs	58.6	58.7	62.9	\$1,387	\$1,574	\$1,753
Reimbursements				-226	-217	-220
Net totals, Local Government Fiscal Affairs				\$1,162	\$1,357	\$1,533

° Numbers may not total due to rounding.

Monitoring Maximum Tax Rates

We recommend deletion of two auditors for a reduction of \$50,332 (Item 43) from the financial reporting element.

Currently the Controller has a three-man audit staff which does desk auditing and limited field auditing of tax rates established by local government agencies. The State Controller's office (SCO) is requesting an additional two auditors for field audits based upon its interpretation of Chapter 486, Statutes of 1975. The statutory changes resulting from Chapter 486 are interpreted by the Controller to mean that field audits should be done on a three-year cycle, i.e., each local agency should be audited at least once every three years. While the Controller accomplished a three-year audit cycle in 1974-75, a higher level of desk audits in 1975-76 substantially reduced the number of field audits.

Our review of Chapter 486 does not support an interpretation that the Controller's office must be field auditing local agencies. Section 2325.1 of the Revenue and Taxation Code requires the Controller to notify the local agency and to take other actions to correct any tax rate errors he identifies. Sections 2271 and 2308 authorize, but do not require, the audit of any changes in tax rates. Neither Chapter 486 nor other law regarding maximum tax rates requires the Controller to do field audits of local government. We believe that the Controller has adequate resources to meet the intent of existing law.

County Cost Plans Element Seeks Expansion

It is the responsibility of counties to prepare a plan for allocating administrative costs to various activities. If a county has an approved cost allocation plan, it can be reimbursed for overhead costs attributable to all federal and some state programs, the largest of which is welfare. Since 1971, the state has had the responsibility for prior review and approval of these plans. Currently, the SCO Audits Division is reviewing county cost plans as part of its audits of welfare administration costs under contract with the Department of Benefit Payments.

STATE CONTROLLER—Continued

The county cost plan unit currently consists of five personnel-years, composed of one supervisor, three accountants, and one stenographer. The accountants review and approve proposed cost allocation plans for 58 counties, but spend only limited time in the field. The SCO requests an additional three analyst positions. Two would be used for "field audits" and one would be used to develop a procedures manual to guide counties in preparing their cost plans.

We view the SCO county cost allocation plan unit as being responsible for telling counties how to prepare a plan, and what costs to include. Therefore, the development of a procedures manual for counties is appropriate and necessary. Availability of a manual should reduce the number of inappropriate claims and thereby reduce the need for and value of the auditors. We concur with the need for one limited term position for the preparation of the manual.

Increased Audit Activity Unnecessary

We recommend deletion of two analyst positions for a reduction of \$34,728 in Item 43.

The two remaining analyst positions are requested to conduct field audits of county cost plan applications. Based on audits of four counties conducted by its Audits Division, the SCO estimates that savings of \$350,000 will accrue to the state. The cost of the increased staff becomes part of the state overhead costs, 50 percent of which are reimbursed indirectly by the federal government.

We believe the post-expenditure review by the SCO Audits Division is a better means of protecting the state's interests than a field program in the county cost plan element. As noted above, the Audits Division is reviewing these county cost plans as part of a contract with the Department of Benefit Payments. In the past year, the plans of San Diego, Santa Clara, Stanislaus and Sacramento Counties have been audited. An audit of the Los Angeles County cost plan is in progress. The county cost plans are expected to be a part of the welfare audit program in the future. Thus, the errors made by counties in their cost allocation plans are being caught by the audit program. Because of this post-audit by the Audits Division, we believe a field program by the SCO county cost plans element is unnecessary.

IV. PERSONNEL INFORMATION MANAGEMENT SYSTEM (PIMS)

The PIMS (Personnel Information Management System) project is responsible for the design and development of a computer-based personnel and payroll information system. The PIMS project is a joint effort of the State Personnel Board, State Controller's office, Public Employees' Retirement System (PERS) and the California State University and Colleges (CSUC). Policy guidance and program direction are provided by the PIMS Steering Committee composed of representatives of the four participating agencies. The PIMS project will terminate upon completion of the development work. During the current year, the ongoing operational program element (personnel services) was transferred from the PIMS

project to a new division of the Controller's office, the Payroll and Personnel Services Division.

Table 6 shows the major program elements in the PIMS development effort.

Table 6
PIMS Project Budget Summary
(dollars in thousands) ^c

Program Elements	Personnel-Years			Expenditures		
	Actual 1975-76	Estimated 1976-77	Proposed 1977-78	Actual 1975-76	Estimated 1976-77	Proposed 1977-78
Personnel services ^a	90	—	—	\$2,257	—	—
System development ^b	53	—	—	1,698	—	—
a. Payroll subsystem	—	31.1	29.1	—	\$1,090	\$1,021
b. PERS support	—	9.1	11.1	—	298	311
c. Employment history subsystem	—	11.0	21.0	—	286	669
Totals, PIMS project	143	51.2	61.2	\$3,955	\$1,674	\$2,001
Reimbursements	—	—	—	—	—	690
Net totals, PIMS project	—	—	—	\$3,955	\$1,674	\$1,311

^a Transferred to new Personnel and Payroll Services Division.

^b Now shown in three components listed.

^c Numbers may not total due to rounding.

In the budget year, the costs of PIMS development are included in the budgets of the user agencies. However, the major portion of the PIMS budget is appropriated to the Controller's office because it is the major user (\$1,311,495; 66 percent). The remaining 34 percent is reimbursed by the State Personnel Board, PERS, CSUC and the Department of Finance.

For several years we have observed a trend for the subsystems of the PIMS project to cost more than expected, to be completed later than expected, and to promise savings which decrease as the operational date approaches.

Table 7 shows the expenditures for PIMS development for each year since its inception and the total to date. Thus, the project, which was estimated to cost \$4.4 million and take 3.5 years, will have cost \$7.4 million by the end of the budget year, and will still be incomplete. The above costs do not include operation of the partially completed personnel-payroll system which is proposed at \$7.6 million for the budget year. (This figure includes certain preexisting costs estimated at \$2.5 million.)

Table 7
Historical Expenditures for PIMS System Development

	Personnel Years	Expenditures (thousands)	
		Current Year	Total to Date
1973-74	35.4	\$999	\$999
1974-75	26.0	1,012	2,011
1975-76	53.0	1,698	3,709
1976-77 (authorized)	51.2	1,674	5,383
1977-78 (proposed)	61.2	2,001	7,384

STATE CONTROLLER—Continued**PIMS Has Produced Benefits**

The Personnel Information Management System has created a computer-based system which has allowed the state's personnel system to keep functioning. Departments get prompt notification that employees are on the roster, and newly hired people can expect to receive their first paychecks in a much shorter time. Information is available in a central place on an employee's state working history. The Public Employees' Retirement System can receive prompt notification of newly retired persons. Indeed, because the personnel processing problem has been alleviated, and because the payroll processing system has progressed substantially, the question of how much more system development is necessary should be raised.

Project Should Focus on High Priority Items

We recommend deletion of the nine personnel-years in the employee history subsystem for a reduction of \$279,034 in Item 43.

Based on our concerns with the total cost of PIMS development and its substantial operating costs, we believe the following criteria are appropriate for the evaluation of proposed projects:

(1) Development projects which are essential to the continued functioning of state government should receive the highest priority. To date, the PIMS activities have been substantially in this category.

(2) Projects which can be shown to result in immediate and measurable operating cost savings should receive the next priority. Because the suggested savings of past projects have become so elusive, it is important that proposals offer *realizable* savings.

(3) Additions to the system which can be shown to provide benefits whose value is estimated to exceed costs should receive third priority. Such benefits would include such things as "better information for management".

The employee history subsystem is essentially operational for most state agency employees and for CSUC employees. The budget proposes 20 personnel-years for the employees' history subsystem to (1) develop additional capabilities for producing reports primarily, for the State Personnel Board (SPB), (11 personnel-years), and (2) improve the audit capability and computer generated data elements (nine personnel-years).

The SPB reporting capability is needed because the existing computer will not be available after December 1977.

However, the proposed improvements in the audit capability and computer generated data elements are not essential to the employee history subsystem at this time. We are advised that such improvements will reduce the amount of data which must be entered into the system manually. However, no studies are available at this time which document the amount of such savings, where they will occur or when they will be realized. Because these improvements are not essential, and their benefits are not clearly identified, we recommend that they be postponed and the proposed nine personnel-years be deleted.

System Development Still High

This proposed reduction should be put in perspective. The system development effort will still be at a near record manpower level, 52.2 personnel-years. Last year, system development requested 36 personnel-years, which was raised to 51 personnel-years through internal adjustments.

The primary focus of the PIMS development program in the budget year will be Phase II of the payroll system. Because Phase II is not scheduled for completion until October 1979, we assume that the final costs and completion date of the payroll system are uncertain. Last year at this time, the payroll system was expected to be completed by January 1978. Completion of the payroll system should be PIMS' highest priority and we believe that any proposed improvements in the currently operating system should be postponed until the basic payroll-personnel system is completed.

V. UNCLAIMED PROPERTY

This program provides custody of property due to unknown or unlocated heirs or owners, and provides revenue to the General Fund from property which remains unclaimed. It is operated through the Unclaimed Property Division, for which Table 8 summarizes expenditures.

Table 8
Unclaimed Property Program Summary
(dollars in thousands) *

Program Elements	Personnel-Years			Expenditures		
	Actual 1975-76	Estimated 1976-77	Proposed 1977-78	Actual 1975-76	Estimated 1976-77	Proposed 1977-78
Abandoned property.....	24.6	44.8	52.6	\$713	\$1,463	\$1,951
Estates of deceased persons	4.7	4	3.9	88	77	81
Totals, unclaimed property.....	29.3	48.8	56.5	\$801	\$1,540	\$2,032

* Numbers may not total due to rounding.

The Unclaimed Property Division was created in February 1975, reflecting the high priority of the State Controller for enforcement of the Unclaimed Property Law. Under the Unclaimed Property Law, property which is legally due another and which has not been claimed by the legal owner within a statutory period must be delivered to the state. The state maintains an account for each owner of unclaimed property. The state may liquidate noncash items and credit the owner's account for the net proceeds. Any owner is entitled to a refund of his property, and in some cases the state must pay interest.

Unclaimed property is a broad category including savings accounts, checking accounts, stocks, bonds, dividends, insurance proceeds, credit balances on department store accounts, money orders, gift certificates, unpaid wages and unpaid vendor claims. The broad nature of this law makes the State of California a holder of some unique properties. For example, the state holds controlling interest in the *Chinese Times*, a Chinese language newspaper in San Francisco.

All cash collected and proceeds of property liquidations are deposited in the General Fund.

The budget growth for the abandoned property element over the last

STATE CONTROLLER—Continued

two years reflects two factors: (1) increased level of enforcement and (2) changes in the law. In expanding the program, the Controller has taken a conservative approach to allow (1) for limited capacity to train new personnel and (2) uncertainty as to workload. Based on experience during the last 18 months, the Controller has requested current-year adjustments and budget year increases because of (1) expected workload increase and (2) continued program expansion. The workload increase is based on the expected number of new accounts. The expansion reflects growth in the Field Audit program.

Law Change Creates Potential Increase in Accounts

Chapter 1214, Statutes of 1976, requires that savings deposits, savings accounts, or share accounts in savings and loan associations or credit unions be turned over to the state after seven years of inactivity instead of the former 15 years. As a result, the Controller estimates that new accounts will number approximately 94,000 in the budget year. This compares with approximately 25,000 new accounts established in 1975-76. The Controller has also increased his estimate of new accounts during the current year to 77,000, and has requested additional personnel and expenses necessary to handle it. For the new account workload in the budget year the Controller requests a total of \$561,323 for five new positions and related expenses, \$396,000 for advertising costs, and \$42,240 for data processing costs.

We note that the substantial growth in new accounts in this two-year period is essentially a one-time phenomenon related to the decrease in the holding periods from 15 years to seven years for several kinds of property. Thus, in the absence of new legislation, we would expect the number of new accounts to decrease substantially in future years, and with it, the budget resources necessary for the abandoned property element.

Program Expansion Continues

The low enforcement level in past years, the potential cost to property holders of compliance, and the recent changes in the law have resulted in widespread noncompliance with the Unclaimed Property Law. The SCO is using field auditors to promote a higher level of compliance. Due to the limited number of auditors, their efforts have been focused primarily on banks and other financial institutions within California. Because of the results of the audit program to date, and an increase in staff training capabilities, the Controller requests an additional 10 auditors, 1 attorney and 1 clerk in the budget year and additional out-of-state travel allowances. Four auditors have been requested as a mid-year adjustment in the current year, so there will be a net increase of six auditors in the budget year.

During the 1975-76 year, working level audit positions amounted to 6.1 personnel-years. The audit program resulted in additional revenues of \$1.4 million (\$225,000 per auditor). It also established an amount of \$11.8 million as being demandable (delinquent) or payable in the following year. Audits also disclosed an additional \$1.5 million to be reinstated on property holder books as escheatable property (i.e., a liability) rather than as income. The combined total of these two actions, therefore, was \$13.3 mil-

lion. However, the amount delinquent was significantly distorted by a \$9.4 million case involving the Bank of America. Thus, a more representative measure of field audit results is \$3.9 million.

The results of the field audit program through the first five months of the current year were \$4.4 million in demandable, reportable or reinstatable items. Because of the demonstrated productivity of the audit program we believe that the 10 auditors can be used effectively in the budget year.

It should be noted, however, that a number of factors could reduce the need for, and productivity of, the audit program in the future. To the extent that noncompliance is the result of ignorance of the law, the audit program should result in greater awareness. To the extent that noncompliance is the result of legitimate legal questions, the body of law generated by the resolution of pending litigation should result in less uncertainty. To the extent that noncompliance is the result of economic incentives to hold the property as long as possible, Chapter 49, Statutes of 1976, (AB 1872) should eliminate such incentives because it levies a 12 percent interest charge per year from the date such property should have been paid or delivered to the state.

VI. LEGISLATIVE MANDATES

The budget summarizes reimbursements to local governments for sales and property tax revenue losses due to new programs or increases in existing programs mandated by the state. For the budget year, these reimbursements will amount to \$52.8 million. This amount is not reflected in the Controller's budget totals because it is appropriated to the respective programs. Our comments on the individual programs are included in the analysis of the related items.

VII. ADMINISTRATION

The administration program provides executive direction, policy guidance, management and support services to the operating divisions. Table 9 shows the resources used in department administration.

Table 9
Administration Program Summary
(dollars in thousands)

Program Elements	Personnel-Years			Expenditures		
	Actual 1975-76	Estimated 1976-77	Proposed 1977-78	Actual 1975-76	Estimated 1976-77	Proposed 1977-78
a. Executive office	15.2	18	18	\$552	\$587	\$604
b. Administrative services	26.5	18	26	478	954	850
Totals, administrative	41.7	36	44	\$1,030	\$1,541	\$1,454
Totals, Amounts charged to other programs	-26.7	-20	-20	-686	-708	-666
Net totals, administration	15.0	16	24	\$343	\$834	\$788

The eight personnel-year increase in the administrative services element is composed of workload requirements (4 personnel-years) and new functions (4 personnel-years). Workload increases are requested for personnel, accounting and internal audit. The Controller's office is requesting a fiscal systems and analysis group to provide support to top management.

STATE CONTROLLER—Continued**Systems Analysis Unit Formed**

In recent years, the Controller's programs and operations have grown in size, cost and complexity. The effective and efficient operation of the Controller's programs requires that management have sufficient independent capability for analyzing both current and proposed activities. The Controller's office proposes to form a new systems analysis group staffed with 4 new positions to accomplish this purpose. We have reviewed the list of projects proposed for study by this group and believe that the potential benefits to be derived from this effort justify the additional positions.

STATE BOARD OF EQUALIZATION

Items 47-51 from various funds	Budget p. 75
Requested 1977-78	\$50,247,345
Estimated 1976-77	48,148,621
Actual 1975-76	42,320,335
Requested increase \$2,098,724 (4.4 percent)	
Total recommended reduction	\$396,959

1977-78 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
47	State Board of Equalization	General	\$46,819,683
48	State Board of Equalization	Energy Resources Conservation and Development Special Account, General Fund	34,774
49	State Board of Equalization	Motor Vehicle Fund Account, Transportation Tax Fund	2,443,941
50	State Board of Equalization	State Emergency Telephone Number Special Account, General Fund	44,781
51	State Board of Equalization	Timber Tax Fund	904,166
			<u>\$50,247,345</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | <i>Analysis page</i> |
|--|----------------------|
| 1. <i>Sales Tax Auditing.</i> Reduce Item 47 by \$361,796. Recommend deletion of 23 sales tax field auditors requested to expand audit coverage. | 75 |
| 2. <i>Return Processing.</i> Recommend board study the feasibility of instituting a computerized math verification program. | 79 |
| 3. <i>Property Tax Sampling and Trending.</i> Recommend board transfer property tax sampling and trending responsibilities | 80 |

4. *Property Tax Trending.* Reduce Item 47 by \$35,163. Recommend deletion of two research positions requested to redesign property value trending methods. 81
5. *Utility Valuation.* Recommend approval of 11 positions requested to establish a public utility audit program. 83
6. *Facilities Utilization.* Recommend study to eliminate wasted and poorly distributed office space in headquarter's building. 86

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

The main responsibility of the board in terms of General Fund expenditures is the administration of six major state and local taxes. Administration of these taxes includes registration of taxpayers, processing tax returns, auditing accounts, and collecting taxes receivable. This, and the board's various other responsibilities are summarized hereafter.

Administration of State and Local Taxes. The primary function of the board is to administer and collect the state's $4\frac{3}{4}$ percent sales and use tax, the local $1\frac{1}{4}$ percent sales and use tax, and a $\frac{1}{2}$ percent sales and use tax for the San Francisco Bay Area Rapid Transit District and the Santa Clara County Transit District. The board is either responsible or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax), and (5) the insurance tax. The board also administers the private car tax, which is imposed on privately owned railroad cars, and a surcharge on the consumption of electricity.

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

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

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

STATE BOARD OF EQUALIZATION—Continued

Taxation of Timber. Chapter 176, Statutes of 1976, requires the board to administer this new program which exempts from property taxation all standing timber and imposes a yield tax of 6 percent on all timber at the time of harvest.

ANALYSIS AND RECOMMENDATIONS

The responsibilities of the board are divided among 13 administrative programs. Table 1 provides a breakdown by program of authorized personnel-years and expenditures. As shown in this table, staff of the board numbers 2,514 personnel-years with requested staff additions increasing this number to 2,578 in the budget year. Total proposed expenditures from state funds amount to just over \$50 million in 1977-78, an increase of 4.4 percent over the current year.

Table 1
Board of Equalization
Authorized Personnel-Years and
Expenditures by Program

	Personnel-Years			Expenditures	Percent Change in Expenditures
	Estimated 1976-77	Requested 1977-78	Requested Change	Requested 1977-78 (000)	
1. Local property tax equalization ..	163.7	165.7	2.0	\$5,038	3.6%
2. State assessed property	89.1	99.1	10.0	2,530	12.8
3. Timber tax	27.0	35.5	8.5	904	68.3
4. Sales and use tax	2,047.9	2,089.5	41.6	47,867	5.0
5. Alcoholic beverage tax	32.0	32.0	—	684	3.5
6. Cigarette tax	15.6	15.6	—	1,149	2.5
7. Motor vehicle fuel license tax	14.7	14.7	—	365	2.8
8. Use fuel tax	95.2	95.2	—	2,079	2.8
9. Energy resources surcharge	1.9	1.9	—	35	2.8
10. Emergency telephone users sur- charge	—	2.5	2.5	45	—
11. Insurance tax	4.1	4.1	—	119	3.5
12. Appeals from other governmental programs	14.9	14.9	—	449	3.5
13. Administration (undistributed) ..	7.7	7.7	—	193	—
Totals	2,513.8	2,578.4	64.6	\$61,457	5.5%
Reimbursements				—11,210	10.7
Total From State Funds				\$50,247	4.4%

SALES AND USE TAX PROGRAM**Sales Tax Auditing**

We recommend approval of 15 sales tax field auditor positions to maintain the existing level of audit coverage.

The board has requested \$47.9 million to administer the sales tax program in 1977-78. Of this amount, \$23.2 million or 48 percent of total expenditures is proposed to be allocated for auditing accounts of business firms subject to the sales and use tax.

Fifteen field audit positions are requested for 1977-78 to maintain the same coverage of accounts authorized for 1976-77. Table 2 shows for the

Table 2
Sales Tax Audit Coverage
1973-74 Through 1975-76

<i>Type of Account^a</i>	<i>1973-74</i>			<i>1974-75</i>			<i>1975-76</i>		
	<i>Number of Accounts^b</i>	<i>Accounts Audited</i>	<i>Percent</i>	<i>Number of Accounts^b</i>	<i>Accounts Audited</i>	<i>Percent</i>	<i>Number of Accounts^b</i>	<i>Accounts Audited</i>	<i>Percent</i>
Most productive	4,200	4,000	87%	4,600	4,100	89%	4,800	4,400	92%
Moderately productive	29,000	9,600	30	31,000	9,200	24	33,000	9,600	29
Slightly productive.....	64,000	3,300	5	64,000	2,400	4	66,000	2,500	4
Total.....	97,200	16,900	17.4%	99,600	15,700	15.8%	103,800	16,500	15.9%

^a Productivity of accounts is determined by level of retail sales, type of business and the audit yield from prior year audits.

^b Three-year moving average of total number of in-state accounts eligible for audit.

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period 1973-74 through 1975-76, the actual number of accounts audited by level of audit productivity and the percentage of the total number of accounts audited.

Table 2 shows that almost all large firms doing business in California are audited and that 30 percent of the moderately productive accounts (e.g., grocery stores, auto dealers, auto repair shops, office equipment suppliers, and home furnishers with annual taxable sales below \$400,000) are audited every three years. Slightly productive accounts consist primarily of small and large firms which usually have a single line of goods, simple inventory procedures, and have few sales which involve the more complicated application of the sales tax law. These accounts are audited on the basis of prior audit productivity and information received at field offices.

The board's workload request is based upon an estimated 3.5 percent increase in the number of new accounts which will become eligible for audit in 1977-78. The additional staffing requirements (14 field auditors and one headquarters support position) were calculated using an average of 32 hours per audit which is the actual audit experience realized in the moderately productive accounts identified in Table 2. Table 3 summarizes the expected budget year workload and the number of audit positions required to maintain the 1976-77 level of account coverage.

Table 3
Sales Tax Program
Proposed 1977-78
Audit Coverage^a

	<i>Eligible Accounts^b</i>	<i>Percent Growth</i>	<i>Accounts Audited</i>	<i>Audit Coverage</i>	<i>Audit Personnel-Years</i>
1975-76	103,800	4.2%	16,500	15.9%	909.4
1976-77 est.	107,200	3.5	17,600	16.4	909.8
1977-78 est.	110,900	3.5	18,200	16.4	933.8 ^c

^a Eligible accounts equal approximately one-third of the total number of accounts, because each audit covers the current year plus previous two years of sales activity.

^b Average of the total number of in-state accounts eligible for audit during the current and previous two years.

^c Includes 10 positions for auditing Santa Clara County Transit District Transactions Tax and for auditing refunds resulting from *Diamond National v. Board of Equalization*.

Diamond National Increases Workload

We recommend approval of four field auditor positions requested for the budget year only to process refund claims resulting from the Diamond National case.

The U.S. Supreme Court ruled in *Diamond National Corporation and Crocker Citizens National v. State Board of Equalization* that the State of California may not impose the sales tax on goods sold to national banks. The original claim was filed to cover sales taxes paid during the period April 1, 1965, to December 31, 1972, and the board estimates that total claims will amount to approximately \$38 million. The board has received and is in the process of auditing 2,300 claims for refund and in addition will audit a sample of the estimated 7,500 bank suppliers to assure that sales taxes collected were in fact remitted to the state. The four audit positions

requested in the Governor's Budget will allow the board to (1) audit all bank claims for refund and (2) audit 10 percent of the banks' suppliers.

Sales Tax Audit Coverage Expansion

We recommend disapproval of 23 field audit positions requested to expand audit coverage for a savings of \$361,796.

Table 2 shows that the board presently audits more than 90 percent of the most productive accounts (and reviews 100 percent of these firms) and audits approximately 30 percent of the medium sized firms. The requested increase is based upon the board's contention that on the basis of the total *number* of accounts, audit coverage has declined from approximately 29 percent of all accounts in 1966-67 to 16 percent in 1976-77. In addition, the board states that additional positions are justified because the added coverage will produce revenues in excess of costs.

We believe that audit coverage should be held at the current year authorized level for the following reasons.

1. There is no information available which supports the board's argument that the additional revenues generated by the requested increase in staff will exceed the \$362,000 in additional cost. The 1975-76 average audit assessment per dollar of total program cost was \$2.30 for moderately productive accounts (where the expanded coverage is proposed to be applied). Because audits are selected on the basis of estimated declining productivity, the existing recovery rate is higher than would be expected if coverage is expanded to audit lower priority accounts. Whether the additional revenues would exceed the added costs is unknown.

The Legislature approved 20 additional auditors last year in response to our recommendation which was based upon the limited results of a sample audit study conducted by the board in 1973-74. We further recommended, however, that future requests for staff be supported by sample auditing which meets acceptable statistical reliability standards and is confined to accounts which have a high probability of audit productivity.

2. The board is presently conducting an internal study of the auditing program to determine if changes in audit selection procedures will allow more accurate identification of potentially productive accounts. Under existing selection procedures, little is known about the universe of accounts eligible for audit, other than the type of business, the level of retail sales and prior audit experience. Unless this study produces recommended changes which will increase the productivity potential of the existing accounts selected for audit, the expansion of audit coverage cannot be justified.

3. The board's proposal which is based solely upon the observed decline in the percentage of the total number of accounts audited, does not consider the size of the existing program in relation to (a) other economic indicators, (b) the level of audit staff expertise, or (c) the changes in business organization which have occurred over time. For example, since 1968-69 when sales tax audit expenditures were first reported on a program basis, the level of the state's resources allocated for auditing sales tax accounts has increased at 9.1 percent annually through 1976-77, a growth in audit expenditures which is slightly higher than the 8.9 percent growth in state personal incomes during this period. Audit productivity as measured by staff experience has also improved during this period. The num-

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ber of auditors holding senior (auditor III) positions has increased from 26 percent to 36 percent of total audit personnel since 1968-69, with the number of entry and journeyman level auditors declining from 67 percent to 52 percent of the department-wide audit work force. The third factor which contributes to increased audit productivity is the secular trend toward concentration in the control and ownership of retail outlets. While the number of accounts has increased, there has also been a marked concentration in the control of large retail stores resulting in more uniform accounting procedures and improved understanding of the sales tax law by the taxpayer. One of the relevant indicators of audit coverage would be the percentage of taxable sales audited, an estimate of workload which the board's program budget states is not available.

Sales Tax Compliance Program

This program consists of the registration of taxpayers, filing enforcement, and collection of delinquent sales taxes. Table 4 shows the total staff and expenditures proposed in the budget year.

Table 4
State Board of Equalization
Sales Tax Compliance Program

	<i>Personnel-Years</i>			<i>Expenditures</i> 1977-78
	1975-76	1976-77	1977-78	
Registration	443	460	450	\$8,800,000
Return processing	369	404	408	10,200,000
Delinquent tax collection	269	274	275	5,700,000

The return processing units support the delinquent tax collection effort shown in Table 4, by reviewing returns for failure to file, for partial payment of tax and for tax calculation errors.

Increased Registration and Return Processing Workload

We recommend approval of four positions requested for district registration of new sales tax permits.

Table 5 shows the relevant workload indicators used to access budget requirements in the registration program.

Table 5
Sales Tax Compliance Program
Taxpayer Registration

	<i>Sales Tax</i> <i>Permits In</i> <i>Force</i>	<i>New</i> <i>Accounts</i>	<i>New</i>	
			<i>Personnel-</i> <i>Years</i>	<i>Accounts Per</i> <i>Personnel-Year</i>
1972-73	480,000	123,000	426	289
1973-74	499,000	122,000	435	280
1974-75	527,000	133,000	429	310
1975-76	559,000	152,000	443	343
1976-77 est.....	587,000	155,000	460	336
1977-78 est.....	615,000	158,000	469 ^a	337

^a For comparison purposes this number includes 18.6 positions eliminated in the budget year to cover cost of accounts reference video system. The actual number of man years budgeted is 450.

Our analysis of total registration activities including new accounts, account changes, closeouts and revocations over the last 10 years shows that workload fluctuates from year to year, but that an upward trend due to population growth is apparent. The board's budget year request is based upon continuation of the exceptionally high level of new accounts registered in 1975-76. Workload realized during the first six months of 1976-77 parallels the permit activity which occurred during the first half of 1975-76. Whether this higher level of permit activity will be sustained through 1977, however, is unknown

New Video System

Offsetting requested workload augmentation is a staff reduction of 18.6 clerical personnel which reflects costs associated with the installation of a video accounts reference file. The proposed 1977-78 savings in personnel costs are recognized only for purposes of paying for the new system. Actual savings in clerical staff related to the expected increases in productivity will not be measurable until this new system is fully operational.

The five new positions identified in the Governor's Budget for workload related to a Department of Benefits Payments contract is an accounting change and does not represent any increase in total registration manpower.

Productivity Improvements Possible

The response to workload during the last five years has been fairly linear with staff size increasing at a slightly lower rate than the total number of accounts administered by the board. Improvement in compliance productivity has not been significant. The board has shown reluctance to seek changes in the sales tax laws and institute changes which impose additional costs upon the taxpayer. Factors which contribute to high compliance costs or inequitable treatment of taxpayers include:

1. *Registration in Person.* The board discourages mail and telephone processing of applications for sales tax permits by requesting the taxpayer to appear at a district office before issuing a sales tax permit. The board believes that the personal interview is the best method of determining the amount of personal bond necessary to secure payment of tax. The security deposit, which is generally twice the quarterly estimated tax liability of the new account, is levied in order to insure payment of the sales tax. The deposit may take a number of forms including savings pass books, stocks, bonds or surety bonds issued by insurance companies. Most new accounts registered by the board are (1) small seasonal taxpayers who renew their permits each year (2) small businesses with no prior retail experience, and (3) large firms which have existing sales tax permits in other localities. Preliminary processing of this workload by telephone and mail questionnaires could reduce registration workload significantly.

2. *Adjustment of Security Deposit.* The board is reluctant to require the taxpayer to post additional security when actual retail sales exceed the

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original estimate of sales upon which the original security amount was based. As a result taxpayers who post relatively small security amounts constitute a potential collection problem. The board contends that to increase the amount of security after actual sales experience is established in effect penalizes the successful businessman. We question this policy. The board should retain a position of neutrality regarding the business performance of a taxpayer and require taxpayers to post security according to their actual sales record. To do otherwise increases field collection costs when uncollected liabilities exceed the amount of the deposit.

3. *Corporate Sales Tax Liability.* Under existing law corporate officers are not liable for unpaid sales taxes when the account is closed out, the permit is revoked or the corporation is reorganized under bankruptcy laws. Consequently, the board logically focuses its attention upon proprietary and partnership taxpayers who are not relieved from liability of the tax upon discontinuation of business. The board's collection manual states that corporate taxpayers constitute more than two-thirds of the amount of taxes which are written off as uncollectable. There are a number of states which presently require establishment of personal bond by the corporate officers in order to insure payment of taxes. Changing the state law to require corporate officers or stockholders to assume personal liability for payment of sales taxes at the time the sales tax permit is issued would have a significant effect upon compliance workload and would result in more equitable application of the law.

4. *Tax Return Information.* The taxpayer is required to report only a limited amount of state sales tax information on the tax return consisting of total sales, deductions for (1) wholesale transactions, (2) sale of food products, (3) nontaxable labor charges, and (4) miscellaneous deductions accumulated into a single entry. The board presently records on computer files only that information which is necessary to allocate local sales taxes, record changes in accounts receivable, and identify taxpayers who fail to file timely tax returns.

In accordance with a 1976-77 legislative recommendation, the board is presently reviewing the feasibility of requiring the taxpayers to provide additional information on the tax return. Computerized comparisons of this information on each tax return with industry wide norms would allow early identification of taxpayers who may be overreporting deductions or underreporting sales tax liabilities.

It should also be pointed out that overall compliance productivity should be materially improved as a result of Chapter 661, Statutes of 1975, which increased the interest rate levied on delinquent sales taxes from 6 percent to 12 percent per year effective January 1, 1976. The effect of this statute has not been measured by the board, but it should quickly reduce the amount of delinquent sales taxes used by retail firms to finance business inventories.

Sales Tax Return Workload

We recommend approval of 10 positions requested to process additional sales tax return workload.

The sales tax return processing activity (i.e., number of tax returns filed) is directly related to the board's taxpayer registration program, and correspondingly the board has historically responded to the growth in sales tax returns with proportional increases in staff to process this workload. The board's requested increase in staff is based upon continued growth in the exceptionally high level of sales tax permits issued in 1975-76 (see Table 5), the last year for which complete return processing workload information is available.

Productivity Improvements Possible

We recommend that the board study the feasibility of instituting a computerized math verification program.

In reviewing the board's tax return processing procedures we have found that productivity could be initially improved and overtime reduced if the board could eliminate existing peak period data entry processing of tax returns at the time of receipt. Tax return processing consists of the following procedures:

1. *Cashiering.* Manual verification is made that the amount of tax reported on the return is identical to the amount paid. Checks are then separated from the return and deposited in agency bank accounts.

2. *Data Entry.* Limited data are transferred from the return on to computer tape for the immediate purpose of (a) identifying taxpayers who have failed to file and (b) for the proper allocation of local sales tax receipts to cities and counties.

3. *Math Verification.* Returns are manually verified for mathematical accuracy on desk top calculators. Error corrections are processed through automatic EDP generated billings or by manually produced correspondence.

The board has been reluctant to implement an EDP mathematical verification procedure because the size of the sales tax program has not warranted an automated procedure. We believe that an EDP mathematical verification program should be given serious consideration for the following reasons.

(a) The board is presently studying the feasibility of partially automating its sales tax audit selection program. Additional information regarding the type of business, gross sales information and kinds and amounts of nontaxable deductions which could be essential elements of an audit selection program would be automatically captured by computerized math verification.

(b) The present data entry of certain information and the manual math verification of returns results in a duplication of effort. Except for the recording of individual account identification numbers, the math verification staff must presently reenter on a key board calculator the same information entered by EDP personnel.

Integration of EDP data entry with the math verification program would eliminate the present duplication of effort, reduce the amount of

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overtime and use of temporary staff and allow more efficient use of equipment and facilities. The establishment of a low cost automatic account number identification system such as that provided by optical character recognition equipment (OCR) would allow the board to continue its policy of early identification of nonfilers.

LOCAL PROPERTY TAX EQUALIZATION

We recommend that the sampling and trending program be transferred from the Property Tax Department to the Administration Division.

The Division of Intercounty Equalization is responsible for appraising a *sample* of properties in each county every three years to determine if overall values in one county are equivalent to values determined for similar properties in other counties. Resulting findings of underassessment or overassessment are "equalized" by computing a ratio for each county which reflects the difference between the assessor's determination of value and the board's sample values. These ratios, when compared to the statewide average ratio for all counties become the so-called "Collier Factors" which are used to distribute uniformly \$1.2 billion in school equalization aid and \$600 million in county contributions to the state Medi-Cal and adult welfare programs. This magnitude of expenditures demonstrates the importance these ratios have in the determination of the distribution of state and local funds between counties. To the extent that ratios established by the board for each county become unreliable, the equity of the distribution of intergovernmental payments becomes adversely affected.

In the three years between physical appraisals the ratios are *trended* to reflect changing property values. The three factors in the trending formula are retail sales, school attendance, and wages in employment covered by unemployment insurance.

The sampling program involves the determination of the appropriate sample size for each survey county in accordance with the number of available board appraisers. Once the sample size is determined a sample of each survey county's property parcels is selected at random. The sample selection is stratified (ranked) according to parcel values in order to minimize statistical variability. After the sample properties are selected and assigned to appraisers, exceptional (unrepresentative) parcels are identified and excluded from the appraisal sample. A replacement parcel is then drawn according to standard statistical procedures.

In 1975, the sampling and trending responsibilities (including three research positions) were transferred from the centrally located Statistical Research Unit to the Property Tax Department. We are recommending that responsibilities for sample selection, the review of nonrepresentative parcels and trending ratios, be transferred back to the Administration Division for the following reasons.

1. The sample selection and ratio trending activity involves a purely statistical skill and for reasons of efficiency should be the primary responsibility of the board's central research unit.
2. Transferring sampling and ratio trending back to the Administration

Division will restore the important departmental audit control of providing an independent review of state appraisers' determinations regarding the exclusion of unrepresentative properties. Because the number of samples is small (ranging from 150 to 407 individual parcels in each county) the decision to exclude an individual property can have a significant effect upon the board's determination of value for the surveyed county. The final decision to exclude a particular parcel and the responsibility to select a replacement sample should be assigned to a unit which is totally independent of the appraisal function. The separation of sampling control from the appraisal responsibility will contribute materially to the integrity of the appraisal program and will provide additional support to the board's position in the event counties contest the state's findings of value.

3. Our office and the Department of Finance depend heavily upon the Administration Division's research staff for analytical assistance and information regarding all of the board's tax programs. We especially rely upon its knowledge of property assessment procedures, practices and taxation. The sampling and trending responsibilities provide the research staff with an opportunity to maintain their communications with individual counties, because field contact with county assessor's files is usually a required element in sample selection. The loss of sample selection responsibilities by the Statistical Research Unit has resulted in diminished contact with counties and, therefore, has had a detrimental effect upon its ability to maintain continuing expertise in the property tax field.

We recommend disapproval of two positions requested to assist in sampling and trending activities for a General Fund savings of \$35,163.

These positions are not justified because the current year increase in workload is related to a temporary problem with the trending factors used by the board to adjust county property values between survey years. The present equation used by the board adjusts property values according to measured growth in retail sales, wages and school enrollments reported for each county. To the extent that these factors grow more slowly than actual property values, the trend equations will incorrectly indicate that the assessors are either (1) improving their valuation procedures or (2) valuing properties in excess of market prices.

Because property values have experienced uneven and rapid growth in recent years due to other factors such as land use policies, environmental constraints, inflation and federal interest rate policies, the trend equation has produced erroneous changes in county values. For example, the board has reported that 10 counties in 1975-76 and 14 counties in 1976-77 were valuing properties (in total) in excess of market value (assessment ratios above .25 percent), reports of questionable reliability considering the rapid increase in market values which has been occurring during the last three years. Recognizing the problems associated with individual year assessment ratios resulting from trending, the Legislature has amended the governing statutes to require that school apportionments and county contributions for adult welfare and Medi-Cal shall be based upon the most recent three year average of assessment ratios for each county.

In 1976, the board formed a task force of interested parties (including the assessors of nine counties, the Department of Education, the State

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Chamber of Commerce, the California Taxpayers' Association and state legislative staff) to evaluate the factors used in trending property values. This group to date has studied a number of economic indicators but has found no measurable factors which correlate closely to changing property values. Our analysis indicates that there are no available economic indicators which will accurately explain short-term movements in property values for each county. There are a number of alternatives, however, which could either eliminate the need for trending or improve the reliability of the present trending program. Major alternatives which have been proposed consist of the following.

1. *Annual Survey.* Property values would have to be trended for only one year if the board tripled its present appraisal staff and surveyed each county every year. Costs would be significant, however, and would increase present local property tax equalization costs from \$3.1 million to \$6.3 million annually, an increase in state administrative costs of 100 percent.

2. *Increased Frequency of Surveys.* The board could reduce annual appraisal costs by supplementing appraisals with actual property sales information (sales ratio studies). Sales ratio analysis of residential properties would increase productivity of the appraisal program and allow the board to reduce the present three-year cycle by an unknown amount. Cost estimates for implementation of a state administered sales ratio study vary but could be significant if a new statewide property sales information program is required.

3. *Improve Trend With Documentary Transfer Tax Information.* With actual sales data derived from property transfers subject to the documentary transfer tax, the board would have an important trending factor which could be used to increase the reliability of the trend equation. This change would involve amending state statutes, however, because the reporting of full sales price is not required under existing law.

4. *Hold Ratios Constant Between Survey Years.* Our preliminary analysis indicates that for most counties during the six-year period 1970-71 through 1975-76, the use of trended ratios has resulted in a greater deviation between board assigned ratios and actual surveyed ratios than would have occurred if ratios had simply been held constant between survey years. Holding ratios constant, however, will result in the overstatement of property values (i.e., maintain a low assessment ratio) in those counties which are making a serious effort to improve assessment procedures between survey years.

The board presently has all of the research capability needed to recommend alternative trending methods without adding staff. Nonmeasurable economic factors are expected to continue to have a dominant influence on property values in the foreseeable future. In recognition of this, the board should redirect its attention toward a method of establishing annual ratios which fairly evaluate and reflect changes in county values between survey years without heavy reliance on rigid mathematical equations.

Our analysis of monthly time reports indicates that the increase in workload for which the two new positions are requested is directly related

to transferring the sampling and trending responsibilities to the Property Tax Department. The Property Tax Department research staff (consisting of 4.7 positions) is smaller than the board's central research unit (10 positions) and, therefore, does not have the flexibility to meet short-term increases in workload. The Property Tax Department presently has a sufficient number of positions to support proposed 1977-78 research programs. Transfer of sampling and trending responsibilities back to the Administration Division will eliminate the need for additional staff required during the two-month period when sampling and trending services are performed.

STATE ASSESSED PROPERTY TAX PROGRAM

We recommend approval of 11 positions requested to audit the financial statements of public utilities.

The board is required by law to appraise the properties of all public utilities and to divide the resulting "unitized" values between the counties according to the physical location of the property. The principal methods used to determine unitary values are (a) historical cost less depreciation, (b) capitalized net income, and (c) stock and debt value. The values established using these methods are based upon property statements submitted by each utility. The board presently does not have an audit staff and therefore relies on a limited number of California Public Utilities Commission (PUC) audits to verify the accuracy of these statements.

The recommendation to provide audit staff recognizes that the PUC presently has the experience and staff expertise in the conduct of public utility audits and that some duplication of effort and therefore increased cost will result from providing the board with a similar audit capability. Rather than augment the board's staff, we initially considered the possibility of providing reimbursement funds to the board which in turn could contract with the PUC for audit services. The board would thereby retain limited control over the selection of utilities to be audited and the information to be received. Our recommendation to staff the board directly is based upon the following considerations.

1. *Public Utility Commission Workload.* The PUC is not presently staffed to audit all of the utilities under its jurisdiction as required by law. Consequently, there is no guarantee that the provision of additional funds to the PUC would result in the allocation of PUC staff exclusively for the purpose of providing board related services.

2. *Audit Reliability.* Without the availability of audit staff directly under its control, the board would be forced to rely entirely on the findings of the PUC regarding the accuracy of utility property statements filed with the board. Direct control over audit performance would allow the board flexibility to move staff as situations warrant. It should also be pointed out that PUC contract auditors would not be board appraisers and therefore would not have the authority to levy escape assessments when discovered, thereby necessitating a second examination and action by the board.

3. *Audit Information.* Audit report content and information requirements of the board and the PUC are not significantly different. The most

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significant difference is that the board requires a closing period of March 1 so that audit findings coincide with the lien date property statements filed by each utility.

4. *Duplication of Effort.* The board intends to audit the financial records of 52 gas, electric, and telephone utilities on a four-year cycle. Twenty-eight of the smaller utilities have never been audited by the PUC and seven of the smaller telephone companies have been audited infrequently. Therefore, the examination of these utilities would not represent a duplication of effort. The largest utilities have been audited with sufficient frequency to stay within the board's four-year statute of limitations. The board's audit of these firms will be an augmentation of the PUC findings consisting of updating the PUC report to the March 1 lien date and performing additional examinations necessary to acquire information specifically to meet the board's property appraisal responsibilities.

New Timber Tax Program

We recommend approval of 35.5 positions requested to staff the new Timber Tax program enacted by Chapter 176, Statutes of 1976.

Chapter 176, enacted the Forest Taxation Reform Act which modified extensively the basis for taxing timberland. The major features of Chapter 176 are:

1. *Standing Timber.* Beginning with the 1977-78 fiscal year standing timber (including Christmas trees) is exempt from ad valorem property taxation, including possessory interest in state and federal timber. Under former law, standing timber was subject to the annual payment of property taxes unless more than 70 percent of the trees over 16 inches in diameter were harvested in which case the remaining stands were exempt for a period of 40 years.

2. *Timber Yield Tax.* Beginning April 1, 1977, a yield tax of 6 percent is imposed upon all timber at the time of harvest. The tax will be levied on "immediate harvest values" to be established and adjusted every six months by the board to reflect current market prices and harvesting costs. The tax rate will be adjusted annually beginning January 1, 1979 to reflect the increase in the combined average property tax rate in the major timber producing counties.

3. *Taxation of Timberland.* Chapter 176 turns over to the board the responsibility for determining the basis for valuing all timberland placed in timber preserve zones.

4. *Board Responsibilities.* There are basically three ongoing activities assigned to the board which have the most significant impact upon costs. They are (1) the annual development of schedules of land value which are certified to each county assessor, (2) the semi-annual development of tables of timber value to be used in determining the taxable value of cut timber, and (3) the periodic audit of timber owners and operators to ensure payment of tax.

During the first three years of this program land values are fixed by Chapter 176 according to the soil productivity of the property. Beginning in 1980-81, however, the board will have sole responsibility for establishing

the annual lien date values of timberlands according to the soil quality, accessibility, topography, and administrative restraints characteristic of each parcel. Workload associated with this activity will depend upon the number and geographic distribution of timber preservation zone land sales occurring each year.

Tables of timber values for purposes of levying the yield tax will be developed from publicized sales of uncut timber and prices at point of sale adjusted for harvesting costs. Tables of equal value will apply to assigned marketing areas according to specie, type of harvest (old growth, young growth, etc.) and quality of timber cut. Harvesting area boundaries will be established based upon harvesting costs peculiar to the area, proximity to mill site and distance to market.

The board's preliminary plans indicate that a simplified audit procedure will be developed concentrating upon an examination of taxpayers' records. Mill and storage site inspection will be required on a random basis, however, to verify correct reporting of volumes, type of harvest, and quality of timber cut. Funding requirements for this program cannot be determined until after initial yield tax returns have been examined and comparisons made between market information of volumes cut and tax return reports of volumes harvested.

Table 6 summarizes the board's proposed allocation of personnel and expenditures by activity during the budget year.

Table 6
State Board of Equalization
Timber Yield Tax Program Administrative Costs
1977-78

<i>Personal Services</i>	<i>Proposed Positions</i>	<i>Expenditures 1977-78</i>
I. Administration	7.0	\$105,300
II. Land and timber valuation.....	13.0	289,800
III. Auditing.....	8.5	156,200
IV. EDP services	7.0	79,300
Total personal services	35.5	\$630,600
Salary savings.....	-1.1	-15,600
Net, total personal services	34.4	\$615,000
 <i>Operating Expenses and Equipment</i>		
Travel	—	\$116,200
Rent	—	34,300
Equipment	—	13,000
Other expense	—	35,500
Total, operating expense and equipment	—	\$199,000
Total Request.....	—	\$814,000
General Fund overhead	—	90,000
Total Timber Tax Fund, 1977-78	—	\$904,000

Administrative costs are deducted from proceeds of the timber yield tax which are estimated to be \$25.9 million in 1977-78. The \$90,000 General Fund offset shown in Table 6 represents the timber tax program's share of existing overhead costs. This charge is appropriate because it reflects the new Timber Tax Division's use of existing facilities space, staff services

STATE BOARD OF EQUALIZATION—Continued

and executive secretary time devoted to timber tax activities. Most of these costs will be charged on a direct time and actual facilities use basis after the program is initiated. Actual costs in the first and subsequent years may be less than the amounts shown in Table 6 for two reasons.

1. *Salary Savings.* The board has filled during the current year 12 of the 35.5 positions proposed to be established in 1977-78. The board's estimate of 34.4 personnel-years of filled positions will not be realized if the board limits staff additions to experienced personnel who can provide immediate assistance in setting up this program. No reduction in the requested amount is recommended, however, because the availability of trained appraisers and the time it will take to qualify them for these positions is unknown.

2. *Limited Term Services.* The board has identified nonrecurring first year costs in EDP and legal services. Two data processing analysts are needed through December 31, 1977, and a programmer II is requested through June 30, 1978 to design and test the EDP programs which will cashier and fund tax receipts, record accounts receivable, and accumulate quarterly harvest data. One full-time legal position is requested through December 31, 1977, to assist in drafting regulations, notices, and informational packets for the timber tax program. A half-time position will be established January 1, 1978, to meet the programs continuing legal requirements.

ADMINISTRATION DIVISION

We recommend the 1976-77 internal audit study plan adopted by the board be augmented to include a space utilization and unit organization element.

In accordance with a 1976-77 budget recommendation the board has adopted a plan which establishes a schedule for completing an internal board assessment of the following programs.

1. Study present sales tax audit selection criteria and determine whether expanding these criteria to include additional taxpayer information will improve the productivity of the audit program.
2. Examine present methods of allocating public utility values between counties to determine if there is a more economical method of establishing utility property locations and distributing values.
3. Determine the optimum location and number of business tax district offices.

The board has proposed to study each element individually beginning in 1977 with a review of sales tax audit selection procedures. We recommend that the overall study be expanded to immediately include a space utilization study. A significant improvement in facilities utilization could be achieved if the following changes proved to be feasible.

- a. *Elimination of existing corridor walls and the adoption of an open office plan.* Elimination of corridor walls and individual offices with the resulting increase in area and flexibility of space in some areas of the building could increase usable space by as much as 30 percent. Existing office layout is awkward with some of the original oversized

offices divided into exceptionally small work areas. A sample of space utilization in the more congested parts of this building shows that closed offices range in size from 95 square feet to 450 square feet per person in professional offices and 65 square feet to 235 square feet in individual clerical offices. Rather than aggressively seek to optimize use of headquarters space, the board has been responding to increased congestion by moving individual units to leased quarters located elsewhere in Sacramento.

b. *Conversion of existing sales tax document storage from closed four-drawer cabinets to open shelf files.* The board presently allocates 9,100 square feet representing 7 percent of presently usable space to central files. Considerable space savings could be achieved with open shelf files because this system allows increased storage capacity per square foot. The board has indicated that an open shelf filing system will be implemented as soon as new file identification and file access procedures are developed.

c. *Microfilm inactive sales tax account files.* The board is presently in the process of moving inactive sales tax account files to leased space outside of the headquarters building. This decision in the long run could be more expensive than placing these records on microfilm and retaining them at headquarters.

The board has implemented an open office plan at the request of the employees in the business tax audit division. This open-space concept utilizes the former corridor areas and oversized offices so that the 75 employees assigned to this division have a more reasonable average space allocation of 130 square feet per person.

Further application of the open office concept has not been considered for a number of reasons including employee reluctance, continued board pressure for a new headquarters building, alleged State Fire Marshal opposition, etc. We believe that while this building is awkwardly designed the board should take every opportunity to make it an efficient and desirable working environment for its employees.

SECRETARY OF STATE

Items 52-55 from the General Fund

Budget p. 97

Requested 1977-78	\$7,310,110
Estimated 1976-77	7,606,218
Actual 1975-76	4,747,511
Requested decrease \$296,108 (3.9 percent)	
Total recommended reduction	\$175,600

SECRETARY OF STATE—Continued**1977-78 FUNDING BY ITEM AND SOURCE**

Item	Description	Fund	Amount
52	Secretary of State Operations	General	\$5,537,460
53	Printing Ballot Measures	General	1,742,200
54	Printing Ballot Measures	General	(54,552)*
55	Subvention to Local Government	General	30,450
			<u>\$7,310,110</u>

* Available only for payment of obligations incurred in printing ballot pamphlets in the 1975-76 fiscal year.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *Voter Registration Cards. Reduce Item 52 by \$65,000.* Recommend amount for voter registration cards be reduced to avoid excessive printing. 90
2. *Direct Mailings. Reduce Item 52 by \$110,600.* Recommend amount budgeted for direct mailing of voter registration cards be deleted. Recommend also that Secretary of State inform Legislature of rationale supporting such mailings. 90
3. *Voter Registration Program.* Recommend costs associated with new program be budgeted and accounted for separately and, together with program-related data, be provided annually to the Legislature. 91

GENERAL PROGRAM STATEMENT

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

CORPORATE FILINGS

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

ELECTIONS

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

UNIFORM COMMERCIAL CODE

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

NOTARY PUBLIC

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

ARCHIVES

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

ANALYSIS AND RECOMMENDATIONS

The proposed budget of \$7,310,110 represents a decrease of \$296,108 or 3.9 percent from current year expenditure estimates. This decrease is a result of Chapter 1075, Statutes of 1976, which requires that expenditures in support of the Political Reform Act of 1974 appear under a separate item. Therefore, \$402,570 which will be expended by the Secretary of State is appropriated in Item 333. From the perspective of total program expenditures, the Secretary of State's proposed budget reflects an increase of 1.4 percent.

In addition to support for ongoing programs, the budget includes \$1,742,200 in Item 53 for printing the state voter pamphlet for the June, 1978, primary election. This is the same amount that was budgeted for the current year. The budget also includes \$54,552 in Item 54 as a display of funds to be used only to pay the unpaid balance due for the printing of ballot pamphlets in the 1975-76 fiscal year. A minor item of expense (\$30,450) is included in Item 55 to reimburse local government for increased costs due to candidates for public office submitting signatures in lieu of a filing fee.

ELECTION ACTIVITIES

Chapter 704, Statutes of 1975, established a number of new requirements for the Secretary of State with regard to voter registration. In summary, it requires a registration by mail process and made the Secretary of State responsible for the design, printing and distribution of voter registration-related materials to the counties. Under the law, the Secretary of State absorbs the cost of providing the required forms including postage. Chapter 704 also requires the Secretary of State to adopt regulations to be used by the counties in implementing programs to register qualified electors who are not registered. These activities have been termed "out-reach" programs.

According to the Governor's Budget, current year expenditures for

SECRETARY OF STATE—Continued

these new programs (operational July 1, 1976) are estimated at \$1,331,585, and \$1,362,821 is proposed for the budget year.

Excessive Number of Cards Printed

We recommend a reduction of \$65,000 (Item 52) in the amount requested to avoid excessive printing of voter registration cards.

Chapter 704 requires that the Secretary of State print and supply voter registration cards to the counties " . . . in quantities and at times as requested by the county clerk." The law requires also that county clerks provide these cards (1) for registration of voters in the clerk's office, (2) at locations throughout the county for the convenience of persons desiring to register, and (3) to any citizen or organization wishing to distribute the cards.

The proposed budget includes \$224,680 to print 17 million voter registration cards for use in the 1977-78 fiscal year. This compares to 15.5 million cards to be printed in the current year and 12.8 million cards printed in 1975-76. The number of persons eligible to vote in California in 1977-78 is estimated at about 15.6 million. However, as of the November 1976 General Election, approximately 10 million persons were registered. This number could decrease to about 8 million as a result of the postelection purge of the rolls. Even allowing for normal new registrations and re-registrations, a request to print 17 million cards is excessive. This view is supported by the following: (1) cards printed but not used in the current year can be used in the budget year, (2) the Secretary of State has requested no increase in the amount budgeted for the state voter pamphlet mailed to each registered voter, and (3) detailed budget support information provided by the office indicates that the anticipated increase in registrations during 1977-78 will not justify the number of cards provided for in the budget.

From a practical perspective, there should be a reasonable correlation between the number of persons likely to be registered and the number of cards printed to facilitate such registration, even allowing for wide dispersion of the cards in accordance with the law. However, because the effect of the law is open-ended with respect to the number of cards printed, the only certain constraint is the amount of funds available for printing. If the printing budget is reduced \$65,000 as we recommend there will be sufficient funds to print at least 11 million cards, an amount we believe to be more than adequate.

Direct Mailings

We recommend that \$110,600 (Item 52) budgeted for direct mailing of voter registration cards be deleted. We recommend further that during the budget hearings the Secretary of State advise the Legislature of the rationale used in selecting recipients of direct mailings and the number of new registrations which resulted.

As we have discussed above, the law requires that the Secretary of State make voter registration cards available to the counties, and requires that the counties in turn make them available to individuals and to any citizen or organization wishing to distribute them. In addition to providing these

cards to the counties as required, the Secretary of State's Office has on its own initiative performed a direct mailing of these cards to selected Californians. According to the office, \$72,800 was spent in the current year to mail 952,000 cards to 18-year olds and persons whose names and addresses were on mailing labels provided by the AFL-CIO and the Committee on Political Education. Budget support information provided by the office indicates that \$110,600 will be expended in 1977-78 to perform another direct mailing of 1.2 million cards.

Although the law establishing voter registration by mail does not specifically authorize the Secretary of State to make direct mailings of voter registration cards, a January 11, 1977, letter from the Attorney General's Office tends to support this one mailing only, due to special circumstances which are discussed in the opinion. The letter does not appear to support further direct mailings by the Secretary of State. Therefore, we recommend deletion of the \$110,600 budgeted for such mailings. However, if continued funding is approved, we recommend that the Secretary of State inform the Legislature of the method which will be used to select recipients of the mailings and, based on the last direct mailing, how many new registrations can be anticipated.

Accounting for New Voter Registration Program

We recommend that the Secretary of State budget and account separately for costs associated with the implementation of Chapter 704, Statutes of 1975, and report this information together with data which will permit an evaluation of the effectiveness of the new voter registration program to the Joint Legislative Budget Committee and the fiscal committees by December 15 of each year.

The new voter registration law has resulted in a substantial increase in the Secretary of State's operating budget. In order to evaluate the effectiveness of the expenditure of these new funds, we believe that costs attributable to the program, including any amounts budgeted for reimbursement of local costs, should be budgeted and accounted for separately. This fiscal information should be accompanied with data displaying the results of expenditures by appropriate expense category. As an example, data should be readily available which shows how many voter registration cards are printed, how they are distributed, their ultimate disposition and the number of new registrations obtained, together with all associated costs.

In determining which data should be reported and how to display it, the Secretary of State should confer with appropriate entities such as the counties, staff of the Assembly and Senate Committees on Elections and Reapportionment, and the Department of Finance.

Reimbursement of Local Costs

Chapter 704 states that it is the Legislature's intent that local governments be reimbursed for any net costs associated with the implementation of the new voter registration law. Funds for such reimbursements have not been provided in either the current or proposed budget. Because the law has resulted in both costs and savings, the problem has been one of determining the amount of reimbursement necessary. Information ob-

SECRETARY OF STATE—Continued

tained by the Secretary of State from the counties indicates there will be a net cost in both the current and budget years.

One potential major added cost in the budget year will be the cost to counties to implement programs designed to identify and register persons eligible to vote. These "outreach" programs have been developed by the counties in response to regulations issued by the Secretary of State as required by law. Because each county is developing its own "outreach" program based on guidelines which permit substantial flexibility in defining a program, they vary in cost from minimal to relatively expensive.

We have discussed the question of net cost reimbursement with the Secretary of State's staff and understand that the office is attempting to develop reimbursement amounts for both the current and budget years. We anticipate that documentation disclosing the method used to arrive at final net cost figures will be provided with any request for added funds.

ARCHIVES

In our Analysis last year we noted the increasing backlog of documents requiring screening by archivists, and suggested that, as an alternative to acquiring its own staff, the Secretary of State explore the feasibility of a joint program with a university or historical society. This suggestion was incorporated in the supplemental language report. The office discussed the possibility of a combined effort with the University of California and determined that a joint program is not feasible.

Public Works Employment Act of 1976 (PWEA)

The Governor's Budget provides \$155,000 available through Title II of the federal Public Works Employment Act of 1976 to reduce the archives backlog. This amount will fund four limited-term positions in the current year at \$62,000 and six such positions in the budget year at \$93,000. (See Item 257, Employment Development Department, for a full discussion of PWEA.)

The archives program has been underfunded for a number of years and the application of these resources should eliminate much of the backlog, thereby making more state documents available to researchers and the general public. Because other programs in the Secretary of State's Office which could be candidates for Title II funds are funded adequately, we support the allocation of the \$155,000 proposed for the archives program.

**COMMISSION ON VOTING MACHINES
AND VOTE TABULATING DEVICES**

Item 56 from the General Fund

Budget p. 105

Requested 1977-78	\$43,337
Estimated 1976-77	—
Total recommended reduction	\$12,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Executive Secretary Position. Reduce \$12,500. Recommend deletion of new position and contracting for required staff support.* 93

GENERAL PROGRAM STATEMENT

The Commission on Voting Machines and Vote Tabulating Devices consists of the Governor, Secretary of State and Attorney General. The Governor is its chairman and the Secretary of State acts as its secretary. The law authorizes commissioners to appoint alternates.

Under the law, the commission is responsible for approving or denying the use of new machines or devices, and is empowered to employ expert electronic technicians to assist it in these determinations. In addition, Chapter 246, Statutes of 1976, requires the commission to adopt regulations governing the use of voting machines, voting devices and vote tabulating devices.

ANALYSIS AND RECOMMENDATIONS

We recommend that the proposed position of executive secretary be deleted and that necessary staff support be provided through contractual arrangement with another state agency.

In the past, support for the commission has been provided in the Secretary of State's budget. Although this arrangement was apparently satisfactory for a number of years, the Governor's Budget proposes to establish the commission as a separate budget item, partly in response to commission concern that it has not been receiving adequate personnel resources from the Secretary of State.

The \$43,337 proposed in the Governor's Budget provides for an executive secretary at an annual salary of \$20,928 and a part-time stenographer (\$4,422). Of \$12,444 budgeted for operating expenses, the largest single item, \$7,100, is to cover the cost of public hearings. The commission will incur no cost regarding the use of expert electronic technicians to inspect machines and devices because the law requires those submitting the machines or devices to pay the inspection costs.

In assessing the need for the full-time executive secretary position we have reviewed the duty statement for the new position and discussed with the Secretary of State's Office the level of present commission support. Based on our review and discussion we have determined that (1) there is no detail available on total resources expended by the Secretary of State in recent years to support commission activities, and (2) the need for a

**COMMISSION ON VOTING MACHINES
AND VOTE TABULATING DEVICES—Continued**

full-time position has not been demonstrated. Therefore, we recommend that funds budgeted in support of the executive secretary position (approximately \$25,000 total) be reduced by one-half and that the remaining funds be used to contract with another state agency for necessary staff support.

STATE TREASURER

Item 57 from the General Fund

Budget p. 106

Requested 1977-78	\$1,856,396
Estimated 1976-77	1,778,147
Actual 1975-76	1,457,059
Requested increase \$78,249 (4.4 percent)	
Total recommended increase	\$60,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Evaluation of Bond Bids. Recommend the Treasurer examine feasibility of using the true interest cost method to evaluate bond bids. 95
2. *Warrant Processing. Augment by \$60,000.* Recommend purchase of small computer. 98

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

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

These responsibilities are met through the six program elements shown in Table 1.

ANALYSIS AND RECOMMENDATIONS

The Treasurer's office is requesting two new positions, and is changing six positions from the temporary help category to limited term and permanent status. The specific elements of the Treasurer's program are reviewed below.

BOND SALES AND SERVICES

This program element is responsible for preparing, selling, issuing, servicing and redeeming all general obligation and revenue bonds, and bond anticipation notes. Reimbursements of approximately \$105,000 will be received from sales of special fund bonds. The remaining \$247,000, 70 percent of the program element costs, are supported by the General Fund.

Table 1
Budget Summary

Program Elements	Personnel-Years			Expenditures		
	Actual 1974-75	Authorized 1975-76	Proposed 1976-77	Actual 1975-76	Authorized 1976-77	Proposed 1977-78
1. Bond sales and services	12	13.1	13.1	\$285,012	\$333,089	\$352,357
2. Investment services	5.8	7.1	7.1	225,071	286,205	299,904
3. Paying and receiving	26.4	32.4	32.9	761,987	902,136	925,647
4. Trust services	15.7	16.2	16.3	425,076	487,562	509,667
5. District Securities Division	7.1	7.9	8.1	216,826	249,013	258,821
6. Administration (distributed to other elements)	16.1	19.1	19.3	(429,952)	(491,064)	(488,701)
Totals	83.1	95.8	96.8	\$1,913,972	\$2,258,005	\$2,346,396
Reimbursements	—	—	—	-456,913	-479,858	-490,000
General Fund Costs	—	—	—	\$1,457,059	\$1,778,147	\$1,856,396

The bond marketing activities are summarized in Table 2. California's general obligation bond indebtedness is reviewed in the Expenditure Summary Section of the Analysis (the A pages).

Table 2
Treasurer's Bond and Note Sales

	Actual 1975-76	Estimated 1976-77	Projected 1977-78
General Obligation Bonds:			
Number of issues	6	11	10
Amount (millions)	\$295	\$455	\$515
Average interest rate	5.60	5.15	5.50
Revenue Bonds:			
Number of issues	18	18	24
Amount (millions)	\$119	\$225	\$270
Average interest rate	7.60	7.25	7.30

Statutory Requirement May Cause Higher Borrowing Costs

We recommend that the Treasurer's office (1) review the feasibility and benefits of evaluating bond bids by the "true interest cost" method and report to the Joint Legislative Budget Committee by October 1, 1977; (2) If the Treasurer determines that use of this method is feasible we recommend he seek legislation making the true interest cost method the basis of evaluating bond bids.

Under current law, the Treasurer is required to use "net interest cost" as the basis for choosing the lowest bid in the sale of the state's bonds. Financial experts generally agree that the net interest cost method is not the correct basis for awarding bonds under bidding.⁸ The preferred procedure is the "true interest cost method" which is also known as the "bond book," "Canadian," or "present value" method. Based on extensive academic studies of the use of the two systems, we believe there is a high probability that use of the net interest cost method by the Treasurer is resulting in higher borrowing costs than would be incurred using the "true interest cost" method.

⁸See, for example, Rabinowitz, Alan; "Municipal Bond Finance and Administration" (New York: Wiley-Interscience, 1969) p. 54.

STATE TREASURER—Continued

Deficiency of Net Interest Cost Method. A bond issue will typically have several different "coupon" or interest rates applicable to bonds maturing on different dates. The net interest cost is simply the total amount of interest payments over the life of the bond issue. This method of evaluating a bid is defective because it does not recognize the timing of the interest payments that are made at different coupon rates. Under the net interest cost method, a dollar of interest in the first year is given the same value as a dollar of interest in the 30th year. This is incorrect because a dollar expended in the first year could have been invested for 29 more years. If invested at 6 percent for 29 years, it would accumulate to \$5.42. In contrast, the true interest cost method incorporates the time value of the interest payments. Using the true interest cost, the state would be assured of making the correct economic choice.

A second problem with net interest cost is that it encourages "inefficient coupons" to be used by bidders at the time the bonds are sold by the state. A coupon is efficient if the nominal rate of interest (coupon rate) allows the bond to be sold at close to its face value (par value), e.g., at \$100. An inefficient coupon is one that requires a bond to be sold at a price significantly higher or lower than its face value, e.g., \$105 or \$98 for a bond with face value of \$100. These inefficient coupons are costly to the state because the sophisticated investor requires a higher yield for bonds with these prices. In the case of the \$98 bond, the costs result from the fact that many investors will be subject to capital gains tax when at maturity, they receive the full face value of \$100. In the case of the \$105 bond, the costs result from the fact that a sophisticated investor faces higher risks in reinvestment and marketing, and higher reinvestment costs on earnings. Using the true interest cost method, the state would eliminate most of these costs because bond underwriters would have no incentive to create inefficient coupons.

Why Most Governments Use the Net Interest Cost Method. While most economists and financial experts acknowledge that the net interest cost method is incorrect, most state and local governments continue to use it. One reason is that it is easy to explain and easy to use. The true interest cost method takes effort to understand and, without a computer, is laborious to calculate. Today, with computers, it takes little effort to calculate the true interest cost. Our office has obtained and tested a computer program to calculate true interest cost. This program is available to the Treasurer.

A second reason for the continued use of net interest cost by most governmental agencies would seem to be inertia and opposition to change. New procedures require new effort. For many years, the Los Angeles Department of Water and Power and Department of Airports were the only governmental agencies to use the true interest cost method in California. In recent years, however, the potential savings have encouraged some governments to change. Among the agencies reported to be using the true interest cost method are City of Riverside, Washington

State Public Power Supply, City of Philadelphia, the Port of Seattle, and the Missouri Environmental Improvement Agency.

Treasurer Tries to Limit Costs. The Treasurer has established certain constraints on bidding in an effort to make the net interest cost method more closely approximate the results of the true interest cost method. In particular, the Treasurer requires that bond coupons be in ascending order with respect to maturity dates. Under most bond market conditions, this will result in eliminating most of the costs of the net interest cost method. However, under certain conditions this constraint is inappropriate; in particular, it is inappropriate when yields in the bond market are flat or descending over time. In any case because we believe that the undesirable incentives to "front load" the coupons remain as long as net interest cost is used, the net interest cost method is basically incorrect and the costs of change are minimal, we are recommending that the Treasurer study the feasibility and benefits of the system and report to the Joint Legislative Budget Committee.

INVESTMENT SERVICES

This program element has responsibility for investing the temporary surplus cash of the General Fund and other state funds. It seeks to maximize earnings with these funds within the statutory limitations and the policy decisions of the Pooled Money Investment Board.

Earnings from the Pooled Money Account are distributed to the General Fund, or to the approximately 180 other special funds to which interest may accrue. Earnings are apportioned to the special funds on the basis of the amount of money and length of time their funds were in the Pooled Money Account.

Table 3 shows the results of the investment program for the last several years. As expected, the program's earnings during 1975-76 were less than the record amounts earned during the previous years when short-term interest rates reached extraordinarily high levels. While interest rates continue to drop, the amount available for investment continues to grow. Thus, the earnings during the current year are expected to increase to approximately \$220 million. The budget year forecast, necessarily more uncertain, is for earnings slightly more than the current year. During the budget year, interest rates are expected to increase, and the amount available for investment is expected to increase slightly. The amount available for investment assumes expenditure of approximately \$720 million of the \$906 million of General Fund reserves provided by the budget.

Table 3
Investment Results
Pooled Money Account

	<i>Average Daily Investments (millions)</i>	<i>Earnings (millions)</i>	<i>Percent Yield</i>
1972-73	\$2,239.1	\$124.3	5.51%
1973-74	2,587.2	231.2	8.97
1974-75	2,740.1	236.3	8.62
1975-76	3,209.1	204.3	6.37

STATE TREASURER—Continued**Investment Information System Being Readied**

The Treasurer's office reports that the new Investment Information System should be available by March 1, 1977. The deficiencies in the current investment reporting system have been noted by the Auditor General in his September 1974 report, and in our Analysis of the last two years. The new investment information system should allow for better internal management of the investment program and for more effective monitoring and evaluation. It will be capable of reporting daily on the status of all investments and summarizing investments by earnings yield, type, time held, and other relevant characteristics.

PAYING AND RECEIVING

The State Treasurer provides for banking services for state agencies. Such services include depositing state moneys and redeeming warrants issued by the Controller and state agencies. In addition, this element provides information to the investment division on the state's daily cash position. Table 4 summarizes the activities of this element.

Last year, the State Treasurer began processing vouchers for the Department of Health Supplemental Food program. The Treasurer's costs are fully reimbursed by the Department of Health. Reimbursements from all sources will amount to approximately \$112,000 in the budget year. Because of uncertainties over workload, last year the Treasurer used temporary help classifications. For the budget year, three temporary help positions are being changed to limited term positions. The limited term classification is appropriate because there is some uncertainty as to how long the Treasurer will continue this function.

Table 4
Paying and Receiving Program

	<i>Actual</i> 1975-76	<i>Estimated</i> 1976-77	<i>Projected</i> 1977-78
Dollars deposited (billions)	\$69.0	\$71.5	\$73.0
Number of warrants paid (millions)	19.6	21.4	22.5
Personnel-years	26.4	32.4	32.9
Total program expenditures	\$761,987	\$902,136	\$925,647

Problems with Teale Processing

In the summer of 1973, the Treasurer's warrant processing operation began using the Teale Data Center (TDC) for computer services. In prior years, the Treasurer's office was using a Department of General Services computer located immediately adjacent to the Treasurer's warrant processing operation in the State Office Building No. 1. When the Department of General Services computer was moved to the printing plant, the Treasurer made arrangements to use the TDC. The results have been both costly and unsatisfactory. It was necessary to lease equipment for transmitting and receiving information to TDC. This data transmission system costs approximately \$36,000 annually. Overall, it is costing the Treasurer \$105,000 annually for TDC services in 1976-77 for the warrant processing

operation. Significant increases are expected in future years. One factor contributing to the relatively high cost is that the Treasurer's needs do not require the sophistication of the TDC, and thus, the Treasurer pays for certain unutilized potential capabilities.

The results of using TDC have not met the Treasurer's performance requirements. The essential performance goal is that the Treasurer complete the warrant processing operation by 4:30 p.m. Currently, the Treasurer does not meet this deadline 35 percent of the time. The delays in warrant processing have several consequences. First, the warrant processing operation experiences certain lost time because of the delays and the uncertainties of Teale's response. Secondly, the warrant processing operation is not completed during normal business hours. This prevents the Treasurer from reconciling discrepancies with the banks in the same day, and affects the operations of other state entities. Legally, the Treasurer has 24 hours to report erroneous warrant charges to the banks. After 24 hours, the banks may refuse the "charge back", and the state must absorb the loss. Finally, the investments division requires the results of the warrant processing operation in order to know how much is available for investments. Because of the uncertainties surrounding the warrant processing results, the investment program must maintain more money in short-term securities which bear lower interest rates than longer term securities. The Treasurer estimates this loss at \$200,000 annually. Delays from the warrant processing operation also affect the Controller's operation. The Controller requires that certain information be available to it on a daily basis, and additional information on the last day of the month by 7:00 p.m.

Treasurer Should Acquire Small Computer

We recommend that the Treasurer's budget be augmented by \$60,000, to allow purchase of a computer.

The Treasurer's office has analyzed the costs and capabilities of a small computer to handle its warrant processing workload. We have reviewed both the cost estimates and the capabilities of the proposed system. The proposed system will result in lower costs to the Treasurer, and better performance than provided by TDC. In the first year of operation (which will overlap portions of two fiscal years), the proposed system will result in a slight savings to the Treasurer. The augmentation will cover approximately 40 percent of the cost of the new computer, with the remaining costs to be funded out of the savings which will be realized during the 1977-78 budget year. In the second full year of ongoing operations, it will result in savings of over \$100,000 per year. Such savings will continue to be realized in future years.

The system is justified on a cost basis alone. The possible increased efficiency of personnel, and higher investment earnings result in further benefits to the state.

TRUST SERVICES

The trust services program is responsible for the safekeeping of securities owned by or pledged to the state. Such securities are held in the Treasurer's vault or in approved depositories. As of June 1976, the Treasurer's vault contained over \$14 billion. Servicing these trust securities

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required 16,800 transactions involving 568,000 securities, and the clipping and processing of 1.86 million coupons.

Much of the trust services are provided to other state agencies such as PERS, STRS, and the Insurance Commissioner. The Treasurer is reimbursed for trust services provided other agencies. Such reimbursements will amount to \$273,000 in 1977-78, or 53 percent of the cost of the trust services program.

In the budget year, one temporary help position is being changed to permanent status.

DISTRICT SECURITIES DIVISION

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

The division is budgeted from the General Fund but is expected to recover an equal amount through fees charged for its services. In recent years, the division has successfully met this requirement.

As the result of recent legislation, the District Securities Division claims that an additional 351 districts will be subject to its jurisdiction. These are districts in which voters are required to be property owners. These districts tend to be reclamation districts, resource conservation districts, levee districts and drainage districts. While there may be 350 of these districts, according to the Controller's "Report of Financial Transactions of Special Districts," only 12 of these special districts issued long term debt in the 1974-75 fiscal year.

Of these 12 long term debt transactions, two were loans from the federal government, and seven were time warrants having an average principal of \$35,000. One "loan" was in the amount of \$2,000. One "loan" was a general obligation bond of the New Jerusalem Drainage District and one was a bond anticipation note amounting to \$1.2 million.

We would encourage the division to consider the proposed source of financing in allocating its existing resources to achieve the purposes of the act. The federal government and large commercial banks do not need the same protection as a less sophisticated investor might require. The Treasurer's role in these cases should be minimal. Therefore, we suggest that the District Securities Division be selective in using its resources which should be directed toward review of those proposed debt issues which appear to be risky to naive investors. If the Treasurer feels that such a procedure would require statutory changes, we suggest that he seek such legislation.

ADMINISTRATION

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