

MUSEUM OF SCIENCE AND INDUSTRY

Item 62 from the General Fund

Budget p. 111

Requested 1978-79	\$2,891,999
Estimated 1977-78.....	2,650,592
Actual 1976-77	1,993,702
Requested increase \$241,407 (9.1 percent)	
Total recommended reduction	\$25,427

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Temporary Help and Salary Savings. Recommend correction based on requested board report for additional information. 104
2. *Equipment. Reduce \$25,427.* Recommend reduction to eliminate double-budgeting. 104

GENERAL PROGRAM STATEMENT

The Museum of Science and Industry (MSI) is an educational, civic and recreational center located in Exposition Park in Los Angeles. It is administered by a nine-member board of directors, appointed by the Governor. The museum's exhibits feature scientific accomplishments and its education program is designed to stimulate students' interests in science and the arts. A portion of this program is financed by the Museum Foundation Fund which is supported from private contributions. Several facilities of the museum are available to public and private groups for educational, recreational and civic functions. The museum also owns and operates 26 acres of public parking for both its patrons and those of the adjacent coliseum, sports arena and swimming stadium. These facilities are all located in Exposition Park which is owned and maintained by the state through the museum. In addition to providing security for its own facilities, the museum is also responsible for security in Exposition Park.

ANALYSIS AND RECOMMENDATIONS

Table 1 sets forth program expenditures, funding sources, positions and proposed changes.

Table 1
Museum of Science and Industry
Budget Summary

Programs	Actual	Estimated	Proposed	Change	
	1976-77	1977-78	1978-79	Amount	Percent
Education	\$2,540,781	\$2,650,592	\$2,891,999	\$241,407	9.1%
Administration	(566,354)	(736,771)	(759,534)	(22,763)	(3.1)
TOTALS.....	\$2,540,781	\$2,650,592	\$2,891,999	\$241,407	9.1%
<i>Funding Sources</i>					
General Fund.....	\$1,993,702	\$2,650,592	\$2,891,999	\$241,407	9.1%
Reimbursements	547,079	—	—	—	—
TOTALS.....	\$2,540,781	\$2,650,592	\$2,891,999	\$241,407	9.1%
<i>Positions.....</i>	134.8	129.7	139.7	10.0	7.7%

MUSEUM OF SCIENCE AND INDUSTRY—Continued

Table 1 shows that both the education program and central administration (which is also charged to the education program) would receive increases during the budget year. Most of the increase would go for normal price increases and 10 new positions.

Revenues

Prior to fiscal year 1977-78, parking lot receipts were treated as offsetting reimbursements to the museum's operating budget. In acting on the 1977-78 Budget Bill, the Legislature decided to treat parking lot receipts as General Fund *revenues* rather than as reimbursements. Consequently, there are no budgeted reimbursements in the current or budget years. This change provides a potential for increased stability and accountability in the MSI budget. Revenues to the General Fund are expected to increase from \$574,450 in the current year to \$580,000 in the budget year.

Requested Personnel Increases

Of the 10 new positions requested, three provide workload related personnel for Kinsey Auditorium. Five others are for museum operations and are also workload related. One workload position is for the business office and one new position is for an executive director of the Afro-American History and Culture Museum.

Afro-American History and Culture Museum

Chapter 571, Statutes of 1977, established the Afro-American History and Culture Museum. This legislation provided for a seven member advisory board and an executive director. The proposed museum is authorized to accept funds from public and private sources for the purposes of presenting, collecting and displaying specified, historical, Afro-American contributions to California and the United States.

The Governor's Budget would provide \$35,000 for an executive director position and advisory committee travel expenses.

Museum Responses to Legislative Directives

Last year, the Legislature gave four directives to the museum board in its Supplemental Report to the Budget Act. One required the governing board to update annually its five-year program and building proposals and provide the Department of Finance, the Joint Legislative Budget Committee and the fiscal and appropriate policy committees with copies by November 1.

The intent of this new procedure was to formalize a process by which major gifts with operating expense implications could be clearly identified and evaluated on an annual basis by both the executive and legislative branches. The date was designed to provide sufficient time to evaluate and address major planned program and building proposals in the Governor's Budget and our Analysis.

The board failed to complete action on this plan in time for it to be useful in our analysis of the 1978-79 budget.

We understand that construction of the \$4 million Hall of Economics

and Finance, will be delayed until 1979-80. Additional detail on this and other proposals will be available for legislative review when the five-year plan is completed and distributed.

A second legislative request required the governing board to investigate and report on the feasibility of establishing conference room rental fees to reimburse related utility, maintenance, administration and service costs. The directors reported that 80 percent of conference room utilization was related directly to museum programs, 11 percent to legislative hearings, and 9 percent to community organization meetings. The report suggested (1) the amount of any rental reimbursement would be small, (2) charges would be a deterrent to community usage and (3) parking lot revenues probably would decrease by more than any room rental fees received.

A third report requesting the governing board to investigate the cost-effectiveness of using electric sensor devices for increased building and grounds security is not due until June 30, 1978.

The fourth and we believe most important requirement imposed by the Legislature last year was that the MSI budget format be revised to (a) show basic program categories and (b) include summary information on foundation revenues and related program expenditures. This was not accomplished.

Directed Accounting and Budget Improvements Not Accomplished

The museum conducts a number of distinct functions, including a summer science workshop, traveling displays, permanent displays, teaching institutes, film programs, gift center, parking lots, maintenance, and security. By contrast, the Governor's Budget combines all these activities and expenditures under one program—*education*.

In addition, the Museum Foundation Fund supports several ongoing MSI activities. The nature of these co-funded activities and their total expenditures are not reflected in the Governor's Budget. Table 2 shows the expenditures from the Museum Foundation Fund. Some of these expenditures are for normal ongoing MSI activities.

Table 2
Museum Foundation Fund

Expenditures	1975	1976	1977 ^a
Administrative and general expense.....	\$77,362	\$86,604	\$76,316
Exhibit expense	60,540	76,646	77,540
Educational expense	27,792	59,576	49,411
Summer science workshop	65,350	79,852	82,982
Promotional expense	3,844	3,450	10,058
Gift center expense	34,525	37,482	41,488
Awards program.....	34,342	34,848	27,341
Exploring Saturday science workshop	10,113	23,288	17,650
Total.....	\$313,868	\$401,746	\$382,786
Revenues	\$350,258	\$405,455	\$400,213
Fund Balance	\$179,860	\$183,569	\$200,996

^a Unaudited figures from the fund's annual financial statement.

MUSEUM OF SCIENCE AND INDUSTRY—Continued

The Legislature's action last year should have corrected budget information deficiencies by requiring identification in the Governor's Budget of basic program categories, foundation revenues and reimbursed museum expenditures. However, museum staff reports that delays both in de-bugging its new accounting machine programs and in getting timely foundation revenue and expenditure information prevented the corrections. We believe such problems are within the power of the directors to solve by adjusting staff priorities.

Underbudgeted Temporary Help and Salary Savings

We recommend the budgets for temporary help and salary savings be corrected based on a requested report for additional information from the board.

Table 3 compares temporary help appropriations for museum operations with actual expenditures.

Table 3
Comparison of Temporary Help
Appropriations with Expenditures

<i>Fiscal Year</i>	<i>Appropriations</i>	<i>Expenditures</i>	<i>Deficits</i>
1974-75	\$3,355	\$81,037	\$77,682
1975-76	3,607	138,995	135,388
1976-77	4,111	174,576	170,465
1977-78	4,391 (budgeted)	-	-
1978-79	22,078 (budgeted)	-	-

Table 3 shows that substantial amounts of money from other sources have been diverted to fund museum operation temporary help. Museum staff reports that excess, unbudgeted salary savings have been used to fund these additional temporary help expenditures. If increased temporary help is warranted we believe it should be substantiated and budgeted correctly. An accurate estimate of salary savings should also be reflected in the budget.

We have requested the board to provide information to (1) reconcile the differences between temporary help budgeted and used, (2) identify the nature and extent of all temporary help which the board expects to use during 1978-79, (3) explain why such work should not be performed by full-time employees and (4) provide a corrected estimate of salary savings based on past experience and current budgeting guidelines. We will be prepared to recommend an appropriate amount of temporary help and salary savings at the budget hearings after we have the opportunity to evaluate the information requested.

Double-Budgeted Equipment

We recommend equipment be reduced to eliminate double-budgeting for a General Fund savings of \$25,427.

Last year's approved equipment budget included \$21,807 for a personnel lift for maintenance work. In this year's equipment budget, an amount of \$25,427 is included for the same personnel lift. Because sufficient funds were budgeted last year and are currently available for purchase of this item, the 1978-79 request for \$25,427 constitutes double-budgeting and should be deleted.

State and Consumer Services Agency
DEPARTMENT OF CONSUMER AFFAIRS

Items 63-103 from various funds

Budget p. 114

Requested 1978-79	\$38,130,179
Estimated 1977-78.....	36,605,103
Actual 1976-77	30,033,542
Requested increase \$1,525,076 (4.2 percent)	
Total recommended reduction	Pending

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
63	Board of Behavioral Science Examiners	Behavioral Science Examiners	\$353,657
64	Board of Dental Examiners	State Dentistry	1,236,212
65	State Board of Guide Dogs for the Blind	General	15,456
66	Board of Medical Quality Assurance	Contingent Fund of Board of Medical Quality Assurance	7,093,352
67	Acupuncture Advisory Committee	Acupuncturist	68,709
68	Hearing Aid Dispensers	Hearing Aid Dispensers	119,300
69	Physical Therapy	Physical Therapy	171,721
70	Physicians' Assistants	Physicians' Assistants	61,907
71	Speech Pathologists and Audiologists	Speech Pathology and Audiology Examining Committee	143,032
72	Board of Examiners of Nursing Home Administrators	Board of Examiners of Nursing Home Administrators	185,000
73	Board of Optometry	State Optometry	222,742
74	Board of Pharmacy	Pharmacy Board Contingent	1,218,647
75	Board of Registered Nursing	Board of Registered Nursing	2,054,030
76	Board of Examiners in Veterinary Medicine	Veterinary Examiners Contingent	256,746
77	Animal Health Technician Examining Committee	Animal Health Technician Examining Committee	49,403
78	Board of Vocational Nurse and	Vocational Nurse and	1,108,767
79	Psychiatric Technician Examiners	Psychiatric Technician Examiners	208,454
80	Board of Accountancy	Accountancy	1,093,228
81	Cemetery Board	Cemetery	154,833
82	Bureau of Collection and	Collection Agency	334,310
83	Investigative Services	Private Investigator and Adjusters	706,770
84	Tax Preparers' Program	Tax Preparers	268,689
85	Board of Architectural Examiners	Architectural Examiners	412,962
86	Contractors' State License Board	Contractors' License	7,646,918
87	Board of Registration for Geologists and Geophysicists	Geology and Geophysics	109,152

DEPARTMENT OF CONSUMER AFFAIRS—Continued

88	Board of Landscape Architects	Landscape Architects	82,844
89	Board of Registration for Professional Engineers	Professional Engineers	1,300,470
90	Structural Pest Control Board	Structural Pest Control	1,385,828
91	State Athletic Commission	General	474,511
92	Bureau of Automotive Repair	Automotive Repair	2,889,511
93	Board of Barber Examiners	Barber Examiners	578,860
94	Board of Cosmetology	Cosmetology Contingent	1,716,136
95	Bureau of Employment Agencies	Employment Agencies	511,078
96	Bureau of Fabric Care	Fabric Care	551,853
97	Board of Funeral Directors and Embalmers	Funeral Directors and Embalmers	328,703
98	Bureau of Home Furnishings	Bureau of Home Furnishings	918,886
99	Nurses' Registry	Nurses' Registry	26,296
100	Bureau of Repair Services	Repair Services	697,599
101	Certified Shorthand Reporters' Board	Certified Shorthand Reporters	91,450
102	Division of Consumer Services	General	1,282,157
103	Division of Administration	Consumer Affairs ^a	(6,968,719)
			\$38,130,179

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

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Department of Consumers Affairs. Withhold recommendation pending review of information in departmental study due in late March. 107

GENERAL PROGRAM STATEMENT

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

Subject to such authority as is conferred upon the department director by specific statute, each of the present 30 boards or bureaus within the department has the statutory objective of regulating an occupational or professional group in order to protect the general public against incompetency and fraudulent practices. Each entity seeks to accomplish its objectives through licensure and the enforcement of laws, rules and regulations. Licensing involves the issuance and renewal of licenses or certificates or a registration procedure. It also includes the establishment of curricula, school accreditation and required experience periods. Enforcement activities include inspections, investigations, and administrative hearings (before an officer of the Office of Administrative Hearings) or court proceedings.

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

compliance, representation and intervention, consumer education and information, and consumer protection legislation.

The department's Division of Investigation provides investigative and inspection services for most constituent agencies. However, a few boards and bureaus have their own inspectors and investigators. Boards and bureaus are charged \$23.84 per hour for inspections and \$27.94 per hour for investigations by the division during the current year.

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

ANALYSIS AND RECOMMENDATIONS

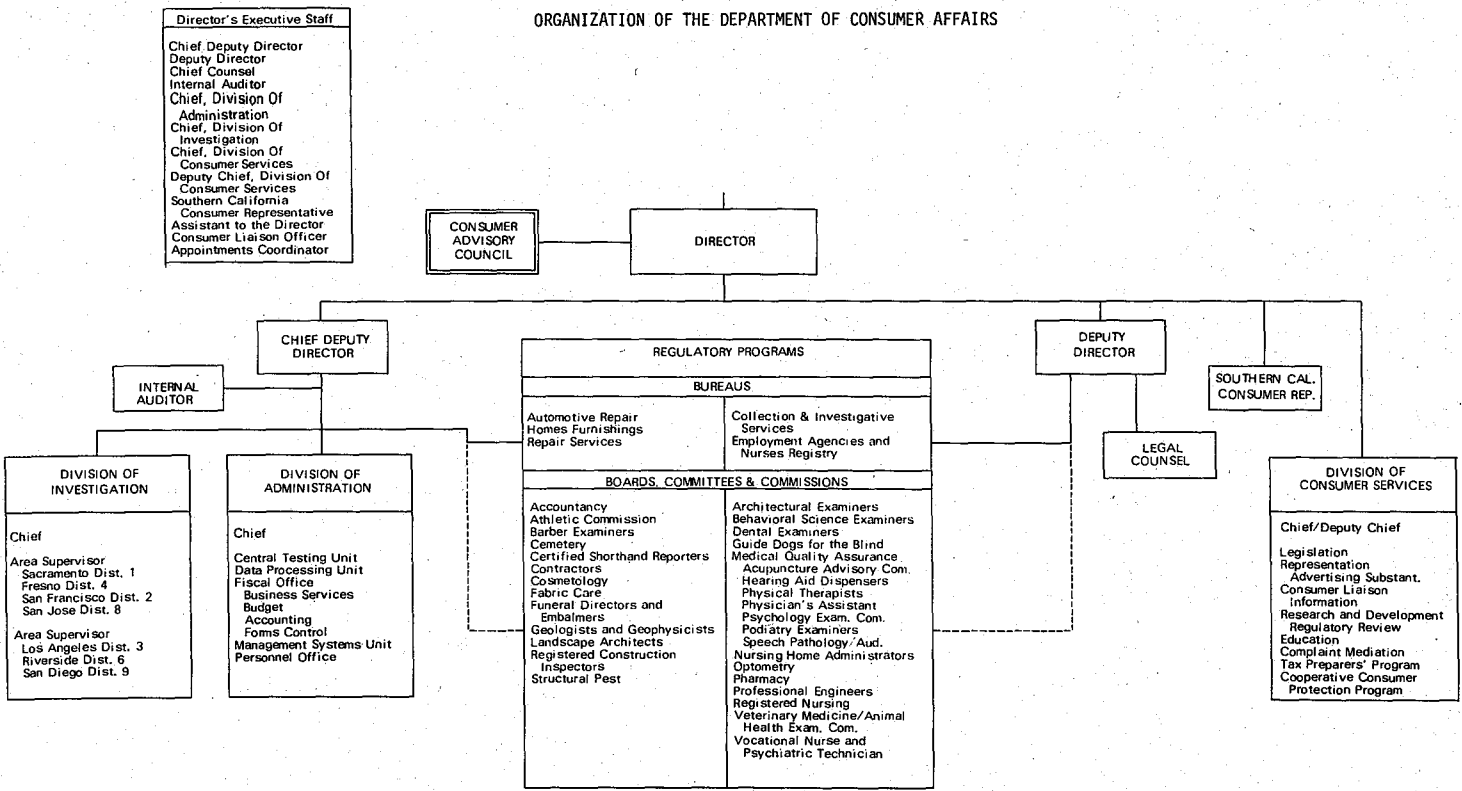
We withhold recommendation on Items 63-103 pending review of information to be presented in departmental study due in late March.

The net budget request for the department is \$38,130,179 which is \$1,525,076 or 4.2 percent above the current year. Building and maintenance costs estimated at \$1,010,233 and \$65,000 in appropriations pursuant to chaptered legislation bring the total expenditure program to \$39,205,412. Departmental administrative costs of \$5,958,486 will be distributed on a pro rata or fee-for-service basis to the boards and bureaus.

In calendar year 1977, the department received \$358,922 under Title II of the Public Works Employment Act of 1976. The funds were to be used to accelerate the activities of the Regulatory Review Unit in conducting a comprehensive review of the functions of all boards, bureaus, commissions, and committees within the department. The objectives of the project were to (1) complete an audit of complaint handling and educational systems, (2) analyze the responsiveness to the public and thoroughness of the investigative process, (3) review the regulations to determine if they are in the public interest, and (4) evaluate overall policies of the boards and bureaus related to consumer services and programs.

In the current year the department was granted an additional \$94,200 and a three-month extension (until late March 1978) to complete the study. We are withholding recommendation on the department and the boards, bureaus, commissions, and committees within the department pending the review of (1) the project reports, and (2) additional information supporting the budget requests. Recommendations on both the reports and the department's budget will be presented in a supplemental analysis prior to the budget hearings.

CHART 1
 ORGANIZATION OF THE DEPARTMENT OF CONSUMER AFFAIRS



Director's Executive Staff
 Chief Deputy Director
 Deputy Director
 Chief Counsel
 Internal Auditor
 Chief, Division Of
 Administration
 Chief, Division Of
 Investigation
 Chief, Division Of
 Consumer Services
 Deputy Chief, Division Of
 Consumer Services
 Southern California
 Consumer Representative
 Assistant to the Director
 Consumer Liaison Officer
 Appointments Coordinator

DIVISION OF INVESTIGATION
 Chief
 Area Supervisor
 Sacramento Dist. 1
 Fresno Dist. 4
 San Francisco Dist. 2
 San Jose Dist. 8
 Area Supervisor
 Los Angeles Dist. 3
 Riverside Dist. 6
 San Diego Dist. 9

DIVISION OF ADMINISTRATION
 Chief
 Central Testing Unit
 Data Processing Unit
 Fiscal Office
 Business Services
 Budget
 Accounting
 Forms Control
 Management Systems Unit
 Personnel Office

REGULATORY PROGRAMS
BUREAUS
 Automotive Repair
 Homes Furnishings
 Repair Services
 Collection & Investigative
 Services
 Employment Agencies and
 Nurses Registry
BOARDS, COMMITTEES & COMMISSIONS
 Accountancy
 Athletic Commission
 Barber Examiners
 Cemetery
 Certified Shorthand Reporters
 Contractors
 Cosmetology
 Fabric Care
 Funeral Directors and
 Embalmers
 Geologists and Geophysicists
 Landscape Architects
 Registered Construction
 Inspectors
 Structural Pest
 Architectural Examiners
 Behavioral Science Examiners
 Dental Examiners
 Guide Dogs for the Blind
 Medical Quality Assurance
 Acupuncture Advisory Com.
 Hearing Aid Dispensers
 Physical Therapists
 Physician's Assistant
 Psychology Exam. Com.
 Podiatry Examiners
 Speech Pathology/Aud.
 Nursing Home Administrators
 Optometry
 Pharmacy
 Professional Engineers
 Registered Nursing
 Veterinary Medicine/Animal
 Health Exam. Com.
 Vocational Nurse and
 Psychiatric Technician

DEPUTY DIRECTOR
 LEGAL COUNSEL

SOUTHERN CAL. CONSUMER REP.

DIVISION OF CONSUMER SERVICES
 Chief/Deputy Chief
 Legislation
 Representation
 Advertising Substant.
 Consumer Liaison
 Information
 Research and Development
 Regulatory Review
 Education
 Complaint Mediation
 Tax Preparers' Program
 Cooperative Consumer
 Protection Program

Projected Fund Deficits

The Bureau of Collection and Investigative Services (Collection Program) is projecting a deficit in its support fund at the end of the budget year. The fees for this program are at the statutory maximum. The bureau intends to have a bill introduced to revise its fee schedule in order to eliminate the deficit.

Although we are not projecting budget year deficits at this time, the Animal Health Technician Examining Committee, the Hearing Aid Dispensers Examining Committee, the Board of Vocational Nurse and Psychiatric Technician Examiners (Psychiatric Technician program) and the Cemetery Board are expected to end the budget year with small surpluses. These entities have been advised by the department to pursue appropriate courses of action.

**State and Consumer Services Agency
OFFICE OF THE STATE FIRE MARSHAL**

Item 104 from the General
Fund

Budget p. 174

Requested 1978-79	\$2,999,194
Estimated 1977-78.....	2,798,482
Actual 1976-77	2,337,155
Requested increase \$200,712 (7.2 percent)	
Total recommended reduction	\$30,394

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. *General Expenses. Reduce by \$28,390.* Recommend reduction of amount requested for general expenses. 110
2. *New Positions. Reduce by \$2,004.* Recommend budgeting new position at entry level. 111

GENERAL PROGRAM STATEMENT

The basic objective of the office of the State Fire Marshal is the prevention of loss of life and property by fire. The office achieves this objective by preparing and adopting minimum standards and disseminating information relative to public fire safety. Enforcement of standards is generally the responsibility of local authorities. The State Fire Marshal's office provides enforcement in cases where no local jurisdiction exists, in state-owned buildings and in cargo tanks used for the transportation of flammable liquids.

The State Fire Marshal's office is divided into three major elements: (1) enforcement, (2) analysis and development, and (3) administration.

OFFICE OF THE STATE FIRE MARSHAL—Continued**Enforcement**

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

Analysis and Development

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

Administration

This element provides planning, coordination, and application of statistical, physical and technical information. For accounting purposes, the cost of this element is prorated to the enforcement and analysis/development elements.

ANALYSIS AND RECOMMENDATIONS

The budget request of \$2,999,194 reflects a \$200,712 increase, or 7.2 percent over estimated expenditures for the current year. Table 1 summarizes the budget request by program.

Table 1
Summary of Program Requirements

	1977-78	1978-79	Percent change
Program I—Public Fire Safety			
A. Enforcement	\$3,385,168	\$3,400,205	+0.4%
B. Analysis and development	631,816	663,407	+5.0
Program II—Administration			
A. Administration (distributed to Program I)	(392,172)	(392,172)	—
Totals, Programs	\$4,016,984	\$4,063,612	+1.2
Reimbursements	\$1,170,336	\$1,054,418	-9.9
Federal funds	\$48,166	\$10,000	-79.2
Net Totals (Budget Request)	\$2,798,482	\$2,999,194	+7.2%
Personnel	133	132	-0.75%

The most significant changes shown by Table 1 are the reductions in reimbursements and federal funds. Reimbursements are forecast to decline by 10 percent chiefly due to cancellation of an inspection contract with the Department of Health. Federal grants from the National Fire Prevention and Control Administration, and the Environmental Protection Agency will decline to \$10,000 in the budget year.

General Expenses

We recommend a reduction of \$28,390 in the amount requested for general expense.

The budget proposes \$408,277 for general expenses. This is \$45,453 less than the estimated amount for the current year but \$101,669 more than

the amount expended in the past year.

Section 6120 of the State Administrative Manual (SAM) requires departments to prepare the Supplementary Schedule of Operating Expenses—Schedule 11. This form enables departments to forecast budget year operating expenses based on past year expenditures. The form makes allowances for expenses that may vary with changes in population, enrollment, or price. The office of the State Fire Marshal has not followed SAM procedures in budgeting general expenses. Our calculations made from price change figures supplied by the Department of Finance and population figures supplied by the State Fire Marshal can justify \$379,887 for general expenses—a reduction of \$28,390.

New Positions

We recommend a reduction of \$2,004 by budgeting the new senior clerk-typist at the entry level.

The budget proposes \$12,288 for a new senior clerk-typist. The position will be part of the new Vocational Education Unit, which was transferred to the State Fire Marshal from the Department of Education by Chapter 1248, Statutes of 1977 (SB 456). The additional workload resulting from this unit justifies the new position. However, unless there is a special need otherwise, the State Administrative Manual requires new positions to be budgeted at the entry level. Thus, we recommend funding the position at the entry level of \$10,284, rather than at the top salary level of \$12,288.

**State and Consumer Services Agency
FRANCHISE TAX BOARD**

Item 105-106 from the General Fund

Budget p. 177

Requested 1978-79	\$66,867,550
Estimated 1977-78	59,876,563
Actual 1976-77	55,361,711
Requested increase \$6,990,987 (11.7 percent)	
Total recommended reduction	\$323,731

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
105	General Operations	General	\$66,819,550
106	Legislative Mandates	General	48,000
			<u>\$66,867,550</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Audit Program Increases. Withhold recommendation pending receipt of additional supporting information for 34-personnel-year increase. 117

FRANCHISE TAX BOARD—Continued

2. Budgeting for Audit Program. Recommends cost benefit justification for audit program and report by December 1, 1978. 118
3. Utilizing Information Returns. Withhold recommendation pending additional information on \$1.6 million proposal. 119
4. Collection Program Accomplishments. Recommend report with particular reference to increases in appropriations without corresponding increases in productivity. 120
5. Collection Results and Costs. Information needed on PIT collection results and source of collection accounts. 121
6. Corporate Audits. Recommend review of the 100 percent audit policy. 123
7. *Property Tax Assistance. Reduce Item 105 by \$283,731.* Recommend deletion of 24.2 personnel-years due to overestimate of renters' claims. 127
8. *Information and Disclosure Inquiries. Reduce Item 105 by \$40,000.* Recommend deletion of 2.9 personnel-years. 128
9. Administrative Positions. Recommend proposed positions be granted for a one year limited term. 129

GENERAL PROGRAM STATEMENT

The Franchise Tax Board is responsible for administration of the Personal Income Tax and Bank and Corporation Tax Laws, the Property Tax Assistance Program and Political Reform Audit program. The Franchise Tax Board consists of the Director of Finance, the chairman of the State Board of Equalization and the State Controller. An executive officer is charged with administrative responsibilities imposed on the board, subject to the general supervision and direction of the board. The expenditure by program in the current and budget years, and percentage change in expenditures and personnel-years are shown in Table 1.

Table 1
Franchise Tax Board
1977-78 and 1978-79
(thousands of dollars)

	<u>Personnel Years</u>			<u>Expenditures</u>		
	<u>1977-78</u>	<u>1978-79</u>	<u>Percent Increase</u>	<u>1977-78</u>	<u>1978-79</u>	<u>Percent Increase</u>
I. Personal Income Tax.....	1,691	1,914	13.2%	\$43,200	\$47,700	10.4%
II. Bank and Corporation Tax	635	683	7.6	14,600	15,800	8.2
III. Property Tax Assistance.....	187	185	-1.1	3,165	3,360	6.2
IV. Political Reform Audit	40.5	47.9	11.7	2,300	2,449	6.5
V. Contract Work	93.9	104.8	18.3	923	1,043	13.0
VI. Legislative mandates.....	—	—	—	48	48	0.0
Less reimbursements	—	—	—	(4,359)	(3,532)	-19.0
General Fund total	2,647.4	\$2,934.7	10.9%	\$59,877	\$66,868	11.6%

ANALYSIS AND RECOMMENDATIONS

I. PERSONAL INCOME TAX (PIT) PROGRAM

The PIT program is responsible for providing assistance and information to taxpayers, processing an estimated 9.3 million returns, contracting with the Employment Development Department to collect withholding taxes, encouraging compliance through audit and filing enforcement programs, and collecting taxes owed the state. Table 2 shows the expenditures for the program elements in the current budget year and the percentage increase in expenditures and personnel-years.

Table 2
Personal Income Tax Program
Expenditure Increase by Program Element
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>Percent Increase</i>	<i>1977-78</i>	<i>1978-79</i>	<i>Percent Increase</i>
Processing Returns ..	842	872	3.5%	\$25,300	\$27,100	7.1%
Audits	460	553	20.2	8,800	10,200	15.9
Filing Enforcement	53	145	173.6	1,500	2,435	62.3
Collections	336	344	2.4	7,600	7,965	4.8
Total	1,691	1,914	13.2%	\$43,200	\$47,700	10.4%

Processing Returns

The Franchise Tax Board (FTB) estimates that over 9 million returns will be filed by taxpayers in the current year, and 9.3 million in the budget year. The budget includes an increase of 49 personnel-years (\$396,794) for the resulting increase in document processing.

The board requests an increase of \$402,650 (4.8 percent) for the withholding contract with the Employment Development Department. The FTB also requests that a contract coordinator position be authorized for as long as the withholding contract is in force.

Toll-Free Telephone System Now Operates Statewide

Since 1975, the board has operated a toll-free wide area telephone system (WATS) in the northern part of the state. Utilizing Title II Public Works Employment Act funds, the department has expanded this system statewide with an expected operational date of February 1, 1978. Taxpayers needing assistance will now be routed to Aerojet headquarters rather than to the field offices. Telephone line costs associated with this system will require an additional \$600,000 in the budget year.

The FTB reports that the centralized telephone assistance system will require a net increase in operating personnel (two work-years for all programs) over the decentralized system. In addition, the board is requesting an increase of 6.1 personnel years in the budget year to handle increased demand for service from PIT taxpayers. The WATS system

FRANCHISE TAX BOARD—Continued

allows the state to provide a higher level and more uniform distribution of assistance than a decentralized system.

Personal Income Tax Audit Activity

The audit program seeks to encourage compliance with personal income tax laws so that all taxpayers pay their appropriate share and the state realizes the maximum revenue within the PIT Law. To this end, the Franchise Tax Board proposes to spend \$10.2 million and utilize 553 personnel-years, an increase of 93 personnel-years (20 percent) over the current year. The board's audit program includes four elements; (1) mathematical verification, (2) audits generated by federal audit reports of California taxpayers, (3) desk audits of personal income tax and fiduciary returns, and (4) field audits. The proposed increases by program element are shown in Table 3.

Table 3
Summary of Audit Element Activities
Personnel-Years and Expenditures
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>Percent Increase</i>	<i>1977-78</i>	<i>1978-79</i>	<i>Percent Increase</i>
Math verification	124	133	7.3%	\$2,200	\$2,300	4.5%
Desk audits	161	223	38.5	3,000	3,700	23.3
Federal audit reports	75	75	—	1,400	1,500	7.1
Field audits	100	122	22.0	2,200	2,700	22.7
Total	460	553	20.2%	\$8,800	\$10,200	15.9%

Mathematical verification is performed by computer for all returns filed (over 9 million in 1978-79). Data from each return are entered through key data entry terminals and the results of all arithmetic operations on the return are verified by the computer.

Federal audit reports are sent to the board by the IRS on California taxpayers whose federal tax liabilities were adjusted as a result of an IRS audit. The board then checks to see whether the taxpayer's state tax liability also requires adjustment. About 10 percent of the board's personal income tax audits (estimated at 240,000 in 1978-79) will be generated by these federal audit reports.

Desk audits are conducted by both professional and clerical personnel at the board's operations center in Sacramento. These audits are usually conducted through telephone calls and correspondence with the taxpayer. Occasionally desk audits are referred to the field for further investigation. Almost 90 percent of the board's personal income tax audits (an estimated 2,100,000 in 1978-79) are desk audits.

Field audits are conducted by professional auditors at the board's 17 California district offices. These audits generally require that the taxpayer meet with the auditor either at the district office or the taxpayer's premises to review the taxpayer's records. Less than 2 percent of the board's personal income tax audits (an estimated 27,000 in 1977-78) are field audits.

The major staffing increases are proposed for desk audits at the central office, and the field audits operated from the district offices. The desk audit increase includes approximately 12 clerical positions to expand the number of clerical desk audits, and 50 positions for a proposed "income discrepancy" audit effort. This effort is an integral part of the proposed filing enforcement project which is discussed later. The budget also proposes an increase of 22 field auditor positions. Because the Math Verification program has long been one of the most successful in terms of overall revenue potential, the 7 percent increase in personnel appears to be justified.

The ASTRA System. In 1973, the FTB developed a computerized audit selection system known as ASTRA (Automated Selection of Tax Returns for Audit). Computer selection allows the FTB to "survey" all tax returns, and then to select those returns having characteristics which are believed to be productive from an audit standpoint. Until recently, the characteristics of potentially productive returns have been developed on the basis of professional judgment and past experience. For example, experience in past audits may have shown that returns having adjusted gross income of \$50,000 and deductions greater than \$20,000 frequently result in adjustments in tax liability. Thus, all returns with these characteristics would become part of the preliminary file of returns available for audit. These groups of characteristics by which returns are categorized are called "audit models" by the Franchise Tax Board. This year, in response to our suggestion in last year's Analysis, the Franchise Tax Board has "tested" the proposed audit models and on the basis of the test results has developed a ranking of returns by their productivity. This should reduce the problem of the Franchise Tax Board auditing less productive returns when there are more productive returns which have not been audited. The FTB has tested 70 audit models and expects to audit returns from approximately 35 models. Because the FTB collects information on the 70 different models, we believe the ASTRA system should be utilized to a greater extent in making and reporting budget decisions.

Problems in FTB Measurements of Revenues and Costs. While the FTB does collect information on the results and costs of using different models, there are several problems with the data collected. The net effect has been to overstate the benefits of auditing and to understate the cost. If such data were used to determine the appropriate level of auditing, the state could end up doing inefficient audits; that is, the audits would be costing more than the revenues they generate.

Problems in Measuring Benefits. There are two basic problems with the way in which the FTB reports benefits: (1) the FTB measures ASTRA results at the time a Notice of Proposed Assessment (NPA) is issued, and (2) the criterion used by the FTB in judging audit effectiveness is "tax change" rather than "tax revenue increase".

Original Assessments Subject to Change. The Franchise Tax Board measures ASTRA-related tax change at the time that taxpayers are notified of audit findings with an NPA. However, there are several intervening stages between the time that NPAs are issued, and dollars are actually collected. First, there is the possibility of cancellation or abatement of the

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NPA because of new information from the taxpayer. Secondly, there is the question of collecting revenues, as opposed to making "assessments". Together, these two factors tend to reduce the apparent benefits shown under the ASTRA program. (It should be emphasized that this discussion of measuring the NPAs applies only to the ASTRA program. For operating reports, the Franchise Tax Board adjusts the reported audit results for abatements and cancellations, but not for collections.) The operating reports provide some insights into what becomes of NPAs after the abatements and cancellations. Table 4 shows the results for 1976-77.

Table 4
1976-77 PIT Audit Program
(thousands)

	<i>Gross Assessments</i>	<i>Cancellations & Abatements</i>	<i>Net Assessments</i>	<i>Percent of Gross Assessments</i>
PIT audits.....	\$19,638	\$7,408	\$12,230	(62%)
Federal audits	28,334	8,086	20,247	(71%)
Field audits	13,793	4,667	9,126	(66%)
Math verification	35,887	4,581	31,306	(87%)
Total	\$97,652	\$24,744	\$72,908	(75%)

Table 4 shows that abatements and cancellations range from 13 percent for math verification to 38 percent for PIT audits and average 25 percent in the audit program overall.

These results raise questions about the quality of the original audits. We understand that the FTB makes no use of "abatement and cancellation" reports in evaluating its audit performance or its audit selections. There are some indications that auditors "close audits" and issue NPAs when taxpayers are tardy in providing information to the FTB. To be useful for evaluating the benefits of proposed audits, it would be necessary to adjust the gross assessments for cancellations and abatements. In addition to adjusting assessments for abatements and cancellation, it is necessary to adjust audit results using information about refunds of taxes.

Tax Change v. Potential Revenue. The FTB measures and reports the productivity of its audits in terms of "tax change". Tax change is defined as the sum of the increased assessments and reductions in self-assessed taxes. Thus, "tax change" is not the same as increased tax revenues; rather it is increased revenues *plus* decreased revenues. For example, if the Franchise Tax Board in auditing all the returns in a model found that \$100 in additional taxes were due from some taxpayers, but another group was owed \$100, the Franchise Tax Board would report \$200 in tax changes but there would be no state revenue increase. The detection of overpayment by taxpayers is, of course, a legitimate concern of the board. If our objective is to determine an "economically efficient" level of auditors solely in terms of the impact on state revenues, then tax change obviously is not an appropriate measure. Under these circumstances, the appropriate measure of revenue increase would be increased assessments *less* reductions.

Collections Results. If increased assessments less tax reduction is used,

this would still not accurately reflect the impact of the audit program on state finances. Potential revenues are not the same as collections. The FTB collections program does not keep track of its collection results by "source of the account"; thus, it cannot say how much of the "audit assessments" is actually collected. For the collections program overall, 28 percent of the amount available for collection was collected in 1976-77, 18 percent was abated or discharged, and 54 percent remained uncollected. While these give some indications of "actual collections", their relevance to audit revenues is limited because it is not clear how many of the audit accounts end up in collections. There is a period after NPAs are issued during which the taxpayer could pay or appeal in which case the account would not become a "collection". (Collection activities are discussed later in this Analysis.)

Reporting Costs. There are two problems in the cost figures which FTB uses in evaluating its audit performance. First, the FTB uses only the "direct cost" of the audits, and second, the FTB does not consider collections costs in deciding which audits are productive.

Under the ASTRA system, the FTB considers only the "hourly salary cost" of the auditors on a given audit. It does not include their benefits, nor the support staff and operating costs associated with them. A broader measure of costs would be needed if the ASTRA system is to be used to determine an "efficient" level of auditing.

As noted above, the FTB has treated its collection activities separately from its audit activities. The costs of the collection activities are, however, an integral part of the audit effort, if we are concerned with the economic efficiency of the audits. At this time it is not possible to determine the portion of collection costs which are attributable to audits, as opposed to filing enforcement, or no pay and underpaid returns. The total cost of the collections program is substantial relative to the total audit program, and thus, if audit collections are a significant part of the collections effort, these costs could have a significant impact on the value of the different audit models.

Audit Increases Not Adequately Justified

We withhold recommendation on the proposed 34 personnel-year increase in existing audit activities pending receipt of further information from the Franchise Tax Board.

The Franchise Tax Board's budget requests approximately 34 additional positions and \$486,000 for expansion of the existing Audit program. The information provided thus far does not address the concerns with the Audit program discussed above. We believe that information relevant to a legislative decision on the proposal can be made available by the Board, and thus, a delay is appropriate.

The board is requesting \$102,000 and 12 personnel-years for increased clerical desk audits. The board estimates that 430,000 audits could be accomplished with these resources, resulting in increased benefits of \$540,000. These estimates are based on actual results of using borrowed personnel. Nonetheless, important questions raised by this proposal have not been answered by the Franchise Tax Board.

First, while the board requested and was granted 186 personnel-years

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for desk audits in the budget for 1976-77, it utilized only 178 personnel-years for this activity. Because these authorized positions apparently were utilized in other audit activities, it would not appear that manpower need be borrowed.

Second, the reported benefits of \$540,000 or \$5.29 per dollar are not consistent with amounts reported in the Governor's Budget for past years. The Governor's Budget reports tax changes that average \$4.21 per dollar spent on desk audits. As noted above, the board uses a number of different measures of audit results including gross assessments, net assessments and sometimes potential revenue.

If in fact the revenue benefit is \$5.29 per dollar, and the average tax change is \$4.21 per dollar, it would be in the state's best interest to accomplish the proposed audits with existing staff and discontinue other less productive audits. To justify additional positions, the Board needs to demonstrate that existing resources are being used in the most effective manner.

The remaining 22 positions and \$383,755 are for the Field Audit program. With these positions the Franchise Tax Board estimates that it could audit an additional 3,581 returns. With this increase the field offices would be able to achieve their audit goal which is 1 percent of the preliminary audit selection file of 1.3 million returns. Based on its "historical production", the Franchise Tax Board estimates that *tax change* would amount to \$5.06 per dollar of cost, or \$1.6 million compared to a budget cost of \$383,755.

There are three problems associated with this proposal. First, we have no information about how the existing 100 personnel-years are being used, the number of returns they will audit, and the expected results of those audits. Secondly, the estimated benefits are based on the average tax change that historically has resulted from audits rather than on the marginal revenue that the additional positions would yield. As noted above, if the Board is operating efficiently the result of an increase in audit activity should be *less* than the average (since resources should be applied first to the most productive audits). Yet the Franchise Tax Board uses the average. In addition, the Franchise Tax Board uses "tax change" rather than net revenues received to justify this expansion. We believe that the board is capable of developing the marginal revenue on the basis of the ASTRA models and their test results, as discussed above. (We do know that in 1976-77, the potential revenues, after cancellations, rebates and refunds, amounted to 95 percent of the "tax change" reported in the budget.)

Third, a fixed percentage of a universe is not an appropriate audit goal. Rather, the appropriate level of audits should be determined from an analysis of marginal costs and benefits.

Budgeting for Audit Program

We recommend that the Franchise Tax Board be required to provide a cost-benefit justification for the use of the baseline budget, and any proposed increases for the audit program in 1979-80 and submit it to the Joint Legislative Budget Committee by December 1, 1978.

The previous discussions of the proposed increase in the audit program illustrate several problems which have always existed in evaluating Franchise Tax Board requests for audit positions. First, the Franchise Tax Board proposals do not discuss how the existing audit staff is going to be used in the budget year. With over 550 personnel-years, and \$10 million being spent, the existing program is of considerable importance. Second, Franchise Tax Board proposals typically state the benefits of proposed increases in terms of the "average" results of the past year. The average results are not an appropriate basis for an expansion of the audit program because the results of a marginal increase will generally be less than average, unless base staffing is allocated in a haphazard manner.

A cost-benefit justification for proposed uses of the existing staff of the audit program is a necessary and desirable means of providing adequate information to the Legislature about proposed increases in the audit program. The ASTRA system, discussed previously, provides an appropriate mechanism for dividing the total program into discrete elements. The ASTRA system is capable of estimating how many returns are in a given category, and what the costs and potential revenue of auditing this category are. The ASTRA categories provide a useful base on which to add further information on (1) cancellation, abatement, and refunds associated with different audits, and (2) collection results of different audits.

Because the ASTRA system divides the audit universe into over 70 categories, it would be possible for the audit program budget decisions to be made on the basis of incremental benefits. The incremental or marginal approach is the only means to assure that the continued expansion of the audit program is resulting in more benefits than costs.

Filing Enforcement

The filing enforcement element seeks to insure that all those who have an obligation to file under the law do so. The primary means of finding nonfilers is to compare information on those who have filed state returns with information from federal returns, withholding tax payments from wages and salaries, information returns filed by those who pay interest, dividends, rents, royalties and other income and information from other sources. At this time, the FTB uses only information which is made available to it on magnetic tape. When apparent discrepancies arise, the FTB contacts the potential taxpayer to clarify his filing status.

Major Expansion in Utilization of Information Returns

We withhold recommendation on the proposed \$1.6 million program for greater utilization of information returns pending receipt of additional data from the Franchise Tax Board.

The Auditor General in his January 1975 report suggested that the board should make greater utilization of information sent to the board on Form 599, Information Returns, which must be filed by those who pay interest, dividends, commissions and other payments. This information could be used to identify nonfilers, as well as to identify persons who filed but did not report income from all sources.

The Franchise Tax Board is requesting an approximate \$1.6 million for

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the budget year to initiate a program which would input data from over 5 million information returns, make comparisons with lists of current filers, and generate information about potential nonfilers, and filers who under-report income. The costs of this effort in future years would be approximately \$2.5 million and would affect the workload of the collections and audit elements. The board has stated that this effort would result in additional annual revenues of \$20 million, with \$3.5 million from nonfilers and \$16.5 million for income discrepancies on filed returns.

This proposal will result in substantial budget year costs and even greater future year costs. The Franchise Tax Board justifies this effort based on the ratio of revenues to cost, which for the long term is estimated at \$8 of revenue per \$1 of cost. We have requested that the board provide us information which supports this proposal. Our recommendation will be based on the clarification of several aspects of the proposal.

The cost data submitted by the board shows an unusually low amount of operating expense and equipment relative to the personnel services amount. We will ascertain whether the costs estimated by the Franchise Tax Board are reasonable to accomplish the workload which this proposal will create.

Of greater concern are the estimated benefits reported by the Franchise Tax Board. The \$20 million revenue increase is based on a sample of information returns selected by the board. However, information regarding the methodology utilized in this sampling study is necessary to evaluate the accuracy of the estimated benefits and has not been provided. It is also necessary to have supporting information about the benefits in future years. It is not clear that these are, in fact, new revenues which would not otherwise be realized by the state from other activities and sources (such as its existing audit and filing enforcement efforts). In addition, it is important to know what the Internal Revenue Service is doing with information returns. Lastly, this proposal raises questions regarding apparently different treatment of nonfilers and filers.

Collection Activities

The FTB requests an additional 8.2 years and \$107,960 for increased workload resulting from the proposed filing enforcement program and for document processing.

Collection Program Costs Rise—Collections Remain Constant

We recommend that the Franchise Tax Board report to the Joint Legislative Budget Committee, the fiscal subcommittees and the policy committees by March 15, 1978, on the accomplishments of the collections program for the last two fiscal years with particular reference to increases in appropriations without corresponding increases in productivity.

In the 1975-76 budget, the Franchise Tax Board requested and received an additional 65 positions to address the backlog of collection accounts. This resulted from an Auditor General's report which stated that the state might lose \$51 million if the collections program were not augmented. The Franchise Tax Board offered no estimate of amounts to be collected, but suggested that of the 220,000 accounts amounting to \$100 million, the

board could probably collect from 135,000 accounts. Table 5 shows what has occurred in the two years since the Franchise Tax Board received its 65 additional positions.

Table 5
Personal Income Tax Collections Activities
1973-77
(Thousands)

	1972-73	1973-74	1974-75	1975-76	1976-77
Amount Collected	\$61,393	\$58,317	\$84,138	\$86,704	\$84,799
Amount Abated	28,940	25,482	43,293	42,962	35,863
Amount Discharged	1,100	2,402	2,315	14,959	17,616
Total	\$91,434	\$86,207	\$129,746	\$144,627	\$138,279
Program Costs.....	\$2,354	\$2,989	\$5,222	\$6,187	\$6,874
Personnel Years	Not Reported	Not Reported	316.9	345.9	335.4
Tax Collected per Dollar ...	\$26.08	\$19.51	\$16.11	\$14.01	\$12.34
Number of Accounts Collected.....	277,240	229,594	215,658	Not Reported	Not Reported

While in 1974-75, FTB collected \$84.1 million, in 1976-77, it collected \$84.8 million, an increase of 0.8 percent. In that same period collection costs increased 32 percent. The amounts cancelled by the board or deemed uncollectible and thus discharged increased by 17 percent in that same period from \$45.6 million in 1974-75 to \$53.5 million in 1976-77.

The table also shows that the number of accounts collected actually decreased from 277,000 in 1972-73 to 215,000 in 1973-74, a drop of 22 percent. However, the FTB no longer is reporting the number of accounts, so it is not clear if this decrease is continuing.

Board Appears Not to Utilize Amounts Budgeted for Collections

As noted above in Table 5, actual expenditures by the FTB have increased sharply over the 1974-75 level. Yet the amounts actually utilized by the board for collections appear to have been substantially less than requested as shown in Table 6. Thus, while the board requested and received a total of 390 work years and \$7.0 million for 1975-76, it reports that it utilized only 346 work years and \$6.2 million. Similarly, it requested 393 positions and \$8.0 million in 1976-77, it utilized only 335 work years and \$6.9 million.

Table 6
Collections Program
Budgeted Versus Actual

	<u>Personnel-Years</u>		<u>Expenditures (000's)</u>	
	<u>Appropriated</u>	<u>Utilized</u>	<u>Appropriated</u>	<u>Utilized</u>
1975-76.....	390.4	345.9	\$7,037	\$6,186
1976-77.....	392.5	335.4	8,024	6,874

Collections Data Processing Falls Behind Schedule

We recommend that the Franchise Tax Board develop information which reflects the collection experience and collections costs associated with the various audit program elements, and the filing enforcement

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element, and report to the Joint Legislative Budget Committee, by October 1, 1978.

In our 1976-77 Analysis, we noted that the board was implementing improvements in its information system for the collections program. The board at that time reported that it would be operational in 1978. The board now reports that this system will be operational in 1981. In that same Analysis we also noted that beginning in 1976, the FTB would be capable of reporting on the source of its collection accounts (i.e., audits; filing enforcement, no pay return), and their eventual disposition (discharged, abated, collected). However, at this time, the FTB reports that it does not have such information.

Collections results and costs are essential information to the efficient operations of the Filing Enforcement and Audit programs. It is inappropriate for the board to wait until the information system is available since it could not produce useful data for sometime after the system is operational. The board should instead use statistical sampling techniques to develop information about the eventual collection outcome by source of the collection account, and by several of the subcategories within each category. This information should then be incorporated into the decisions regarding utilization and proposed increases in Audit and Filing Enforcement programs.

II. BANK AND CORPORATION TAX PROGRAM

The Bank and Corporation Tax program administers the income tax law applicable to approximately 265,000 corporations doing business in California. The Governor's Budget proposes an increase of approximately 50 personnel-years (8 percent) and \$1.2 million (8.2 percent), as shown in Table 7.

Table 7

Bank and Corporation Tax Program Expenditure Increase by Program Element (dollars in thousands)

	Personnel-Years			Expenditures		
	1977-78	1978-79	Percent Increase	1977-78	1978-79	Percent Increase
Self-Assessment and Prepayment	162	172	6.2%	\$3,200	\$3,500	9.4%
Audit Activities	324	334	3.1	8,300	8,900	6.0
Exempt Corporations	33	37	8.8	650	700	7.7
Filing Enforcement	7	23	128.0	150	370	146.0
Collections	109	117	7.3	2,300	2,430	5.6
Total	635	683	7.6%	\$14,600	\$15,900	8.2%

The proposed increases in the self-assessment element include seven positions to handle increases in document processing and to improve the timeliness of such processing. It also includes 1.5 personnel-years to provide advance rulings to corporations regarding their tax status and to assist them in business location decisions.

The proposed increase of four positions for exempt corporations is intended to deal with new legislation (Chapter 271, Statutes of 1977

(AB 101) and Chapter 1079, Statutes of 1977 (AB 302) and workload growth. The eight positions for the collections program are requested to deal with new workload from existing resources (1.7 years) and the new workload resulting from increases in the filing enforcement program and audit program.

Filing Enforcement Expansion Proposed

The Governor's Budget requests \$218,427 and 16.3 personnel-years for an expanded program of filing enforcement against corporations which might not be meeting their filing responsibilities. The proposed program would make use of data currently available but not utilized from the Board of Equalization (sales tax), Employment Development Department (employer taxes) and some county assessors (inventory exemption data). The Franchise Tax Board estimate that this effort will result in 15,000 additional tax assessments from inquiries to 150,000 taxpayers, and 2,500 assessments per year in later years. In the first year, the program would result in \$2 million in additional assessments, according to the board's estimates. Program expenditures would decrease in later years to approximately \$54,000.

Audit Program Expansion Continues

The audit program is the primary means of promoting compliance with the self-assessment provisions of the tax law. The major elements of the program include (1) verification of returns, (2) utilization of federal audit reports, (3) field and central office audits of corporations with income earned solely in California (non-apportioning corporations) and (4) field and central office audits of corporations which are liable for California taxes because a portion of their income is derived from operations or sales in this state ("apportioning" corporations).

The Governor's Budget proposes approximately seven personnel-years for field audits, an increase of 6 percent, and three personnel-years for math verification and audit support.

Corporate Audits

We recommend that the Franchise Tax Board review its policy of 100 percent corporate audits, with the goal of reducing the number of unprofitable audits by eliminating audits of segments of the corporate universe which show low audit value, and report to the Joint Legislative Budget Committee by November 1, 1978.

Current policy of the Franchise Tax Board is to perform a desk or field audit on every nonapportioning corporation annually and audit apportioning corporations on a three-year cycle in which one-third of the corporations are audited each year for their last three tax years. In contrast, personal income tax audits covered approximately 18 percent of the taxpayers in 1976-77 annually, and federal corporate audits cover nine percent of the universe.

We believe that the current 100 percent audit policy of the Franchise Tax Board may result in less net revenue to the state than a more selective audit program focused on segments of the corporate universe which have shown greater audit potential. Because most corporate taxpayers attempt

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to meet their obligation accurately, an audit program with 100 percent coverage results in large numbers of unproductive audits, i.e., audits in which no errors are found. Doing fewer audits would result in less costs, and a selective audit program may be able to capture almost as much revenue as a universal audit program. Thus if costs decrease more than revenues, the state could realize higher "net revenues" (revenues less cost) by doing fewer audits. To obtain this result, it would be necessary for the Franchise Tax Board to examine various segments of the corporate universe to see if there are significant differences in audit potential.

Table 8 shows the total number of audits done in 1976-77 in the various elements of the audit program, and the number and percentage of unproductive audits. While overall, Franchise Tax Board audits were unproductive in 70 percent of the cases, the unproductive rate differed greatly among the different program elements. For example, in 1976-77, 96.6 percent of central office audits of nonapportioning corporations resulted in "no change" for the taxpayer. Among apportioning corporations, 86 percent of the central office audits resulted in no change.

Table 8
Unproductive Audits
Bank and Corporation Tax Program
1976-77

	<i>Number of Audits</i>	<i>Number of Unproductive Audits</i>	<i>Percentage of Unproductive Audits</i>
Federal audit reports	8,969	3,490	38.9%
Nonapportioning corporations:			
Central office.....	171,772	166,035	96.6
Field.....	5,984	5,060	84.6
Apportioning corporations:			
Central office.....	21,841	18,820	86.2
Field in-state	5,631	2,682	47.6
Field out-of-state.....	6,121	1,698	27.7
Math verification	256,833	139,352	54.3
Total.....	477,151	337,137	70.6

Original Audit Findings Often Revised or Cancelled

While overall, the Franchise Tax Board makes tax changes in less than 30 percent of the corporate audits, these results are often changed on the basis of new information from taxpayers or appeals of original findings. While the Franchise Tax Board does not report the number of cases in which audit findings are revised, it does report the dollar amount of these changes. Table 9 shows the results of the original audit findings (gross assessments) in 1976-77 and the dollar amount and percentage of cancellations and reductions which were made in 1976-77.

In the aggregate, the Franchise Tax Board reduced or cancelled less than 10 percent of the original audit findings in 1976-77. This was a significant improvement over the years 1973-74, 1974-75 and 1975-76 where the aggregate revisions of audit findings amounted to 14.9 percent, 12.8 percent and 18.1 percent, respectively. However, Table 9 also shows a high

Table 9
1976-77
Bank and Corporation Audit Program
(thousands)

	<i>Original Assessments</i>	<i>Cancellations and Abatements</i>	<i>Percent Cancelled or Abated</i>
Federal audit reports.....	\$18,017	\$2,836	15.7%
Nonapportioning corporation audits:			
Central office.....	6,080	1,040	17.1
Field.....	4,739	434	9.2
Apportioning corporation audits:			
Central office.....	1,963	865	44.0
Field in-state	26,971	2,154	7.9
Field out-of-state.....	41,371	2,126	5.1
Math verification	12,734	1,438	11.3
Total.....	\$111,878	\$10,896	9.7%

degree of variation among the various elements. The rate of cancellation or abatement is relatively low for the field audits, ranging from 5.1 percent for out-of-state audits for apportioning corporations to 9.2 percent for field audits of in-state corporations. Central office audit findings were reduced by 17.1 percent for in-state corporations and by 44 percent for multistate corporations. When the audit program elements are compared for both unproductive audits and changes in original findings, it can be seen that the central office audits have the lowest percentages of productive audits, and yet those audits findings are most likely to change.

Budget Figures Distort Revenue Value of Audits

The statistical summaries of audit program accomplishments shown in the Governor's Budget include the reductions and cancellations in the original audit findings. However, these tax change statistics overstate the net revenue benefits to the state of an audit program. This is because statistics showing tax change do not deduct decreases in taxes resulting from audits from audit-produced increases.

Table 10 shows what the Franchise Tax Board reports as tax change for the Bank and Corporation Audit Program and the net revenues which the state might be able to realize from the audit program. We stress that these net revenues are, in fact, potential revenues, because these do not reflect the actual collection experience. The Franchise Tax Board does not keep track of actual collection experience associated with audit findings so it is not known how much of the net revenue from audits is actually collected.

Thus, while the Governor's Budget shows that total tax change in 1976-77 amounted to \$110.6 million, the net potential revenue is \$91.4 million, 83 percent of the tax change figure. Again, the table shows significant variation among the program elements. Net revenues as a percentage of reported tax change amounted to 95 percent for math verifications, and 90.2 percent for central office audits of in-state corporations. However, for central office audits of multistate corporations, the potential revenue is 37 percent of the reported tax change. In the field audits of in-state corporations, the potential revenues amount to 68 percent of the reported tax change.

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Table 10
Measures of Audit Production
Bank and Corporation Tax Audits
1976-77
(thousands)

	<i>Reported Tax Change</i>	<i>Potential Revenues (increases less refunds)</i>	<i>Percent of Tax Change</i>
Federal audits	\$16,080	\$14,281	88.8%
Nonapportioning corporation audits:			
Central office	5,300	4,778	90.2%
Field	5,124	3,485	68%
Apportioning corporation audits:			
Central	1,595	601	37%
Field in-state	27,232	22,400	82.3%
Field out-of-state	43,682	34,808	79.7%
Math verification	11,578	11,014	95.1%
Total bank and corporation audits	\$110,595	\$91,370	82.6%

Some Elements Appear More Profitable

The budget shows the ratio of tax change per dollar of cost for the various elements of the audit programs. Because tax change does not indicate the profitability of various audit from the state's standpoint, we have also shown the ratio of potential revenue per dollar of cost in Table 11.

Table 11
Bank and Corporation Tax Audits
Tax Change and Potential Revenue Per Dollar of Cost
1976-77

	<i>Tax Change per Dollar of Cost</i>	<i>Potential Revenue per Dollar Cost</i>
Federal audit reports	\$78.09	\$69.35
Nonapportioning corporation audits:		
Central office	6.47	5.83
Field	4.78	3.25
Apportioning corporation audits:		
Central office	3.73	1.40
Field in-state	13.52	11.12
Field out-of-state	15.11	12.02
Math verification	59.29	56.50

This table shows that, overall, each audit program element is profitable, with the federal audit reports and math verification being most profitable in terms of potential revenue per dollar of cost. The central office apportioning audits are the least profitable, at \$1.40 per dollar, followed by the field audits nonapportioning corporations at \$3.25 per dollar of cost. While these still appear profitable, the ratios tend to overstate revenues and understate costs. The potential revenues do not reflect cost of collection,

and therefore exaggerate actual revenues per dollar of cost. In addition, the department underestimates the long-term costs because it does not explicitly account for computer capacity costs.

III. HOMEOWNERS' AND RENTERS' PROPERTY TAX ASSISTANCE PROGRAM

The department administers the Homeowners' and Renters' Property Tax Assistance Law which consists of (1) payments to senior citizen (over 62 years) homeowners, who meet specified income limitations, (2) payments to senior citizen renters who meet specified income limits, and (3) loans to pay property taxes for specified senior citizen homeowners, qualified by income.

Tax Postponement Program Commences

The budget proposes eight work-years and \$133,000 in the budget year for the Property Tax Postponement program mandated by Chapter 1242, Statutes of 1977. Because the administration of this program involves the Franchise Tax Board and the State Controller's office, this item is discussed in greater detail under Item 402 in this Analysis.

Renters Claims Overbudgeted

We recommend deletion of \$283,731 and 24.2 personnel-years in the Property Tax Assistance program. (Item 105).

The budget requests an increase of 5.2 work-years (\$32,721) to process an increase in claims under the Renters' Assistance program.

The Senior Citizen Renters' Assistance program was established by Chapter 1060, Statutes of 1977 (AB 2972). Because last year was the first year of full-year budgeting for this program, much uncertainty surrounded the estimates of the number of claimants. In budgeting for the assistance payments, last year's budget appropriated \$20 million based on the assumption that 200,000 claimants would receive an average of \$100 in assistance for the current year.

The results of the first year's program are now available. The Franchise Tax Board reports that approximately 90,000 claimants will receive payments of \$6.7 million in the current year. Table 12 shows program activity, actual and projected, during fiscal years 1974-75 through 1978-79.

Table 12
Senior Citizen's Assistance Program
Renters and Homeowners

	1974-75	1975-76	1976-77	Preliminary 1977-78	Estimated 1978-79
Homeowner claimants	307,170	300,737	293,193	325,000	320,000
Renter claimants.....	—	—	—	90,000	110,000
Total claimants	307,170	300,737	293,193	415,000	430,000
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Projected^a</i>	<i>Proposed</i>
Personnel-years.....	113.6	114.4	130.2	178	185
Expenditures (000's)	1,646	1,809	2,212	3,084	3,360

^a Excludes one time use of seven personnel-years for installation of WATS, funded with Title II funds, not General Fund.

Because the actual number of renters' claims in 1977-78 is less than
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FRANCHISE TAX BOARD—Continued

one-half of the expected number of 200,000 and because the figure in the budget year is only 110,000, the proposed increase of 5.2 work years (\$32,731) should be deleted, and expenditures further reduced by an additional \$251,000 (approximately 19 personnel-years).

IV. CONTRACT WORK

The Franchise Tax Board provides data processing services to a variety of other state and federal agencies. All costs are recovered through reimbursements or fees, and departmental overhead borne by the General Fund is reduced. In the budget year, contract work will amount to \$1.1 million, an increase of 13 percent over the budget year.

V. POLITICAL REFORM AUDIT PROGRAM

The Political Reform Act of 1974 was adopted by the voters as a statewide ballot initiative in June 1974. The act requires the Franchise Tax Board to audit statements and reports of lobbyists, candidates, campaign committees and elected officials meeting criteria specified in the act.

Chapter 1075, Statutes of 1976, requires a separate budget item indicating the amounts appropriated to agencies to administer provisions of the act. In the 1978-79 Governor's Budget the Franchise Tax Board is reimbursed for Political Reform Audit program expenditures from funds appropriated for that purpose. Our analysis of this program appears under Item 346.

ADMINISTRATION

The Administration program provides management and staff services to support the various program operations. Such services include executive management, fiscal and personnel administration, statistical research, program planning, supply and maintenance investigations.

Table 13 summarizes the expenditures and personnel-years in the Franchise Tax Board's administration program. All expenditures are distributed to operating programs.

Table 13
FTB Administration

	1976-77	1977-78	1978-79
Personnel-years	228	230	245
Expenditures (thousands)	\$3,897	\$4,436	\$4,769

Permanent Positions Not Justified

We recommend deletion of \$40,000 (2.9 personnel-years) in the information and records disclosure program (Item 105).

In response to privacy legislation, the budget includes 2.9 personnel-years and \$40,000 to provide information and records of disclosure to individuals on request. The board assumes 50 requests per month will be made for such records, based on IRS experience. To date, experience under the executive order B-22-76 shows 44 requests in *one year* for access to records. We would expect that interest in such records would tend to decrease with time.

The department also suggested that it will need to change certain procedures to meet requirements of the new law. It would appear that such workload is of a short term duration and thus does not justify permanent positions.

Limited Term for Proposed Administrative Positions

We recommend that the proposed administrative positions be granted for a one year limited term.

The budget also includes an increase of 13.3 personnel-years of temporary help and \$183,000 to handle the increase workload associated with the proposed new positions in the operating programs.

However, no justification has been received from the department for these positions because they were treated as overhead to various other proposed new programs. Although new positions are accompanied by administrative workload, we believe that the individual administrative positions should be identified and justified.

**State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES**

Item 107, 109, 110 and 118 from the General Fund; Item 113 General Fund transfer to Service Revolving Fund; Item 114 from the Service Revolving Fund—other activities; Item 115 from the Service Revolving Fund—printing; Item 116 from the State School Building Aid Fund; and Item 117 from the Deferred Compensation Plan Fund

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Requested 1978-79	\$188,043,284
Estimated 1977-78.....	173,886,954
Actual 1976-77	152,054,729
Requested increase \$14,156,330 (8.1 percent)	
Total recommended reduction	\$4,119,138

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
107	Department of General Services. For direct support of department operations.	General	\$6,025,962
109	Communications Division. For support of state communications satellite program.	General	5,800,000
	Less amount proposed for carry-over to subsequent years.		-2,005,000 (3,795,000)

DEPARTMENT OF GENERAL SERVICES—Continued

110	Communications Division. For support of Emergency Telephone Number program, as authorized by Chapter 443, Statutes of 1976.	General	174,545
113	Department of General Services. Provides authority whereby funds appropriated from the General Fund or other funds for purchase of automobiles or reproduction equipment may be used to augment the Service Revolving Fund which finances General Services car pool and reproduction services.	General Fund transfer to Service Revolving Fund	N/A
114	Department of General Services. For support in form of revenues from agencies receiving products or services other than printing.	Service Revolving Fund, other activities	\$143,616,968
115	Office of State Printing. For support in form of revenues from agencies receiving printing services.	Service Revolving Fund, printing	32,670,635
116	Office of Local Assistance. For support of State School Building Aid Program.	State School Building Aid	594,354
117	Insurance Office. For support of deferred compensation insurance plan administered by the office for state employees as authorized by Chapter 1370, Statutes of 1972.	Deferred Compensation Plan	125,560
118	Communications Division. For reimbursing local agencies in implementing Emergency Telephone Number program as authorized by Chapter 443, Statutes of 1976.	General	1,040,260
	Subtotal of department's items included in this Analysis.		<u>\$188,043,284</u>
108	Office of State Architect. For acquiring art for state buildings as required by Chapter 513, Statutes of 1976 (Item analyzed on page 143).	General	730,000
111	Office of State Architect. For direct support of specified plan checking services (Item analyzed on page 143).	Architecture Public Building	2,495,157
112	Office of State Architect. For support of operations (Item analyzed on page 143).	Architecture Revolving	\$15,543,664
Note ^a	Office of State Architect. For verifying that plans of structures purchased with state funds are accessible for use by physically handicapped.	General	162,508
Note ^b	Department of General Services. For maintaining, protecting, and administering state parking facilities.	General	688,474

Note ^c Department of General Services. For maintaining and improving properties (1) acquired under the Property Acqui- sition Law or (2) declared surplus prior to disposition by state.	General	1,600,000
Office of Minority Business Enterprise. For support of operations.	Federal funds	100,000
Office of Administrative Hearings. Represents federal Title II funds for in- dexing California Administrative Code.	Reimbursements	39,822
Total expenditures budgeted.		\$209,402,909

^a Government Code (Section 4454) (continuing appropriation)

^b Government Code (Section 14678) (continuing appropriation)

^c Government Code (Section 15850-15865) (continuing appropriation)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|--|-----|
| 1. <i>Programing Unit. Reduce Item 107 by \$63,435.</i> Recom-
mend this technical reduction if recommendation under
Office of State Architect (Items 108, 111 and 112) is adopted
for supporting the unit from a separate budget item. | 136 |
| 2. <i>Neighborhood Planning. Reduce Item 107 by \$50,000.</i> Rec-
ommend reduction if recommendation to delete this pro-
gram under Office of State Architect (Items 108, 111 and
112) is approved. | 136 |
| 3. <i>Groundskeepers. Reduce Item 114 by \$124,359.</i> Recom-
mend deletion of eight laborer positions requested for pro-
viding labor intensive grounds maintenance. | 136 |
| 4. <i>Governor's Mansion. Reduce Item 107 by \$81,344.</i> Recom-
mend reduction to reflect reduced security and mainte-
nance costs for Governor's Mansion. | 136 |
| 5. <i>Office Copiers. Add Item 107.2 for \$2 million.</i> Recommend
separate item be added to provide a \$2 million General
Fund loan to department for copier purchase program. | 137 |
| 6. <i>Office Copiers.</i> Recommend a control section be added pro-
hibiting leases for office copiers except when economically
justified. | 139 |
| 7. <i>Data Communications.</i> Recommend department consider
alternative suppliers for data communication network if tel-
ephone company has not demonstrated satisfactory service
by May 1978. | 139 |
| 8. <i>Communications Satellite. Delete Item 109 for \$5.8 million</i>
<i>(\$3,795,000 budgeted for expenditure in 1978-79).</i> Recom-
mend deletion of \$5.8 million for initiating three-year com-
munications satellite demonstration program. | 142 |

GENERAL PROGRAM STATEMENT

The Department of General Services exists to improve the overall efficiency of state government operations by (1) performing certain management and support functions as assigned by the Governor and specified by

DEPARTMENT OF GENERAL SERVICES—Continued

statute, (2) providing central services to operating departments more economically than they can provide individually for themselves, and (3) establishing, maintaining and enforcing statewide standards and developing and implementing improved statewide policies and procedures.

ANALYSIS AND RECOMMENDATIONS

Table 1 presents a summary of total department expenditures by source of funds for the three-year period ending with fiscal year 1978-79. The department is funded by direct support appropriations, revolving fund appropriations, and reimbursements. Direct support refers to monies appropriated specifically to support General Services' operations. Revolving fund appropriations and reimbursements permit the department to expend specified amounts from revenues it earns from providing services and products to customer agencies. Table 1 shows that 91.6 percent of department costs is supported from revenues earned while only 8.4 percent of the costs is funded by direct support.

Table 2 indicates the wide diversity of functions in which the department is engaged and presents for each function the total expenditures by source of funds for the 1978-79 fiscal year. Although the functions appear in the budget as program elements, it is more realistic to view them as individual programs because of their magnitude and degree of specialization.

Table 3 shows the allocation of staff among department functions over the three-year period ending June 30, 1979. As the table indicates, 4,243.9 positions are requested (a net increase of 31.6 positions) for the budget year. The most significant staff changes are as follows:

1. An increase of 27.4 positions in the buildings and grounds division, attributable mainly to (a) a reduction of 18 janitorial and building maintenance positions in the current year only while the State Compensation Insurance Fund building undergoes repairs, and (b) 7.4 additional positions proposed for providing full service maintenance to three state buildings in Los Angeles, for which only partial service was provided formerly.

2. A decrease of 17.8 positions in the Office of Local Assistance in line with a workload reduction in the state school building aid program.

3. An increase of 15.4 positions in the Office of State Architect, 12 of which are requested for increasing in-house architectural and engineering capabilities.

4. An increase of 8 positions in the Office of Procurement attributable primarily to increased workload.

5. A reduction of 7.3 positions at the Office of State Printing resulting from increased efficiencies of new printing equipment.

6. An increase of 7.2 positions proposed in the office services division for increased workload.

Table 4 presents total expenditures by program element during the three-year period ending June 30, 1979. It shows total expenditures of \$209,402,909 for 1978-79, representing an increase of \$14,695,419 (7.5 percent) above the total expenditures of \$194,707,490 for 1977-78. The greatest single change appears in the communications division, which would

have expenditures of \$29,212,807 for 1978-79, an increase of \$6,517,511 above the \$22,695,296 estimated for 1977-78. Of this \$6.5 million increase, \$3.8 million represents budgeted first-year costs of a proposed three-year state communication satellite demonstration program described on page 140.

Table 1
Department of General Services
Total Expenditures by Source of Funds
1976-77 through 1978-79

<i>Source of Funds</i>	<i>1976-77</i>	<i>1977-78</i>	<i>1978-79</i>	<i>Percent of total</i>
Direct Support:				
General Fund	\$7,641,810	\$10,593,838	\$14,216,749	
State School Building Aid Fund	1,051,802	991,887	594,354	
Architecture Public Building Fund	2,299,222	2,438,807	2,495,157	
Deferred Compensation Plan Fund	83,975	119,177	125,560	
Federal funds.....	94,891	100,000	100,000	
Totals	\$11,171,700	\$14,243,709	\$17,531,820	8.4%
Revolving Funds and Reimbursements:				
Service Revolving Fund, printing	\$24,215,814	\$31,137,803	\$32,670,635	
Service Revolving Fund, other activities	121,566,617	134,061,833	143,616,968	
Architecture Revolving Fund	11,396,947	14,953,475	15,543,664	
Reimbursements	83,020	310,670	39,822	
Totals	\$157,262,398	\$180,463,781	\$191,871,089	91.6%
Total Expenditures.....	\$168,434,098	\$194,707,490	\$209,402,909	100.0%

Table 2
Department of General Services
Total Expenditures by Source of Funds and Programs
1978-79

<i>Program</i>	<i>Direct Support appropriations</i>	<i>Revolving Fund appropriations and reimbursements</i>	<i>Total expenditures</i>	<i>Percent of total</i>
I. Property management services.....	\$7,882,697	\$69,072,122	\$76,954,819	36.7%
A. Architectural consulting and construction	3,338,593	17,511,559	20,850,152	
B. Buildings and grounds	-	27,309,333	27,309,333	
C. Long-range facilities planning	-	391,378	391,378	
D. Real estate services	22,674	3,360,803	3,383,477	
E. Space management	-	2,344,662	2,344,662	
F. Building standards commission.....	67,432	-	67,432	
G. Building rental account	2,626,883	18,154,387	20,781,270	
H. Minor capital outlay	-	-	-	
I. Property acquisition act.....	1,600,000	-	1,600,000	
J. Physically handicapped plan checking	162,508	-	162,508	
K. State historical advisory board.....	64,607	-	64,607	
II. Statewide support services	8,539,752	119,989,232	128,528,984	61.4%
A. Administrative hearings	-	2,376,645	2,376,645	

DEPARTMENT OF GENERAL SERVICES—Continued

B. Communications.....	3,969,545	25,243,262	29,212,807	
C. Fleet administration	358,698	12,140,039	12,498,737	
D. Insurance services	125,560	575,252	700,812	
E. Legal services	-	648,061	648,061	
F. Local assistance.....	622,494	-	622,494	
G. Management services of fice.....	9,489	7,454,159	7,463,648	
H. Office services	-	7,833,948	7,833,948	
I. Procurement.....	-	24,055,872	24,055,872	
J. Records management.....	267,500	1,364,432	1,631,932	
K. Security and protection ...	1,954,051	5,626,927	7,580,978	
L. State printing	-	32,670,635	32,670,635	
M. Small business procure- ments and contracts	400,481	-	400,481	
N. California office of minor- ity business enterprise	143,460	-	143,460	
O. Motor vehicle parking facilities	688,474	-	688,474	
III. Administration	69,111	2,809,735	2,878,846	1.4%
IV. Emergency telephone num- ber local assistance.....	1,040,260	-	1,040,260	.5%
Totals.....	\$17,531,820	\$191,871,089	\$209,402,909	100.0%

Table 3
Department of General Services
Staff by Programs
1976-77 through 1978-79

<i>Operating Unit</i>	<i>Filled positions 1976-77</i>	<i>Authorized positions 1977-78</i>	<i>Requested positions 1978-79</i>	<i>Percent of total</i>
I. Property management services	1,677.5	1,696.3	1,738.6	41.0%
A. Architectural consulting and con- struction	323.4	341.6	357.0	
B. Buildings and grounds.....	1,200.0	1,190.9	1,218.3	
C. Long-range facilities planning.....	11.0	11.0	11.0	
D. Real estate services	72.5	78.5	78.5	
E. Space management	70.6	74.3	73.8	
II. Statewide support services.....	2,244.3	2,416.4	2,405.7	56.7%
A. Administrative hearings	60.7	72.4	72.4	
B. Communications	293.6	311.3	311.3	
C. Fleet administration.....	155.8	157.2	157.2	
D. Insurance services	12.5	16.1	16.1	
E. Legal services	18.7	21.3	19.2	
F. Local assistance	43.7	39.0	21.2	
G. Management services office	281.5	285.0	282.0	
H. Office services.....	230.7	250.7	257.9	
I. Procurement	187.3	199.1	207.1	
J. Records management	32.5	41.5	44.8	
K. Security and protection	301.4	318.5	319.5	
L. State printing.....	609.2	684.3	677.0	
M. Small business procurements and contracts.....	11.8	14.0	14.0	
N. California office of minority busi- ness enterprise	4.9	6.0	6.0	
III. Administration.....	102.9	99.6	99.6	2.3%
Totals.....	4,024.7	4,212.3	4,243.9	100.0%
Percent of increase	-6%	4.7%	.8%	

Table 4
Department of General Services
Total Expenditures by Program
1976-77 through 1978-79

<i>Program</i>	<i>Actual 1976-77</i>	<i>Estimated 1977-78</i>	<i>Estimated 1978-79</i>
I. Property management services.....	\$63,366,790	\$72,111,585	\$76,954,819
A. Architectural consulting and construction.....	15,187,471	20,153,989	20,850,152
B. Buildings and grounds.....	22,477,117	25,722,801	27,309,333
C. Long-range facilities planning.....	323,452	388,592	391,378
D. Real estate services.....	2,419,445	3,241,006	3,383,477
E. Space management.....	1,874,851	2,293,493	2,344,662
F. Building standards commission.....	52,188	63,615	67,432
G. Building rental account.....	19,155,668	18,534,139	20,781,270
H. Minor capital outlay.....	124,625	-	-
I. Property acquisition act.....	1,563,283	1,498,000	1,600,000
J. Physically handicapped plan checking.....	135,767	155,000	162,508
K. State historical advisory board.....	52,923	60,950	64,607
II. Statewide support services.....	102,630,120	118,545,224	128,528,984
A. Administrative hearings.....	1,932,694	2,339,770	2,376,645
B. Communications.....	18,462,764	22,695,296	29,212,807
C. Fleet administration.....	11,126,257	12,113,019	12,498,737
D. Insurance services.....	4,295,759	771,981	700,812
E. Legal services.....	579,379	695,867	648,061
F. Local assistance.....	1,063,219	1,018,790	622,494
G. Management services office.....	6,530,768	7,319,040	7,463,648
H. Office services.....	7,546,864	7,978,678	7,833,948
I. Procurement.....	18,367,927	22,681,365	24,055,872
J. Records management.....	887,851	1,231,904	1,631,932
K. Security and protection.....	6,609,699	7,356,309	7,580,978
L. State printing.....	24,215,814	31,137,803	32,670,635
M. Small business procurements and contracts.....	289,193	399,818	400,481
N. California office of minority business enterprise.....	128,597	141,000	143,460
O. Motor vehicle parking facilities.....	593,335	664,584	688,474
III. Administration.....	2,437,188	3,010,421	2,878,846
IV. Emergency telephone number.....	-	1,040,260	1,040,260
Totals.....	\$168,434,098	\$194,707,490	\$209,402,909
Percent of increase.....	13.7%	15.6%	7.5%

I. PROPERTY MANAGEMENT SERVICES

The property management services program consists of 11 separate program elements which relate to state ownership, use or regulation of real property. The elements and their related expenditures over the three year period ending June 30, 1979 are listed in Table 4. The architecture consulting and construction, physically handicapped plan checking and state historical advisory board elements are included in our analysis of Items 108, 111 and 112, which make separate appropriations from the General Fund, Architecture Public Building Fund and Architecture Revolving Fund respectively.

DEPARTMENT OF GENERAL SERVICES—Continued**New Programing Unit Proposed in Office of State Architect**

We repeat the recommendation in our analysis of the Office of State Architect that the new programing unit be funded entirely from a separate General Fund item (reduce Item 107 by \$63,435 and Item 112 by \$148,017 and add new Item 107.1 in the amount of \$211,452 from the General Fund).

In our analysis of the Office of State Architect (OSA) (Items 108, 111 and 112) we discuss a new programing unit proposed in the OSA for providing expertise to state departments relative to (1) energy program coordination, (2) capital outlay planning and (3) development of project data for annual budget requests. We recommend under the OSA items that the unit be supported entirely from a separate General Fund item rather than from the Architecture Revolving Fund (Item 112) and from the General Fund item (Item 107) which supports a number of other General Service functions. If this recommendation is adopted, Item 107 should be reduced by \$63,435 as a technical adjustment.

Integral Urban Neighborhood Planning

We repeat the recommendation in our analysis of the Office of State Architect that \$50,000 be deleted for neighborhood planning (reduce Item 107, General Fund).

In our analysis of the OSA (Items 108, 111 and 112) we recommend that the funds requested for an "Integral Urban Neighborhood" plan be deleted. If this recommendation is adopted, Item 107 should be reduced by \$50,000 as a technical adjustment.

Excess Groundkeeper Positions Should be Abolished

We recommend deletion of \$124,359 for eight laborer positions requested for the stated purpose of substituting labor intensive grounds maintenance for energy intensive methods (reduce Item 114, Service Revolving Fund).

Last year, the administration initiated a pilot program intended to conserve water and fuel by discontinuing the use of high pressure water nozzles and power equipment in maintaining the Capitol Park. Equipment, such as gas powered leaf blowers, now is stored while the groundskeepers use rakes and brooms. In order for the park to be maintained without use of the equipment, the groundskeeper staff was increased from 8 to 16 positions.

If the program were to continue in the 1978-79 fiscal year, as proposed in the budget, additional staff costs of \$124,359 would result, while the total cost of fuel saved would be less than \$2,400. We do not believe that this savings in fuel warrants an increase in cost to the taxpayers of this magnitude and, therefore, recommend that the pilot program be discontinued.

Reduced Security and Maintenance Costs for Governor's Mansion

We recommend deletion of \$81,344 to reflect reduced security and maintenance costs for the Governor's mansion (reduce Item 107, General Fund).

Arrangements were made recently for two families to receive free rent plus a monthly payment (estimated at \$960 per month per family during 1978-79) for providing 24-hour security, custodial care and maintenance of the 25-room Governor's mansion.

Under this arrangement, General Services' security and maintenance costs are expected to be reduced by \$113,014 below the amount budgeted for this purpose in 1978-79. This will result in a net savings to the department of \$81,344 after deducting the (1) monthly payments to the two couples (totalling \$23,040 in 1978-79) plus (2) cost of supplies (estimated at \$8,630) necessary for maintaining the residence. We therefore recommend that the amount budgeted for this purpose be reduced accordingly.

II. STATEWIDE SUPPORT SERVICES

The statewide support services program consists of 15 separate program elements. The elements and their related expenditures over the three-year period ending June 30, 1979, are listed in Table 4.

Equipment Sharing Program Saves \$360,000 in 1976-77

The central state mobile equipment sharing program, which operates under the review of the Director of General Services, is managed by a council of middle management equipment specialists who take time from their regular jobs to participate in the program's activities. Under this program, a coordinated effort is made to enable agencies requiring mobile equipment for a temporary period to rent it from another state agency rather than from a nonstate source.

According to the council's annual report, the program generated net savings to the state of \$360,646 in 1976-77.

Office Copier Purchase Program

We recommend that a separate item be added to the Budget Bill to provide a \$2 million General Fund loan for purchasing office copiers (add Item 107.2).

In the 1976-77 Analysis we pointed out that the state was leasing almost all of the copiers it was using (over 2,500 at that time) despite the fact that in practically every instance it would be to the state's economic advantage to own them. In accordance with our recommendation, the Legislature added Item 159.1 to the Budget Act of 1976, providing a \$3 million General Fund loan to the Department of General Services for purchasing copiers and leasing them to state agencies. The Governor, however, reduced funding of the item from \$3 million to \$1 million.

How the Program Works

The program was implemented in a somewhat different manner than we suggested, in that individual line agencies, rather than General Services, acquired title to the copiers purchased. In addition, a number of departments began submitting requests to General Services to buy copiers from savings within their own budgets.

The copier acquisition process works as follows:

Purchases by State Agencies. Under the program, state agencies use available funds to purchase copiers as required. Such purchases, however,

DEPARTMENT OF GENERAL SERVICES—Continued

are (a) subject to General Services approval procedures, which are intended to ensure that only the most economical models are acquired in relation to stated work requirements, and (b) made through General Services' procurement office in accordance with master purchase contracts awarded on a competitive bid basis.

Lease-Purchase through General Services. General Services, using funds from the General Fund loan, purchases some copiers for agencies having no funds available for this purpose. Priority is given to buying copiers where purchase offers the greatest economic advantage. Copiers are then lease-purchased from General Services over a three-year period by the user agency. Payments (which include six percent interest on the unpaid balance) are typically lower than the amount the agency normally pays for leasing a comparable copier. Upon final payment to General Services, title of the copier is transferred to the using agency. General Services uses revenue from the lease-purchase payments to buy additional copiers. The General Fund loan (principal and six percent interest) is to be repaid entirely by June 30, 1986.

Legislature Accelerates Program

In the 1977-78 Analysis we noted that:

1. The average useful life of a copier is eight to ten years.
2. 1,180 copiers having a "break-even point" (the point in time when cumulative lease cost equals purchase price) of 43 months or less were being leased at an annual total cost of \$3,369,288.
3. All of these copiers could be bought for \$7,643,532.

Pursuant to our recommendation in the 1977-78 Analysis, the Legislature added Item 108.1 to the Budget Act of 1977, providing an addition \$2 million General Fund loan to General Services for augmenting the copier purchase program. However, the Governor in his veto message reduced funding of the item to \$.6 million.

Program Makes Good Progress

According to General Services' records, as of September 1977 state agencies (other than CSUC) owned 1,257 copiers and leased 1,484 copiers. The annual cost of leasing these copiers totals \$4,334,237, and all could be purchased for about \$6.7 million. This represents an average break even point per copier of 1.54 years. (It is significant to note that many firms have reduced their sales prices substantially in competing for state business.)

General Services records indicate, further, that as of September 1977, the CSUC was leasing 498 copiers at an annual cost of \$2,022,795.

\$2 Million Required to Complete Purchase Program

Based on projected copier purchases through the 1978-79 fiscal year (including those under the copier purchase program as well as those by individual state agencies and CSUC) General Services estimates that:

1. Only about 700 copiers will continue to be leased by the state (including the CSUC) during 1978-79.
2. All such copiers could be purchased for approximately \$2 million.

Accordingly, we recommend that the copier purchase program be given a General Fund loan of \$2 million so that the state can realize the savings possible from purchasing, rather than leasing, office copiers.

Prohibit Leasing Copiers Unless Cost Justified

We recommend that a control section be added prohibiting General Services from approving leases for office copiers, except when economically justified.

Although the copier purchase program offers the potential for significant savings to the state, it has not been implemented as quickly as it might have been, and the state continues to sign new leases for office copiers. If the \$2 million General Fund loan is made available for the copier purchase program, it should be possible to avoid new leases except where temporary copying needs exist and cannot be met by state-owned equipment. To insure that office copiers are leased only when cost justified, we recommend that a control section be added to the Budget Act to read as follows:

“The Director of General Services may not approve an agreement for the leasing of an office copy machine unless not less than 30 days prior to its approval he submits in writing to the Chairman of the Joint Legislative Budget Committee, or his designee, notification of his intent to approve such a lease and an explanation as to why the copier should be leased rather than purchased, or not sooner than such lesser time as the chairman of said committee, or his designee, may in each instance determine.”

Data Communications

We recommend that the department consider alternative suppliers for its ATSS/DS (data communication) network if Pacific Telephone Company has not demonstrated an ability to provide satisfactory service by May 1978.

The Communications Division is responsible for the state data communications system. This system, for the transmission of computer data, is provided under a tariff agreement by the Pacific Telephone and Telegraph Company. It is referred to as the ATSS/DS network (DS standing for data services).

Deficiencies. Performance of the DS network has been inadequate since the first phases of implementation in June 1976. Complete network services were scheduled to be provided to the first two users of the network, the Department of Transportation and the California State University and Colleges System by fall of 1976. However, as of February 1978, many of the services described in the tariff were still not available. In addition, since June 1976, the evolving interim system configurations have evidenced recurring problems in both network hardware and computer programs (software). The most recent problems have arisen in connection with technical changes made in January 1978, during the process of adding the Department of Motor Vehicles to the network.

State Concerns. The State University System, our office, the Department of Finance and the Communications Division have all expressed concern over the performance of the system and the time frame within

DEPARTMENT OF GENERAL SERVICES—Continued

which acceptable levels of service and performance will be realized. We have two primary concerns: (1) that reliable service be provided to existing users; and (2) that services promised in the tariff be provided in order to permit the addition of other state users to the network.

Recent Actions. In November 1977, the Department of Finance recommended that the Communications Division consider alternative suppliers for the ATSS/DS network. At a December 1977 meeting requested by this office, the telephone company acknowledged the deficiencies in existing services, and indicated that it would retain a consultant to review the capability of the prime subcontractor, Computer Transmission Company, to deliver promised services.

Following this meeting, General Services in a December 28, 1977 letter to the Department of Finance indicated that the Telephone Company consultant is expected to issue his report in April 1978. General Services proposes deferring action concerning other potential suppliers pending review of the consultant's report and interim network performance.

We support this course of action. However, if by May 1978, network reliability remains unacceptable and a sound implementation plan for realizing originally promised services is not provided, we believe that alternative suppliers should be considered, either by replacing Computer Transmission Company as the prime subcontractor or replacing Pacific Telephone as the supplier.

Communication Satellite Program (Item 109)

The Governor's Budget proposes an appropriation of \$5.8 million in the Department of General Services' budget for initiating a three-year demonstration and evaluation program for providing communication services more effectively and economically through the use of satellites.

Of the \$5.8 million requested, \$3,795,000 is proposed for expenditure during the budget year and the \$2,005,000 balance would be reserved for expenditure in the two following fiscal years (\$1,305,000 in 1979-80 and \$700,000 in 1980-81). Cost elements of the program over the three-year period ending June 30, 1981 are presented in Table 5.

The SYNCOM IV Satellite

The Governor's proposal is keyed to a satellite—Syncom IV—which is scheduled to be launched by NASA aboard the sixth demonstration space satellite flight in January 1980. A private aircraft firm is spending about \$14 million for developing the satellite's shell and the equipment necessary for placing the satellite in orbit.

Originally the satellite was to be equipped with a single, low-powered transponder capable of operating for only 30 days, during which time a series of brief demonstration projects were to be conducted. (A transponder is a device similar in concept to a mirror, which relays communication signals.) Subsequently, it was determined that by expending an additional \$15 million for instrumentation costs, SYNCOM IV could be placed in orbit as a "full service satellite" for use by the public sector, with an estimated useful life of five to ten years.

The Public Service Satellite Consortium (PSSC), an organization consisting of federal, state and local government agencies concerned with using satellites to provide public services, would be responsible for SYNCOM IV. Specifically, the PSSC would (1) define requirements of potential public service users, (2) develop engineering specifications for instrumentation of the satellite, (3) identify sources of capital to defray the instrumentation costs and (4) manage and operate the satellite when placed in orbit.

Estimated \$3 Million Cost for State to Use SYNCOM IV

Based on potential state use requirements submitted by the administration and approved by the PSSC, the state would have exclusive use of one of seven transponders aboard the satellite. The transponder would provide for audio data exchange and one-way video broadcasting capability. Under the proposed arrangement, the state would be guaranteed access to other six transponders as needed to provide interactive video capability.

According to information provided by the administration, "the exact financial arrangements have not been firmly settled," but the state share of the satellite instrumentation costs approximates \$3 million, which would be paid to a central fund managed either by the NASA or the PSSC. The NASA or the PSSC would then contract with private firms for instrumentation of the satellite.

The PSSC would be reimbursed for managing and maintaining the satellite (estimated to cost \$500,000 annually) from charges to the satellite users.

Until SYNCOM IV becomes available, the joint United States/Canada Communications Technology Satellite (CTS) would be used for public services. There would be no charge for use of the CTS satellite, which is available for use on alternate days by the United States and Canada. The satellite, however, is expected to become inoperable by 1980.

**Table 5
Communication Satellite Program**

1978-79:		
1. Instrumentation costs (SYNCOM IV)	\$3,000,000	
2. Acquisition of ground system equipment:		
A. For experimenting with CTS satellite	\$320,000	
B. For SYNCOM IV satellite	<u>325,000</u>	
	645,000	
3. Operating and personnel costs	<u>150,000</u>	
Total Cost for 1978-79		\$3,795,000
1979-80:		
1. Acquisition of ground station equipment for SYNCOM IV satellite	\$1,080,000	
2. Operating and personnel costs	<u>225,000</u>	
Total cost for 1979-80		\$1,305,000
1980-81:		
1. Operating and personnel costs (includes rental of 500 hours on another satellite transponder)		<u>700,000</u>
Total Program Cost from 1978-79 through 1980-81:		\$5,800,000

DEPARTMENT OF GENERAL SERVICES—Continued

Information provided by the administration indicates that an estimated expenditure of \$55 million to \$60 million would be required to place a comparable satellite in orbit at a future time.

Lack of Specific Objectives—And Substantial Future Costs

We recommend deletion of \$5.8 million (\$3,795,000 budgeted for expenditures in 1978-79) proposed for initiating a three-year communications satellite demonstration program (Item 109).

We agree that a satellite would add a new capability to California's existing communication system. However, to justify the cost of expanding that capacity, one must be able to identify the specific needs that cannot be met by the existing system or by other less expensive alternatives. We have been unable to identify those needs.

For example, one of the major uses proposed is teleconferencing. Teleconferencing centers located in major cities would allow two-way, interactive video and audio communications between individuals and/or groups. To establish these facilities, \$820,000 is proposed.

The administration anticipates that this will result in substantial savings in employee travel and per diem costs. However, we are unable to verify the claim that sufficient current travel activity could be replaced by this type of service rather than adding only marginal services to the existing base. Because it would tie up the entire satellite communication capacity when used for this purpose, scheduling and priority problems could be significant.

Another of the uses proposed is for expansion of the educational delivery system. Facility and equipment costs for this program are anticipated to be \$380,000. Existing educational institutions, as well as public broadcasting stations, presently provide extensive services to the major population areas of the state. If there is a demand for additional services in these areas, it could be met by conventional methods at a comparatively modest increase in cost.

If the need can be demonstrated for providing expanded educational services to the more remote regions, expansion of existing outreach programs may be more economical than the added cost of transporting and operating the portable equipment in these regions.

Ordinarily, we evaluate a new program by considering (1) the value of its results in relation to its costs and (2) how effectively and economically it would satisfy specified needs as compared with alternate solutions which might be applied. Because this program proposes a solution before the problem to be solved is identified, such an evaluation is not possible.

There is also a danger that the program would set in motion forces that could cause state costs to increase significantly. Efforts to justify its high initial costs could result in large expenditures for additional ground equipment, and the satellite being used for marginal applications as well as those for which more conventional alternatives (e.g., ground radios) should be employed.

For these reasons, we are unable to support the program and recommend deletion of the \$5.8 million requested for initiating it.

III. ADMINISTRATION

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

IV. EMERGENCY TELEPHONE NUMBER—LOCAL ASSISTANCE

Under this program, General Services reimburses local public agencies for their costs in implementing emergency number telephone systems.

Chapter 1005, Statutes of 1972, required local public agencies to establish within specified guidelines emergency telephone systems to enable an individual to contact emergency services, including medical service, and police and fire protection by dialing "911." The act required that the communications division of General Services promulgate statewide standards for such systems.

Subsequently, Chapter 443, Statutes of 1976:

1. Established a tax on intrastate telephone calls beginning November 1977 to fund emergency telephone systems mandated by Chapter 1005.
2. Created a State Emergency Telephone Number Account in the General Fund to receive the tax proceeds.
3. Created within General Services an Advisory Committee on the State Emergency Telephone Number.
4. Required that local governments be reimbursed for costs of installing and operating emergency telephone systems.
5. Appropriated \$1,222,000 from the General Fund for reimbursable expenses incurred by local governments and General Services until the tax proceeds become available.

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

Item 108 from the General Fund, Item 111 from the Architecture Public Building Fund and Item 112 from the Architecture Revolving Fund

Budget p. 188

Requested 1978-79	\$18,768,821
Estimated 1977-78.....	18,092,282
Actual 1976-77	13,696,169
Requested increase of \$676,539 (3.7 percent)	
Total recommended reduction	\$900,535

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
108	Office of State Architect	General	\$730,000	145
111	Office of State Architect	Architect Public Building	2,495,157	145

OFFICE OF STATE ARCHITECT—Continued

112	Office of State Architect	Architect Revolving	15,543,664	149
			\$18,768,821	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	<i>Analysis page</i>
1. <i>Acquisition of Works of Art. Delete Item 108, a reduction of \$730,000.</i> Recommend deletion of funds for works of art in public buildings.	145
2. <i>Increase Staffing. Reduce Item 112 by \$233,970.</i> Recommend deletion of 12 positions added to increase "in-house" architectural and engineering design capabilities.	146
3. <i>Programing Unit. Reduce Item 112 by \$148,017.</i> Recommend deletion of fund support from the Architecture Revolving Fund.	147
4. <i>Programing Unit. Reduce Item 107 by \$63,435.</i> Recommend reduction of General Fund provided in Department of General Services item.	147
5. <i>Programing Unit. Add new Item 107.1 in the amount of \$211,452.</i> Recommend funding unit entirely from the General Fund.	147
6. <i>Architecture Revolving Fund.</i> Recommend Department of General Services establish procedures to comply with existing law and implement the 1974 Department of Finance audit report.	147
7. <i>Integral Neighborhood Planning. Reduce Item 107 by \$50,000.</i> Recommend deletion of funds provided for Office of State Architect in Department of General Services item.	149
8. <i>Structural Plan Checking.</i> Recommend civil engineers with experience in structural design (rather than structural engineers) be recruited for beginning level of plan checking.	150
9. <i>Structural Plan Checking.</i> Recommend Structural Safety Section maintain a record of errors found in plan checking and submit a report.	150

GENERAL PROGRAM STATEMENT

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

Second, OSA functions as a policing agency to assure compliance with the (1) physically handicapped building accessibility law, (2) Field Act for school buildings (earthquake safety), and (3) hospital seismic safety code.

In addition, the OSA provides professional staff assistance to the Building Standards Commission and the State Historical Advisory Board. The OSA is also responsible, with assistance of the Arts Council, for determining and implementing procedures for the purchasing or lease by contract,

of works of art for display in state buildings.

OSA is reimbursed for all of its out-of-pocket and overhead expenses in connection with each job. The architectural and engineering service activities are financed from the Architectural Revolving Fund (Item 112). Funds appropriated by the Legislature for specific projects are deposited and assessments for services provided are then made against each project account. Consequently, the actual volume of work for the office and the amount of funds available to cover expenditures, are dependent for the most part, upon the level of capital outlay appropriations by the Legislature.

ANALYSIS AND RECOMMENDATIONS

Acquisition of Works of Art for State Buildings

We recommend deletion of Item 108 for acquisition of works of art, a reduction of \$730,000.

Item 108 provides \$730,000 for allocation by the Director of the Department of General Services to the Office of State Architect (OSA) for acquisition of works of art for state buildings. Chapter 513, Statutes of 1976, established a program for acquiring works of art subject to a Budget Act appropriation to the Department of Finance for allocation to the State Architect. In contrast, the Budget Bill language would appropriate the proposed amount for allocation by the Director of the Department of General Services. The Budget Act of 1977 included an initial appropriation of \$700,000 to implement Chapter 513. The Governor's Budget indicates that the current request includes an increase of \$30,000 to adjust for inflation. Inflation adjustments are typically made to maintain a program level in real terms. This concept, however, has no meaning when applied to works of art. The amount appropriated in 1977 was not based on objective specification (such as the cost of constructing a building of a given design); rather, it was an essentially arbitrary amount that has no objective or real basis. Hence, there is no more basis for an inflation adjustment than there is for projecting increases in artists' productivity.

In any case, Chapter 513 requires the State Architect and the Arts Council to submit an annual report to the Legislature concerning the art in state buildings program. To date this report has not been received and the status of the current year appropriation is unknown. In addition, the OSA has not provided any detail concerning proposals for spending the requested \$730,000. Until this information is available and program performance is clarified, we do not believe it would be prudent to provide funding in the budget year.

Architectural and Engineering Services

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

The staffing level proposed for 1978-79 is 148 personnel-years or 31.3 (+26.8 percent) more than approved in the current year. This increase includes 13.3 added administratively during the current year and 18 proposed for the budget year. The current year adjustment is a result of

OFFICE OF STATE ARCHITECT—Continued

Table 1
Architectural and Engineering Services
Categories and Estimated Construction Value

	<i>Actual</i> 1976-77	<i>Estimated</i> 1977-78	<i>Proposed</i> 1978-79	<i>Percent change</i> <i>from current year</i>
Basic architectural and consulting ^a	\$32,990,302	\$32,177,778	\$40,000,000	+24.3%
Contract architect program ^a	67,500,000	100,000,000	109,000,000	+9%
Construction services	99,423,373	127,500,000	138,975,000	+9%
Disaster services (hours)	3,279	3,372	3,384	+0.4%

^a Estimated value of construction

increased workload in the (1) administration of contracts with private architectural/engineering design firms, (2) construction inspection and (3) art in public building programs. Proposed increases in the budget year are to provide (1) a programming unit and (2) increased OSA "in-house" architectural/engineering design capability.

Inappropriate Staff Increases

We recommend deletion of 12 positions added to increase "in-house" architectural and engineering design capabilities (reduce Item 112 by \$233,970).

The proposed budget includes 12 new technical/clerical positions for the architectural and engineering service program. Since 1972, this program has been funded under a "valley" workload concept. This was incorporated because the Office of State Architect (OSA) does not have the flexibility to adjust to fluctuations in workload as readily as a private firm. Consequently, OSA was directed to reduce its staff "in-house" capability to a workload volume of \$25 million by June 1973. This has been raised annually to compensate for inflation. In the past, the major drawback of the "valley" workload concept has been the lack of workload standards for determining proper staffing levels. In our 1976-77 Analysis, we recommended that the OSA develop workload standards and report to the Joint Legislative Budget Committee by November 1, 1976. Data presented by the OSA establishes a reasonable method for determining staffing requirements for designing construction projects of various sizes and complexities. Applying these data to ongoing design requirements and anticipated new projects indicates 61 personnel-years are required to design new projects and approximately 26 personnel-years are needed for ongoing projects. Currently OSA has 88 personnel-years assigned to these functions versus the calculated need of 87 personnel-years. On this basis the size of existing staff is sufficient to accommodate the established workload volume.

In addition, the budget contains funds for the creation of a programming unit within the Office of State Architect. The major function of this unit would be to develop detailed capital improvement project programs. The availability of such project programs should increase the productivity of the architectural/engineering design effort.

New Programing Unit

We recommend that the proposed programing unit be funded entirely from the General Fund (reduce Item 107 by \$63,435 and Item 112 by \$148,017 and add new Item 107.1 in the amount of \$211,452 from the General Fund).

The budget includes a total of \$211,452 to establish a programing unit within the Office of State Architect. The proposal includes seven additional positions, 30 percent funded (\$63,435) in the Department of General Services General Fund budget (Item 107), and 70 percent (\$148,017) funded from the Architecture Revolving Fund (Item 112). The Budget Act of 1976 contained \$212,904 from the General Fund for a similar unit. However, Budget Act language limited support of this unit to fiscal year 1976-77 only and continued funding was made contingent upon a review of additional information to be provided by OSA. The information provided during the 1977-78 budget review was inadequate and the programing unit was not continued.

The OSA has provided additional workload and projected activity information which indicates the programing unit will provide three basic functions. These include providing professional expertise to various departments for (1) energy program coordination, (2) preparation of capital outlay improvement master plans and (3) development of project program data for annual budget requests. Establishment of a unit to provide these functions is appropriate and should result in improved budget information and expedite capital improvement projects. However, we believe the proposed split funding is inappropriate.

The OSA's costs related to the Architectural Revolving Fund are reimbursed from charges made to specific approved and budgeted projects. Because the programing unit's function would be related to planning projects for future budget requests, any expenses charged to the Architectural Revolving Fund would be recovered from charges against unrelated projects which have been approved and are in progress. This is inappropriate because it results in charging one department or agency for services provided to another. In our judgment, the programing functions are more appropriately General Fund expenses. Services provided by this unit to Special Fund agencies should be based on reimbursements to the General Fund.

Continued Improper Architectural Revolving Fund Procedures

We recommend that the Department of General Services (1) establish procedures to comply with existing law regarding the Architecture Revolving Fund and (2) implement the 1974 Department of Finance audit report.

The Architecture Revolving Fund (ARF) is continuously appropriated without regard to fiscal year. Funds are deposited in the ARF upon State Public Works Board approval to allocate legislative appropriations for capital outlay projects. Government Code, Section 14959, requires that any unencumbered balance in the ARF shall be withdrawn and credited to the appropriation from which it was transferred within three months after completion of the project or three years from the time such funds

OFFICE OF STATE ARCHITECT—Continued

are originally transferred to the ARF, whichever is earlier. The return of unencumbered balances is not required if the Department of Finance extends their availability.

In March 1974, the Audits Division of the Department of Finance completed an audit of the ARF resulting in the following recommendations:

1. Obtain sufficient funds to cover all negative balance work orders and valid encumbrances.
2. Require that sufficient funds be transferred into the ARF prior to the commencing of any work and/or the awarding of any contracts.
3. Review all work orders having a three year old balance to determine the degree of completion of the project and the funds needed for the project.
4. Report the results of the review to the Department of Finance for concurrence on the status of the projects and a ruling on the reasonableness of the itemized encumbrances.
5. Return all the unencumbered funds which were transferred into the ARF more than three years ago.
6. Institute a continuing program to have the OSA review all projects immediately prior to the expiration of three years after each transfer.

In our 1977-78 Analysis we indicated that the Department of General Services was not following the Government Code or the Department of Finance audit report. In response to this the Legislature included language in the Supplemental Report directing the department to (1) establish procedures to comply with the code and the report and (2) submit an annual report to the Legislature indicating the status of the ARF.

The first annual report was received in November 1977. Based on this report it is evident that neither the code nor the audit report has been followed entirely. For example, with regard to funds that have been in the ARF for three years or more, the department indicates that:

1. \$406,402, for nine projects, remain in the ARF because the Office of the State Architect and the Client Agency considered these projects to be "incomplete".
2. \$58,519, for three projects, remain in the ARF because funds are being held in reserve for future work or the department will not close out the work order because the Client Agency does not concur.
3. \$563,511, for 11 projects, remain in the ARF because the department considers the funds to be encumbered by an Office of State Architect estimate for additional work.

There is no indication that the Department of Finance has been advised of the status of these projects. Consequently, the Department of Finance apparently has not ruled on the reasonableness of the itemized encumbrances or approved retention of the funds.

The Department of General Services staff have indicated that it is their interpretation of Government Code, Section 14959, that if the Office of State Architect has prepared an estimate for future work, the funds may be retained indefinitely within the ARF. Government Code, Section 14959 is very specific with regard to estimates. It states in part, ". . . for the purpose of this section an estimate prepared by the Department of Gen-

eral Services upon receipt of bid, of the amount required for supervision, engineering and other items, if any, necessary for the completion of a project on which a construction contract has been awarded shall be deemed a valid encumbrance and be included with any other valid encumbrances in determining the amount of an unencumbered balance." This code section requires that the estimate be based on bids and not simply an estimate prepared by the department. Therefore, the Department of General Services should discontinue its current procedure of retaining funds based on an estimate prepared by the department.

In addition to the funds retained in the ARF for more than three years, the department has also retained funds for the California Highway Patrol Academy which were specifically reverted by the Budget Act of 1977, under Section 11.50. This section was added by the Legislature with the specific intent of reverting all unencumbered funds for this project. However, the department has retained a large portion of the remaining funds because the Office of State Architect developed estimates (not based on bids) prior to June 30, 1977. In our opinion, retention of the funds is inappropriate (if not unlawful) and the department should implement immediate procedures to revert funds that have not been encumbered on the basis of construction bids.

Integral Urban Neighborhood Planning

We recommend that the Department of General Services Item 107 be reduced by \$50,000 by deleting funds provided for the Office of State Architect for "integral neighborhood planning" in the Sacramento Capitol Area Plan.

Only limited information has been provided for a proposal entitled "Integral Urban Neighborhood". The emphasis is apparently on the Sacramento Capitol Area Plan. According to the department the requested \$50,000 would be used for determining "the integration of mixed use of land, conservation of energy and maximum use of renewable energies within a neighborhood". The plan is described as the initial step toward "increasingly self-sufficient cities in the future when fuel for power generation, heating, transportation and large scale agriculture may well be expensive and scarce". The identified concepts are broad in nature and no information has been provided that would indicate what results can be expected from the expenditure of \$50,000 or if continued studies would be required. In addition, the concepts identified are of concern to other state agencies (such as the Energy Commission, Solid Waste Management, Office of Appropriate Technology, etc.). We do not believe it productive to fragment state activities pertaining to the utilization of resources.

School House and Hospital Structural Code Compliance Program

Item 111 from the Architectural Public Building Fund, plus \$1,362,708 from the continuously appropriated Structural Revolving Fund, supports the OSA plan checking and construction inspection activities related to public school and hospital construction in the state.

The OSA does not perform any design work under this program. Rather, it checks plans developed by others for conformance to code requirements. After it approves the plans, OSA inspects and monitors construc-

OFFICE OF STATE ARCHITECT—Continued

tion programs to insure compliance. For this service, OSA receives a fee based on a percentage of the estimated construction costs under the school house program. Under the hospital program the OSA is under contract to the Department of Health. Under the contract the OSA charges for direct cost plus overhead which is paid by the Department of Health from fees charged based on a percent of estimated construction costs.

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

Table 2
Structural Code Compliance
Workload Funding and Staffing Changes

	<i>Actual</i> 1976-77	<i>Estimated</i> 1977-78	<i>Proposed</i> 1978-79	<i>Percent Change</i> from Current Year
Construction Value				
Public schools.....	\$535,521,000	\$594,000,000	\$647,460,000	+9%
Hospitals	244,129,000	259,200,000	282,528,000	+9%
Total	\$779,650,000	\$853,200,000	\$929,988,000	+9%
Total program expenditures	\$3,215,202	\$3,759,681	\$3,857,865 ^a	+2.6%
Production personnel-years	95.5	109	109	—

^a Includes \$2,495,157 (Item 111) from the Architecture Public Building Fund and \$1,362,708 from the Structural Revolving Fund.

The construction values summarized in Table 2 are lower than was anticipated in the Governor's 1977-78 Budget. For example, public school construction has been revised downward approximately 2.5 percent in 1976-77 and 1977-78. Hospital construction has been revised downward by 19.3 percent and 22.1 percent respectively. The significant reduction in anticipated hospital construction reflects the anticipated impact of Chapter 854, Statutes of 1976, which stipulates that hospital construction cannot be undertaken without a certificate of need issued by the Department of Health.

Need for Review of Public School and Hospital Structural Plan Checking

We recommend that the Structural Safety Section recruit civil engineers with experience in structural design, rather than structural engineers, for the beginning level of plan checking.

We further recommend that the OSA-Structural Safety Section maintain a record of structural design errors found in plan checking and compliance failures found during construction of public schools and hospitals, and submit a report to the Joint Legislative Budget Committee by October 1, 1978.

In our 1977-78 Analysis we indicated that in several instances the "independent state review" for conformance of structural design to code requirements had been conducted by private structural firms rather than by the OSA. In view of this the Supplemental Report of the Committee of Conference requested that (1) the OSA make every effort to recruit structural engineers and report to the Legislature regarding the accom-

plishments of the recruitment program, indicating any difficulties experienced in hiring state structural engineers and (2) the Legislative Analyst conduct a survey of salaries for structural engineers in state service and evaluate the need for the state to continue in the plan checking effort.

The OSA reports that in the past it has been difficult to recruit structural engineers but because of the downward trend of construction projects for schools and hospitals there is no need at this time to recruit structural engineers. The OSA report indicates that only \$1.8 million (construction cost) had been contracted out to private firms for plan checking in the first four months of 1977-78, compared with \$34.4 million during the same period of 1976-77. The report concludes that "it is anticipated that the use of private consultants will not be necessary unless emergency circumstances develop." In fact the OSA has advised us that private consultants would not have been necessary beginning in 1977-78 if federal funds had not been provided under the Public Works Employment Act of 1976. Federal requirements made it necessary to have the approved project under construction within 90 days of receiving the grant. This requirement placed an abnormal workload on the structural safety section.

Salaries for Structural Engineers in State Service. The OSA has indicated that one of the major difficulties in recruiting structural engineers is the state salary schedule. In our survey of both public and private organizations we found that state salaries are at least competitive if not higher than salaries being offered by the surveyed firms and local government. However, recruitment of a "structural engineer" may be difficult for several other reasons. For example, there are only approximately 1,700 engineers in the state authorized to use the title "structural engineer". In order to obtain such authorization, an engineer must be a licensed civil engineer with at least three years experience in the responsible charge of structural engineering work and then pass a rigorous two-day examination. Because of these requirements, private firms and local governments only rarely recruit for "structural engineers". Rather civil engineers with structural engineering experience are recruited. Therefore, a person usually has seniority in a firm before becoming a structural engineer. According to the information received during our review, civil engineers are structural plan checkers in many local jurisdictions. We believe that when the OSA recruits for structural plan checkers the positions should be filled with licensed civil engineers with experience in structural design. To qualify for a license in civil engineering a person must have six years of applicable experience and pass a one-day written examination. These requirements plus specific experience in structural design should qualify a person to check the structural plans. This will broaden the base of potential qualified engineers and allow recruitment at a lower starting salary.

Continuation of Structural Plan Checking for Public Schools and Hospitals. The structural design of many buildings is reviewed by local jurisdictions and/or the state. Although there is a wide variation in local governments' capability for structural safety review, the large metropolitan counties generally have the needed expertise. The smaller local gov-

OFFICE OF STATE ARCHITECT—Continued

ernment agencies with less construction activity generally lack that expertise. No evidence has been presented to indicate that plan checking by large local government agencies is inadequate to assure safe construction. Unless such evidence exists, it may be possible to phase out the OSA Structural Safety Section. Small local jurisdictions would then contract with the nearest large county for plan checking. Development of code requirements would remain a state responsibility (Building Standards Commission) to assure consistency.

We again question the need for the state to check plans prepared by licensed professionals who have satisfied the rigorous experience and examination requirements established for licensed "structural engineers". Since the initiation of the state's plan check function, there has been a general upgrading of both the design profession and codes governing the construction of buildings. It would seem reasonable to assume that licensed professionals responsible for the design of school buildings and hospitals are sufficiently competent and qualified to recheck their own work, certify that it meets code requirements, and then be held accountable for code compliance. However, during our study it was apparent that many within the "structural engineer" profession believe that plan checking by the OSA is necessary. In order to evaluate the magnitude of this "problem" we believe it would be appropriate for the OSA—Structural Safety Section to maintain a record of the errors found in structural design reviewed during the previous year ending September 1, 1978 and provide a report to the Joint Legislative Budget Committee by October 1, 1978 indicating:

1. The nature of the design error.
2. Amount of time required to check specific set of plans.
3. Whether or not the plans were checked by a local jurisdiction and design errors found by the local jurisdiction.
4. Compliance errors discovered during construction of facilities.
5. Potential magnitude of hazard if the facility had been constructed without correcting the design error.
6. Estimate of magnitude of hazard if compliance error had not been corrected during construction.

**State and Consumer Services Agency
STATE PERSONNEL BOARD**

Item 119 from the General
Fund and Item 120 from the
Cooperative Personnel
Services Revolving Fund

Budget p. 217

Requested 1978-79	\$21,327,994
Estimated 1977-78.....	19,788,673
Actual 1976-77	17,866,487
Requested increase \$1,539,321 (7.8 percent)	
Total recommended reduction	\$438,896

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
119	State Personnel Board (SPB). For direct support of board's operations.	General	\$19,706,612
120	Local government services. For support in form of revenues for services provided.	Cooperative Personnel Services Revolving Fund	1,621,382
	Subtotal of board's items included in this analysis.		<u>\$21,327,994</u>
	Reimbursements (to various SPB programs for services to state and other governmental agencies).		2,752,595
	Total expenditures budgeted.		<u>\$24,080,589</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Equipment. Reduce Item 119 by \$30,600. Recommend reduction to eliminate double budgeting for equipment purchase.* 155
2. *Travel. Reduce Item 119 by \$132,596; reduce Item 120 by \$15,498; and reduce reimbursements by \$24,108. Recommend correcting overbudgeting for in-state travel.* 155
3. *General Expense. Reduce Item 119 by \$133,026; reduce Item 120 by \$30,233; and reduce reimbursements by \$38,296. Recommend correcting overbudgeting for general expense.* 155
4. *Office Space. Reduce Item 119 by \$96,943. Recommend deleting funds for office space consolidation and leasing additional office space.* 155
5. *Data Relative to Compensation Surveys. Recommend \$128,561 for survey workload be expended only if the SPB provides survey data to enable Legislature to evaluate negotiated compensation increases.* 156

STATE PERSONNEL BOARD—Continued

6. Red Circle Rates. Recommend Control Section 26.8 be re- 157
stored prohibiting funds appropriated by the Budget Act
from being used to pay above maximum salary range follow-
ing termination of a career executive assignment (CEA).
7. Compaction. Recommend SPB submit compaction relief 158
recommendations to Legislature by May 1, 1978.

GENERAL PROGRAM STATEMENT

The State Personnel Board (SPB) is a constitutional body of five members appointed by the Governor for 10-year staggered terms. Through constitutional and statutory authority the board adopts state civil service rules and regulations. The state civil service system is administered by a staff of approximately 640 employees under direction of an executive officer appointed by the board. The board and its staff also are responsible for establishing and administering on a reimbursement basis merit systems for city and county welfare, public health and civil defense employees to ensure compliance with federal requirements. The board staff administers a Career Opportunities Development (COD) program designed to create job opportunities for disadvantaged and minority persons within both state and local governments. Pursuant to the Welfare Reform Act of 1971, responsibilities were assigned to the COD program for creating jobs for welfare recipients in state and local governments and supplementing welfare grants for the recipients' salaries. The board also is responsible for coordinating affirmative action and equal employment

Table 1
State Personnel Board
Summary of Resources Expended by Program

	<i>Actual</i> <i>1976-77</i>		<i>Estimated</i> <i>1977-78</i>		<i>Proposed</i> <i>1978-79</i>	
	<i>Personnel- Years</i>	<i>Budget</i>	<i>Personnel- Years</i>	<i>Budget</i>	<i>Personnel- Years</i>	<i>Budget</i>
1. Employment services..	290.0	\$6,329,584	295.2	\$7,033,185	292.4	\$7,679,274
2. Personnel manage- ment services	90.0	2,389,596	118.9	3,191,008	116.0	3,362,176
3. Personnel develop- ment	48.0	1,077,359	48.0	1,316,969	48.6	1,356,559
4. Public employment and affirmative ac- tion	60.0	8,344,826	63.5	9,069,535	59.1	9,054,680
5. Local government services	121.9	2,057,780	127.7	2,497,359	120.5	2,627,900
6. Management services (distributed among other programs)	(142.9)	(4,137,159)	(146.1)	(4,848,694)	(144.3)	(4,732,781)
Totals	609.9	\$20,199,145	653.3	\$23,108,056	636.6	\$24,080,589

opportunity efforts within state and local government agencies in accordance with state policy and federal law.

ANALYSIS AND RECOMMENDATIONS

Programs and Resources

The SPB conducts six programs. Table 1 represents a summary of resources for each of these programs during the three-year period ending June 30, 1979. For the 1978-79 fiscal year total expenditures are expected to increase \$972,533 and total staff is expected to decline by 16.7 positions. The decline in staff is attributable mainly to the reduction of 19 limited term positions effective June 30, 1978. Other significant staffing changes are described under the individual programs.

Equipment Purchase "Double Budgeted"

We recommend that the budget be reduced by \$30,600 to correct overbudgeting for purchasing equipment (reduce Item 119, General Fund).

An examination of the board's detailed budget support documents reveals that the board has included \$30,600 for purchasing data processing key entry equipment in both its "equipment" and "data processing" budget line items. As a result of this technical error, the SPB General Fund support requirement is overstated by \$30,600. We, therefore, recommend that the data processing item be reduced accordingly.

Travel Expenses Overbudgeted

We recommend that the budget be reduced by \$172,202 to correct overbudgeting for travel expenses (reduce Item 119, General Fund by \$132,596; reduce Item 120, Cooperative Personnel Services Revolving Fund by \$15,498, and reduce reimbursements by \$24,108).

The budget contains \$627,202 for "in-state travel," which represents a 62 percent increase above the boards' actual expenditures of \$388,151 for this purpose in 1976-77. The SPB is unable to justify this level of expenditure or explain how it was derived. In the absence of such information, we believe this expenditure item should be budgeted to reflect actual experience (\$388,151), adjusted for price increases and workload. This would require \$455,000 for the budget year.

General Expenses Overbudgeted

We recommend that the budget be reduced by \$201,555 to correct overbudgeting for general expenses (reduce Item 119, General Fund, by \$133,026; reduce Item 120, Cooperative Services Revolving Fund, by \$30,233, and reduce reimbursements by \$38,296).

The budget proposes \$840,701 for general expenses which greatly exceeds the \$545,351 actually expended for this purpose in 1976-77. The SPB is unable to explain how it was derived. Using past year expenditures, adjusted by price increases and workload, we estimate that \$639,146 should be budgeted for general expenses.

Funds Requested for Additional Office Space

We recommend deletion of \$96,943 proposed for consolidation of offices and leasing additional office space, because the need has not been justified (Reduce Item 119, General Fund).

STATE PERSONNEL BOARD—Continued

The budget request contains (1) \$70,273 for leasing additional office space, (2) \$4,620 for related space planning by the Department of General Services and (3) \$22,050 for building alterations for the stated purpose of consolidating various existing SPB offices into as few locations as possible and for increasing the average amount of space available per employee.

The board was unable to provide information supporting the need for the proposed consolidations and increased office space. Accordingly, we recommend that the funds budgeted for this purpose be deleted.

EMPLOYMENT SERVICES PROGRAM

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

Requested Staff Increases

The budget proposes adding 10 positions (six professional and four clerical) in the budget year for absorbing workload increases in the board's employee selection program. Eight such positions were added administratively during the current year using federal Title II funds. Federal funding is to expire on June 30, 1978 for one position and on December 31, 1978 for the other seven.

Over the past 20 years, the board has delegated the administration of certain civil service examinations to specific state agencies (primarily those having large operations in outlying areas). Four additional positions (three technical and one clerical) are requested to enable the board to audit the administration of these delegated examinations to ensure that they are applied properly. We believe such audits are a proper and necessary responsibility of the board.

PERSONNEL MANAGEMENT SERVICES PROGRAM

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

SPB Should Provide Data for Legislative Decisionmaking Relative to Compensation

We recommend that control language be added to Item 119 allowing expenditure of \$128,561 for 4.6 analyst positions and one clerical position only if the SPB continues its compensation surveys to provide data to enable the Legislature to evaluate negotiated compensation increases.

Chapter 1159, Statutes of 1977 (SB 839) which becomes operative July 1, 1978, provides for a "good faith negotiating system" over wages and other terms and conditions of employment, for state civil service employees electing to be represented for this purpose by employee organizations. Representatives of the Governor are to negotiate with such organizations and prepare "memorandums of understanding". Any provision in such a memorandum requiring expenditure of funds (e.g., for

negotiated salary or benefit increases) is subject to approval by the Legislature.

Traditionally, state civil service salaries and benefits have been adjusted on the basis of (1) SPB surveys of salaries and benefits received in nonstate employment, (2) salary and benefit increase recommendations contained in the board's annual report to the Governor and Legislature, (3) budget action by the Governor and Legislature and (4) allocation by the board of funds appropriated for salary increases on a class-by-class basis.

The SPB's annual salary recommendations are intended to align state civil service salaries with prevailing nonstate salary rates. The board applies salary survey and comparison procedures to determine the level of prevailing nonstate salaries. The amount by which state salaries are computed as trailing prevailing nonstate salaries is referred to as the state salary "lag".

The prevailing rate approach will continue to be applied relative to state civil service employees who (1) are designated as "management," "supervisory" or "confidential" employees or (2) do not elect to have an employee organization represent them in collective negotiations.

The board presently uses the equivalent of 4.6 analyst and one clerical position in acquiring and compiling comparative compensation data.

Under Chapter 1159, state employee compensation increases negotiated by representatives of the Governor are subject to approval by the Legislature. Adequate comparative data, however, must be available to enable the Legislature to make informed decisions as to the appropriateness of such increases. To assure that existing SPB compensation survey procedures are maintained and to assure that currently authorized personnel are not reallocated to other duties, we recommend that the following control language be added to Item 119:

"... provided, that \$128,561 of the funds specified in category (a) is authorized for 4.6 analyst positions and one clerical position, but may be expended only for such positions for continuing the conduct of the State Personnel Board's compensation surveys to provide data to enable the Legislature to evaluate compensation increases negotiated by the Governor or his representative."

"Red Circle Rates"

We recommend restoration of Control Section 26.8, prohibiting funds appropriated by the Budget Act from being used to pay an employee above the maximum current salary range following termination of a career executive assignment (CEA).

The Government Code (Sections 18546-7) authorizes the "career executive assignment" (CEA) program, which permits the appointing power to promote state employees having permanent civil service status into "high administrative and policy influencing positions" in accordance with SPB procedures. An employee receiving such an assignment retains his permanent civil service status and his assignment may be terminated without cause by the appointing power upon 30 days notice. Over 500 CEA positions presently exist within state service.

Government Code Section 18860 provides for "red circle rates". Under

STATE PERSONNEL BOARD—Continued

that provision, the SPB may authorize an employee in a civil service class having a minimum of 10 years state service to be paid above the maximum step in his job class pursuant to being demoted as result of reductions in force or "other management initiated changes."

Effective June 20, 1976 the SPB began applying this red circle rate policy to the CEA classes. This meant that an employee terminated from a CEA who had at least 10 years state service would receive a red circle rate unless the termination was voluntary or based on unsatisfactory performance.

In response, the Legislature added Control Section 26.8 to the Budget Act of 1977 which prohibited payment of state funds for this purpose. Employees who accepted CEA appointments during the period when the SPB rule was operative were exempt from this prohibition because it could be construed as a breach of contract.

This control section has been deleted from the 1978-79 Budget Bill and we are recommending that it be restored. The CEA is intended as a special temporary appointment, which the employee accepts at his own risk with the understanding that he may be removed upon short notice at the discretion of the appointing power. For this reason, we believe it inappropriate to pay an employee above the maximum step of a class he occupies pursuant to termination of a career executive assignment.

Salary Compaction

We recommend that the SPB submit its salary compaction relief recommendations by May 1, 1978 so that the Legislature may take them into account when considering the state civil service salary increase items.

Last year, pursuant to our recommendations, the Legislature:

1. Added control language to the Budget Act of 1977 salary increase Items (379, 380 and 381) providing that "salaries of senior civil service technical, professional and managerial classes shall be adjusted in a manner which provides for adequate differentials, as determined by the State Personnel Board, above salaries of related subordinate classes."

2. Though the Supplemental Report of the Committee on Conference (Budget Act of 1977—Item 379), directed that:

- (a) \$2.5 million of the funds for salary increases in Items 379, 380 and 381 be earmarked for reducing salary compaction of state civil service employees.

- (b) The SPB indicate in its future annual reports recommendations for eliminating salary compaction and preventing its recurrence.

In distributing the funds appropriated for the 1977-78 salary increase program, the board applied only \$.8 million for compaction relief, rather than \$2.5 million, as directed by the Legislature. (The \$.8 million represents only about one-half of one percent of the \$155.2 million provided for salary increases for state civil service and related employees in the Budget Act of 1977.)

In its January 10, 1978 annual report to the Governor and Legislature, the board indicates that, in view of Chapter 1159, Statutes of 1977 (SB 839) which authorizes a negotiating system for state employees effective July

1, 1978, a comprehensive compensation study relative to state managers is planned in the near future. The board states, further, that a more meaningful report on compaction could be made following completion of the study, and that it plans to submit a supplemental report on compaction to the Governor and Legislature before July 1, 1978.

In order for the board's recommendations regarding salary compaction to be of value to the Legislature in considering the 1978 salary increase program, we recommend that they be submitted no later than May 1, 1978.

More Emphasis on Classification Control

Effective October 1, 1976, the SPB delegated a significant portion of its central review responsibility with respect to civil service classification decisions. The action was estimated to reduce the board's workload by six personnel-years.

In order, to have the board place greater emphasis on classification control, the Legislature added control language to Item 126 of the Budget Act of 1977, permitting the board to expend \$135,802 for six analyst positions only upon rescinding its action delegating classification control.

Subsequently, the board rescinded its action, and established six limited term positions funded by Title II funds for classification control.

The budget requests that nine General Fund positions (eight professional and one clerical) be added in the budget year so that the board can continue its efforts in this area.

Office of Information Practices

Chapter 709, Statutes of 1977, (SB 170) the "Information Practices Act of 1977", established an Office of Information Practices in the SPB to (1) assist individuals in identifying records containing information about them, (2) investigate complaints, (3) report violations, (4) develop model guidelines and (5) mediate disputes. The measure provided no funding for staff required by the board in order to comply with its provisions. The budget requests that five positions (three professional and two clerical) be added in the budget year for this purpose.

PERSONNEL DEVELOPMENT PROGRAM

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

PUBLIC EMPLOYMENT AND AFFIRMATIVE ACTION PROGRAM

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

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

Jobs Program

We recommend approval of the \$6,876,881 General Fund support for the jobs program as budgeted. The jobs program, created pursuant to the Welfare Reform Act of 1971, provides for fully reimbursing state and local government agencies for their payroll costs of employing welfare recipi-

STATE PERSONNEL BOARD—Continued

ents and disabled persons during their on-the-job training period. The board operates the program in cooperation with the Employment Development Department (EDD).

The amount requested would provide for \$389,257 (6 percent) cost-of-living adjustment above the \$6,487,624 appropriated for this purpose in the Budget Act of 1977.

Of the \$6,876,881, the board intends to apply approximately \$1.5 million toward placing disabled persons who are clients of the Department of Rehabilitation, thereby enabling that department to receive approximately \$6 million in federal matching funds for placing clients in government and private employment under its own programs. The board plans to use the balance of approximately \$5.4 million along with an estimated \$4 million of EDD work incentive (WIN) program funds (90 percent federal) for placing welfare recipients in state and local government jobs.

The SPB estimates the average payroll cost per placement during the 1978-79 fiscal year at \$8,100. On this basis, the \$6,876,881 requested plus the estimated \$4 million in WIN funds would allow approximately 1,343 individuals to be placed under the program.

LOCAL GOVERNMENT SERVICES PROGRAM

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

MANAGEMENT SERVICES PROGRAM

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

State and Consumer Services Agency**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Item 121 from the General Fund, Item 122 from the Public Employees' Retirement Fund, Item 123 from the State Employees' Contingency Reserve Fund, Item 124 from the Legislators' Retirement Fund, Item 125 from the General Fund

Budget p. 227

Requested 1978-79	\$13,921,046
Estimated 1977-78.....	13,717,663
Actual 1976-77	10,961,683
Requested increase \$203,383 (1.5 percent)	
Total recommended reduction	\$286,818

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
121	Social Security and TEC administration	General	\$232,841
122	Retirement Administration	Public Employees Retirement	12,291,373
123	Health Benefits Administration	State Employees' Contingency Reserve	1,335,403
124	Retirement Administration	Legislators' Retirement	46,589
125	Local Assistance (Legislative Mandate)	General	14,840
			<u>\$13,921,046</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	<i>Analysis page</i>
1. <i>No Need for Additional Manager. Reduce Item 122 by \$33,063.</i> Recommend deletion of a proposed data processing manager II position.	162
2. <i>Word Processing System. Reduce Item 122 by \$63,430.</i> Recommend deletion of requested staff and equipment.	163
3. <i>Total Equivalent Compensation (TEC). Reduce Item 121 by \$190,325.</i> Recommend deletion of funding for the abolished TEC report.	163

GENERAL PROGRAM STATEMENT

The Public Employees' Retirement System (PERS) administers retirement, health and other related benefits for over 750,000 active and retired public employees in California. The participants include state constitutional officers, members of the Legislature, state employees, most non-teaching school employees and other California public employees whose employers elect to contract for the benefits available through the system.

PERS is managed by a Board of Administration whose members are either elected by specified membership groups or appointed by the Governor. It is under the administrative jurisdiction of the State and Consumer Services Agency.

Administrative costs of the system are shared by the employees and employers and are funded, primarily, from the interest earnings on investments of the employee and employer contributions.

The major PERS-administered retirement programs include a retirement, health benefits and social security program. The latter administers the coverage and reporting aspects of the Federal Old Age Survivors, Disability and Health Insurance program which is mandatory for state employees and is available to local public workers whose employers elect such coverage. The health benefits program offers state employees, and other public employees, a number of health benefits and major medical plans on a premium-sharing basis.

The system provides and administers a number of alternate retirement plans through which the state and the contracting agencies provide their employees a variety of benefits.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

ANALYSIS AND RECOMMENDATIONS

Past, current and budget year requirements of PERS are shown in Table 1.

Table 1
PERS Budget Requirements

Programs	Personnel-Years			Expenditures (Millions)		
	1976-77	1977-78	1978-79	1976-77	1977-78	1978-79
Retirement	412.3	434.9	439.6	\$9.3	\$11.1	\$11.2
Social security.....	15.9	16.8	16.8	.3	.3	.3
Health benefits.....	39.8	44.1	47.6	1.0	1.1	1.3
Redesign project	32.9	38.5	43.0	.8	1.5	1.7
Administration						
distributed to other pro-						
grams	(136.2)	(151.8)	(157.0)	(4.7)	(5.4)	(5.5)
undistributed	8.6	9.0	8.0	.3	.4	.3
Totals	509.5	543.3	555.0	\$11.7	\$14.4	\$14.8
Reimbursements				-.7	-.7	-.9
Net Totals				\$11.0	\$13.7	\$13.9

Budget-Year Changes

The requested budget increase for 1978-79 is \$203,383 or 1.5 percent. This includes the addition of 47 new positions for increased workload at a cost of \$1,109,254, of which \$181,760 is funded from reimbursements. Partially offsetting this increase is a reduction of \$724,111 for 52.8 positions and related expense to reflect savings resulting from implementation of the Redesign Project. Table 2 summarizes these changes.

Table 2
Summary of Budget-Year Changes

Changes	Number of Positions (Personnel-years)	Expenditures
New positions and operating costs	47.1	\$1,109,254
Cost-savings from redesign project.....	-52.8	-724,111
Increased reimbursements	-	-181,760
Net Change.....	-5.7	\$203,383

The 47 new positions proposed for 1978-79 include 10 positions which have been (or will be) administratively established during 1977-78 through the Section 28 process. We have reviewed the workload justification submitted in support of these 47 positions and concur with their establishment, except for the following two positions.

No Need for Additional Data Processing Manager

We recommend deletion of a proposed data processing manager II position for a savings of \$33,063 from the Public Employees' Retirement Fund (Item 122).

For 1978-79, PERS proposes the establishment of a data processing manager II position to supervise its data processing unit. Subsequent to initiation of this budget request in July 1977, the position was established

by upgrading an existing position. The upgraded position was approved by the Department of Finance in September 1977, and is continued in the 1978-79 budget. It would appear that PERS already has the resources necessary to support the proposed position within its budget, and consequently, a new position should be deleted to avoid duplication of staff and funding.

Word Processing System Request Premature

We recommend deletion of a proposed senior word processing technician and requested equipment for a savings of \$63,430 from the Public Employees' Retirement Fund (Item 122).

The budget includes \$63,430 to establish a word processing system for the gradual replacement of the typing pool. These funds would be used to buy four new word processing machines and hire a senior word processing technician to train the existing typing pool staff on the new machines. While an in-house feasibility study projects some long-term savings and cost avoidance based on assumed future utilization, it fails to provide sufficient cost effectiveness justification to warrant purchase of these machines at this time.

Furthermore, PERS has not followed the normal procedure in requesting these machines. This procedure calls for a review of the requestor's initial feasibility study by the Procurement Office of the Department of General Services prior to a budget request for the equipment. This office has the expertise to perform an indepth review to establish a justifiable need with accurate cost estimates.

Pending such a study, we believe the equipment request should be deferred.

In any case, the request for a word processing technician is unnecessary. According to the Department of General Services, purchase or lease contracts for word processing equipment include the necessary training on the equipment at no extra charge and there is no justification for hiring a training technician.

TEC Funding No Longer Required

We recommend deletion of funding for the abolished Total Equivalent Compensation (TEC) survey for a General Fund savings of \$190,325 (Item 121).

The proposed budget includes a General Fund appropriation of \$190,325 for preparation by PERS of a comparative benefits survey used in the Total Equivalent Compensation (TEC) procedure. However, Chapter 1159, Statutes of 1977, (SB 839) terminates the TEC procedure and the requirement for this PERS survey effective July 1, 1978 and the request should be deleted.

Required Fund Condition Statement Not Submitted

Supplemental language to the Budget Act of 1976 required the Department of Finance to include in its future budget presentations additional information relative to the actuarial fund-condition of the state-administered retirement systems.

The proposed 1978-79 PERS budget includes a table showing the condi-

PUBLIC EMPLOYEES' RETIREMENT SYSTEM—Continued

tion of the Public Employees' Retirement Fund, the State Employees' Contingency Reserve Fund and the Legislators' Retirement Fund for the past, current and budget years. This is the same information as presented in previous years. There is no statement as to the actuarial long-term condition of these funds.

STATE TEACHERS' RETIREMENT SYSTEM

Item 126 from the Teachers' Retirement Fund

Budget p. 233

Requested 1978-79	\$7,319,385
Estimated 1977-78.....	7,616,162 ^a
Actual 1976-77	6,568,743
Requested decrease \$296,777 (3.9 percent)	
Total recommended reduction	None

^a Includes a one-time \$77,000 General Fund appropriation.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

- | | |
|---|-----|
| 1. Payment of Contributions. Recommend legislation to advance due date for payment of STRS contributions. | 165 |
|---|-----|

GENERAL PROGRAM STATEMENT

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

1. To maintain a fiscally sound plan for funding approved benefits;
2. To provide authorized benefits to members and their beneficiaries in a timely manner; and
3. To furnish pertinent information to teachers, school districts and other interested groups.

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

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

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

Funding of the benefits provided by the system is discussed under

"Contributions to the Teachers' Retirement Fund" (Item 319).

ANALYSIS AND RECOMMENDATIONS

Staffing and expenditures for the past, current and budget year are shown in Table 1.

Table 1
Budget Requirements of the State Teachers' Retirement System

Divisions	Personnel years			Expenditures (millions)		
	Actual	Estimated	Proposed	Actual	Estimated	Proposed
	1976-77	1977-78	1978-79	1976-77	1977-78	1978-79
Records and statistics	142.0	129.0	115.1	\$2.6	\$3.0	\$2.7
Member services	70.8	67.5	70.7	1.4	1.6	1.6
Accounting	30.6	31.0	33.0	.8	.9	.9
Data processing	40.0	42.4	42.4	1.1	1.3	1.3
Management services.....	24.1	23.3	23.3	.6	.7	.7
Administration	10.1	9.6	10.0	.3	.3	.3
Totals	317.6	302.8	294.5	\$6.8	\$7.8	\$7.5
Reimbursements				-.2	-.2	-.2
Net Totals				\$6.6	\$7.6	\$7.3

Significant Budget-Year Changes

The budget shows a \$296,777 (3.9 percent) net decline in budget-year expenditures.

Significant changes include staff additions for increased workload in the legal, benefit payments and field audit functions, offset by staff and operating expense reductions for the planned phaseout of the Verification Project and cost-savings from the Microfilm Project.

Required Fund Condition Statement Not Submitted

At special legislative request, supplemental language to the Budget Act of 1976 required the Department of Finance to include in its future budget presentations a statement relative to the funding of each state-administered retirement system.

The current and proposed STRS budgets include tables showing the fund condition of the State Teachers' Retirement Fund, but there is no statement or comment regarding the funding and fund condition in either budget, as required by supplemental language.

While the fund condition table in the Governor's Budget shows an adequate cash flow on a year-to-year basis, there is no mention of the long-term actuarial unfunded liability of the fund. The latest actuarial valuation published in November 1976, estimated the amount of this unfunded liability at \$7.6 billion, a \$2.5 billion increase since the previous valuation in 1974. Our Analysis discusses this unfunded liability problem under Contributions to the Teachers' Retirement Fund (Item 319).

STRS Contributions Should Be Paid Earlier

We recommend enactment of legislation to advance the due dates for payment of employer and employee contributions to STRS.

Existing law provides for payment of the employee (teacher) and employer (school district) contributions to STRS by the 20th of each month

STATE TEACHERS' RETIREMENT SYSTEM—Continued

and the payment becomes delinquent on the 30th. According to STRS, most districts are currently forwarding these contributions between the 20th and 30th of each month. However, districts deduct employee contributions from the monthly paychecks on the first of the month. Likewise, state equalization aid, which helps school districts pay their share of retirement costs, is also allocated to the districts on the first.

This time-lag of 20-30 days between the collection of the contribution money and its payment to STRS permits counties the use of these funds for their own cash-flow purposes. If this money were required to be paid to STRS earlier in the month, it would permit STRS to earn additional interest income through investments, thereby reducing the rate of increase in the unfunded liability.

Therefore, we recommend legislation requiring the payment of the employer and employee retirement contributions to STRS by the 5th of each month and that the state's equalization aid for employers' retirement contributions be credited directly to STRS on the first of each month, instead of being sent to the district for payment to STRS at a later date.

STRS estimates that this proposal would result in additional investment earning of about \$2.9 million per year, based on the prevailing interest rates.

**State and Consumer Services Agency
DEPARTMENT OF VETERANS AFFAIRS**

Items 127-128 and 130-131 from
the General Fund and Item
129 from the Veterans Farm
and Home Building Fund

Budget p. 236

Requested 1978-79	\$14,120,419
Estimated 1977-78.....	13,205,445
Actual 1976-77	11,115,234
Requested increase \$914,974 (6.9 percent)	
Total recommended reduction	None

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	<i>Analysis page</i>
127	Administration	General	\$1,586,624	167
128	Educational Grants	General	1,875,000	167
129	Administration	Farm and Home Building	(429,956) ^a	167
130	Veterans Home	General	9,658,795	168
131	Local Assistance	General	1,000,000	168
			\$14,120,419	

^a Transferred to Item 127

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Limited Term Positions. Recommend 28 positions for Cal-Vet Farm and Home loan program be authorized for one year only. 170

GENERAL PROGRAM STATEMENT

The Department of Veterans Affairs provides services for qualified California veterans and their dependents through four major programs. Its principal aim is to help needy veterans or dependents obtain direct federal or state aid of various kinds and to provide a hospital, nursing-home and domiciliary facility for veterans needing such services.

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

Farm and Home Loans

The Farm and Home Loans to Veterans program, also known as the Cal-Vet Loan program, provides low-interest farm, house and mobile-home loans to qualified veterans through the sale of general obligation bonds which are redeemed from the monthly payments of the participating veterans. Loans are available in amounts up to \$43,000 for a house, \$120,000 for a farm, and \$30,000 for a mobilehome. Unlike conventional lending institutions whose loans are secured by deeds of trust, the Cal-Vet Loan program purchases and remains the "owner" of the property until the loan is fully amortized.

Educational Assistance

The Educational Assistance to Veterans and Dependents program provides counseling and financial assistance to qualified dependents of veterans who were killed or totally disabled as a result of active military service. Full-time college students receive \$50 per month and high school students receive \$20 per month. In past years, financial assistance was also provided to totally disabled veterans. However, this program element was discontinued due to expansion of G.I. Bill educational benefits.

Veterans Claims and Rights

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

Claims Representation. This element assists California veterans seeking federal benefits by appearing on their behalf before the Veterans Administration rating boards. Assistance is given for claims involving initial ratings of service-connected disabilities, increases in existing disabilities and review of other than honorable discharges.

DEPARTMENT OF VETERANS AFFAIRS—Continued

Employment Preference. Honorably discharged veterans and veterans' widows receive a 10-point preference on civil service examinations, and veterans with a service-connected disability receive 15 points. This element processes applications for the preference points and certifies eligible veterans and widows to the State Personnel Board. Certification will be requested for an estimated 9,000 cases in the budget year.

County Subvention. This element administers grants to local veterans service offices, operating in 54 of the state's counties, which assist veterans in establishing their claims and rights. Prior to January 1, 1975, this subvention was limited to \$75 per month for each county veteran service officer. Legislation enacted in 1974 removed this monthly limit and increased the total subvention to \$1 million.

Care of Sick and Disabled. The care of Sick and Disabled Veterans program operates the Veterans Home in Yountville, which is one of the largest geriatric facilities in the country. The home maintains an 844-bed medical and nursing unit and domiciliary quarters with a bed capacity of 1,489. The home provides war veterans who are California residents with several levels of medical care (acute, skilled nursing and intermediate care), rehabilitation services and residential services. The home is licensed by the state and its hospital is fully accredited.

Administration

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

ANALYSIS AND RECOMMENDATIONS

The proposed budget in Items 127-131 totals \$14,120,419, an increase of \$914,974, or 6.9 percent, over the current year.

The department's administrative support by funding sources, consisting of Items 127 and 130, a continuing appropriation from the Farm and Home Building Fund, federal funds and reimbursements, are detailed in Table 1. The continuing appropriation (\$5,595,506) is provided by Section 988 of the Military and Veterans Code for administrative support of the Cal-Vet Loan program, which will maintain existing loan accounts and acquire new property amounting, in total, to approximately \$621 million in the budget year.

The \$1,875,000 contained in Item 128 provides educational grants to veterans' dependents. Item 131 provides \$1 million for assistance to county veteran service offices.

Table 1
Department of Veterans Affairs
Departmental Support Funding Summary

<i>Funding</i>	<i>Estimated 1977-78</i>	<i>Proposed 1978-79</i>	<i>Change From Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
General Fund (Item 127)	\$1,510,528	\$1,586,624	\$76,096	5.0%
General Fund (Item 130)	8,819,917	9,658,795	838,878	9.5
Total General Fund	\$10,330,445	\$11,245,419	\$914,974	8.9
Special Fund (Item 129)	406,824	429,956	23,132	5.7
Special Fund (continuing appro- priation)	5,439,961	5,595,506	155,545	2.9
Subtotal, special fund	\$5,846,785	\$6,025,462	\$178,677	3.1
Federal (direct)	4,881,206	4,902,455	21,249	.4
Reimbursements	2,395,842	2,276,990	-118,852	-5.0
Grand total	\$23,454,278	\$24,450,326	\$996,048	4.2%

The "direct" federal funding shown in Table 1 consists of medical and billet payments in behalf of residents at the Veterans Home. The reimbursements represent federal funds paid through the veteran to the home for "aid and attendance" and fees paid directly by the veteran.

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

Table 2
Program Cost Summary

<i>Program</i>	<i>Estimated 1977-78</i>	<i>Proposed 1978-79</i>	<i>Change From Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
Farm and home loan	\$5,439,961	\$5,595,506	\$155,545	2.9%
Personnel-years	204.2	204.2	-	-
Educational assistance	305,762	321,030	15,268	5.0
Personnel-years	13.6	13.6	-	-
Veterans claims and rights	\$892,518	\$887,247	-5,271	-.6
Personnel-years	44.8	44.4	-.4	-.9
Home and hospital	16,028,704	16,838,040	809,336	5.0
Personnel-years	782.6	802.1	19.5	2.5
General administration	787,333	808,503	21,170	2.7
Personnel-years	30.6	30.2	-.4	1.3
Total	\$23,454,278	\$24,450,326	\$996,048	4.2
Personnel-years	1,075.8	1,094.5	18.7	1.7

New Positions

Table 3 shows the relationship between authorized positions in the 1977-78 budget, workload and administrative adjustments during the current year, and requested positions for the budget year. The department which was initially authorized a total of 1,052.8 positions for 1977-78, has administratively added 47.8 positions as follows: 28 for the Cal-Vet Loan program, 1.8 for temporary help, and 18 for the Veterans Home. For the budget year, the department is requesting continuation of all of these positions except the 1.8 in temporary help.

DEPARTMENT OF VETERANS AFFAIRS—Continued

Table 3
Department of Veterans Affairs
Comparative Staffing Data
1977-78 through 1978-79

Program	Authorized Positions 1977-78 Budget	Workload and Administration Adjustments	Total 1977-78	Requested Positions 1978-79	Difference
Administration, Veteran services, Farm and home	268.2 ^a	29.8	298.0	297.2	-.8
Veterans home	784.6	18.0	802.6	822.1	19.5
Total	1,052.8	47.8	1,100.6	1,119.3	18.7

^a Includes eight positions limited to June 30, 1978 requested for continuation until June 30, 1979.

The department also is requesting a one-year continuation of eight positions authorized last year for the Discharge Upgrading project. This unit assists veterans with less than honorable discharges in preparing and presenting their cases before military discharge review boards to obtain general or honorable discharges.

One exempt administrative position is proposed for the California Veterans Board. For the Veterans Home, the department is asking for 19.5 new positions in addition to the 18 added during the current year. Thus, in net, the department is asking for 64.7 positions, 46 of which were established in the current year and 18.7 are new.

Limited Term Cal-Vet Positions

We recommend that 28 positions proposed for the veterans farm and home loan program be authorized for one year only.

The department has requested permanent authorization for 28 positions to process Cal-Vet loan applications, appraise properties, and complete the loan process. These positions are necessary due to the increased number of veterans purchasing property through this program.

The department estimates that available bond funds for the farm and home loan program will be depleted by March 31, 1979, but a bill is before the Legislature (AB 340) to authorize a new Cal-Vet bond issue measure for submission to the electorate next November. Should the measure either not be enacted or approved by the electorate, the program will not be able to continue at its present level. Therefore, the 28 positions should be limited to June 30, 1979, by which time action will have been taken on the bond issue and workload requirements will be known.