Business and Transportation Agency

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 132 from the General Fund | Budget p. 245

Requested 1978–79	$11,522,050
Estimated 1977–78	11,271,765
Actual 1976–77	10,074,451
Requested increase $250,285 (2.2 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fee Structure. Recommend fee increase legislation to permit recovery of cost. 174

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, is headed by a director who is appointed by the Governor with the consent of the Senate. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises eight northern district offices and a southern division office in Downey, which supervises 10 southern district offices. Department staff is presently authorized at 449.3 positions.

The constitution gives the department exclusive power in accordance with laws enacted by the Legislature to license the manufacture, importation and sale of alcoholic beverages in California, and to collect license fees. The department is given discretionary power to deny, suspend or revoke licenses for good cause.

Responsibilities of the agency are discharged under a single program entitled, "Administration of the Alcoholic Beverage Control Act" which consists of three elements: (1) licensing, (2) compliance, and (3) administration. Table 1 shows budget data for each of the elements.

Table 1

Budget Summary

			Change from current year	
	1977–78	*1978–79*	*Amount*	*Percent*
Licensing	$6,204,804	$6,306,152	$101,348	1.6%
Personnel-years	249.2	249.2	–	–
Compliance	3,979,913	3,914,376	−65,537	−1.6
Personnel-years	147.3	140.3	−7.0	−4.8
Administration	1,500,328	1,564,834	64,506	4.3
Personnel-years	52.8	52.8	–	–
Total Expenditures	$11,685,045	$11,785,362	$100,317	0.8%
Less reimbursements	$413,280	$263,312	$−149,968	−36.3%
Net Expenditures	$11,271,765	$11,522,050	$250,285	2.2%
Personnel-years	449.3	442.3	−7.0	−1.6

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Licensing Element

The objective of licensing is to prevent unqualified persons from engaging in the sale, manufacture or importation of alcoholic beverages and to prevent such operations in locations where the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be unlikely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 52 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings in the Department of General Services. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the department's decision. Decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals Board (a separate state agency) and the courts.

Compliance Element

The objective of the compliance or "enforcement" element is to prevent the operation of premises dealing in alcoholic beverages from becoming police problems, prevent practices jeopardizing public safety and welfare, prevent sales to minors and intoxicated persons and restrict activities detrimental to public morals. Enforcement comprises investigation of complaints, disciplinary action and suppression of various trade or business practices proscribed by law. The department shares law enforcement responsibilities with local police and other law enforcement agencies.

Administration Element

The administration element includes the department's executive staff and personnel responsible for license issuance and renewal, accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public.

ANALYSIS AND RECOMMENDATIONS

The department proposes net General Fund expenditures of $11,522,050, which is $250,285 or 2.2 percent above the current-year estimate. Anticipated budget-year reimbursements of $263,312 result in a total expenditure program of $11,785,362. The reimbursements include $38,312 representing the final phase of a two-year demonstration project supported by a $226,592 federal grant, through the Office of Traffic Safety. This project is aimed at reducing the number of establishments in Los Angeles County which manifest a pattern of serving persons who are subsequently arrested for drunken driving. The remaining $225,000 consists of fees the department charges for (1) fingerprinting license applicants, (2) transcripts of hearings, and (3) copies of the Alcoholic Beverage Control Act.

The General Fund increase of $250,285 consists of $119,384 for salary and staff benefit adjustments and $130,901 for operating expenses and equipment. The major increases in this category (other than price inflation) consist of $22,500 for a study of the price posting unit and $40,000 to implement Chapter 1044, Statutes of 1977, which granted an exemption to existing tied-house restrictions. These restrictions generally preclude producers and wholesalers from engaging in the retail sale of alcoholic beverages. Chapter 1044 requires the beneficiary of the exemption to meet certain conditions designed to create new employment and job training opportunities for low income persons and to establish businesses owned and managed by them. The department proposes to employ a part-time consultant to monitor compliance with these requirements.

Status of Minimum Price Maintenance Law

On December 6, 1977, the California Supreme Court heard oral arguments in the case of *Christine T.* and *Richard E. Corsetti,* in which the Alcoholic Beverage Control Appeals Board earlier had ruled that the minimum price maintenance provisions of the Alcoholic Beverage Control Act were invalid. Pending a final legislative or judicial decision on price posting, the department is continuing to enforce the existing state law. Should the Legislature repeal these provisions or the judicial system invalidate them, there would be annual savings of about $200,000 in the department's budget.

We continue to support the elimination of minimum price maintenance. It is conceivable that the average retail price of distilled spirits would decline significantly if price posting was discontinued. A previous study by our office indicated that such reductions could average 10 percent below present market prices.

Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue producing agency. It collects and distributes license fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly in the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" (i.e., penalties in lieu of license suspension) are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, 90 percent of the money on deposit in the fund is divided among the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund.

Historically, the department has generated enough license fee and miscellaneous revenue to cover its costs, but for the past four years operating expenses have exceeded revenues. As shown in Table 2, the department estimates that General Fund revenues for the budget year derived from fees and charges will amount to $10,535,000 compared to expenditures exceeding $11.5 million.

In the 1975–76 and 1976–77 Analyses, we recommended legislation to increase license fees in order to eliminate the department's revenue deficiency. Last year we recommended that the department's expenditures

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

be tailored to available revenue, and the Legislature conditioned a portion of the department's appropriation on the enactment of a fee increase in Chapter 245, Statutes of 1977 (AB 754). The legislation increased renewal fees and amounts paid under "offers in compromise" by 10 percent. The increase ($1,650,000 for the budget year) is deposited directly in the General Fund, effectively doubling the General Fund revenue from these sources.

Table 2
License Fees and Miscellaneous Revenue
Department of Alcoholic Beverage Control
(General Fund)

	Actual 1976–77	*Estimated 1977–78*	*Estimated 1978–79*
Miscellaneous	$5,244	-	-
Original license fees	2,061,700	$2,200,000	$2,250,000
Transfer fees	4,471,522	4,500,000	4,500,000
Special fees	306,608	300,000	300,000
Service charges	132,226	150,000	175,000
Penalties	7,146	10,000	10,000
General Fund portion of annual fees and offers in compromise	1,602,151	1,650,000	1,650,000
Chapter 245, Statutes of 1977	-	971,000	1,650,000
Total Revenue	$8,586,597	$9,781,000	$10,535,000

Fees Still Need Adjustment

We recommend that legislation be enacted to permit the department to recover costs of services provided.

Notwithstanding enactment of Chapter 245, the department continues to experience a revenue lag in terms of its cost of operations. In the budget year, costs will exceed revenues by $987,050, and this amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The Governor's Budget indicates that the department will seek additional legislation to increase revenues during the 1978 legislative session. We believe that the focus of such legislation should be on those areas in which the department provides a service to the alcoholic beverage industry and for which it collects either no fee or a fee which does not cover its costs. For example, the department approves each individual event at which the holder of a caterer's permit wishes to sell alcoholic beverages. The $100 annual fee charged on-sale general licensees for the caterer's permit does not offset department costs of approving each event and no additional fee is collected. According to the budget, approximately 11,400 such authorizations will be granted in the budget year. If a fee of $10 was imposed on each catering authorization, approximately $114,000 would be generated annually.

Another service for which a fee could be imposed is certification of managers. Under the Alcoholic Beverage Control Act, anyone who manages an on-sale licensed premise must have the same qualifications as an on-sale license holder. Procedures by which the department reviews and certifies the manager applicant are outlined in the Administrative Code. Despite the substantial work required to review a manager's qualifications, no fee is charged. Approximately 1,640 manager certificates will be processed in the budget year. We believe that a fee offsetting processing costs would be appropriate.

Business and Transportation Agency
ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 133 from the General Fund — Budget p. 249

Requested 1978–79	$218,440
Estimated 1977–78	214,956
Actual 1976–77	191,548
Requested increase $3,484 (1.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal which, upon petition, review board decisions. During 1976–77, 152 appeals were filed and 139 decisions issued. The appeals board reversed 19 departmental decisions. As of June 30, 1977, it had processed 4,609 cases since its creation.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes a budget year expenditure of $218,440, which is $3,484 or 1.6 percent above the current year estimate. This increase consists of $1,480 for salary and employee benefits adjustments and $2,004 for higher operating costs.

Business and Transportation Agency
STATE BANKING DEPARTMENT

Items 134–136 from various funds — Budget p. 250

Requested 1978–79	$5,836,849
Estimated 1977–78	5,551,750
Actual 1976–77	3,793,257
Requested increase $285,099 (5.1 percent)	
Total recommended reduction	$70,000

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
134	State Banking Department	State Banking	$4,836,849
135	California Small Business Loan Program	General	1,000,000
136	State Banking Department	Small Business Loan Reserve Fund	(1,000,000)
			$5,836,849

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Consultant Services. Reduce Item 134 by $40,000.* Recommend deletion of the interagency task force on electronic funds transfer systems (EFTS). 177
2. *Equipment. Reduce Item 134 by $30,000.* Recommend deletion of funds for word processing equipment. 177
3. *Term Loan Program. Reduce Item 134 by $161,452 and augment Item 136 by $161,452 from the State Banking Fund.* Recommend the Small Business Loan Reserve Fund be used to support all activities associated with the term loan program. 179
4. EDP Activities. Recommend documentation of important computer applications be improved. 179

GENERAL PROGRAM STATEMENT

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

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Pursuant to law, the superintendent is designated as the "administrator of local agency security" with responsibility for supervising the handling of county, city and district funds by depository banks, both state and national.

Department headquarters is located in San Francisco and branch offices are in Los Angeles, San Diego and Sacramento. The current authorized staff is 161 positions.

The department is supported by the State Banking Fund, which receives assessments on banks and trust companies, license and application fees and service charges.

ANALYSIS AND RECOMMENDATIONS

The department proposes an expenditure of $5,836,849 which is $285,099, or 5.1 percent, above estimated current year expenditures. The department anticipates budget year reimbursements of $65,000, primarily in fees for (1) examining trust companies, (2) conducting special examinations of banks and (3) administering the local agency security program. This will produce a total expenditure program of $5,901,849.

Table 1 shows personnel-years and costs devoted to the department's seven programs and supporting elements.

New Positions (Continued Supervision of Existing Banking Facilities)

In an effort to (1) allow for closer supervision of problem institutions and (2) provide an early warning alert system to identify potential problems, the department has instituted an overseer program. The equivalent of four bank examiner positions is being used to staff the program. The department is requesting two examiner III positions to expand this program to include a larger number of institutions.

Consulting Services

We recommend the deletion of funds for the interagency task force on electronic funds transfer systems (EFTS) for a reduction of $40,000 in Item 134.

The department has budgeted $40,000 as its share of the second-year costs for an interagency task force on electronic funds transfer systems (EFTS). The Business and Transportation Agency and the State and Consumer Services Agency are coordinating the task force which currently includes the Departments of Banking ($40,000 contribution), Corporations ($20,000 contribution), Savings and Loan ($40,000 contribution) and Consumer Affairs (services-in-kind contribution). See analysis of the Secretary of Business and Transportation Agency (Items 31 and 32) for our recommendation on the deletion of funds for the interagency task force on EFTS.

Equipment

We recommend the deletion of $30,000 for word processing equipment in Item 134.

The department has budgeted $30,000 for the purchase of two word-processing units in lieu of two new clerical positions. Because of current-year savings, the department indicates that sufficient funds are available to purchase the equipment prior to the end of this fiscal year. We therefore recommend the reduction of $30,000 for this equipment in the budget year.

Table 1
Cost and Staffing Data
State Banking Department

Program	*Element*	*Actual 1976–77*		*Estimated 1977–78*		*Proposed 1978–79*	
		Personnel-years	*Cost*	*Personnel-years*	*Cost*	*Personnel-years*	*Cost*
1. Licensing and supervision of banks and trust companies	Investigation of applications for new facilities	4.1	$138,805	4.5	$141,500	6.5	$163,250
	Continuing supervision of existing banks	115.2	3,224,373	135.9	3,909,887	139.5	4,146,147
	Continuing supervision of existing trust companies	8.5	256,050	8.0	285,300	8.0	306,500
2. Regulation of transmitters of money abroad		7.5	187,416	6.0	120,000	3.0	50,000
3. Certification of securities		0.3	7,412	0.4	9,000	0.4	9,500
4. Administration of local agency security		2.3	33,258	2.5	37,500	2.6	40,000
5. Supervision of California business and industrial development corporations		0.5	16,235	0.7	21,000	1.0	25,000
6. Term Loan Program		–	–	3.0	1,092,563	6.0	1,161,452
7. Departmental administration (prorated to other departmental programs)	Executive and administrative services	(10.0)	(256,711)	(16.0)	(385,000)	(18.0)	(460,000)
	Legal and legislative services	(10.6)	(235,406)	(12.0)	(327,514)	(12.0)	(355,000)
	Research-information services	(5.7)	(137,792)	(8.0)	(174,090)	(9.0)	(202,162)
Total Programs		138.4	$3,863,549	161.0	$5,616,750	167.0	$5,901,849
Reimbursements			−70,292		−65,000		−65,000
Net Total Programs			$3,793,257		$5,551,750		$5,836,849

Term Loan Program

We recommend that the Small Business Loan Reserve Fund be used to support all activities associated with the term loan program, thus reducing Item 134 by $161,452, augmenting Item 136 by $161,452 from the State Banking Fund.

Chapter 1064, Statutes of 1977, establishes the California Small Business Loan Program (term loan program) to provide term capital for small and medium-sized businesses. The Small Business Loan Reserve Fund was created to accept funding for (1) the state's premium contribution for loans (General Fund) and (2) administrative expenses (State Banking Fund). The department is requesting $1 million from the General Fund for loans in the budget year. The administrative expenses are budgeted at $161,452 which includes six full time positions. This amount, however, is included in the State Banking Fund and not in the Reserve Fund for the budget year. We recommend that Item 134 be reduced by $161,452 and that Item 136 be augmented by $161,452 from the State Banking Fund, thus allowing the Legislature to monitor the costs of this new program.

EDP Activities

We recommend that documentation of important computer applications be improved.

We have reviewed the documentation of computer applications developed by the Department of Banking and find it in need of updating and clarification. Such documentation is especially important in smaller departments because of the dependence on one or two individuals.

The loss of key technical personnel could have an adverse effect on important computer applications without adequate documentation for replacement personnel to review. Therefore, we encourage the department to remedy this situation as soon as possible.

Business and Transportation Agency
DEPARTMENT OF CORPORATIONS

Item 137 from the General Fund Budget p. 257

Requested 1978–79	$6,264,572
Estimated 1977–78	6,508,754
Actual 1976–77	6,214,012
Requested decrease $244,182 (3.8 percent)	
Total recommended reduction	$20,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS
Analysis page

1. *Consultant and Professional Services. Reduce by $20,000.* Recommend reduction for interagency task force on electronic funds transfer systems (EFTS). 181

GENERAL PROGRAM STATEMENT

The primary mission of the Department of Corporations is to protect the public from unfair investment practices, the fraudulent sale of securities and franchises, and improper business practices by certain entities which lend or hold money in a fiduciary capacity. The department carries out this mission through three programs: (1) investment, (2) lender-fiduciary and (3) health care service plans. The cost of the department's administrative program is prorated to these three programs.

Under the Investment program the department approves securities and franchises offered for sale and conducts investigations to enforce the various laws administered by the department. The Lender-Fiduciary program carries out the licensing of securities agents (salesmen and solicitors) and the licensing and examining of broker-dealers and lender-fiduciary institutions regulated by the department. The Health Care Service Plans program is responsible for regulating health care service plans under Knox-Keene Health Care Service Act of 1975.

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles and San Diego. Authorized staff currently consists of 379.2 positions. Cost and staffing data for the department's programs and supporting elements are depicted in Table 1.

ANALYSIS AND RECOMMENDATIONS

The department's request of $6,264,572 is $244,182 or 3.8 percent below estimated expenditures for the current year. The department anticipates that budget-year expenditures of $4,060,479 from reimbursements, primarily fees for examining the financial records of licensees, will produce a total expenditure program of $10,325,051.

New Positions (Investment Program)

The department is requesting two attorneys and two auditors for this program. The attorneys will be used to process existing and projected casework. The auditor positions will allow the department to maintain the examination schedule for broker-dealers, investment advisors and commodity licensees.

Reduced Positions (Health Care Service Plans Program)

At the present time the department has 9.2 temporary help positions for this program. The budget-year request is to eliminate 7.2 temporary help positions and convert the two remaining positions to data abstractors. The abstractors will be used in place of special consultants to gather and organize medical survey data.

Manual File Conversion (Administration)

The department is required by statute to maintain a record of all applicants since 1917. Several years ago, applicant data were microfilmed and an index card system was designed to aid in locating the film and to identify the existence of records on any company. The index system, located in Los Angeles, is now estimated to include two million cards.

The department is currently conducting a feasibility study to automate this process, and $43,320 is included for the budget year to implement the results. The department anticipates that a conversion to a decentralized automated system would reduce the number of clerical positions needed to staff the file unit and result in cummulative savings by the end of the third year of operation. We will review the study prior to any expenditure.

Consulting and Professional Services

We recommend a reduction of $20,000 for the interagency task force on electronic funds transfer systems (EFTS).

The department has budgeted $20,000 as its share of the second-year costs for an interagency task force on electronic funds transfer (EFT) systems. The Business and Transportation Agency and the State and Consumer Services Agency are coordinating the task force which currently includes the Departments of Corporations ($20,000 contribution), Banking ($40,000 contribution), Savings and Loan ($40,000 contribution), and Consumer Affairs (service-in-kind contribution).

We recommend elimination of the funds for this activity. See analysis of the Secretary for Business and Transportation, Items 31 and 32.

Table 1
Cost and Staffing Data
Department of Corporations Programs

		Actual 1976–77		*Estimate 1977–78*		*Proposed 1978–79*	
Program	*Element*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*	*Personnel-Years*	*Cost*
Investment	Qualifications	76.8	$1,746,593	89.5	$2,275,364	90.0	2,350,993
	Franchises	6.8	167,967	7.5	190,485	7.6	196,943
	Regulation and Enforcement	75.2	1,832,890	83.6	2,164,614	88.0	2,337,251
	Commodities	2.1	49,189	2.6	63,659	2.6	65,760
Lender-Fiduciary	Check Sellers and Cashers Law	1.0	25,599	1.1	28,040	1.1	28,924
	Credit Union Law	40.1	919,490	44.9	1,133,294	45.1	1,191,179
	Escrow Law	22.1	513,696	24.9	628,502	25.1	650,299
	Industrial Loan Law	15.7	386,205	17.6	446,987	17.7	462,390
	Personal Property Brokers Law and California Small Loan Law	30.6	733,158	34.3	867,025	34.5	896,497
	Retirement Systems Disclosure Law	0.3	4,321	—[a]	—[a]	—[a]	—[a]
	Trading Stamp Law	0.3	6,175	0.3	6,454	0.3	6,794
Health Care Service Plans	Licensing	26.0	724,492	20.7	685,087	11.2	425,331
	Financial Examinations	7.4	195,542	30.1	698,757	29.3	706,352
	Medical Survey	1.5	42,673	7.2	555,866	7.0	558,245
	Enforcement	23.1	644,399	14.9	443,275	14.5	448,093
Departmental Administration (costs prorated to other programs)	General Office	(9.0)	(250,971)	(9.0)	(275,487)	(9.0)	(281,166)
	Accounting and Personnel Office	(7.1)	(139,844)	(8.0)	(170,871)	(8.0)	(177,303)
Total Programs		329.0	$7,992,389	379.2	$10,187,409	374.0	$10,325,051
Reimbursements			−1,778,377		−3,678,655		−4,060,479
Net Total Programs			$6,214,012		$6,508,754		$6,264,572

[a] This law has been repealed effective January 1, 1977 by Chapter 534 and Chapter 840 (SB 140 and AB 4114), Statutes of 1976.

Business and Transportation Agency
DEPARTMENT OF CORPORATIONS

Item 138 from the General Fund — Budget p. 263

Requested 1978–79	$3,780
Estimated 1977–78	3,780
Actual 1976–77	11,300
Requested increase—None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 941, Statutes of 1975, requires health care services plans and solicitors to be licensed by the Department of Corporations. Plans must maintain an agreement with a subsequent provider to continue health services if the plan ceases to transact business. Additionally, each plan is required to establish a system approved by the department which will enable enrollees to submit grievances to the plan.

Currently, the County of Contra Costa operates a health care service plan for its Medi-Cal recipients.

This item appropriates $3,780 from the General Fund to the County of Contra Costa to reimburse it pursuant to Section 2231 of the Revenue and Taxation Code for costs associated with satisfying the provisions of Chapter 941.

Business and Transportation Agency
DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT

Items 139–140 from the General Fund — Budget p. 264

Requested 1978–79	$4,909,626
Estimated 1977–78	2,775,114
Actual 1976–77	None
Requested increase $2,134,512 (76.9 percent)	
Total recommended reduction	Pending

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
139	Department of Economic and Business Development—State support	General	$4,284,626
140	State matching funds for federal grants and loans	General	625,000
			$4,909,626

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Support Budget. Withhold recommendation on department's proposed budget pending submission of detailed staffing information.	186

GENERAL PROGRAM STATEMENT

The Department of Economic and Business Development was created by Chapter 345, Statutes of 1977 (SB 28) for the purpose of stimulating the state's economic growth. It replaced the defunct Department of Commerce.

The new department became operative January 1, 1978, and is the state's principal agent for:

1. Coordinating federal, state and local economic development policies and programs to maximize their effectiveness;
2. Applying for and allocating federal economic development funds;
3. Assisting state agencies with implementation of state economic development policy;
4. Advising the Governor regarding his annual Economic Report; and
5. Providing information and statistics on the state's economy, tourism and international trade.

Headed by a Governor-appointed director, the department is to receive guidance from a 21-member advisory council, representing a cross-section of California's economy.

The department is composed of the following seven offices, with functions as specified.

1. *Office of Business and Industrial Development.* This office is responsible for promoting the expansion of business activity in California. It will seek to achieve this goal by acting as a liaison between government and the business community, and by providing pertinent economic information and technical assistance to private and public entities. It will also attempt to assist business by expediting the processing and review of permits.

2. *Office of International Trade.* Expansion of California's export trade is the primary objective of this office. Proposed actions to accomplish this objective include (a) providing technical assistance in export procedures, (b) relaying trade leads to California producers and (c) publishing an export directory, exporter's guide, and other pertinent information. Chapter 1169, Statutes of 1977, (SB 666) requires the office to provide specified technical and informational assistance in exporting California's agricultural products.

3. *Office of Visitor Services.* This office is responsible for economic and employment development through promotion of tourism in California. The proposed activities include (a) developing, publishing and distributing various promotional materials, (b) providing research and technical assistance to other state, private and local entities involved in tourism promotion, and (c) responding to tourism inquiries.

4. *Office of Local Economic Development.* Statewide economic and

job development through assistance and cooperation with local economic development entities comprise the mission of this office. Implementing activities include (a) providing technical assistance to local entities for assessing economic needs, developing strategies and implementing development plans, (b) administering grant and loan programs sponsored by the federal Economic Development Administration (EDA) for local economic development and (c) coordinating state and local development plans to maximize economic and job development impact.

These activities are performed by the staff of the Economic Development Unit which is transferred by Chapter 345 from the Department of Housing and Community Development to the Department of Economic and Business Development.

5. *Office of Small Business Assistance.* This office is responsible for providing financial and management assistance to small, economically disadvantaged and minority businesses. Its major activities include (a) administering a loan guarantee program which underwrites private loans to businesses unable to obtain financial assistance from conventional lenders, (b) providing management and other technical assistance to small and disadvantaged businesses, and (c) cooperating with the private sector to create and expand economic opportunities for minority-owned businesses.

The Small Business Development Board, formerly the California Job Creation Program Board, has been transferred by Chapter 924, Statutes of 1977, (AB 1050) to the department and has become its Office of Small Business Assistance.

6. *Office of Economic Planning, Policy and Research Development.* The purpose of this office is to provide planning, analysis and research support for overall, state economic development. Its principal activities include (a) gathering, analyzing and distributing pertinent economic data, (b) preparation of pertinent studies with respect to resource and environmental, as well as economic impact, and (c) advising the Governor and the Legislature on the economic impact of governmental policies and regulations.

7. *Office of Administration.* This office provides program implementation and administrative leadership for the department.

ANALYSIS AND RECOMMENDATIONS

The new department became operative January 1, 1978, and is currently being staffed. Its proposed budget requirements for the last half of the current year and for 1978–79 are shown in Table 1.

Budget Documents Lacking

We withhold recommendation on the department's proposed budget pending submission of detailed staffing information.

The Governor's Budget shows the total number of proposed staff and expenditure requirements for each of the offices of the new department. However, it provides no detail with respect to the types of positions and funding level. The budget document states that a detailed list of positions for the current and budget year will be submitted at the time this budget is reviewed by the respective legislative fiscal committees. Therefore, we

DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT—Continued

Table 1

Requirements of the Department of Economic and Business Development

	Personnel-years		Expenditures (thousands)	
Offices	*Estimated 1977–78*	*Proposed 1978–79*	*Estimated 1977–78*[a]	*Proposed 1978–79*
Business and industrial development	3.0	7.0	$84.9	$169.8
International trade	1.5	3.5	85.4	130.8
Visitor services	1.5	3.5	59.4	130.8
Local economic development	5.0	11.0	1,496.4[b]	3,326.7[b]
Small business assistance	4.5	10.0	2,193.2[c]	3,276.2
Economic planning, policy and research development	3.0	7.0	105.0[d]	173.8[d]
Administration	7.0	12.0	167.3	368.0
Totals	25.5	54.0	$4,191.6	$7,576.1
Federal funds			–1,416.5	–2,666.5
Net General Fund Costs			$2,775.1	$4,909.6

[a] Half-year expenditures.
[b] Includes federal Economic Development Administration (EDA) grants of $1.2 million in 1977–78 and $2.5 million in 1978–79.
[c] Contains $160,500 in federal, EDA funds.
[d] Includes federal EDA grants of $5,994 in 1977–78 and $166,494 in 1978–79.

withhold recommendation, pending receipt and analysis of this information.

Small Business Assistance Program Under Review

The Office of Small Business Assistance, formerly the California Job Creation Program, is currently undergoing a joint program review audit by the Business and Transportation Agency and the Department of Finance. For the duration of the audit, all new underwriting and assistance activities have been suspended. The audit is expected to be completed by March 1978, which would allow for legislative review at the budget hearings.

Business and Transportation Agency

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Items 141–142 from the General Fund — Budget p. 267

Requested 1978–79	$12,725,395
Estimated 1977–78	7,789,266
Actual 1976–77	5,084,587
Requested increase $4,936,129 (63 percent)	
Total recommended reduction	$1,342,414

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
141	Department of Housing and Community Development	General	$10,050,395
142	Department of Housing and Community Development	General	2,675,000
			$12,725,395

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Housing Assistance Payments. Withhold recommendation pending receipt of additional information on administrative support.	191
2. *Farmworker Housing Grants Program. Reduce Item 141 by $1,287,500.* Recommend reduction in program size to amount of initial approval by Legislature.	192
3. *Legislative Coordination. Reduce Item 141 by $14,414.* Recommend deletion of staff service analyst.	193
4. *Purpose of Local Official Training Unclear. Reduce Item 141 by $20,000.* Recommend funds for training local officials be deleted.	194
5. Research and Statistics. Recommend five positions be established on 2-year limited term basis.	194
6. Solar Demonstration Project. Withhold recommendation pending receipt of additional information on specific plans for project implementation.	195
7. *Administration. Reduce Item 141 by $10,000.* Recommend deletion of Commission on Housing and Community Development per diem and travel expenses.	195
8. *Administration. Reduce Item 141 by $10,500.* Recommend deletion of clerical position in administrative services unit.	196

GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development has the following responsibilities:

(1) To protect the public from inadequate construction, manufacture, repair or rehabilitation of buildings, particularly dwelling units, and from unsafe and unsanitary living conditions.

(2) To promote decent housing and livable communities.

(3) To define problems in housing and housing environments and devise appropriate solutions.

ANALYSIS AND RECOMMENDATIONS

The Department proposes a 63 percent increase in General Fund support in the budget year. Significant program increases are (1) a $5 million solar energy demonstration project, (2) an additional $2.5 million for farmworker housing grants and (3) reimbursable staff support to the Energy Resources Development and Conservation Commission. Significant program reductions are (1) the transfer of the economic development unit to a new department and (2) a decrease in funding for rural and migrant affairs.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The department's responsibilities are carried out through three divisions (Codes and Standards, Community Affairs, Research and Policy Development), an administrative element, and the Commission of Housing and Community Development. The resources utilized by the department are summarized in Table 1.

Table 1
Housing and Community Development Program Summary

	Personnel-Years			*Expenditures*		
Program Elements	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*
Codes and Standards	164.5	174.1	186	$4,079,855	$4,565,631	$4,955,655
Community Affairs	37.9	75.5	69.2	3,963,725	11,307,367	9,253,437
Research and Policy Development	26	31.4	33.2	685,431	905,302	5,954,811
Administration (Distributed to other programs)	(21.5)	(30.3)	(30.3)	(534,064)	(814,888)	(826,889)
Program totals	228.4	281	288.4	$8,729,011	$16,778,300	$20,163,903
Reimbursements				−330,802	−989,110	−416,480
Net, program total				8,398,209	15,789,190	19,747,423
General Fund				5,084,587	7,789,266	12,725,395
Other				3,313,622	7,999,924	7,022,028

CODES AND STANDARDS

The Codes and Standards Division attempts to protect the public from unsafe and unsanitary structures, and to promote durability in structures. This effort is implemented through six elements, the staffing and cost of which are detailed in Table 2.

Table 2
Codes and Standards Program Summary

	Personnel-Years			*Expenditures*		
Program Elements	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*
State Housing Law and Earthquake Protection Law	7.3	7.3	10.8	$205,494	$204,146	$247,319
Employee Housing Act	21.4	27.3	26.9	466,886	729,664	719,009
Mobilehome Parks	58.8	64	65.1	1,655,948	1,708,780	1,791,830
Mobilehomes	72.3	69.9	72.1	1,633,500	1,768,001	1,869,162
Factory Built Housing Law	3	3.1	4.1	83,778	88,052	119,490
Special Projects	1.7	2.5	7	34,249	66,988	209,045
Total	164.5	174.1	186	$4,079,855	$4,565,631	$4,995,655
Reimbursements				−4,371	−84,000	−208,000
Mobilehome Revolving Fund				−1,633,500	−1,768,001	−1,869,162
Federal Funds				44,396	—	—
Net, General Fund				$2,397,588	$2,713,630	$2,878,493

The State Housing Law and Earthquake Protection Law element is responsible for the promulgation of minimum standards for design, construction, maintenance, use and occupancy of buildings. The element is presently involved in developing noise insulation standards, residential insulation standards, less restrictive building codes for rural areas and guidelines for rehabilitation of existing homes. The element is requesting 1.5 positions to promote uniform local standards in the state Housing Law. One position is requested to develop solar energy standards.

The Codes and Standards Division includes a Special Project Unit which handles limited term activities. These include liaison with national conferences, state disaster planning and participation in developing national fire protection guidelines. The element is proposing 4.5 positions to provide staff time on a reimbursable basis to the Energy Resources Development and Conservation Commission. These positions will supply technical assistance to local governments in the areas of plan review procedures and solar energy standards.

Deficits in Fee Structure

In the 1977–78 Analysis we raised questions about the substantial deficits in the Codes and Standards inspection program when statutes require that costs be recovered through fees. In past years, the department has segregated direct inspection costs from "general assistances" costs which represents inspectors' time spent in advising local officials and property owners and other administrative activities unrelated to specific inspectors. The direct inspection, or "fee activity" costs were designated to be those costs which should be recovered by fees. Table 3 details the deficits between the costs of fee activities and the actual revenue collected from fees for 1975–76. Estimates are provided for 1976–77 and 1977–78 which were obtained from the 1977–1978 Governor's Budget. The department has discontinued identifying direct inspection costs.

Table 3
Codes and Standards Inspection Program
Recoverable Fee Activities and Actual Fee Revenues [a]

Program Element	*Actual 1975–76*	*Estimated 1976–77*	*Estimated 1977–78*
State Housing Law and Earthquake Protection Law:			
Fee activities ($ cost)	$21,174	$37,500	$2,000
Actual fee revenues	51,063	37,500	2,000
Deficit	$29,889	$—	$—
Employeee Housing Act:			
Fee activities ($ cost)	$310,147	$569,636	$662,498
Actual fee revenues	153,036	144,950	159,450
Deficit	$−157,000	$−424,686	$−503,048
Mobilehome Parks and Accessory Structures:			
Fee activities ($ cost)	$1,034,691	$1,294,241	$1,282,487
Actual fee revenues	726,875	800,000	412,000
Deficit	$−307,816	$−494,241	$−370,487
Mobilehomes:			
Fee activities ($ cost)	$1,493,097	$1,506,034	$1,564,100
Actual fee revenues	1,872,237	1,499,300	1,564,100
Deficit	$379,140	$−6,734	$—
Factory-Built Housing:			
Fee activities ($ cost)	$79,187	$118,059	$125,643
Actual fee revenues	40,740	50,000	60,000
Deficit	$−38,447	$−68,059	$−65,643

[a] Most recent available data, 1977–78 Governor's Budget.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

The department has objected to statutes requiring full cost recovery because (1) the fees are often counter productive to the achievement of statutory responsibilities, and (2) fees tend to impose unfair burdens on those least able to pay. Although there may be validity in these arguments, the law mandates recovery of costs. In the 1977–78 Analysis, we recommended, and the Legislature approved, requiring the department to analyze the current fee structure and recommend specific changes in the statutes.

The study submitted by the department recommends (1) retention of the present fee structure and (2) new legislation allowing flexibility in establishing fees in the future.

We are continuing our review of the report and the present fee structure, and anticipate the submission of a supplementary analysis with specific recommendations for legislative changes.

COMMUNITY AFFAIRS

The Division of Community Affairs carries on a variety of assistance activities with the stated purpose of providing Californians with decent and safe shelters in livable communities. Assistance activities include technical assistance to potential housing sponsors and local governments and the distribution of loans, grants and housing subsidies funded primarily by the federal government. Table 4 details the resources utilized by the division.

Table 4
Community Affairs Program

	Personnel-Years			*Expenditures*		
Program Elements	*Actual 1976–77*	*Estimated 1977–78*	*Proposed 1978–79*	*Actual 1976–77*	*Estimated 1977–78*	*Proposed 1978–79*
California Indian Assistance	3	7.6	3	$256,720	$330,342	$80,000
Economic Development	9.6	11.6	—	2,118,385	2,435,665	—
Housing Assistance Payments	4.3	11	11	139,732	4,263,507	4,252,956
Rural Community Development	10.9	32	33.4	980,516	3,239,943	4,299,767
Urban Community Development	10.1	13.3	21.8	468,372	1,037,910	620,714
Total, Community Affairs	37.9	75.5	69.2	$3,963,725	$11,307,367	$9,253,437

California Indian Assistance

The California Indian Assistance element provides a variety of assistance services to Indian housing authorities and tribes. In the current year, the department has concentrated its efforts on assisting Indian tribes in northern counties apply for and implement federal programs for housing rehabilitation, water and sewer improvements, roads and economic development projects. In the budget year, the department anticipates providing ongoing assistance to the existing programs as well as assistance to 10 to 15 additional tribes.

Administrative support for this element in recent years has been provided by a combination of federal funds ($70,000) and the General Fund

($35,000). The department has advised that there will be no federal funds available in the budget year. In order to continue the assistance activities, the element is requesting an increase of $45,000 to support three positions.

Economic Development

Pursuant to Chapter 354, Statutes of 1977 (effective January 1, 1978), the Economic Development element has been transferred to the new Department of Economic and Business Development.

Housing Assistance Payments

The Housing Assistance Payments element administers in conjunction with local agencies a statewide program of rental subsidies to (1) continuing care persons (developmentally disabled, physically disabled and mentally disordered), and (2) low income families in nonmetropolitan and rural areas. The element anticipates the distribution of approximately $4 million of federal funds in both the current and budget year. The department is currently administering approximately 1,800 units through the two separate programs.

Additional Information Needed on Administrative Support

We withhold recommendation on $100,000 requested for administrative support pending receipt of additional information.

In the current year, state administrative costs for the program are supported entirely by federal grants. For the budget year the department is proposing that $100,000 from the General Fund be used to support a portion of these administrative costs in order that federal funds can be passed through to local government agencies to increase support of local administration.

The Housing Assistance program was established on the basis of full recovery of state administrative costs. Before General Fund support is approved, there is need to examine:

1. The state's contractual requirements for administration of the program.
2. The basis for the distribution of administrative responsibilities and reimbursements between state and local governments.

At the present time we do not have adequate information to make such an evaluation.

Rural Community Development

This element assists local goverment and housing sponsors in nonmetropolitan areas of the state to qualify for federal and state funds to promote community development projects. The department administers two major programs, the Housing Predevelopment Loan Fund and the Farmworker Housing Grant program.

The Housing Predevelopment Loan Fund was established by Chapter 1335, Statutes of 1976 and has received appropriations of $535,000 in 1976–77 and $1,050,000 in 1977–78. The combination of loan payments and interest income will make available approximately $2 million for loan activities in the budget year. The element is proposing the continuation of three

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

positions to administer this activity.

The Farmworker Housing Grant program was established by Chapter 927, Statutes of 1977 effective January 1, 1978. As passed by the Legislature the bill contained a total of $2,625,000, including $2,500,000 for grants and $125,000 for administration. The Governor reduced the total to $1,312,500 including $1,250,000 for grants and $62,500 for administration. For the budget year a total of $2,600,000 is requested including $2,500,000 for grants and $100,000 for administration.

Maintain Funding Level at Amount Approved by Legislature

We recommend a reduction of $1,287,500 ($1,250,000 for grants and $37,500 for administration) in the Farmworker Housing Grant program in order to limit total funds to amount originally approved by the Legislature.

The Farmworker Housing Grant program awards grants for the construction or rehabilitation of housing, including land acquisition and necessary support facilities, for agricultural employees and their families. Nonprofit corporations, stock cooperatives and specified governmental entities are eligible for grants which are made on a matching basis. The department is required to exercise a number of administrative controls that are mandated by Section 41178 of the Health and Safety Code.

In the budget year, $2.5 million is proposed for farmworker housing grants. Combined with the $1.25 million appropriated for grants in the current year the effect of the proposal is to increase the total amount available for grants to $3.75 million. This represents a significant increase in grant level relative to the $2.5 million specified in the bill approved by the Legislature.

The program began January 1, 1978, and it is too early to evaluate its potential impact at this time. Expansion of the program should wait until more is known about the implementation and impact of the present program. Specifically, evaluation is needed to determine the department's success at finding qualified grantees and actually awarding funds. In addition, it is necessary to determine the department's ability to administer the mandates of the law including establishing minimum "capital reserves" to be maintained by grantees, controlling rents, controlling selection of tenants and purchasers, and regulating terms of occupancy agreements.

Urban Community Development

This element provides technical assistance to local government and housing sponsors in order to more effectively utilize funds from state, local and federal government and the private sector in urban community development activities. Current activities include relocation assistance, home management counseling, rehabilitation of existing housing stock and HUD block grant applications. The element is proposing two new positions for development of guidelines for housing elements in local general plans.

The element administers the Urban Development Loan Fund (Chapter 1177, Statutes of 1977) which provides loans for prescribed preliminary costs incurred in the development of assisted housing for low-income persons. A total of 1.5 positions are proposed to continue for administration of the fund.

RESEARCH AND POLICY DEVELOPMENT

The Research and Policy Development Division aims to identify housing and community development problems and needs and to evaluate and recommend solutions. These objectives are implemented through the California Statewide Housing Plan, the review of state and local government plans and the development of data resources. Table 5 describes the resources for the program elements.

Table 5
Research and Policy Development Program Summary

	Personnel			*Expenditure*		
Program Elements	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*	*Actual 1976-77*	*Estimated 1977-78*	*Proposed 1978-79*
Policy and Program Development	11.1	12.1	12.2	$317,251	$279,607	$341,131
Research and Statistics	7.8	7.2	8.1	193,779	282,006	302,946
Planning Coordination and Review	7.1	12.1	12.9	174,401	343,689	310,734
Solar Energy Demonstration Project	—	—	—	—	—	5,000,000
Total, Program	26	31.4	33.2	$685,431	$905,302	$5,954,811
Reimbursements				−76,533	−70,000	−35,000
Total, General Fund				$608,898	$835,302	$5,919,811

Policy and Program Development

This element handles State Housing Plan updates, long-term policy development and legislative analyses. The section has 12.1 personnel-years assigned in the current year, part of which is terminating temporary help. In the budget year, the section is requesting one reimbursable temporary position to provide services to the Coastal Commission. Two positions are requested to expand the legislative coordination unit. The amount of $20,000 is requested for training local officials in the area of housing element plans.

Legislative Coordination

We recommend deletion of one staff services analyst for a reduction in Item 141 of $14,414.

The department currently has 1.5 staff services analysts and 1 clerk typist assigned solely to legislative coordination, analyses and liaison. In addition, department records show the equivalent of 1.75 personnel-years in the Policy and Program Development section are devoted to legislative related work plus an additional .6 personnel-years from the Plan Coordination and Review section. To this total of 4.8 personnel-years, the section proposes to add 1 legislative coordinator and 1 staff service analyst for a

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

budget year level of 6.8 personnel-years.

The department cites two reasons for the request: (1) the need to deal with the increasing volume, importance and complexity of legislation and (2) the need to consolidate legislative coordination activities under a legislative coordinator position.

We believe the consolidation of legislative coordination is desirable, but question the need for the staff services analyst. The addition of the legislative coordinator position will result in 3.5 personnel-years devoted entirely to legislation. Considering the 2.3 personnel-years available for legislative work in other sections, the addition of the Legislative Coordinator would appear to be sufficient for the budget year workload.

The department should also consider transferring the Legislative Coordination Unit from the Research and Policy Development Division to Administration. This may serve to clarify the function and status of the activity within the organization.

Purpose of Training Unclear

We recommend the deletion of training funds for a reduction of $20,000 in Item 141.

The department has proposed $20,000 to develop and present training workshops for local officials on the preparation of local housing elements. The department anticipates several workshops would be held, in appropriate geographic areas of the state, with an estimated attendance at 50–100 persons per workshop.

While the need is apparent for uniform preparation of local housing elements, it is not clear whether this is a cost effective way of achieving the goal. The department advises that trade groups, planning associations, and city and county housing organizations regularly sponsor meetings on this subject. The department also publishes guidelines for local preparation of these housing elements. It is not clear that these workshops as proposed will promote better compliance with housing element guidelines.

Research and Statistics

This section is responsible for identifying information sources and gathering relevant information on housing and community development. Statistical material is prepared for the annual update of the California Housing Plan. Work is progressing on the Housing and Community Development Information System (HCDIS) designed to gather together information in this area. The section is requesting permanent funding for 5 temporary positions for developing and maintaining housing data.

Development of Statistical Data Base

We recommend that 5 requested positions be established on a 2-year limited term basis.

This section currently has 2 permanent positions supported by General Fund and 5 temporary positions supported by funds appropriated in Chapter IX of 1975. The section is proposing to make the 5 temporary positions permanent with General Fund money in order to continue the research and statistical work. The department describes the objectives of these positions to be the development of a statistical information base and the development of improved management reporting methods.

The department has described the immediate need of these positions for the development of the system but has not addressed future need after development is completed. By establishing these positions on a 2-year limited term basis, the department will be required to reexamine its future staffing levels in this area.

Planning Coordination and Review

This element develops guidelines for certain local government planning activities, develops regulations for certain California Housing Finance Agency activities and reviews and comments on a variety of planning documents and grant applications.

Solar Demonstration Project

We withhold recommendation on the Solar Demonstration Project pending receipt of additional information on specific plans for project implementation.

The department is proposing $5 million to provide for a state loan and grant program for solar energy systems in both new and rehabilitated multi-family subsidized housing. The grant program would be administered by the California Housing Finance Agency and the loan program by the Department of Housing and Community Development. Approximately 1,400 units with solar water heating and passive solar space conditioning would be constructed as well as approximately 1,600 units with solar water heating only.

The department has proposed the $5 million appropriation without providing information on administrative costs, loan and grant award mechanisms, effect on tax credits and housing subsidy payments, the "state of the art" of solar technology or reference to other significant data. An adequate appraisal of this project cannot be made until this information is provided and analyzed. In addition, the Finance Department has indicated that legislation may be appropriate for the demonstration project.

ADMINISTRATION

The administrative element gives direction to the department's programs, determines operating procedures and provides support in the legal, accounting, personnel and budgeting functions. Expenses of the Commission on Housing and Community Development are included in the element. For the budget year, the department is proposing 2 positions for increased workload in the legal section, 3 positions for the administrative services section and $10,000 per diem and travel expenses to support additional commission activity.

Additional Activity Not Required

We recommend deletion of Commission on Housing and Community Development per diem and travel expenses for a reduction of $10,000 in Item 141.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Currently, expenses budgeted for the commission provides for approximately 10 meetings per year. The commission proposes to increase the number of subcommittee meetings and special public hearings on commission matters. Our office has consistently questioned the justification for increased commission activity. The commission does not have the statutory responsibility which would require it to carry on research and policy development activities independent of the department's own efforts. If the director believes that the commission can provide useful assistance in developing information, we believe the budget of the department is more than adequate to fund these efforts.

Administrative Services

The administrative services unit provides staff support to the department in areas of accounting, personnel, budgeting and business services. One staff services analyst and two clerical positions are requested to handle increased workload.

Typing Pool not Justified

We recommend deletion of one office services assistant for a reduction of $10,500 in Item 141.

In the current year the administrative services unit includes a total of 7 professional, 4 technical and 6 clerical related positions. The division has requested 2 clerical positions to provide typing pool services for the administrative services unit. The department advises that the accounting and budgeting personnel have no assigned clerical positions. No evidence, however, of increased need for clerical assistance has been presented. Given the number of clerical personnel currently authorized, the addition of 1 clerical position would appear to be sufficient to meet anticipated workload.

Business and Transportation Agency
DEPARTMENT OF INSURANCE

Item 143 from the General Fund — Budget p. 277

Requested 1978–79	$7,917,287
Estimated 1977–78	7,371,412
Actual 1976–77	6,351,324
Requested increase $545,875 (7.4 percent)	
Total recommended reduction	$264,409

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Public Works Employment Act of 1976. Reduce by $70,142.* Recommend that the General Fund not maintain the support of part of a project originally funded with federal monies. 198
2. *Regulation of Insurance Companies. Reduce by $43,243.* Recommend deletion of one insurance officer III and one insurance officer II positions. 200
3. *General Regulation. Reduce by $86,044.* Recommend deletion of two rate analysts IV, one rate analyst III, and one steno position. 201
4. *Producer Compliance. Reduce by $39,080.* Recommend deletion of two insurance officer I and one insurance assistant position. 201
5. *Operating Expenses. Reduce by $25,900.* Recommend budget year savings be reflected. 201

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business which is wholly regulated by the states rather than by the federal government. As a California industry, its worth is estimated at over $13 billion.

The Department of Insurance is responsible for regulating the activities of insurance and title companies, and insurance agents and brokers in order to protect insurance policyholders.

The department is administered by the Insurance Commissioner, who is appointed by the Governor. Headquarters are located in San Francisco with branch facilities in Los Angeles, San Diego and Sacramento. In performing its mission, the department utilizes two regulatory programs. The Regulation of Insurance Companies program includes: the company consumer services element which processes general inquiries and complaints from the public regarding the actions of insurance companies; the tax collection element which collects premium, retaliatory, and surplus line broker taxes from insurance companies; and the general regulation element which conducts field examinations of insurers every three years and rating examinations every five years.

The Regulation of Insurance Producers program includes the producer

DEPARTMENT OF INSURANCE—Continued

licensing element which prepares, schedules, administers, and grades license examinations and issues and renews licenses, as well as the producer compliance element which investigates complaints from the general public concerning agents and brokers. Table 1 shows personnel-years and cost devoted to each operating program and supporting elements. The costs of the department's administrative program are prorated to the two operating programs.

ANALYSIS AND RECOMMENDATIONS

The department's budget requests of $7,917,287 is $545,875 or 7.4 percent above estimated expenditures for the current year. Budget year reimbursements are anticipated to be $3,376,057 primarily from fees for examining insurance companies, resulting in a total proposed expenditure program of $11,293,344.

New Positions (General Regulation)

The department is requesting two insurance examiner IV and one clerk typist II positions in the budget year to maintain its current schedule for examination of domestic and foreign insurers.

New Positions (Producer Licensing)

The department is requesting one examination formulator position to upgrade and maintain the licensing examination. There have been no major revisions to the insurance manual, examination, or testing procedures since 1969.

New Positions (Producer Compliance)

The department is requesting one staff counsel and one clerk typist II to absorb the workload increase in the Compliance Bureau.

Continued Positions (Administration)

The department is requesting the continuation of six positions (three clerk typists II, one insurance officer, one staff services analyst, and one program technician) administratively established in the current year. The clerical positions were added to maintain file room security. The remaining three positions were added to implement and comply with the provisions set forth in the California Information Practices Act Chapter 709, Statutes of 1977.

Public Work Employment Act of 1976 (Title II)

We recommend a reduction of $70,142 and appropriate positions. The General Fund should not maintain the support of part of this project originally funded by federal monies.

In the current year the department received $160,000 through the Public Works Employment Act of 1976 (PWEA-Title II) to conduct projects in the area of liability insurance. Eight positions (one Assistant Commissioner, 6 rate analysts and one clerical) were established to (1) initiate special studies of current and future property and liability insurance problems, and (2) reduce the backlog of rate complaints and maintain the

Table 1
Department of Insurance
Cost and Staffing Data

Program	*Element*	*Actual 1976–77*		*Estimated 1977–78*		*Proposed 1978–79*	
		Personnel-years	*Cost*	*Personnel-years*	*Cost*	*Personnel-years*	*Cost*
Regulation of Insurance Companies	Company consumer services	56.2	$1,419,210	61.5	$1,630,518	66.5	$1,830,503
	Tax collection	9.4	256,928	10.3	300,894	10.3	311,465
	General regulation	143.3	3,816,533	165.1	4,549,201	171.1	4,820,828
Regulation of Insurance Producers	Producer licensing	66.5	1,671,846	72.6	1,906,635	74.6	2,001,230
	Producer compliance	68.7	1,830,894	75.0	2,110,109	85.0	2,329,318
Administration (Costs prorated to other programs)		(47.5)	(1,408,052)	(61.9)	(1,655,346)	(60.9)	(1,774,234)
Total Programs		344.1	$8,995,411	384.5	$10,497,357	407.5	$11,293,344
Reimbursements			−2,644,087		−3,125,945		−3,376,057
Net Total Programs			$6,351,324		$7,371,412		$7,917,287

DEPARTMENT OF INSURANCE—Continued

rating examination schedule.

The department is requesting the continuation of this activity in the budget year. Of the $161,532 requested, $91,390 would be recovered through reimbursement with the remainder ($70,142) to be supported by the General Fund.

The objective of PWEA Title II Funds is to enable the maintenance of basic program services which would otherwise be cut back due to a lack of available funds. In the project narrative submitted in requesting PWEA funds, the department stated that this project was to be an extension of existing functions. There was no indication that the project should be continued beyond one year. The department applied for continued funding under PWEA Title II, but the proposal was denied.

To date the project has developed information on property and liability insurance and has started a marketing assistance program in the area of product liability. The backlog of rate complaints has been significantly reduced and the rating examinations are meeting the desired schedule. Eighty percent of the cost of the rate analyst positions would be recoverable from industry reimbursements. These positions would enable the department to handle rate complaints in a timely manner and maintain the examination schedule. We believe that the department should attempt to absorb, with existing personnel, the other work initiated by this project.

We do not believe that money from the General Fund is necessary to continue the successful activities initiated with PWEA Title II funding. Furthermore, we do not believe that PWEA Title II was ever intended to expand the scope of a department's activities. Accordingly, we recommend against allowing the General Fund to pick up the costs resulting from a one-time federal grant, the non-reimbursable portion of this activity. The department should identify the proper positions to be deleted.

Regulation of Insurance Companies

We recommend the deletion of one insurance officer III and one insurance officer II for a reduction of $43,243.

During the past two years the department has conducted a number of market examinations of insurance companies by reviewing trade practices, claim procedures, advertising, and underwriting among other activities. Two positions were borrowed from the Policy Services Bureau for these examinations. The department is requesting six positions (three insurance officers III and three insurance officers II) for this activity in the budget year. This represents a 300 percent increase in staff in one year in an area where permanent staff had not been separately assigned, and the justification is based on limited workload data. Four full-time positions would allow the department to conduct 24–48 market examinations per year. This should provide sufficient coverage while allowing the department to determine (1) the actual workload in this area and (2) the benefits derived from conducting market examinations independent of financial examinations. We therefore recommend deleting two of the requested insurance officer positions.

General Regulation

We recommend the deletion of two rate analysts IV, one rate analyst III, and one stenographer position for a reduction of $86,044.

The department is requesting three rate analysts and one clerical position to improve and accelerate the examination process. The department anticipates converting to a team-examination approach which is estimated to increase productivity by almost 20 percent.

In early January, there were six vacant rate analyst positions, four of which had been vacant for over three months. We believe the department should fill the existing positions and monitor the results of the team approach to determine actual workload rather than request additional positions at this time. Additionally, the department plans to automate the division's secretarial service. We see no need to add new staff to an activity which will be automated.

Producer Compliance

We recommend the deletion of two insurance officers I, and one insurance assistant position for a reduction of $39,080.

The department is requesting four insurance officers and two insurance assistant positions to eliminate the existing backlog (and prevent a future backlog) in the area of consumer complaints. In 1975 consumer complaints increased 57 percent (from 3,818 to 6,002) which resulted in a backlog of 3,072, up 134 percent from the prior year. By the department's estimate, six positions would be needed to eliminate the backlog in one year. In our judgment, the department should attempt to reach a stable staffing level, rather than over compensate to quickly eliminate a backlog, particularly when the number of complaints received has dropped nearly 20 percent since 1975. We therefore recommend the deletion of three of the requested positions. The three remaining positions coupled with the department's improved management efforts in this area, should allow the backlog to be eliminated in 18–24 months while stabilizing the staffing level of this division.

Operating Expenses

We recommend a reduction of $25,900 to reflect estimated budget year savings.

The department is requesting one hearing reporter for the Producer Compliance Division. According to the department, the Office of Administrative Hearings has been unable to provide the needed reporters, and private contracting is expensive and frequently inadequate. By adding this position, the department will be able to reduce its operating expenses by $25,900, and realize a net savings of at least $4,000 in the first year. We therefore recommend that the operating expenses be reduced by $25,900 to reflect the budget year savings.

Business and Transportation Agency
RIOT AND CIVIL DISORDERS INSURANCE

Item 144 from the General Fund — Budget p. 281

Requested 1978–79	$200,000
Estimated 1977–78	200,000
Actual 1976–77	200,000
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

In response to the 1967 riots and civil disturbances in various American cities, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program to make reinsurance available from the Department of Housing and Urban Development to companies operating in states where reinsurance had been difficult or impossible to obtain from the private sector because of potential riot losses, provided that the states agreed to share a portion of the losses. As a condition of eligibility for reinsurance, the companies agreed to establish and maintain membership in a state program.

California's Participation

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970), established California's program. This legislation (1) created the California Riot and Civil Disorders Association, a self-supporting agency, in which membership is required of all companies writing lines of insurance reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association assuring the state's potential liability under the program. The state's premium for this insurance protection in the budget year is the amount requested in this item.

Table 1 shows earned annual property insurance premiums from all sources in California, the state's maximum liability for riot losses, and the state's premiums for insurance to cover that liability.

Table 1
Components of State Liability for Riot Losses

Fiscal Year	*Earned annual property insurance premiums*	*Maximum state annual liability for loss (5% of earned premiums)*	*State annual premium cost*
1969–70	$578,252,000	$30,000,000	$1,500,000
1970–71	635,000,000	32,000,000	1,600,000
1971–72	732,820,000	36,640,000	1,750,000
1972–73	840,000,000	42,000,000	993,144
1973–74	1,000,000,000	50,000,000	200,000
1974–75	1,080,000,000	54,000,000	200,000
1975–76	1,188,000,000	59,400,000	200,000
1976–77	1,239,300,000	61,965,000	200,000
1977–78	1,488,000,000	74,400,000	200,000
1978–79 (est.)	1,711,000,000	85,550,000	200,000

Refund Provisions

The state's insurance contract provides that the association shall retain 25 percent of the total premiums paid by the state. However, based on riot loss experience, the contract also provides for annual partial refunds of the remaining 75 percent of accumulated premiums to the General Fund. The current year refund of $537,313 was received on January 1, 1978. The budget year refund is anticipated to be $459,850 making the net program cost $−259,850.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This appropriation provides authority to spend $200,000 from the General Fund for the state's insurance premium for fiscal year 1978–79.

Table 2 illustrates how the riot insurance program would operate in the event of losses based on the data shown in Table 1 for fiscal year 1978–79.

Table 2
Illustration of Operation of Riot and Civil Disorders Insurance Program
(1978–79 fiscal year)

Assume net insured loss from a riot	$75,000,000
Apply participating companies' retention at 1.5 percent of earned premiums (1.5 percent of $1.7 billion)	25,500,000
Loss balance	49,500,000
Apply reinsurance premium deposits held by HUD	6,600,000
Loss balance representing the state's liability which is covered by insurance	42,900,000

The state's $85.5 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of $42.6 million. Losses exceeding the state's $85.5 million liability limit would be covered by loans from the U.S. Treasury to the Secretary of Housing and Urban Development (HUD) to be repaid from future reinsurance premiums received.

Business and Transportation Agency
DEPARTMENT OF REAL ESTATE

Item 145 from the Real Estate Fund — Budget p. 282

Requested 1978–79	$9,949,714
Estimated 1977–78	9,039,563
Actual 1976–77	7,331,086
Requested increase $910,151 (10.1 percent)	
Total recommended reduction	$218,872

DEPARTMENT OF REAL ESTATE—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Education and Research Reserve. Recommend legislation to abolish reserve because need for separate account is not justified.	206
2. *Staff Benefits. Reduce by $23,644.* Recommend reduction to reflect overstated staff benefits.	207
3. *Syndicate Securities Personnel. Reduce by $104,342.* Recommend deletion of three positions and associated expenses.	209
4. Education and Research Activities. Withhold recommendation pending submission of expenditure and program detail to fiscal committees.	210
5. *Consumer Education Positions. Reduce by $35,040.* Recommend deletion of two positions for consumer-oriented activities because need is not substantiated.	212
6. *Data Processing Costs. Reduce by $45,846.* Recommend reduction to eliminate overbudgeted data processing costs.	212
7. *Facility Remodeling. Reduce by $10,000.* Recommend reduction because expenditures are not required.	213
8. General Fund Support. Recommend consideration be given to depositing fee revenues in the General Fund.	213
9. Contract Disclosure. Recommend legislation requiring real estate agents to disclose specific terms in contracts involving real estate transactions.	214

GENERAL PROGRAM STATEMENT

The Department of Real Estate is responsible for protecting the public in the sale of subdivided property, real property securities, and in real estate transactions handled by agents. The department permits only trained persons to act as real estate salespersons and brokers and sets minimum standards for real estate offerings.

The department is administered by the Real Estate Commissioner. It has an authorized staff of 329.5 positions, and maintains headquarters in Sacramento with district offices in Los Angeles, San Francisco, San Diego, Sacramento, Fresno, and Santa Ana.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $9,949,714, an increase of 10.1 percent over estimated current year expenditures. Resources available for department support are projected to be $17,749,712, resulting in an anticipated surplus of $7,799,998 by June 30, 1979.

Table 1 illustrates the condition of funds supporting the department's programs. The table shows that available resources are expected to increase slightly while department costs will grow by over 10 percent. As a result, the accumulated surplus in the Real Estate Fund is expected to decrease almost 10 percent by the end of the fiscal year.

Table 1
Combined Fund Condition

	Actual 1976–77	*Estimated 1977–78*	*Percent Change Over Previous Year*	*Proposed 1978–79*	*Percent Change Over Previous Year*
Accumulated surplus, July 1	$7,760,261	$8,865,473		$8,645,212	
Revenues	8,436,521	8,819,460		9,104,500	
Total available resources	$16,196,782	$17,684,933	9.2%	$17,749,712	0.4%
Expenditures:					
Real Estate Fund	7,241,630	9,039,721		9,949,714	
Real Estate Education, Research and Recovery Fund [a]	89,679	—		—	
Total expenditures	$7,331,309	$9,039,721	23.3%	$9,949,714	10.1%
Accumulated surplus, June 30	8,865,473	8,645,212	(2.5%)	7,799,998	(9.8%)
Department of Real Estate	($4,814,691)	($3,894,748)	(19.1%)	($2,550,474)	(34.5%)
Reserve for education, and research	($2,235,856)	($2,810,346)	25.7%	($3,157,041)	12.3%
Reserve for recovery	($1,814,926)	($1,940,118)	6.9%	($2,092,483)	7.9%

[a] Fund abolished by Chapter 271, Statutes of 1976, and remaining balance transferred to Real Estate Fund, effective January 1, 1977.

DEPARTMENT OF REAL ESTATE—Continued

Elimination of Education and Research Reserve

We recommend legislation to abolish the reserve for education and research because need for a separate account is not justified.

Prior to January 1, 1976, the department's activities were supported by the Real Estate Fund and the Real Estate Education, Research, and Recovery Fund, which annually received 25 percent of license fee revenue to support education and research projects and payment of recovery claims. With enactment of Chapter 271, Statutes of 1976, the latter fund was abolished and remaining balances were transferred to the Real Estate Fund. Two reserves, one for education and research support and the other for recovery claims, were established by legislation. Each reserve receives the same proportion of license fee revenues as previously provided.

We believe that the existence of a separate reserve for education and research purposes is no longer warranted. First, the diversion of license fee revenues to this reserve has caused a significant decline in the resources available for other department activities. As shown in Table 1, the projected education and research reserve level for the end of the budget year is over 12 percent greater than the level estimated for June 30, 1978. Over the same period, surplus monies available for other department operations are expected to *decrease* by approximately 34.5 percent.

Second, objective analysis of the need for educational activities is obscured by the establishment of a separate reserve. For example, the department justifies its budget request for an additional $300,000 for consumer education activities by stating that, ". . . during the last three fiscal years the amount budgeted (for education and research programs) has remained at $512,000, far below actual receipts which are estimated at $1,065,000 for fiscal 1978–79. The surplus funds generated simply add to an already ample surplus presently exceeding $2,235,000." The department further indicates that ". . . it doesn't make good sense to continue to feed an already ample surplus." We believe that budget requests should be based on the merits of the expenditure items, rather than as a means of avoiding large increases in surplus funds.

In our judgment, continuation of a reserve for recovery claims is warranted. The number and dollar amount of these claims cannot be anticipated and the allocation of funds for this purpose prevents their use for other department programs. However, the Legislature should evaluate the need to allocate 5 percent of license fee revenues to this reserve because both annual income and the accumulated surplus appear to be substantially greater than the level of recovery claim payments.

Proposed New Positions

The department is proposing 29.5 additional positions, an increase of nearly 9 percent above currently authorized staffing. Of this total, 25.5 positions are expected to be administratively authorized during the current year. Increased workload demands are the basis for all requests except one analyst and one clerical position for consumer education and information purposes. Expenditures related to the 29.5 new positions total approximately $447,000 for 1978–79.

Excess Staff Benefits

We recommend a reduction of $23,644 to reflect overstatement of staff benefits for proposed new positions.

Budgeted expenses for the requested positions include $100,369 for staff benefits, equaling 26.9 percent of net salaries and wages (less salary savings). However, staff benefits for existing positions in 1978–79 are 20.6 percent of total net salaries. The department has not justified the use of a different rate for computing staff benefits for the new positions.

Budgets should be prepared in a consistent manner. Staff benefit expenditures for the proposed positions should be determined by applying the rate for existing positions. Based on this calculation, staff benefits for the new positions should equal $76,725. Accordingly, we recommend staff benefits be reduced by $23,644.

A discussion of the department's four operating programs follows.

I. TRANSACTION ACTIVITIES

This program is designed to protect the public in transactions with real estate salespersons and brokers. Two elements are contained in the program: (1) licensing and (2) regulatory and recovery.

The licensing function includes the preparation, administration, and scoring of examinations required for sales agent and broker licensing; the maintenance of license records; and the handling of inquiries received from licensees and the public.

The regulatory and recovery element combines two department functions. The first, the regulatory component, involves disciplinary action against licensees for violations of real estate law. Formal action against a licensee may be initiated by the department, and substantiation of the violation may cause suspension or revocation of the license, or the placement of restrictions on it.

Second, the recovery function is designed to assist in the recovery of money when violations of law impose a financial loss on a complainant. If the complainant obtains a fraud judgment against a licensee who is unable to pay the judgment amount, the injured party may then file a claim against the recovery reserve. If the department finds the claim valid, the judgment amount is paid out of this reserve and the department then takes action against the licensee to recover the funds expended. The maximum amount that may be paid to claimants for actions against any one licensee is $40,000.

Personnel and expenditures for the program are shown in Table 2 on the following page.

Workload Increases

The major portion of proposed new positions in the department is requested for elements of this program. The department indicates that 9.5 new positions will be used to reduce large backlogs existing in both licensing and examination workloads. Of the total, 6.5 clerical positions are requested for a limited term through June 30, 1979, at which time the department's new licensing examination processing system is expected to be implemented.

DEPARTMENT OF REAL ESTATE—Continued

Table 2
Transaction Activities Program
Staffing and Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Percent Change over Previous Year*	*Proposed 1978–79*	*Percent Change over Previous Year*
Expenditures by element:					
Licensing	$1,739,754	$2,099,603	20.7%	$2,266,236	7.9%
Regulatory and recovery	3,498,498	4,178,159	19.4	4,492,117	7.5
Total program expenditures	$5,238,252	$6,277,762	19.8%	$6,758,353	7.7%
Personnel-years by element:					
Licensing	92.2	104.9	13.8%	110.3	5.1%
Regulatory and recovery	121.0	145.6	20.3	152.6	4.8
Total program personnel-years	213.2	250.5	17.5%	262.9	5.0%

Greater emphasis on regulatory activities and increases in consumer complaints have led to significant growth in regulatory and recovery activities. Five deputy and two clerical positions are requested because of a workload increase approximating 10 percent, and two new auditors will be assigned to the department's investigative audit branch during 1978–79.

According to recent data furnished by the department, total licensees are expected to increase by approximately 10.4 percent in 1978–79. With additional licensees, the number of complaints and regulatory demands should rise. Because of these factors, we recommend that the requested positions be approved.

II. OFFERINGS AND SECURITIES

The objective of the Offerings and Securities program is to protect the public from fraud and misrepresentation of facts in sales of subdivided lands and real estate securities. The program currently contains two elements: (1) in-state subdivisions and (2) real property securities.

The in-state subdivisions component regulates California subdivisions by requiring the issuance of a public report which discloses essential information to the prospective buyer. The subdivider must furnish documentation substantiating the facts and statements included in the report, and claims are reviewed by the department to screen out fraudulent offerings.

Review of out-of-state subdivisions offered in California is the primary function of the real property securities element. Such offerings must be viewed by the department as fair, just and equitable before permission to sell is granted.

The real estate syndicate element was transferred to the Department of Corporations by Chapter 991, Statutes of 1977 (AB 983). Prior to enactment of this legislation, the department reviewed securities offered by syndicates, other than corporations before approving them for public sale.

Table 3 presents personnel and expenditure information for this program. Three clerical positions proposed for the budget year are expected to be added during 1977–78.

Table 3
Offerings and Securities Program
Staffing and Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Percent Change over Previous Year*	*Projected 1978–79*	*Percent Change over Previous Year*
Expenditures by element:					
Subdivisions	$1,424,126	$1,822,116	27.9%	$1,926,471	5.7%
Real property securities	61,657	83,512	35.4	112,882	35.2
Syndicate securities	87,402	52,171	(40.3)	–	(100.0)
Total program expenditures	$1,573,185	$1,957,799	24.4%	$2,039,353	4.2%
Personnel-years by element:					
Subdivisions	54.8	68.6	25.2%	71.0	3.5%
Real property securities	1.6	2.3	43.8	2.4	4.3
Syndicate securities	3.4	1.7	(50.0)	-	(100.0)
Total program personnel-years	59.8	72.6	21.4%	73.4	1.1%

Continuation of Positions Not Warranted

We recommend a reduction of $104,342 and the deletion of 3 positions in the syndicate securities element because this responsibility has been transferred to the Department of Corporations.

Prior to its transfer to the Department of Corporations, the syndicate securities element expended 1.7 personnel years and $52,171 during the first half of the current year. Although this activity was removed from the Department of Real Estate, the summary of authorized positions in the department's budget does not show any reduction in personnel.

It is our understanding that two of the three positions in this activity have been added to the regulatory and recovery function, while the third has been placed in the subdivisions unit. In effect, the transfer of these personnel has increased the staffing of other elements without administrative authorization or legislative review. Moreover, the department's budget is predominantly a reflection of workload growth but placement of these positions in other areas means that total staffing exceeds expected workload demands. We therefore recommend that the three positions be eliminated and that expenditures be reduced by $104,342, which equals full year costs in 1977–78.

III. POLICY AND PLANNING

This program, previously titled the education and research program, includes: (1) the support of real estate courses and projects in educational institutions; (2) the publication of real estate manuals, bulletins, and reference books; and (3) the legislative liaison unit.

The education component develops curriculum programs designed to improve the competence of license applicants and licensees. In addition, research in various areas of real estate activity, such as marketing, finance, land use, urban problems, and real estate economics, are supported by the program. These activities are funded by the education and research reserve and are conducted by public and private universities and colleges throughout the state. The department is also permitted by Chapter 247,

DEPARTMENT OF REAL ESTATE—Continued

Statutes of 1977 (AB 825) to contract with qualified corporations or associations for research work.

Publications prepared by the department for licensees include information on reference materials, educational opportunities, and changes in real estate law.

The legislative liaison element has been added to this program to analyze bills and monitor the legislative process for the department's administration.

Table 4 presents program staffing and cost data.

Table 4
Policy and Planning Program
Staffing and Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Percent Change over Previous Year*	*Proposed 1978–79*	*Percent Change over Previous Year*
Expenditures by element:					
Education and research	$649,243	$682,786	5.2%	$1,035,415	51.6%
Legislative liaison	32,977	63,911	93.8	96,727	51.3
Publications	230,247	252,305	9.6	259,866	3.0
Total program expenditures	$912,467	$999,002	9.5%	$1,392,008	39.3%
Personnel-years by element:					
Education and research	4.1	6.8	65.9%	8.1	19.1%
Legislative liaison	0.8	2.1	163	3.4	61.9
Publications	1.6	2.2	37.5	2.2	-
Total program personnel-years	6.5	11.1	70.8%	13.7	23.4%

Program Expansion

New program positions are proposed to meet statutory provisions and legislative demands. Pursuant to Chapter 1346, Statutes of 1976, all real estate licensees will be required to complete 45 hours of approved instruction within a four-year period to meet continuing education standards. According to the department, approximately 1,000 applications for course approval will be processed annually. To meet this workload, one deputy and one clerical position will be established during the current year and are proposed for 1978–79.

In the legislative liaison element, an additional deputy commissioner position is proposed to handle workload increases. Currently, legislative demands are met by one staff counsel and one clerical employee. We believe that the personnel requests for the education and legislative units have been substantiated, and we therefore recommend approval.

Lack of Legislative Review

We withhold recommendation on $812,000 budgeted for education and research activities pending (a) submission of expenditure and program detail to the fiscal committees hearing this item and (b) review of the appropriateness of funding specified projects.

Of the $1,035,415 proposed for the education and research program, the department states that $812,000 will be used for educational support and research grants. Funding of these expenditures, which are $300,000 greater than current year estimates, is provided by the education and research reserve of the Real Estate Fund.

At our request, the department has furnished a list of projects presently funded or under consideration for support during the budget year. However, the department has not indicated which projects are proposed for 1978–79 or the estimated expenditures for such item.

As noted in our discussion of the education and research reserve, one reason that new education programs are proposed is to reduce surplus monies in the reserve. Futhermore, the department has not provided expenditure and project detail for program activities because it believes that the application of reserve funds does not require legislative review. We believe that legislative review of education and research projects proposed by the department is not only expected but necessary to evaluate the merits of individual projects, since the Legislature established the education and research program and its funding source, and statutes specifically address the use of these funds.

Although the narrative accompanying the department's project list is vague, several projects appear to be studies of the management and operations of department programs. Use of funds in this manner might not be in accordance with law, since authorizing legislation specifies that funds in the education and research reserve are to be used solely for educationally oriented purposes. Accordingly we believe that the proposed use of reserve funds for management studies is inappropriate and should be reviewed before this item is submitted to the fiscal committees.

IV. ADMINISTRATION

The administration program includes the management and policy formulation functions of the commissioner's office and central services such as accounting and personnel for the department. Program costs include overhead expenditures and are prorated among the three operating programs of the department. Cost and staffing data for the program are presented in Table 5.

Table 5
Administration Staffing and Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Percent Change over Previous Year*	*Proposed 1978–79*	*Percent Change over Previous Year*
Expenditures	$604,333	$734,167	21.5	$819,346	11.6%
Personnel-years	22.2	27.5	23.9	32.5	18.2

Requested Personnel

With increases in real estate licensees, mail processing requirements and department personnel have grown significantly. The department is requesting one personnel assistant and one clerical position to meet these needs. An additional staff analyst is requested to restructure accounting

DEPARTMENT OF REAL ESTATE—Continued

procedures before the department implements automated licensing system. We believe that these requests are warranted and recommend approval.

Consumer Education

We recommend a reduction of $35,040 to delete two requested positions for consumer education and information activities because the need for additional personnel is not substantiated.

The department is proposing a staff analyst and a clerical position in the budget year to expand consumer oriented programs. According to department staff, two positions in the administrative element are presently authorized for this activity.

The additional positions are requested to expand communication to consumers through television and radio. The department's justification states that there is ". . . substantial media interest in communicating our activities" as demonstrated by the level of media "cooperation" in a department survey.

We believe that this request is not substantiated for two reasons. First, the department has not indicated (a) the functions of new staff members, (b) expected workload, and (c) anticipated outcomes from an expanded media program. Second, as stated by the department in its proposal, department activities geared to the consumer are already extensive. Most daily newspapers in the state have, at least weekly, a real estate section in which department programs and related subject matter are reviewed. Consumer education brochures are currently distributed, and public seminars conducted at community colleges. Support of real estate courses is also provided by the department. The present involvement in consumer education is broad and we do not see increased media contact to be beneficial or necessary when considering the current dedication of resources to the consumer. We therefore believe these positions should not be approved, for a savings of $35,040.

Overstated Data Processing Costs

We recommend a reduction of $45,846 to eliminate overbudgeting of consolidated data center expenses.

Expenditures for charges to the department for data processing services are budgeted at $87,366 in 1978–79, a 6 percent increase over estimated current year costs. However, projected expenses for the budget year are nearly four times greater than actual costs experienced in 1976–77.

Discussions with staff of the Stephen P. Teale Consolidated Data Center indicate that actual billings for the first six months of the current year equal approximately $19,585. These charges are not expected to increase significantly over the remainder of 1977–78 and, according to the center's staff, the probability that billing rates will be increased is low.

Anticipated charges should be based on actual experience. By computing full year costs for the current year and applying a 6 percent workload factor, we calculate potential data processing charges for 1978–79 to equal approximately $41,520. In our judgment, this figure is more realistic than the department's budgeted expenditures. We therefore recommend a reduction of $45,846, the difference between the department's budgeted costs and our projected expenditures for data processing services.

Unnecessary Remodeling Expense

We recommend a reduction of $10,000 for facility remodeling costs because expenditures for this purpose are not required.

The department's budget includes a request of $10,000 to cover expenses for remodeling, furniture, equipment, and moving. According to the department, these costs are being generated by the addition of personnel and are necessary because available space "is being fully utilized at this present time."

We believe that this request should not be approved for three reasons. First, all requests for new positions include expenditures for equipment, furniture, and the operation of facilities. Second, remodeling needs should be charged as a capital outlay expense, not as a support item. Finally, the space presently occupied by department headquarters staff will not be available in the near future due to the expansion and reorganization of departments in the Health and Welfare Agency. Therefore, remodeling of headquarters facilities, where the majority of new personnel will be assigned, is unnecessary. Based on these factors, we recommend deletion of this request for a reduction of $10,000.

General Fund Support

We recommend that consideration be given to depositing fee revenues collected by the department in the General Fund from which the department's activities would be financed (fees would continue to be set so as to cover the ongoing costs of department activities).

Department expenditures are supported by various revenue sources. License fees from real estate agents are projected to equal nearly 54 percent of total revenue in the budget year. Charges for examinations, regulatory functions, and subdivision filings, as well as miscellaneous income, provide additional funds. These sources, when added to accumulated balances in the Real Estate Fund, support department activities.

Experience indicates that expenditures charged to the General Fund, rather than special funds, generally receive a more thorough scrutiny by both the executive and legislative branches, as well as by the public. As noted in the discussion of the education and research reserve, careful consideration of program merits is sometimes avoided when revenues are earmarked for special purposes. Moreover, the existence of surplus monies in special funds can inspire efforts to reduce excess balances without examining the effectiveness or appropriateness of new activities.

For these reasons, we believe that revenues from fees collected by the department should be deposited in the General Fund. The department's functions would then be supported by the General Fund, rather than by the Real Estate Fund. Fees should continue to be set at a level which insures that expenditures will be fully funded from fee revenues and other charges imposed by the department.

DEPARTMENT OF REAL ESTATE—Continued

Contract Disclosure

We recommend legislation requiring real estate agents to disclose specific terms of contracts involving real estate transactions. Such terms should indicate (a) the services to be rendered by the agent, (b) charges associated with these services, (c) the period of time by which agent performance will be fulfilled, and (d) the contractual obligations, recourses, and remedies of the real estate agent and the client.

Current law provides that a real estate licensee must disclose information for certain property transactions. Section 10240 of the Business and Professions Code requires mortgage loan brokers to provide the borrower with a statement of loan terms, estimated costs and expenses of the loan, liens against the property, and other pertinent information. Section 11018 of the code requires the Real Estate Commissioner to issue a public report to prospective purchasers of subdivided land. This report includes information regarding terms and conditions of sale, provisions for utility services, the amount of liens on any part of the subdivision, and the location of and distance to the nearest schools.

Similar disclosure requirements do not exist for other real estate transactions. In cases involving the sale of residential properties, for example, the seller is generally not informed of the services to be provided by the agent, the costs of specific services, the responsibilities of the agent and the seller, or the recourses available under any breach of a contract.

To provide the consumer with pertinent information about agent services, we recommend legislation to require certain items of disclosure in contracts for the disposition of real estate property. Contractual terms should indicate, at a minimum, the services to be rendered by the agent and the costs of such services. Furthermore, the contract should specify the period of time by which consummation of the transaction must occur, and the rights and recourses of both the agent and the client if contract terms are not met.

Such legislation should also require that the department develop a standard contract form which meets the disclosure requirements discussed above. This would enable the client to understand the nature and costs of services provided, and the conditions of any contract involving a real estate transaction.

Business and Transportation Agency

DEPARTMENT OF SAVINGS AND LOAN

Item 146 from the Savings and Loan Inspection Fund — Budget p. 288

Requested 1978–79	$6,025,861
Estimated 1977–78	5,861,942
Actual 1976–77	4,695,639
Requested increase $163,919 (3.8 percent)	
Total recommended reduction	$90,094

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *EDP Related Activities. Reduce by $46,494.* Recommend deletion of one examiner III, one data processing manager II, and one staff data processing analyst, to be replaced with one senior data processing analyst. 218
2. *Consulting and Professional Services. Reduce by $40,000.* Recommend elimination of funds for interagency task force on electronic funds transfer systems (EFTS). 219
3. *Consolidated Data Center. Reduce by $3,600.* Recommend a reduced funding for services provided by Teale Consolidated Data Center. 219
4. Supervision and Regulation. Recommend the two requested associate appraiser positions be authorized for a two-year period. 220

GENERAL PROGRAM STATEMENT

The Department of Savings and Loan is responsible for protecting the public by preventing conditions and practices which could jeopardize the safety and solvency of state-regulated savings and loan associations.

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor. Its headquarters is in Los Angeles with a branch office in San Francisco. The department is currently authorized 182 positions.

The department is supported from the Savings and Loan Inspection Fund which derives its revenues from an annual assessment on all state-regulated associations. The assessment is proportional to association assets and is set by the commissioner at a level to cover the department's annual operating costs.

The department performs its responsibilities under one operating program entitled "supervision and regulation" which is divided into six elements: (1) examination, (2) appraisal, (3) facilities licensing and legal assistance, (4) economic and financial information, (5) boards of inquiry and (6) administration. The examination element is by law responsible for examining associations at least once every two years to determine the quality of assets, compliance with state laws and regulations and utilization of sound management and accounting practices. The appraisal element

DEPARTMENT OF SAVINGS AND LOAN—Continued

makes field appraisals of real property upon which loans have been made by associations in order to determine lending and appraisal policies. The facilities licensing and legal assistance element conducts hearings and renders decisions on applications for new associations, branch offices, and mergers. The economic and financial information element provides the department with information which assists the other program elements.

Until January 1, 1978, the boards of inquiry heard complaints from the public regarding alleged discriminatory practices of associations. Chapter 1140, Statutes of 1977, provides a new mechanism for fair lending complaint resolution, making the boards of inquiry unnecessary.

Zero-Base Budgeting

The budget was prepared using zero-base budgeting (ZBB) principles as part of a pilot program required by Chapter 260, Statutes of 1977. The department divided its activites into six decision units. Decision packages were prepared at each of the five required funding levels (50%, 75%, 100%, 125%, 150%). Also, a proposed level was developed at approximately 12.8 percent above the 100 percent level.

At the time of the first agency budget hearing with the Department of Finance, some confusion arose because the agency staff was not prepared to review budget information in the ZBB format. Moreover, the Governor's Budget for 1978–79 displays the department's budget in the standard program format. Increases are indicated in italics with no reference to decision packages or priority rankings. In a number of instances only part of a decision package was approved for inclusion in the budget year request.

A special report evaluating the ZBB pilot project will be issued by our office at the budget hearings.

New Positions (Examination)

The department is requesting two auditor I positions for this element. The auditors will be used to assure compliance in the area of fair lending activities.

New Position (Administration)

The department requests one junior staff analyst and two stenographers for this element to absorb workload increases.

Reduced Positions

The department is deleting eight positions in the budget year. Four positions were authorized for only one year. The remaining positions were assigned to the boards of inquiry. Chapter 1140, Statutes of 1977, provides other mechanisms to resolve fair lending complaints making the boards unnecessary.

Table 1
Cost and Staffing Data
Department of Savings and Loan Programs

Program and Elements	Actual 1976–77 Personnel-years	Actual 1976–77 Cost	Estimated 1977–78 Personnel-years	Estimated 1977–78 Cost	Proposed 1978–79 Personnel-years	Proposed 1978–79 Cost
Supervision and Regulation						
Examination	74.0	$1,920,865	77	$2,308,704	79	$2,460,992
Appraisal	33.9	1,020,007	35	1,195,740	36	1,250,842
Facilities licensing and legal assistance	5.2	240,158	7	278,008	7	278,853
Economic and financial information	13.5	596,245	16	843,455	19	898,492
Boards of inquiry	1.7	36,885	4	160,672	—[a]	—[a]
Administration	33.9	883,362	41	1,100,363	44	1,156,103
Total Programs	162.2	$4,697,522	180	$5,886,942	185	$6,045,282
Reimbursements		−1,883		−25,000		−19,421
Net Total Program		$4,695,639		$5,861,942		$6,025,861

[a] Chapter 1140, Statutes of 1977, provides a mechanism for fair lending complaint resolution making the boards of inquiry unnecessary.

DEPARTMENT OF SAVINGS AND LOAN—Continued

NASSLS Membership

The department is a member of the National Association of State Savings and Loan Supervisors (NASSLS). The required dues are set at $200. Because 50 such contributions cannot adequately fund a national organization ($250,000 budget), associate memberships are offered to state-licensed savings and loan associations in the various states. The associate members have no voice in determining policies. However, the potential does exist for a conflict of interest because the savings and loan associations are regulated by the various supervisors they support with the associate membership fees. There is currently an effort to have the NASSLS supported solely by the states, with each state assessed according to the size of the savings and loan industry within its boundaries. California's contribution under this arrangement is estimated to be $50,000 and the department has requested this amount for the budget year. If the change to a state assessment does not occur, the department states that it will pay only the $200 annual fee and that the $49,800 balance will not be expended for other purposes.

Fair Lending

Chapter 1140, Statutes of 1977, requires that the Secretary of the Business and Transportation Agency establish a process to review and resolve fair lending complaints. The department has budgeted $25,000 as its share of costs for this activity.

EDP Related Activities

We recommend the deletion of one examiner III, one data processing manager II, and one staff data processing analyst and recommend instead the authorization of one senior data processing analyst for a reduction of $46,494.

The department is requesting two examiner III positions to increase its capacity to examine EDP operations such as the security of computer-generated fund transactions and computer-stored accounting records of state savings and loan associations. Additionally, the department requests four positions (one data processing manager II, one staff data processing analyst, and two data technicians) for the management information unit of the economic and financial information division (EFID).

The department's management information systems unit is now managed by an examiner IV. Management of this unit entails supervising the department's electronic data processing (EDP) activities. The department has proposed having the data processing manager assume the EDP management responsibility, thereby relieving the examiner IV of the need to perform duties more appropriate to an EDP classification. The staff data processing analyst would provide technical systems analysis capability. To date, the department has had to depend on outside support for EDP systems analysis. Most recently, this support has been provided by the Department of General Services and the Franchise Tax Board. The quality of this work has varied from extremely poor with respect to general Services to good when dealing with the Franchise Tax Board. However, the State Data Processing Management Office (SDPMO) in the Department of Finance has limited the ability of the Franchise Tax Board to continue providing necessary support to the department (see our analysis of the SDPMO under Item 349 for further discussion of this problem).

We concur with the department's intent but note that the department has demonstrated neither significant new projects nor sufficient current workload to justify all of the positions requested. However, there appear to be a sufficient number and mix of ongoing EDP applications and needs to warrant establishing one high-level position to (1) review existing processes for possible improvements, (2) ensure the appropriate documentation of important applications, (3) guide the department in determining new uses of EDP, and (4) perform such related tasks as are necessary to ensure the department's cost-effective use of modern data processing technology.

We therefore recommend that a senior data processing analyst position be authorized in lieu of two of the positions requested. It has been our observation that the senior-level position is more appropriate to a department which has little or no in-house EDP expertise because of the significant potential for error inherent in EDP efforts. The examiner IV position which will be freed by establishment of this data processing position can be used in place of one of the new examiner positions requested by the department and therefore we recommend deletion of one examiner III position. This would result in a savings of approximately $46,494 and would still provide the department with sufficient resources with which to manage and improve its EDP capabilities.

Consulting and Professional Services

We recommend a reduction of $40,000 for the interagency task force on electronic funds transfer systems (EFTS).

The department has budgeted $40,000 as its share of the second-year costs for an interagency task force on electronic funds transfer systems (EFTS). The Business and Transportation Agency and the state and Consumer Services Agency are coordinating the task force which currently includes the Departments of Savings and Loan ($40,000 contribution), Banking ($40,000 contribution), Corporations ($20,000 contribution), and Consumer Affairs (service-in-kind contribution).

We recommend deletion of funds for this activity. See analysis of the Secretary for Business and Transportation, Items 31–32.

Consolidated Data Center

We recommend a reduction of $3,600 for services provided by the Teale Consolidated Data Center.

For the budget year, the department has included a 6 percent cost increase for services provided by the Stephen P. Teale Consolidated Data Center. At this time, the data center is not anticipating any cost increase. Therefore, this item should be reduced by $3,600.

DEPARTMENT OF SAVINGS AND LOAN—Continued

Supervision and Regulation

We recommend the two requested associate appraiser positions be authorized for a two-year period.

The department is requesting two associate appraisers to assist in the fair lending activities. These positions will be used to review loans denied as a result of appraisal and/or property characteristics. The department anticipates a potential annual workload of 500 inspections per appraiser, but states that these are estimates. Because the exact workload is as yet unknown, we would recommend that the position be approved for a two-year period. This would allow the department to verify compliance with the fair lending regulation while determining the actual workload in this area.

CALIFORNIA TRANSPORTATION COMMISSION

Item 147 from the Transportation Planning & Research Account — Budget p. 292

Requested 1978–79	$379,710
Estimated 1977–78	None
Total recommended increase	$220,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Staffing Level. Augment by $220,000.* Recommend increase of seven professional and one clerical position to adequately staff commission. 221

GENERAL PROGRAM STATEMENT

The California Transportation Commission was created effective February 1, 1978, pursuant to Chapter 1106, Statutes of 1977. Membership consists of nine appointees of the Governor serving staggered four-year terms. One member of the Senate appointed by the Senate Rules Committee and one member of the Assembly appointed by the Speaker serve as ex-officio members of the commission. The commission replaces the California Highway Commission, California Toll Bridge Authority, Aeronautics Board and the State Transportation Board abolished under Chapter 1106.

The commission assumed all major responsibilities of the four terminated bodies. However, the commission does not have authority to approve the Department of Transportation's budget, unlike the Highway Commission. Instead, the Legislature will now review and act on the department's budget proposals. The statute, however, gives the commission a mechanism for evaluating the budget and making recommendations on it to the Legislature.

The commission, rather than the Legislature, will determine highway construction priorities to be funded from annual appropriations. In addition, the commission has the following new major responsibilities: (1) adoption of an annual five-year state transportation improvement program, (2) adoption and issuance of one and five year transportation revenue forecasts to be used by regional transportation planning entities in formulating individual regional transportation plans, (3) resolution of differences between state and regional transportation plans and (4) adoption biennally, of a California Transportation Plan.

ANALYSIS AND RECOMMENDATION

The budget proposes an expenditure of $379,710 from the Transportation Planning and Research Account. The budget includes funding for three professional and four clerial positions. By contrast, during the current year the four bodies abolished under Chapter 1106 were authorized a total of 14.2 positions.

Proposed Staffing Insufficient to Provide Independent Commission

We recommend that Item 147 be augmented in the amount of $220,000 to provide funds for the addition of seven professional and one clerical position.

Consolidation of the previous boards and commission into a single planning and fund allocation commission and the statutory establishment of the commission, independent of the Department of Transportation and the Business and Transportation Agency, could provide a setting in which objective oversight of future transportation problems can be exercised. However, measurable benefits will not materialize if the commission lacks an independent staff capability.

The commission is largely responsible for all the duties and powers of the four previous entities in addition to many new responsibilities that involve decisions relating to immediate transportation improvements. We do not believe that three professional and four clerical positions will be adequate to carry out effectively the commission's responsibilities. For example, the budget assumes that the full commission will hold one two-day hearing per month. In addition the commission is required to form "at least" four planning and modal committees which will hold hearings two additional times per month. In contrast the State Transportation Board, which was authorized five professional positions, held fewer meetings and had far less overall duties. We believe that the board, with more professional positions, also lacked adequate staff, and that this was responsible for the failure of the board to achieve its planning responsibilities. In the case of both the board and the Highway Commission, the process was actually controlled by the Department of Transportation.

We also believe the administration has acted inconsistently in setting staffing levels under Chapter 1106. Although this statute places ultimate responsibility for many planning and financing decisions on the new commission, the administration has determined that three professional positions are enough to meet these responsibilities. In contrast, the administration has proposed 10 new professional positions for the department because it will provide some staff services to the commission.

No positions are provided in either the commission or department budgets for support for some of the commission's most important duties,

CALIFORNIA TRANSPORTATION COMMISSION—Continued

that is, (a) resolving differences between the State Transportation Plan and the Regional Transportation Plans, (b) resolving differences between Regional Transportation Plans and (c) evaluating the short-term Regional Transportation Improvement Programs and resolving conflicts.

The commission should be given staff flexibility in order to respond realistically to its duties. Therefore, we recommend that the proposed budget be augmented in the amount of $220,000 which would fund seven additional professional positions and one clerical position for a total of fifteen positions (ten professional and five clerical positions). This staffing level is one position more than was recommended for the new commission by the California Highway Commission when it suggested a "low" staffing level.

Business and Transportation Agency

DEPARTMENT OF TRANSPORTATION

Items 148–156, 447 and 448 from various funds — Budget p. 296

Requested 1978–79	$1,147,043,232
Estimated 1977–78	1,115,028,859
Actual 1976–77	1,033,617,001
Requested increase $32,014,373 (2.9 percent)	
Total recommended reduction	$29,530,632

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Systems Planning. Reduce Items 148 and 154 in the total amount of $269,118.* Recommend reduction in unnecessary transportation planning activities. — 225
2. *Transit Research. Reduce Items 149 and 155 in the total amount of $393,594.* Recommend reduction in transit research and technical assistance. — 227
3. *Financial Programs. Reduce Item 149 by $40,608.* Recommend reduction in unspecified special transit studies. — 228
4. Management Reporting Systems. Recommend review of department work standards and their applications in management reporting systems. Also recommend implementation of improved monitoring of work standards and project status for accurate forecasting of support requirements. — 231
5. Personnel Information. Recommend development of improved personnel and staffing trends data to balance personnel resources and project requirements. — 233
6. *Personnel Support Costs. Reduce Items 151 and 447 in the total amount of $8,769,876.* Recommend reduction in amount budgeted for personnel expenses. — 238
7. *Operating Expenses. Reduce Items 151 and 447 in the total* — 240

amount of $6,860,431. Recommend reduction of amount overbudgeted for operating expenses and minor equipment and improved reporting system.

8. *Bicycle Facilities. Reduce Item 447 by $1,295,000.* Recommend reduction of amount overbudgeted for new bicycle lane construction. 243
9. *Highway Operations. Reduce Item 151 by $6,360,000.* Recommend reduction in highway system operations support unsubstantiated by department. 245
10. *Major Equipment. Reduce Items 151 and 447 in the total amount of $5,542,005.* Recommend reduction in major road equipment purchases unsubstantiated by department. Also recommend preparation of schedule of proposed equipment purchases. 246
11. Preventive Maintenance. Recommend department develop and implement preventive maintenance program. 248

GENERAL PROGRAM STATEMENT

Pursuant to Chapter 1106, Statutes of 1977, the 1978–79 fiscal year will mark the first time that the highway portion of the department's budget is formally presented to the Legislature for appropriation. The total budget contains funding for the Divisions of Transportation Planning, Mass Transportation, Aeronautics, Highways, and general support.

ANALYSIS AND RECOMMENDATIONS

The proposed expenditure is $1,147,043,232 which is $32,014,373 or 2.9 percent above the estimated current year expenditure of $1,115,028,859. The funding by program and source is contained in Table 1.

Table 1
Funding by Program and Source

Program	*Estimated 1977–78*	*Proposed 1978–79*
1. Transportation Planning	$14,247,244	$19,324,262
2. Mass Transportation	26,662,664	27,766,218
3. Aeronautics	6,673,757	6,117,900
4. Highway Transportation	1,044,191,963	1,093,834,852
5. General Support	23,253,231	(25,231,112)[a]
Total Programs	$1,115,028,859	$1,147,043,232
Resources		
State Highway Account	$567,202,000	$537,709,934
Aeronautics Account	6,797,148	6,117,900
Transportation Planning and Research Account	24,262,114	16,908,089
Bicycle Lane Account	360,000	360,000
Abandoned Railroad Account	503,404	3,037,841
Environmental Protection Program Fund	444,431	106,630
Federal funds	488,751,759	551,057,980
Reimbursements	26,708,003	31,744,858
Total Resources	$1,115,028,859	$1,147,043,232

[a] Distributed to other programs in 1978–79.

DEPARTMENT OF TRANSPORTATION—Continued

1. TRANSPORTATION PLANNING

The transportation system planning program is accomplished through the following program elements: (a) systems planning, (b) regional planning, (c) program analysis, (d) administration, and (e) reimbursed services.

The proposed expenditures for the budget year are $19,324,262 or 35.6 percent above the $14,247,244 estimated expenditures for the current year. The major portion of this increase results from a change in accounting procedure that allocates $4,070,000 in reimbursed services to this element in the budget, and is not an actual program increase. The proposed budget provides funding for 306.8 personnel-years which is 6.0 less than the current year staffing level of 312.8 personnel-years.

Accounting Change

The proposed budget includes $8,875,100 for regional planning, of which $7,964,500 reflects direct subventions to local agencies. Historically, a portion of the subventions has been used by the local agencies to pay for personal services provided by the department at local request. In the past, the department showed the reimbursed services and the *net* cash subventions together under the regional planning program element.

The proposed budget changes the way subventions and reimbursed services are shown. The total rather than the net subvention of funds is now shown in the regional planning element. Anticipated reimbursed services are shown separately as an additional expense element, and anticipated reimbursements are shown as additional income. This change has been made to facilitate billing the reimbursed services as "work for others" and the addition of a proposed overhead charge of $954,400 to the regional agencies for using these services. This raises total anticipated reimbursements to $5,024,400.

The Transportation Planning Process

Chapter 1106, Statutes of 1977, makes major changes to the transportation planning process. The statute (1) emphasizes action-oriented and pragmatic planning directed toward developing practical solutions to transportation problems, and (2) consolidates the transportation planning and programming processes.

Regional Planning

Chapter 1106 requires biennial regional transportation plans and annual transportation improvement programs to be prepared. These are prepared either by specified regional planning agencies in most circumstances or by the department as specified in the law. Each transportation planning agency must adopt a regional transportation plan, and adopt an improvement program if it prepares such a program. Each regional plan is required to be action-oriented and pragmatic, and to present clear, concise policy guidance to local and state officials. The program is required to support and be consistent with the plan.

Systems Planning and Program Analysis

We recommend a reduction of $269,118 (6.9 personnel-years) from the Transportation Planning and Research Account (Items 148 and 154) related to transportation planning activities.

The proposed transportation planning program is generally consistent with the requirements of Chapter 1106. However, we recommend the deletion of several items which are not of significant value. Furthermore, the major source of funds for this program, the so-called "spillover" of funds resulting from the addition of gasoline to the sales tax base, is rapidly dwindling, providing further justification for elimination or reduction of several program elements on the grounds that they will not provide sufficiently useful information to justify the application of scarce funds.

Air Transportation Planning. This element includes 2.2 personnel-years within the Division of Aeronautics to evaluate air carrier route award proposals and provide testimony before the federal Civil Aeronautics Board (CAB) and the state Public Utilities Commission (PUC). This effort is of marginal value because the PUC and CAB have review responsibility and decision-making authority, and sufficient information should be generated within their processes for effective decision-making. Accordingly, we recommend elimination of the requested 2.2 personnel-years for an approximate savings of $72,688.

West Coast Corridor Study. This study of major north-south travel in California will be completed during the current year. The proposed budget requests 5.2 personnel-years to provide exposure and distribution of study recommendations, interact with local agencies concerning the study, and explore additional issues which time did not permit the study to cover. This element contains a proposal to examine the air travel market to smaller metropolitan areas, which can be eliminated because it is unlikely that the study would have any impact upon services offered by private enterprise. The proposal to identify substitutes for travel (i.e. telecommunications, etc.) can also be eliminated because it will have no practical impact. Elimination of these components would reduce this element by 1.5 personnel-years for a savings of $49,500.

Public Transportation. The proposed review of Proposition 5 (which permits the use of highway funds for transit systems) applications is largely redundant. Such applications must be reviewed by local planning agencies, within the department's highway program, as well as in the Division of Mass Transportation. Approval of Proposition 5 applications rests with the commission, which can evaluate information from these sources directly, and request the involvement of the planning division only as necessary. We recommend a reduction in this element of 1 personnel-year, for a savings of $35,200.

Annual Report. The director has requested a report on the social, economic, and environmental impacts of the department's capital outlay program. At best this report can only reflect a summary of the many impact reports filed by the department and local agencies. We do not believe the need for a position to provide these summaries is justified, and

DEPARTMENT OF TRANSPORTATION—Continued

therefore recommend elimination of this element for a reduction of 1 personnel-year and $35,400.

Public Opinion Analysis. This element includes an unnecessary public opinion survey for which the department does not even have explicit details. We believe this survey can accomplish little. Extensive mechanisms are already available for public input to the planning process at both the local and state levels. These mechanisms are not ideal and can be further improved. However, a survey will not improve the existing process, nor can it provide in-depth information about real problems which exist. Therefore we recommend deletion of the survey for a savings of $54,450 and 0.5 personnel-years.

Data Management. This element provides a centralized source of data for regional and state transportation planning. The proposed budget includes 1 position for training an individual in the application of the data management systems, in case one of the present system operators should leave. Training should not require a full personnel-year, and a better estimate would be approximately 0.3 personnel-years including other responsibilities for the trainee. There is no justification for hiring someone simply because someone else might leave. Therefore, we recommend deletion of 0.7 personnel-years for a savings of $21,880.

2. MASS TRANSPORTATION

The mass transportation program contains three major program elements: (1) technical programs, (2) financial programs, and (3) administration. Work for others is included in these elements and is also listed separately.

The proposed expenditures for the budget year are $27,766,218, a 4.1 percent increase over the current year level of $26,662,664. Funding for 123.6 personnel-years is included, which is a 19.3 percent increase above the 103.6 personnel-years authorized in the current year.

Clarification of State Role

The department has indicated that there are five main areas of emphasis for its activities: (1) improvements to inter-city rail and bus services, (2) transit interfaces with freeways and highways, (3) transit development and demonstration projects funded by the state, (4) low-mobility transportation, and (5) technical assistance to small and medium-sized transit operators.

However, only a small portion of these activities is justified by the department's statutory responsibilities. Some grant administration, limited guideway (rail) review, and local assistance duties fall into this category. Essentially, the division's charter calls for it to encourage and aid transit development, and it was given only limited responsibilities and authority. Although administrative direction has improved significantly in the past year, the program requires additional statutory direction and authority if it is to perform a truly effective role with respect to mass transportation in California.

Defining Responsibilities

Specifically, rather than acting as a mass transit advocate, the division should (1) perform functions which promote efficiency and effectiveness in the provision of mass transit services, and (2) determine if these services are being provided in proper balance to satisfy the needs of California. Additional statutory responsibilities should be considered in the following areas: (1) facilitating the configuration of state highways to provide appropriate access to and adequate service for high occupancy vehicles (buses, vans, and carpools); (2) developing intermodal transfer facilities where needed and when identified as being of statewide significance or involving state facilities; and (3) insuring that adequate, efficient and effective transit services are provided to the transportation disadvantaged (elderly and handicapped).

Based on a detailed review of the proposed budget, we recommend eliminating or reducing proposals of a vague or marginal nature. Justification does not exist for the large staff increase proposed, in the absence of more explicit and pragmatic legislative direction for the program.

Technical Programs

We recommend the deletion of $393,594 (11.85 personnel-years) from the Transportation Planning and Research Account proposed for transit technical assistance and research (Items 149 and 155).

Management Development Assistance. This element includes 2.5 personnel-years for the collection and distribution of transit information, such as the biennial updating of the TRANSGUIDE report and preparation of other periodic reports and bulletins. Some of these functions are of little benefit to transit operators because the same information is readily available from the federal government, the American Public Transit Association (APTA), or other transit operators. We therefore recommend a reduction of 1.25 personnel-years for a savings of $47,750 in the collection and distribution of transit information.

Research and Development Assistance. This element includes 1.2 personnel-years to test automatic passenger counting and bus location equipment. The demonstration program is dependent upon receipt of a federal grant. It is more appropriate for a local transit operator to conduct such a program, and in fact the Southern California Rapid Transit District (SCRTD) is currently experimenting with passenger-counting equipment. In addition, the Toronto Transit Commission has underway an extensive passenger-counting and location experiment utilizing sophisticated equipment which could be applied in California if successful. Consequently, we recommend elimination of this component for a reduction of 1.2 personnel-years and $37,500.

Another component is included to develop and demonstrate bus safety improvements for retrofitting existing buses. While there is some merit in considering safety retrofits to existing buses, we do not believe dramatic improvements can be anticipated from the proposed component, and transit operators would not tend to utilize research developments in any event. We recommend deletion of this component for a savings of 1 personnel-year and $31,000.

DEPARTMENT OF TRANSPORTATION—Continued

This element also contains a component to develop evaluation criteria for determining the effectiveness of public transportation services. This component is vaguely defined and unnecessary because similar efforts are currently underway in urban areas by both transportation planning agencies and transit operators. Local efforts will be based upon performance-reporting by transit operators that is already required by state and federal legislation. We therefore recommend elimination of this component for a savings of 2 personnel-years and $62,000.

California Public Transportation Program. This element includes a component for the study of intercity ground transportation to develop statewide bus and rail programs. There is no clear need or market for new programs in this area. Multimodal studies are underway or have been completed in the major travel corridors of the state, and recent demonstration programs involving intercity bus and rail improvements have been unsuccessful. This component cannot provide additional useful information, and we therefore recommend deletion for a savings of 2.4 personnel-years and $74,400.

Low Mobility Transportation. The division is requesting 10.0 personnel-years for various assistance and coordination programs concerning transportation for the disadvantaged. This is an increase of 4.0 personnel years over the department's current efforts in this area. In our judgment, the proposed programs are primarily advisory in nature, and not adequately oriented toward providing significant improvements and efficiencies in transportation for the disadvantaged. We believe staffing should be continued at the current level of 6.0 personnel-years, with effort redirected to investigate (1) the explicit needs for improvements and efficiencies in transit services for the disadvantaged, and (2) institutional and other changes to facilitate such improvements and efficiencies. The division should examine the Delaware Authority for Specialized Transportation, which has effectively consolidated most specialized services in that state and offers a variety of services suited to differing needs among the disadvantaged. Potentially, such districts could be set up within major metropolitan areas of the state, or specialized service consolidation responsibilities could be authorized for transit districts already in existance. An effective and efficient approach should be taken for resolving deficiencies in disadvantaged transportation. We therefore recommend a reduction of 4.0 personnel-years and $140,944 from the proposed budget.

Program Evaluation and Special Studies

We recommend the deletion of $40,608 (1.1 personnel-years) from the Transportation Planning and Research Account (Item 149) related to unspecified transit studies.

The department proposes to increase this element from 4.3 to 5.4 personnel-years. One personnel-year has been budgeted for unspecified special studies, and 0.8 personnel-years for a program to develop a statewide perspective on selected transit issues. While some legitimate needs may exist in this element, adequate justification to support the proposed budget increase has not been provided. We recommend elimination of the increase for a savings of 1.1 personnel-years and $40,608.

3. AERONAUTICS

We recommend approval of Item 150.

The budget proposes an expenditure of $6,117,900, an 8.3 percent decrease from the current year level of $6,673,757. Funding is provided from the aeronautics account for 39.4 personnel-years, a decrease of 1.7 percent from the 40.1 positions authorized in the current year.

4. HIGHWAY TRANSPORTATION

The highway program has been the subject of considerable discussion and controversy over the past year. In our May 1977 report to the Legislature, *The Budget, Six-Year Plan, Cash Flow, and Management of the Department of Transportation,* we noted that antiquated budgeting, planning, and accounting procedures have resulted in inadequate data for responsible decisionmaking. In addition, various complexities of the program make it difficult to focus on key issues and develop an adequate understanding of the program.

Rather than discuss all aspects of the program, we focus on key factors which may be useful to the Legislature in exercising oversight responsibilities. These are (1) the financial condition of the program, (2) management information problems and deficiencies, and (3) various program components and related recommendations.

Financial Condition

In reviewing the financial condition of the highway program, it is important to assess (1) the proposed capital outlay program, and (2) the adequacy of state revenues to satisfy future program needs. In the May report, we attempted to approximate a cash flow analysis through the 1982–83 fiscal year by using the best information available and making certain assumptions. We have extended our analysis with information obtained since the May report.

Cash Available. As of June 30, 1977 the cash balance in the State Highway Account was $361.7 million. Following the close of the 1976–77 fiscal year, the department attempted to estimate what portion of this balance could be considered available above existing liabilities. Two different estimating procedures resulted in estimates of the "cash surplus" amounting to $207.2 million and $227.7 million.

Federal Aid. For simplicity our analysis focuses upon the major federal aid programs and the "basic program costs" of the State Highway program as defined in the May report (Table IX). Based on the current federal aid highway act, we estimate that new federal aid available for state highways in the current year includes (1) primary—$79.5 million; (2) urban—$18.4 million (assuming 20 percent of the total allocation is available for state highways); (3) miscellaneous—$23.5 million; and (4) 1978–79 interstate apportionments—$207.0 million plus $13.2 million for interstate rehabilitation. Assuming that federal programs continue at these levels, and that available apportionments (including subsequent year Interstate) can be obligated within the year in which they are available, $341.6 million in federal aid could be obligated each year. State matching cash require-

DEPARTMENT OF TRANSPORTATION—Continued

ments for this level of aid total approximately $43.5 million, taking into consideration the varying percentages of match requirements for different aid categories. The resulting annual federal-based capital program for state highways, including some support costs, should then approximate $385.1 million.

Available State Funds. In constructing a cash flow and encumbrance analysis for the application of state funds by the department, we use the following: (1) our May analysis for basic program costs, (2) the $43.5 million estimate of annual state match requirements, (3) the low estimate of $207.2 million in available cash as of June 30, 1977, (4) an estimate of $39.2 million in state match required for $296.2 million in unobligated federal aid available as of June 24, 1977, (5) revised estimates of state revenues, including major increases in some categories above values used in May, and full disclosure of revenues and interest from the sale of excess lands and property rental revenues, and (6) department estimates of essential state-funded capital outlay. Table 2 shows both an annual and a cumulative net state surplus or deficit on the basis of cash expenditures plus encumbrances. For basic program costs, state-only capital outlay, and federal matching requirements assuming an optimum program.

Table 2
HIGHWAY PROGRAM STATE CASH FLOW AND ENCUMBRANCE ANALYSIS
1977–78 THROUGH 1983–84
(In Millions)

	Balance June 30, 1977	*1977–78*	*1978–79*	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*
State Revenues	$207.2	$545.5	$555.0	$529.5	$522.7	$517.7	$509.5	$501.2
Less:								
Net Basic Program Costs	–	$394.3	$416.3	$439.7	$464.5	$490.7	$518.6	$548.1
State Match for Contracts	$39.2	43.5	43.5	43.5	43.5	43.5	43.5	43.5
State-Only Contracts	–	38.5	36.6	32.4	33.4	32.5	28.6	37.0
Net Annual State Surplus (Deficit)	$168.0	$69.2	$58.6	$13.9	$(18.7)	$(49.0)	$(81.2)	$(127.4)
Cumulative Surplus (Deficit)	$168.0	$237.2	$295.8	$309.7	$291.0	$242.0	$160.8	$33.4

It should be noted that our analysis assumes approximately $55 million less in Proposition 5 diversions for local transit projects than the $145 million assumed by the department for the period. However, the $90.7 million we are assuming for the guideway allocations is an optimistic level in our judgment. It will also be subject to the approval of the new commission and the Legislature.

Placing the Six-Year Plan in Perspective. Under the assumptions used to formulate Table 2, a net state funding deficit would occur in the 1980–81 fiscal year. In the absence of the accumulating surplus evident in the table, a revenue increase or program reduction would be necessary for financial stability.

Table 2 also assumes an optimum federal aid program, and provides for full encumbrance of necessary matching state aid. In reality, it can also be assumed that actual expenditures for each of the six fiscal years will be less than is stated because of project slippage and other reductions in expenditures.

Six-year planning program adjustments occurring in the last year make this factor evident. The department's 1976 planning program for the period 1977–78 through 1982–83 projected a $90 million state deficit for 1982–83. The comparable 1977 planning program for the 1978–79 through 1983–84 period was revised to reflect an anticipated state deficit of $65 million which is $25 million less and one year later than the previous projections. Thus, program expenditures for the next six years reflect broad estimates and are significantly less important from a policy standpoint than suggested by the department.

It is evident that a considerable degree of program flexibility exists in the near term. Furthermore, as discussed later in the analysis, major efficiency increases are possible in the basic program area which would further improve the cash position.

Adequate Information

In preparing this analysis, we encountered significant problems due to the absence of good information from the department. The department cannot provide adequate information either for its own needs or to satisfy the requirements of the commission or the Legislature. The deficiencies fall into two categories: (1) inadequate and insufficient financial information; and (2) incorrect and improperly utilized personnel information as provided by the department's management reporting systems.

Financial Information. The department has recognized its financial information problems. A task force has been formed to address the problems by the department and the Department of Finance, utilizing McKinsey and Company as consultants. The task force has followed the general thrust of our May report recommendations, and gone into considerably more detail. Major budget and reporting changes are planned for the 1979–80 fiscal year. We urge continuing emphasis on the task force effort and implementation of its recommendations. It is imperative that the department provide better financial data in the future.

Management Reporting Systems

We recommend that a program similar to the Group Evaluation Measurement program, in which an independent group of analysts would review the work standards and their applications in all of the management reporting systems, be implemented in the department.

We further recommend that improved monitoring reports of both work standards and project status be implemented in the department, so that

DEPARTMENT OF TRANSPORTATION—Continued

an accurate comparison between targeted and actual expended staffing requirements can be accomplished.

Another difficulty encountered in forecasting the department's financial resources is misuse of information by the department. The department's management reporting systems are designed to project district personnel requirements and to inform headquarters management of total departmental staffing needs. Theoretically, accurate, up-to-date information for construction, design, maintenance, and right-of-way staffing needs is provided through a process described below:

(1) Work standards are used to determine base personnel;
(2) Base personnel are then altered by different factors to arrive at an adjusted personnel-year figure;
(3) Adjusted personnel-years are then used to determine staffing expenses;
(4) Personnel actually expended on projects are eventually compared to projected staffing requirements to update program costs and work standards.

Our review of the management reporting systems indicates that several common problems exist with the development and utilization of work standards and their translation into personnel requirements. These problems include: outdated or unused work standards; excessive flexibility of adjustment factors; deriving personnel-years from a predetermined budget; and, not realizing the full potential for personnel monitoring.

Work Standards Outdated or Not Used. Work standards in the different reporting systems are antiquated. The Design Management System (DMS) was developed in the early seventies to estimate project design costs through the use of specified work standards that relate staffing requirements of costs. These standards are particularly questionable for current estimating purposes because of the considerable inflation in construction costs during the past few years. If all the work standards are not adjusted for inflation, staffing requirements may be overstated. Work standards that fail to take inflation into account would forecast a need for more personnel as the cost (but not the workload) increases. In fact, inflation tends to reduce the number of personnel needed for a given dollar volume of construction.

Further, smaller districts with insufficient data to build a historical base generally have used work standards developed by other comparable districts. These smaller districts still continue to use their counterpart's work standards even though they now have the historical base to update and develop their own.

In addition, problems have resulted regarding the failure to use work standards associated with the Group Evaluation Measurement (GEM) program implemented in 1969. The basic goal of the GEM program was to match clerical personnel requirements with workload demands. Work standards were to be used to measure group performances and to prepare personnel requirements. Use of the GEM system determined that only 65–75 percent of the authorized personnel were needed, and recommendations were made to reduce personnel, consolidate positions, and increase efficiency. However, the program was eliminated because department managers resented the infringement upon their flexibility to establish or eliminate clerical personnel. Therefore, the work standards developed by GEM were never used.

Adjustment Factors Too Flexible. Another problem with work standards involves the use of factors applied by managers to adjust base personnel needed on specific construction projects. The Construction Engineering Management System (CEMS) is an example of this process. Five adjustment factors are used in the system to alter base personnel requirements. Three of these factors are: geography and climate, route location, and roadway alignment. Each of these factors may increase the figures for base personnel by as much as 20 percent.

In addition, a judgment value may be applied by managers to augment or decrease base personnel needs by up to 20 percent. Finally, an adjustment factor equal to the percentage of bridgework contract value to total contract value for the project is applied. Conceivably, the full application of each of the five adjustment factors could double base personnel needs.

Personnel Derived from Prescribed Budget. The method for determining staffing expenses from personnel-years is ignored. Instead of using the management reporting systems to estimate personnel-years, and then forecast staffing expenses, the opposite occurs. In a 1974 statewide review of the Maintenance Management System (MMS), the department's office of Management Audit and Review discovered that staffing needs and project scheduling were "backed-in" from a predetermined budget. Because of this "backing-in" procedure, personnel-year projections based on work standards did not necessarily agree with personnel-years actually expended. In such cases, it was found that some field supervisors altered their reports to allow actual time expended to agree with projections derived from the work standards. This procedure was, and still is, contrary to the process designed for determining personnel requirements.

Personnel Monitoring Potential Not Used. The potential for monitoring personnel requirements is currently disregarded. For example, in the Right-of-Way Management System, personnel targets are set at the beginning of each fiscal year. If work standard values are not being achieved, district managers may then adjust these targets monthly to agree with actual work performance. Thus, the district reports of personnel-years targeted and expended at the end of the fiscal year may appear comparable, although they may differ considerably from the original targets. As a consequence of managers manipulating personnel-year targets, more personnel may be requested or retained than is actually necessary to perform specific tasks, thereby inflating the budget.

Staffing Trends

We recommend that the department give high priority to the development and utilization of accurate information on staffing trends to avoid future imbalances between personnel resources and project requirements.

The mix of department personnel in various job classes and between

DEPARTMENT OF TRANSPORTATION—Continued

headquarters and districts becomes an important consideration in view of the problems identified with the personnel management systems. Incorrect information could adversely affect these mixes and limit the department's ability to accomplish its desired work plan. Because of such problems and because the department experienced substantial layoffs two years ago (approximately 2,700 positions), some comparisons of staff mixes are in order.

District-Headquarters Staff Mix. Overall, headquarters and district personnel figures declined by nearly identical percentages between 1974–75 and October, 1977. District totals fell 20.9 percent and headquarters dropped 19.1 percent, while the department as a whole declined 20.6 percent. A comparison of personnel data projections shows that if the maintenance program figures are excluded, district staff are projected to decline 19.9 percent versus a 13.4 percent decline for headquarters through 1978–79. As displayed in Table 3 and Chart I, data for the period 1974–75 to 1978–79 indicate that reductions in department staff for nonmaintenance activities (e.g., new facilities, operating improvements, program development, local assistance, etc.) will be greater in the districts than in headquarters. Headquarters personnel, who perform the bulk of central administrative and support operations, are scheduled to suffer a decline only two-thirds as great as that experienced by district personnel. Maintenance, which has received increased attention in recent years, is expected to show a slight personnel increase of 3.1 percent over the five-year period.

Because of the Legislature's expression of support for additional facility construction, the information in Table 3 represents a disturbing trend. It suggests the department may not be placing enough emphasis on achieving the proper personnel distribution necessary to accomplish an accelerated work program.

Engineering Personnel. Examination of personnel trends within the department's engineering classifications evidences further problems in the staff mix. The most recent data on engineering class mixes shows that layoffs severely depleted the number of persons in lower level classes at both headquarters and the districts. Upper level engineers were much less affected, in part due to seniority and civil service restrictions. Table 4 exhibits these data and shows that senior-and-above engineering classes decreased 16 percent from July 1975 to January 1978 while associate-and-below classes declined 32 percent in the same period. This has produced a significant drop in the ratio of lower level to senior level engineers from 11.8 to 1 in 1975 to 9.7 to 1 in January 1978, a decrease of 17.8 percent. Among associate-and-below positions, reductions have been greatest within the entry-level engineering classes. Thus, an inverse relationship exists between the severity of the position reductions and classification levels. As the position classification increases, the percentage of reductions decreases.

Recent hirings have tended to augment upper level engineering staff at headquarters, while district upper level staff have shown a slight decline. Overall figures have remained fairly constant. However, the num-

Table 3

Caltrans Staffing Patterns for Headquarters, District, and Maintenance Personnel 1974–75 to 1978–79

	1974–75	*1975–76*	*Percentage Change 1974–75 to 1975–76*	*1976–77*	*Percentage Change 1975–76 to 1976–77*	*1977–78*[a]	*Percentage Change 1976–77 to 1977–78*	*1978–79*[a]	*Percentage Change 1977–78 to 1978–79*	*Total Percentage Change*
Headquarters Personnel	3,642.9	3,399.8	−6.7%	3,095.9	−8.9%	3,041.7	−1.8%	3,154.1	+3.7%	−13.4%
(District) Staff Personnel	8,288.3	8,053.0	−2.8	6,062.6	−24.7	6,457.9	+6.5	6,638.7	+2.8	−19.9
Maintenance Personnel	5,411.0	5,599.0	+3.5	5,455.3	−2.6	5,512.0	+1.0	5,581.3	+1.3	+3.1
Total Personnel	17,342.0	17,051.8	−1.7%	14,613.8	−14.3%	15,011.6	+2.7%	15,374.1	+2.4%	−11.3%

[a] Department allocations as of November 27, 1977.

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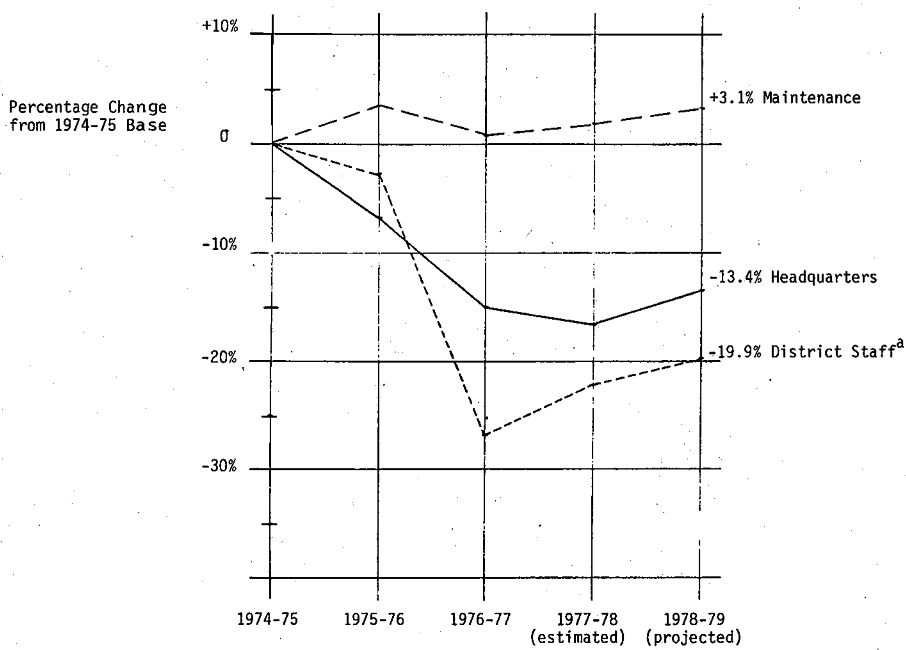
Chart 1

Department of Transportation
Percentage Change in Personnel by Category
1974-75 to 1978-79



a. Does not include maintenance personnel.

Table 4
Caltrans Mainline Engineering Personnel
HQ/Field and Upper/Lower Comparison
7/1/75 to 1/1/78

Class	*Positions on Board 7/1/75*			*Positions on Board 7/1/76*			*Positions on Board 7/1/77*			*Positions on Board 1/1/78*			*Change and Percentage Reduction*	
	HQ	*Field*	*Total*	*HQ*	*Field*	*Total*	*HQ*	*Field*	*Total*	*HQ*	*Field*	*Total*		
Junior Engineering Technician	6	249	255	2	145	147	5	118	123	3	98	101	−154	−60%
Technician I	27	1,277	1,304	22	823	845	13	729	742	13	772	785	−519	−40%
Assistant Transportation Engineer	46	2,373	2,419	55	1,743	1,798	29	1,681	1,710	30	1,712	1,742	−677	−28%
Associate Transportation Engineer	96	784	880	69	630	699	76	622	698	75	622	697	−183	−21%
Total Associate and Below	175	4,683	4,858	148	3,341	3,489	123	3,150	3,273	121	3,204	3,325	−1,533	−32%
Senior and Above Transportation Engineer	140	270	410	126	235	361	116	230	346	119	224	343	−67	−16%
Number of Lower Level Staff Per Upper Level Staff Position			11.8			9.6			9.5			9.7		−17.8%

ber of junior engineering technicians has continued to decline, dropping 18 percent between July 1977 and January 1978. Because a majority of those laid off were at lower levels and rehiring appears to be stronger at more advanced levels, a serious shortage of young engineers may result in the future. If a large number of senior engineers were to resign within a short time, a void in lower and middle level positions would probably occur. This could severely limit the department's ability to complete future projects. Already, it appears that the lack of personnel control has led districts to prepare individual workload budgets based on the mix of personnel actually in the districts instead of the personnel classifications needed to perform identified projects.

The department is in the process of establishing a new position records system, but it is not yet operational. The department also states that it has not been able to merge staffing data from past years with the new system. Because these capabilities are of critical importance, their development should be given high priority by the department. Existing and potential problems with engineering and other classification mixes should also be recognized and addressed without further delay.

Staffing Needs Overstated

We recommend that Items 151 and 447 be reduced by $8,769,876 (the equivalent of 409 personnel-years) in the amount budgeted for department personnel expenses.

In the 1978–79 fiscal year the department proposes the addition of 702.5 new positions to the 15,296 authorized in the current year. After administrative and salary savings adjustments have been made, a net increase of 335.1 personnel-years, or 2.2 percent, is proposed over the current year. Traditionally, the department has determined its personnel requirements by first calculating available financial resources and the work program which could be supported by such resources. The department has then used its personnel management systems to identify the number of personnel-years necessary to produce the planned work program. Our identification of potential inaccuracies in the management systems' estimates and our review of currently filled positions suggest that the department will not produce the personnel-years of effort displayed in either the 1977–78 or 1978–79 work effort totals. Rather, it appears that the department will fall several hundred personnel-years short of the budgeted totals for both years.

Determination of Position Requests. Authorized position figures in the Governor's Budget are not equivalent to personnel-year figures because the latter is derived from the former through application of a salary savings (i.e., vacancy) factor. However, because the department first determines its work plan and personnel-year equivalents, position estimates appear to be backed-in from the plan itself. This means that the number of new positions requested can be artificially adjusted to arrive at a desired, and predetermined, personnel-year total.

Proper Vacancy Factor. An alternate method of arriving at desired personnel-year totals would involve the selection of a vacancy factor which is applied to position figures. By selecting various vacancy rates, a given number of positions can be translated into several different personnel-year totals. The use of an incorrect vacancy rate, therefore, would produce an incorrect personnel-year figure.

The 1978–79 Governor's Budget shows that the department has used vacancy factors of 3.7 and 3.9 percent for 1977–78 and 1978–79, respectively, in its calculations. Comparison of these figures with current and historical departmental rates for vacancies indicates that the budgeted vacancy rates are understated. Information furnished by the department for the first six months of the 1977–78 fiscal year shows that the department has had an average vacancy rate of approximately 5.2 percent in its permanent positions. Also, the department has stated that its vacancy rate typically runs between 5 and 8 percent in "normal" and expansion years. From all indications the department has weathered the disruptive effects of its massive layoffs two years ago. Moreover, the current year hiring trends and proposed staffing increases in the budget year signal the return to a period of expansion and normality for the department in personnel matters. Therefore, the department should revise upward its projected vacancy rate and subsequent salary savings.

Revised Vacancy and Salary Savings Estimates. In attempting to determine the magnitude of such adjustments we have reviewed a range of alternate staffing scenarios for the remainder of the 1977–78 fiscal year and their implications for the 1978–79 fiscal year. These scenarios include:

Case 1: Crash Hiring Program. If the department were to immediately fill all vacant positions, and suffer no attrition in the remainder of the 1977–78 fiscal year, we estimate a department-wide utilization of 14,782.5 personnel-years. Included in this figure is an optimistic estimate of personnel-years expected to be accumulated by persons in other than full-time positions (e.g., part-time, limited term, seasonal, etc.). Even so, the department total would fall approximately 230 personnel-years short of the 15,012 projected by the department for 1977–78.

Case 2: Continuation of Current Trends. In the first six months of the current fiscal year, the department added an average of 45 new staff each month. If this rate were to continue, total personnel-years would approach 14,460 for the year, or 552 below current projections.

Case 3: Slowdown in Hiring Trends. Case 3 examined the effect of a possible slowdown in the rate of new staff additions which might result if employment hiring lists became exhausted or if time-consuming affirmative action efforts were increased. If the addition rate were 32 persons each month (approximately two-thirds the current rate) total personnel-years for 1977–78 would approximate 14,435, or 557 below budget estimates.

Case 4: No Change in Current Staff Level. Although unlikely to occur, a freeze at existing staff levels would result in the estimated production of only 14,381 personnel-years, some 631 below the budgeted figure of 15,012.

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Expected Shortfall. An examination of these and other cases indicates that the department will fall short of its stated work effort goal under a variety of circumstances. We estimate the magnitude of this shortfall at approximately 500 personnel-years below the level forecast by the department for 1977–78, and project that a similar shortfall will occur in 1978–79. There are several reasons for this: 1) the department proposes the addition of 702 positions on top of several hundred existing vacancies, 2) the current and budget years are "expansion" years with the department typically realizing a 5 to 8 percent vacancy rate in such years, and 3) the department has experienced a historical shortfall in personnel-years of at least 2.5 percent annually above the original projection. Only an unforeseen or abrupt change in existing conditions would alter these conclusions.

Because of the above factors, we believe that a 6.5 percent vacancy rate is reasonable to expect in 1978–79 versus the budgeted figure of 3.9 percent. At the higher rate, we calculate a personnel-year savings total of 1,038.5 years versus the budgeted estimate of 629.4 personnel-years. At an average salary and benefits cost of $21,437 for each personnel-year, the 409.1 year difference would result in an expenditure reduction of $8,769,876. We recommend this amount be deleted from the department's request.

Operating Expense Budget

We recommend a reduction of $6,860,431 in Items 151 and 447 in the amount budgeted for department operating expenses and equipment.

We also recommend the department increase its efforts to develop a more accurate system for reporting and monitoring operating expenses. In doing so, the department should prepare a more detailed breakdown of such expenses for inclusion in the Governor's Budget.

A major component of the department's support costs in any fiscal year is the amount budgeted for operating expenses and minor equipment. For 1978–79 the department proposes the expenditure of $155.7 million, an increase of $11.2 million, or 7.7 percent, over 1977–78 and a two-year increase over 1976–77 of $23.9 million, or 18.1 percent. Examination of this expenditure request suggests that substantial economies are possible and that a more moderate increase is in order.

Allowable Increases. In budgeting operating expenses, state departments traditionally apply the price increase factors developed by the Department of Finance as reported in its annual price letter. Where expenditures are not specifically covered by such guidelines, a general percentage increase is applied across the board. For 1977–78 the general increase allowed by the price letter was 5 percent while for 1978–79 the permitted increase is 6 percent. The latter figure includes a 1 percent increase for adjusting the 1977–78 general price increase estimate.

Incorrect Application of Price Increases. A review of the operating expense details shows that the department has overbudgeted these items. Generally, the department has applied a 6 percent increase for both 1977–

78 and 1978–79 rather than the 5 and 6 percent figures specified in the price letter. In specific areas where increases other than 6 percent were to be used, the department has misinterpreted the price letter instructions by applying a *compound* rate to 1976–77 actual expenditures to arrive at a 1978–79 estimate. In such cases the department was to apply only a single increase factor in estimating the two-year change.

Reduction Recommended. The differences between the percentage increases allowed by the price letter and those used by the department are not great in most cases. However, even a small percentage difference in an operating expense budget of $155.7 million results in a discrepancy of several million dollars. Table 5 displays the differences we have identified as being excessive. Reduction of these amounts, a total of $6,860,431, will still provide the required level of support for the department's activities.

Expense Monitoring Inadequate. Discussions with the department regarding its operating expense budget also revealed deficiencies in the way such expenses are reported and monitored. Generally, the department relies on a process whereby past years' actual expenditures are taken as given and inflated for the coming budget year. Costs are reported on general ledger accounts through department-wide accounting codes but appear in budget displays as either a lump sum or average personnel-year costs, the latter derived by dividing total department operating expenses by estimated personnel-year totals. In addition, the department admits that the categorical breakdowns provided in supplementary information schedules may be artificial and not truly representative of actual expenditures. These reporting processes do little to facilitate analysis of such costs on a program-by-program or categorical basis. In effect, the eleven district directors have knowledge of the gross amount they have been allocated for operating expenses based on personnel totals but how the actual operating expense revenue is utilized becomes discretionary.

Our discussions indicated the department is aware of many deficiencies and has taken initial steps toward solving some of them. A district pilot study on improved budget development and program implementation has acknowledged the need for better expenditure control. Guidelines for the pilot stressed the need for development of new reports to facilitate comparison of organizational cost estimates with actual expenditures, to identify variances, and provide expenditure authorization control mechanisms. Although we have not evaluated thoroughly this pilot study or the results of such efforts, we support the department's attempts at improvements in this area. Districts currently lack the means to monitor their expenditure status because the present system acknowledges cash expenditures only while ignoring other encumbrances on budgeted fiscal resources. Continued improvement in these areas should serve to improve the ability of supervisors to manage while helping to limit unnecessary expenditures.

In supporting increased department attention to these concerns, we believe a more complete description of operating expense activities can be included in the department's budget presentations. Specifically, we

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recommend a more detailed information display in the Governor's Budget, consistent with requirements imposed on other state agencies by the State Administrative Manual. Further, the development of additional backup data is necessary to support information included in the supplementary schedules. The reporting of operating expenses on an average cost per personnel-year currently permits only the most general level of analysis of such expenditures.

Table 5

Recommended Reductions in Caltrans' Operating Expenses

A. Expenses subject to a single adjustment using 1976–77 expenditure base:[a]

Expense Category	*Percent Increase, Caltrans' Budget*	*Percent Increase, Price Letter Instructions*	*Dollar Difference (Recommended Reduction)*
Communications (Telephone)	6.0% + 6.0%	5.0%	$207,882
Intrastate air travel	6.0 +16.0	16.0	97,821
Private auto usage	2.5 + 7.5	7.5	105,861
Travel expense in-state	2.5 + 7.5	7.5	200,868
Airplane charter[b]	6.0 +16.0	16.0	179,000
Out-of-state travel	6.0 +16.0	16.0	7,966
Postage	6.0 + 6.0	—	40,000
Utility services[c]	16.0 +20.0	20.0	2,022,800
Teale Data Center	6.0 + 6.0	−20.6	1,259,325
Major equipment depreciation[d]	6.0 + 6.0	—	947,000
Uniform allowance	6.0 +13.0	13.0	6,830
Subtotal			$5,075,353

B. Expenses subject to two adjustments using 1976–77 and 1977–78 expenditure bases:[e]

Printing and graphic services	6.0% + 6.0%	5.0% + 6.0%	$5,532
Private equipment rental	6.0 + 6.0	5.0 + 6.0	7,091
Car tags (road equipment)	6.0 + 6.0	5.0 + 6.0	741,120
Freight charges	6.0 + 6.0	5.0 + 6.0	2,791
Building operation services	6.0 + 6.0	5.0 + 6.0	113,993
Data processing development	6.0 + 6.0	5.0 + 6.0	3,679
Computer equipment rental	6.0 + 6.0	5.0 + 6.0	7,178
Consultant and professional services	6.0 + 6.0	5.0 + 6.0	62,281
Automotive service and repair	6.0 + 6.0	5.0 + 6.0	217,350
Other repairs and services	6.0 + 6.0	5.0 + 6.0	14,850
Office supplies and property	6.0 + 6.0	5.0 + 6.0	34,607
Depreciable equipment service	6.0 + 6.0	5.0 + 6.0	5,515
Tuition and training expense	6.0 + 6.0	5.0 + 6.0	64,433
Material from stores	6.0 + 6.0	5.0 + 6.0	470,650
Miscellaneous equipment maintenance	6.0 + 6.0	5.0 + 6.0	17,734
Photo lab services	6.0 + 6.0	5.0 + 6.0	16,274
Subtotal			$1,785,078
Grand Total			$6,860,431

[a] 1978–79 amounts estimated by adjusting 1976–77 actual expenditures per price letter instructions.

[b] We recommend deletion of the entire amount budgeted for this expense because the department currently owns two of its own aircraft.

[c] Allows for a two-year adjustment of 48 percent for natural gas and a 20 percent adjustment for all other utilities.

[d] Depreciation does not represent an actual expenditure of funds.

[e] 1977–78 and 1978–79 amounts estimated through application of a five percent and six percent price increase factor, respectively, as suggested in Department of Finance price letters.

New Facilities Program

We recommend a reduction of $1,295,000 in Item 447 in the amount proposed for construction of new bicycle lanes and facilities.

Analysis of the 1978–79 highway transportation program reveals a proposed budget increase of approximately 2.6 percent in personnel-years and 5.3 percent in dollar expenditures over 1977–78 totals. Within this program, the new facilities element shows a 7.2 percent increase in personnel-years but a 4.7 percent decrease in expenditures. Given the Legislature's concern with the highway program in general and new facilities in particular, a review of the latter was conducted to identify trends which may be developing in this element.

Although new facilities program personnel-years are increased by 99.2, or 7.2 percent, in 1978–79, the new highway construction element will realize only a 69.9 personnel-year (5.4 percent) gain. Toll bridge construction activities account for a considerable portion of the expansion, increasing 32.4 personnel-years (63.4 percent), while bicycle lane construction shows a decline of 3.1 personnel-years (−8.3 percent). These changes in program components are displayed in Table 6, which also reveals an overall two-year decline in the new facilities' work effort of 21.5 percent. Thus, the data indicate that despite a staff increase in 1978–79 over the current year, new highway construction personnel are projected to decline sharply from their 1976–77 level.

Decline in New Facilities Construction. Table 7 provides a closer look at new highway construction data and reveals that lane-miles constructed and expenditures are also declining. Whereas the department completed construction of 310 lane-miles in 1976–77, only 97 are scheduled for completion in 1978–79. This change represents a drop of 68.7 percent during the two-year period. Similarly, construction expenditures are projected to decline 9.5 percent during this period.

Table 6
Highway Transportation Program
New Facilities Component
Changes in Personnel-Years Expended
1976–77 to 1978–79

New Facilities Component	*Actual 1976–77*	*Estimated 1977–78*	*Percentage Change over 1976–77*	*Budgeted 1978–79*	*Percentage Change over 1977–78*	*Two-Year Change 1976–77 to 1978–79*
New highway construction..	1,861.3	1,297.8	−30.3%	1,367.7	+5.4%	−26.5%
New toll bridge construction	27.7	51.1	+84.5	83.5	+63.4	+201.4
New bicycle facilities..........	3.7	37.4	+911	34.3	−8.3	+827
Program Total......................	1,892.7	1,386.3	−26.7%	1,485.5	+7.2%	−21.5%

DEPARTMENT OF TRANSPORTATION—Continued

Table 7
Changes in Highway Construction Elements
1976–77 to 1978–79

Element	*Actual 1976–77*	*Estimated 1977–78*	*Percentage Change over 1976–77*	*Budgeted 1978–79*	*Percentage Change over 1977–78*	*Two-Year Change 1976–77 to 1978–79*
Output:						
Lane-miles constructed	310	226	−27.1%	97	−57.1%	−68.8%
Personnel-years expended	1,861.3	1,297.8	−30.3%	1,367.7	+5.4%	−26.5%
Input:						
Expenditures [a]	$299.7	$298.7	−0.3%	$271.2	−9.2%	−9.5%

[a] In millions of dollars.

The magnitude of this change is even more apparent when 1978–79 dollars are adjusted for increases in the Construction Cost Index. When adjusted for inflation, the 1978–79 figure of $271.2 million shrinks to the equivalent of approximately $230 million in 1976–77 dollars, which represents a real decline of 23.3 percent from the 1976–77 expenditure level. Therefore, the highway construction element has declined both in terms of budgeted dollars and "real" dollars.

In explaining these dramatic changes, the department has indicated that a "slippage" problem exists relative to new projects because of increasingly complex requirements for obtaining environmental and other project clearances. Caltrans also states that it "has little or no flexibility in availability of projects to adjust advertising schedules and practically no shelf jobs to replace project casualties." Finally, the department has repeatedly commented that maintenance of existing road facilities should receive the highest priority for available funds.

New Bicycle Facilities. A relatively recent addition to the new facilities program is the component relating to the construction of bicycle facilities. This component was previously included in the department's local assistance program. The overall objective of the program has been to provide new and improved facilities for bicycle travel on a statewide basis consistent with local and regional plans.

Proposed expenditures for additional facilities in 1978–79 are budgeted at $3,045,000, an increase of approximately $1.3 million (79.3 percent) over the current year. Analysis of past-years' expenditure requests shows that the department's proposals in this area have been consistently overstated. This raises concerns over the validity of Caltrans' current projection. Table 8 reveals that actual expenditures have been only 47.5 percent of the amounts budgeted between 1974–75 and 1977–78.

Table 8
Proposed Versus Actual Expenditures For New Bicycle Facilities, Fiscal Years 1974–78

	1974–75	*1975–76*	*1976–77*	*1977–78*	*Total 1974–75 to 1977–78*
Proposed Expenditures [a]	$371,000	$408,000	$732,000	$4,424,689	$5,935,689
Actual Expenditures	387,146	356,760	376,000	1,698,000 [b]	2,817,906
Difference from Proposed Amount	$−16,146	$51,240	$356,000	$2,726,689	$3,117,783

[a] Includes funds from both the Bicycle Lane Account and State Highway Account.
[b] As estimated in the 1978–79 Governor's Budget.

Legislative Analyst's Estimate. An alternative budget proposal for bicycle facilities can be developed using the historical trends in Table 8 and other data regarding projected personnel-year expenditures and bicycle lane-miles scheduled for completion. Construction of bicycle paths is estimated in the budget to decrease 3 miles (−4.0 percent) although the department reports it may revise this figure upward. Similarly, personnel-years are expected to decrease by 3.1 (−8.3 percent). Because of this, it appears unlikely the department will expend the $3,045,000 it has budgeted. This conclusion is supported by the existence of a steadily growing surplus in the State Bicycle Lane Account which is expected to reach $913,000 by June 30, 1969.

We estimate bicycle lane expenditures at only $1,750,000 in 1978–79, a difference of $1,295,000 from department figures. This difference should be deleted for a savings to the State Highway Account (Item 447).

Highway System Operations

We recommend that Item 151 be reduced by $6,360,000 in the amount budgeted for support of highway operations and services.

In promoting the safety, efficiency, and cost-effectiveness of the State Highway System, the department provides a range of motorist and facility-oriented services. Toll collection, snow removal, traffic control, emergency and other related road services are representative of the activities performed under this program component.

In 1978–79 the department proposes the addition of 30.9 personnel-years (3.4 percent) and an increase in expenditures of $7.7 million (24.4 percent) over current program levels. However, analysis of the requested changes reveals that the department lacks supporting documentation for these proposals. Data to substantiate the expenditure and staff increases have been requested from the department on several occasions. Each time the department has been unable to provide such information.

Our review has determined that highwy operations costs result primarily from personnel-related activities with only a small portion of such expenses being committed to capital outlay needs. Therefore, any increase in program expenditures should be closely related to increases in staff. Comparison of average costs per personnel-year provides figures of $34,006 in 1976–77, $35,409 in 1977–78, and $42,570 in 1978–79 for these costs.

DEPARTMENT OF TRANSPORTATION—Continued

Even if allowances are made for increased workload, materials, and operating expense costs, the 1978–79 figure represents a tremendous, and unexplained, increase over the current year.

Because the proposed changes cannot be explained by the department and because of obvious discrepancies in expenditure figures, the Legislature should not approve the amounts requested. Rather, any additional funding should relate to the budgeted increase in work effort. On this basis, highway operations' support should total approximately $33,137,000, a difference of $6,360,000 from the department's request.

Capital Equipment

We recommend a reduction of $5,542,005 in Items 151 and 447 in the amount proposed for acquisition of new and replacement capital equipment.

We also recommend the department prepare a detailed schedule of its proposed capital equipment purchases for review prior to legislative hearings on the 1978–79 Governor's Budget.

The maintenance, rehabilitation, and improvement of state highways requires that the Department of Transporation maintain a large inventory of road vehicles and other related capital equipment. Currently, the department reports an inventory of over 10,000 such vehicles and pieces of major equipment representing an investment of approximately $100 million. Given this large capital equipment inventory and the nature of its use, the replacement and acquisition of additional equipment constitutes a major annual expenditure by the department. A recent history of such expenditures is provided in Table 9.

Table 9 confirms that, although the capital equipment budget generally has been large, actual expenditures have fluctuated noticeably from year-to-year. Particularly striking is a drop in expenditures of approximately 80 percent between 1974–75 and 1975–76. This change reflects the onset of the department's cash-flow crisis and subsequent reduction of personnel which occurred at that time. Many equipment purchases were deferred or deleted pending recovery of the department's fiscal condition. Later figures in the table reflect the return to normalcy and sizeable equipment purchases, with the 1977–78 request representing an effort to "catch-up" on some of the deferred equipment needs. However, the 1978–79 expenditure request is $7.1 million (36.4 percent) above current year projections.

Equipment Needs Unsubstantiated. The department does not have justification material to back up its proposed expenditure level. While schedules of specific district equipment needs may be ready for the coming budget hearings, there is currently no material available on which to prepare an analysis of the department's request. In short, the capital equipment proposal is little more than a gross estimate of possible equipment desires.

In our view it would be unwise for the Legislature to approve the requested increase when the department has no idea of what additional equipment is needed. Rather, the department should first determine its

Table 9
Department of Transportation
Budgeted Capital Equipment Needs
1973–74 to 1978–79

Equipment Budget Items	*1973–74*	*1974–75*	*1975–76*	*1976–77*	*1977–78*	*1978–79*[a]
Additional and Upgrade Equipment	$2,759,350	$4,966,000	$1,955,900	$2,963,270	$8,816,816	–
Improvements to Equipment	268,000	350,000	–	1,392,500	1,771,800	–
Equipment Contingency	50,000	175,000	82,800	100,000	100,000	–
Replacement Equipment	5,842,500	10,500,000	1,461,300	5,444,020	8,300,000	–
Miscellaneous	–	–	–66,100	–	542,194	–
Total Equipment Budget	$8,919,850	$15,991,000	$3,433,900	$9,899,790	$19,530,810	$26,635,280

[a] Department estimate available only as lump sum.

DEPARTMENT OF TRANSPORTATION—Continued

needs and then submit them for review by the appropriate fiscal agencies. Legitimate equipment requirements could then be approved.

Recommended Support Level. Until such time as the department is prepared to provide additional information, capital equipment expenditures should not be increased. Keeping this item at current levels would, in fact, permit some additional "catch-up" of deferred needs. The department has consistantly used a 9.6 percent equipment inflation rate in projecting its costs although such costs rose only 7.7 percent in 1977 and are expected to rise 8.0 percent in 1978. Because of these differences and because current year expenditures provide some relief from deferred needs, an approved equipment budget of $21,093,275 would appear to provide an acceptable level of support. Also, the lack of a department wide preventive maintenance program for such equipment makes questionable the department's ability to care properly for additions to its equipment inventory. Therefore, we recommend the difference of $5,542,005 be deleted at this time.

Advance Expenditure Authorization. In addition to the department's regular expenditure items, Control Section 5.5 of the Budget Bill authorizes advance equipment purchase obligations of up to $10,000,000. Comments on this proposal will be provided in the analysis of Control sections.

Preventive Maintenance

We recommend that the department develop and implement a statewide preventive maintenance program for the care of its capital equipment inventory.

In a 1974 internal audit of the maintenance program, the department's Office of Management Audit and Review (OMAR) reported on several important deficiencies in that program. The report concluded, in part, that the department lacked an adequate equipment preventive maintenance program which resulted in unsafe operating conditions and work crew delays. The audit report then went on to recommend that such a maintenance program be established and that employees be provided formal training in equipment handling skills. OMAR reasoned that implementation of such measures would result in improved job safety, better trained staff, reductions in equipment abuse, and cost savings through extended equipment life. Our review of the department's 1978–79 budget has shown that recommendations regarding preventive maintenance have not been carried out. This is surprising in view of the demonstrated need for such a program and the potential for large savings in capital equipment expenditures.

Current Department Efforts. Department maintenance personnel report that at least two of the eleven highway districts have fledgling preventive maintenance programs, with at least two others currently considering them. The department further states that it has a "planned maintenance" schedule in which a total of approximately 100 mechanics statewide travel between shops attending road vehicles and equipment. However, the department acknowledges that the latter program is limited to temporary, stop-gap activities. Further, the so-called preventive maintenance programs consist only of teams of two mechanics' helpers who service equipment when idle. Because approximately $75,000 to $100,000 a month in equipment and vehicle repairs must be contracted out to private shops, the department's efforts in this area appear inadequate.

Action Needed. The department reports that it is currently reviewing maintenance needs and developing guidelines for a possible statewide preventive program. However, there is no indication that the department is any closer to implementing such a program than it was three years ago. The continued absence of an effective program results not only in inoperable equipment and increased equipment expenditures, but also hampers the department's ability to carry out its planned work program. The department should move quickly to insure that present inadequacies are corrected. When this is completed, the department should realize savings in its maintenance and equipment expenses.

Business and Transportation Agency

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL

Item 157 from the Motor Vehicle Account, State Transportation Fund — Budget p. 323

Requested 1978–79	$223,886,588
Estimated 1977–78	219,285,286
Actual 1976–77	198,744,234
Requested increase $4,601,302 (2.1 percent)	
Total recommended reduction	$4,904,742

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Automobile Operations. Reduce by $1,282,066.* Recommend reduction because department's calculations for automotive operating expenses are not consistent with guidelines.	252
2. Management Information System. Withhold recommendation on $546,236 proposed for implementation of information system pending resolution of disagreements between involved departments.	254
3. *Clerical Positions. Reduce by $105,400.* Recommend deletion of eight positions to reflect application of department's staffing formula.	254
4. *Radar Pilot Study. Augment by $62,500.* Recommend funds be provided for testing the impact of radar on speed enforcement.	255

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

5. County Road Patrol. Recommend that the department and county sheriffs cooperatively study the resources requested by sheriff's departments for enforcing Vehicle Code provisions on county roads. 255
6. *Traffic Lieutenants. Reduce by $697,600.* Recommend deletion of 20 traffic lieutenant positions assigned to area offices, because staffing trends for lieutenants contradict changes in other uniformed position levels. 257
7. *Civilian Employees. Reduce by $108,365.* Recommend traffic officers assigned to the school pupil transportation safety function be replaced by nonuniformed employees. 260
8. Limited Enforcement Powers. Recommend department examine the feasibility and fiscal impact of employing members with limited citation powers, instead of traffic officers, for special duty functions. 261
9. *Vehicle Theft. Reduce by $2,046,000.* Recommend department restrict its participation in vehicle theft control activities. 262
10. *Data Processing Expenses. Reduce by $179,259.* Recommend reduction to eliminate overbudgeted expenditures. 264
11. *Attorney General Charges. Reduce by $126,763.* Recommend reduction in expenses budgeted by the Highway Patrol for Attorney General's legal services as they do not coincide with the data supplied in the budget of the Department of Justice. 265
12. Vehicle Procurement. Recommend the Departments of the California Highway Patrol and General Services cooperatively develop a procurement procedure which recognizes vehicle operating costs as well as purchase costs. 265
13. *Leasing Expenses. Reduce by $421,789.* Recommend reduction for overbudgeted leasing expenditures. Also recommend establishment of reserve for projected increases in future leasing arrangements. 266

GENERAL PROGRAM STATEMENT

The California Highway Patrol is primarily responsible for the safe and expeditious movement of people and goods along the state's roadway system. Functionally, the department conducts four programs. The first is the control of vehicle traffic along legal roadways, which is accomplished by patrolling highways and enforcing the Vehicle Code, aiding distressed and injured motorists, clearing roadway obstructions, investigating accidents, and assisting other law enforcement agencies as required. Highway Patrol traffic officers are deployed along the entire state freeway system and roads in unincorporated areas to meet program requirements.

The enforcement and regulation of motor vehicles and equipment is the department's second program. Inspection of vehicles, commercial terminals, and retail outlets selling certain types of vehicle equipment are among the activities performed by both uniformed and nonuniformed personnel in this program.

The third program is vehicle ownership security which includes investigation and inspection activities to control the state's vehicle theft rate. Finally, the administrative support division provides general management to the other three programs. In addition, this division oversees the training of cadets at the patrol's academy in Bryte.

Organizationally, department activities are coordinated from the department's headquarters in Sacramento. Patrol facilities include eight division commands, 95 area offices, and several inspection installations and communication centers. These facilities are linked to headquarters by an extensive communications network.

ANALYSIS AND RECOMMENDATIONS

The proposed budget reflects an increase of $4,601,302 or 2.1 percent, in support from the Motor Vehicle Account, State Transportation Fund. Requests for additional personnel and administrative adjustments will increase authorized staff by 20.3 positions.

Significant program changes affecting the budget include (a) the installation of a management information system at a cost of $546,236, (b) a request for 10.5 positions to staff the South Sacramento area office, (c) proposed additional personnel for the Los Angeles communications center, (d) the replacement of three fixed wing aircraft operated by the department, and (e) new positions for increased responsibilities in the schoolbus safety program.

A discussion of the four department programs follows.

I. TRAFFIC MANAGEMENT

Traffic management is the largest department program with expenditures of $204,334,078, equal to 91.3 percent of the proposed budget. Approximately 88.6 percent of the department's uniformed personnel and 41.8 percent of the total nonuniformed staff are employed in this program. According to the department, over 90 percent of the uniformed staff's time is spent on regular patrol duty and about 88 percent of normal patrol activity involves "in-view" enforcement, with the remainder consumed by court appearances and report writing.

Four functions are included in the traffic management program. The three primary elements (accident control, optimizing safe traffic flow, and protection and assistance to highway users) are performed coincidentally by traffic officers during patrol. The time that a traffic officer spends on patrol and in conducting enforcement actions (citations, warnings, arrest) is included in the accident control program. Removal of roadway hazards and relieving traffic congestion are duties of optimizing traffic flow, and the rendering of information to motorists is part of the protection and assistance function.

The department deploys four helicopters and four fixed-wing aircraft in its flight operations element. Helicopters are located in Los Angeles, San Francisco, and Sacramento, and fixed-wing aircraft are based in Coalinga, Barstow, and El Centro. The patrol proposes the replacement of three of these fixed-wing aircraft at a cost of $117,000.

Program staffing and cost data are presented in Table 1.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 1

Traffic Management Program Staffing and Expenditure Data

	Actual 1976–77	*Estimated 1977–78*	*Percent Change Over Previous Year*	*Proposed 1978–79*	*Percent Change Over Previous Year*
Program expenditures	$181,124,535	$199,271,922	10.0%	$204,334,078	2.5%
Personnel-years:					
Uniformed	4,768.1	4,779.7	0.2	4,819.6	0.8
Nonuniformed	927.9	949.9	2.4	954.9	0.5
Total program personnel-years	5,696.0	5,729.6	0.6%	5,774.5	0.8%

Automobile Operations Cost Overstated

We recommend a reduction of $1,282,066 because the department's calculation of automotive operating expenses is not consistent with budget guidelines.

The patrol's proposed expenditures for automobile operations are $13,-978,147, representing over six percent of the department's total budget. This expenditure level is the product of the total mileage projected to be driven by traffic officers and sergeants and the projected cost per mile. Components of the cost per mile figure include petroleum products (gasoline, oil, and lubrication), maintenance and repair by nondepartment mechanics, washing, and tires.

In the budget year, total mileage is projected to be 106,483,938 miles and the cost per mile is estimated at $.13127 per mile. The latter figure is based on the actual cost increase between fiscal years 1975–76 and 1976–77, as shown in Table 2.

Table 2

Department Calculation of Automotive Cost per Mile for Fiscal Years 1977–78 and 1978–79

Actual cost per mile, 1976–77	$.10328
Actual cost per mile, 1975–76	.09161
Cost ratio, 1976–77 over 1975–76	1.1274
Calculation of 1977–78 cost per mile:	
Actual cost per mile, 1976–77	$.10328
Times cost ratio previously experienced	× 1.1274
Estimated cost per mile, 1977–78	$.11644
Calculation of 1978–79 cost per mile:	
Estimated cost per mile, 1977–78	$.11644
Times cost ratio previously experienced	× 1.1274
Proposed cost per mile, 1978–79	$.13127
Percent increase, proposed 1978–79 over actual 1976–77	27.1%

The patrol's calculation of the cost per mile in the current and budget years totally disregards budget guidelines provided in the Department of Finance Price Letter and the Department of General Services Price Book. We have applied Price Letter and Price Book standards to the cost-per-

Table 3

Comparison of Automotive Costs Per Mile, Patrol Estimates Versus Price Book and Price Letter Projections

Cost component	*Actual 1976–77*	*Two-year percent increase, CHP budget*[a]	*Proposed 1978–79*	*Two-year percent increase, price book and price letter estimates*[b]	*Projected 1978–79*	*Difference, CHP estimate less price book and price letter projection*
Gasoline, oil, and lubrication	$.06539	NOT APPLICABLE	NOT APPLICABLE	12.7%	$.07369	NOT APPLICABLE
Maintenance and repair	.03127			21.9	.03812	
Tires	.00568			11.3	.00632	
Washing	.00094			16.7	.00110	
Total cost per mile	$.10328	27.1%	$.13127	15.4%	$.11923	$.01204

[a] Patrol estimate is based on the actual increase in total cost per mile between fiscal years 1975–76 and 1976–77, as shown in Table 2. This percent increase was not applied to individual cost components.

[b] Increase in petroleum products costs is based on Department of Finance projections for retail gasoline prices, from $.568 per gallon in 1976–77 to $.640 in 1978–79. Other adjustments reflect General Services Price Book and Department of Finance Price Letter guidelines for 1977–78 and 1978–79.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

mile components to correctly budget this major expense, as presented in Table 3. The table shows that the use of these guidelines decreases the department's cost-per-mile figure for 1978–79 by \$.01204. Multiplying this difference by the total expected mileage previously indicated would reduce the projected cost of automobile operations by \$1,282,066 (\$.01204 × 106,483,938 = \$1,282,066). We therefore recommend a reduction in this amount to properly budget expected automotive costs.

Management Information System (MIS)

We withhold recommendation on \$546,236 budgeted for implementation of a management information system pending resolution of disagreements between involved departments.

The department plans to install a sophisticated information and communication system over the next three years to replace duplicative and antiquated systems currently in use. Under the proposed lease-purchase arrangement for equipment, the costs for implementing the system are estimated to be \$2,560,167 in 1978–79. The request of \$546,236 for the budget year is the difference between these costs and estimated expenditures of \$2,013,931 for the present system.

Installation of the new system is expected to reduce personnel requirements significantly. In the budget year, a reduction of four data processing positions is anticipated, although actual savings will be less because of the need for the equivalent of 1.5 positions in temporary help. During 1979–80, elimination of 45 additional positions is expected.

We understand that the final system design is not firmly established because of a conflict between the patrol and the Communications Division of the Department of General Services. Apparently, the issue is centered on the patrol's desire to use dedicated communications lines, whereas General Services believes the state's data communications system should be used. The outcome of this dispute may have a substantial impact on the technical requirements of the system and on projected costs. We therefore withhold recommendation on this item until interdepartmental agreement is reached.

Results of Staffing Formula Ignored

We recommend a reduction of eight clerical positions for an estimated savings of \$105,400 to reflect application of the department's staffing formula.

Clerical needs in patrol field offices are determined by a staffing formula based on expected workload. For the budget year, the number of personnel justified by the formula is 8.5 positions *less* than clerical staff presently assigned. The patrol's budget does not show a reduction in clerical positions to reflect application of the formula.

The department states that it cannot comply with the formula's calculation of clerical needs because a minimum of 1.5 positions is required in each area office to allow for breaks, vacation, and sick leave. If this minimum in clerical assignments were adopted, the 8.5 position excess would practically be eliminated.

We do not find the department's rationale either convincing or consistent with department operating policy. First, the department has not requested the addition of one-half clerical position to the five area offices which are assigned only one such position. This indicates that the department does not uniformly impose the 1.5 position minimum, particularly in smaller offices.

Second, our review of clerical assignments shows that 32 offices have more clerical positions than justified by the department's staffing formula. We believe that personnel transfers between offices within each division can resolve clerical needs in cases where the 1.5 minimum should be met, without exceeding the department's formula.

We therefore recommend that eight clerical positions in patrol area offices be deleted. Based on an average annual salary of $10,140 and staff benefits of approximately $3,035 per position during 1978–79, a savings of $105,400 would result.

Radar Pilot Study

We recommend an augmentation of $62,500 to permit the department to test the impact of radar on speed enforcement.

California is the only state in which a statewide traffic enforcement agency does not use some form of radar to detect speed violations. In the absence of radar, patrol officers are presently required to track and pace speeding vehicles, a task which is neither exact nor an efficient use of personnel.

We believe that the use of mobile radar units will permit the patrol to serve the motorist better without requiring a major increase in uniformed staff. However, the worthiness of radar should be thoroughly evaluated before it becomes a standard equipment item.

The department could conduct this evaluation by actual use of radar on an experimental basis and a review of other states' experiences. An objective study should indicate the effectiveness of radar and the extent of its applicability. We therefore recommend that the department's budget be augmented by $62,500 to provide funds for the purchase of necessary equipment.

County Road Patrol

We recommend that the department, in conjunction with county sheriffs, study the requirements of sheriff departments for enforcing Vehicle Code provisions on county roads and submit its findings to the Joint Legislative Budget Committee, the fiscal subcommittees and transportation policy committees in a preliminary report by December 1, 1978 and a final report by December 1, 1979.

The ability of traffic officers to effectively patrol county roads, particularly secondary county routes, is constrained by limits on available personnel and the extensive areas to be covered. Of the total roadway miles within the department's jurisdiction, county roads represent approximately 82,800 miles, or over 85 percent of the nearly 97,000 miles of patrolled roads. However, because vehicle miles traveled and average vehicle speeds are generally greater on state highways, the department does not

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

emphasize county road patrol in deploying traffic officers. Preliminary data indicate that between 30 percent and 40 percent of patrol resources are allocated to enforcement on county roads.

The problem of coverage is highlighted by the nature of officer deployment. Officers are normally assigned to line beats, which involve travel over all or part of specific routes, or area beats, for which low traffic volumes require "blanket" coverage of secondary roads within a large portion of a county. Area beats may sometimes encompass so much of the county that an officer cannot patrol all the roads within the assigned beat and must concentrate on only a few selected routes, limiting the officer's ability to respond to calls for assistance.

Sheriffs' officers generally patrol the same area covered by CHP officers. However, members of the sheriffs' departments do not engage in traffic law enforcement (except in apprehending drinking drivers) because the Highway Patrol is considered to be solely responsible for enforcing vehicle code provisions on county roads.

We believe that county sheriffs could assume most, if not all, traffic enforcement activities. Table 4 shows the resources devoted by these organizations to regular patrol functions within counties. As can be seen, sheriffs' offices have a significantly greater level of resources dedicated to normal enforcement activities than does the Highway Patrol. Because sheriffs' officers patrol the same county routes as the CHP, total expenditures for all law enforcement functions on county roads could be reduced if the county sheriffs enforced the Vehicle Code because (a) the current duplication of coverage would be minimized, if not eliminated, and (b) sheriffs' officers might be able to take on the added responsibility without a substantial expansion of uniformed staff.

Table 4
Resources Used for Regular Patrol Functions by Sheriffs' Offices and California Highway Patrol 1976–77

Organization	*Number of deployed officers*[a]	*Number of vehicles used*	*Number of annual patrol vehicle miles (in millions)*
Sheriff[b]	5759	3175	123.0
CHP[c]	1241–1654	595–792	31.6–42.1

[a] Does not include supervisory positions or officers employed for investigative, special duty, or other functions not related to regular patrol.

[b] Estimates developed from sampling 15 counties and extrapolating according to vehicle miles travelled annually by county.

[c] Estimates derived from applying 30 percent to 40 percent approximation of available field resources to county road enforcement.

Before a transfer of traffic enforcement responsibility on county roads is approved, an analysis of the financial and personnel impacts of this action should be made. We therefore recommend that the Highway Patrol, in cooperation with county sheriffs, study the issue of county road enforcement by sheriffs' offices. Areas of analysis should include (a) training requirements for sheriffs' personnel to insure adequate knowledge regarding policies and techniques of traffic enforcement, (b) means of insuring uniform enforcement of the Vehicle Code provisions by county sheriffs, (c) personnel, equipment, and cost requirements of county sheriffs as a result of new duties, (d) the potential for reductions in resources currently used to support CHP patrol on county routes, (e) an estimate of the time required to transfer traffic enforcement to sheriffs' departments without disruption, and (f) the major problems and benefits of this action. In our judgment, actual transfer of traffic enforcement to sheriffs' departments in selected counties will provide data for addressing these issues. Because a transfer of responsibilities would significantly affect the patrol's budget and organization, we recommend that a preliminary report of the study's findings be submitted to the Joint Legislative Budget Committee, the fiscal subcommittees and the transportation policy committees by December 1, 1978, with a final analysis transmitted by December 1, 1979.

Contradiction in Staffing Trends

We recommend a reduction of 20 traffic lieutenant positions assigned to area offices for a savings of $697,600 because staffing trends for traffic lieutenants contradict changes in other uniformed position levels.

The 95 area offices of the department are staffed by both uniformed and nonuniformed members. Uniformed members in these facilities are commanded by either a traffic captain or a lieutenant, depending on the office size. In cases where a captain oversees office functions, assistance is provided by lieutenants. Sergeants and officers complete the uniformed staffing in area offices.

Since 1970–71, the trends in uniformed positions authorized for area offices have shown considerable variation. Table 5 presents a comparison of the changes in supervisory and officer staffing for area offices. As seen in the table, the number of traffic officers in field offices has dropped from 4,909 positions in 1970–71 to 4,382 positions in the current year, a decrease of approximately 10.7 percent. During the same period, traffic lieutenant positions in offices commanded by captains have increased dramatically, from 93 positions to 115 positions or 23.7 percent.

This increase in supervisory positions has resulted in another trend—a decrease in the number of officers supervised by each supervisor. Since 1970–71, this ratio has decreased from 7.5:1 to 6.1:1, an 18.7 percent decline. Finally, the ratio of lieutenants to area captains has increased 40 percent over the eight-year period.

We believe that these trends, particularly with regard to traffic lieutenants, show a disturbing direction in patrol staffing. Although the patrol has been permitted to engage in new activities since 1970–71, the impact of additional responsibilities on personnel needs in area offices has been minimal. Furthermore, new functions are conducted by officers and occasionally sergeants, not by lieutenants. Simply stated, the increase in lieutenant positions and the staffing relationship to captains indicates an unjustified addition to supervisorial overhead. To correct this, we recommend that the ratio of lieutenants to captains be reduced to 1.7:1 in area

Table 5
Comparison of Authorized Supervisory and Officer Positions in Area Offices
Fiscal Years 1970–71 through 1977–78

	1970–71	*1971–72*	*1972–73*	*1973–74*	*1974–75*	*1975–76*	*1976–77*	*1977–78*	*Percent Change 1970–71 to 1977–78*
POSITIONS									
Traffic Captains [a]	61	59	57	60	58	52	58	56	(8.2%)
Traffic Lieutenants: [b]									
Not Commanding Offices	93	109	108	110	111	93	110	115	23.7
Commanding Offices	33	34	35	35	34	35	36	36	9.1
Subtotal, Lieutenants	126	143	143	145	145	128	146	151	19.8%
Traffic Sergeants	465	512	506	503	506	456	504	505	8.6
Traffic Officers	4909	4765	4758	4786	4784	4082	4375	4382	(10.7)
Total Authorized Positions, Area Offices	5561	5479	5464	5494	5493	4718	5083	5094	(8.4%)
RATIOS									
Number of Officers per Supervisor [c]	7.5	6.7	6.7	6.8	6.7	6.4	6.2	6.1	(18.7%)
Number of Lieutenants per Captain [d]	1.5	1.8	1.9	1.8	1.9	1.8	1.9	2.1	40.0%

[a] Does not include captains assigned to division offices.
[b] Does not include lieutenants assigned to division offices.
[c] Supervisors include all captains, lieutenants, and sergeants.
[d] Lieutenants include only those positions not commanding area offices.

offices commanded by captains. This will result in a reduction of approximately 20 lieutenant positions. Based on the average annual salary of $25,035 projected for the budget year and benefits equal to 39.32 percent of salary, elimination of these positions will result in savings of $697,600.

Proposed Positions

The department is requesting 16.5 new positions in the traffic management program. Of this total, 10.5 positions are proposed for the Los Angeles Communications Center to augment existing radio dispatchers and operators. This request coincides with projections of communications personnel needs presented to our office in 1976.

The remaining six positions are designated for the new South Sacramento area office, presently located at the site of the former patrol academy. Establishment of this office gives the Sacramento area a second patrol office, in addition to the one at Arden Way. The positions are requested to provide the new facility with a full compliment of uniformed and nonuniformed employees.

II. REGULATION AND INSPECTION

The regulation and inspection program includes ten different "special duty" elements with net expenditures of $14,807,792 from the Motor Vehicle Account in the budget year. The largest portion of the proposed expenditures supports the commercial vehicle inspection and enforcement element, which accounts for $9,035,318 of the program's budget. The school pupil transportation safety component has the largest number of personnel due to the use of "blanket" positions for contracted crossing guard services. Proposed staffing for this element in 1978–79 includes 36.9 uniformed members and 434.6 nonuniformed employees, for a total of 471.5 positions.

The remaining program components are vehicle noise-reduction teams, abandoned vehicle abatement, regulation of special purpose vehicles, and other inspection and certification requirements. Table 6 shows staffing and cost data for the program.

Table 6
Regulation and Inspection Program Staffing and Expenditure Data

	Actual 1976–77	*Estimated 1977–78*	*Percent Change Over Previous Year*	*Proposed 1978–79*	*Percent Change Over Previous Year*
Program expenditures	$13,090,895	$15,043,747	14.9%	$14,807,792	(1.6%)
Personnel-years:					
Uniformed	229.6	230.1	0.2	227.8	(1.0)
Nonuniformed	590.4	642.3	8.8	643.2	0.1
Total program personnel-years	820.0	872.4	6.4%	871.0	(0.2%)

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Workload and Expenditure Adjustments

The addition of two positions in the school pupil transportation safety element is requested to meet mandated workload demands. Chapter 406, Statutes of 1977 (AB 510) transfers the responsibility of administering regulations pertaining to schoolbuses and schoolbus operations from the Department of Education to the patrol. The bill appropriated $32,000 to fund two positions in 1977–78, and the patrol's request is to continue funding these positions at a cost of $34,557 in 1978–79.

The expected absence of funding for the abandoned vehicle abatement component in 1978–79 is the major reason for the 1.6 percent decrease in total program expenditures between the current year and the budget year. Legislative actions in 1976 reduced surplus balances in the Abandoned Vehicle Trust Fund by $8,350,000. The remaining fund resources of $2,514,311 are expected to be totally expended during the current year, with the result that no monies will be available to support abatement activities in 1978–79.

Duties can be Performed by Civilian Employees

We recommend that traffic officers assigned to the school pupil transportation safety function be replaced by nonuniformed employees for a savings of $108,365.

Uniformed members of the patrol are employed in the school pupil transportation safety program to administer driving and written examinations for schoolbus drivers, and to assist in the determination of schoolbus routes and stops and in schoolbus inspections. The department reports that approximately 61,178 traffic officer hours, or the equivalent of 33.2 personnel-years, are annually expended for this purpose. The use of traffic officers is justified on the basis that "the pupil safety officer must have an extensive knowledge of bus safety regulations and only a uniformed member is empowered to issue temporary school bus driver licenses."

In our judgment, civilian employees can perform these functions as effectively as traffic officers at a substantial savings to the department. With regard to the licensing duties of the pupil safety officer, one need only examine the licensing operations of the Department of Motor Vehicles to recognize that civilians are fully capable of handling these tasks. For example, DMV examiners who license commercial vehicle drivers must be familiar with the many safety regulations pertaining to truck operations. Other program duties of the traffic officer, such as assisting in route and bus stop locations, and in bus inspections, do not require uniformed personnel if adequate training is provided to civilian employees. Finally, we know of no statutory requirement which would preclude a nonuniformed member of the department from issuing temporary licenses to schoolbus operators.

Discussions with staff of the State Personnel Board indicate that the administrative assistant category may be an appropriate classification for civilian members involved in pupil safety functions. Based on a comparison of salary levels and benefits for traffic officers and administrative assistants, as shown in Table 7, an estimated annual savings of $3,264 for each position could result if nonuniformed employees handled pupil safety duties. We recommend that the department's budget be reduced by $108,365, based on the 33.2 personnel-years of work conducted by uniformed members.

Table 7
Comparison of Compensation for Uniformed and Nonuniformed Members, School Pupil Transportation Safety Element

Position	*Monthly Salary*	*Average Benefits*[a]	*Average Monthly Compensation*
Traffic Officer	$1,474	$580	$2,054
Administrative Assistant I	1,425	357	1,782
Difference:			
In monthly compensation			$272
In annual compensation			$3,264

[a] Based on department estimates of 39.32 percent of salary for uniformed members, 25.03 percent of salary for nonuniformed members.

Limited Enforcement Powers

We recommend that the department study the feasibility and fiscal impact of employing members with limited citation powers, instead of traffic officers, for special duty functions and report its findings to the Joint Legislative Budget Committee and the fiscal subcommittees by November 1, 1978.

Although only slightly more than 26 percent of the personnel in the regulation and inspection program are uniformed members, the department generally assigns uniformed employees to functions which require the power of citation. Alternatively, we believe that an employee classification which provides for limited enforcement powers, but not full-fledged peace officer status, should be considered. The ability to cite for violations would remain intact, but the additional costs associated with uniformed personnel could be mitigated.

This intermediate employee class is presently used by police and local traffic management departments throughout the state for parking control. Personnel involved in this activity can cite for parking violations but are not rendered full police powers. Based on conversations with staff in these municipal offices, entry level salaries for parking control employees are 23 percent to 33 percent *less* than similar salaries for police officers. This difference is compounded when fringe benefit values, training expenses, and equipment costs are considered.

The use of employees with limited enforcement powers could allow the patrol to provide the same level of service at a lower cost. Special duty activities such as commercial vehicle enforcement, special purpose vehicle regulation, and farm labor transportation safety functions may be suited for the employment of intermediate-class personnel. We recommend that the department examine the potential use of such personnel in the regulation and inspection program, including analysis of the possible savings in personnel and other expenses, and report its findings to the Joint Legislative Budget Committee and the fiscal subcommittees by November 1, 1978.

III. VEHICLE OWNERSHIP SECURITY

This program includes the vehicle theft element, which is aimed at increasing the recovery of stolen vehicles in the state, and the vehicle identification number component, which identifies and renumbers vehicles in which identification plates have been removed or are missing. Cost and staffing data for the program are presented in Table 8.

Table 8
Vehicle Ownership Security Program
Staffing and Expenditure Data

	Actual 1976–77	*Estimated 1977–78*	*Percent Change Over Previous Year*	*Proposed 1978–79*	*Percent Change Over Previous Year*
Program expenditures	$4,528,804	$4,969,617	9.7%	$4,744,718	(4.5%)
Personnel-years:					
Uniformed	118.7	118.8	–	120.5	1.4
Nonuniformed	22.8	23.7	3.9	24.8	4.6
Total program personnel-years	141.5	142.5	0.7%	145.3	2.0%

Vehicle Theft Control

We recommend that the department restrict its involvement in vehicle theft control activities and that expenditures proposed for the vehicle theft element be reduced by $2,046,000.

The department's participation in vehicle theft control has expanded substantially since establishing a statewide clearinghouse for stolen vehicle information in 1933. The greatest period of growth in this area occurred during fiscal years 1973–74 through 1975–76, when the department was identified as the statewide coordinator of the Vehicle Theft Control Project. Federal grants and state matching funds supported the project activities which, in part, were designed to increase the involvement and expertise of local enforcement agencies in vehicle security programs. Table 9 illustrates the sources and levels of funding applied to the project during its three-year history.

Table 9
Funding of the Vehicle Theft Control Project
1973–74 through 1975–76

Source	*1973–74*	*1974–75*	*1975–76*	*Three-Year Total*
CHP	$1,208,224	$1,271,838	$1,717,970	$4,198,032
Office of Criminal Justice Planning (OCJP)	166,667	123,333	88,889	378,889
Law Enforcement Assistance Administration (LEAA)	1,250,000	1,110,000	800,000	3,160,000
Local Matching Funds [a]	900,000	—	—	900,000
Total	$3,524,891	$2,505,171	$2,606,859	$8,636,921

a. Department estimate for 1973–74. Information not available for 1974–75 and 1975–76.

Despite the infusion of at least $8.6 million in funds from federal, state, and local sources, the results of the project were disappointing. First, only one of the six project goals aimed at improving vehicle theft control was actually achieved. Second, substantial funding, training, and information contributions were made to local agencies by the CHP and federal agencies to increase local expertise. Nonetheless, many local offices did not renew their federal grants in the project's third year and evidently reduced personnel and fiscal involvement in vehicle theft enforcement.

In spite of the apparent failures of the project and the reluctance of local agencies to participate in stolen vehicle programs, the patrol continues to expand its vehicle theft control activities. Department expenditures in this area have grown from approximately $3.23 million in 1975–76, the final year of the project, to an estimated $4.23 million in 1977–78, an increase of nearly 31 percent. During the same period, the recovery rate of stolen vehicles has risen only slightly, from 87.1 percent to an estimated 87.3 percent.

In our judgment, local law enforcement agencies should emphasize vehicle theft activities, particularly in administrative and investigative functions. The patrol should consequently limit its participation to the coordinative role originally envisioned in the Vehicle Theft Control Project. This approach recognizes that (a) vehicle theft is primarily a local concern, and enforcement activities should be provided by local agencies, and (b) signficant resources have been provided to local agencies to develop expertise in vehicle theft control, and these agencies should use their capabilities to the fullest extent.

We therefore recommend that the department's proposed expenditures of $3,964,209 for the vehicle theft program be reduced. To date, we have not been able to determine the exact portion of these expenses which support functions added since the beginning of the Vehicle Theft Control Project. However, a rough approximation can be developed by applying an annual six percent inflation factor to the CHP's funding of the project in its last year. Based on this calculation, a reduction of $2,046,000 is recommended.

IV. ADMINISTRATIVE SUPPORT

Proposed expenditures for administrative support functions are budgeted at $29,300,622, an increase of 5.3 percent over current year estimates. The six elements of the program include administrative services, management and command, budget and fiscal management, operational planning and analysis, training, and the Statewide Integrated Traffic Records System.

Administration costs are prorated over the department's other three operating programs. Expenditure and staffing information for administrative support is presented in Table 10.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 10

Administrative Support Program Staffing and Expenditure Data

	Actual 1976–77	*Estimated 1977–78*	*Percent Change Over Previous Year*	*Proposed 1978–79*	*Percent Change Over Previous Year*
Program expenditures [a]	$24,600,370	$27,833,254	13.1%	$29,300,622	5.3%
Personnel-years:					
Uniformed	264.1	264.0	—	272.8	3.3
Nonuniformed	637.2	649.6	1.9	658.9	1.4
Total program personnel-years	901.3	913.6	1.4%	931.7	2.0%

[a] Expenditures are prorated among the three other programs.

Proposed Positions

The department is requesting the addition of seven positions and the equivalent of 1.3 personnel-years of temporary help for the administrative support program. Six of these positions are proposed to meet workload needs in the administrative services, accounting, and communications sections. In addition, a motion picture specialist and increased temporary help for groundkeeping duties are requested for the patrol's academy. Total expenditures for these seven positions and added temporary help staff are projected at $120,365, which will be partially offset by $46,236 in reduced personnel costs from lower temporary help allocations and position adjustments.

Data Processing Costs Overstated

We recommend a reduction of $179,259 to eliminate overbudgeted data processing expenditures.

In the budget year, the department projects that payments to the Stephen P. Teale Consolidated Center will total $555,500, of which $25,000 is anticipated for programming needs of the new Management Information System. The remaining $530,500 represents a continuation of expenditures budgeted for 1977–78 plus a five percent factor for increased Teale rates.

Based on past and current year experiences and the indications of Teale Center staff, the budgeted amounts are substantially overstated. First, it is unlikely that data processing rates will be increased above current-year charges, according to the center's staff. Therefore, total patrol payments to the center should not increase above 1977–78 billings, apart from expenditures of $25,000 for MIS programming.

Second, total billings to the CHP for data processing services have dropped by approximately 9.3 percent between 1976–77 and 1977–78, as based on actual reported charges presented in Table 11.

Table 11
Teale Data Charges to the Highway Patrol
Fiscal Years 1976–77 to 1977–78

Actual charges, July 1976 through December 1976	$190,817
Actual charges, July 1977 through December 1977	173,135
Percent change	(9.3%)
Actual charges, January 1977 through June 1977	$196,368
Less expected expenditure decrease, based on 9.3 percent reduction factor	(18,262)
Estimated charges, January 1978 through June 1978	$178,106
Plus actual charges, July 1977 through December 1977	173,135
Total estimated charges, fiscal year 1977–78	$351,241

As noted previously, we do not expect the estimated charges for 1977–78 to increase in 1978–79. Therefore, we recommend a reduction of $179,259 from the department's data processing expenditures, which equals the difference of $530,500 budgeted for 1978–79 and $351,241 of expected budget year charges as calculated above.

Discrepancy in Attorney General Charges

We recommend a reduction of $126,763 because expenses budgeted by the Highway Patrol for Attorney General's legal services do not coincide with the data supplied in the budget of the Department of Justice.

Data furnished by the department indicate that approximately 20,983 hours are budgeted for services provided by the Department of Justice in 1978–79. This figure includes approximately 4,996 hours for investigations and 15,987 hours for legal services provided by the Attorney General's staff. Department of Justice services to special fund agencies are fully reimbursed on an hourly rate basis. In 1978–79, the Highway Patrol is estimating total expenditures of $813,027 for Department of Justice charges.

In reviewing the budget of the Department of Justice, we found that only 12,802 hours are anticipated for legal services to the CHP, or 3,185 hours less than expected by the patrol. We believe that the Department of Justice projection is more reliable than the patrol's because its estimate is based on historical trends and expected workload needs for services to agencies. Furthermore, projections for agency services establish this department's personnel requests in its budget. With an hourly rate of $39.80 per hour of legal services in 1978–79, we therefore recommend a reduction of $126,763 in the CHP's budget for Attorney General services to reflect Department of Justice estimates.

Improved Vehicle Procurement Process Required

We recommend that the Departments of the California Highway Patrol and General Services cooperatively develop a vehicle procurement procedure which recognizes vehicle operating costs as well as purchase costs.

Currently, the patrol's vehicles are purchased on the basis of the lowest unit price offered by vehicle manufacturers. In the most recent bidding process, Chrysler Corporation received a contract for 1,507 patrol vehicles and an additional 500 vehicles for local law enforcement agencies, based on the lowest cost of $5,394 per unit.

Given the patrol's specifications and the limited number of manufacturers competing in the procurement process, the present process insures that the purchase of CHP vehicles will be at the lowest price per vehicle. However, we believe that the process should be changed to reflect the ongoing costs of vehicle operations as well, to minimize total vehicle expenditures.

This judgment is based on two factors. First, motor vehicle operating expenses are projected at $14,429,220 during the budget year, or over 65 percent of total expenses for vehicle operations and purchases of $22,048,-824. If the operating portion of vehicle costs is recognized in the bidding process, a vehicle with a higher initial purchase price might be selected because estimated ongoing expenses may result in lower costs over the vehicle's useful life.

The second reason is based on the experience of the Department of General Services. According to staff in the department's Office of Procurement, the bidding procedure for certain heavy equipment purchases by the state utilizes a "total cost" approach, in which both initial purchase price and ongoing maintenance and repair expenses are considered in bid selection. Staff members indicate that a similar concept could be developed for the purchase of CHP vehicles.

We recommend that the patrol and appropriate offices of the Department of General Services determine a method for recognizing both initial and ongoing costs in the vehicle procurement process. Operating expense items such as maintenance, repair, and fuel costs could be estimated by the patrol's testing of vehicles. Adjustments could be permitted if technological or other improvements in new vehicle models are expected to significantly impact estimated costs. In this manner, the patrol could deploy vehicles which involve the least overall cost to the department.

Leasing of Patrol Facilities.

We recommend reductions of $421,789 for overbudgeted leasing expenditures.

We further recommend that future funds for projected increases in leasing expenditures be held in reserve until new lease terms are established and expenditures are authorized.

The patrol will lease land, offices, and other facilities at 70 locations in 1978–79. Monthly charges and lease expiration dates are presented in the department's line item budget. Our review of the patrol's leasing schedule and discussions with personnel in the Division of Space Management, Department of General Services, have indicated that stated CHP lease terms in fourteen facilities have been overbudgeted in the current year and the budget year.

We recommend that the overbudgeted amounts in the current year schedule be reappropriated to the budget year, thereby reducing proposed lease expenditures in the budget year. Overstated expenditures in the budget year are also recommended for reduction. The discrepancies are reviewed by facility below, along with our recommendations.

1. *Arrowhead.* For 1978–79, the department has budgeted monthly lease payments of $1,000 for the first half of the budget year and $3,700 for the last six months of 1978–79. The increase in charges is to fund a build-to-suit office. As discussed in our analysis of Item 449, we believe that the existing facility is adequate for department operations, and we therefore recommend a reduction of $16,200 in the patrol's proposed budget.
2. *Coalinga.* A new lease for this facility became effective on October 1, 1977 with monthly charges of $1,288. The patrol's budget indicates monthly charges for this facility at $300 for only one month and $1,500 for the remaining eleven months in 1977–78, with the $1,500 per month charge continuing through 1978–79. Based on new lease terms, the department has overbudgeted by $6,796 in 1977–78 and $2,544 in 1978–79.
3. *East Los Angeles.* Present lease terms for this facility expire on September 30, 1978. However, examination of the department's lease schedule implies that the lease expired September 30, 1977. To rectify this error, reductions of $13,050 in 1977–78 and $4,350 in 1978–79 are recommended.
4. *Indio.* On October 20, 1977, this facility was purchased by the state. Yet, the patrol is still budgeting lease expenses for the office in both the current and budget years. Assuming that the department settled possible lease contingencies by January 1, 1978, we recommend reductions of $6,900 in the current year and $14,400 in 1978–79 to reflect state purchase.
5. *Jackson.* The lease for this facility will not expire until after the budget year. However, the lease schedule shows that monthly charges will increase from $357 to $3,000 for the second half of 1978–79. A reduction of $15,858 is recommended to eliminate this overstated expenditure in the budget.
6. *Lakeport.* The department's budget shows that monthly lease expenses for this office will increase from $700 to $3,500 for the last six months of the current year. The lease does not expire until June 30, 1978, and we therefore recommend a reduction of $16,800 to reflect expected costs in 1977–78.
7. *Malibu.* A new lease has been arranged for this office effective July 1, 1978. According to the department, lease terms require monthly charges of $600 for 1977–78 and $750 for the first six months of 1978–79, after which higher rates will be required due to occupancy of a build-to-suit facility. However, the department's lease schedule shows monthly charges of $3,500 in 1977–78 and $4,500 for the entire

budget year. We therefore recommend reductions of $34,800 in 1977–78 and $22,500 in 1978–79.

8. *Mojave.* Currently, this office is leased at a rate of $550 per month. New lease terms, effective July 1, 1978, require monthly payments of $2,500 for this facility. The patrol has budgeted charges at $3,500 per month beginning January 1, 1978. To delete these overbudgeted costs, we recommend reductions of $17,700 in the current year and $12,000 in the budget year.
9. *Riverside.* The patrol's schedule indicates that the lease for this facility will expire on April 30, 1981. However, budgeted monthly charges have increased from $750 to $4,500 for 1978–79. A reduction of $45,000 is recommended to eliminate overbudgeted charges.
10. *San Andreas.* Lease terms for this office will expire after the budget year. Similarly to the situation in the Jackson office, the department has budgeted monthly charges for this facility at $3,200 (up from $590) for the last three months of 1977–78 and for all of 1978–79. Reductions of $7,830 in the current year and $31,320 in the budget year are therefore recommended to rectify this error.
11. *San Juan Capistrano.* The department's schedule indicates that the patrol will occupy a new office at this location for the last six months of 1977–78, at a monthly cost of $5,000. However, staff at the Department of General Services expect that occupancy will not occur before July 1, 1978. We therefore recommend a reduction of $30,000 in current year expenditures.
12. *Santa Barbara.* Current terms for this lease, which expires on December 31, 1980, provide for charges of $845 per month. Yet, the patrol has budgeted lease expenses for this facility at $5,000 per month for the budget year. We recommend a reduction of $49,860 to reflect the continuation of present leasing costs through 1978–79.
13. *Santa Cruz.* New lease terms effective July 1, 1977 provide that payments of $2,030 per month are required for this office. However, monthly charges of $2,500 are budgeted for the facility in both the current year and budget year. Accordingly, reductions of $5,640 are recommended for both years.
14. *South Sacramento.* Lease arrangements for this facility entail monthly charges of $2,154.50, but the department has budgeted expenditures of $5,000 per month, beginning September 1, 1977. We recommend that this difference be recognized by reductions of $28,455 and $34,146 in 1977–78 and 1978–79, respectively.

Overbudgeted Leasing of Facilities Summary

In summary, we believe that the overbudgeted leasing of facilities in the current year should be reappropriated to the budgeted expenses for leasing in 1978–79. This would reduce proposed leasing costs by $167,971. When recommended reductions of $253,818 for overbudgeting in 1978–79 are included, our recommended reductions total $421,789.

Future Leasing Arrangements. The rental budget for CHP offices includes five facilities for which lease arrangements will expire during 1978–79. The department has anticipated increased monthly charges for these leases, although final terms have not been approved. We recommend that funding for increments in leases expiring during the budget year, which total $139,950, be held in reserve. If department costs for the affected facilities do not increase, unexpended monies in this reserve should revert to the Motor Vehicle Account, State Transportation Fund, rather than be available for other department expenditures.

Table 12 illustrates adjustments to the leasing schedule for CHP offices for overbudgeting and establishment of a future lease reserve.

Table 12
Adjustments to CHP Rental Schedule—Buildings

Facility	*CHP Estimate for Current Year Expenditure*	*Overbudgeted Amounts 1977–78*	*Overbudgeted Amounts 1978–79*	*Reserve for Projected Increases*
Arrowhead	$9,000	–	$16,200	–
Coalinga	18,300	$6,796	2,544	–
East Los Angeles	43,650	13,050	4,350	$13,050
Indio	12,300	6,900	14,400	–
Jackson	4,284	–	15,858	–
Lakeport	25,200	16,800	–	33,600
Malibu	42,000	34,800	22,500	22,500
Mojave	24,300	17,700	12,000	–
Riverside	9,000	–	45,000	–
San Andreas	14,910	7,830	31,320	–
San Juan Capistrano	30,000	30,000	–	60,000
Santa Barbara	10,140	–	49,860	–
Santa Cruz	30,000	5,640	5,640	–
South Sacramento	50,000	28,455	34,146	–
Twentynine Palms	3,600	–	–	10,800
Total	$326,684	$167,971	$253,818	$139,950
Proposed CHP leasing expenditures, 1978–79				$1,648,222
Less recommended reductions:				
Reappropriation for overbudgeted amounts, 1977–78				167,971
Overbudgeted amounts, 1978–79				253,818
Subtotal, recommended reductions				$421,789
Adjusted line item total				$1,226,433
Recommended held in reserve				($139,950)

Department of the California Highway Patrol
DEFICIENCY PAYMENT

Item 158 from the Motor Vehicle Account, State Transportation Fund — Budget p. 335

Requested 1978–79	$1,000,000
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Control Language. Recommend expenditures from this item be reported in same manner as required in Emergency Fund (Item 426). 270

ANALYSIS AND RECOMMENDATIONS

Section 42272 of the Vehicle Code prohibits the creation of deficiency payments in support of this department and it cannot obtain aid from the Emergency Fund. The Legislature, recognizing that emergencies could occur in a department of this size, provided, beginning with the Budget Act of 1957, an annual amount to fund unanticipated contingencies involving purchase and operation of patrol vehicles.

In the Budget Act of 1972, the language restricting the authorization to vehicles only was removed. The appropriation may now be used for any approved deficiency.

Legislative Oversight Needed

We recommend that control language be added to require the Director of Finance to report allocations from this item in the same manner as required for reporting allocations from the Reserve for Contingency-Emergency Fund (Item 426).

Control language in Item 158 authorizes the Director of Finance, with the consent of the Governor, to approve expenditures from the Motor Vehicle Account for deficiency payments. However, there is no provision to report these expenditures to the Legislature. We believe that expenditures for contingencies and emergencies should be subject to the same reporting procedures as required for General Fund deficiencies in Item 426 (Reserve for Contingency).

In our analysis of Item 426, we recommend additional language to require the reporting of expenditures for emergencies within 10 days after approval and the reporting of contingency payments 30 days prior to approval. These requirements should also be applied to all special fund deficiencies created under Section 11006. We believe that legislative action on this item should conform to the decisions made under Item 426.

Department of the California Highway Patrol
ADVANCE PURCHASE AUTHORIZATION

Item 159 from the Motor Vehicle Account, State Transportation Fund — Budget p. 335

Requested 1978–79	$2,500,000
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Because the automotive model year and the state's fiscal year do not coincide, the California Highway Patrol must on occasion order cars in one fiscal year for delivery in the next. This item provides the department with the authority to incur automotive purchase obligations up to $2,500,000 in 1978–79 for vehicles to be delivered in 1979–80. No funds have ever been expended under this procedure. It provides authorization only, with actual expenditures made from the department's regular budget in the years affected.

Business and Transportation Agency
DEPARTMENT OF MOTOR VEHICLES

Items 160–166 from various funds — Budget p. 338

Requested 1978–79	$151,571,756
Estimated 1977–78	141,937,565
Actual 1976–77	127,498,488
Requested increase $9,634,191 (6.8 percent)	
Total recommended reduction	$1,192,487

1978–79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
160	Anatomical Donor Designation and Petit Jury Selection	General	$147,029	
161	Driver Licensing and Vehicle Registration	State Transportation Fund, Motor Vehicle Account	127,675,046	285
162	For Payment of Deficiencies for Appropriations	State Transportation Fund, Motor Vehicle Account	(500,000)	298
163	Collection of Vehicle In-Lieu Taxes	Transportation Tax Fund, Motor Vehicle License Fee Account	19,961,122	283
164	Environmental License Plate Issuance	California Environmental Protection, Program	1,957,284	289
165	Bicycle License Tag Issuance	State Bicycle License Registration	167,003	289
166	Undocumented Vessels Registration	Harbors and Watercraft Revolving	1,664,272	289
Item Total			$151,571,756	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *Budgeting of New Positions. Reduce Item 161 by $35,976.* Recommend reduction of amount overbudgeted for new positions. 275
2. Internal Management Procedures and Automation. Recommend department make quarterly reports detailing progress toward implementation of changes in management procedures and automation. 278
3. Management and Reporting Control System. Recommend establishment of an industrial engineering unit. 279
4. Soundex. Recommend department receive input from law enforcement users group before termination. 281
5. *Soundex Support. Reduce Item 161 by $400,000 and appropriate a like amount from the General Fund.* Recommend reduction from the Motor Vehicle Account of amount used to support non-vehicle related uses of Soundex, and reappropriation of like amount from the General Fund. 282
6. Drivers License and Identification Card Photographs. Recommend legislation to require DMV to maintain copies of photographs. 283
7. Unpaid Parking Violations. Recommend 166 requested positions be authorized on limited term basis. 284
8. Interpreters. Withhold recommendation pending clarification and further justification of request. 285
9. *Computer Terminal Replacement. Reduce Item 161 by $297,481.* Recommend reduction of amount overbudgeted for replacement of computer terminals. 292
10. *Dishonored Check Collection Procedures. Reduce Item 161 by $145,602.* Recommend reduction in amount budgeted for collection of dishonored checks. 293
11. *License Plates and Stickers. Reduce Item 161 by $492,900.* Recommend reduction of amount overbudgeted for purchase of license plates and registration stickers. 294
12. *Training Activities. Reduce Item 161 by $119,458.* Recommend reduction in department request for additional personnel and increased inservice training. 294
13. Program Development, Evaluation and Research. Recommend research function be reconsolidated with program development and evaluation functions. 295
14. *Major Equipment. Reduce Item 161 by $72,503.* Recommend reduction in amount budgeted for major equipment purchases. Withhold recommendation on $44,160 pending further justification. 295

15. *Repairs and Alterations. Reduce Item 161 by $20,000 and transfer to Item 450(s)*—minor capital outlay. Withhold recommendation on $33,500 of the department's request pending justification of need. 296
16. *Minor Equipment. Reduce Item 161 by $8,567.* Recommend reduction of request for additional equipment in Mountain View field office. 296
17. Child Care Center. Recommend center pay appropriate rental fees. 297
18. Kindergarten Program. Recommend termination of kindergarten after the 1977–78 school year. 297
19. Legislative Oversight Needed. Recommend control language requiring Director of Finance to report allocations in same manner as in Item 426, Emergency Fund. 298

GENERAL PROGRAM STATEMENT

The Department of Motor Vehicles (DMV), a major component of the Business and Transportation Agency, is responsible for protecting the public interest and promoting public safety on California's roads and highways. The department includes the Divisions of Drivers Licenses, Registration, Field Office Operation, Administration, Electronic Data Processing, and Compliance, and administers six programs. These programs and their major objectives are as follows:

1. Vehicle Licensing and Titling—to protect the public's interest by identifying ownership through the process of vehicle registration.

2. Driver Licensing and Control—to promote safety on highways by licensing and controlling drivers.

3. Occupational Licensing and Regulation—to provide public protection by licensing and regulating occupations and businesses related to the manufacture, transportation, sale, and disposal of vehicles, and the instruction of drivers in safe operation on the highways.

4. Compulsory Financial Responsibility—to encourage California motorists to maintain financial responsibility.

5. Associated Services—to provide services, not directly related to motor vehicles or drivers' licensing, to the public and to other state agencies as required by statute.

6. Administration—to administer Vehicle Code provisions and statutes, to provide departmental policy, and to provide management support services to all departmental programs.

To perform these duties, the department proposes the operation of 152 field offices in 14 districts throughout California and a central headquarters facility in Sacramento. Personnel years for 1978–79 are projected at 7,773.3 compared to 7581.3 in 1977–78, an increase of 2.5 percent.

During the next fiscal year, the department estimates that it will process a total of 17,797,000 vehicle registrations and 597,500 undocumented vehicle registrations, issue 5,144,000 drivers' licenses and 540,750 identification

DEPARTMENT OF MOTOR VEHICLES—Continued

cards. These major workload indicators reflect a growth of 2.5 percent in vehicle registrations, 2.8 percent in undocumented vehicle registrations, 3.5 percent in drivers' license issuance, and 27.8 percent in identification card issuance.

ANALYSIS AND RECOMMENDATIONS

DMV's proposed expenditures for 1978–79 would increase $9,634,191 (6.8 percent) over the current year for a total of $151,571,756 (excluding federal funds of $839,164 and reimbursements of $9,984,859 for services the department will provide to other agencies and the public).

Expenditure totals and a breakdown by program are shown in Table 1 which includes actual and estimated expenditures for the two previous years. Table 2 (see page 276) provides a detailed account of proposed changes over the current budget year.

Table 1
Department of Motor Vehicles
Program Expenditure Summary

Program	*Actual 1976–77*	*Estimated 1977–78*	*Proposed 1978–79*	*Change from 1977–78*	*Percent Change*
1. Vehicle Licensing and Titling	$66,705,126	$74,974,493	$80,420,446	$5,445,953	7.3%
2. Driver Licensing and Control	51,266,244	56,011,674	58,996,275	2,984,601	5.3
3. Occupational Licensing and Regulation	7,506,322	8,205,996	9,223,918	1,017,922	12.4
4. Financial Responsibility	3,505,533	3,708,091	3,671,218	−36,873	−1.0
5. Department of Motor Vehicles Associated Services	6,737,962	8,384,469	10,083,922	1,699,453	20.3
6. Administration—Distributed to Programs	(13,453,324)	(14,303,931)	(14,703,364)	(399,433)	2.8
Totals, Programs	$135,721,187	$151,284,723	$162,395,779	$11,111,056	7.3%
Less Reimbursements	−7,875,620	−8,783,062	−9,984,859	−1,201,797	–
Less Federal Funds*	−347,079	−564,096	−839,164	−275,068	–
Net Totals, Programs	$127,498,488	$141,937,565	$151,571,756	$9,634,191	6.8%

Department's Work Force Request

The Department of Motor Vehicles' budget for 1978–79 requests an increase of 191.7 personnel years (2.5 percent) over the revised 1977–78 figures. Requested personnel years are shown by program element in Table 3 which also includes actual and estimated personnel years for the two previous years.

Salaries Overbudgeted

We recommend that Item 161 be reduced by $35,976 for overbudgeted salary costs.

The State Administrative Manual requires that new positions be budgeted at the minimum entry level salary. The department neglected to do so for 31 new positions. We therefore recommend deletion of the $35,976 budgeted over minimum salary level.

Table 3

Program Element	Actual 1976–77	Estimated 1977–78	Proposed 1978–79	Change from 1977–78	Percent Change
I. Vehicle Licensing and Titling	3639.3	3739.6	3815.1	75.5	2%
II. Driver Licensing and Control	2761.7	2778.7	2790.3	11.6	0.4%
III. Occupational Licensing and Regulation	358.8	350.8	386.9	36.1	10.3%
IV. Financial Responsibility	217.5	205.7	201.3	−4.4	−2.1%
V. Associated Services	417.5	506.5	579.4	72.9	14.4%
VI. Administration (distributed)	(681.8)	(660.5)	(648.5)	(−12.0)	−1.8%
Total	7394.8	7581.3	7777.3	191.7	2.5%

Status of the Motor Vehicle Account

The Motor Vehicle Account provides 84 percent of the support for DMV's operations (see Table 4). In previous analyses we have discussed in detail the deteriorating financial condition of the account. The problem, in summary, is that appropriations from the Motor Vehicle Account to DMV and CHP have grown faster than the resources in the funds. While it was the Legislature's intention that the majority of funds collected from truck weight fees be transferred to the state Highway Account for new facilities and maintenance costs related to heavy truck use of highway facilities, the amount for funds actually transferred is declining precipitously. Of the approximately $130 million collected from weight fees each year, $95 million was transferred to the Department of Transportation in 1975–76, while an estimated $10 million will be transferred in 1978–79.

It was previously thought that the Motor Vehicle Account would run a deficit in the 1978–79 fiscal year, but current revenue estimates show that the account will probably remain solvent through fiscal year 1979–80. This has occurred for several reasons: 1) the fiscal committees of the Legislature have acted with restraint in approving new positions for DMV and CHP, 2) large capital outlay expenditures have been deferred, 3) year round registration has evened out DMV's cash flow and 4) some of the funds set aside for loans to the Air Resources Board have not been encumbered. Despite the delay in reaching a deficit situation, the amount of available transfer funds to the Department of Transportation continues to decrease.

Department's Fee Study. In 1976, the Legislature, concerned about the deteriorating condition of the Motor Vehicle Account, requested that the department study its outdated fee structure. That study, submitted in June 1977, found that many motor vehicles fees are insufficient to cover the costs of services provided. We believe that fees should cover such costs.

Table 2
Summary of Budget Expenditure Changes From Current Years

		Personnel Years	Amount	Changes Over Current Year: Personnel Years	Changes Over Current Year: Amount	Changes Over Current Year: Percent
1. Personal Services Adjustments for Authorized Positions:						
a. Merit Salary Adjustment	Revised [a]	7,545.8	$93,169,516			
	Proposed	7,545.8	94,724,306			
b. Salary Savings	Revised	–	−1,492,591	–	$1,554,790	1.03
	Proposed	–	−1,517,578	–	−24,987	−0.02
c. Staff Benefits (Rate Increase & Increase for Merit Salary Adjustment)	Revised	–	22,002,462			
	Proposed	–	23,562,661	–	1,560,199	1.03
2. Workload Adjustment:						
a. Costs Related to Changes in Authorized Position	Revised	6.4	472,997			
	Proposed	61.9	704,626	55.5	231,629	0.15
b. Changes to Operating Expenses & Equipment Not Related to Changes in Authorized Positions *	Revised	–	36,617,853			
	Proposed	–	40,005,047	–	3,387,194	2.23
(1) Workload		–	–	–	(1,453,100)	(0.96)
(2) Price		–	–	–	(1,934,094)	(1.27)
3. Expansion of the Departmental Training Program	Revised	–	–			
	Proposed	5.0	162,645	5.0	162,645	0.11
4. Training Program for Division of Registration	Revised	–	–			
	Proposed	1.0	16,831	1.0	16,831	0.01
5. Interpreters for D.I. Hearing and Reexamination Interviews	Revised	–	–			
	Proposed	4.0	73,267	4.0	73,267	0.05
6. Terminals in Field Offices	Revised	−19.0	−200,317	–	–	–
	Proposed	−54.4	−446,603	−35.4	−246,286	−0.16
7. EDP Video Replacement	Revised	–	–			
	Proposed	–	1,643,850	–	1,643,850	1.09
8. Enhance Registration Renewal Processing	Revised	–	–			
	Proposed	−34.3	41,811	−34.3	41,811	0.03
9. Unpaid Parking Violations	Revised	43.9	658,003			
	Proposed	166.8	2,209,292	122.9	1,551,289	1.03
10. Proper Reimbursement for Cost of Use Tax Collection	Revised	–	–			
	Proposed	41.5	620,230	41.5	620,230	0.41

11. New Statutes:						
a. AB 289, Chapter 649: Preferential Parking: Blind Persons	Revised	–	–			
	Proposed	3.9	61,644	3.9	61,644	0.04
b. AB 313, Chapter 326: Vehicles Movement Under Permit	Revised	–	–27,000			
	Proposed	–	–54,000	–	–27,000	–0.02
c. AB 456, Chapter 617: Vehicles: Unlimited Parking: Disabled Persons	Revised	–	–			
	Proposed	2.9	44,100	2.9	44,100	0.03
d. AB 1204, Chapter 873: Vehicles: Manufacturers	Revised	–	–			
	Proposed	1.0	21,850	1.0	21,850	0.01
e. AB 1404, Chapter 749: Recycling: Paper Products	Revised	–	–			
	Proposed	–	57,200	–	57,200	0.04
f. SB 36, Chapter 504: Motor Vehicles Records	Revised	2.7	53,800			
	Proposed	4.7	57,100	2.0	3,300	–
g. SB 138, Chapter 731: Mobilehomes: Trailer Coach Registration	Revised	–	–			
	Proposed	2.9	31,000	2.9	31,000	0.02
h. SB 417, Chapter 821: Vehicles: Environmental License Plates	Revised	1.5	30,000			
	Proposed	14.3	300,000	12.8	270,000	0.18
12. Parent Locator Services	Revised	–	–			
	Proposed	6.0	76,500	6.0	76,500	0.05
Totals, Gross Expenditures						
Revised 1977–78		7,581.3	$151,284,723			
Proposed 1978–79		7,773	162,395,779	191.7	$11,111,056	7.34
Net Change, Gross Expenditure						
Reimbursements						
Revised 1977–78		–	–8,783,062			
Proposed 1978–79		–	–9,984,859	–	–1,201,797	–
Net Change, Reimbursement						
Federal Funds **						
Revised 1977–78		–	–564,096			
Proposed 1978–79		–	–839,164	–	–275,068	–
Net Change						
Totals, Net Expenditure Changes				191.7	$9,634,191	6.79

* Does not include operating expenses and equipment related to changes in Personnel Requirements, Budget Change Proposals, New Statutes or Special Items.

[a] Revised—1977–78 Expenditures.
Proposed—1978–79 Budgeted.

DEPARTMENT OF MOTOR VEHICLES—Continued

Funding Support

Funds to support the department are appropriated from a variety of special funds, with the majority being appropriated from the Motor Vehicle Account, State Transportation Fund (84 percent) and the Motor Vehicle License Fee Account, Transportation Tax Fund (13 percent). Table 4 displays the department's sources of funding.

Table 4
SOURCES OF FUNDING, 1978–79

Fund	*Dollar Amount*	*Percent of Total Support*
Motor Vehicle Account, State Transportation Fund	$127,675,046	83.8%
Motor Vehicle License Fee Account Transportation Tax Fund	19,961,122	13.1
California Environmental Protection Program Fund	1,957,284	1.3
Harbors and Watercraft Revolving Fund	1,664,272	1.1
Federal Funds	839,164	.5
State Bicycle License and Registration Fund	167,003	.1
General Fund	147,029	.1
Total	$152,410,920	100.0%

Department Response to Criticism

We recommend that DMV provide quarterly progress reports to the Joint Legislative Budget Committee and the fiscal subcommittees on specific progress in carrying out its commitments regarding the Management and Reporting Control System (MARC), Soundex, the Program Planning, Budgeting and Control System (including cost accounting) and automation enhancements.

The Department of Motor Vehicles has come under steady criticism during the past few years from our office, the legislative fiscal committees and most recently, the Little Hoover Commission. Much of this criticism has centered around two major areas: (1) internal management systems which have proven to be ineffective and (2) the failure of the department to move from labor-intensive methods to automated procedures.

It now appears that DMV has made a commitment to improve in both areas. This analysis, therefore, will focus on what is planned, the budgetary implications if known, and the steps required for progress during the budget year.

Because of the importance of these projects in terms of both increased organizational efficiency and potential savings to the Motor Vehicle Account and the lack of specific implementation plans and absence of precise budgetary implications, we recommend that DMV provide quarterly progress reports to the Joint Legislative Budget Committee and the fiscal subcommittees during the budget year. These reports should detail specific plans, progress, funds required, problems encountered, and future milestones for carrying out its commitments with regard to the Management and Reporting Control System (MARC), Soundex, Program Planning, Budgeting and Control (including installation of a new cost accounting system), replacement of two existing computers and automation of various processes in both headquarters and the field offices.

Management and Reporting Control System

We recommend that the department establish a small industrial engineering unit in the Office of Program Development and Evaluation.

The department uses MARC to estimate work force requirements. During the past few years, our office, the Legislature and the Little Hoover Commission have been very critical of MARC's ability to produce accurate work force estimates.

MARC Objectives. MARC, initiated in 1970, is a standardized work measurement reporting system which compares an "ideal" standard of work performance (the time performing an activity should take) to the actual time required to perform an activity. The original objectives were to provide productivity information to unit supervisors and managers, alert top management to potential trouble spots in the organization, compile data to support budget estimates and identify savings generated by the work standards program.

Failure of MARC. Systems similar to MARC have been successful in the private sector. MARC was a failure at DMV, however, because (1) the department used the system as the basis for budget requests, rather than as support information and (2) the standards were not adjusted to reflect changes in work processes. DMV's failure to maintain MARC work standards was first noted in our Supplemental Analysis prepared for hearings on the 1976–77 budget. The Legislature agreed with our findings that inadequate standards had caused inflated work force requests and accepted our recommendation to reduce the budget by 136 personnel years. The department subsequently reduced its work force by an additional 168.6 personnel years below the level authorized in the 1976–77 budget and sought no increase in personnel for the 1977–78 budget other than for positions necessary to implement legislation.

In the 1977 Supplemental Report of the Conference Committee, the Legislature requested the department to evaluate MARC to determine whether it could meet its design potential, and to phase it out, beginning in the 1978–79 fiscal year, if the evaluation indicated MARC was not a satisfactory system.

MARC to be Eliminated. The department retained a private consultant to perform the evaluation and a report was submitted in December 1977. Although the consultant concluded that MARC could meet its design potential if the system were upgraded and detached from the budget process, the report had analytical and statistical errors and based its major recommendations on subjective judgments. The department subsequently decided to eliminate MARC and implement a new program cost accounting system to improve its antiquated accounting procedures and provide information required for management and budget development. The net annual savings which will accrue because of the elimination of MARC have not yet been determined because costs to develop the proposed cost accounting system have not been fully identified. The department and our office will be prepared to discuss this issue at the budget hearings.

DEPARTMENT OF MOTOR VEHICLES—Continued

Need for Industrial Engineering Standards. We do not believe that cost accounting data will be sufficient to provide information required to improve the productivity and efficiency of DMV procedures. Expertise within the department must be available to analyze work processes and develop improved processes. A part of the savings generated from the elimination of MARC should be used to establish a small industrial engineering unit within the Office of Program Development and Evaluation. A specific proposal for such a unit should be developed and presented at the budget hearings.

Program Planning, Budgeting and Control

The department's program management, planning, budgeting and contol functions are fragmentized and uncoordinated. Major programs are divided among divisions, and fiscal program management information is collected by division unit rather than program element. For example, the Driver Licensing and Control program is split between the divisions of Drivers Licenses, Field Office Operations, and EDP Services. Responsibility for the program rests, therefore, not with one program manager but three division chiefs. Planning, budgeting, and operations information for the program must be extracted from division data and then coordinated.

Legislature Requires Study. Feeling that DMV's program management capability was inadequate, the Legislature in 1975 requested that the department study alternatives for achieving improved program alignment and increased effectiveness of program planning, budgeting and control activities. A report satisfactory to the Legislature was not submitted until April 1977. The study found that improved program alignment and increased effectiveness of program planning, budgeting and control were desirable and made specific recommendations to accomplish these goals.

Department's PPBC Activities. Although the department's director agreed with the report's recommendations, little progress has been made to implement them. In December we requested the new director to advise us of her position on the implementation of the report's recommendations. We had not received formal reply at the time this analysis was prepared but it is our understanding that the department intends to restructure its programs and install a program cost accounting system.

Restructuring Programs. The department has made preliminary efforts to define and explain programs and design a new program structure. These efforts have not been considered high priority, however, and progress has been slow.

Installation of a Program Cost Accounting System. Both our office and the Little Hoover Commission have recommended that DMV upgrade its antiquated accounting system. The department's decision to install a program cost accounting system is an attempt both to modernize its accounting procedures and to resolve its problems in obtaining information on a program basis. The department has begun reviewing possible systems and has already evaluated one installed in San Diego County. This system (ARMS–Automated Resource Management System) was initially installed in Sacramento County and a version of it is now being used by a number of governmental entities including Milwaukee, Wisconsin. Because the system is in the public domain, the computer programs and documentation were purchased from San Diego County for $500. With this small initial investment, DMV could be in a position to modify an existing system which could be processed on an interim basis at the Teale Data Center.

We are not in a position to evaluate whether ARMS is the right system for the department. However, we believe that the department, working in cooperation with the Department of Finance's Accounting Systems Unit, can make such a determination as a part of developing the necessary feasibility study.

Two other projects are now in progress within the state which have a direct bearing on DMV's efforts. The Department of Finance is evaluating the overall requirements for a statewide fiscal management system including recommendations for improvements in departmental accounting systems. Also, the Department of Health Services is currently in the process of selecting and installing a new accounting system and ARMS is one of the systems to be evaluated. Health Services' schedule calls for selection of a system by July 1978 with installation to begin in July 1979. The firm of Haskins and Sells is providing consulting services to both Finance and Health Services.

As we noted earlier, the new system is to replace the Management and Reporting Control System (MARC) as a basis for the department's new management information system. Development of a program cost accounting system is a fundamental element of the plan to improve program alignment and increase the effectiveness of its program planning, budgeting and control functions.

Phase Out of Manual Soundex File

We recommend that DMV convene immediately a law enforcement "users group" to evaluate the department's plan for phasing out Soundex. We concur with the essentials of the plan, but the input of law enforcement agencies should be presented to the fiscal subcommittees before the plan is implemented.

The 1977–78 Supplemental Report of the Conference Committee required the department to review and report on alternatives for phasing out its Soundex file system and upgrading the Automated Name Index (ANI) system. Alternative funding mechanisms for Soundex were also to be considered.

This manual hard copy system contains copies of all current drivers licenses and identification cards (18 million documents). The file is arranged so that names which sound alike are filed together under the same Soundex code.

The Automated Name Index (ANI), a computerized system for retrieving information based on procedures which are similar to the Soundex approach, was developed as a replacement for Soundex. The replacement has not occurred because (1) the ANI computer has required manual backup due to limitations of the system and (2) copies of photographs on

DEPARTMENT OF MOTOR VEHICLES—Continued

drivers licenses and identification cards are not available under the automated system.

Both systems are used principally by the Department of Justice and local law enforcement agencies rather than DMV. In addition to name searches, approximately 276,000 polaroid copies ("mugshots") of drivers' licenses or I.D. cards are provided (again primarily to law enforcement agencies).

The department had not submitted the required report on alternatives due on December 1, 1977, as of early February. Based on our review of preliminary findings, it appears that DMV will be recommending that (1) the Soundex file be eliminated, (2) hard copies of drivers license and I.D. cards be filed with the driver's license and I.D. application files which the department maintains, and (3) the ANI computer system be upgraded to provide additional file capacity and more current data. Also ANI operators would be allowed more time to conduct name searches rather than relying on Soundex for a backup. Because of the massive refiling effort and the associated costs, this transition has been proposed over a four-year period. Savings under the new system when fully implemented are estimated to be $520,000 annually.

It appears to us that this proposal is sound. However, we are concerned that DMV has not fully discussed the proposed changes with the law enforcement community. Although some discussion with the Department of Justice did occur, no attempt was made to contact other state departments or local law enforcement agencies.

The provision of difficult-to-track identifications and mugshots is an important service to law enforcement, particularly in complex criminal cases. Therefore, we recommend that DMV convene a law enforcement users group at once to receive input on the validity of this plan. The findings of this users group should be made available during the budget hearings.

Funding of Services to Law Enforcement

We recommend that $400,000 in General Fund support be made available to DMV to support information services to law enforcement agencies that are not motor vehicle related and that there be a corresponding decrease of $400,000 in the Motor Vehicle Account (Item 161).

Currently, both Soundex and ANI are totally funded from the Motor Vehicle Account. This represents a combined expenditure of over $2 million. In addition, the account supports about one-half the cost of the California Law Enforcement Telecommunication System (CLETS) because the message traffic to DMV over the system represents one-half the total volume. We raised a question in last year's analysis regarding this additional $5 million expenditure from the account. Testimony provided at the budget hearings indicated that most of the CLETS inquiries to DMV relate to traffic safety or traffic law enforcement programs. However, inquiries into Soundex (and particularly providing mugshots to law enforcement) fall into a category that is clearly not motor vehicle related. Such activities as locating nonsupporting parents and providing information about criminal activities are examples of non-vehicle related uses.

DMV estimates that 80 percent of the 269,000 mugshots provided annually go to police, sheriff departments, district attorneys and the FBI. Most other information goes to other state agencies.

The Governor's Budget provides for the first time, General Fund support in the amount of $76,500 to reimburse DMV for Soundex services for the parent-locater service program, administered by the Departments of Justice and Benefit Payments. We believe that the time has come to provide General Fund support for the other non-vehicle related services. Therefore, we recommend that $400,000 in General Fund support be made available to the department and a corresponding decrease be made in Motor Vehicle Account support. (Item 161). This is the amount estimated by the department as the minimum for supporting nonvehicle related uses. We expect the department to maintain records to justify continued General Fund support in the future. Exact funding details can be worked out in subsequent years as savings are generated and the new program stabilizes. This action by the Legislature would establish the precedent for more equitable funding of law enforcement inquiries and would be a far better method than having law enforcement agencies pay on a transaction basis for such inquiries.

Legislation Needed to Require Duplicate Photograph File

We recommend that legislation be enacted to require DMV to maintain a duplicate copy of drivers licenses or I.D. card photographs.

The department is not required by law to maintain a copy of the driver's license or I.D. card photograph. We believe that such a file is essential for the reasons described earlier.

If the duplicate photographs were not maintained, the law enforcement community would probably ask the Department of Justice to maintain such a file or local police files would be developed. This occurred in the past in such areas as stolen property and rap sheets, before Justice began maintaining statewide files.

The maintenance of a duplicate photograph file by DMV as an extension of its regular licensing responsibilities appears to be the most cost/effective method for providing this service.

I. VEHICLE LICENSING AND TITLING

The vehicle licensing and titling program has been established to (1) register vehicles and establish ownership records, (2) collect in-lieu taxes, weight fees, and registration fees, and (3) provide vehicle registration information.

The department estimates that this program will process 1,793,000 original and 15,467,000 renewal registrations in 1978–79 and collect approximately $927,000,000 in revenues. Support for the program is budgeted at $80,420,446, an increase of 7.3 percent over 1977–78 totals. Table 5 displays the programs personnel years, program costs and output for the current year and budget year.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 5

VEHICLE LICENSING AND TITLING PROGRAM INPUT

	Personnel Years			*Program Costs*		
	1977–78	*1978–79*	*Change*	*1977–78*	*1978–79*	*Change*
Program Elements						
Vehicle Ownership, Registration, Documentation and Certificate Issuance..	1540.5	1580.1	2.6%	$30,572,692	$33,860,098	10.8%
Vehicle Fee Collection and Accounting	1239.2	1282.3	3.5	26,547,161	28,067,574	5.7
Vehicle Record and File Maintenance	448.5	459.2	2.4	7,740,935	8.268,060	6.8
Vehicle Information and Sale of Records	159.2	152.7	−4.1	2,741,987	2,789,688	1.7
Administration Distribution	352.2	340.8	−3.2	7,371,718	7,435,026	.9
Totals	3739.6	3815.1	2%	$74,974,493	$80,420,446	7.3%

PROGRAM OUTPUT

Program Elements	*Output*	*1977–78*	*1978–79*	*Change*
Vehicle Ownership, Registration, Documentation and Certificate Issuance	Vehicle Registration	17,364,000	17,797,000	2.5%
Vehicle Fee Collection and Accounting	Fees, Motor Vehicle Account	$374,249,000	$391,773,000	4.7
	Fees, Motor Vehicle License Fee Account	$504,000,000	$535,000,000	−6.1
Vehicle Information and Sale of Records	Information Requests-Fee Charged	1,202,000	1,355,000	12.7
	Information Fees	$815,000	$929,750	14.1
	Information Requests, No Fee Charged	13,587,000	14,733,000	8.4
	Records Produced for Private Companies	15,817,000	16,379,000	3.6
	Income From Records Produced for Private Companies	$395,425	$409,475	3.6

Unpaid Parking Violations

We recommend that the 166 positions requested to support the unpaid parking violation program be authorized only on a limited term basis until June 30, 1979.

We further recommend that the department report on December 1, 1978 on its utilization of positions.

Chapter 1179, Statutes of 1975, requires the department (as of January 1, 1978) not to renew the registration of any vehicle owned or leased by a person who fails to respond to a parking violation. Courts notify the department whenever a person fails to respond within 15 days. The department then collects bail for the parking offenses plus administrative charges at the time a vehicle is registered. A total of 166 positions and $2,209,292 are requested to support the program.

The collection of unpaid parking violations is a new program for the department, and therefore little data is available upon which to base the request. The department made assumptions about the potential volumes of items and then used the MARC system to generate estimated staffing needs. We note that the department's request is 38 percent higher ($600,000) than the cost it identified as the annual operating cost in 1975. Because the request has been based on estimated volumes and unreliable MARC standards, we suggest that positions be budgeted on a limited term basis only, expiring June 30, 1979, and that the department report to the Joint Legislative Budget Committee and the fiscal subcommittees on December 1, 1978 on its utilization of positions.

Drivers Licensing and Control

II. DRIVER LICENSING AND CONTROL

This program is designed to promote the public's maximum use of the road and highway system while minimizing exposure to injury, death, or property loss. These goals are achieved through the activities of licensing drivers, promoting safe driving practices, and exercising control over drivers who have mental or physical impairments or have been judged to be unsafe. Operations include providing anatomical donor stickers with driver's licenses and identification cards and furnishing information to county jury commissioners to expand potential jury populations.

During the 1978–79 budget year, this program is expected to process 5,144,000 original and renewal drivers' licenses, and send an estimated 165,000 warning letters to negligent drivers. The program's support request is $58,996,275, an increase of 5.3 percent over the current year.

Program inputs and outputs are shown in Table 6.

Interpreters for Administrative Hearings

We withhold recommendation on the department's request for four interpreters pending clarification of the department's request and examination of support data.

As part of its post licensing control program DMV sometimes acts to suspend or revoke a person's driving privilege. Under certain circumstances the department is required to conduct an administrative hearing before taking final action. Currently, the department, if requested to do so, will provide interpreters for non-English speaking people whose driving privilege is threatened. Interpreters provided are department employees, certified by the Multilingual Program Office, who are borrowed from regularly assigned duties for the hearing. Tapes of these hearings are then reviewed in Sacramento to review the quality of the interpretation.

The department has requested $73,267 and four full-time interpreters for fiscal year 1978–79. Support data provided by program staff to justify the request indicates that department policy on the need for interpreters is unclear. Further the request is based on an anticipated volume of hearings which has not materialized. We withhold recommendation on these positions pending clarification of the request.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 6

DRIVER LICENSING AND CONTROL
PROGRAM INPUT

	Personnel Years			*Program Costs*		
	1977–78	*1978–79*	*Change*	*1977–78*	*1978–79*	*Change*
Program Elements						
Drivers' License Issuance	1648.4	1644.3	–.2%	$33,006,985	$35,017,747	6.1%
Post Licensing Control	664.8	666.6	.3	13,625,621	14,023,574	2.9
Certificate Issuance	9.8	9.9	.1	267,319	277,167	3.7
Information Services	220.3	237.7	7.9	4,073,363	4,477,347	9.9
Administration Distribution	235.5	231.8	–1.6	5,038,386	5,200,440	3.2
Totals	2778.7	2790.3	.4%	$56,011,674	$58,996,275	5.3%

PROGRAM OUTPUT

Program Elements	*Output*	*1977–78*	*1978–79*	*Change*
Drivers' License Issuance	Driver's Licenses Issued	4,971,000	5,144,000	3.5%
	Drivers' License Fees	$15,050,000	$15,550,000	3.3
Post Licensing Control	Warning Letters Sent	160,000	165,000	3.1
	Persons Called to Group Meetings	37,200	38,200	2.7
	Hearings and Reexaminations	78,920	80,820	2.4
Certificate Issuance	Special Operators Certificates Issued	15,966	16,152	1.2
Information Services	Information Requests —Fee Charged	9,851,000	10,500,000	6.6
	Information Fees	$5,248,613	$5,594,400	6.6
	Information Requests —No Fee Charged	6,710,000	6,910,000	12

III. OCCUPATIONAL LICENSING AND REGULATION

The department provides consumer protection to the motoring public through its occupational licensing and regulation program. This protection is realized through the program's regulation of persons and firms engaged in the manufacture, transportation, sale, distribution, and dismantling of vehicles. The program also serves as a means of remedial or recovery action for victims of financial loss.

Support for the program is budgeted at $9,223,918 for 1978–79, an increase of $1,017,922 (12.4 percent) over the current year. Workload will increase 36.1 personnel-years in the budget year. Program inputs and outputs are presented in Table 7.

Program Growth

The proposed budget represents a 270 percent increase over the amount expended for the program in 1970–71.

This large increase is of concern because many of the activities performed under occupational regulation are discretionary and can be drastically changed or discontinued without legislative direction.

Table 7
OCCUPATIONAL LICENSING AND REGULATION
PROGRAM INPUT

	Personnel Years			Program Cost		
	1977–78	*1978–79*	*Change*	*1977–78*	*1978–79*	*Change*
Program Elements						
Occupational Licensing	101.2	108.9	7.6%	$2,131,001	$2,392,838	12.3%
Occupational Regulation	208.2	233.4	12.1	5,235,532	5,886,345	12.4
Administration Distribution	40.9	44.6	9	839,463	944,735	12.5
Totals	350.8	386.9	10.3%	$8,205,996	$9,223,918	12.4%

PROGRAM OUTPUT

Program Elements	*Output*	*1977–78*	*1978–79*	*Change*
Occupational Licensing	Business Licenses Issued	21,569	23,237	7.7%
	Business License Fee	$1,209,500	$1,279,700	5.8
	Salesperson, Representatives and Verifier Licenses Issued	40,800	44,100	8
	Salesperson, Representatives and Verifier Fees	$728,900	$786,700	7.9
	Driving School Licenses Issued	325	362	11.4
	Driving Instructor Licenses Issued	2,062	2,166	5
	Driving School and Instructor License Fees	$50,700	$54,200	6.9
Occupational Regulation	Consumer Complaints	26,500	33,500	26.4
	Dealer and Dismantler Reviews	1,152	884	−23.3
	Administrative Actions	1,500	1,590	6
	Administrative and Dismantler Fees	$1,593,000	$1,593,000	—
	New Motor Vehicle Board Fees	$229,000	$240,000	4.8

Consumer Protection

One example of DMV's discretionary activities is consumer protection for which a significant increase is proposed in 1978–79. The department has become more involved with consumer protection since it was given the responsibility to license vehicle manufacturers, transporters, dealers, and salespersons in 1957. A separate division was established to perform these responsibilities in 1971–72, and since that time the emphasis on consumer protection has been greatly accentuated. One indicator of the shift has been the increased number of complaints received. In 1972–73 the division received 7,380 complaints, in 1973–74 11,400 (54 percent increase), in 1976–77 16,800 (128 percent increase) and the proposed volume in 1978–79 is 33,500, a 354 percent increase since 1972–73.

Responsibility for consumer protection in the motor vehicle area has never been clearly established by the Legislature. Currently, the Bureau of Automotive Repairs in the Department of Consumer Affairs receives complaints concerning automotive repair dealers and shops; the Real Estate Commissioner, Department of Housing and Community Development and DMV handle complaints concerning mobilehome dealers, manufacturers, and salespeople; the New Motor Vehicle Board and DMV have jurisdiction over new motor vehicle manufacturers, dealers, and sales people, and DMV receives complaints concerning used car dealers, salespeople, transporters, dismantlers and lessor-retailers. DMV has made some efforts to mitigate the confusion created by this diffusion of responsibilities. It has, for instance, created jointly with the Department of Housing and Community Development, a Mobilehome Complaint Center with a toll-free phone line. However, this new program, with an estimated cost to DMV of $121,000 per year, has not been reviewed by the Legislature because the department reallocated positions for it administratively. The ability of the department to initiate and suspend programs such as the Mobilehome Complaint Center stems from the discretionary nature of its regulatory activities.

We will review these issues during the year and make appropriate recommendations in the 1979–80 Analysis of the Budget Bill.

Funding Question. In fiscal year 1976–77, the Legislature, believing that many activities in this program protected the general welfare of the state's citizens, allocated $4,247,901 from the General Fund to partially support the program. The Motor Vehicle Account was correspondingly reduced. The Governor, however, vetoed the General Fund appropriation. We anticipate that the Department of Finance will be submitting a deficiency authorization for fiscal year 1977–78.

IV. FINANCIAL RESPONSIBILITY

The purpose of this program is to enforce and administer the Compulsory Financial Responsibility Law. Every driver or owner of a motor vehicle is required to maintain financial responsibility (automobile liability insurance, self-insurance, or bonds as specified). The law requires that drivers must report to DMV any accident in which property damage exceeds $250 or which results in death or personal injury, show proof of financial responsibility, and maintain responsibility for three years after an accident in order to compensate persons who may be injured or whose property may be damaged in a subsequent accident.

The department request for the program in 1978–79 is $3,671,218, a decrease of .1 percent. There will be a reduction of 4.4 percent personnel years. Program inputs and outputs are summarized in Table 8.

Problems With Existing Program

The current financial responsibility program is ineffective, and in the 1977–78 Analysis we recommended elimination of the program. Briefly, some of these problems are: (1) because the department's authority to require proof of financial responsibility begins only after an accident, drivers are in effect, allowed one free accident, (2) only 3 percent of the state's uninsured motorists have maintained financial responsibility as a result of the program, and (3) the majority of uninsured drivers (58 percent) have chosen to accept a license suspension rather than acquire financial responsibility. It is likely that some of these persons, however, continue to operate motor vehicles despite the suspension.

Table 8
FINANCIAL RESPONSIBILITY PROGRAM INPUT

Program Elements	*Personnel Years 1977–78*	*1978–79*	*Change*	*Program Costs 1977–78*	*1978–79*	*Change*
Driving Privilege Control	181	178.1	−1.6%	$3,156,091	$3,126,539	−.9%
Information Services	5.9	5.8	−1.7	160,265	162,362	1.3
Administration Distribution	18.8	17.4	−7.4	391,735	382,317	−2.4
Totals	205.7	201.3	−2.1%	$3,708,091	$3,671,218	−.1%

PROGRAM OUTPUT

Program Elements	*Output*	*1977–78*	*1978–79*	*Change*
Driving Privilege Control	Accident Reports Processed	528,000	531,000	0.6%
Information Services	Commercial Information Requests	33,500	33,500	—
	Commercial Information Request Fees	$44,050	$44,050	—

Legislative Action

The Legislature did not accept our recommendation to eliminate the current program, and instead directed the Joint Committee on Tort Liability to conduct a study of alternatives. A transfer of $50,000 was allocated from Item 165 (DMV Support) to Item 11 (Expenses of Joint Committees) to support the cost of the study. It is our understanding that funds were never transferred to Item 11 and the staff of the joint committee was not notified of this action. We are not aware of any plans to conduct a study of alternatives to the Compulsory Financial Responsibility Law.

Modification of the Present Program

As noted above, the support costs for the financial responsibility program are budgeted at $3,671,218 for 1978–79. Even though the Legislature is considering legislation which would change present law, we believe that the costs of the existing program should be minimized.

Several modifications to the present law are possible which would decrease program costs. If the minimum amount of property damage for which an accident report is required was raised from $250 to $750, the department estimates that there would be a cost reduction of $50,000. Another modification, which we prefer, would be to require that only uninsured motorists report accidents. The estimated reduction in program costs from this modification would be $350,000.

Neither modification would correct the deficiencies of the current program. They would only reduce the costs of what appears to be an inefficient and ineffective method for protecting citizens from the acts of financially irresponsible drivers.

V. DEPARTMENT OF MOTOR VEHICLES, ASSOCIATED SERVICES

The purpose of this program is to provide the public with a variety of auxillary services not directly related to the regulation of street vehicles or drivers licensing. This program utilizes the department's network of service locations to provide identification cards, vessel registration and tax

DEPARTMENT OF MOTOR VEHICLES—Continued

collection, off-highway vehicle and bicycle licensing, and the issuance of special license plates.

The department is requesting $10,083,922 to support this program in 1977–78, an increase of $1,619,453 (20.3 percent). Major increased program costs are in Use Tax, Environmental License Plate Issuance, Identification Card Issuance and Bicycle Licensing. 73.4 additional personnel years are requested to handle workload increase.

Program inputs and outputs are summarized in Table 9.

Table 9

ASSOCIATED SERVICES
PROGRAM INPUT

	Personnel Years			Program Costs		
Program Elements	*1977–78*	*1978–79*	*Change*	*1977–78*	*1978–79*	*Change*
Identification Card Issuance	82.5	94	13.9%	$1,645,061	$1,949,184	18.5%
Undocumented Vessel Registration	99.1	101.9	2.8	1,620,048	1,721,405	6.3
Environmental License Plate Issuance	85.2	93.1	9.3	1,223,605	1,615,637	32
Use Tax	164.2	212.3	29.3	2,071,287	2,712,463	31
OHV Registration	62.3	64.2	3	1,126,670	1,177,384	4.5
Bicycle Licensing	—	—	—	35,169	167,003	374.9
Administration Distribution	13.2	13.9	5.3	662,629	740,846	11.8
Totals	506.5	579.4	14.4%	$8,384,469	$10,083,922	20.3%

PROGRAM OUTPUT

Program Elements	*Output*	*1977–78*	*1978–79*	*Change*
Identification Card Issuance	Identification Cards Issued	423,070	540,750	27.8%
	Identification Card Fees	$1,394,000	$1,781,800	27.8
	Identification Cards Outstanding	920,000	1,214,000	32
Undocumented Vessel Registration	Vessel Registrations	580,600	597,500	2.9
	Vessel Registration Fees	$1,878,900	$1,934,300	2.9
	Registered Vessels	540,000	556,000	3
Environmental License Plate Issuance	Environmental License Plate Registration	323,300	392,800	21.5
	Environmental License Plate Fees	$4,775,300	$5,967,800	25
Use Tax	Use Tax Collections	$116,218,400	$121,029,800	4.1
OHV Registration	OHV Registrations	113,700	120,300	5.8
	OHV Fees	$1,969,000	$2,060,000	4.6
Bicycle Licensing	Bicycle License Tags Issued	1,300,000	2,300,000	76.9

VI. DEPARTMENTAL ADMINISTRATION

The purpose of the department's administration program is to provide executive direction in administering and enforcing provisions of the Vehicle Code, formulate departmental policy and provide management support services (to include EDP services) to all department programs.

The budget request for this program is $14,703,364, an increase of $399,433. The largest increases in the program are in the areas of personnel management and EDP services. A decrease of 12 positions is requested. Administration costs are distributed to the department's other operational programs.

Program inputs are summarized in Table 10.

Table 10
DEPARTMENTAL ADMINISTRATION PROGRAM INPUT

	Personnel Years			*Program Costs*		
Program Elements	*1977–78*	*1978–79*	*Change*	*1977–78*	*1978–79*	*Change*
Executive	27.5	24.8	−9.8%	$581,849	$554,955	−4.6%
Program Administration	206.5	195.5	−5.3	4,819,418	4,698,144	−2.5
Legal	25.4	23.9	−5.9	518,077	517,727	−0.1
Fiscal and Mangement Business	123.2	126.9	3	1,948,959	2,084,997	7
Personnel Management Services	82	86.2	5.1	1,793,069	2,029,181	13.2
Program Development and Evaluation	102	98.4	−3.5	2,146,153	2,199,042	2.5
Public Information	4	4	0	84,976	89,489	5.3
EDP Services	89.9	88.8	−1.2	2,411,430	2,529,829	4.9
Totals	660.5	648.5	−1.8%	$14,303,931	$14,703,364	2.8%

VII. DEPARTMENTAL AUTOMATION

Although DMV maintains a large data processing capability, the department has been critized for not taking advantage of automation to reduce increasingly costly labor intensive operations. This is an extremely important consideration given the deteriorating status of the Motor Vehicle Account and the fact that personnel costs have increased by $16.6 million since the 1976–77 fiscal year. This amount does not include the increased costs of space and other operating expenses which support the department's 7,000 plus employees.

A Matter of Perspective

In recent testimony before the Legislature, the Secretary of the Business and Transportation Agency advocated a "go-slow" approach to automation at DMV. The Secretary's testimony indicated that his recommended approach is based on a desire to avoid ill-planned projects and concern regarding the societal cost of eliminating jobs. On the other hand, the Director of Motor Vehicles has been quoted recently as stating that automation produces jobs. We see no conflict in these impressions regarding automation. All are valid. However, it is important that they be put in a proper perspective.

Automation does eliminate jobs, but it also creates new opportunities for employment. Some require technical skills, but many jobs such as key data entry and data control positions simply involve retraining existing personnel. The state's experience with automating labor intensive operations has been that displaced employees are not laid off because surplus personnel are handled by attrition or reassignment. In the case of DMV, preliminary studies indicate that greater use of automation would hold down the

DEPARTMENT OF MOTOR VEHICLES—Continued

significant increases in new personnel and facilities required to accommodate the anticipated growth in workload.

Computer Capacity

The extent to which the department can become more effective through selective automation is dependent upon the amount of available computing capacity. In 1976 the Legislature was advised by the department that it was running out of capacity and had therefore initiated a computer replacement project. We raised a number of questions regarding this project in a letter to the director. The project was subsequently terminated in favor of a review of DMV's data processing operations.

This has resulted in (1) a reorganization of DMV data processing activities, including new management, (2) establishment of data processing planning and review capabilities, and (3) the completion of a systems measurement study to determine and project available computer capacity. The department's efforts in these areas reflect positive steps toward utilizing automation effectively.

One significant product which resulted from the systems measurement study is the finding that DMV has sufficient computing capacity to meet certain workload requirements for the next three to five years. However, some computer upgrading will be necessary in the short term. The study indicates that the two primary computers which support drivers' records and registration files (the large data bases) have sufficient capacity. Two other computers are apparently approaching workload capacity limitations. These are (1) the "front-end" communications processor which processes all electronic information requests from the California Law Enforcement Telecommunications System, DMV headquarters and field offices computer terminals, and (2) the processor dedicated to the Automated Name Index (ANI).

According to the department, replacement of these computers will be based on a study of feasible alternatives. Competitive acquisition will be used as applicable. It is possible that one solution to the front-end communications processor requirement may be an arrangement for such services with the Stephen P. Teale Consolidated Data Center located directly adjacent to the DMV data center. A number of alternatives are available with respect to the ANI computer. The selective replacement of computers contemplated by DMV appears both reasonable and desirable in view of the complexity and pitfalls involved in a wholesale replacement of the entire facility.

Computer Terminal Replacement

We recommend that the amount budgeted for replacement of computer terminals be reduced $297,481 to correct overbudgeting in Item 161.

The proposed budget includes $1,962,550 to replace over 100 computer terminals and associated control devices used for entering data into computer-accessible files. The amount requested includes $200,000 to relocate the DMV data entry unit. The replacement is based on a November 1977 feasibility study report. According to this report, the current 11 year-old system uses devices no longer manufactured, and these devices are approaching the point where spare parts and maintenance will become serious problems. Replacement will support the department's plan to make substantial improvements in its massive data entry operation. A new data entry process based on the acquisition of modern terminals will produce annual ongoing savings of $221,000.

We note a discrepancy between the budgeted amount and cost data contained in the department's approved feasibility study report for replacement of the terminals. Therefore, the amount requested can be reduced from $1,962,550 to $1,665,069 for a savings of $297,481.

Field Office Terminals

The department's budget request reflects an anticipated reduction of $446,603 in the budget year resulting from the planned installation of computer terminals in 32 field offices which have characteristic high workload volumes. At present, 50 of the 82 "high volume" offices have such terminals. Providing terminals to the remaining offices should decrease the number of incomplete items transmitted manually to headquarters and result in personnel savings.

These savings must be considered as tentative because the department's feasibility study report has not been completed. It is expected to be ready for review during the budget hearings, and it is possible that some adjustment in the budget may be necessary depending upon the completed study.

Lack of Overall Framework

The department has begun—after extensive criticism—to propose changes to improve its operations through utilization of automation. We support the department's movement in this direction, but note that individual projects are being proposed in the absence of an overall framework addressing the issue of centralized versus decentralized operations. It may be appropriate to have an operation which has decentralized and centralized elements. However, because of the substantial costs of changing a system once it is established, it is critical that such projects be developed within a clearly defined overall plan. The department should develop such a plan.

Dishonored Check Collection Procedures

We recommend that 7.8 positions be deleted and Item 165 be reduced by $145,602 to eliminate positions no longer necessary to collect dishonored checks.

The Legislature approved Supplemental Report Language requiring the department to study alternatives for improving the cost effectiveness of its dishonored check collection procedures and alternatives to the payment of department fees by check. The initial report, submitted December 1977, indicated that the department had implemented a new procedure for handling dishonored checks on a pilot basis but was awaiting approval of the Board of Control before it fully implemented it. The new system places increased emphasis on contacting the writer of the check by phone or letter, utilizes an automated stop to prevent reregistration of the car and places decreased emphasis on the use of investigators

DEPARTMENT OF MOTOR VEHICLES—Continued

to collect dishonored checks.

Information requested as a follow-up to the study showed that the department estimated $335,582 per year in savings under the new system. In reviewing the department's backup material for cost savings, we found that 7.8 positions allocated to the dishonored check procedure cannot be supported by the data. It also appears that the workload projections for the new process were based on workload under the annual registration process. Since year-round registration has decreased the number of dishonored checks by an estimated 20 percent, further reductions in this area may be possible.

Reduced Cost of License Plates and Stickers

We recommend a reduction of $492,900 in Item 161 for the purchase of license plates and stickers.

A major component of the department's materials cost in any fiscal year is the amount it must pay for license plates, stickers, and tabs. These materials are purchased by DMV from correctional industries which determine the prices for production and delivery. In preparing its budget for 1978–79, DMV obtained cost estimates for these items from California Correctional Industries at a time when material costs were relatively unstable and difficult to project. These estimates indicated costs might rise by 15 percent in the coming year and DMV budgeted accordingly.

Revised Estimates. Our inquiry to California Correctional Industries has revealed that the rate of increase in material costs has slowed noticeably. Instead of a 15 percent increase, revised estimates now predict a maximum increase of 10 percent in the cost of plates, tabs, and stickers. Therefore, we have recalculated the department's need based on the new prices and find that a reduction of $492,900 is possible in this category.

Training Activities

We recommend that 3.5 positions (0.5 tour coordinator, 2 managers II, and 1 staff services analyst) be deleted for a savings of $65,458 and the department's request for increased inservice training funds be reduced by $54,000 for a total reduction of $119,458 in Item 161.

The department has requested six additional positions for training. Currently, 13 staff members comprise the departmental training unit (8 professional, 5 clerical). Additional staff, estimated by the Department at 8.2 personnel years, are located in the divisions and serve as technical training coordinators and instructors.

The new positions are requested for a variety of reasons; two positions for improvement of management training, one to provide audio-visual expertise, one to analyze and evaluate technical training needs, one to serve as a technical training coordinator and instructor in the Division of Registration, one-half position to act as an audio-visual equipment coordinator, and one-half position to coordinate tours.

We do not support 3.5 of the 6 requested positions. We recommend deletion of the two positions requested for technical training efforts because those efforts appear disjointed and unplanned. We believe that before the department seeks authorized positions for such efforts, a review should be undertaken establishing 1) the technical staffing needs for the entire department, 2) the relationship of the centralized training unit to the decentralized technical training staff.

We recommend deletion of one of the two positions requested for management training. The deparment currently has five staff involved to varying degress with management training. We believe only one additional position is necessary.

Finally, we recommend deletion of the half-time tour coordinator. This position would not improve departmental training efforts and it would seem that existing staff could provide tours when necessary.

The department is also requesting an additional $54,000 for increased in-service training. Our review of specific courses in the 1977–78 training plan indicates that a significant number are unnecessary. We therefore recommend that no additional funds be provided for in-service training.

Program Development, Evaluation and Research Activities

We recommend that the research functions of the department be reconsolidated with the program development and evaluation functions.

Prior to 1975, program development, evaluation and research activities were dispersed throughout the department's divisions. In 1975, the department consolidated most of these functions into one unit, the Office of Program Development and Evaluation. One manager at the assistant division chief level was placed in charge of all OPDE section, reporting to the deputy director's office. The research functions have subsequently been removed from OPDE and placed in a separate unit with a separate manager, also at the assistant division chief level who reports to the deputy director. We believe efficient management of these activities require a consolidated unit and recommend that the research activities be placed once again within OPDE.

Major Equipment

We recommend that Item 161 be reduced by $72,503 to eliminate funding for unnecessary major equipment purchases.

Further we withhold recommendation on $44,160 pending receipt of further justification of need.

For 1978–79, the department has proposed $2,149,400 for purchase of major equipment. Some of the requests are not justified and should be deleted.

The department has requested $9,905 for a word processor for the Los Angeles legal office. The Sacramento legal office has two such processers and staff have indicated that one could be used in Los Angeles. A total of $8,348 is requested for training-related equipment. The department is proposing an audiovisual equipment coordinator for the training unit because existing equipment is not inventoried and is inefficiently allocated. Additional equipment should not be purchased until existing resources are inventoried and utilized efficiently.

The purchase of a passenger pool van is proposed at a cost of $7,750. The Department of Transportation has a $10 million reserve set aside in the Highway Account for both 1977–78 and 1978–79 for purchase of passenger pool vans in addition to approximately $6.2 million for on-going carpool-

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van-pool activities. The Legislature will be considering legislation this year which would allow the department to use these reserves. Because the Legislature will be reviewing DOT's program and a reserve already exists, we recommend that DMV not budget additional funds for this purpose.

The department has budgeted $46,500 for unexpected or emergency equipment needs in fiscal year 1978–79. The Legislture provides a special contingency authorization of $500,000 for the department to meet unforeseen and unanticipated expenses. Should an unforeseen equipment need occur, we suggest that it use the contingency funds.

Finally, the department has requested 10 additional cars for its carpool. We withhold recommendation until further justification of need is established.

Repairs and Alterations

We withhold recommendation on $33,500 of the department's repairs and alterations request pending justification of need.

We further recommend that $20,000 budgeted for remodeling of the San Diego field office be deleted from Item 161 and transferred to Item 450(s).

We requested additional data justifying repairs or alterations at the Van Nuys ($9,000), Hollywood ($2,000), Hayward ($1,500), Los Gatos ($9,000) and Long Beach ($12,000) field offices. This information has not been received, and we are therefore withholding recommendation.

The department budgeted $20,000 for remodeling the San Diego field office as repairs and alterations. This is a minor capital outlay request and the funds should be allocated in Item 450(s).

Minor Equipment

We recommend deletion of $8,567 budgeted for a minor equipment purchase in Mountain View field office (Item 161).

The department budgeted $8,567 for additional counter sections needed because of the expansion of the Mountain View Field office. The field office will not be expanded and the funds are no longer necessary.

Review of Department of Motor Vehicles Child Care Center

The 1977–78 Budget Act supplemental language required our office to review the effectiveness of the DMV child care center and to report our findings in the 1978–79 Analysis. Because of the potential significance of this program, we issued a separate report in January, 1978. The discussion which follows is a summary of our report.

The DMV center began operating in July 1975 with a capacity to serve 54 children of employees. DMV believed that no legislative authorization was necessary for the center because it was to be a self-supporting program operated through a private, nonprofit corporation governed by parent users.

Space for the center was provided at the DMV office complex at no charge through a rent-free lease agreement. This was based on the assumption of a trade-off between the value of the rental space and state savings which were projected to result from the operation of the center. Savings were anticipated from (a) operation of a kindergarten program which would result in reductions in state General Fund support to local school districts and (b) decreased employee absenteeism among DMV parent-users and consequent economies in agency operations.

State Rent Subsidy

We recommend that the Department of Motor Vehicles child care center pay the appropriate rental fees required for it to operate as a financially independent facility.

Projected savings to the state from the kindergarten program have been less than originally estimated due to low enrollments. Underenrollment has also occurred in the center's program for preschool age children. Furthermore, no reduction in employee absenteeism attributable to the center has been documented by DMV. Nor has DMV demonstrated employment benefits of the center in terms of such other factors as reduced employee tardiness or turnover, or increased worker productivity. Hence, the center's rent-free space appears to represent a state subsidy which has not been offset by compensating benefits. Moreover, this subsidy has not been legislatively authorized.

In view of (a) the absence of legislative authorization of funds for the DMV child care center and (b) the original intent for the center to be self-supporting, we believe it is appropriate for the program to pay rent for the space which is presently being provided at no charge by the state. We estimate the state subsidy for this rental space to be approximately $7,000 during 1977–78 (taking into consideration state savings attributable to the kindergarten). If, as we recommend below, the kindergarten program is terminated after the current school year, the subsidy will be approximately $11,600 in 1978–79 unless the center begins to pay rental fees. State subsidies for the center's rent constitute a fringe benefit to a limited number of state employees. The authorization of subsidized child care has far-reaching policy and fiscal implications which we discuss under Item 420 elsewhere in this Analysis.

Inadequate Kindergarten Program

We recomend that the kindergarten operated as part of the Department of Motor Vehicles child care center be terminated after the 1977–78 school year.

The kindergarten program which is operated as a registered private school within the DMV child care center was originally designed to accommodate 20 children. Ten children were enrolled in the program during 1975–76 and 15 during 1976–77. Nine children were enrolled in it as of January 1978.

Several problems exist in the kindergarten program: (a) curriculum materials are in short supply and are restricted in variety; (b) diagnostic facilities and teacher specialist services are not readily available on an ongoing basis; (c) provisions have not been made for continuous staff development; and (d) evaluation of individual student progress is conducted only informally and does not yield comprehensive information about levels of student performance for present or future use.

In contrast to the center's regular program, the kindergarten has substantial weaknesses. Because it is of marginal quality as a learning environ-

DEPARTMENT OF MOTOR VEHICLES—Continued

ment, we believe this component of the child care center should be terminated after the present school year.

Other General Findings

Programmatically, the center's preschool operation is similar to private day care centers in Sacramento and appears to provide a reasonably satisfactory environment for meeting children's needs. However, data have not been collected by DMV or the center to measure its effectiveness in promoting the overall development of participant children.

The most positive finding concerning the DMV center relates to satisfcation among parent users. Parents generally express satisfaction with the care their children receive. However, surveys nationwide of parental attitudes typically indicate overwhelming satisfaction with present child care arrangements of all varieties.

Item 162, For Payment of Deficiencies in Appropriations

Section 11006 of the Government Code authorizes the Director of Finance to create deficiencies in any appropriation for cases of actual necessity. For deficiencies of $25,000 or more the written consent of the Governor is required. The statutes authorizing the establishment of special funds normally provide for a continuing appropriation which can be used to fund deficiencies. However, Section 42272 of the Vehicle Code excludes the Motor Vehicle Account, State Transportation Fund from the provisions of Section 11006. This means that the Department of Motor Vehicles is not authorized to exceed its appropriation to meet unforeseen financial needs. The Legislature has recognized this problem and for many years has provided a special contingency authorization to protect the department. The amount authorized for this protection has varied somewhat over the last ten years but has remained at $500,000 since 1971–72. No actual expenditure from this amount is forecast for the coming year.

Legislative Oversight Needed

We recommend that control language be added to require the Director of Finance to report allocations from this item in the same manner as required for reporting allocations from the Reserve for Contingency-Emergency Fund (Item 426).

Control language in Item 162 authorizes the Director of Finance, with the consent of the Governor, to approve expenditures from the Motor Vehicle Account for deficiency payments. However, there is no provision to report these expenditures to the Legislature. We believe that expenditures for contingencies and emergencies should be subject to the same reporting procedures as are required for General Fund deficiencies in Item 426 (Reserve for Contingency).

In our analysis of Item 426, we are recommending additional language to require the reporting of expenditures for emergencies within 10 days after approval and the reporting of contingency payments 30 days prior to approval. These requirements should also be applied to all special fund deficiencies created under Section 11006. We believe that legislative action on this item should conform to the decisions made under Item 426.

Business and Transportation Agency
STEPHEN P. TEALE CONSOLIDATED DATA CENTER

Item 167 from the Stephen P. Teale Consolidated Data Center Revolving Fund — Budget p. 354

Requested 1978–79	$12,334,272
Estimated 1977–78	11,148,214
Actual 1976–77	10,584,734
Requested increase $1,186,058 (10.6 percent)	
Total recommended reduction	$51,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Personnel Reduction. Reduce by $31,000.* Recommend deletion of two data processing technician positions.	299
2. *Magnetic Tape. Reduce by $20,000.* Recommend reduction in amount of new tapes based on redetermination of need.	300

GENERAL PROGRAM STATEMENT

The Stephen P. Teale Consolidated Data Center is one of four such centers authorized by the 1972 Session of the Legislature. The center, which provides computer services to over 60 state government units was established to provide a modern computing capability to its users while at the same time minimizing the total cost of data processing to the state.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes an expenditure program for the data center totaling $12,334,272 in the budget year as compared with estimated expenditures of $11,148,214 in the current year. These funds are derived from user departments as reimbursement for services provided by the center.

Expansion to Accommodate Workload

The proposed budget increase reflects the cost of increased computer capacity and staffing to meet growing user demands for processing data. The added funds will support additional computer equipment and increases in weekend and nightshift operations. Although the center's rates for the budget year have not been determined, no increase is anticipated if user processing at the center continues to grow.

Personnel Reduction

We recommend the deletion of two data processing technician positions for a savings of $31,000.

Currently, two data processing technician positions are allocated to operate a minicomputer which is linked to the Teale Data Center and located at the Public Employees Retirement System (PERS). PERS intends to operate this minicomputer with its own employees beginning

July 1, 1978, and has included two positions in its budget (Item 122) for this purpose. This will result in the elimination of an annual $31,000 payment to the Teale Center. However, the Teale Center's budget does not reflect the deletion of any technician positions.

Tape Cost Adjustment

We recommend a reduction of $20,000 in the amount budgeted for the purchase of new magnetic tapes based on redetermination of need.

The proposed budget includes $140,000 to purchase approximately 15,500 new magnetic tapes. An examination of the basis for this request indicates that the actual amount required is $120,000. Therefore the amount budgeted for operating expenses and equipment should be reduced $20,000.

Resources Agency
WATERWAYS MANAGEMENT PLANNING

Item 168 from the General Fund — Budget p. 358

Requested 1978–79	$325,669
Estimated 1977–78	308,930
Actual 1976–77	213,738
Requested increase $16,739 (5.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Management Plans. Recommend the Resources Secretary and Department of Fish and Game detail at budget hearings their recommendations for administration and implementation of completed waterways management plans. 301

GENERAL PROGRAM STATEMENT

The California Protected Waterways Act of 1968 established the policy of the State of California to provide for the protection of those waterways which possess extraordinary scenic, fishery, wildlife, or recreational values.

Subsequently, the Legislature, in Chapter 761, Statutes of 1971, directed the Resources Agency to develop detailed management plans for portions of 20 specified waterways on the north coast. In addition to the scenic, wildlife, recreational and free flowing river aspects, the plans were to include evaluations of flood control, water conservation, steamflow augmentation, water quality improvement, and fishery enhancement. Passage of ACR 32 (1973) and AB 1735 (1975) added three streams.