

GOVERNOR'S OFFICE

Items 26-30 from the General
Fund

Budget p. 15

Requested 1979-1980	\$3,190,000
Estimated 1978-1979.....	3,412,204
Actual 1977-1978	3,304,987
Requested decrease \$222,204 (6.5 percent)	
Total recommended reduction	None

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
26	Governor's Office—Support	General	\$2,900,760
27	Residence—Support (primarily for security and housekeeping)	General	17,400
28	Contingency Expenses	General	15,000
29	Workers' Compensation Appeals Board Award	General	6,840
30	Governor's Budget—Printing	General	250,000
	Total		\$3,190,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an expenditure of \$3,190,000 for support of the Governor's Office, which is \$222,204 or 6.5 percent less than the estimated expenditure in the current-year. Authorized personnel-years for 1979-80 are budgeted at 82.6, which is a reduction of eight positions from the current staffing level. However, the major portion of this reduction (six positions at a cost of \$140,184) has been achieved by transferring staff and related costs of one activity to a new budget item entitled "Office for Citizen Initiative and Voluntary Action (OCIVA)". This office, which was created by Chapter 1195, Statutes of 1978, is responsible for maximizing the use of volunteers in state programs.

The remaining two positions are proposed for deletion in the budget year. These deletions and other adjustments result in a net increase of \$11,140, or 0.4 percent above estimated expenditures for these activities during the current year.

Pursuant to Sections 27.1 and 27.2 of the Budget Act of 1978, which mandated savings in operating expenses and employee compensation, 5.8 positions and \$158,000 were deleted from the current-year budget. These changes are summarized in Table 1.

**Table 1
Governor's Office Support Budget**

	Positions	Amounts
As Approved in Item 26, Budget Act of 1978	96.4	\$3,178,336
Allocated for Employee Compensation.....	-	9,468
Deleted Pursuant to Sections 27.1 and 27.2, Budget Act of 1978.....	-5.8	-158,000
Estimated 1978-79 Budget	90.6	\$3,029,804

GOVERNOR'S OFFICE—Continued

Transferred to OCIVA.....	-6	-140,184
Other Changes (Net).....	-2	11,140
Proposed 1979-80 Budget.....	82.6	\$2,900,760

The budget includes a separate appropriation (Item 29) to pay a Workers' Compensation Appeals Board award made in 1976 for which payments will continue through July 1981. In the current year, the payment is being made from the Governor's Office support item.

The proposed cost for printing the Governor's Budget has been reduced from \$350,000 in the current year to \$250,000 in the budget year. Actual costs were \$172,967 in 1977-78 and \$272,193 in 1976-77. Expenditures for residence support (\$17,400) and contingency expenses (\$15,000) are unchanged from current-year levels.

Governor's Office

SECRETARY OF STATE AND CONSUMER SERVICES

Item 31 from the General Fund

Budget p. 16

Requested 1979-80	\$390,220
Estimated 1978-79.....	384,830
Actual 1977-78	384,543
Requested increase \$5,390 (1.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of State and Consumer Services, as one of four agency secretaries in the Governor's Cabinet, is responsible for providing leadership and policy guidance to the following boards and departments:

- Department of Consumer Affairs
- Department of Veterans' Affairs
- Department of General Services
- State Fire Marshal
- Franchise Tax Board
- State Personnel Board
- Public Employees' Retirement System
- State Teachers' Retirement System
- Museum of Science and Industry
- California Public Broadcasting Commission

In addition, the secretary is responsible for (1) administering the state's federally-funded program for improving personnel management in state and local government through education and training under the Federal Intergovernmental Personnel Act and (2) coordinating the Governor's safety and rehabilitation program for state employees.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Secretary of State and Consumer Services is requesting \$390,220 from the General Fund in the budget year, an increase of \$5,390 (1.4 percent) above anticipated General Fund expenditures for the current year. However, total program expenditures (all funds) are reduced by \$18,405 because the budget terminates two limited-term positions (one technical and one clerical) which were funded by reimbursements of \$23,795 in the 1978-79 fiscal year. The positions were funded under a federal Title II grant to support the Governor's Labor/Consumer Task Force on Energy Retrofit and Solar Activities.

In last year's *Analysis* we pointed out that one of the agency secretary's chief assistant positions was occupied by the Department of General Services planning officer on a reimbursement basis so that the position could be filled with an employee who is exempt from civil service. This exempt appointment is in addition to the two exempt appointments authorized by law. We stated further that, in our judgment, a better approach would be for the administration to propose legislation authorizing additional exempt entitlements, if they can be justified. A measure (SB 1778 (Greene)) subsequently was introduced which, among other things, would have authorized such an additional exempt entitlement, but it failed passage. Consequently, the General Services planning officer continues to occupy the position on a reimbursement basis. We continue to believe that authorizing legislation is a more appropriate way of providing the exempt entitlement than detailing someone from another entity.

Governor's Office

SECRETARY OF BUSINESS AND TRANSPORTATION

Items 32 and 34 from the General Fund, and Item 33 from the Motor Vehicle Account

Budget p. 17

Requested 1979-80	\$844,356
Estimated 1978-79.....	788,019
Actual 1977-78	626,621
Requested increase \$56,337 (7.1 percent)	
Total recommended reduction	\$200,000

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
32	Support	General	\$128,030
33	Support	Motor Vehicle Account	466,326
34	Support	State Energy Resources Conservation and Development Special Account, General Fund	150,000
—	Support	Federal	100,000
	Total		<u>\$844,356</u>

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>SolarCal Office and Council. Reduce Item 34 by \$150,000.</i> Recommend deletion of funding because of duplicative activities.	21
2. <i>Legislative Coordinator. Reduce Item 33 by \$50,000.</i> Recommend denial of requested legislative coordinator in Washington, D.C., because expected impact will be minimal.	22

GENERAL PROGRAM STATEMENT

The Secretary of Business and Transportation is one of four agency secretaries in the Governor's Cabinet and administers the Office of the Business and Transportation Agency. The departments under the agency's jurisdiction can be separated into two general groupings, those related to business and regulatory functions and those oriented towards transportation activities. The agency consists of the following:

Business and Regulatory

- Department of Alcoholic Beverage Control
- Department of Banking
- Department of Corporations
- Department of Economic and Business Development
- Department of Housing and Community Development
- Department of Insurance
- Department of Real Estate
- Department of Savings and Loan
- California Housing Finance Agency
- Stephen P. Teale Consolidated Data Center

Transportation

- California Highway Patrol
- Department of Motor Vehicles
- Department of Transportation
- Office of Traffic Safety

ANALYSIS AND RECOMMENDATIONS

The budget proposes the expenditure of \$1,169,856, which includes: (a) proposed Budget Bill appropriations totaling \$844,356 from the General Fund, the Motor Vehicle Account, and the State Energy Resources Conservation and Development Special Account (hereafter called the Special Account); (b) federal funds of \$100,000; and (c) reimbursements in the amount of \$325,500. The proposed budget is \$115,826 or 9.0 percent less than estimated total expenditures in the current year. This reduction is the net result of changes shown in Table 1.

Table 1
Secretary of Business and Transportation
Changes in Activities and Funding Levels
1979-80 over 1978-79

<i>Activity</i>	<i>Estimated 1978-79</i>	<i>Proposed 1979-80</i>	<i>Change</i>
1. Addition of Legislative Coordinator	—	\$50,000	\$+50,000
2. Administrative Costs	\$694,475	743,396	+48,921
3. Office of Fair Lending	83,464	106,460	+22,996
4. SolarCal Office and Council.....	258,559	270,000	+11,441
5. California Housing Task Force	10,000	—	-10,000
6. Hydrogen Bus Project	52,732	—	-52,732
7. Administration Adjudication Pilot Project	89,702	—	-89,702
8. Electronic Funds Transfers Systems Task Force	96,750	—	-96,750
Total	\$1,285,682	\$1,169,856	\$-115,826

The proposed budget includes funding for 23.4 authorized positions. This represents a decrease of one position from the current year but an increase of five positions from the number authorized in the 1978 Budget Act. These five positions were administratively established during the 1978-79 fiscal year for the SolarCal Office and Council.

SolarCal Office and Council

We recommend that reimbursements of \$20,000 and federal funds of \$100,000 budgeted in Item 33, and \$150,000 appropriated in Item 34, be deleted in order to eliminate funding for the SolarCal Office and Council.

The agency budget proposes an expenditure of \$270,000 to support the SolarCal Office and the SolarCal Council. Of this amount, \$150,000 is provided in Item 34 from the Energy Resources Conservation and Development Special Account. Federal funds of \$100,000, primarily from the U.S. Department of Energy, and a reimbursement of \$20,000 from the Energy Commission provide the remaining funding.

The SolarCal Office and Council were established by executive order in May 1978. The 26-member council is appointed by the Governor and is generally responsible for developing administration policy for "maximum feasible solar commercialization." In addition to assisting the council and advising the Governor and the Secretary of the Business and Transportation Agency, the SolarCal Office is authorized by the executive order to "implement the state's solar energy policy and plans", carry out solar commercialization projects, and "coordinate the solar activities of state agencies". Five positions, including a director appointed by the Governor, are proposed in the agency budget for carrying out the office's responsibilities.

We believe development of solar energy is an essential step leading to greater energy self-sufficiency for California. However, in our judgment the continued existence of the SolarCal Office and Council will not expedite progress in solar energy because (a) it fragments the responsibility of the state agency with statutory authority for solar development, and (b) the efforts of the office and council could conflict with the Energy Commission's production of a solar energy "master plan."

SECRETARY OF BUSINESS AND TRANSPORTATION—Continued

Duplicative Activities. The Legislature has assigned responsibility for basic solar policy and technical development to the Energy Commission. Under the provisions of Chapter 276, Statutes of 1974, as amended, the commission has the authority to set standards for solar equipment, establish eligibility guidelines for the solar tax credit, and prescribe criteria for energy consumption in new buildings. The commission also supplies funds for solar design and research, publishes design manuals, and works with builders, industry, local governments and other state agencies to promote the practical use of solar energy in California.

In the absence of a specific work plan and details on how funds would be used, it is difficult for us to evaluate the Office's and Council's proposed accomplishments during the budget year. However, based on the executive order creating the office, it appears that the office is duplicating several of the Energy Commission's responsibilities in the solar energy area.

Premature Directions. Chapter 1155, Statutes of 1978, directs the Energy Commission to produce a plan for the "maximum feasible solar implementation in this state by the year 1990." This plan is due by January 1, 1980, and must identify desirable actions that can lead to the commercialization of solar energy. Because the plan must be completed in less than one year, we do not believe that another planning effort is needed at this time. Instead, it appears that the policy and planning activities of the SolarCal Office and Council could detract from the commission's efforts and undermine the recommendations contained in the plan.

For these reasons, we recommend deletion of proposed funding for the SolarCal Office and Council. Adoption of our recommendation would result in changes to the schedule in Item 33 as follows: (a) reduce support by \$270,000; (b) reduce reimbursements by \$20,000; (c) reduce federal funds by \$100,000; and (d) eliminate the transfer of \$150,000 from Item 34. In addition, Item 34 would be deleted for a net reduction of \$150,000.

Additional Legislative Coordination Not Necessary

We recommend that the proposed legislative coordinator position in Washington, D.C., be deleted for a savings of \$50,000 in Item 33.

The agency is proposing the addition of a legislative coordinator in Washington, D.C., to help monitor federal legislation and available funds impacting the state's business, regulatory, and housing activities.

Agency staff expects that several million dollars in discretionary grants will be made available each year from the U.S. Department of Housing and Urban Development (HUD) and the Farmer's Home Administration of the U.S. Department of Agriculture. The coordinator would be involved primarily in securing these funds, as well as keeping the agency current on pending legislative proposals which could affect the state's business regulatory functions.

We believe that this request is not warranted for two reasons. First, there is limited potential for securing additional grant funds due solely to the coordinator's involvement. HUD staff has indicated that although some funds become available after formula funds have been allocated, the chances that the proposed coordinator will impact the total level of housing funds received by California are minimal.

Second, we believe that the existence of two coordinator positions within the agency structure is unnecessary. Currently, the Department of Transportation (Caltrans) has a legislative representative in Washington, D.C., to monitor federal transportation legislation. We believe the need for a Caltrans representative has been sharply reduced due to the recent enactment of the Surface Transportation Assistance Act of 1978. Because upcoming proposals for federal transportation legislation will probably not be as significant, a single agency representative could monitor federal proposals for business, housing, and transportation legislation without any loss in effectiveness. We therefore recommend deletion of the proposed legislative coordinator position for a savings of \$50,000 in Item 33.

Governor's Office
SECRETARY OF HEALTH AND WELFARE

Item 35 from the General Fund

Budget p. 20

Requested 1979-80	\$2,158,713
Estimated 1978-79	1,219,332
Actual 1977-78	1,027,604
Requested increase \$939,381 (77 percent)	
Total recommended reduction	\$293,587

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
35	Secretary of Health and Welfare Chapter 800, Statutes of 1978	General	\$1,284,242 <u>874,471</u>
	(Transferred from Item 241.3, Budget Act of 1977, pursuant to Chapter 1199, Statutes of 1977)		
	Total		\$2,158,713

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Children and Youth/Rural and Migrant Affairs. Reduce by \$139,931.* Recommend reduction in amount budgeted for coordination of children and youth services and rural and migrant affairs. 24
2. *Multipurpose Senior Services Project. Reduce by \$33,656.* Recommend funding for projects only if waiver received from federal government. Recommend reduction in amount budgeted to augment project. 26
3. *Civil Rights. Reduce by \$120,000.* Recommend reduction in amount budgeted for coordination of civil rights duties. 29

SECRETARY OF HEALTH AND WELFARE—Continued**GENERAL PROGRAM STATEMENT**

The Secretary of Health and Welfare provides the administrative and policy direction for state departments and organizations responsible for health, welfare, manpower and social services. Under the provisions of Chapter 1252, Statutes of 1977, the Health and Welfare Agency was reorganized to include the following departments as of July 1, 1978:

- Department of Health Services
- Department of Social Services
- Department of Mental Health
- Department of Developmental Services
- Department of Rehabilitation
- Department of Alcohol and Drug Abuse
- Department of Aging
- Department of Corrections
- Department of the Youth Authority
- Employment Development Department
- Office of Statewide Health Planning and Development

Chapter 1252 also requires that the Governor submit to the Legislature a reorganization plan by January 31, 1979, which provides for the removal of the Departments of Corrections and the Youth Authority from the Health and Welfare Agency by July 1, 1979.

ANALYSIS AND RECOMMENDATIONS

The agency proposes an expenditure of \$2,158,713 from the General Fund which is an increase of \$939,371 or 77 percent, above the expenditure level in the current year. Additional funds are requested to (1) implement the Multipurpose Senior Services Project, and (2) establish 14 new positions.

Coordination of Rural and Migrant Affairs and Children and Youth Services

We recommend deletion of five positions proposed to expand coordination for rural and migrant affairs and children and youth activities, for a savings of \$139,931.

The agency has requested three positions and \$82,961 to expand its efforts in the coordination of rural and migrant affairs, and two positions and \$56,970 to expand coordination of children and youth activities. All five positions are to be reassigned from departments in the agency. Specifically, the positions to be reassigned are:

- Rural and Migrant Affairs: 1 CEA I and 1 clerical position from the Department of Social Services
- 1 Associate Government Program Analyst from the Department of Health Services
- Children and Youth: 1 Research Program Specialist from the Office of Statewide Health Planning and Development
- 1 clerical position from the Employment Development Department.

The positions proposed for reassignment are not involved in similar functions in their current departments.

Coordination Responsibilities. The agency's coordination responsibilities in these areas come from several sources. Executive Order B-17-76, which was signed by the Governor on May 4, 1976, required that the Health and Welfare Agency establish a rural and migrant affairs program coordinator responsible for (1) assuring that the Governor's rural and migrant affairs policy is carried out in state agencies and departments, (2) arbitrating disputes between departments on policy implementation, and (3) serving as an information exchange point for the departments.

During fiscal year 1976-77, the agency directed the Chief of the Migrant Services Section of the Employment Development Department to assume the responsibilities of the rural and migrant affairs coordinator. In our Analysis of the 1977-78 Budget Bill, we questioned the ability of someone in EDD to coordinate the programs and activities of other departments and agencies. Subsequently, the Legislature adopted Budget Act language prohibiting the use of EDD funds for the coordination activities. The function was later assigned to a deputy secretary in the Health and Welfare Agency who devotes approximately 25 percent of available time to the responsibilities.

Chapter 1252, Statutes of 1977, required the agency to assign to a deputy secretary specific responsibility for assisting state departments and counties in coordinating children and youth programs. This function is currently being performed by a deputy secretary who has a number of other responsibilities.

New Positions. In requesting the additional positions, the agency maintains that existing staff cannot adequately perform these coordinating functions.

Our analysis of the request indicates the following: 1. The agency has not identified the specific duties to be performed by the new positions. 2. No information has been provided to indicate that the coordinating activities cannot be carried out by those who are now responsible for coordination. 3. It is questionable whether the staff of one agency can coordinate state-wide programs. Several important programs offering rural and migrant services are located in departments outside the Health and Welfare Agency, such as Migrant Education in the Department of Education and the Rural and Migrant Affairs program in the Department of Housing and Community Development. Moreover, one of the major Health and Welfare Agency programs, the Office of Migrant Services in the Employment Development Department, is being transferred to the Department of Housing and Community Development in the Business and Transportation Agency as of July 1, 1979. In addition, the Department of Education provides numerous programs that benefit children and youth which are not within the purview of the Health and Welfare Agency.

As a result, we believe the agency has failed to demonstrate the need for expansion of the coordinating activities. Moreover, if it can be demonstrated that greater coordination of rural and migrant affairs and children and youth services is needed, we believe the function should be performed by the Governor's Office rather than a line agency or department. Consequently, we recommended deletion of the five positions for a savings of \$139,931.

SECRETARY OF HEALTH AND WELFARE—Continued

Multipurpose Senior Services Project

We recommend that the agency fund multipurpose senior services projects only if a waiver is obtained from the federal government permitting the use of Title XIX (Medicaid) funds without regard to categorical restrictions.

We further recommend that the three positions requested to augment project staff and the \$33,656 budgeted for program augmentation be deleted.

Chapter 1199, Statutes of 1977 (AB 998) requires the Health and Welfare Agency to establish one or more "multipurpose senior services projects" (MSSP). These projects are intended to prevent premature institutionalization of older persons by providing a coordinated and integrated system of health and social services to the "at risk" elderly population. According to the agency, the purpose of the legislation was to establish a three-year pilot program to assess the costs and benefits of employing the MSSP concept statewide. The legislation did not detail the specifics of the pilot project, but rather allowed the agency flexibility in project design.

Funding Requirements. Originally, the agency estimated the three-year cost of the project to be \$112.5 million. Of this amount, the financial plan anticipated receiving \$72 million from the federal government. Thus, the state's share would be \$40.5 million. The original funding needs projected for the project are contained in Table 1.

Table 1
Estimated Multipurpose Senior Services Project Needs for Three-Year Project
(in millions)

	State		Local Project		Total
	Administration	Evaluation	Administration	Services	
Service Year 1					
Federal	\$.50	\$.51	\$ 5.07	\$ 15.72	\$ 21.80
State .....	.16	.17	1.69	10.48	12.50
Total	\$.66	\$.68	\$ 6.76	\$ 26.20	\$ 34.30
Service Year 2					
Federal .....	.61	.51	5.69	16.68	23.49
State .....	.20	.17	1.90	11.12	13.39
Total	\$.81	\$.68	\$ 7.59	\$ 27.80	\$ 36.88
Service Year 3					
Federal .....	.76	1.30	6.95	17.70	26.71
State .....	.25	.44	2.32	11.60	14.61
Total	\$ 1.01	\$ 1.74	\$ 9.27	\$ 29.30	\$ 41.32
Project Total					
Federal	1.87	2.32	17.71	50.10	72.00
State .....	.61	.78	5.91	33.20	40.50
Total	\$ 2.48	\$ 3.10	\$ 23.62	\$ 83.30	\$ 112.50

To obtain a financial commitment from the federal government for the project, the agency has requested that the federal Department of Health, Education, and Welfare (HEW) waive certain restrictions on the use of Title XIX (Medicaid) funds so that a major portion of the program costs could be charged to the Medi-Cal program. Specifically, the agency is seeking: (1) expansion of the types of services and equipment which may be purchased, (2) expansion of the eligibility requirements, (3) permission for the MSSPs to negotiate with service providers for reimbursement, and (4) an increase in the federal financial participation rate.

Project Design. The project for which the waivers are sought, as initially proposed, would develop five MSSPs to serve a total of 4,000 clients. A control group of 4,000 would also be established in order to compare, among other factors, rates of institutional admission.

The project would test two service delivery models which would use the "consolidated" and the "brokerage" approaches to service delivery. Both models provide for client assessment and case management. Under the brokerage model the majority of needed services are obtained through existing categorical programs such as home health care under Title XVIII (Medicare), Title XIX (Medicaid), and information and referral services under Title XX. The provisions of these services are coordinated by the brokerage MSSP. The consolidated model operates outside existing categorical programs. Services for clients are directly purchased or provided by the program itself. Subsequently, the program can control the types and quality of services received by the client. The agency planned to operate two "consolidated" and three "brokerage" models.

Status of the Project. HEW has not decided whether to grant the agency's request and waive certain requirements under the Medicaid program. We understand, however, that HEW has identified a number of problems in the request, and has asked the agency to reformulate it. As of February 1979, the Agency had not developed a plan revising the project. A final decision on the waiver request is expected prior to July 1, 1979.

Notwithstanding the absence of a firm financial commitment to the project by the federal government, the agency has indicated that the project is going to be implemented.

If the federal government eventually grants the waivers, the agency should be able to carry out the MSSP project. If, however, the waivers are not granted, we do not believe the project can be undertaken successfully.

As of February 1979, the agency did not have a revised plan setting forth project design or cost. Staff now plans to proceed with a three-site project utilizing at least \$2.4 million per year (\$7.2 million total for the three years of the project) from various existing sources. There is no plan describing the project or presenting any program detail.

Existing Funding. The funds with which the agency now intends to support the entire project were intended originally to serve as seed money until Title XIX funds were available.

The agency states that the following funding has been or will be allocated to the MSSP project:

SECRETARY OF HEALTH AND WELFARE—Continued

- a. Health and Welfare Agency: A total of \$900,000 from the General Fund. Of this amount, \$866,364 was appropriated by Chapter 800, Statutes of 1978, and \$33,636 is proposed in the Governor's Budget (Item 35). The agency indicates that these funds will be used for state administrative costs and evaluation. The entire sum is budgeted for expenditure in fiscal year 1979-80.
- b. Department of Aging: \$3,000,000-\$6,000,000 from Title III of the Older Americans Act (Item 251). Staff indicate that these funds would be used by the sites to purchase services over the three-year period. The amount allocated depends on the federal Title III allocation to California but will be a minimum of \$3 million. The surplus from Title V of the Older Americans Act, an estimated \$500,000, will also be available to purchase services for fiscal year 1979-80 (Item 251).
- c. Department of Social Services: \$1,500,000 from the General Fund (Item 287) is requested for fiscal year 1979-80. The funds originally were made available in fiscal year 1978-79 from General Fund money freed up by a one-time federal appropriation, but they will not be encumbered before the end of the current fiscal year. Control Section 10.08 would allow the unused funds to be carried over to fiscal year 1979-80. Agency staff expect that this level of funding will continue for the entire period of the project, and indicate that the funds will be used to defray the costs of local project administration.

The agency may be overestimating available funding. It is our understanding that the Department of Social Services' commitment to provide funds for the project may apply only to the budget year. Further, the availability of the \$900,000 per year staff support which will fund state administration and evaluation presumes passage of further appropriations by the Legislature. Thus, at this time, the only funds which clearly can be made available to the project after the budget year are the \$3-\$6 million in Title III funds.

Waiver Necessary. Even if all of the funds identified by the agency become available, we question the agency's ability to operate a viable project without the funding made available by approval of the waiver request (originally budgeted at \$112.5 million for a three-year project).

If the project's goal is to study the possibility of applying the MSSP approach statewide, it is critical that the project have sufficient resources to test the two models thoroughly. The funds presently available, however, could support only a limited demonstration of the MSSP approach. Further, a limited project for demonstration purposes only, seems unnecessary because at least four MSSPs are in operation in California now (Long Beach, Monterey, San Francisco and Orange County).

It is especially important that a full-scale evaluation of the MSSP concept precede any decision on whether to apply the approach statewide given the significant problems being experienced by the regional centers (organizations serving the developmentally disabled), which are similar to MSSPs.

In conclusion, we believe that without the Title XIX waiver the administration proposal for financial support of the program falls far short of what is realistically needed. Accordingly, we recommend that budget language

be added prohibiting the agency from establishing MSSPs unless a Title XIX waiver is obtained from the federal government.

We further recommend that, because realistic workload data for the project are not available, the three requested positions and the \$33,656 budgeted to augment the \$866,364 allocated by Chapter 800, Statutes of 1978, be deleted.

Civil Rights Coordination

We recommend that the three proposed positions and \$120,000 requested to establish civil rights coordination be deleted.

The agency is requesting three positions at a cost of \$120,000 to perform responsibilities assigned to it by provisions of Chapter 972, Statutes of 1977 (AB 803).

Chapter 972 prohibits discrimination in the distribution of benefits under state-funded programs on the basis of ethnic group identification, religion, age, sex, color or physical or mental disability. It requires that state agencies curtail state funding to any contractor, grantee or local agency that violates the provisions. State agencies are responsible for developing regulations to implement the law, but the Secretary of the Health and Welfare Agency is required to establish guidelines and standards for implementation.

When Chapter 972 was under consideration by the Legislature, the bill's supporters maintained that no additional state funds would be required because the mandated functions were already being performed in order to satisfy federal requirements. There are approximately 50 positions within the agency associated with civil rights/affirmative action programs. Consequently, the Legislature was advised that the bill would have "unknown but probably minor additional cost." On the basis of this estimate, the bill was reported to the full Senate without a hearing before the Senate Finance Committee, pursuant to Senate Rule 28.8. This procedure is followed when "any additional state costs are not significant and do not and will not require the appropriation of additional state funds."

Positions Requested. In December 1977, the Director of Finance notified the Joint Legislative Budget Committee that he intended to approve the agency's proposal to administratively establish six positions under authority granted by Section 28 of the 1977 Budget Act. The director indicated that the positions would be funded from the Emergency Fund, and requested a waiver of the 30-day waiting period.

The committee denied the waiver because (1) the bill had been presented as resulting in no additional state cost, (2) there was no basis for using emergency funds, and (3) the agency failed to justify the proposed staffing level.

Subsequently, the agency requested the same six positions in the 1978-79 proposed budget, and the Legislature deleted them. During the current year, the agency has used existing resources (.9 position and \$22,680 in contract funds) to draft guidelines containing rules and regulations to implement Chapter 972.

In the proposed budget, the agency is requesting three positions and \$120,000 to implement Chapter 972. We recommend denial of the three positions because the issues which have led to denial of the previous

SECRETARY OF HEALTH AND WELFARE—Continued

requests remain unchanged. We believe that the agency should continue to perform its responsibilities within existing resources.

Systems Review

We recommend approval of the eight positions requested for the Systems Review Section.

The agency is requesting that eight positions, which were established as limited-term positions in the current year, be permanently established in the budget year.

The Systems Review Section was transferred to the agency from the Department of Benefit Payments as of July 1, 1978, and eight of the section's nine positions were established on a limited-term basis. The Systems Review Section provides the agency with the capacity to review the efficiency and effectiveness of agency programs. The section places particular emphasis on the review of programs which overlap in service delivery, funding sources, or recipients. We believe the positions are justified.

Governor's Office

SECRETARY OF RESOURCES

Item 36 from the General Fund

Budget p. 23

Requested 1979-1980	\$889,282
Estimated 1978-1979.....	916,521
Actual 1977-1978	868,825
Requested decrease \$27,239 (3.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Secretary of Resources, as the administrative head of the Resources Agency, is responsible directly to the Governor for the state's activities relating to the management, preservation and enhancement of California's air, water and land; its natural, wildlife, and recreational resources; and general coordination of environmental programs. The Secretary is a member of the Governor's Cabinet.

The Resources Agency is composed of the following units:

- Department of Conservation
- Energy Resources Conservation and Development Commission
- Department of Fish and Game
- Department of Forestry
- Department of Boating and Waterways
- Department of Parks and Recreation
- Department of Water Resources
- Air Resources Board
- California Coastal Commission
- Colorado River Board
- State Coastal Conservancy

- State Lands Division
- State Water Resources Control Board and nine regional water quality control boards
- Solid Waste Management Board
- California Conservation Corps

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget year request of \$889,282 for the Secretary of Resources is less than the current year level by \$27,239. The reduction has been accomplished primarily by eliminating one assistant secretary. A staff services manager was administratively added in the current year to manage an affirmative action program. This position was financed by the State Personnel Board and is not proposed for continuation in the budget year.

Governor's Office

OFFICE FOR CITIZEN INITIATIVE AND VOLUNTARY ACTION

Item 37 from the General Fund	Budget p. 24
<hr/>	
Requested 1979-80	\$134,836
Estimated 1978-79.....	0 ^a
Actual 1977-78	0
Requested increase \$134,836	
Total recommended reduction	\$109,836

^a Expenditures included in Governor's Office support item.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Maximizing Volunteerism to Meet Legislative Goals.* 32
Reduce \$109,836. Recommend office be maintained with minimum state financial support.

GENERAL PROGRAM STATEMENT

Chapter 1195, Statutes of 1978, known as the California State Government Volunteers Act, requires state agencies to maximize the involvement of volunteers in state government. It created an Office for Citizen

OFFICE FOR CITIZEN INITIATIVE AND VOLUNTARY ACTION—Continued

Initiative and Voluntary Action, to succeed the Governor's Office of Volunteerism, which was established administratively in August 1977. The office terminates on December 31, 1981.

ANALYSIS AND RECOMMENDATIONS

The Office for Citizen Initiative and Voluntary Action (OCIVA) proposes a budget of \$159,836, consisting of \$134,836 from the General Fund and \$25,000 in federal funds. In the current year, the office is being supported from the Governor's Office budget and an \$87,500 federal ACTION grant approved pursuant to Section 28, Budget Act of 1978. The grant was accepted on behalf of OCIVA by the Office of Emergency Services, which provides fiscal and administrative services. The budget indicates that OCIVA will have a staff of five, but details on the types and levels of positions are not included. The \$87,500 grant has been allocated in two installments, consisting of \$50,000 awarded to the Office of Volunteerism in September 1977, and \$37,500 awarded in September 1978. Under current ACTION policies, federal support will be provided for one more year. The Governor's Budget indicates that this support will amount to \$25,000 in 1979-80.

According to the federal government, 21 states presently have centralized volunteerism offices. Similar offices have existed in other states but have terminated upon expiration of the three-year federal grant. We understand, however, that federal support will be available in the near future for pilot demonstration projects aimed at increasing the use of volunteers in both the public and private sectors. To be eligible for the demonstration grants, states must maintain a centralized volunteerism office.

Reduce Costs by Maximizing Volunteerism

We recommend that state support for the Office for Citizen Initiative and Voluntary Action be reduced to that level necessary to administer the program and qualify for federal assistance, for a savings of \$109,836.

The major goal of Chapter 1195 is to maximize the number of volunteers assisting state agencies without replacing or supplanting public employees. The degree to which the goal is met will depend primarily on actions by persons outside OCIVA—particularly the management of state departments having programs which can use volunteers effectively.

Many state departments use volunteers and are likely to continue to do so with or without OCIVA's encouragement. For example, state correctional agencies use volunteers to enrich their programs. The Department of the Youth Authority makes extensive use of volunteers in its educational programs and to provide wards with a nonauthoritarian relationship with someone not employed by the institution. Various state hospitals also use volunteers. The "success" or "failure" of such department volunteer programs rests largely with individual departmental management, not with OCIVA.

While some professional staff may be necessary for OCIVA to meet the legislative goal of increasing volunteerism in state programs and to qualify the state for federal grants, there is no evidence to suggest that a staff of

five paid positions is required for these purposes.

In the absence of any details on, or justification for, the positions sought by OCIVA, we cannot support the budget request. According to the federal government, the third-year grant for OCIVA requires an equal dollar state match. Therefore, we recommend a state appropriation of \$25,000 to match the \$25,000 ACTION grant included in the Governor's Budget. While this level of funding (\$50,000) would provide a smaller program than proposed in the Governor's Budget, it should be adequate to maintain the possibility of federal demonstration grants coming into California, and to assist the Governor in encouraging state agencies to meet the intent of Chapter 1195. In the event that OCIVA desires to provide a level of service greater than that permitted by the reduced funding level, it would seem appropriate to solicit additional staff to serve on a voluntary basis.

SOUTHWEST BORDER REGIONAL COMMISSION

Item 38 from federal funds	Budget p. 25
Requested 1979-80	\$145,180
Estimated 1978-79.....	138,180
Actual 1977-78	—
Requested increase \$7,000 (5.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Southwest Border Regional Commission (SBRC) is a regional economic development commission established by Congress under Title V of the Public Works and Economic Development Act of 1965. Consisting of the Mexico border counties of California, New Mexico, Arizona and Texas, the SBRC will attempt to develop a regional economic development plan for the border region. It will have the capacity to fund regional development project proposals in such areas as transportation, health care and health delivery systems, vocational education, energy development and arts and cultural development. Federal funds would not cover the total costs of development projects but would serve as "seed money."

Executive Order B34-77 established a California office of the SBRC in September 1977 and assigned the responsibility for administering the activities of the office to the Lieutenant Governor. However, the program and its five personnel were administratively transferred to the Governor's Office during the current year (Executive Order D 4-78).

ANALYSIS AND RECOMMENDATIONS

Five positions and \$145,180 in federal funds are budgeted for 1979-80. This is \$7,000 or 5.1 percent more than estimated expenditures in 1978-79.

Potential Termination October 1979

We recommend approval only if federal funds are available to fund fully the commission's cost.

In our previous analysis of this program, we noted that federal funds

SOUTHWEST BORDER REGIONAL COMMISSION—Continued

would cover administrative costs for the first two years of this program and thereafter cover only 50 percent of these costs. It was our understanding that this initial two-year period will end in October 1979, and the state will be required either to match federal funds after that date or terminate the program. This issue is not addressed in the budget. No state matching funds are included and federal funds are proposed to fund the entire 1979-80 fiscal year.

We recommend approval of this item on the basis that the program continues to be entirely federally funded. If full federal funding does not continue, we believe that before state funds are provided for a program established by executive order, the Legislature should first authorize the functions, responsibilities and duties of the program through appropriate legislation. In the absence of statutory authorization, we recommend that state funds not be used to support this commission.

Governor's Office

OFFICE OF EMPLOYEE RELATIONS

Item 39 from the General Fund

Budget p. 26

Requested 1979-80	\$616,681
Estimated 1978-79.....	395,647
Actual 1977-78	231,603
Requested increase \$221,034 (55.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Office of Employee Relations (OER) has been designated by the Governor to represent the administration in all matters concerning state employee relations.

Chapter 1159, Statutes of 1977 (SB 839), which became operative July 1, 1978, provides for a formal, bilateral employee relations system for most state civil service employees. Under the provisions of Chapter 1159, the Governor or his designee is required to "meet and confer in good faith" with employee organizations which have been selected by a majority of employees within individual bargaining units in an effort to reach agreement relative to "wages, hours and other terms and conditions of employment." Such agreements are to be formalized in memorandums of understanding. Any provision in such a memorandum requiring the expenditure of funds (for example, negotiated salary or benefit increases) is subject to approval by the Legislature. Mediation is required if the parties are unable to reach agreement.

The Public Employment Relations Board (PERB) is responsible for (1) determining appropriate bargaining units (that is, designating the specific civil service classifications which are to be combined in separate units for representation by individual employee organizations) and (2) conducting elections to determine which, if any, of the competing employee organiza-

tions will serve as the exclusive bargaining agent for each such unit. The PERB is presently engaged in the unit determination process, and it is not clear at this time when this process will be completed.

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

The SPB is to continue to adjust salaries of state civil service employees who (1) are designated as "management," "supervisory," or "confidential" employees or (2) are not in bargaining units represented by exclusive bargaining agents.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 presents a summary of expenditures and staffing for the OER during the three year period ending June 30, 1980. As indicated in the table, the OER is requesting \$616,681 from the General Fund in the budget year. This represents an increase of \$221,034 (55.9 percent) above anticipated General Fund expenditures for the current year. The increase results primarily from proposed General Fund support for 7.5 positions (5.5 professional and 2 clerical) of 9.5 positions which were added in the current year with PWEA Title II funds.

Table 1
Office of Employee Relations
Summary of Expenditures and Staffing
1977-78 through 1979-81

	<i>Personnel-Years</i>			<i>Budgeted Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Personal services.....	6.9	18.5	16.5	\$170,440	\$462,760	\$490,865
Operating Expenses and Equipment.....	-	-	-	61,163	447,968	184,686
Total Expenditures.....	6.9	18.5	16.5	\$231,603	\$910,728	\$675,551
Less Reimbursements (Title II).....	-	-	-	-	-515,081	-58,870
Net General Fund Expendi- tures.....				\$231,603	\$395,647	\$616,681

Title II Grant for Labor Relations Project

The office received a Title II grant of approximately \$574,000 for conducting a central labor relations team project during the 12-month period ending July 31, 1979. The purpose of the project is to assist the executive branch, under the direction of the OER, make the preparations necessary for (1) conducting collective negotiations and (2) administering agreements reached under the provisions of Chapter 1159.

The OER used the Title II funds for (1) augmenting its own staff by 9.5 positions (7.5 professional and 2 clerical) and (2) subcontracting with the

OFFICE OF EMPLOYEE RELATIONS—Continued

State Personnel Board and six other state agencies to accomplish special project tasks, which include (a) reducing the backlog of existing employee grievances, (b) conducting research, (c) selecting negotiating teams, (d) training managers and negotiators, (e) proposing organizational relationships and (f) assisting agencies in preparing contingency plans.

Office Organization

For the 1979-80 fiscal year the budget proposes that OER have 16.5 positions (12.5 professional and four clerical) to consist of:

1. An operations unit having four professional positions responsible for working directly with the individual line agencies on employee relations matters such as employee grievances, work stoppages, and interpretation of policy.
2. A legal counsel and an assistant legal counsel.
3. A research and administrative unit having 6.5 professional positions. This unit will also be responsible for developing and coordinating training in employee relations.

Employees from each of these OER units, along with management representatives from individual state line agencies, presently are representing the state in the unit determination hearings being conducted by the PERB. In the future, they will represent the executive branch in its collective negotiations with employee organizations under the provisions of Chapter 1159.

Governor's Office

OFFICE OF PLANNING AND RESEARCH

Item 40 from the General Fund	Budget p. 27
Requested 1979-80	\$2,351,211
Estimated 1978-79.....	2,289,207
Actual 1977-78	1,080,122
Requested increase \$62,004 (2.7 percent)	
Total recommended reduction	\$53,970

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Office of Appropriate Technology (OAT)*. Recommend enactment of legislation to authorize the Office of Appropriate Technology. 41
2. *Office of Appropriate Technology (OAT)*. Reduce community assistance by \$53,970. 43

GENERAL PROGRAM STATEMENT

The Office of Planning and Research (OPR) is responsible for developing recommendations to the Governor on statewide policies relating to land use, development, environmental protection, and planning. It is also

responsible for reviewing and coordinating a variety of state and local agency activities for consistency with state policies. Related responsibilities include (1) serving as research staff to the Governor on a wide range of subjects, (2) administering federal financial assistance programs directed toward improving local planning, (3) acting as a clearinghouse for environmental impact reports and federal grant applications, (4) assisting in improving California Environmental Quality Act procedures and, (5) coordinating state permit granting processes.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes General Fund support for OPR during the 1979-80 fiscal year in the amount of \$2,351,211, an increase of \$62,004 or 2.7 percent above the current year. Total support expenditures of \$3,221,211 are proposed, which is a decrease of \$727,732 or 18.4 percent from estimated current year expenditures of \$3,948,943. (This excludes \$2,500,000 in federal funds contained in Item 41 which would be passed through to local agencies for planning activities.) The decrease results from budgeted reductions of \$427,032 in federal funds, \$237,704 in reimbursements and \$125,000 from the Environmental Protection Fund. These reductions, which total \$789,736, would be partially offset by a proposed increase of \$62,004 in General Fund expenditures.

Reductions of \$58,000 and 2.7 positions due to Control Section 27.2 are shown for the current and budget years. The final distribution of the 2.7 positions has not been determined. OPR presently expects that in the current year, the State Planning and Policy Division will lose .5 positions, the Local Assistance Division will lose .5 positions, and the Office of Appropriate Technology (OAT) will be reduced by 1.7 positions. For the 1979-80 fiscal year, OPR intends to rely on attrition rather than management decisions based on program priority to reduce the 2.7 positions. The budget indicates no salary savings for the current year and \$45,774 for the 1979-80 fiscal year. As a consequence of salary savings and Section 27.2 reductions (which, together, total \$103,774), next year's program and the positions to accomplish it are slightly underfunded but not enough to seriously impair overall program accomplishment.

Federal Funds and Reimbursements Underestimated

As noted above, the Governor's Budget shows a reduction of \$727,732 in total support expenditures during 1979-80. This implies a reduced program for OPR similar to the reduced programs of many other state agencies. However, the reduction is due entirely to a smaller amount of federal funds and reimbursements, and the completion of a one-time expenditure in the current year from the Environmental Protection Fund. These changes tend to overshadow a \$62,004 increase in the General Fund appropriation. The various changes in expenditures by program and funding sources are shown in Table 1.

Table 1
Office of Planning and Research Support Expenditures
Program Changes by Funding Source

<i>Program</i>	<i>Estimated Totals 1978-79</i>	<i>Proposed Totals 1979-80</i>	<i>Changes</i>	<i>Changes in General Fund</i>	<i>Changes in Federal Funds</i>	<i>Changes in Reimbursements</i>	<i>Changes in Environmental Protection Fund</i>
State Planning and Policy Development	\$905,815	\$640,651	-265,164	\$-119,088	\$-50,994	\$-95,082	-
Local Planning Assistance ..	526,295	531,828	+5,533	+12,204	-971	-5,700	-
Project Review and Coordi- nation	636,281	644,755	+8,474	+254,872	-246,398	-	-
Research	657,578	448,299	-209,279	-64,642	+3,363	-23,000	-125,000
Executive and Administra- tion	105,733	118,368	+12,635	+12,635	-	-	-
Office of Appropriate Tech- nology	<u>1,117,241</u>	<u>837,310</u>	<u>-279,931</u>	<u>-33,977</u>	<u>-132,032</u>	<u>-113,922</u>	<u>-</u>
Totals	\$3,948,943	\$3,221,211	-727,732	\$+62,004	\$-427,032	\$-237,704	-125,000

In spite of the \$727,732 expenditure reduction shown, it is possible that total OPR expenditures will not be less next year, as the budget anticipates, but instead will be as high as or higher than expenditures in the current year. This is because federal grants and reimbursements are almost surely underestimated.

The budget indicates that OPR does not anticipate receiving any federal grants other than the annual HUD 701 grant, which will probably be reduced next year by \$240,000 to \$750,000. During the current year OAT is receiving \$112,742 from the Department of Energy to administer the federal small energy grants program. There is a good prospect that OAT will receive similar funding in 1979-80. There is also a good possibility that the Environmental Data Center in the Research Division will receive a grant from the National Aeronautics and Space Administration (NASA). NASA is currently looking to state agencies rather than universities for assistance in developing federal programs involved with the collection and dissemination of environmental data. In spite of NASA's interest in OPR's Environmental Data Center, the Governor's Budget does not show any funding from NASA. Finally, there is a possibility that OPR will receive a grant from the Department of Health, Education and Welfare to continue work on the social planning projects.

OPR's tendency to underestimate available funds also exists with respect to reimbursements. In 1978-79, reimbursements are estimated at \$357,704 whereas for 1979-80 they are budgeted at only \$120,000. Several projects, including the industrial plant siting project, the outer continental shelf study and the CETA master solar technician training program (all funded by the Employment Development Department) as well as the interagency coastal study (funded by the California Coastal Commission), are being completed in 1978-79. Only \$88,690 from the Coastal Commission for administration of the local coastal grant program and \$31,310 from the Coastal Commission for the coastal energy impact program are shown as reimbursements for 1979-80. Additional reimbursements of as much as \$100,000 may be received because of a preliminary agreement between OAT and the Energy Commission.

Table 2 illustrates that OPR's tendency to underestimate available funds from both federal grants and reimbursements dates back at least three years. For example, the 1978-79 budget underestimated the amount of federal grants and reimbursements available to OPR for the current year by some \$401,000. (This amount may increase further during the balance of 1978-79.) If the past record of underestimating is indicative of what will occur in 1979-80, most of the projected \$727,732 reduction for support of OPR will not occur. In addition, \$125,000 of nonrecurring expenditures from the Environmental Protection Fund in the current year should be removed from the current year base for purposes of comparison. Assuming that past experience with respect to underestimating is repeated for 1979-80, the actual reduction in support for OPR will be only \$200,000 instead of more than \$700,000 estimated.

OFFICE OF PLANNING AND RESEARCH—Continued

with a clear focus. For example, during the current and budget years the design team claims that with six specialists it will work on various projects including the following:

1. Design solar greenhouses for California Conservation Corps.
2. Draft work plans for Phase II Rural Wastewater Disposal Alternatives for the State Water Resource Control Board.
3. Work with Food and Agriculture, U.C. Davis Cooperative Extension and SolarCal on a meeting to introduce grower and processor associations to solar and wind industry manufacturers.
4. Work with the Fuels Division of the Energy Commission to establish a research and demonstration program in biogas from animal manures.
5. Work on a chapter on conservation and new technologies in a report on electrical energy use in agriculture.
6. Provide assistance to the CETA solar technician training program.
7. Provide assistance to the Department of General Services Gasification Program Advisory Committee.
8. Provide assistance to the Office of the State Architect and the Department of Parks and Recreation on capital outlay projects.

These projects reflect the freedom of the design team to select projects of personal interest. There is little evidence of critical evaluation and determination of the widespread, long lasting or overall impacts of the projects.

We have been supportive of the need for the state to employ simplified technology which is no more complex than needed to accomplish the state's objectives. We believe the principal tasks of OAT should be (1) to conceive, select and precisely define projects for the design team which apply simplified technology in carefully controlled circumstances to demonstrate superior technical and design solutions and (2) to serve as a catalyst capable of persuading state agencies to adopt these solutions. The design team should be formulating improved approaches to existing problems which are simpler, more economic, less energy intensive, more efficient, and less polluting or wasteful of technology and resources than the traditional approaches. The emphasis should be on influencing selected state policies and programs so as to affect a large number of similar projects rather than on suggesting design or technical revisions to individual, site-specific projects. A small number of projects convincingly demonstrating the superior application of limited technology will most significantly increase the acceptance of the concept of appropriate technology in state programs. Such a role will require a staff with the highest order of skills and expertise.

After three years, OAT has not developed a defined role among *state* agencies and therefore we believe the Legislature should specify its responsibilities.

Eliminate Increase in OAT Community Assistance

We recommend a reduction of \$53,970 for community assistance because (1) OAT should not be expanding its efforts at the community level until it has an acceptable program at the state level and (2) OAT has not developed the necessary guidelines for selection of local projects which receive assistance.

OAT is proposing to increase education and community assistance activities by \$53,970, from \$124,205 and 4.3 positions in the current year to \$178,175 and 5.1 positions for the budget year.

The existing OAT activities in public education and community assistance fall into three categories: (1) educational seminars for local and state employees, (2) regional meetings aimed at sharing OAT activities and ideas and, (3) responses to specific requests for information or assistance from local governments, community groups and small businesses. When responding to specific requests, OAT first determines whether it can refer the inquiry to an appropriate local or state agency. If a satisfactory referral does not appear to be possible, OAT will try to solve the problem itself, provided it has some relevant expertise. This approach places OAT in the role of responding to requests rather than generating ideas and projects. The decisions on which community assistance projects to pursue depend largely on the types of requests received. This has resulted in OAT's involvement in a wide variety of unrelated activities, some of which have questionable merit or are not directly related to appropriate technology, such as supporting cooperative banks.

The problems inherent in selecting individual public education and community assistance activities and projects at the local level are the same or more difficult than the problems of selecting projects at the state level, as discussed above. In the absence of an acceptable program at the state level, we recommend that the proposed increase of \$53,970 for community assistance be denied.

STATE CLEARINGHOUSE STUDY

The Supplemental Report of the Committee of Conference on the Budget Bill of 1978 (Item 36) directed the Legislative Analyst to study the location, structure and functions of the State Clearinghouse, including potential conflicts of interest derived from the location of the clearinghouse within the Office of Planning and Research. The legislative directive applied only to state clearinghouse procedures for federal grant applications. A report entitled *A Study of the State Clearinghouse* will be available for budget hearings.

Governor's Office
OFFICE OF PLANNING AND RESEARCH

Item 41 from federal funds

Budget p. 33

Requested Reappropriation 1979-80	\$2,500,000
Estimated 1978-79	2,586,500
Actual 1977-78	—
Requested decrease \$86,500 (3.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. Recommend revised Budget Bill language. Delete review of changes in grants distribution pursuant to Section 28 because Legislature will not be able to review original distribution of grant funds.

44

GENERAL PROGRAM STATEMENT

The Office of Planning and Research (OPR) allocates HUD 701 Comprehensive Planning Assistance grants to many of California's cities, counties, and councils of governments (COGs). These grants assist local governments and COGs in improving their planning and management capabilities.

ANALYSIS AND RECOMMENDATIONS

We recommend that the budget language in Item 41 be revised to delete reference to Section 8.6 because the specific allocations of grant funds to local agencies and COGs may not be known prior to the enactment of the Budget Act.

Item 41 would appropriate \$2,500,000 in federal funds to the Office of Planning and Research for allocation to local governments and COGs in the form of HUD 701 planning grants. The estimated amount available for 701 grants in the current year is \$2,586,500, which is slightly more than the amount shown for the budget year.

The Supplemental Report of the Committee of Conference on the 1978 Budget Bill directed the Department of Finance to establish procedures to reflect all federal funds to be spent or allocated under state control in the Budget Bill. As a result, the \$2,500,000 in federal funds for HUD 701 planning grants for the 1979-80 fiscal year are proposed to be reappropriated under this item.

The language of the item would make this money subject to the provisions of Section 8.6 of the Budget Bill. Section 8.6 would require that any federal funds in the Budget Act be subject to the Section 28 provisions. This means that any increases, decreases or changes in program for the \$2,500,000 would require Section 28 letters. Because the money will be allocated in July by OPR to local governments and COGs on the merits of competitive proposals, specific grant allocations will not be known prior to enactment of the Budget Bill. Consequently, any subsequent changes

in the amount available for grants or the allocations to individual projects should not be subject to the provisions of Section 28 because the original grant schedule will not be available for legislative review at the time the Legislature acts on Item 41. Review of the grant schedule would serve no useful purpose. Accordingly, we recommend that the following language be substituted for the "provided" clause: "provided that the amount specified by this item together with any increase or decrease shall be allocated by the Office of Planning and Research."

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

Item 42 from the General Fund
and Item 43 from federal
funds

Budget p. 34

Requested 1979-80	\$2,320,308
Estimated 1978-79.....	8,743,474
Actual 1977-78	2,076,783
Requested decrease \$6,423,166 (73.5 percent)	
Total recommended reduction	\$66,446

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
42	Support	General	\$2,320,308
43	Local Assistance	Federal	(22,499,694)
	Total		\$2,320,308

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Federal Funds. Reduce by \$25,000. Recommend deletion of federal funds scheduled in Item 42 to avoid double-budgeting. 50
2. *Contract Overhead Funds. Reduce Item 42 by \$66,446.* 51
Recommend overhead portion of funds received to offset costs of administering contract programs be used for that purpose, for a General Fund savings.

GENERAL PROGRAM STATEMENT

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

1. *Provision and Coordination of Mutual Aid.* This program encourages and coordinates mutual aid agreements among various state and local agencies having fire, rescue, law enforcement and communication capabilities and equipment. It also distributes federal surplus equipment

OFFICE OF EMERGENCY SERVICES—Continued

and federal and state disaster aid funding.

State aid to local governments for replacing or repairing public real property damaged by a natural disaster is provided from the Natural Disaster Assistance Fund established by the Natural Disaster Assistance Act (Chapter 290, Statutes of 1974). The fund consists of two accounts: (1) the Street and Highway Account, which derived its funding from a special one-cent tax per gallon of gasoline imposed for one year only in 1969 under the Highway Users' Tax program, and (2) the Public Facilities Account, which in past years derived its funding from special General Fund appropriations. The Budget Act of 1978 appropriated \$6,500,000 (General Fund) to this account.

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

3. *Development and Implementation of Emergency Plans.* This program maintains a statewide emergency plan and assists other agencies and local jurisdictions in the development and periodic updating of compatible local plans. It also administers the dam safety program established by Chapter 780, Statutes of 1972, which required owners of certain dams throughout the state to file maps of the downstream areas showing various levels of possible inundation in the event of a dam failure.

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

ANALYSIS AND RECOMMENDATIONS

As shown in Table 1, the support and local assistance functions of the Office of Emergency Services (OES) receive funding from both the state and federal governments. For the budget year, the office is proposing a total expenditure program of \$30,414,916, consisting of General Fund support, federal funds, reimbursements and expenditures from the Natural Disaster Assistance Fund. This is a reduction of approximately \$2.3 million from estimated current-year expenditures. The budget-year reduction of approximately \$6.4 million in the General Fund appropriation is made possible by the availability of funds in the Natural Disaster Assistance Fund.

Support Program

The budget proposes \$4,415,222, for direct support of the office. This amount consists of \$2,320,308 from the General Fund (Item 42), \$2,091,914 in federal funds and reimbursements of \$3,000. The budget-year increase of \$76,834 in the General Fund appropriation is partially offset by reductions in federal funds (\$30,810) and reimbursements (\$8,939). The federal government contributes 50 percent of the cost of certain federally ap-

proved OES functions. It also provides full support for other programs where OES provides services for the federal government under contract. Examples of these are the maintenance of radiological instruments and the nuclear civil protection programs.

Table 1
Office of Emergency Services
Budget Summary

	<i>Estimated</i> 1978-79	<i>Proposed</i> 1979-80	<i>Change From</i> <i>Current Year</i>	
			<i>Amount</i>	<i>Percent</i>
<i>Funding-Support</i>				
General Fund.....	\$2,243,474	\$2,320,308	\$76,834	3.4%
Federal funds.....	2,122,724	2,091,914	-30,810	-1.4
Reimbursements.....	11,939	3,000	-8,939	-74.9
Subtotal.....	\$4,378,137	\$4,415,222	\$37,085	0.8%
<i>Local Assistance</i>				
Federal funds—Disaster Relief.....	\$20,000,000	\$20,000,000	—	—
Federal funds—Program Match.....	2,625,734	2,499,694	\$-126,040	-4.8%
Public Facilities Expenditures.....	3,225,084	2,500,000	-725,084	-22.5
General Fund.....	(6,500,000)	—	(-6,500,000)	-100.0
Government Code 8690.4.....	(-3,274,916)	(2,500,000)	(5,774,916)	—
Street and Highway Expenditures, Government Code 8690.4.....	2,500,000	1,000,000	-1,500,000	-60.0
Subtotal.....	\$28,350,818	\$25,999,694	\$-2,351,124	-8.3%
Total.....	\$32,728,955	\$30,414,916	\$-2,314,039	-7.1%
<i>Program</i>				
Administration—Direct.....	\$87,500	\$25,000	\$-62,500	-71.4%
Administration—Distributed to other programs.....	(725,767)	(748,876)	(23,109)	(3.2)
Personnel-years.....	26.8	26.8	—	—
Provision and Coordination of Mu- tual Aid.....	23,478,875	23,388,795	-90,080	-0.4
Personnel-years.....	21.3	21.3	—	—
Development and Utilization of Emergency Communications Sys- tems.....	1,206,993	1,300,179	93,186	7.7
Personnel-years.....	15.7	14.7	-1.0	-6.4
Development and Implementation of Emergency Plans.....	1,492,662	1,523,780	31,118	2.1
Personnel-years.....	32.9	30.3	-2.6	-7.9
Management and Maintenance of State Mutual Aid Resources.....	737,841	677,162	-60,679	-8.2
Personnel-years.....	12.7	11.7	-1.0	-7.9
Reduction Pursuant to Section 27.2 —Distributed.....	(40,000)	(40,000)	—	—
Personnel-years.....	-1.8	-1.8	—	—
Subtotal.....	\$27,003,871	\$26,914,916	\$-88,955	-0.3%
Personnel-years.....	107.6	103.0	-4.6	-4.3
<i>Natural Disaster Assistance</i>				
Public Facilities.....	\$3,225,084	\$2,500,000	\$-725,084	-22.5
Streets and Highways.....	2,500,000	1,000,000	-1,500,000	-60.0
Subtotal.....	\$5,725,084	\$3,500,000	\$-2,225,084	-38.9
Total Expenditures.....	\$32,728,955	\$30,414,916	\$-2,314,039	-7.1%

OFFICE OF EMERGENCY SERVICES—Continued

Local Assistance

Table 1 shows that \$20,000,000 in federal disaster assistance will be distributed to local governments in both the current and budget years. This amount is merely an estimate; the actual amount of federal assistance will depend on the cost of damages caused by natural disasters, and this cannot be forecast with any precision. Approximately \$36.2 million was distributed in 1977-78. Additionally, federal funds totaling \$2,499,694 will be distributed in the budget year to match local civil defense and emergency planning, administration, equipment and training costs. This is \$126,040 or 4.8 percent less than the amount distributed in the current year.

Prior-year Surplus Reduces General Fund Appropriation Requirements in 1979-80. As indicated earlier, the \$6.4 million reduction in General Fund financing requested for OES in the budget year does not reflect a program reduction. The reduction was made possible by the availability of surplus funds in the Public Facilities Account. The Budget Act of 1978 appropriated \$6,500,000 from the General Fund to this account in order to cover anticipated claims against the account. Based on the revised expenditure estimate of \$3,225,084 for 1978-79, the account will have a balance sufficient to pay budget-year costs and still provide approximately \$2.8 million for future years.

Budget-year expenditures from the Natural Disaster Assistance Fund total \$3,500,000 with \$2,500,000 coming from the Public Facilities Account and \$1,000,000 from the Street and Highway Account. Current-year expenditures from the fund are estimated at \$5,725,084.

Nuclear Civil Protection Expanded to Include Crisis Relocation Planning

Under Section 28, Budget Act of 1978, the Director of Finance authorized OES to expand its 100 percent federally-funded nuclear civil protection (NCP) program to include crisis relocation planning (CRP). Such planning provides for the relocation of large numbers of persons during war-caused or natural emergencies. Prior to this expansion, most of the NCP effort was devoted to in-place shelters from the effects of nuclear war. Table 2 shows fiscal data for the NCP program.

Table 2
Nuclear Civil Protection Program

	Estimated 1978-79	Proposed 1979-80	Change From Current Year	
			Amount	Percent
In-place Shelter Component	\$141,333	\$143,389	\$2,056	1.4%
Personnel-years	4	4	—	—
Crisis Relocation Component.....	171,917	279,917	108,000	62.8
Personnel-years	2	2	—	—
Budgeted NCP Program	\$313,250	\$423,306	\$110,056	35.1%
Personnel-years	6	6	—	—

Conceptual Basis of Crisis Relocation Planning

Crisis relocation planning has been advocated by the federal Defense Civil Preparedness Agency (DCPA) during the last four years, primarily in response to efforts of the Soviet Union to develop plans to evacuate its people from high risk areas in the event of nuclear war.

Crisis relocation planning rests on the premise that a nuclear war would be preceded by a period of international tension resulting from a major disagreement between the United States and the Soviet Union, such as the Cuban missile crisis, during which the Soviet Union would evacuate its major population centers. It is believed that the Soviet Union may be able to complete the relocation process within a three-day period and that such action would not escape detection by the United States military intelligence.

Upon learning that the Soviet Union had begun relocating its people, the President of the United States would issue an order to begin implementing crisis relocation plans, which would have been formulated for each major population center in high-risk areas. Upon receipt of the order, all public and private agencies would begin carrying out their pre-designated responsibilities to facilitate an orderly evacuation as provided in the written plans. The evacuees would be housed in previously designated "congregate care centers" in host areas. Certain employees and their families would be located within commuting distance of the risk areas to keep essential industries and services operational. Provisions would be made to evacuate the sick, disabled and other persons without transportation. Food and other essential supply systems would be altered and directed toward the host areas. The evacuees would be moved to fallout shelters as necessary. Because of the shortage of permanent fallout shelters, temporary "expedient shelters" would be built in the host areas during the evacuation period.

Proposed Workplan

The Office of Emergency Services proposes to develop crisis relocation plans over a six-year period for each county in California, as well as state-wide plans for the reallocation of food and other essential supplies. The county plans, in addition to allocating "host" areas and defining "risk" populations, will contain an Emergency Public Information program. Approximately six county plans are expected to be completed in each of the first two years of the state's participation in CRP.

The data on host-area congregate care facilities needed to do crisis relocation planning have been developed by the federal government for about 12 California counties. Data for the other counties will be developed over the next few years. Because OES will make use of this information in its host-area planning efforts, the availability of this information will have an impact on the scheduling of individual county planning efforts. The six OES staff assigned to NCP will oversee the program, develop the overall county plans, and do the state level planning. The budget includes \$184,000 for contractual services, which will be used to employ private consultants with experience in the areas of transportation and food distribution planning, graphics and mapping. Information developed by the

OFFICE OF EMERGENCY SERVICES—Continued

consultants will be integrated into the plans by OES staff.

Will Crisis Relocation Planning Work in California?

A 1977 study by the JHK and Associates of CRP indicated that it is *technically* feasible for California. However, because much of the state's population resides in densely populated communities with only limited exit routes, the study concludes that a relocation would take at least six days rather than three days, the period on which most federal planning has been based. Additionally, the study indicated that about 85 percent of the state's population is located in high-risk areas and that California has only 25 percent of the host-area congregate care space that the Defense Civil Preparedness Agency believes is necessary. The study did not examine the human, social or political problems associated with CRP.

We believe that these issues cast serious doubt on whether CRP can be effective in California. On the other hand, a recent federal decision to allow the use of CRP funds, in part, for relocation planning related to other potential crises (dam or nuclear power plant failures, for example) provides some justification for state participation in this program. However, OES will need to address the problems discussed above in its initial planning efforts.

Based on the projected completion of at least two county plans by the end of 1979, we should be in a better position to review this program next year.

FIRESCOPE

Chapter 791, Statutes of 1977, authorized partial General Fund support for operation of a federally-developed project in southern California designed to improve the management of resources in areas which are susceptible to large, multijurisdictional wildland fires. It appropriated \$50,000 for a two-year period ending June 30, 1979, on a 50/50 federal matching basis. For 1979-80 the federal government will provide 25 percent of the \$80,000 *operational* costs of FIRESCOPE and the OES budget includes \$60,000 from the General Fund for the balance. The federal government will spend approximately \$1.2 million for continued development of the FIRESCOPE system in 1979-80.

One Grant Shown in Two Budgets

We recommend deletion of \$25,000 (federal funds) for an inter agency agreement with the Office of Citizen Initiative and Voluntary Action because the grant is included in that office's budget.

Under Section 28, Budget Act of 1978, the Director of Finance authorized OES to accept an \$87,500 federal ACTION grant for expenditure by the Governor's Office of Volunteerism in 1978-79. The grant funds were transferred from OES to the Office of Volunteerism by interagency agreement. Subsequent to acceptance of the grant, an Office of Citizen Initiative and Voluntary Action (OCIVA) was created by Chapter 1195, Statutes of 1978. OCIVA, which succeeded the Office of Volunteerism, is proposed as a separate budget item for 1979-80. This item includes the ACTION grant in the amount of \$25,000 (Item 37). Therefore, the funds

from the grant (\$25,000) should be deleted from the OES support budget (Item 42).

Federal Overhead Funds Should Offset General Fund Support

We recommend that the overhead portion of monies received to offset costs of administering contract programs be used for this purpose, for a General Fund savings of \$66,446.

The OES budget includes two 100 percent federally-funded programs which contain "indirect cost" funds to offset administrative expenses. The contract for maintenance of radiological instruments includes \$53,132 for such charges, and the Nuclear Civil Protection contract (discussed earlier) includes \$13,314. While the budget reflects the General Fund savings made possible by the indirect cost amounts received under other programs, it does not offset such amounts for these two programs. In effect, OES has budgeted these reimbursements as expenditures. Therefore, we recommend that Item 42 be reduced by \$66,446 to reflect the proper treatment of indirect cost monies received for the two federal contracts.

LIEUTENANT GOVERNOR'S OFFICE

Items 44-45 from the General Fund

Budget p. 41

Requested 1979-80	\$869,487
Estimated 1978-79.....	780,342
Actual 1977-78	702,442
Requested increase \$89,145 (11.4 percent)	
Total recommended reduction	\$127,500

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
44	Lieutenant Governor Support	General	\$741,987
45	California Advisory Commission on Youth	General	127,500
Total			\$869,487

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. General Activities. Withhold recommendation on Item 44 pending receipt of revised budget. 52
2. *Advisory Commission on Youth. Reduce Item 45 by \$127,500.* Recommend elimination of this duplicative and unnecessary program. 53

GENERAL PROGRAM STATEMENT

The Lieutenant Governor is elected pursuant to the California Constitution and serves concurrently with the Governor. He assumes the responsibilities of chief executive in the absence of the Governor and serves as

LIEUTENANT GOVERNOR'S OFFICE—Continued

the presiding officer of the Senate, voting only in the case of a tie. The Lieutenant Governor also serves on numerous commissions and boards. His other duties include such special tasks as may be assigned by the Governor.

In addition to the Lieutenant Governor, the office currently is authorized 30.6 staff and clerical positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund expenditure of \$869,487, which is \$89,145 or 11.4 percent more than is estimated to be expended in the current year. Included in the amount is \$127,500 for support of the California Advisory Commission on Youth. The remaining \$741,987 (Item 44) is for support of the Office of the Lieutenant Governor.

Transferred Activities

Executive Orders D-4-78 and D-3-78 transferred two programs out of the Lieutenant Governor's Office. The Southwest Border Regional Commission was transferred to the Governor's Office (Item 38) and the Rural Youth Employment program was transferred to the Department of Social services (Item 282). Budget year expenditures for these programs are reflected in Items 38 and 282.

California Commission on Food and Nutrition

The California Commission on Food and Nutrition was established by Executive Order (D-2-78) on August 27, 1978. An advisory group was formed and a statewide conference conducted in November 1978. Private contributions of \$6,050 were placed in a special account authorized by the Department of Finance from which conference expenses were paid. This was a new state program entailing expenditures which were not budgeted. However, because of an oversight it was not reported to the Legislature under the provisions of Control Section 28 of the Budget Act.

It is our understanding that the work of the commission terminates in 1978-79, and no funds are provided to continue it in the budget year.

General Activities (Item 44)

We withhold recommendation pending submission of the revised budget.

The budget provides \$741,987 from the General Fund to continue the current staffing and expenditure levels for general activities of the office.

We have been informed that the recently elected Lieutenant Governor, in coordination with the Governor and Department of Finance, is revising his budget proposal for 1979-80 and budget amendments will be proposed at a later date. We withhold recommendation pending receipt and analysis of this revised budget.

California Commission on Youth (Item 45)

The California Advisory Commission on Youth (CACY) was originally authorized by Executive Order (D 1-77) in September 1977 and subsequently established by Chapter 557, Statutes of 1978, effective January 1, 1979. Initial funding (\$62,280) was provided in Item 40 of the 1978 Budget

Act contingent upon enabling legislation.

The CACY consists of 21 members between the ages of 18 and 25 appointed by the Lieutenant Governor for staggered terms. The commission must meet at least once every three months and commissioners are reimbursed for their expenses. The purposes of the commission include (1) coordinating information, (2) encouraging formation of local youth groups, (3) assisting existing commissions and councils, (4) conducting forums and studies, and (5) advising the Legislature and the executive branch.

The Governor's Budget provides \$127,500 from the General Fund for the commission's first full-year funding.

Commission Purposes are Duplicative and Unnecessary

We recommend deletion of Item 45 for the California Advisory Commission on Youth, for a savings of \$127,500, because it would be a duplicative and unnecessary expenditure.

Subsequent to legislative authorization of this program, the Auditor General released a comprehensive study of services to California children and youth. The study indicated that services were being provided through 160 programs administered by state entities at a combined cost of \$5.5 billion in state and federal funds (1977-78 estimates). In addition, the study reported that other governmental/advisory entities were performing many of the duties assigned to the CACY.

The Auditor General's report recommended that the issues of increased coordination and elimination of duplication be addressed in a comprehensive master plan for providing services to children and youth. This plan is being prepared by the Health and Welfare Agency pursuant to Chapter 1252, Statutes of 1977. The master plan is to be submitted to the Legislature by July 1, 1980.

Given the Health and Welfare Agency's mandate under Chapter 1252, we see no need to continue the CACY beyond the current year. In fact, we believe continuation of the commission could fragment, rather than strengthen, the development of state policy toward youth. For these reasons, we recommend deletion of funds for CACY, for a savings of \$127,500. Funds authorized for CACY in 1978-79 will allow the commission to provide input to the development of the master plan.

COMMISSION OF THE CALIFORNIAS

Item 46 from the General Fund

Budget p. 45

Requested 1979-80	\$75,254
Estimated 1978-79.....	81,056
Actual 1977-78	79,695
Requested decrease \$5,802 (7.2 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

There are no major workload or program changes proposed in this budget. The 1979-80 General Fund appropriation of \$75,254 is \$5,802 or 7.2 percent less than the amount appropriated in 1978-79. This results primarily from general reductions to operating expense items such as the travel and communication expense categories (which were reduced to the 1977-78 budgeted levels). These reductions are in accordance with the Governor's policy to eliminate lower priority expenditures. We believe the program impact will be insignificant.

DEPARTMENT OF JUSTICE

Items 47-49 and 51 from the
General Fund and Item 50
from the Motor Vehicle Ac-
count, State Transportation
Fund

Budget p. 46

Requested 1979-80	\$76,712,633
Estimated 1978-79.....	75,038,982
Actual 1977-78	68,729,609
Requested increase \$1,673,651 (2.2 percent)	
Total recommended reduction	\$1,670,207

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
47	Department Support	General	\$66,275,614
48	Fingerprint Fees	Fingerprint Fees, General	2,433,396
49	Antitrust	Attorney General's Antitrust Account, General	709,520
50	Data Center Support	Motor Vehicle Account, State Transportation	7,159,103
51	Legislative Mandates	General	135,000
	Total		<u>\$76,712,633</u>

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. *Funding Duplication. Reduce Item 47 by \$10,000.* Recommend reduction of \$10,000 already appropriated to the department by Chapter 580, Statutes of 1978. 64
2. *Unneeded Equipment. Reduce Item 47 by \$250,604.* Recommend deletion of unjustified equipment purchases. 65
3. *Department-owned Vehicles. Reduce Item 47 by \$49,151.* Recommend deletion of 10 replacement vehicles and approval of department's proposal to initiate reconditioning program. 67
4. *Energy Commission Support. Reduce Item 47 by \$57,328.* Recommend deletion of 1.8 positions budgeted for legal services to the State Energy Commission to eliminate over-budgeting. 67
5. *Crime Prevention Unit. Reduce Item 47 by \$482,421.* Recommend elimination of Crime Prevention and Control Unit (14.2 positions) to avoid duplication. 68
6. *Intelligence Unit Support. Reduce Item 47 by \$36,455.* Recommend (a) deletion of 1.7 positions for staff support to the Law Enforcement Intelligence Unit and (b) provision of staff support only on a reimbursable basis. 70
7. *Narcotic Organization Support. Reduce Item 47 by \$149,865.* Recommend (a) deletion of seven positions for staff support to the California Narcotic Information Network and (b) provision of staff support only on a reimbursable basis. 70
8. *Artist Positions. Reduce Item 47 by \$41,865.* Recommend deletion of one audiovisual assistant and one graphic artist in the Organized Crime and Criminal Intelligence Branch. 72
9. *Consumer Coordination. Reduce Item 47 by \$415,985.* Recommend reduction of 13.8 positions in the Consumer Protection Unit and a shift in emphasis from state litigation to coordination of local consumer protection actions. 72
10. *Budget Identification.* Recommend identification of the department's Legislative and Public Inquiry Units beginning in 1980-81 Governor's Budget. 74
11. *Staff Research Assistance. Reduce Item 47 by \$48,855.* 74

DEPARTMENT OF JUSTICE—Continued

- Recommend deletion of two positions which provide staff support to Research Advisory Panel.
- | | |
|--|----|
| 12. Salary Overpayments. Recommend installment collection of overpayments received by 21 departmental employees. | 76 |
| 13. <i>Staff Development Institute. Reduce Item 47 by \$61,000.</i> Recommend deletion of three new positions for the Staff Development Training Institute. | 77 |
| 14. Out-of-State Tuition. Recommend all tuition funds collected by the department for courses supported by the Commission on Peace Officers Standards and Training be returned to the Peace Officers' Training Fund beginning in the current year. | 78 |
| 15. <i>New Building Support. Reduce Item 47 by \$66,678.</i> Recommend deletion of 9.6 proposed new positions and various equipment for Phase I occupancy of the new Division of Law Enforcement Building. Further recommend transfer of \$35,130 from personal services to operating expenses to provide reimbursement for state police services. | 79 |
| 16. <i>Data Center Support. Augment Item 47 by \$715,910 and Reduce Item 50 by \$715,910.</i> Recommend shift in funding support for the California Law Enforcement Telecommunications System to more appropriately reflect system workload. | 81 |

GENERAL PROGRAM STATEMENT

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

Administration Program

Administration, which includes the Attorney General's executive office, provides the following functions and services (1) training for employees of the department and local criminal justice and law enforcement units, (2) management analysis, (3) library services for the legal staff, (4) work measurement and personnel services, and (5) administrative services, including all fiscal management functions and legal office support such as stenographic and typing services.

Legal Services Program

The legal services program contains Civil Law, Criminal Law and Special Operations elements, each consisting of attorneys specialized in particular fields of law.

Civil Law Division. This division (1) provides legal representation for most state agencies, boards and commissions, (2) renders legal opinions, (3) represents the state and its employees in the field of tort liability, and (4) provides legal services relating to claims against the Subsequent Injury

Fund. Reimbursements are received for legal services provided to state agencies which are supported by special funds and significant amounts of federal funds.

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

Special Operations Division. This division seeks to protect the public's rights and interests through legal representation in four program components: (1) public resources law, which provides formal and informal legal assistance to state agencies which administer and enforce laws and programs relating to the use and protection of the state's natural resources; (2) land law, which handles all litigation arising from the administration of state-owned lands by the State Lands Commission; (3) statutory compliance, which investigates the financial practices of charitable trusts to insure compliance with state law, enforces national and state antitrust laws, and protects and enforces constitutional rights; and (4) environment and consumer protection, which represents the public's interest in consumer fraud and environmental matters.

Law Enforcement Program

The Division of Law Enforcement, the department's largest and most complex program, provides a variety of law enforcement services through four branches, a computer center and a Crime Prevention and Control Unit.

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

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

Identification and Information. The Identification and Information Branch (1) collects crime data from state and local criminal justice agencies, (2) compiles, analyzes and prepares statistical reports on crime and delinquency and the operations of criminal justice agencies in California,

DEPARTMENT OF JUSTICE—Continued

(3) processes fingerprints and makes tentative identification through fingerprint comparisons in criminal cases, (4) processes noncriminal fingerprints for law enforcement, licensing and regulatory agencies (the cost of which is primarily reimbursed by fees), (5) maintains a central records system (now being automated) consisting of approximately 3.7 million individual record folders and 6.1 million fingerprints, (6) assists law enforcement officers in locating stolen property and missing or wanted persons, and (7) processes applications for permits to carry concealable weapons.

Organized Crime. The Organized Crime and Criminal Intelligence Branch gathers, compiles, evaluates, disseminates and stores criminal intelligence information which may indicate the presence of organized crime. The branch furnishes administrative support for the nationwide Law Enforcement Intelligence Unit (LEIU) and the California Narcotics Information Network (CNIN).

Consolidated Data Center. The Consolidated Data Center, one of four such centers established by 1972 legislation, provides centralized management of data processing equipment and services for the Department of Justice, California Highway Patrol (stolen vehicle processing only) and local law enforcement agencies. The center's automated communications systems in Sacramento and Los Angeles link over 620 California and 32 Nevada criminal justice agencies to computerized files in Sacramento, Los Angeles, Washington, D.C. and other states.

Crime Prevention and Control. The Crime Prevention and Control Unit provides a number of crime prevention programs to organizations and agencies relating to the unique crime problems of specific groups such as youth, the elderly and retail businesses. It also prepares and distributes numerous crime prevention publications including a quarterly journal, "Crime Prevention Review."

ANALYSIS AND RECOMMENDATIONS

The department proposes state appropriations totaling \$76,712,633, an increase of \$1,673,651 or 2.2 percent over the current year. This increase largely is attributable to (1) personnel requirements for the acquisition of new computer hardware, (2) purchase of replacement vehicles in the Division of Law Enforcement, (3) increased General Fund support for the Anti-trust program, and (4) limited-term security staff required for occupancy of the new data center facilities.

Table 1 details the department's proposed funding and expenditures and shows a total expenditure program of \$89,304,262, including reimbursements and federal funds. In contrast to the proposed moderate increase in state support, the total expenditure program has been reduced in the budget year by a net amount of approximately \$1.3 million. This reduction results from a number of factors, including (1) a \$2.2 million decrease in reimbursements consisting largely of \$736,581 in Federal Title II funds and \$1,217,869 in grant support from the Office of Criminal Justice Planning (OCJP), (2) the termination of three federally-funded grants, totaling nearly \$650,000, for drug diversion, training, and computerized

litigation activities, and (3) a deletion in excess of \$2 million relating to 100 unspecified personnel reductions as proposed by the administration. These reductions are discussed in more detail later in this analysis.

Table 1
Department of Justice
Budget Summary

	Estimated ^a 1978-79	Proposed ^a 1979-80	Change from current year	
			Amount	Percent
<i>Funding</i>				
General Fund	\$64,902,768	\$66,275,614	\$1,372,846	2.1%
Fingerprint Fees (General Fund)	2,390,875	2,433,396	42,521	1.8
Attorney General's Anti-trust Account (General Fund)	879,404	709,520	-169,884	-19.3
Motor Vehicle Account (State Transportation Fund)	6,761,935	7,159,103	397,168	5.9
Legislative Mandates (General Fund) ^b	104,000	135,000	31,000	29.8
Total State Funding	\$75,038,982	\$76,712,633	\$1,673,651	2.2%
Reimbursements	12,525,542	10,286,081	-2,239,461	-17.9
Federal Funds	2,811,140	2,117,734	-693,406	-24.7
Political Reform Act	183,651	187,814	4,163	2.3
Total Expenditures	\$90,559,315	\$89,304,262	\$-1,255,053	-1.4%
<i>Programs</i>				
Administration				
Distributed	(\$10,035,402)	(\$10,363,432)	(\$328,030)	3.3%
Undistributed	\$5,673,903	\$5,680,212	\$6,309	.1
Personnel-years	209.7	207.7	-2	-1.0
Legal Services				
Civil Law	12,979,964	12,945,345	-34,619	-.3
Personnel-years	332.9	327.9	-5	-1.5
Criminal Law	11,561,338	11,983,833	422,495	3.7
Personnel-years	345.8	345.8	—	—
Special Operations	7,984,885	8,218,093	233,208	2.9
Personnel-years	204.1	202.1	-2	-1.0
Grant Projects	2,716,970	2,409,023	-307,947	-11.3
Personnel-years	64	56	-8	-12.5
Law Enforcement				
Executive	(\$4,003,689)	(\$4,213,053)	(\$209,364)	5.2
Personnel-years	(40.6)	(50.2)	(9.6)	23.6
Enforcement and Investigation	\$8,587,379	\$9,247,129	\$659,750	7.7
Personnel-years	259	259	—	—
Investigative Services	4,437,640	4,041,213	-396,427	-8.9
Personnel-years	162.2	124.2	-38	-23.4
Identification and Information	19,731,149	19,386,586	-344,563	-1.7
Personnel-years	1,054.1	1,033.6	-20.5	-1.9
Organized Crime and Criminal Intelligence	3,126,056	3,142,029	15,973	.5
Personnel-years	109	109	—	—
Crime Prevention and Control	478,716	482,421	3,705	.8
Personnel-years	14.2	14.2	—	—
Consolidated Data Center	11,552,552	13,683,156	2,130,604	18.4
Personnel-years	259.9	291	31.1	12.0
Grant Projects	1,624,763	71,822	-1,552,941	-95.6
Personnel-years	68	2	-66	-97.1
Legislative Mandate ^b	104,000	135,000	31,000	29.8
Unidentified Savings ^c	—	-2,121,600	-2,121,600	—

DEPARTMENT OF JUSTICE—Continued

Personnel-years.....	—	-100	-100	—
Program totals.....	\$90,559,315	\$89,304,262	\$-1,255,053	-1.4%
Personnel-years.....	3,082.9	2,872.5	-210.4	-6.8%

- ^a Amounts in parentheses are distributed among other items and are so shown to avoid double-counting.
- ^b Funds to pay costs incurred by cities and counties for legislatively mandated record destruction of possession of marijuana files and submission of dental records of missing persons.
- ^c Unspecified personnel reductions to be identified prior to legislative committee hearings on the budget.

The legislative mandate funds shown in Table 1 reimburse cities and counties for destroying or obliterating records of courts and public agencies concerning arrests and convictions for possession of marijuana, (\$72,000) and for submitting dental records of missing persons to the Department of Justice to assist in the identification of dead bodies (\$63,000).

The Department of Justice's budget-year grants, their sources, dollar amounts and number of positions are shown in Table 2. The air-marine enforcement network grant is displayed as a reimbursement because of the statewide policy to reflect grants in this manner if, as in this case, they are first received by another agency, such as OCJP. The Medi-Cal Fraud Unit grant, received for the first time in the current year, represents the only federal funds currently anticipated for 1979-80.

The Governor's Budget identifies a reduction of \$50,387 in federal funds as a partial funding source for the deletion of 100 unidentified positions. Because the impact of this reduction on state matching requirements and personnel levels is not known at this time, the Medi-Cal Fraud Unit's components, including a state match of \$240,902, are shown in Table 2 as originally proposed by the department. Should actual federal fund reductions materialize, a reduction in General Fund matching support and grant positions would be required.

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

	1979-80		
	Amount	State match	Positions
<i>Funded by LEAA</i>			
Medi-Cal Fraud Unit	\$2,168,121	\$240,902	56
Proposed federal funds reduction for unidentified savings ^a	-50,387		
Subtotal	\$2,117,734		
<i>Funded by OCJP</i>			
Air-Marine Enforcement Network	71,822 ^b	No Match Required	2
Grand Total	\$2,189,556	\$240,902	58

^a Proposed by the administration as partial funding source for deletion of 100 unidentified positions. Unspecified impact on state matching requirements and number of positions.

^b Shown in Governor's Budget as reimbursements.

New Positions

The department proposes a total of 51.7 new positions as summarized in Table 3. Most of these positions, 35.1, are proposed to assist in the implementation of the hardware acquisition project in the department's Law Enforcement Consolidated Data Center (LECDC). All but three of these data center positions would terminate June 30, 1981. Of the remaining new positions, six are scheduled for the Advanced Training Center, 9.6 are designated as security officers for the Phase I occupancy of the department's new building, and one is a legal assistant to serve the Department of Social Services' Community Care Licensing program. The legal assistant is one of two such positions created during the current year through conversion of one vacant authorized attorney position, as part of an upward mobility program. This had only a minor fiscal impact. The second legal assistant position appears as a reclassification on the "workload and administrative adjustments" line for the civil law element of the Division of Legal Services.

Table 3
Department of Justice
Proposed New Positions

	<i>Number of Professional and Technical Positions</i>	<i>Number of Clerical Positions</i>	<i>Personal Services Cost</i>	<i>Source of Funding</i>
Administration				
Advanced Training Center				
Staff Development Training Institute ^a	2	1	\$51,164	General Fund
Organized Crime Training Institute	2	1	83,976	Reimbursement
Division of Civil Law				
General Workload	1	—	13,392	Reimbursement
Division of Law Enforcement Executive				
New Building Security ^b	9.6	—	28,973	General Fund
Consolidated Data Center				
Hardware Acquisition ^c	26.6	5.5	421,993	General Fund & Motor Vehicle Account
Consultant Conversion	3	—	69,744	General Fund & Motor Vehicle Account
Subtotal	44.2	7.5	\$669,242	
Total Proposed New Positions		51.7	\$669,242	

^a These positions are funded by existing funds.

^b Limited term to October 31, 1981.

^c Limited term to June 30, 1981.

Sections 27.1 and 27.2 Reductions

In compliance with the Budget Act of 1978, the department has identified reductions of five percent in operating expenses and equipment (Section 27.1), and two and one-half percent in personal services (Section 27.2). Generally speaking, the department distributed these reductions among its programs on a proportionate basis. When possible, it deleted new positions and support funds approved by the Legislature to com-

DEPARTMENT OF JUSTICE—Continued

mence in the current fiscal year. As a result of these reductions, two minor programs, license application review and the suspect photo file, were eliminated in the department's Identification and Information Branch because comparable services were available elsewhere. Tables 4 and 5 detail these reductions.

Table 4
Department of Justice
Operating Expense and Equipment Reduction
Section 27.1, Budget Act of 1978
(1978-79 Fiscal Year)

<i>Category</i>	<i>Total</i>
General Expense.....	\$176,720
Printing.....	12,795
Communications.....	132,735
Travel-in-State.....	128,655
Travel-out-of-State.....	27,165
Consultant/Professional Services.....	72,900
Cost-of-Suit.....	25,178
Data Processing Expense.....	25,000
Facilities.....	180,872
Equipment.....	251,480
Tort Claim Payment.....	17,500
Total.....	\$1,051,000

Table 5
Department of Justice
Personal Services Reductions
Section 27.2, Budget Act of 1978

	<i>Positions</i>	<i>Salaries and Wages</i>	<i>Temporary Help</i>	<i>Overtime</i>
Division of Administration.....	-17.2	\$-193,042	\$-2,935	—
Division of Legal Services.....	-17.0	-403,068	-10,000	—
Division of Law Enforcement.....	-58.5	-625,326	-9,600	\$-112,035
Total.....	-92.7	\$-1,221,436	\$-22,535	\$-112,035
Total salaries and wages.....		\$-1,356,006		
Reduction in staff benefits.....		\$-338,623		
Adjustment to salary savings.....		\$+21,033		
Total personal services.....		\$-1,673,596		

Additional Unidentified Reductions

The department's budget reflects the reduction of an additional 100 unidentified personnel-years, at a total savings of \$2,121,600 (\$1,462,790 salaries and wages, \$329,405 staff benefits, and \$329,405 operating expenses and equipment) from the department's various funding sources, including federal funds. Because these positions have yet to be identified, an accurate and conclusive evaluation cannot be made of the support levels shown in the Governor's Budget for the department's various programs, any or all of which will be subject to revision as details become available on where the savings will be made.

Impact of Recent Legislation

Reimbursable Blood-Alcohol Testing Program. As we recommended in our 1978-79 Analysis, the Legislature converted the department's blood-alcohol program (laboratory tests of blood, breath or urine) from Motor Vehicle Account (State Transportation Fund) support to a reimbursable program on January 1, 1979. Reimbursement support is generated by additional \$25 fines collected by local jurisdictions for violation of various Vehicle Code sections. Chapter 790, Statutes of 1978, authorizes the department to support the program on a reimbursable basis only through June 30, 1980, to allow legislative review of the program's effectiveness: Savings to the Motor Vehicle Account for the 18-month period will approximate \$1.8 million.

Rules and regulations implementing the reimbursement provisions were filed with the Secretary of State on November 21, 1978, and adopted as emergency regulations. The department's Investigative Services Branch, which currently is negotiating contracts with counties interested in having the state perform these laboratory tests, does not anticipate any reductions in level of service. The department proposes to charge \$18.45 per test, for a service package that includes any expert court testimony that may be required.

Tear Gas Training for Citizens. Chapter 1340, Statutes of 1976, permitted most private citizens to purchase and use tear gas weapons in self-defense, provided the purchaser has completed a certified tear gas training course. Chapter 730, Statutes of 1978, authorized the Department of Justice to establish a program for certifying public and private training institutions offering such courses to private citizens. The department is authorized to charge a fee sufficient to offset the costs of administering the program.

The department has notified the Legislature of its intention to establish a certification program in the current year under provisions of Section 28, Budget Act of 1978. The department anticipates that 15,000 persons will be trained annually, and estimates current-year costs (for a six-month period) at \$27,056. Budget-year costs are estimated at \$55,348, which represents a program commitment of two full-time positions and corresponding operating expenses.

Development of this reimbursable program was not completed in time to be included in the 1979-80 Governor's Budget. The Department of Finance should make the appropriate increases in the department's schedule of reimbursements prior to final legislative action on the budget bill in order to reflect properly the addition of this program.

Burglary Prevention. Chapter 580, Statutes of 1978, appropriated \$20,000 to the Department of Justice from the General Fund to promote a one-year pilot project in burglary prevention in a low-income, urban community. The department is authorized to expend these funds in combination with federal monies as long as the federal contribution is at least 90 percent of total program cost. The department anticipates beginning the program in the current year and concluding it in 1979-80.

Dental Records. Chapter 462, Statutes of 1978, requires local governments to submit dental examination records to the Department of Justice,

DEPARTMENT OF JUSTICE—Continued

on forms supplied by the department, when neither the coroner nor the medical examiner is able to identify a dead body. Similarly, local law enforcement personnel are mandated to obtain dental records of missing persons and forward them to the department for identification purposes. Chapter 462 appropriated \$5,000 to the department in the current year to offset the cost of developing the dental reporting form. Beginning in the current year, funds are included in the department's budget to reimburse costs incurred by local governments in complying with this mandate.

Destruction of Marijuana Records. Funds were included in the department's budget for the first time in 1977-78 for the destruction or obliteration of marijuana records as required by Chapter 952, Statutes of 1976. However, implementation of this measure was delayed until the latter portion of 1977-78 because the Attorney General challenged its constitutionality. The California Supreme Court has upheld the measure. Consequently, the department anticipates sizable increases in the number of state records destroyed in the current and budget years.

Legal Services Reorganization and Workload Priority

The description of the department's legal program contained in the Governor's Budget does not accurately reflect changes made by a recent reorganization of the department's civil law element. The Public Welfare Law section has been eliminated by shifting its health and welfare licensing responsibilities (10.8 positions) to the Professional and Vocational Licensing section and its health, education, and welfare client services (23 positions) to the Government section.

In addition to the efficiencies achieved by this reorganization, the department had adopted a new policy with respect to providing legal assistance to state agencies. Under this policy, requests for legal services will be handled by existing staff on a priority basis. Because the legal workload is expected to grow in the budget year, this policy will result in the rejection of requests that involve low priority work. Moreover, in those cases where client agencies have their own staff attorneys (house counsel), the Attorney General will ask the agencies to transfer their attorneys to the Department of Justice to handle the work. House counsel, with only a few statutory exceptions, are not authorized to represent the state in court, although they otherwise perform the full range of legal services. However, in a limited number of instances, the Attorney General has delegated his authority and authorized departmental counsel to litigate on behalf of their agency. The Department of Justice's new policy would incorporate these attorneys in the Attorney General's staff for the duration of the litigation.

Funding Duplication

We recommend a reduction of \$10,000 from the General Fund (Item 47) to avoid duplication of funding already appropriated by Chapter 580, Statutes of 1978.

Chapter 580, Statutes of 1978, appropriated \$20,000 from the General Fund to the Department of Justice (without regard to fiscal year) for the establishment of a one-year pilot project in burglary prevention in a low-

income, urban community.

In reviewing the department's "Reconciliation with Appropriations" statement (General Fund) we note that the budget reflects a \$10,000 expenditure for this project in the current year but no expenditure is carried forward to the budget year. A review of the department's operating expense and equipment schedule reveals the inclusion of the remaining \$10,000 in the Crime Prevention Unit's baseline budget.

Because the department already has received the \$20,000 appropriation provided by statute, the Governor's Budget should offset the budget-year General Fund appropriation by the \$10,000 remaining for expenditure. We therefore recommend a reduction of \$10,000 from the General Fund.

Additional Equipment Not Needed

We recommend a deletion of \$250,604 (Item 47) proposed primarily for the purchase of additional equipment.

Analysis of the department's baseline Supplementary Schedule of Equipment (Schedule 9) reveals that 54 percent of proposed expenditures are for additional, rather than replacement, equipment. Further examination of the justification for these purchases reveals an apparent overbudgeting of equipment items for nonessential purposes.

Table 6 summarizes our proposed reductions of the department's equipment budget, by requesting organization. A discussion of each unit's request follows.

Table 6
Department of Justice
Equipment Reductions Proposed by Legislative Analyst

<i>Organization</i>	<i>Amount</i>
Legal Support Services.....	\$186,735
Advanced Training Center	17,357
Organized Crime and Criminal Intelligence Branch (OCCIB)	16,965
Investigative Services Branch	29,547
TOTAL.....	\$250,604

Legal Support Services. Three of the department's four legal support offices are requesting a total of ten additional word processing machines on the basis of anticipated increases in attorney personnel during the current and budget years. However, the department has proposed no new attorneys in the budget year and, in fact, 13 attorney positions are being held vacant in the current year as a result of Section 27.2 reductions. Because the budget does not provide for additional legal staff, we recommend deletion of the 10 additional machines for a savings of \$185,440. We further recommend deletion of \$1,295 for audiovisual equipment proposed for in-service training at the Sacramento legal office because comparable equipment is available and could be borrowed from the department's Advanced Training Center.

Advanced Training Center. The department's training center is requesting a variety of additional audiovisual equipment, such as projectors, cameras, and video recorders and the replacement of five typewriters. Only two of the typewriters are 10 or more years old. Of the remaining

DEPARTMENT OF JUSTICE—Continued

three typewriters, one was purchased in 1974 and two in 1976. State policy provides for replacement only when a typewriter is 10 or more years old. The department's written documentation indicates no mechanical difficulties with any of the three newer machines. Therefore, we recommend that three machines not be replaced for a savings of \$2,640.

With regard to the additional audio visual equipment requested, we believe it is inappropriate to purchase additional equipment when the training center already has a number of units on hand and has failed to document any workload increases requiring additional supplies. We have identified and recommend the deletion of \$14,717 of additional equipment which falls in this category.

Organized Crime Branch. The Organized Crime Branch proposes to replace a word processing machine purchased in 1975 because better, more efficient equipment is now available. The branch has not indicated that any full-time positions could be eliminated because of the greater efficiency of the new machine, or that any mechanical problems exist with the present one. We believe this proposed purchase is premature and recommend deletion of \$16,965 budgeted for this purpose.

Investigative Services Branch. The Investigative Services Branch operates a system of thirteen criminalistics laboratories throughout the state. Eight laboratories, designated as regional labs, offer a full range of criminalistic services. The remaining five laboratories, known as satellite labs, are designed to provide limited services, primarily restricted to blood-alcohol analyses. These laboratories were developed, according to a master plan, with federal support provided by the Office of Criminal Justice Planning and the Office of Traffic Safety. These laboratories were converted to state support in 1977-78.

The branch proposes to purchase \$22,503 of additional equipment for development of two satellite laboratories into "mini-regional" laboratory status. The department states that this development has been instituted for a number of reasons, including training existing satellite staff to fill possible vacancies in the regional laboratories. We believe development of the "mini-regional" concept is contrary to legislative intent. The Legislature was advised of the regional and satellite laboratory concept at the time the laboratory system was converted to state support and accepted the program on that basis. The proposed additional equipment is in excess of satellite laboratory requirements, as specified in the master plan. We therefore recommend deletion of \$22,503 intended for this purpose.

The branch also proposes an expenditure of \$4,500 for miscellaneous equipment which is yet to be identified. We believe this represents contingency budgeting and the funding should be deleted. Finally, the branch proposes a purchase of \$2,544 for macro zoom lenses for crime scene investigations in the eight regional laboratories. While this purchase would give the laboratories additional flexibility, no justification was provided by the department indicating any significant problems with existing equipment. We therefore recommend deletion of these lenses for a total reduction of \$29,547 from the Investigative Services Branch's request.

Department-Owned Vehicles

We recommend (a) deletion of 10 new vehicles scheduled for replacement in the budget year and (b) approval of the department's proposal to recondition at least six vehicles which would otherwise be replaced, for a total General Fund savings of \$49,151 (Item 47).

In response to Supplemental Language adopted by the Conference Committee on the 1978 Budget Bill, the Department of Finance prepared a study of Department of Justice vehicle utilization. Based on this study, the Department of Justice proposes to purchase 72 vehicles at a cost of \$425,886 in the budget year. The major criterion used to determine when a department-owned vehicle should be replaced is a factor of 100,000 miles. Updated mileage projections recently made by the department, indicate that 82 vehicles in the departmental fleet will exceed 100,000 miles prior to June 30, 1980. However, the department advises that its fleet contains 14 vehicles which can be used for replacements, thus reducing the number of replacement vehicles needed to 68.

In discussing its automobile requirements with our office, the department has proposed an expenditure of \$10,000 in the budget year to perform major mechanical overhauls on vehicles that exceed 100,000 miles so that these vehicles can continue to be utilized rather than being replaced with new models. The department estimates that this program would reduce its requirements by 6 vehicles, resulting in an overall need to replace only 62 automobiles.

The effect of the department's analysis of its vehicle requirements is summarized in Table 7.

Table 7
Department of Justice
1979-80 Vehicle Replacements

Mileage-based replacement needs	82
Departmental vehicles available	-14
Vehicles qualifying for replacement	68
Vehicles saved by mechanical overhaul	-6
Total number required	62

Because the Governor's Budget proposes to replace 72 vehicles and the department currently estimates a need for 62, we recommend deletion of 10 vehicles for a savings of \$59,151. At the same time, we believe the department's overhaul proposal, at a cost of \$10,000, is a worthwhile pilot program. Replacement of these six vehicles otherwise would require a \$35,490 additional expenditure. Therefore, we further recommend that the proposed savings of \$59,151 be offset by the cost of the overhaul program for a revised General Fund savings of \$49,151.

Attorney Staff Overbudgeted

We recommend deletion of 1.8 positions budgeted to provide legal services to the Energy Commission for a reimbursement savings of \$57,328 (Item 47).

Last year, in a Supplemental Analysis dated April 26, 1978, we recommended that two attorneys and supporting clerical staff be deleted from

DEPARTMENT OF JUSTICE—Continued

the Department of Justice's current-year budget because the department had overbudgeted attorney services for the State Energy Commission. The Legislature accepted our recommendation. In accordance with this action, the Attorney General has budgeted three attorneys to handle commission workload in 1979-80.

However, an examination of actual experience during 1975-76 through 1977-78 reveals that the Department of Justice has yet to devote two attorney years of service to the commission.

Moreover, in the first six months of the current year the commission has utilized only 420 hours of Attorney General services. Assuming that this rate of utilization continues for the remaining portion of the current year, the commission will utilize less than one-half of a personnel-year of Attorney General legal services. In view of this current and past experience, we believe the Department of Justice continues to overbudget legal services for the Energy Commission and therefore recommend deletion of one attorney position, and the corresponding clerical support, for a reimbursement savings of \$57,328.

Duplicative Crime Prevention Activities

We recommend elimination of the Crime Prevention and Control Unit for a reduction of 14.2 positions and a General Fund savings of \$482,421 (Item 47).

The Department of Justice established its Crime Prevention and Control Unit in 1971 under the Attorney General's broad authority as the chief law officer of the state. The 14.2 positions devoted to this effort are divided between the department's four offices in Los Angeles, Sacramento, San Diego and San Francisco. The Los Angeles office is the unit's largest, with a staff of seven, including the Assistant Director in charge of the program.

The unit responds to requests from local governmental agencies and community groups to provide technical assistance, consultation, and program development assistance in various crime prevention subject areas, based on the objectives and perceived needs of the requestor. Currently, the unit is developing a child abuse prevention model in the cities of Pomona and Chino, and a burglary prevention program in the City of Fontana. In addition to these and other projects, the unit prepares a quarterly bulletin on crime prevention for senior citizens and a quarterly journal entitled "Crime Prevention Review."

The Legislature has recognized that crime prevention activities having the cooperation of both community and law enforcement officials can have a positive impact on the incidence of crime. Chapter 578, Statutes of 1978, expressed the Legislature's decision to take positive action in this area by establishing a Crime Resistance Task Force in the Office of Criminal Justice Planning (OCJP). Members of the task force are charged with assisting the Governor and the California Council on Criminal Justice in furthering citizen involvement in local law enforcement and crime resistance efforts.

The Office of Criminal Justice Planning is charged with the responsibility of developing the California Community Crime Resistance Program. It

is legislative intent, as expressed in the statute, that local projects supported by this program shall include at least three of the following activities:

(1) Comprehensive crime prevention programs for the elderly to include, but not be limited to, education, training and victim/witness assistance programs.

(2) Efforts to promote neighborhood involvement, such as, but not limited to, block clubs and other community based, resident-sponsored anticrime programs.

(3) Home and business security inspections.

(4) Efforts to deal with domestic violence.

(5) Prevention of sexual assaults.

(6) Programs which make available to community residents and businesses information on locking devices, building security and related crime resistance approaches.

(7) Training for peace officers in community orientation and crime prevention.

We believe OCJP is the appropriate organization to be the central coordinating agency for state crime prevention activities, as provided in current law, for the following reasons. (See Item 407, OCJP, for further discussion of this issue.)

First, the office has statutory responsibility to develop a comprehensive statewide plan for the improvement of criminal justice and delinquency prevention. As the state's criminal justice planning agency, OCJP should be the leader in coordinating local crime prevention programs.

Second, most of OCJP's support requirements receive 90 percent funding from the federal government and will receive and disburse approximately \$43.4 million in federal funds in the budget year. As such, the office is in a key position to monitor any potential duplication of state or local staff and resources.

Third, OCJP is mandated to render technical assistance to state and local agencies. Because the office has been involved in local crime prevention activities in the past, it already has developed some expertise in this area.

Finally, the office has a statutory mandate to perform evaluation studies of funded programs. We believe this evaluation capacity will provide the Legislature with the data necessary to determine appropriate courses of future crime prevention activity.

While we believe the Department of Justice has made a sincere and dedicated effort to develop meaningful crime prevention programs, we believe the public interest is better served by a centralized state effort concentrated in one agency. The OCJP has been mandated by the Legislature to perform such a function and will embrace many of the same activities currently undertaken by the Department of Justice. In our judgment, this duplication of services should be avoided. We therefore recommend elimination of the Crime Prevention and Control Unit for a reduction of 14.2 positions and a savings of \$482,421.

DEPARTMENT OF JUSTICE—Continued**Need Reimbursement of Staff Support for Intelligence Unit**

We recommend that the Organized Crime and Criminal Intelligence Branch provide staff support to the Law Enforcement Intelligence Unit only on a reimbursable basis, for a reduction of 1.7 positions and a savings of \$36,455 to the General Fund (Item 47)

The Law Enforcement Intelligence Unit (LEIU) is a 227-member network of various state and local law enforcement agencies performing an intelligence function throughout the United States and Canada. The department's Organized Crime and Criminal Intelligence Branch (OCCIB) has been designated the LEIU central coordinating agency and historically has provided staff assistance to the organization in the belief that the intelligence benefits derived from this staff work outweigh costs to the General Fund.

We believe there are several reasons why this service should be provided only on a reimbursable basis.

First, the majority of LEIU members are from other states and Canada. Of the organization's total membership of 227 agencies, 148, or 65 percent, are from outside California.

Second, the major portion of the staff's workload (requests for information) is generated by out-of-state agencies. During the three-month period January to March 1978, 62 percent of the inquiries received were from out-of-state, 27 percent were initiated by the Department of Justice and 11 percent originated from other California agencies.

Third, there is precedent for a pro rata reimbursement of the department's support costs. Beginning in the current year, each LEIU member has been assessed a \$300 fee primarily to maintain the computerized Interstate Organized Crime Index (IOCI) which was developed with federal funds by OCCIB as a communications index for the members of LEIU. LEIU members have assumed this cost. Assumption of staff support costs would require an additional assessment of only \$161 per member.

Fourth, a representative of the Department of Justice, who serves as a member of LEIU's executive committee, attends a sufficient number of LEIU activities to keep California informed of intelligence developments in other states and Canada.

We therefore recommend a reduction of 1.7 staff support positions at a savings of \$36,455 to the General Fund (\$25,714 in personal services and a corresponding reduction of \$10,741 in operating expense and equipment). We further recommend that the provision of any future staff services to LEIU be provided on a reimbursement only basis. We recognize that should the organization agree to assume these costs, the 1.7 positions would be reestablished administratively by the department.

Need Reimbursement of Staff Support for Narcotics Unit

We recommend that the Organized Crime and Criminal Intelligence Branch provide staff support to the California Narcotic Information Network only on a reimbursable basis, for a reduction of seven positions and a savings of \$149,865 to the General Fund (Item 47).

The California Narcotic Information Network (CNIN) was founded in

1973 and is composed of over 218 local, state and federal law enforcement agencies which have a narcotic enforcement or narcotic intelligence component. Out-of-state members include agencies in Nevada, Utah, Texas, Hawaii, Washington, and Arizona. Each member contributes information on individuals and organizations identified as being part of the upper echelon of the narcotic sales/supply structure. This information is stored in the Department of Justice.

The Department of Justice's Organized Crime and Criminal Intelligence Branch (OCCIB) provides the staff support to this organization. The seven-member staff (the unit's coordinator, a Special Agent III, is supported by the department's Enforcement and Investigation Branch but housed in OCCIB) coordinates the statewide exchange of strategic and tactical information and analyzes available information for member agencies.

We have several concerns with this staffing arrangement.

First, this is essentially an association of local agencies in which the state has no voting rights on the board of directors. Policies and priorities are developed with only ex-officio input from state participants.

Second, historically state members, including seven field offices of the department's Enforcement and Investigation Branch and two field offices of OCCIB, have participated in the organization only to a minimal degree. The field offices have chosen to contribute limited data to the system and have seldom queried CNIN for possible subject information.

Third, the impact of this organization on the narcotics problem in California has yet to be proven. CNIN advises that its current "hit rate" (the number of times that an inquiry matches up with information stored in the file) is 10 to 13 percent. Data are not available which would indicate the number of "hits" which would have been made even in the absence of the organization.

Fourth, based on the number of inquiries received for the three month period January through March 1978, it appears that the state is subsidizing substantial use of the system by federal and out-of-state agencies. Of the 659 inquiries made during that period, 47 percent were generated by out-of-state and federal members.

Finally, precedent exists to establish staff support on a reimbursable basis. Currently, each member agency is assessed a membership fee of \$75 to pay for the travel and per diem expenses of the CNIN Board of Directors. A member agency with several field offices is required to pay only one fee. As of December 13, 1978, CNIN had 132 paid members. Maintenance of existing staff support would require an additional assessment of \$1,135 per member agency.

For these reasons, we recommend a reduction of seven positions, for a savings of \$149,865 to the General Fund (\$139,909 in personal services and \$9,956 in operating expenses and equipment). We further recommend that any future staff services to CNIN be provided only on a reimbursement basis.

DEPARTMENT OF JUSTICE—Continued

Graphic Artist Positions Not Needed

We recommend deletion of one audiovisual assistant and one graphic artist in the department's Organized Crime and Criminal Intelligence Branch for a reduction of two positions and a savings of \$41,865 to the General Fund (Item 47).

The department's Organized Crime and Criminal Intelligence Branch (OCCIB) has an audiovisual unit consisting of an audiovisual assistant and a graphic artist. This unit provides a variety of artistic services, training aids and multi-media communications support for OCCIB. In addition, the unit is called upon to provide professional artistic work to other departmental units, including the Advanced Training Center, Enforcement and Investigation Branch, and the Bureau of Identification.

We question the appropriateness of supporting full-time professional artists in an individual branch of a department when the state printing office employs a staff of graphic artists for just this purpose. We believe proliferation of artists in individual departments is contrary to the state policy of centralizing support services.

While OCCIB has provided workload information which indicates that these individuals work on a number of projects, we believe the availability of professional artists within a small organizational unit probably has a self-generating effect on workload. For these reasons we recommend deletion of these two positions for a savings of \$41,865 to the General Fund.

Consumer Coordination Needed

We recommend reorganization of the Consumer Protection Unit so that it focuses on coordinating district attorney and city attorney actions with a resulting reduction of 13.8 positions (6 attorneys, 3 consumer protection assistants and 4.8 stenographers) and a savings of \$415,985 from Item 47 (\$310,491 from the General Fund and \$105,494 from reimbursements).

The Attorney General, as chief law officer of the State, has the responsibility to see that the laws of the state are uniformly and adequately enforced. Article V, Section 13, of the state constitution specifies that the Attorney General shall have direct supervisory authority over every district attorney in the state and, when required by the public interest, shall assist any district attorney in the discharge of the duties of that office.

With regard to consumer matters, state statutes have given authority to the Attorney General, the Director of the Department of Consumer Affairs, district attorneys and city attorneys to enforce consumer laws. On the state level, the Legislature has vested the Department of Consumer Affairs with primary authority to advance and protect consumer interests. Like the Attorney General's Office, the department may initiate litigation on behalf of consumers and is required to enforce compliance with the advertising laws of California. The Director of the Department of Consumer Affairs has the power to seek termination or modification of false advertising claims and to disseminate information concerning the truth of such claims to the public.

Organizationally, the Department of Justice's consumer protection ac-

tivities are the responsibility of a Consumer Protection Unit composed of 12 attorneys, three consumer protection assistants who gather information regarding possible consumer fraud cases, and 9.6 personnel-years of stenographic support. In addition, the department's Public Inquiry Unit assists the consumer function by processing consumer complaints received by the Attorney General. Both of these units are supported partially by state cost recoveries from successfully litigated consumer cases. These funds are reflected in the department's budget as reimbursements. The Consumer Protection Unit currently seeks to coordinate its activities with district attorneys and city attorneys throughout the state. However, the majority of the unit's time is spent handling consumer litigation.

The Attorney General and the Director of the Department of Consumer Affairs have comparable authority with regard to many consumer fraud matters. In light of this joint responsibility, we believe it would be advantageous to the state for the Attorney General to deemphasize its litigation activity and concentrate its efforts on statewide consumer protection coordination, for the following reasons.

First, many of the consumer actions brought by district attorneys and city attorneys have statewide effect. A local official, in bringing consumer actions, is representing the People of the State of California. In the past, some actions brought by local officials have precluded administrative actions by state agencies. The Attorney General has a constitutional mandate to insure consistent enforcement of state laws. Unless he assumes a leadership role in coordinating local consumer fraud/consumer protection cases, different local officials may assert inconsistent positions in court, resulting in uneven enforcement which is contrary to the Attorney General's mandate.

Second, coordination could result in the recovery of increased civil penalties for local governments. As of this writing, the full impact of Proposition 13 upon local consumer protection programs is unknown. Prior to passage of the proposition, district attorneys in approximately 20 counties were active in consumer matters, while those in some 24 additional counties were involved on an occasional basis. The collection of civil penalties has allowed some district attorney programs, including that of Sacramento County, to be self-supporting. The availability of the Consumer Protection Unit's resources and expertise should facilitate additional recoveries because of increased local litigation and litigation filed jointly by local entities and the state (with the local unit as the lead agency).

Third, the level of protection to the public and legitimate business would be greatly enhanced by a coordinated state effort led by the Attorney General because enforcement actions would be taken at the source of the fraudulent activity.

For these reasons, we recommend that the Attorney General's consumer activities focus on local coordination, rather than statewide litigation as is currently the case. This reorganization would result in a reduction of 13.8 positions in the department's Consumer Protection Unit for a savings of \$415,985 (\$310,491 from the General Fund and \$105,494 from reimbursements).

DEPARTMENT OF JUSTICE—Continued**Budget Identification Needed**

We recommend that the department's Legislative and Public Inquiry Units be identified as separate programs beginning in the 1980-81 Governor's Budget.

Legislative Unit. The Department of Justice's Legislative Unit is composed of personnel borrowed from various departmental functions including Executive, Criminal Law, Opinion Administration, Management and Manpower Services, and Legal Support Services. As such, the unit has never been separately identified in the Governor's Budget.

Historically, our office has experienced difficulty with the timeliness and fiscal reliability of legislative bill analyses prepared by the department. We believe this is at least partially attributable to the lack of distinction between the unit's bill analysis function and the coordination of departmental legislation as it moves through the Legislature. We believe the department's new administration is aware of some of these difficulties and will take appropriate action to insure that, in the future, the Legislature will benefit more fully from the department's law enforcement and legal knowledge as well as fiscal expertise. We therefore recommend, as a first step, that the department's Legislative Unit be separately identified beginning in the 1980-81 Governor's Budget.

Public Inquiry Unit. The department has a Public Inquiry Unit staffed with three professionals, three clericals, and one personnel-year of temporary help. Basically, this unit serves a clearinghouse function for incoming information or publication requests, consumer complaints, and legal assistance requests received by the Attorney General. In addition to its clearinghouse function, the unit also coordinates and prepares departmental press releases.

Because of the workload and staff commitment devoted to this activity, we believe it is appropriate for this unit to be reflected in departmental budget documents. We therefore recommend that the Public Inquiry Unit be identified separately beginning in the 1980-81 Governor's Budget.

Inappropriate Staff Research Support

We recommend deletion of two positions serving as staff assistants to the Research Advisory Panel, for a savings of \$48,855 (Item 47).

Chapter 1334, Statutes of 1968, created in state government a Research Advisory Panel consisting of representatives of (1) the State Department of Health, (2) the California State Board of Pharmacy, (3) the University of California, (4) a private university, (5) a professional medical society, and (6) a representative of the Governor. Panel members representing state agencies are appointed by the head of the entities to be represented. Members serve without compensation and are reimbursed for their expenses.

The Research Advisory Panel is charged with the responsibility of (1) authorizing the use of controlled substances for the purpose of research, instruction, or analysis, (2) approving the provision of marijuana by the Attorney General for research projects registered by the Attorney General, (3) holding hearings concerning research projects focussing on mari-

juana or hallucinogenic drugs, and (4) reporting annually its activities to the Legislature and the Governor. The Department of Justice has provided staff support to the panel since 1971-72. Current staff consists of an Executive Secretary who is a Doctor of Pharmacy and one personnel-year of stenographic support.

We believe it is inappropriate for the Department of Justice to provide staff support to the drug panel for the following reasons:

First, the panel's workload requirements do not appear to be significant. For example, the panel's most recent annual report to the Governor and Legislature, dated June 20, 1978, indicates that during calendar year 1977, 48 research applications were reviewed. Of these, 12 were revisions of unapproved applications, 24 were new research proposals, and 12 consisted of substantive amendments to existing projects. In addition to reviewing research proposals, the panel undertook 15 on-site surveys in the calendar year. While the panel is not mandated to conduct such surveys, it believes this activity is an effective means of monitoring continuing research projects. A typical site visit is made by a panel member and the Executive Secretary and usually requires no more than one day. Table 8 reflects the panel's workload by year of project approval.

Table 8
Research Advisory Panel
Workload by Year of Project and Amendment Approval
1972-77 (Calendar Years)

	1972	1973	1974	1975	1976	1977
Drug Research Project	6	8	4	9	6	17
Amendments ^a	2	2	1	1	2	8
Treatment Research Project			3	1	3	4
Amendments ^a				3	2	4
Total	8	10	8	14	13	33

^a A project may be amended several times in any given year.

Second, there appears to be duplication between the panel's registration activities and those of the federal Drug Enforcement Administration (DEA), which is required to register, on an annual basis, all research projects utilizing controlled substances. Any project reviewed by the panel also must be reviewed by DEA. In addition, DEA registers drug research projects which are not under the panel's purview.

Third, there is no specific legislative mandate that the department provide staff support. The panel meets only six times a year. It appears that the panel has been given wide discretion to carry-out its legislative mandate and could distribute its workload in alternative manners if full-time staff support were unavailable. For example, we believe that each of the various state representatives could arrange, at no additional cost, clerical and related staff support services on an as-needed basis to meet any workload requirements.

Because full-time staff support does not appear to be required to fulfill the panel's legislative mandate, we recommend deletion of two drug panel positions in the department's criminal law element for a savings of \$48,855 in personal services. In light of DEA responsibilities in this area,

DEPARTMENT OF JUSTICE—Continued

the Legislature also may wish to consider legislation abolishing the Research Advisory Panel.

Salary Overpayment Irregularities

We recommend that the Department of Justice collect, on an equitable installment basis, salary overpayments received by 21 departmental employees, and advise the Legislature of its progress no later than December 1, 1979.

Background. During the course of implementing the 1973-74 salary increase program, approximately 620 state employees were mistakenly placed at a higher than allowable salary step due to promotions to new personnel classifications during the federally-imposed salary freeze period (July 1, 1973 to May 1, 1974). These errors were attributable to complexities arising from the state's effort to comply with salary increase limitations imposed by the Cost of Living Council which reduced the percentage increases received by certain classifications of state employees.

According to the State Personnel Board (SPB), an initial group of approximately 350 employees (on a statewide basis) who were identified as having been overpaid for one to two months immediately returned the overpayments. Subsequently, approximately 200 additional employees were identified as having received overpayments between July 1974 and July 1976. Nearly all of these employees have repaid their overpayments. The overpayments to these 550 employees total less than \$250,000. In October 1976, an additional 70 employees were discovered to have been overpaid and still owe approximately \$130,000.

Department Position. Twenty-one Department of Justice employees, twenty of whom are high-level attorneys, are among those who have yet to refund the overpayment to the state. The department believes that any attempt on its part to collect the overpayments would place a considerable hardship on the individuals. Collectively, these 21 employees were overpaid \$68,688. In a position paper dated July 7, 1976, the department advised the State Personnel Board that it did not believe recovery of these overpayments was legally or equitably justified. Therefore, unlike other affected agencies, the department declined to undertake the recovery of these funds. To date, neither the State Personnel Board nor the State Controller has pursued the matter with the department. However, in a letter dated November 20, 1978, from the Personnel Board to the Controller, the SPB queried the Controller as to what action, if any, the state's fiscal control office will take regarding repayment from Department of Justice employees. The Controller advised our office on January 11, 1979, that this issue was still in the process of review. (See related discussion, Item 52, State Controller.)

Legislative Action. During deliberations on the two Board of Control Omnibus Claims bills last session (Chapters 882 and 1074, Statutes of 1978), the Legislature considered the salary repayment issue. The Board of Control had granted relief from payment, totaling \$49,839.25, to forty-nine individuals from various departments other than the Department of Justice. The Legislature denied these claims, as we recommended, for the following reasons:

First, it has been the longstanding policy of the SPB that salary overpayments must be collected from employees and salary underpayments must be paid by the state.

Second, failure to collect the overpayments is inequitable (1) to those employees in similar circumstances who have refunded such overpayments and (2) to those employees in the same class at the same salary range who received the proper (lower) amount of compensation.

Third, the recovery of overpayments could be accomplished without causing undue hardship to the employees by collecting funds on an installment basis.

We have been advised that should attempts be made to collect the \$68,688 due from the Department of Justice employees, these individuals will bring suit against the state. However, recognizing that (1) approximately 550 of the 620 affected employees have repaid their overpayments, (2) the policy of SPB regarding over and underpayments has been applied consistently in the past, (3) the Legislature recently denied claims for forgiveness of the obligation to repay the state, and (4) recovery could be accomplished on an installment basis so as to minimize hardship to these individuals, we recommend that the Department of Justice collect, on an equitable installment basis, salary overpayments received by 21 departmental employees and advise the Legislature of its progress no later than December 1, 1979.

In the event the Justice employees bring suit against the state, we recommend that the state contract for private counsel to defend itself, and seek a judgment against the plaintiffs requiring them to fully reimburse the state for the cost of defending itself against such an action.

Staff Development Institute

We recommend deletion of three new positions, requested for the Staff Development Training Institute for a General Fund savings of \$61,000 (Item 47). We further recommend that the department justify, prior to legislative hearings, the cost effectiveness of continuing this institute. In the absence of such documentation, we would recommend that the remaining three positions be deleted for an additional savings of \$99,070.

The Staff Development Training Institute is one of three institutes comprising the department's Advanced Training Center. Its permanent staff of three coordinates and provides in-house management, supervisory, analytical, technical, secretarial and safety training for departmental personnel. The department administratively established three additional positions in the current year by reallocating budgeted funds. The department proposes to establish these positions permanently at a cost of \$61,000 annually to the General Fund. We believe this request is unjustified for the following reasons.

First, the staff development unit provides only a minimal amount of instruction at the institute. In 1977-78, of the 1428.5 total hours of instruction given, institute staff was responsible for 17.5 percent, other departmental staff for 55.5 percent, and consultant staff for 27 percent. In that same year, of the 24 classes taught, institute staff was exclusively responsi-

DEPARTMENT OF JUSTICE—Continued

ble for instruction in only two classes, while other departmental staff was exclusively responsible for seven classes, and contract personnel for twelve. Three classes, of the 24 offered, were taught by a combination of instructors.

Second, the staff development institute does not exclusively provide in-service training for departmental employees. In 1977-78, for example, departmental employees attended 56 courses at the Personnel Development Center (PDC) at a cost of \$44,545. A number of the courses attended by departmental staff at PDC, such as Secretarial Development School and Written Communications, also were offered by the institute (Secretarial Development Program and Writing Skills Program) and taught by contract personnel.

Finally, the staff development institute appears to be expanding unnecessarily. The institute began in 1975-76 with an offering of six courses, expanded to 13 in 1976-77, expanded further to 24 in 1977-78, and currently offers 31 courses. We question the appropriateness of an individual department establishing its own staff development institute, with contract staff as the primary instructional resource in the majority of courses, when centralized services are provided by the Personnel Board and other agencies for all state employees.

The Staff Development Training Institute currently has a permanent staff of three and would expand to six with the approval of the requested positions. We recommend deletion of the requested three new positions for a savings of \$61,000. We further recommend that the department justify, prior to legislative hearings, the cost-effectiveness of continuing this institute. In the absence of such documentation, we would recommend that the remaining three positions be deleted for an additional savings of \$99,070.

Tuition Receipts Not Properly Budgeted

We recommend all tuition funds collected by the department's Advanced Training Center from out-of-state students attending courses supported by funding from the Commission on Peace Officers Standards and Training be returned to the Peace Officers' Training Fund beginning in the current year.

The Department of Justice's Advanced Training Center offers a variety of law enforcement-related training courses attended by local, state and federal peace officers. In 1977-78 the center trained 2,539 local peace officers, 163 state peace officers, (including 35 Department of Justice employees), 287 officers from out-of-state, and 7 foreign peace officer personnel. Beginning in July 1978, the department requires that out-of-state students pay a tuition fee sufficient to cover the center's training costs. The department advises that as of December 31, 1978, \$38,640 had been collected from these students as unscheduled reimbursements.

A substantial number of out-of-state students attend courses offered by the center's Organized Crime Training Institute. For example, in 1977-78 out-of-state students comprised 49 percent of the attendees in the data analyst course, 50 percent of the commanders course, and 45 percent of

the organized crime analysis program. Overall, 18 percent of the institute's attendees were from out-of-state. Enrollment in these classes is limited. Currently, applications from 323 California students and 47 out-of-state students are backlogged waiting a course opening.

Because the Commission on Peace Officers Standards and Training supports these courses, under contract, from the Peace Officers' Training Fund, we believe out-of-state student tuition should be returned to the fund and recommend this procedure be implemented beginning in the current year. Based on collections to date, we estimate that approximately \$77,280 should be returned by the department in the current year.

New Building Support Questionable.

We recommend deletion of 9.6 new positions and transfer of \$35,130 from personal services to operating expenses to allow the department to contract for security services with the State police, for a net reduction of \$1,488 (Item 47). We further recommend reductions totaling \$65,190 (Item 47) in new building costs as follows: (a) \$16,685 for miscellaneous construction-related items (b) \$1,895 in overbudgeted rental expense, and (c) \$46,610 for unnecessary security devices.

Security Guards. The department proposes an expenditure of \$178,910 (\$34,543 in personal services and \$144,367 in operating expenses and equipment) for the anticipated Phase I occupancy of the new Department of Justice building during the spring of 1980. The department's Law Enforcement Consolidated Data Center will be occupying the building during Phase I, with the remaining branches of the Division of Law Enforcement to move into the facility during Phase II. The department proposes to establish 9.6 limited-term security officer positions for Phase I occupancy of the new building. With regard to the budget year, these positions would be employed for a 3-month period beginning April 1, 1980. The department has hired its own security personnel at the Division of Law Enforcement since 1975 because of internal security requirements and its belief that such personnel are more cost-effective and responsive to the department.

Establishment of such positions is contrary to state policy expressed in Government Code Section 14613 and Section 1403.9 of the State Administrative Manual which charges the California State Police Division with the responsibility to protect and provide police services for state-owned and state-leased facilities. The State Police provide security services for the Teale Consolidated Data Center and the Department of Motor Vehicles computer facility. The Department of Justice security guards are not able to handle the total range of security measures for the department. The State Police Division states that because the Department of Justice's security guards have no peace officer powers, the state police are often called out to the Division of Law Enforcement's current facility at 33rd and C Street in Sacramento to handle problems such as removal of abandoned vehicles.

The department proposes an expenditure of \$34,543 in personal services and \$2,075 for the standard complement of operating expenses and equipment for a total cost package of \$36,618 in the budget year. Our discussions

DEPARTMENT OF JUSTICE—Continued

with the state police indicate that annual costs for a state police security guard in the budget year are \$14,050. Thus, the total cost for the state police to provide the three months of required service during the budget year (assuming 10 positions) would be \$35,130, a savings of \$1,488 compared to Department of Justice estimates. Having the State Police provide security services for Phase I occupancy offers the following additional advantages compared to using departmental personnel for this purpose: (1) state police have peace officer status; (2) they can provide backup resources; and (3) they have experience in similar security operations.

In light of these circumstances, we recommend deletion of the 9.6 new positions and a transfer of \$35,130 from personal services to operating expenses and equipment in order to reimburse the Department of General Services for providing police service. We further recommend deletion of \$1,488, which represents the difference in expenditure between the amount budgeted by the department and the cost of police services.

Double Budgeting. A portion of the requested expenditures, totaling \$16,685, is construction-related, including telephone wiring, exterior lighting, door alarms and locks, and are inappropriately included in the support item. We further believe, as noted in the 1978-79 Analysis that the Legislature's decision to appropriate funds for Phase I construction and site development of the new Department of Justice building under Item 389 (d), Budget Act of 1977, was with the understanding that the \$4,679,000 appropriation would provide adequate funds to construct a complete and usable facility. Because these funds already have been appropriated, the requested construction-related expenditures are unnecessary. We therefore recommend deletion of \$16,685. We further recommend deletion of \$1,895 which the department mistakenly overbudgeted for new building rental expenses during the budget year.

Security Equipment. the Budget Act of 1978 appropriated \$18,000 to the Department of Justice to purchase a security card key system for the computer center. We had recommended against this added security system for the center because the building already is designed for limited employee and visitor access. Due to construction delays, the department will be unable to purchase this system in the current year and is requesting the funding to be reallocated in the budget year. The department further proposes an additional expenditure of \$44,660 to incorporate the key card system into the environmental, smoke and fire alarm system provided in the construction budget.

The need to provide security measures for the computer center was recognized in the 1976 Department of Justice building program developed by the Office of the State Architect. We believe, therefore, that all necessary security devices should be included in the \$4,679,000 appropriation approved by the Legislature in the Budget Act of 1977.

We believe the Legislature was generous in approving the card key system last year. Because the department appeared to be fully satisfied with the additional security support offered by that system, we see no reason to enhance the system further.

In addition, Section 1404 of the State Administrative Manual requires

DEPARTMENT OF JUSTICE—Continued

reduced by 10 percent. Although this amount is probably low in terms of actual support to general law enforcement, it at least reflects a more realistic allocation of costs. If the recommendation is adopted, the General Fund appropriation to the Department of Justice (Item 47) should be augmented by \$715,910 and Item 50, the appropriation from the Motor Vehicle Account (State Transportation Fund), reduced by a comparable amount.

STATE CONTROLLER

Items 52-56 from various funds	Budget p. 68
Requested 1979-80	\$30,442,778
Estimated 1978-79.....	27,465,580
Actual 1977-78	24,731,140
Requested increase \$2,977,198 (10.8 percent)	
Total recommended reduction	\$291,366

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
52	State Controller	General	\$28,549,260
53	State Controller	Motor Vehicle Fuel Account, Transportation Tax	1,469,836
54	State Controller	State School Building Aid	211,078
55	State Controller	Aeronautics Account, State Transportation	133,358
56	State Controller	Unclaimed Property	79,246
	Total		\$30,442,778

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Mandated Cost Audits.* Augment Item 52 by \$74,825. Recommend three positions for increased field audits of mandated cost claims. 87
2. *Interest on Excessive Reimbursements.* Recommend legislation requiring interest to be charged on excessive local reimbursements for mandated costs or revenue losses. 88
3. *Budgeting for Medi-Cal Warrants.* Reduce Item 52 by \$224,145. Recommend reduction of Item 52 and augmentation of Item 257 by an equivalent amount to assure appropriate budgeting for Medi-Cal warrant writing costs. 88
4. *Collective Bargaining Administrative Costs.* Reduce Item 52 by \$62,800. Recommend deletion of five positions for payroll processing costs expected to result from the collective bargaining process. 90
5. *Salary Overpayments.* Recommend State Controller's office take action to collect salary overpayments and report to Legislature. 91

- 6. Uniform Accounting and Reporting. Recommend legislation to require uniform accounting for cities and uniform reporting practices for all local governments. 93
- 7. *Unclaimed Property. Reduce Item 56 by \$79,246.* Recommend deletion of four "heir finder" positions. 96

GENERAL PROGRAM STATEMENT

The State Controller is the elected constitutional fiscal officer of the state. His responsibilities include those expressed in the Constitution, those implied by the nature of his office and those assigned to him by statute. Specifically, the State Controller is responsible for (1) the receipt and disbursement of public funds, (2) reporting the financial condition of the state and local governments, (3) administration of certain tax laws and collection of amounts due the state, and (4) enforcement of the unclaimed property laws. The Controller also is a member of various boards and commissions including the Board of Equalization, Franchise Tax Board, Board of Control, State Lands Commission, Pooled Money Investment Board, and assorted bond finance committees.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of \$30,442,778 in 1979-80, an increase of \$2,977,198, or 10.8 percent, over estimated 1978-79 expenditures. Funding is provided primarily by the General Fund (94 percent) with the balance coming from special funds and reimbursements. Table 1 shows the proposed level of expenditures for each of the five programs administered by the Controller's office. The Controller's major program, Fiscal Control, accounts for 55 percent of 1979-80 costs and is budgeted to receive the largest increase of any program (11.6 percent).

**Table 1
State Controller
Program Summary**

Program	Personnel-Years			Expenditures		
	1977-78	1978-79	1979-80	1977-78	1978-79	1979-80
I. Fiscal Control	587.4	635.1	658.8	\$14,591,206	\$17,081,931	\$19,060,209
II. Tax Administration	206.4	205.3	206.8	5,215,577	5,503,439	5,659,098
III. Local Government Fiscal Affairs	68.5	83.7	83.6	2,002,766	2,558,138	2,570,019
IV. System Development	80.9	82.8	80.7	2,600,691	2,957,345	3,190,810
V. Unclaimed Property	64.8	90.3	90.3	2,681,469	2,678,893	2,818,913
VI. Legislative Mandates	N.A.	N.A.	N.A.	58,153,501	81,897,283	80,012,766
(Less: Amounts Shown in Other Budgets)				(58,153,501)	(81,897,283)	(80,012,766)
VII. Refunds of Loan License and Other Fees	N.A.	N.A.	N.A.	-	30,000	30,000
VIII. Administrative Distributed	(30.8)	(32.7)	(31.7)	(895,976)	(949,959)	(959,673)

STATE CONTROLLER—Continued

Undistributed ..	17.6	18.0	20.0	565,938	592,325	772,013
Program						
Total	1,025.6	1,115.2	1,140.2	\$27,657,647	\$31,402,071	\$34,101,062
Less Reimburse- ments				2,926,507	3,936,491	3,658,284
Net Program Total				\$24,731,140	\$27,465,580	\$30,442,778

The Governor's Budget provides funding for 107 new positions in the Controller's office. Of these, 27 positions are proposed as continuation of expired limited-term positions into the budget year. These positions are primarily related to payroll. An additional 20 positions which were approved in last year's budget are proposed to continue Medi-Cal audits. Reimbursable services account for 22.5 positions, including 13 for payment of Medi-Cal warrants. A total of 11.5 positions are proposed to implement recently enacted legislation and 26 positions are requested for general workload increases.

As a result of Section 27.1 and 27.2 of the 1978 Budget Act, the Controller's staff was decreased by 25.1 work-years, 2.3 percent of its base, and total expenditures were reduced \$1.5 million, or by 4.2 percent. Table 2 summarizes these reductions by program.

Table 2
Section 27.1 and 27.2 Reductions
Summary by Program

	<i>Positions</i>	<i>Expenditures</i>	<i>Percent Total of Reductions</i>
I. Fiscal Control	2.0	\$385,238	26.3%
II. Tax Administration	8.1	146,243	10.0
III. Local Government	4.0	92,979	6.3
IV. System Development	9.0	305,760	20.8
V. Unclaimed Property	2.0	537,361	36.6
	25.1	\$1,467,581	100.0%

I. FISCAL CONTROL

The Fiscal Control program seeks to assure the fiscal integrity of the state through a system of controls over the state's financial transactions and periodic reports on the state's financial condition and operations. As shown in Table 3, the program is carried out through four divisions: Accounting, Audits, Disbursements, and Payroll and Personnel Services.

Table 3
Fiscal Control Program
Summary by Element

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	1977-78	1978-79	1979-80	1977-78	1978-79	1979-80
Accounting Division						
Control Accounting	48.5	47.9	48	\$1,374,623	\$1,374,540	\$1,408,015
Financial Analysis	14.9	16.8	14.9	504,724	571,802	522,243

Audits Division						
Claims Audits	40.4	42.5	44.7	777,069	840,835	887,468
Field Audits	79.1	114.2	118.0	2,281,423	3,465,248	3,580,936
Disbursements Division						
Disbursements Services.....	96.8	101.3	101.4	3,708,059	4,111,439	4,878,557
Technical Services.....	54.5	71.5	77.1	1,259,899	1,578,158	1,752,681
Less amounts distributed to other programs....				(1,207,366)	(1,530,158)	(1,594,812)
Personnel and Payroll Services						
Personnel Services	127.3	116.4	117.2	3,625,997	4,068,095	4,167,685
Payroll Services	125.9	124.5	137.5	2,266,778	2,601,972	3,457,436
Totals	587.4	635.1	658.8	\$14,591,206	\$17,081,931	\$19,060,209

Minor Staffing Increase for Accounting Division

The Accounting Division carries out control accounting and financial analysis activities. Control accounting maintains accounts on all funds in the State Treasury and for the treasury trust system. Although the number of transactions involving these accounts has shown a constant increase, staffing has remained constant because of increased reliance on data processing equipment.

Chapter 1284, Statutes of 1978 (AB 3322) established new requirements regarding the treatment of federal funds. It established a Federal Trust Fund in the State Treasury to receive all federal money allocated to the state, its agencies, departments and institutions. Agencies which receive federal funds must now file a financial plan with the Controller, who is responsible for approving the expenditure of these funds. The budget shows no new positions to accomplish this workload, but the Controller expects the Department of Finance to provide positions and funds for this purpose through Item 349.1 of the 1978 Budget Act (appropriation for the California Fiscal Information System (CFIS) project).

The Financial Analysis Unit prepares various reports on the state's financial transactions and condition. It also calculates the amounts due local agencies from taxes collected by the state, mandated cost claims, property tax relief and federal funds. The local government fiscal relief measures, Chapters 292 and 332, Statutes of 1978, created additional workload requiring 1.5 personnel-years in the current year and 0.5 personnel-year in the budget year. These positions are financed from federal (Public Works Employment Act, Title II) funds.

In the budget year, General Fund money is provided for 1.0 additional personnel-year to handle workload from the increased mandated cost claims submitted by local governments.

Audits Division Shows Major Increase

The Audits Division administers two distinct program elements, claims audits and field audits.

Claims Audits. Claims audit personnel review claim schedules submitted by departments before payment is made for services rendered and goods received. The review assures that requested payments are properly authorized and that funds are available for such payments. The budget

STATE CONTROLLER—Continued

proposes 2.2 additional personnel-years at a cost of \$31,815 to the General Fund to deal with increased workload. We believe that this increase is justified on the basis of growing backlogs and increasing workload per auditor.

Field Audits. Field audit activities consist of post-payment review of expenditures of state and federal funds by both state and local agencies. Audits of expenditures of federal funds are done on a reimbursable basis. In the current year, the General Fund pays 24 percent of field audit program costs, special funds pay for 6 percent, and reimbursements, primarily from federal funds, pay for 70 percent. In the budget year, there is a net increase of 3.8 personnel-years, but the General Fund will bear a larger share (39 percent) of total program costs. This results from (1) 4.8 new positions in the budget year funded from the General Fund and (2) a shift of 20 positions for Medi-Cal audits from Title II to General Fund money.

Independent Medi-Cal Audit Starts

Last year, the Legislature approved \$231,229 from the General Fund for 19 positions to allow the Controller to audit the Medi-Cal program. This was in response to the Controller's request for 39 positions for such audits. The Governor deleted the \$231,229 (General Fund) from the Budget Bill and instead authorized 20 positions to be funded with a Title II grant. The budget proposes to fund these positions from the General Fund in the budget year.

At the present time, the Controller's efforts are directed at (1) developing an overview of the system of fiscal controls under which the Medi-Cal program operates, (2) auditing Medi-Cal providers, and (3) following up on the results of various post-expenditure reviews by other state agencies both within and outside of the Department of Health Services. In establishing the Controller's Medi-Cal audit role, the Legislature's apparent objective was to provide for an independent review of these expenditures and controls. The Controller's office has stated that the Legislature can expect a report in early 1980 on the results of its efforts through December 1979. We recommend approval of the proposed General Fund support for the positions.

New Reimbursable Audit Positions

The budget shows 4.3 new positions which were administratively established in the current year and are supported through federal reimbursements. The positions are continued in the budget year in addition to 4.8 new positions which would also be funded through reimbursements. The 9.1 personnel-years will audit the federal disaster assistance and flood relief programs, the Coastal Zone Management Grant program, and prime sponsors under the Comprehensive Employment and Training Act (CETA) program.

Controller's Role in SB 90 Claims

Chapter 1406, Statutes of 1972 (SB 90), first authorized the reimbursement of local governments for state mandated costs and lost sales and property tax revenues. Under Chapter 1406, local governments could submit claims for reimbursement only in cases where the mandating statute acknowledged an obligation on the state's part to cover the increased costs (or revenue loss) resulting from the mandate. Chapter 1135, Statutes of 1977, significantly broadened the reimbursement program authorized by Chapter 1406. It allows local governments to appeal to the Board of Control for reimbursement where (1) legislation contained a section disclaiming any state obligation to finance mandated costs, and (2) legislation did not disclaim the state's obligation to reimburse local governments, but provided no appropriation for reimbursement.

Local reimbursements in 1979-89 are budgeted at more than \$80 million. The \$80 million, however, does not include claims for reimbursement which might be approved by the Board of Control under Chapter 1135.

The Controller's office has two functions with respect to reimbursement of mandated costs and lost revenues. First, the financial analysis unit within the Accounting Division receives the reimbursement claims from local governments and conducts a desk audit before honoring the claim. Second, after payment, the field audit bureau within the Audits Division selectively audits the local government claims to verify the validity of the amount claimed. The Accounting Division will utilize two personnel-years in the budget year (including one new position) for desk audits, and the Audits Division will utilize three personnel-years for field audits.

Chapter 1135, will increase workload in the accounting division as the board begins to approve new types of claims. Consequently, we believe the one additional position in the budget year for the accounting division is justified.

Field Auditing of Local Reimbursements

We recommend that Item 52 be augmented by \$74,825 to provide for three positions to increase the field auditing of reimbursement costs resulting from state mandates.

Field auditing of local reimbursements during the 1977-78 fiscal year utilized less than 0.5 personnel-years. This activity was expanded in the current year with an additional two personnel-years. The field audit results show an extremely high rate of audit exceptions, with 80 percent of the claims adjusted in 12 audits of four different programs. The ratio of adjustments to direct cost is approximately 25 to 1.

The Controller has categorized approximately 16 statutes as having a high potential for adjustment. These 16 statutes involve approximately \$36 million in claims over a two-year period, which is 20 percent of the total reimbursements for that period. To audit 20 percent of the claims filed under these 16 statutes would require an estimated 13 personnel-years. The budget proposes only three personnel-years, which would mean that less than 5 percent of the reimbursements in this category would be audited.

In view of (1) the high rate of potential disallowances and (2) the

STATE CONTROLLER—Continued

potential increase in claims as a result of Chapter 1135, we believe that the Controller's budget should be augmented by \$74,825 to provide for three additional reimbursement field audit positions. With these additional positions, the State Controller's office (SCO) would have six auditors available, which should allow it to establish an audit presence sufficient to encourage greater accuracy in the preparation of these claims by local governments.

Interests on Excessive Reimbursement Claims

We recommend that legislation be enacted to require the Controller to charge interest on excessive reimbursements claimed by and paid to local governments for the purposes of eliminating General Fund interest income losses and removing incentives for local governments to file excessive claims.

The Controller currently does not charge interest on reimbursements for mandated costs or revenue losses erroneously claimed by and paid to local governments. The absence of an interest charge results in a loss of income to the General Fund since the erroneously claimed and paid amounts would otherwise be invested through the state's Pooled Money Investment program. At the same time, local governments benefit from excessive reimbursement claims because, in effect, they receive an interest-free "loan" of state funds. In order to offset state investment income losses and reduce the incentive for local governments to file excessive claims, we believe legislation should be enacted to require an interest charge on excessive reimbursements for whatever period such funds are held by local governments.

Disbursements Division Gears Up for Medi-Cal Warrants

The disbursements division is responsible for preparing warrants and reporting transactions to the central control accounts maintained by the Accounting Division. The disbursements division also provides support services such as data processing, reproduction and mail services to other divisions within the Controller's office.

In the current year, 13 positions will be administratively established to process Medi-Cal warrants. These positions are proposed for continuation in the budget year at a cost of \$689,678. Medi-Cal warrants were formerly the responsibility of a private firm, pursuant to a contract with the Department of Health Services. When the new contract for Medi-Cal fiscal intermediary services was developed, the State Controller assumed responsibility for preparation of warrants. The first warrants will be written in June 1979. Full-year workload will amount to 2.6 million warrants and related documents. A substantial portion of these costs (52 percent) are for postage.

Program Budgeting Should be Followed

We recommend that the \$224,145 for the Medi-Cal warrant process be deleted from Item 52, the General Fund appropriation to the State Controller, and included in Item 257, the General Fund appropriation for the Department of Health Services.

In Chapter 1284, Statutes of 1978 (AB 3322), provided that "program

budgeting" concepts be utilized in the budget. The specific intent of the statutes is that department budgets reflect the costs associated with each program. The direct appropriation of funds to the Controller to cover the cost of Medi-Cal warrants would be contrary to program budgeting objectives because it would understate the costs associated with the Medi-Cal program and overstate the costs of the Controller's programs. A portion of warrant costs (\$465,533) is currently treated as reimbursements in the budget. This recommendation will result in all of the Medi-Cal warrant costs being treated in a consistent manner.

Tax Relief Causes More Warrants

Chapter 569, Statutes of 1978 (AB 3802), made changes in the Personal Income Tax Law and Senior Citizens' Property Tax Assistance program which increase the Controller's warrant workload. The Governor's Budget includes \$259,802 to cover the costs of this legislation. These funds will provide for postage and 0.5 additional personnel-years.

Support Services Supporting More

The budget proposes the addition of eight positions in the technical services unit of the Disbursement Division. Approximately 5.6 new positions are required because of (1) the general increase in demand for support services due to the continuing growth of the State Controller's Office programs and (2) the growth in the workload of the disbursement services division due to a higher number of transactions. The remaining two personnel-years are necessary to improve the control and management of sensitive information including payroll data, which the Controller's office maintains. The shift from an "in-house" computer to the Teale Data Center computer will require the development of new procedures to assure security adequate to maintain confidentiality. In view of these needs, we believe the proposed positions are appropriate.

Payroll and Personnel Services Division

The Payroll and Personnel Services Division is responsible for maintaining the personnel records on all state employees and for payroll processing through the personnel services unit and the payroll services unit.

The personnel services unit maintains state employee personnel records in a computerized system, the Employee History Data Base. Information comes from the departments on newly hired or terminated employees, as well as changes in personal or employment status for existing employees, such as transfers, promotions, new dependents, and new addresses. Information from the data base is provided to the State Personnel Board, the Public Employees Retirement System (PERS), the State Controller's office payroll unit and to various other state agencies, as necessary.

The budget shows minor increases in staffing in the personnel services unit. One new position is funded through reimbursements to coordinate contract work between the California State University and Colleges (CSUC) and the SCO. The continuation of one position is proposed for training of departmental staff in personnel and payroll procedures. New workload requires one new position on a limited-term basis until 1981. Much of this workload stems from Chapter 1159, Statutes of 1977 (the State

STATE CONTROLLER—Continued

Employee Employer Relations Act) which is creating demands for information from both sides of the bargaining table.

Payroll services administers the Uniform State Payroll System. The payroll services unit is requesting 18 additional personnel-years in the budget year to deal with (1) transition to the new payroll system and (2) increased payroll transaction.

New Basic Payroll. Late in the current year, the Controller expects the basic payroll computer program to go into operation at the Teale Data Center. Funding is provided for two personnel-years, on a limited-term basis, for user acceptance testing of the new system. Five data guidance personnel, also limited-term, are proposed in the budget year to operate the new payroll system. These positions were established on a limited-term basis two years ago and have been utilized in the testing of the new programs.

Payroll Transactions. The payroll section anticipates greater than normal growth in the number of payroll transactions during the budget year. Normal workload growth typically amounts to approximately 3 percent per year. Four of the proposed 11 positions are requested for this normal workload increase. Payroll transactions handled in this section are not primarily a function of the number of state employees, because the section is not directly involved in the basic monthly payroll. Rather, payroll transactions involve special payments for overtime, shift differential, sick pay and disability leave. These transactions also involve changes in the numerous deductions which are available to state employees, such as employee organization dues, credit union savings, U.S. Savings Bonds, and United Way contributions. The number of these transactions may change for reasons unrelated to changes in the number of state employees. For example, the absence of any general salary increase for state employees in the current year apparently has resulted in a sharp increase in the number of changes requested in the optional deductions for credit union savings, U.S. Savings Bonds, and United Way contributions.

Budgeting for Collective Bargaining Premature

We recommend that five positions and \$62,800 be deleted from Item 52 and that appropriate costs be included in the legislation appropriating salary increases negotiated in the collective bargaining process.

The remaining seven new positions in the payroll services unit are requested in anticipation of increased workload resulting from the collective bargaining legislation. The increased workload is of two types: (1) that which *will* occur as part of the new process (two positions) and (2) that which *may* occur as the result of the actual salary negotiations (five positions). The first category involves membership changes in employee organizations resulting from the designation of bargaining units. The second category would include (1) retroactive provisions which require adjustment to back pay and (2) special treatment for particular groups of employees.

The Governor's Budget does not include funds for employee salary increases resulting from the collective bargaining process, but states that

separate legislation will be submitted to fund these increases. At the completion of the bargaining process, it should be possible to more accurately determine the need for any increased administrative funds that result directly from the salary negotiation process.

As of now, there is no basis for estimating what, if any, additional workload will result from the bargaining process in the budget year. If, at that time, it is determined that the agreements reached will result in increased administrative costs, these costs can be funded in the separate legislation enacted to fund the employee salary increases. For this reason, we recommend deletion of the five positions and \$62,800 included in the budget for anticipated workload costs associated with the outcome of the salary negotiation process.

Collection of Salary Overpayment

We recommend that the State Controller take positive steps to collect outstanding salary overpayments and advise the Legislature of its progress no later than December 1, 1979.

Background. During the course of implementing the 1973-74 salary increase program, approximately 620 state employees were mistakenly placed at higher than allowable salary steps during the federally imposed salary freeze period (July 1, 1973 to May 1, 1974). These errors were attributable to complexities arising from the state's effort to comply with salary increase limitations imposed by the federal Cost of Living Council which reduced the percentage increases received by certain classifications of state employees.

According to the State Personnel Board (SPB), approximately 350 employees were overpaid for one to two months and immediately repaid the overpayments. Approximately 200 additional employees were identified as having been overpaid between July 1974 and July 1976. Nearly all of these employees have repaid their overpayments. The overpayments made to these 550 employees total less than \$250,000. In October 1976, an additional 70 employees were discovered to have been overpaid, and these employees still owe approximately \$130,000.

Board of Control Claims

Board of Control Claims. Of the 70 persons who were overpaid, 49 persons appealed to the Board of Control to forgive the repayment obligation. The other 21 individuals were all from the Department of Justice. The Board of Control granted relief from payment, totaling \$49,839.25 to the 49 individuals. During the deliberations on the two Board of Control omnibus claims bills last session (Chapters 882 and 1074, Statutes of 1978), we recommended that the Legislature deny these claims for the following reasons:

First, it has been the longstanding policy of the SPB that salary overpayments must be collected from employees and salary underpayments must be paid by the state.

Second, failure to collect the overpayments is inequitable to (1) those employees in similar circumstances who have had to repay such overpayments and (2) those employees in the same class at the same salary range who received the proper (lower) amount of compensation.

STATE CONTROLLER—Continued

Third, the recovery of overpayments could be accomplished without causing undue hardship to the employees by collecting monies on an installment basis.

Department of Justice Employees. The Department of Justice has declined to pursue repayment from its 21 employees, 20 of whom are high-level attorneys. In a position paper dated July 7, 1976, the department advised the State Personnel Board that it did not believe recovery of these overpayments was legally justified or equitable. (See Item 47, Department of Justice, for further discussion.)

In light of the Legislature's rejection of the 49 claims contained in the claims bill, the State Personnel Board queried the State Controller regarding what actions, if any, would be taken by the Controller to collect repayments from Department of Justice employees. The Controller advised our office on January 11, 1979 that this matter was still under review.

Increase Collections Effort. Because the State Controller has ultimate responsibility for fiscal control over the disbursement and receipt of state funds, we believe that steps should be taken to insure that the 49 Board of Control claimants and the 21 Department of Justice employees repay their salary overpayments. Such action would be consistent with recent expressions of legislative intent. We, therefore, recommend that the State Controller take the necessary steps to secure repayment in an equitable manner and advise the Legislature of its progress no later than December 1, 1979.

II. TAX ADMINISTRATION

The Tax Administration program administers the Inheritance and Gift Tax Laws, collects various minor taxes, including the insurance tax and motor vehicle license tax, and refunds gas taxes paid for certain nonhighway uses. Table 4 provides a summary of the personnel-years and expenditures for the four elements of this program.

Table 4
Tax Administration
Program Summary

	<i>Personnel Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Inheritance Tax	138.8	144.0	144.8	\$3,565,720	\$3,882,002	\$3,976,577
Gift Tax	27.6	23.3	23.1	665,070	621,409	620,116
Tax Collection	2.6	2.6	2.6	84,092	101,838	91,471
Gas Tax Refund	37.4	35.4	36.3	900,695	898,190	970,934
Total	206.4	205.3	206.8	\$5,215,577	\$5,503,439	\$5,659,098

Increases for Workload and Legislation

The budget proposes to add a clerical position in the Los Angeles office for inheritance tax workload. In addition, a senior clerk in the gas tax refund element is proposed to deal with new workload resulting from Chapter 1140, Statutes of 1978 (SB 1234). Chapter 1140 allows private transportation companies providing services to public agencies to claim a refund of the use fuel or motor vehicle fuel license tax. This is expected

to increase workload by an estimated 550 claims annually.

III. LOCAL GOVERNMENT FISCAL AFFAIRS

The Local Government Fiscal Affairs program is responsible for (1) prescribing accounting and budgeting requirements for counties and special districts and reporting local government financial transactions, (2) reviewing and reporting on the use of state gas tax funds, (3) approving county cost plan allocations, (4) administering state law regarding property tax delinquencies, and (5) administering portions of the Senior Citizens' Property Tax Postponement program. Table 5 summarizes the activities for the five elements in this program.

Table 5
Local Government Fiscal Affairs
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Financial Information.....	26.5	34.9	34.9	\$812,922	\$1,085,649	\$1,046,157
Streets and Roads	22.8	23.3	23.4	613,207	710,593	738,159
County Cost Plans.....	8.0	8.5	8.4	224,809	232,105	235,258
Tax Deeded Land	7.9	8.5	8.5	191,225	191,704	194,846
Senior Citizens' Property Tax Postponement ..	3.3	8.5	8.4	160,603	338,087	355,599
Total	68.5	83.7	83.6	\$2,002,766	\$2,558,138	\$2,570,019

The budget includes continuation of Federal Title II support for one personnel-year (four positions until September 1979) to administer Chapters 292 and 332, Statutes of 1978, the local government fiscal relief measures. Under these statutes, the Controller is responsible for distributing funds under prescribed procedures to cities, counties and special districts.

The Senior Citizens' Property Tax Postponement program is administered jointly by the State Controller's office and the Franchise Tax Board. Our review of this program is included in Item 425.

New Accounting and Reporting Standards Needed

We recommend legislation to require uniform accounting for cities and uniform reporting practices for all local governments.

As a result of Proposition 13, there has been considerable interest in the general area of local government finances and in specific categories of local financial transactions. For example, Chapter 292, Statutes of 1978, imposed a requirement that police and firefighting service levels not be reduced in 1978-79 below 1977-78 levels. While it may be possible to provide the same level of police and firefighting services at a lower cost, the most common method of evaluating compliance with this requirement has been to compare funding levels for these particular services from year to year. As another example, the Office of Criminal Justice Planning has recently decided to use the State Controller's Annual Report of Financial Transactions as a basis for allocating grant funds to cities. Since it appears that, in the future, more decisions will be made on the basis of the local financial data collected and reported by the Controller, it is imperative that the data produced meet certain standards of uniformity so as to ensure comparability and minimize inequities.

STATE CONTROLLER—Continued

Uniform accounting needed for cities. "Accounting" refers to the manner in which individual transactions are classified by local governments in the process of collecting revenues and administering programs. Under current laws, uniform accounting procedures are prescribed for counties and special districts by the State Controller and for K-12 schools and community college districts by the state Department of Education. Cities are not required to maintain a uniform accounting system. Accordingly, there is a great deal of variation in the way financial transactions are reported from city to city. We believe a necessary first step in the process of improving local financial data is to require cities to adopt uniform accounting practices.

Uniform reporting for all local governments. The issue of uniform reporting deals with the manner in which groups of individual expenditures are classified for purposes of presenting local budget information and reporting financial data to the State Controller. Currently there are no controls over the way local governments classify their expenditures for these purposes, and this further reduces the utility of the information presented in local budgets and the Controller's reports. For example, some counties classify their Medi-Cal contributions as "Medical Services", some as "hospital care", and others as "aid to indigents" or "welfare administration". Moreover, local governments will frequently change their classification of expenditures, in some cases every year, so that it becomes impossible to compare expenditures for a certain activity over time. Given the recent interest in local finances, we believe enforceable uniform reporting is necessary to provide the public and the state with an accurate picture of local spending.

Accordingly, we recommend that legislation be enacted to require the development of uniform accounting and reporting standards on a cooperative basis with local governments. An advisory group similar to the existing Controller's Advisory Committee on Uniform Accounting for Counties should be established so that the existing accounting practices could be considered in the development of uniform *accounting* standards for cities. Uniform *reporting* standards for all local governments should be prescribed and enforced by the State Controller, with provision for effective penalties for noncompliance. For example, the Controller could be allowed to withhold subvention payments to local agencies refusing to comply with these standards. We believe the legislation should also recognize that local costs will be incurred in the transition to the new standards and that these costs should be reimbursed by the state.

VI. SYSTEMS DEVELOPMENT

The Systems Development program is responsible for development and maintenance of the computer programs utilized in the Personnel and Payroll Services Division. This program is the latest stage in the organizational evolution of the Payroll Information Management System (PIMS) project. The PIMS project was established in 1973 to design and develop a computer based personnel and payroll information system. Last year's budget noted the merger of the development staff and the maintenance

staff for the payroll and personnel computer programs. The change this year is in name only, from Personnel Systems Support to Systems Development. An additional consolidation may occur when the payroll computer programs are operational at the Teale Center. Table 6 summarizes the activities of the division.

**Table 6
Program Summary**

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Payroll Development	47.3	29.4	27.7	\$1,511,663	\$1,046,574	\$1,118,203
PERS Support.....	9.2	—	—	327,430	—	—
Employment History Development	24.4	15.0	14.6	761,598	618,808	642,236
Systems Maintenance Support.....	—	38.4	38.4	—	1,291,963	1,430,371
Total	80.9	82.8	80.7	\$2,600,691	\$2,957,345	\$3,190,810

The basic personnel system, the Employee Data Base, has been operational since February 1975. The basic payroll system is scheduled to become operational in September 1979. As a result, development activities are increasingly focused on report generation for various agencies, such as the State Personnel Board, the Public Employees Retirement System (PERS) and Department of Finance, the California State University and College System (CSUC), and the Governor's Office. As development activities have decreased, maintenance activities for the basic systems have grown. Maintenance consists of revising the computer programs to improve efficiency and to reflect changes in federal and state law which affect personnel and payroll matters. In the budget year, the net effect of changes in this program is a 1.5 personnel-year decrease in the payroll development effort. The budget proposes to continue 13 limited-term positions for maintenance of existing programs for one year.

V. UNCLAIMED PROPERTY

Through the Unclaimed Property program, the Controller (a) collects unclaimed property from holders of such property (financial institutions, corporations and others) and (b) attempts to return the property to owners or heirs. Table 7 summarizes expenditures of the Unclaimed Property Division for the two program elements, abandoned property and estates with unknown heirs.

**Table 7
Program Summary
Unclaimed Property Program**

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Abandoned Property	60.9	85.1	85.1	\$2,597,776	\$2,553,630	\$2,683,692
Estates of Deceased Persons	3.9	5.2	5.2	83,693	125,263	135,221
Total	64.8	90.3	90.3	\$2,681,469	\$2,678,893	\$2,818,913

STATE CONTROLLER—Continued

Abandoned Property

Under the Unclaimed Property Law, the state requires that any party holding specified personal property owned by another must turn such property over to the state if the owner has not corresponded with the holders within a specified period. This period is generally seven years, except that travelers checks may be held for 15 years. Property covered by the Unclaimed Property Law includes intangible personal property such as checking and savings accounts, stocks, bonds, life insurance proceeds or annuities, travelers checks, unpaid wages and unpaid vender claims. Also included is tangible personal property such as the contents of safe deposit boxes or property held in the course of business. The state maintains an account for each owner of unclaimed property and attempts to locate the owners. Noncash items may be sold and the proceeds credited to the owner's account. The owner or his heirs are entitled to claim such property in perpetuity. Excess funds in the Unclaimed Property Fund are transferred to the General Fund.

Controller Proposes New Role

We recommend the deletion of four positions proposed for a state "heir finders" program, for a savings of \$79,246.

The Governor's Budget proposes to continue four positions administratively established to implement Chapter 1184, Statutes of 1978, in the budget year during the current year. Chapter 1184 requires the Controller to implement a "procedure" to locate the owners of unclaimed property. The Controller proposes to utilize the four requested positions to actively search out the owners or heirs of unclaimed property without charge to the owners or heirs.

We believe that the State Controller's office should first seek to improve existing state procedures for locating unclaimed property and that private sector "heir finders" should be utilized to the greatest extent possible for any active property location efforts. Reliance on private "heir finders" rather than on state "heir finders" reduces the cost to the taxpayers of helping owners to recover their unclaimed property.

The State Controller's Office "Heir Finders" Program

The Controller proposes a four person unit which would select 6,000 accounts per year and attempt to locate the owners of those accounts. The SCO projects a 25 percent success rate, or about two successful location efforts per day per employee. The Controller has suggested the following selection criteria:

- Accounts with prominent names;
- Accounts greater than \$1,000; and, as resources permit,
- Accounts below \$1,000.

The Controller does not intend to charge a fee for this service. To locate such persons, the Controller would use information from the original holder and attempt to locate the owner through various state agencies including the Department of Motor Vehicles, the Franchise Tax Board, the State Library and the Bureau of Vital Statistics. While in the past the

State Controller's office has not collected Social Security numbers on accounts, it plans to begin utilizing this number to locate heirs and owners.

Existing Efforts

The existing process for locating unclaimed property consists of (a) efforts required of holders, (b) efforts required of the Controller, and (c) efforts of private locating services.

Requirements Placed on Holders. Under current law, every bank or financial organization is required to "make reasonable efforts" to notify any person that their property will escheat to the state as of a specified date. The attempt to find such owners must be made between 6 and 12 months prior to the date of such transfer. Currently, this requirement is not imposed on property holders other than banks and savings and loan associations. In 1977-78, banks and savings and loan associations accounted for approximately 60 percent of the amounts received by the state and a larger share of amounts reported to the state.

Requirements on the State Controller. Under current law, the State Controller's Office is required to (a) mail a notice to every person for which it received notice of abandoned property, and (b) advertise in a newspaper of general circulation for one day in two consecutive weeks the name and last known address of property owners. Persons are instructed to contact the Controller's office to initiate the claim process. The Controller may not yet have possession of the property, in which case the owner is directed to the holder of the property.

In 1977-78, the Controller mailed notices to approximately 124,000 persons. About one-half of these notices were returned to the Controller as "undeliverable", indicating that the remaining one-half were delivered to the appropriate persons. The Controller also purchased space in newspapers to list 124,000 owners of unclaimed property in 1977-78.

Private Locating Services. In addition to efforts required by law, there are private individuals who search for owners of unclaimed property and charge for their services. Although such persons seek to locate either owners or their heirs, they are frequently referred to as "heir finders". Because the unclaimed property records are public, heir finders can identify particularly valuable accounts and attempt to locate the owner. When they find the apparent owner, they negotiate a fee for this service. Specific information is not available as to the amounts of recovered property for which heir finders are responsible.

Improvements to Existing Procedures

Extension of Notification Requirements. While the results of existing efforts to locate persons are known in the aggregate, the specific reason for a successful location effort is not known. In November 1977, holders of property notified the Controller of 124,000 unclaimed property accounts valued at \$62 million. The SCO reported that approximately \$28 million was returned to an estimated 50,000 owners directly by holders. In addition, the Controller's office returned \$1.6 million to 3,200 owners.

As noted there are two, and in many cases even three or four, ways a person can learn of abandoned property. First, if the holder was a bank or savings and loan association, the owner may receive a notice from the

STATE CONTROLLER—Continued

holder. Second, the owner may receive a notice from the Controller. Third, the owner may see his or her name in the newspaper listing of abandoned property owners. Fourth, the owner or heir may be contacted by an "heir finder" regarding his or her property.

The costs involved in these efforts are substantial. Advertising costs in 1977-78 amounted to approximately \$1.1 million. The total costs of the Controller's mailings are estimated at less than \$50,000 in 1977-78. At this time, the Controller does not know the extent to which individual methods are responsible for successful location efforts.

There are indications, however, that the notices which holders must send are a very effective means of returning property to owners. This requirement (imposed by Chapter 1214, Statutes of 1976) first affected holders in 1977-78 and is limited to banks and savings and loan associations. As indicated above, holders returned \$28 million (or 45 percent) of total unclaimed property directly to owners in 1977-78. In the prior year (before Chapter 1214 notification requirements were effective), only 2 percent of unclaimed property was returned by holders. Because of its apparent effectiveness, we believe that this notification requirement should be extended to property holders other than banks and savings and loan associations.

Notification Procedure Revisions. The Controller has found that the multiple contacts with individuals under existing law frequently lead to confusion and misunderstanding between holders, owners and the state. The Controller's office has indicated that it will seek legislation to remedy these problems. Specifically, the SCO suggests that the time be extended during which the two or three state-required efforts to locate owners are made so that the results of one effort may be taken into account before the next step is initiated. We believe that this approach would allow the SCO to avoid duplicative efforts and may substantially reduce the number of names which must be published. This change will also allow better information to be developed about the effectiveness of the various methods used to locate unclaimed property. The Controller has suggested that the publishing requirement be reduced from twice in successive weeks to once. This change alone will reduce the publishing cost by approximately 50 percent.

Use and Regulation of Heir Finders. We believe that commercial "heir finders" provide a useful service. While the process is open to abuse, legislation has been enacted to protect the interests of owners. Chapter 815, Statutes of 1978, amended the laws which regulate the practices of heir finders. Prior law (1) required that, within nine months of the time property escheated to the state, an agreement between an apparent owner and an heir finder must disclose specified information and (2) limited the finder's fee to 10 percent of property value. Under prior law, there was no limit on the finder's fee after nine months from the escheatment date. Chapter 815 provides that no agreement may be entered into within six months of the time the property is paid or delivered to the Controller. After six months, fees in connection with such agreements may not be in excess of 10 percent of the property value. With such a limit, it

is likely that accounts of lower value are less likely to yield a sufficient fee to attract heir finders. We believe the Controller should attempt to measure the effects of the 10 percent limit on heir finder's fees over several years. Such a review may indicate the need to allow higher percentages on lower valued accounts or on accounts which have been on file for long periods of time.

Budget Reflects Anticipated Legislation

We recommend legislation deleting the existing requirement that names of owners of accounts over \$50 be published.

Under current law, the State Controller is required to publish the names of all unclaimed property owners whose accounts exceed \$50 in value. The Controller estimates the cost of this requirement at approximately \$700,000. The budget as submitted provides \$330,000 for publication of names. The Governor's Budget states that legislation will be proposed to raise the account value at which advertising is required from \$50 to \$100. However, the Controller's office reports that the proposed amount is \$140,000 below the amount necessary to comply with the proposed legislation.

Effectiveness of Publication Not Demonstrated

As noted above, no evidence has been developed which demonstrates that the publication of names is an effective means of reuniting owners with their property. In the absence of demonstrated effectiveness, we have no basis for supporting a statutory requirement that names of accounts above any specific amount be published. Thus, we recommend eliminating entirely the existing statutory requirement that names of accounts above \$50 be published one day a week for two consecutive weeks.

The Controller would still have the responsibility imposed by Chapter 1184 to implement a procedure to locate owners of abandoned property. To meet this charge, we suggest that the Controller utilize the \$330,000 in the budget to test the effectiveness of publishing names. The test should include a random selection of accounts at all value levels. The test should be conducted in a manner such that the effects of the notices mailed to owners could be distinguished from the effects of publishing the names. The Controller may also wish to test the effects of publishing a name once as opposed to twice. If the Controller can demonstrate that publication of names is an effective means of locating owners then, in future years, funding at an appropriate level should be provided.

VI. LEGISLATIVE MANDATES

Under this program, the Controller reimburses local governments for (1) costs resulting from new and increased state mandated responsibilities and (2) sales and property tax revenue losses resulting from state legislation. In the budget year, these reimbursements are estimated at \$80 million. Our review of these reimbursements is included under the individual items which appropriate the reimbursement funds.

STATE CONTROLLER—Continued

VII. REFUNDS OF TAXES, LICENSES AND OTHER FEES

The budget recommends that \$30,000 be appropriated for refunds to taxpayers who have made erroneous payments or overpayments of taxes, licenses and other fees. This mechanism avoids the delays and costs associated with claims for noncontroversial refunds filed with the Board of Control and included in the Claims Bill.

VIII. ADMINISTRATION

The administration program provides executive direction, policy guidance, management and support services to the operating divisions. Table 8 shows the expenditures for each element of this program.

Table 8
Administration
Program Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
Executive Office	18.6	19.0	19.0	\$713,090	\$736,310	\$744,845
Administrative Services ..	29.8	31.7	32.7	748,824	805,974	986,841
Total	48.4	50.7	51.7	\$1,461,914	\$1,542,284	\$1,731,686

The budget proposes an increase of two limited term positions in the administrative services element in the budget year. One position is established to assist the business services officer in monitoring the extensive remodeling and relocation effort currently underway in the State Controller's offices. In addition, one position is added to strengthen internal audit procedures. A recent review by outside consultants of internal audit procedures recommended that the State Controller's office review the fiscal controls utilized by other state departments. The objective is to assure that the complete fiscal control process, in and out of the Controller's office, is adequate to assure against misappropriation of funds. The additional position requested for the budget year will be used to initiate the test of departmental controls in approximately 10 percent of the departments.

The apparent 12.3 percent increase in the administration program results from an inconsistent treatment of certain costs between the current and the budget year. Certain costs approved by Department of Finance late in the budget process were not distributed to the operating programs, but were charged to administration. These costs included (1) staff benefit increases, (2) price increases for operating expenses and equipment and (3) rent for office space. The total amount of such costs is \$148,734. When these costs are subtracted from administration, the increase in administration is 4.2 percent.

STATE BOARD OF EQUALIZATION

Items 57-62 from various funds

Budget p. 84

Requested 1979-80	\$55,486,198
Estimated 1978-79.....	53,734,388
Actual 1977-78	50,767,255
Requested increase \$1,751,810 (3.3 percent)	
Total recommended reduction	Pending

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
57	State Board of Equalization	General	\$50,800,929
58	State Board of Equalization	Energy Resources Conserva- tion and Development Spe- cial Account	39,913
59	State of Board of Equalization	Motor Vehicle Fuel Account, Transportation Tax	2,500,991
60	State Board of Equalization	State Emergency Telephone Number Special Account, General	51,049
61	State Board of Equalization	Timber Tax	991,963
62	State Board of Equalization	State Litter Control, Recy- cling, and Resource Recov- ery	1,101,353
Total			\$55,486,198

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Intercounty Equalization. Withhold recommendation pending receipt of information from the board on various options which we have identified regarding the funding of this program. 109
2. Timber tax processing. Recommend that the board computerize verification of harvest values. 112

GENERAL PROGRAM STATEMENT

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

Responsibilities of the Board

About 90 percent of the board's staff is devoted to the administration of the state and local sales tax and several other excise taxes. Administration of these taxes includes registration of taxpayers, processing tax returns, auditing accounts, and collecting delinquent taxes. The board also has constitutional and statutory responsibilities regarding the administration

STATE BOARD OF EQUALIZATION—Continued

of local property taxes, and about 10 percent of its staff is engaged in these activities. The board's various responsibilities are described below.

Administration of State and Local Taxes. The board administers and collects the state's 4¾ percent sales and use tax, the local 1¼ percent sales and use tax, and a ½ percent sales and use tax for the San Francisco Bay Area Rapid Transit District, the Santa Clara County Transit District and the Santa Cruz Metropolitan Transit District. The board either has or shares responsibility for the administration of five state excise taxes: (1) the alcoholic beverage tax, (2) the cigarette tax, (3) the motor vehicle fuel license tax (gasoline tax), (4) the use fuel tax (diesel tax) and (5) the insurance tax. The board also administers (1) the private car tax, which is imposed on privately owned railroad cars, (2) the surcharge on the consumption of electricity and (3) since January 1, 1978, an annual assessment on sellers of tangible personal property, which is used to fund programs authorized under the Litter Control, Recycling and Recovery Act of 1977. Since July 1, 1977, the board has collected a telephone surcharge which will be used to fund the 911 emergency telephone systems.

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

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

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

Taxation of Timber. The board (1) collects a 3 percent yield tax on all timber, which is imposed at the time of harvest, (2) semiannually develops tables of timber value to be used in determining the taxable value of cut timber for yield tax purposes, and (3) periodically audits timber owners to ensure payment of the tax. Starting in January, 1980, the board will also develop annually schedules of timber land values to be certified to each county assessor.

Revenues Administered by the Board. Table 1 summarizes estimated state and local revenue collections from programs administered by the board. Total revenues in the budget year are almost \$10 billion, which is an increase of 10.3 percent over estimated 1978-79 levels.

The litter assessment tax and the emergency telephone users surcharge were initiated in 1977-78. The substantial increases in these revenues during 1978-79 reflect the fact that this is the first year of full-scale operation for these programs. The 45 percent growth of the timber yield tax in the current year, reflects substantial increases in harvest values. These revenues are expected to decline in 1979-80 by 44 percent because the tax

rate will be reduced from 6 percent to 3 percent due to Proposition 13. The 52 percent current-year decline in the private railroad car tax is also attributable to Proposition 13.

Table 1
State and Local Revenues
Collected by the Board of Equalization
(millions of dollars)

	<i>Revenues</i>			<i>Percentage Change From Previous Year</i>	
	<i>Actual 1977-78</i>	<i>Estimated 1978-79</i>	<i>Projected 1979-80</i>	<i>1978-79</i>	<i>1979-80</i>
State Sales and Use Tax	\$5,030.4	\$5,700.0	\$6,375.0	13.3%	11.8%
Local Sales and Use Tax	1,323.5	1,499.7	1,677.3	13.3	11.8
Litter Assessment	0.2	20.8	21.7	NA	4.3
Alcoholic Beverage Tax	132.1	141.5	150.2	7.1	6.2
State Cigarette Tax	191.8	192.0	197.0	.1	2.6
Local Cigarette Tax	81.8	82.2	84.4	.5	2.7
Motor Vehicle Fuel					
License Tax (gasoline)	784.1	818.0	843.0	4.3	3.1
Use Fuel Tax (diesel)	66.1	67.5	70.0	2.1	3.7
Energy Resources Surcharge	17.7	17.3	17.5	-2.3	1.2
Emergency Telephone					
Users Surcharge	8.7	13.6	14.2	56.3	4.4
Insurance Tax	387.6	432.0	480.0	11.5	11.1
Timber Yield Tax	28.9	41.9	23.4	45.0	-44.2
Private Railroad Car					
Tax	8.3	4.0	4.2	-51.8	5.0
Total	\$8,061.2	\$9,030.5	\$9,957.9	12.0%	10.3%

ANALYSIS AND RECOMMENDATIONS

The budget proposes 1979-80 expenditures of \$55,486,198 for support of the State Board of Equalization. This is an increase of \$1,751,810, or 3.3 percent, over the current-year level. In the budget year, 60.5 positions are being deleted due to workload adjustments and 69 new positions (all of which are in the Sales and Use Tax program) are requested to accommodate an expected increase in workload. Thus, the budget provides for a net increase of 8.5 positions. (This is a slightly higher increase in personnel years due to changes in salary savings). The net effect of the proposed position reductions and augmentations are reflected in the personnel-years associated with each program shown in Table 2. The budget also indicates that 65 positions and associated costs of \$1.6 million will be deleted pursuant to Section 27.2 of the 1978 Budget Act in both the current year and the budget year. The budget states that these positions are to be identified during legislative budget hearings.

Table 2
Board of Equalization
Budget Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1977-78</i>	<i>Estimated 1978-79</i>	<i>Requested 1979-80</i>	<i>Actual 1977-78</i>	<i>Estimated 1978-79</i>	<i>Requested 1979-80</i>
1. Intercounty Equaliza- tion	102.6	110.3	118.0	\$3,149,706	\$3,542,886	\$3,982,504

STATE BOARD OF EQUALIZATION—Continued

2. County Assessment Standards	63.6	54.9	53.7	1,969,048	1,736,848	1,762,380
3. State Assessed Property	93.7	86.7	73.2	2,557,627	2,486,695	2,225,404
4. Timber Tax	31.1	31.6	31.6	872,411	941,155	991,963
5. Sales and Use Tax	2,075.9	2,084.2	2,122.7	49,440,941	52,550,289	55,439,031
6. Litter Assessment	13.0	65.5	60.6	270,098	1,089,745	1,101,353
7. Alcoholic Beverage Tax	33.2	31.2	31.2	678,750	726,692	758,399
8. Cigarette Tax	13.9	13.9	13.9	1,070,758	1,195,427	1,222,644
9. Motor Vehicle Fuel License Tax	15.5	15.3	15.3	392,411	403,246	412,619
10. Use Fuel Tax	97.2	98.3	86.3	2,156,903	2,241,168	2,088,372
11. Energy Resources Surcharge	1.6	1.7	1.7	37,420	39,007	39,913
12. Emergency Telephone Users Surcharge	2.1	2.0	2.0	47,830	49,887	51,049
13. Insurance Tax	4.0	4.0	4.0	117,752	122,413	127,754
14. Appeals From Other Government Programs ..	11.6	11.4	11.4	370,155	386,930	403,813
15. Administration (undistributed)	13.9	2.2	—	328,160	109,252	54,500
Total	2,572.9	2,613.2	2,625.6	\$63,459,970	\$67,621,640	\$70,661,698
Reimbursements				-12,692,715	-13,887,252	-15,175,500
Total From State Funds				\$50,767,255	\$53,734,388	\$55,486,198

SALES AND USE TAX PROGRAM

Sales taxes are imposed on retailers for the privilege of selling tangible personal property. Use taxes are applied to the purchase of tangible personal property, when purchased from a retailer not subject to sales tax, for its storage, use, or other consumption.

Sales Tax Auditing

We recommend approval of 34.0 field audit positions and 5.0 headquarters support positions to maintain the existing level of audit coverage.

The board has requested \$55.4 million, or 5.5 percent more than in 1978-79, to administer the sales tax program in 1979-80. Of this amount, \$26.1 million (47.1 percent) is proposed for auditing accounts of business firms subject to the sales and use tax.

Thirty-four new field audit positions are being requested for 1979-80 to maintain the same coverage of accounts authorized for 1978-79. Of these positions, 19 are requested for the workload growth associated with new eligible accounts. The remaining 15 positions are requested due to the increase in the average number of hours per audit. Table 3 shows the actual number of accounts audited, by level of productivity, and the percentage of the total number of eligible accounts audited, for the period 1975-76 through 1977-78. Estimates for the current year are also included in the table.

Table 3
Sales Tax Audit Coverage
1975-76 Through 1978-79

Type of Account ^a	1975-76			1976-77			1977-78			1978-79		
	Number of Accounts ^b	Accounts Audited	Percent	Number of Accounts ^b	Accounts Audited	Percent	Number of Accounts ^b	Accounts Audited	Percent	Number of Accounts ^b	Accounts Audited ^c	Percent ^c
In-State Accounts:												
Most productive	14,559	4,352	29.9%	14,352	4,294	29.9%	15,247	3,914	25.7%	17,153	4,282	25.0%
Moderately productive	107,122	9,575	8.9	109,196	9,571	8.8	109,547	9,440	8.6	112,527	9,318	8.3
Slightly productive.....	202,702	2,485	1.2	208,571	2,369	1.1	223,683	2,316	1.0	230,649	2,762	1.2
Total, In-State Accounts	324,383	16,412	5.1	332,119	16,234	4.9	348,477	15,670	4.5	360,329	16,362	4.5
Out-of-State Accounts:												
Most productive	2,378	695	29.2	2,403	623	25.9	2,512	716	28.5	2,661	738	27.7
Moderately productive	5,105	837	16.4	5,410	694	12.8	5,468	782	14.3	5,539	855	15.4
Slightly productive.....	5,702	275	4.8	5,255	328	6.2	5,246	451	8.6	5,052	313	6.2
Total, Out-of-State Accounts	13,185	1,807	13.7	13,068	1,645	12.6	13,226	1,949	14.7	13,252	1,906	14.4
Total, All Accounts.....	337,568	18,219	5.4	345,187	17,879	5.2	361,703	17,619	4.9	373,581	18,268	4.9

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

^b Three year base of eligible accounts.

^c Estimated.

STATE BOARD OF EQUALIZATION—Continued

Since the board's audits of active accounts cover a three-year period, the number of accounts audited in any one year must be multiplied by three to determine the *total* percentage of eligible accounts audited. The budget request provides additional staff to maintain annual audit coverage at its estimated current-year level of 4.9 percent.

Table 3 indicates that 25 percent of all large firms ("most productive" accounts) conducting business in California will be audited in the current year (over a 3 year cycle, 75 percent of the firms in this category will be audited). Of the "moderately productive" accounts such as grocery stores, auto repair shops, office equipment suppliers, and home furnishers with annual taxable sales below \$400,000, 8.3 percent will be audited. Only 1.2 percent of the "slightly productive" accounts will be audited. These accounts consist primarily of firms which usually have a single line of goods, simple inventory procedures, and few sales which involve the more complicated applications of the Sales and Use Tax Law.

The most productive accounts are selected for audit at headquarters. Moderately productive and slightly productive accounts are selected for audit by the district field office on the basis of industry type, prior audit productivity, and leads developed by audit and compliance personnel in the course of their operations.

The board's request is based on an estimated 3.3 percent workload increase over the 1978-79 level of accounts contained in its three-year eligible list for 1979-80. Eligible accounts include all active accounts that have not been audited in the eight quarters prior to July 1 of a given year. For workload purposes, "audit coverage" has traditionally been defined as the percentage of accounts on the eligible list which are audited in a single year.

Sales Tax Compliance Program

This program involves the registration of taxpayers, filing enforcement, and collection of delinquent taxes. Table 4 shows the total staff and expenditure requirements for this program.

Table 4
Board of Equalization
Sales Tax Compliance Program

	<i>Personnel-Years</i>			<i>Proposed</i>
	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	<i>Expenditures</i> <i>1979-80</i>
Registration.....	459.9	486.8	484.8	\$10,870,391
Return Processing.....	426.5	413.9	415.9	12,518,561
Delinquent Tax Collection.....	260.8	258.3	259.3	5,951,850
Total.....	1,147.2	1,159.0	1,160.0	\$29,340,802

Increased Registration Workload

We recommend approval of eight positions and associated expenditures of \$100,153 requested for district registration of new sales tax permits.

Registration of new sales and use tax accounts is a mandatory activity of the board: it must be performed before the potential taxpayer may

lawfully engage in business. This includes processing new accounts, close-out and revocation activities, and changes in registration due to mergers and outright sales of businesses. The relevant workload indicators used to develop budget requirements in the registration program are shown in Table 5.

Table 5
Sales Tax Compliance Program
Taxpayer Registration

	<i>New Accounts</i>	<i>New Accounts Processed Per Personnel-Year*</i>
1975-76.....	152,254	400
1976-77.....	157,179	425
1977-78.....	159,267	433
1978-79 (est.).....	162,900	433
1979-80 (est.).....	166,700	433

*This productivity level does not include distribution of administrative overhead.

The board attributes the increased productivity level during the period 1975-76 through 1977-78 to the implementation of the Business Tax Consolidation Information System (BTCIS). This system provided the districts with direct access by video terminal to information stored at headquarters. Productivity levels are expected to level off after 1977-78.

The budget shows that, in 1979-80, 10 positions in this element will be deleted from the base, and eight new positions will be added to accommodate expected workload increases. This results in a net *decrease* of two positions in the taxpayer registration portion of the compliance program. Because this action is mandatory, the board indicates it will be necessary to divert personnel from other compliance activities to process increased new accounts registration workload.

Sales Tax Return Processing Workload Up

We recommend approval of nine headquarters positions and four district positions to process the anticipated increase in sales tax return workload.

The board requests 13 positions to handle the workload increase expected in the budget year. The budget indicates that 11 positions have been deleted from the base in the tax return processing area for 1979-80. The result is a net *increase* of two positions to handle an increase of approximately 119,000 tax returns. Accordingly, budgeted resources imply the potential for productivity increases in tax return processing. Table 6 summarizes recent workload history.

Table 6
Sales Tax Compliance Program
Tax Return Processing

	<i>1976-77</i>	<i>1977-78</i>	<i>1978-79 (est.)</i>	<i>1979-80 (est.)</i>
Sales Tax Returns.....	2,186,177	2,296,752	2,310,780	2,395,080
Other Tax Returns.....	440,630	469,911	506,280	540,510
Total.....	2,626,807	2,766,663	2,817,060	2,935,590
Personnel-years.....	406.8	426.5	413.9	415.9

STATE BOARD OF EQUALIZATION—Continued**Sales and Use Tax Account Delinquencies on the Rise**

We recommend approval of nine positions requested to process increased workloads and stabilize delinquent taxes receivable.

During the past four years, delinquent accounts have been growing at an average annual rate of 6.1 percent. This trend is expected to continue through the budget year. The board has not been able to keep pace with the increasing number of delinquent returns, which has resulted in an increase in the inventory of delinquent items. The nine positions requested are to stabilize the inventory of delinquent items. Eight positions have been deleted in the budget due to adjustments in the workload base. The net result is an *increase* of one position. Again, this assumes the potential for productivity increases.

INTERCOUNTY EQUALIZATION**Pre-Proposition 13**

The State Constitution requires the board to determine annually for each county the ratio of assessed value to full cash value of property subject to local assessment, and to "equalize" assessment levels among counties. Prior to Proposition 13, the board accomplished this task by appraising a sample of properties in each county every three years. During the intervening two years, county ratios were "trended" on the basis of the growth in specified economic variables. The board's county assessment ratios played a key role in the distribution of state aid. These ratios were used to allocate approximately \$2.25 billion in intergovernmental payments, consisting primarily of state aid to schools and county payments to the state for their share of Medi-Cal and welfare costs. This independent determination of county assessment ratios by the board was intended to reduce the effect of unequal assessment ratios among counties on the distribution of intergovernmental transfers, and to eliminate the incentive for counties to underassess local property for the purpose of capturing a larger share of the state disbursements.

Effect of Proposition 13

Proposition 13 has at least temporarily eliminated the need for the state to determine county assessment ratios for purposes of allocating state funds. Chapter 292 and 332, Statutes of 1978, suspended for a period of one year the use of board-determined county assessment ratios for the allocation of state school aid and the determination of counties' share of Medi-Cal and welfare costs. For the 1978-79 fiscal year, state funds for these programs were not distributed to local governments on the basis of county assessment ratios. Rather, the state took over the funding of several health and welfare programs, and additional state funds were distributed to local government agencies on the basis of prior years' property tax revenues.

Despite the fact that the *use* of board-determined ratios for the distribution of these funds was suspended, the board was not released from exist-

ing constitutional and statutory requirements to *produce* the county ratios and coefficients of dispersion (indications of the lack of equalization within a county). Because it will be necessary to create a new data base in order to determine ratios under Proposition 13, the board is currently in the process of sampling all 58 counties in the state over a two-year period. At the end of this cycle, July, 1980, the board intends to resume publication of county ratios.

In order to complete the sampling of all counties in the state within a two-year period, the board, with approval from the Department of Finance, secured an additional \$156,400 in Title II Public Works Employment Act funds for the current year (these funds provided 17 positions, 15 of which were allocated to Intercounty Equalization). These funds do *not* appear in the Governor's Budget for the current year. In addition to these resources, a total of 18.5 personnel-years will be diverted from other departmental property tax programs to the Division of Intercounty Equalization in the budget year. Even with the personnel loans and additional funding, it appears that the board will not be able to complete its two-year plan without further augmentation, primarily due to vacancies in appraisal positions. The board also plans to propose enactment of legislation that would require local agencies to forward to the board information concerning changes in ownership, new construction, and changes in the value of property on the locally assessed property tax roll.

Excessive Intercounty Equalization Costs

We withhold recommendation on resources budgeted for the Intercounty Equalization program pending receipt of detailed information from the board on various options which we have identified regarding the funding of this program.

In view of its legal responsibility to produce county assessment ratios, the board's desire to provide full funding for the Intercounty Equalization Program is understandable. However, we believe that the proposed expenditure of nearly \$4 million (including diverted resources) on intercounty equalization in the budget year is excessive. It is also premature in view of the many immediate post-Proposition 13 uncertainties concerning local assessment rules and practices, the proper size and design of the board's sample survey, and the continued need for county assessment ratios. Accordingly, we are withholding recommendation on the Intercounty Equalization program to allow the board time to provide detailed information on various options which we have identified as possible alternatives to the full funding of the program.

Full-Scale Sampling Program Not Justified. We believe that this program should not be funded at the proposed level for the following reasons:

(1) The value the board will place on many of the properties included in its two-year sample survey will have to be changed because future legislative action and the outcome of pending court cases will affect the manner in which properties are assessed under Proposition 13. The board estimates that up to 20 percent of these sampled properties may have to be revalued as a result of likely changes in law or interpretations of the law.

STATE BOARD OF EQUALIZATION—Continued

(2) The variability of the value of properties assessed under Proposition 13 rules is unknown. Without this information, the board cannot determine the proper size and stratification of its sample, nor can it determine what level of staffing is required to produce a desired level of statistical reliability in its estimates of county ratios.

(3) The future uses and consequent value of county assessment ratios are highly uncertain at this time. As indicated above, although the board continues to have the legal responsibility to produce these ratios, it is not yet known if or to what extent assessment ratios will continue to be an important factor in the distribution of intergovernmental payments or the equalization of property values. Moreover, the extent to which the board has the ability to bring a county into assessment conformity on the basis of a county assessment ratio is unclear. Under Proposition 13 it is possible that base-year values, once established, could *not* be revised for equalization purposes unless there were a change in ownership.

A substantial reduction in the funding of this program would delay the availability of assessment ratios. This could be a problem if a need for these ratios arises at some point in the future. (If sampling is discontinued entirely, we estimate that it would be about two to three years from the time that the program was restarted before assessment ratios could again be produced.) In our opinion, however, the costs associated with this delay (primarily, the potential for misallocation of intergovernmental payments) may be much less significant than the waste of public funds that might result from spending approximately \$4 million to build a data base that requires extensive revision and may not be needed.

Possible Options to Full Funding. We have identified various options to full funding of the Intercounty Equalization program, and have asked the board to provide information on the minimum resource levels required to fund these options. Our general objectives in considering options to either the full funding of the program or the discontinuation of *all* sampling for intercounty equalization purposes, are to (1) minimize the cost of resuming full-scale sampling if it is determined that assessment ratios are needed in the future and (2) provide some information on the extent of local compliance with post-Proposition 13 assessment standards.

STATE ASSESSED PROPERTY TAX PROGRAM**Auditing of Property Statements**

The board is required by law to appraise the properties of all public utilities and to divide the resulting unitary values between counties according to the physical location of the property. The principle methods used to determine unitary values are (a) historical cost less depreciation, (b) capitalized net income, (c) reproduction cost new less depreciation, and (d) stock and debt values. The values established using these methods are based primarily on property statements submitted by each utility. Prior to fiscal year 1977-78, the board did not have an audit staff and relied on audits done by the California Public Utilities Commission (PUC) to verify the accuracy of these statements. The PUC was not staffed to audit all of the utilities under its jurisdiction, and the audits were designed

primarily to meet the needs of the PUC rather than those of the board. Consequently, 11 positions were approved for the board in fiscal year 1977-78 to provide it with the ability to independently audit utility records.

With six of the eight auditor positions filled during the past year, the board was able to identify and enroll on locally assessed property tax rolls approximately \$6.4 million of escaped assessed value. This resulted in about \$686,000 of additional revenue for local governments during 1977-78, compared to the board's auditing costs of about \$250,000. These additions to the local tax base will continue to contribute increased revenues each year until the property is sold or retired, but at the lower tax rates under Proposition 13. Board audits also added about \$81,000 of private car tax revenue to the state General Fund during the past year. Preliminary reports indicate that the audit unit is producing similar results for the current year.

Reduction in Value Allocation Staff

The board allocates unitary assessed value of public utilities to individual taxing jurisdictions on the basis of the relationship of the value of property located in a tax rate area to the total value of an assessee's property. For purposes of developing allocation factors, value is based not on the unitary concept, but on the "reproduction cost new less depreciation" value of each separate parcel.

The allocation process is cumbersome and time consuming, requiring detailed information from assessors on the financial and physical characteristics of their separate properties located in each tax rate area. In our 1976-77 Budget Analysis, we recommended that the board examine alternative allocation methods and report the results of its review to the Legislature. The board indicates that this report will be available sometime during February. In anticipation of the development of other methods for allocating values than those involving field appraisals, the board has identified five positions which will be eliminated in the budget year from the field appraisal section of the board's State Assessed Property Tax program.

Proposition 13 Growth Limit Not Applicable

The board has ruled that the provisions of Proposition 13 which "roll back" and limit the growth of assessed values do not apply to state assessed property, primarily public utilities. The board's position is that these provisions apply only to real property assessed by the county assessor. This interpretation has been challenged in a lawsuit filed by one of the affected utilities, and that litigation is still pending. Proposition 13's 1-percent *tax rate* limitation, on the other hand, has been interpreted by the board as applying to state assessed property.

TIMBER TAX PROGRAM

The budget proposes to spend \$991,963 from the Timber Tax Fund to administer this program in 1979-80. This is an increase of 5.4 percent over the \$941,155 estimated in the current year. Preliminary results from audits of taxpayer accounts indicate that there are a number of problems associated with the self-reporting nature of the program, but the frequency

STATE BOARD OF EQUALIZATION—Continued

of taxpayer errors is expected to decline over time. Also, in preparing to establish a schedule of timberland values by January 1, 1980, the board has begun to collect data on timberland sales throughout the state. Lastly, as a result of the decline in general property tax rates brought about by Proposition 13, the board has established a timber yield tax rate of 3 percent for calendar 1979, 50 percent below the 6 percent rate imposed in calendar 1978.

Computerize Verification of Harvest Values

We recommend that the board computerize verification of harvest values on tax returns.

We believe one minor change should be made in the processing of tax returns to increase the efficiency of the Timber Tax program. Each quarter, harvest values, timber volume, tax code area, and computed tax liability are entered into a computer file from each tax return that is filed with the board. Before the data is entered into the computer, the returns are checked by hand to verify the harvest values that taxpayers enter on the returns. We recommend that the harvest value schedule, which is set by the board twice a year, be entered into the computer file and the values on the tax returns verified by machine. Elimination of manual verification should result in approximately a one-half personnel-year savings in return review processing time.

SECRETARY OF STATE

Items 63-68 from the General
Fund

Budget p. 106

Requested 1979-80	\$10,654,748
Estimated 1978-79.....	9,081,124
Actual 1977-78	7,489,007
Requested increase \$1,573,624 (17.3 percent)	
Total recommended reduction	None

1979-80 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
63	Secretary of State Operations	General	\$6,036,836
64	Printing State Voter Pamphlets	General	1,406,200
65	Mailing June 1980 Voter Pamphlet	General	1,367,000
66	Subvention to Local Government (Filing Fees)	General	2,000
67	Subvention to Local Government (Registration by Mail)	General	1,250,000
68	Subvention to Local Government (Purge of Voter Registration)	General	592,712
	Total		\$10,654,748

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	<i>Analysis page</i>
1. Registration by Mail. Recommend that the Legislature amend current law to eliminate postage paid feature for an annual savings of \$336,675.	116
2. Policies and Procedures. Recommend Secretary of State provide written policies for counties and develop a standardized claim form for Chapter 704 claims.	117
3. Controller Audits. Recommend legislation be enacted authorizing State Controller to audit Chapter 704 county claims.	117

GENERAL PROGRAM STATEMENT

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

Corporate Filings

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

Elections

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

Uniform Commercial Code

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

Notary Public

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

Archives

The Chief of Archives collects, catalogs, indexes and preserves historic and otherwise valuable papers and artifacts. These documents are by law received from both state and local government. Reference services are

SECRETARY OF STATE—Continued

provided for the public. Advice and direction is received from the California Heritage Preservation Commission and the Secretary of State serves as its secretary.

ANALYSIS AND RECOMMENDATIONS

The proposed budget of \$10,654,748 for the Office of the Secretary of State is an increase of \$1,573,624 or 17.3 percent over current year expenditure estimates. Expenditures by funding source for 1977-78, 1978-79 and 1979-80 are shown in Table 1.

Table 1
Comparative Budget Statistics

<i>Budget Item</i>	<i>Title</i>	<i>Actual 1977-78</i>	<i>Estimated 1978-79</i>	<i>Proposed 1979-80</i>	<i>Amount Change 1978-79 to 1979-80</i>	<i>Percent Change 1978-79 to 1979-80</i>
63	Secretary of State Operations	\$5,472,460	\$5,829,732	\$6,036,836	\$207,104	3.6%
64	Printing State Voter Pamphlet	1,742,200	1,406,200	1,406,200	—	—
65	Mailing of State Voter Pamphlet	—	—	1,367,000	1,367,000	(—)
66	Local Government Subvention (filing fees)	93,359	212,762	2,000	-210,762	-99.1
67	Local Government Subvention (register by mail)	1,063,953	1,250,000	1,250,000	—	—
68	Local Government Subvention (purge of voter registration)	—	47,131	592,712	545,581	1,158.0
	Subtotal	\$8,371,972	\$8,745,825	\$10,654,748	\$1,908,923	21.8%
—	Ballot Paper Revolving Fund ^a	—	\$350,000	—	-\$350,000	-100.0%
—	Allocation for Employee Compensation ^a	\$199,381	46,926	— ^b	-46,926	-100.0
—	Estimated Savings ^a	-1,541,433	-61,627	— ^b	61,627	100.0
—	Bilingual Precincts Program: Chapter 1163, Statutes 1976 ^a	5,594	—	—	—	—
—	Los Angeles County Bail out Chapter 808, Statutes 1977 ^a	234,593	—	—	—	—
—	Ballot Pamphlet Printing Augmentation ^a	218,900	—	—	—	—
	Total	\$7,469,007	\$9,081,124	\$10,654,748	\$1,573,624	17.3%

^a Amount not represented in budget items.

^b Amount undetermined at present.

Secretary of State Operations

Item 63, Secretary of State Operations, proposes an expenditure of \$6,036,836 which is an increase of \$207,104 over current year estimates. Of this amount, \$196,243 is for four and one-half new positions in the Uniform Commercial Code program and nine additional positions in the Corporate Filing program. Both the Corporate Filing and Uniform Commercial Code sections project increases in the number of documents that will be

filed and a corresponding increase in the number of public requests to review these documents. This cost will be offset by increased revenues to the General Fund from filing fees.

State Voter Pamphlet

The budget includes \$1,406,200 in Item 64 for printing the state voter pamphlet for the June, 1980 primary election. This is the same amount budgeted in the current year for the November, 1978 general election. Item 65 is a new item which appropriates \$1,367,000 for the cost of mailing the June, 1980 voter pamphlet to the voters. Chapter 1396, Statutes of 1978, transferred the authority for mailing these pamphlets from the individual counties to the Secretary of State.

Local Government Subventions

The budget includes \$2,000 in Item 66 to cover the administrative costs incurred by counties in checking signatures submitted by candidates for public office in lieu of filing fees. Candidates file only in those years containing primary elections. The counties then claim their reimbursements during the following year. The only reimbursement claims filed during the budget year will be from counties which held a local primary election in the current year. Therefore, the amount budgeted for 1979-80 is significantly less than expenditures in 1978-79.

Item 67 makes \$1,250,000 available for reimbursing net local government costs resulting from Chapter 704, Statutes of 1975, which authorizes voter registration by mail. This is the same amount budgeted in the current year.

Item 68 is a new item which appropriates \$592,712 to reimburse local governments for net costs incurred in purging voter registration files during both the 1979-80 and 1980-81 fiscal years. This program is in accordance with law, and control language in Item 68 would make these funds available during fiscal years 1979-80 and 1980-81.

Reductions Per Sections 27.1 and 27.2—Budget Act of 1978

For the current year the Secretary of State has reduced operating expenses \$336,000 by changing the method of mailing voter pamphlets to comply with Section 27.1 of the 1978 Budget Act. There was no reduction in positions.

ELECTION REFORM

There have been a number of election reforms enacted since 1974. The two most significant reforms are registration by mail and voter file purge.

What Price Election Reform?

Election reform programs have an estimated budget year cost of \$2,258,389. Table 2 displays voter registration and voter turnout statistics for general elections between 1970 and 1978. The data displayed in Table 2 do not demonstrate that the election reform program has had an impact on either (1) the number of persons registered to vote or (2) the number of persons that actually voted.

SECRETARY OF STATE—Continued

Table 2
General Election Voter Statistics—1970-1978

Election Year	Total Voting Age Population ^a	Total Registered Voters ^b (Percent of Voting Age Population)	Total Votes Cast ^b	Percent Turnout of Registered Voters	Percent Turnout of those Eligible to Vote
1970	11,537,000	8,706,347 (75.46%)	6,633,400	76.2%	57.5%
1972	11,995,000	10,466,215 (87.25%)	8,595,950	82.1	71.7
1974 ^c (includes 18-20 year old voters)	13,648,000	9,928,364 (72.74%)	6,364,597	64.1	46.6
1976 ^d	14,260,000	9,980,488 (69.99%)	8,137,202	81.5	57.1
1978	14,889,000	9,979,498 (67.02%)	7,132,828	71.5	47.9

^a Source: California State Department of Finance, Demographic Research.
Note: Figures exclude green-card holders and include felons and military.

^b Source: *Statement of Vote* published by Office of the Secretary of State.

^c New voter file purge procedures instituted.

^d Registration by Mail Program began August 15, 1976.

Mail Registration Program

We recommend that the Legislature enact legislation to eliminate the postage paid feature of the mail registration program for an annual savings of \$336,675.

Chapter 704, Statutes of 1975, redesigned the voter registration program to provide for "self-registration" through the use of postage paid registration cards. This program became operative in August of 1976.

The program cost \$1,963,164 in 1977-78 and an estimated \$2,141,790 in the current year, and it is estimated to cost \$2,098,452 in the budget year. Approximately 36 percent, or \$756,102, of the budget year request is allocated for printing and postage for the registration cards and other related forms. Postage accounts for \$336,675 of this amount. Approximately 60 percent, or \$1,250,000, of the request will be subvented directly to counties to cover their costs in operating this program. The remaining 4 percent, or \$92,350, is allocated to the state for data processing and administrative services costs. The Office of the Secretary of State believes that with the exception of the component that promotes voter registration, all other costs for this program should decline and eventually be eliminated. We have been provided no evidence to support this conclusion.

Clearly, this new system facilitates the registration process. However, we are not able to determine if the program has significantly increased the number of persons presently registered to vote, for two reasons. First, accurate assessments of program impact cannot be made because the procedure by which voter registration lists are purged has changed several times in recent years. Second, even if it could be demonstrated that more citizens were registered, it would be difficult to ascertain how many of those persons using the postcard mail process to register would have registered anyway.

In view of the significant costs of this program and the lack of any discernable trends in voter participation, we recommend that the Legislature consider program changes which would reduce the overall cost of the mail registration program. Specifically, we recommend that current law be amended to remove the postage paid feature for an annual savings of \$336,675. We do not believe it is asking too much of would-be voters to pay the postage on registration cards, particularly in view of the convenience this method offers relative to in-person registration.

We recommend that the Office of the Secretary of State establish written policies specifying legitimate reimbursable costs and that it also develop a standardized reimbursement claim form. We further recommend that legislation be enacted authorizing the Controller's Office to audit these claims.

Unlike most local government subvention programs, reimbursement claims submitted under the mail registration program are not processed by the Controller's Office. Chapter 704 delegates authority for the review and approval of the claims submitted by the counties to the Secretary of State's Office. In our review of this process, we noted that there is considerable diversity as to the format, comprehensiveness and completeness of the claims submitted. For this reason, the Office of the Secretary of State must devote a significant amount of time to the review and restructuring of the claims. The office has not issued written guidelines specifying the procedures counties are to follow in compiling a claim. Also, there is no standardized claim form, and no written policy specifying which costs are reimbursable. For this reason it appears that an excessive amount of time must be devoted to the review of each claim. In the absence of written policies delineating acceptable costs, many of the decisions ultimately made may be arbitrary. Further, there is no field auditing of those claims which are ultimately approved and paid.

For these reasons we recommend that (1) the Secretary of State develop written policies specifying legitimate reimbursable costs, (2) these policies be distributed to the counties and (3) a standardized reimbursement claim form be developed. We further recommend that legislation be enacted authorizing the Controller's Office to assume responsibility for auditing these claims on a random basis and to provide technical assistance to counties when appropriate.

Purge of Voter Registration Lists

The laws governing the procedures by which voter registration lists are purged have been changed several times since 1974 in order to maintain the greatest number of persons as registered voters. There are presently two different systems of purging voters from the rolls authorized by law. These are the "Marks Plan" and the "Panish Plan." Although the counties may choose which of the two plans to use, the state will only reimburse them for the net costs of the less expensive plan. According to a formula developed by the Office of the Secretary of State, the less expensive "Marks Plan" will cost \$639,747 over a four-year period.

Net costs for this program must be calculated on a four-year cycle as there are costs to counties in those years containing a primary election,

SECRETARY OF STATE—Continued

and savings in those years containing a general election. Because there is no system by which the state can recapture that money saved by a county, reimbursement to the counties must be budgeted for a two or four-year period of time. The 1979-80 budget proposes reimbursement over a two-year period of time with appropriate control language contained in Item 68 of the Budget Bill. We support this two-year budgeting cycle approach.

STATE TREASURER

Item 69 from the General Fund

Budget p. 117

Requested 1979-80	\$2,423,666
Estimated 1978-79.....	2,411,612
Actual 1977-78	1,942,355
Requested increase \$12,054 (0.5 percent)	
Total recommended reduction	\$5,119

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. *Medi-Cal Warrant Redemption. Reduce Item by \$5,119 and transfer funds to Item 257 (Medi-Cal support). Recommend appropriation for Medi-Cal warrant redemption be transferred to Department of Health Services (Item 257) to ensure proper program budgeting for Medi-Cal.* 121

GENERAL PROGRAM STATEMENT

The State Treasurer has the following responsibilities:

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

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

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of \$2,423,666 which is a \$12,054 or 0.5 percent increase over estimated current-year expenditures. A total of 4.5 new positions are being requested, of which 1.8 positions will be supported by the General Fund and 2.7 positions will be supported with increased reimbursements. The budget also indicates that, pursuant to Section 27.2 of the 1978 Budget Act, six positions and associated expenditures of \$111,000 will be deleted both in the current and budget years. These positions, however, will not be identified until legislative hearings on this item and are therefore not identified by program in Table 1.

Table 1
State Treasurer
Budget Summary

	<i>Personnel-Years</i>			<i>Expenditures</i>		
	<i>Actual 1977-78</i>	<i>Authorized 1978-79</i>	<i>Proposed 1979-80</i>	<i>Actual 1977-78</i>	<i>Authorized 1978-79</i>	<i>Proposed 1979-80</i>
1. Bond Sales and Services.....	16.3	17.6	19.6	\$417,928	\$495,108	\$538,444
2. Investment Services	6.5	9.0	9.0	316,106	429,887	434,825
3. Paying and Receiving.....	34.0	44.6	46.1	1,203,532	1,265,581	1,240,256
4. Trust Services	16.8	16.8	17.8	595,260.	625,876	670,684
5. Districts Securities Division	7.3	8.3	8.3	253,246	329,343	335,150
6. Administration (distributed to other programs)	15.8	18.2	18.2	(503,059)	(582,073)	(612,963)
Total	96.7	114.5	119.0	\$2,786,072	\$3,145,795	\$3,219,359
Reimbursements				-843,717	-734,183	-795,693
General Fund.....				1,942,355	2,411,612	2,423,666

BOND SALES AND SERVICES

The responsibilities of this program element include issuing, selling, servicing and redeeming all general obligation and revenue bonds. Reimbursements of approximately \$199,450 will be received from individual bond funds. The remaining \$338,994, or 63 percent of the program element cost, will be supported by the General Fund.

There are two positions being requested for this element. One would handle increased workload resulting from the growth in the trusteeship responsibilities of bond indenture. The other, a clerical position, is needed to handle the increase in the number of bonds issued. Table 2 summarizes the Treasurer's bond marketing activities.

Table 2
Bond Marketing Activities

	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
<i>General Obligation Bonds</i>			
Number Issued.....	9	9	9
Amount (millions)	\$431	\$550	\$420
<i>Revenue Bonds</i>			
Number Issued.....	23	30	43
Amount (millions)	\$288	\$400	\$430

INVESTMENT SERVICES

This program element has the responsibility for investing the temporary surplus cash of the General Fund, other state funds and the Local Agency Investment Fund. The objective is to maximize the earnings of these funds within the statutory limitations and policy decisions of the Pooled Money Investment Board.

Earnings from the Pooled Money Investment Account are distributed to the General Fund and to the approximately 200 other special funds to which interest can accrue. The earnings of the pool are apportioned to the participants on the basis of the amount and length of time the funds were in the pooled money account.

STATE TREASURER—Continued

Investment Earnings Increase in 1977-78

The results of the investment program are summarized in Table 3. In 1977-78, the average daily balance of the pool increased 20 percent over the prior-year level. Interest earnings on an average daily investment of \$6,843.9 million were \$458.6 million, representing a 75 percent increase from the 1976-77 level. This dramatic increase in the level of earnings is due primarily to significant increases in the General Fund surplus and market interest rates. The percentage yield for 1977-78 was 6.70 percent.

For the first six months of the current year, the level of daily investments has averaged \$8,241 million, with an effective yield of 8.09 percent. The investment balance is projected to decline from current levels to about \$7,900 million by year-end, and interest rates are expected to average 8.25 percent for fiscal year 1978-79 as a whole. On this basis, interest earnings of over \$650 million are projected for the current fiscal year.

Table 3
Investment Results
Pooled Money Account

	<i>Average Daily Investment Balance (millions)</i>	<i>Earnings (millions)</i>	<i>Percent Yield</i>
1973-74	\$2,587.2	\$231.2	8.97%
1974-75	2,740.1	236.3	8.62
1975-76	3,209.1	204.3	6.37
1976-77	4,460.5	261.7	5.87
1977-78	6,843.9	458.6	6.70
1978-79 (est)	7,900.0	650.0	8.25

PAYING AND RECEIVING

The State Treasurer provides banking services for state agencies. These services include depositing state funds and redeeming warrants issued by the Controller and other state agencies. In addition, this program element provides information to the Investment Division on the state's daily cash position. Activities of this element are summarized in Table 4.

Table 4
Paying and Receiving

	<i>Actual 1977-78</i>	<i>Estimated 1978-79</i>	<i>Proposed 1979-80</i>
Dollars Deposited (billions)	\$81.9	\$85.7	\$90.2
Number of Warrants Paid (millions)	26	42	46
Personnel-Years	34.0	44.6	46.1
Total Program Expenditures	\$1,203,532	\$1,265,581	\$1,249,256
Reimbursements	\$-208,296	\$-161,000	\$-170,931
General Fund Total	\$995,236	\$1,104,581	\$1,078,325

Medi-Cal Warrant Redemptions

The Treasurer's office is requesting 1.5 temporary positions to accommodate the new workload created by Medi-Cal warrant redemptions. The processing of Medi-Cal payments to providers was formerly done by contract to a private firm under the Department of Health. Effective June 1, 1979, the State Controller will assume responsibility for Medi-Cal warrant preparation. Concurrently, the State Treasurer will take responsibility for Medi-Cal warrant redemptions. It is expected that 2.6 million Medi-Cal warrants will be processed in the budget year.

Program Budgeting for Medi-Cal

We recommend that \$5,119 be deleted from the General Fund appropriation to the State Treasurer and included in Item 257, the General Fund appropriation for the Department of Health Services, to ensure proper program budgeting.

Chapter 1284, Statutes of 1978 (AB 3322), reflects the Legislature's concern that program budgeting concepts be incorporated into the budget. The objective is to identify, for each program, costs associated with its operation. We believe the direct General Fund appropriation to the Treasurer to cover the cost of Medi-Cal warrant redemption violates the concept of program budgeting because it results in an understatement of the cost of the Medi-Cal program. Direct appropriation to the Department of Health Services (DHS), followed by reimbursement from DHS to the Treasurer, would provide a more accurate program budget for both agencies. (For further discussion, see analyses of State Controller, Item 57, and Department of Health Services, Item 257.)

TRUST SERVICES

The trust services program element is responsible for the safekeeping of securities owned by or pledged to the state. These securities are held in the Treasurer's vault or in approved depositories. As of June 1978, the Treasurer was responsible for over \$22 billion in securities.

Many of the trust services are provided to other state agencies such as PERS, STRS, and the Insurance Commission. The Treasurer is reimbursed for trust services provided to other agencies. Such reimbursements will amount to \$405,312 in 1979-80, or 60 percent of the cost of the trust services program.

Mortgage Holdings as Collateral

Chapter 867, Statutes of 1977 (AB 1151), stipulates that, effective January 1978, first mortgages and first deeds of trust on residential real property in California may be used as collateral for state funds in bank and savings and loan time deposits. If this type of collateral is employed, the mortgages and deeds of trust must have a market value equal to 150 percent of the deposit.

As of December 1978, state deposits worth \$1.7 billion were collateralized with over 28,000 mortgages. During the current year, these deposits have earned a rate of return between 0.5 percent and 1 percent higher than the average rate of return on time deposits collateralized with securities. The trust services element is requesting one clerical position to assist in the processing of these time deposits.

STATE TREASURER—Continued

DISTRICT SECURITIES DIVISION

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

Although the division is budgeted from the General Fund, it is expected to recover an equal amount through fees charged for its services. In recent years, this requirement has been successfully met. Table 5 reviews program costs, revenues and personnel requirements.

Table 5
District Securities Division

	Actual 1977-78	Estimated 1978-79	Proposed 1979-80
Program Cost	\$253,246	\$329,343	\$335,150
Revenue	318,801	327,886	350,255
Personnel-Years	7.3	8.3	8.3

ADMINISTRATION

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

MUSEUM OF SCIENCE AND INDUSTRY

Item 70 from the General Fund

Budget p. 121

Requested 1979-80	\$2,662,996
Estimated 1978-79.....	2,711,192
Actual 1977-78	2,595,126
Requested reduction \$48,196 (1.8 percent)	
Total recommended increase	\$15,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

- | | Analysis
page |
|---|------------------|
| 1. <i>Reimbursements. Increase reimbursements \$6,000, reduce General Fund \$6,000. Recommend reimbursements be increased based on past experience.</i> | 124 |
| 2. <i>Workers' Compensation. Augment \$21,500. Recommend increase to meet anticipated workers' compensation costs based on past experience.</i> | 124 |
| 3. <i>Museum Foundation. Recommend foundation corporation be required to reimburse the state for its pro rata share of the cost of services provided by the museum.</i> | 124 |